

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET #	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
April 16, 1999	Filing of Scottish Power [Inclusive to the EXHIBIT FILE] *Scottish Power Supplemental Testimony of Alan V. Richardson (tables are clearer in original Word version, saved in f:\home\common\exhibits\ \Richardson Supp Test.doc) *Exhibit 1: Benefits to Customers from the Transaction *Exhibit 2: Benefits to Customers from Improved System Performance (tables are clearer in original Word version, saved in f:\home\common\ \exhibits.Richardson Supp Test Ex2.doc) *Exhibit 3: Performance Standards and Customer Guarantees tables	16645 16647 16649 16784
April 28, 1999	ULCT(Utah League of Cities and Towns)'s Response to Applicant's Issues Memorandum	16777
April 28, 1999	Intervenor Emery County's Response to Applicant's Issues Memorandum	16790
April 29, 1999	Response of Deseret and Its Members to Issues Memorandum Filed by Applicants	16802
April 29, 1999	Nucor Steel's Response to Applicants' Issues Memorandum	16803
April 29, 1999	Reply of the Utah Industrial Energy Consumers to Applicants' Issues Memorandum	16804
April 29, 1999	Utah Associated Municipal Power Systems' Memorandum in Response to Applicants' Issues Memorandum	16805
April 29, 1999	Large Customer Group's Response to Applicants' Issues Memorandum	16806

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET # 98-2035-04	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
March 8, 1999	Amended Petition to Intervene and Statement of Issues from Emery County	16175
March 9, 1999	Memo from the Commission, Re: Number of Copies to be Submitted on Future Filings in this Docket and Affidavit of Mailing	16184
March 15, 1999	Order Granting Intervention and Affidavit of Mailing	16198
March 17, 1999	Exhibit A to the Protective Order, for Charles E. Johnson, Jeff Fox, and Betsey Wolf, of the Salt Lake Community Action Program.	NEC
March 31, 1999	Memorandum from the Commission to all Parties in this Docket, Re: Guidance for the April 2, 1999 Hearing	16450
March 31, 1999	LCG and UIEC Statement of Additional Issues	16463
March 31, 1999	Statement of Additional Issues from the Committee	16464
April 2, 1999	Exhibit "A" to the Protective Order, for Jean Ann Ramsey, Bruce Biewald, Timothy Woolf, Kurt Biewald, Peter A. Bradford, Neil H. Talbot, Adam Auster, Paul Chernick, Nathan Adams, Susan C. Geller, Rachel Brailove, and Jonathan Wallach	NEC
April 2, 1999	Supplemental Scheduling Order and Affidavit of Mailing	16487
April 13, 1999	Applicants' Issues Memorandum	16584

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET #	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
February 26, 1999 [EXHIBIT FILE]	PacifiCorp cont. <ul style="list-style-type: none"> - Appendix 1 to Testimony of Bob Moir (saved in f:\home\common\98-2035-04\B.MoirAppl.xls) - Sources - Appendix 2: Service Guarantees, List of Utilities contacted via Internet Home Page (saved in f:\home\common\98-2035-04\Utilities contacted via Internet.xls) * Exhibit 2: "Comparison of Proposed and Existing Service Standards" table * Exhibit 3: Performance Standards and Customer Guarantees tables * Exhibit 4: Underlying SAIDI: Scotland graph, Underlying SAIDI: Manweb graph, and 1997/98 Performance Benchmarking graph * Exhibit 5: Manweb (a Scottish Power Company) photocopied booklet entitled "Quality of Supply Report 1997/1998" * Exhibit 6: Manweb (a Scottish Power Company) photocopied pamphlet, "Standards of Service" * Exhibit 7: photocopied pages RE: Charters * Certificate of Service 	Excel Doc. 16120 Excel Doc. 16118 16119 NEC NEC NEC NEC
February 26, 1999	[PROPRIETARY FILE] Information with the above Filing of Pacificorp. (2 packets)	
March 2, 1999	Exhibit "A" to the Protective Order for Thomas F. Peel	NEC
March 2, 1999	Petition to Intervene by the Department of Community and Economic Development of the State of Utah	16194
March 8, 1999	Exhibit "A" to the Protective Order for Ronald L. Burrup, Division of Public Utilities	NEC

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET #	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
February 26, 1999	<p>Filing of PacifiCorp: [Inclusive to the EXHIBIT FILE]</p> <ul style="list-style-type: none"> * Direct Testimony of Richard T. O'Brien * Direct Testimony of Andrew MacRitchie <ul style="list-style-type: none"> * Exhibit to Testimony of Andrew MacRitchie: Comparison of Non-Production Cost/Customer for US Utilities (1996) * Direct Testimony of Alan V. Richardson <ul style="list-style-type: none"> * Exhibit 1: Scottish Power photocopied booklet entitled "Group Activities: Investing for Growth" * Exhibit 2: Scottish Power photocopied booklet entitled "Values: Working together to build businesses." * Exhibit 3: Scottish Power photocopied booklet entitled "Quality of Supply Report 1997/1998" * Exhibit 4: Article in the Times entitled "Search for the best proves a fluid task" * Exhibit 5: Scottish Power Group Awards for 1997-98 * Direct Testimony of Robert D. Green <ul style="list-style-type: none"> * Exhibit 1: Organization Chart "Structure Now" * Direct Testimony of Jack Kelly * Direct Testimony of Bob Moir <ul style="list-style-type: none"> * Exhibit 1 to Testimony of Bob Moir: <ul style="list-style-type: none"> -Summary -Survey Information Regarding Service Standards -Table 1: IEEE Reliability Indices Summary -Table 2: Customer Service Quality Program Attributes -Table 3: Comparison of Utility Customer Guarantees -Table 4: Comparison of Utility Performance Standards for Network Reliability -Conclusions 	<p>16113</p> <p>16129</p> <p>NEC</p> <p>16130</p> <p>NEC</p> <p>NEC</p> <p>NEC</p> <p>NEC</p> <p>NEC</p> <p>16121</p> <p>16126</p> <p>NEC</p> <p>16127</p> <p>16128</p> <p>16115</p>
[EXHIBIT FILE]		
[EXHIBIT FILE]		

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET #	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
February 17, 1999	Issue Statement of the Land and Water Fund of the Rockies	16027
February 17, 1999	Issue Statement of the Office of Energy and Resource Planning	16009
February 17, 1999	Utah Associated Municipal Power Systems' Amended Petition for Intervention and Statement regarding Issues Raised by the Application of PacifiCorp and Scottish Power	16008
February 17, 1999	Issue Statement of the Utah League of Cities and Towns	16012
February 17, 1999	Committee of Consumer Services Statement of Issues	16005
February 17, 1999	Order on Amended Petition for Intervention of Utah Associated Municipal Power Systems	16007
February 17, 1999	Petition to Intervene by Utah Farm Bureau Federation	16011
February 17, 1999	Joint Issue Statement of PacifiCorp and Scottish Power PLC	16010
February 19, 1999	Exhibit "A" to the Protective Order for Cheryl Murray	NEC
February 25, 1999	Proof of Publication from Carol Sjoberg of Stoel Rives for the February 8th Scheduling Order in this Docket	NEC
February 26, 1999	Exhibit "A" to the Protective Order for Doug Tingey, Rebecca Wilson, Neal Townsend, William A. Powell, Kenneth B. Powell, Carl L. Mower, Robert J. Maloney, Michael Ginsberg, Mary Cleveland, Ric Campbell, Lowell E. Alt, Mark V. Flandro and Wesley Huntsman.	NEC

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET #	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
February 3, 1999	Petition to Intervene by Emery County, State of Utah	15847
February 3, 1999	Petition to Intervene by Nucor Steel	15850
February 5, 1999	Exhibit "A" to the Protective Order for Laura S. Linebarger	NEC
February 8, 1999	Scheduling Order and Affidavit of Mailing	15880
February 9, 1999	Order Granting Intervention and Affidavit of Mailing	15908
February 10, 1999	Petition to Intervene by the Land and Water Fund of the Rockies	15909
February 11, 1999	Order Rescinding Order Granting Intervention and Affidavit of Mailing	15924
February 11, 1999	Issue Statement of the Utah Industrial Energy Consumers	15939
February 12, 1999	Petition to Intervene by the Office of Energy and Resource Planning	15945
February 16, 1999	Petition to Intervene and Initial Issue Statement of Deseret Generation & Transmission Cooperative and its Members	15967
February 17, 1999	DPU's Statement of Issues	15972
February 17, 1999	Issue Statement of Magnesium Corporation of America	15982
February 17, 1999	Petition for Leave to Intervene by the Salt Lake Community Action Program and Crossroads Urban Center	15995
February 17, 1999	Large Customer Group's Statement of Issues	15997

DOCKET INDEX
PACIFICORP / SCOTTISH POWER

DOCKET #	IN THE MATTER OF: The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	15584
Date	Description	SS#
December 31, 1998	Joint Application * Appendix I * Appendix 2 * Appendix 3 * Appendix 4 (saved in f:\home\common\exhibits.appendx4.doc)	15580 15583 NEC 15585
January 4, 1999	Action Request	15586
January 13, 1999	Notice of Prehearing Conference and Affidavit of Mailing	15667
January 15, 1999	Motion for Entry of Protective Order	15699
January 21, 1999	Petition to Intervene by Utah Industrial Energy Consumers	15729
January 22, 1999	Petition to Intervene by Alliant Techsystems, Inc., Hexcel Corporation, Thiokol Corporation, Chevron, S.F. Phosphates, E.A. Miller, Inc., IHC Hospitals, Inc., Geneva Steel, Western Electrochemical Company, and Utah Electric Deregulation Group	15748
January 22, 1999	Petition to Intervene by Utah Associated Municipal Power Systems	15743
January 25, 1999	Petition to Intervene by the Utah League of Cities and Towns and Similarly Situated Municipalities	15767
January 25, 1999	Protective Order and Affidavit of Mailing	15754
January 26, 1999	Minute Slip Law and Motion	15803
January 27, 1999	Petition to Intervene by Magcorp	15784
January 29, 1999	Exhibit "A" to the Protective Order for Daniel E. Gimble, Margo Hovingh, Nancy Kelly, Kelly A. Francone, and Cheryl Murray	NEC

10807

RECEIVED

APR 29 4 56 PM '99

4-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

UTAH PUBLIC SERVICE COMMISSION

In the matter of the Application of	)	DOCKET NO. 98-2035-04
PACIFICORP and SCOTTISH POWER PLC	)	RESPONSE OF THE
for an Order Approving the Issuance of	)	COMMITTEE OF CONSUMER
PACIFICORP Common Stock	)	SERVICES TO THE APPLICANTS'
	)	ISSUES MEMORANDUM

The Committee of Consumer Services (Committee) now files its response to the Applicants' Issues Memorandum (Memorandum) submitted to the Utah Public Service Commission (Commission) on 12 April, 1999.

REVIEWED BY COMMISSIONERS
 STEPHEN F. MICHAM SM
 CONSTANCE B. WHITE Crowley
 CLARK D. JONES CDJ

DATED this 29th day of April, 1999.

By Dan Gimble
 Dan Gimble
 Energy Group Manager
 Committee of Consumer Services

Based on our review of the Applicants' Memorandum, the Applicants largely concur that the issues raised by the Committee are "core" issues for consideration in this proceeding. The Applicants carry the burden of proof on these core issues. However, there are various issues raised by parties where the Applicants propose to shift the burden of proof. In addition, there appears to be some confusion on the part of the Applicants relating to environmental concerns raised by the Committee. We comment on those issues below.

1. Fair Market Value of PacifiCorp's Facilities (Memorandum, pg. 6)

Emery County raises a potentially significant issue relating to the impact of the merger on property tax levels. Specifically, there is the distinct possibility that the premium (i.e., acquisition adjustment) paid by ScottishPower in acquiring PacifiCorp assets may increase property valuations and, in turn, property taxes. The Applicants surely have the burden to show that the premium associated with this transaction will not have a detrimental effect on Utah ratepayers. The Committee recommends that this issue be included in the core category.

2. Work Force/Local Control/Economic Development/Coal Company (Memorandum, pg. 6-7)

What this issue boils down to is the impact of the merger on the Utah economy. The level of electricity rates, reliability and quality of service are clearly important factors underlying a vibrant Utah economy. In particular, the further erosion of local control may have a profound impact on rate and service quality levels. The Committee strongly urges the Commission to include the issue of local control in the core category.

3. Environmental Issues (Memorandum, pg. 7)

The Applicants indicate that the Committee has raised major environmental issues in this proceeding (regional haze, carbon emissions, etc.). A review of the Committee's issues list confirms that is simply not the case. We are chiefly concerned with ScottishPower's environmental track record in the U.K. and the potential implications for Utah ratepayers.

4. Discovery (Memorandum, pg. 10)

The Applicants have alleged that certain parties (singling out the Committee and Emery County) have included what amounts to discovery questions as part of their issues lists. The Applicants assert that these "discovery questions" are not issues for which the Applicants carry the burden of proof. Moreover, the Applicants fail to identify those issues which they construe as discovery.

The Committee believes that the vast majority of the issues we have raised for consideration are relevant to a proper examination of this proposed merger. For example, within the general category of financial issues we have raised specific issues such as cost-of-capital impacts, access to capital markets, tax effects, currency exchange impacts, financial and business risks, and so forth. With the exception of issues pertaining to electric restructuring (see Committee Issues List, Issue #10), we strongly recommend that the Commission include all remaining issues raised by the Committee in the core category.

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of April, 1999, I caused to be mailed first class, postage prepaid, a true and correct copy of the foregoing Response of the Committee of Consumer Services to the Applicants' Issues Memorandum.

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Edward A. Hunter
Stoel, Rives
201 S. Main St., #1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street N.W.
800 West Tower
Washington, D.C. 20007

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 180
P.O. Box 45898
Salt Lake City, Utah 84145-0898

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Colorado 80302

Bill Thomas Peters
David W. Scofield
Parsons Davies Kinghorn & Peters
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Gary Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Roger O. Tew
60 South 600 East Suite 200
Salt Lake City, Utah 84102

Steven Allred
Salt Lake City Corp. Law Dept.
451 South State Street Suite 505
Salt Lake City, Utah 84111

Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 84119

Lee R. Brown
Vice President, Contracts,
Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, Utah 84107

Matthew F. McNulty, III, Esq.
Van Cott, Bagley, Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, Utah 84145

Brian L. Farr
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, Utah 84114-0857



16806

RECEIVED

APR 29 4 43 PM '99

U.S. PUBLIC
SERVICE COMMISSION

Gary A. Dodge, Esq. #A0897 10
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536
Telephone: 801-532-7840
Attorneys for Large Customer Group

RECEIVED BY COMMISSIONERS

STEVEN H. PEARSON SKP

CONSTANCE B. WHITE Crow 4/4

CLARK G. JENSEN og sb

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
PacifiCorp and Scottish Power plc	)	Docket No. 98-2035-04
for an Order Approving the Issuance)	
of PacifiCorp Common Stock	)	LARGE CUSTOMER GROUP'S
	)	RESPONSE TO APPLICANTS'
	)	ISSUES MEMORANDUM

Pursuant to the Commission's Scheduling Orders in this matter, the Large Customer Group ("LCG") hereby responds to the Applicants' Issues Memorandum dated April 12, 1999 ("Applicants' Memorandum").

INTRODUCTION

The LCG submits that the Applicants fundamentally misconstrue their burden of proof in this matter. As the regulated monopoly provider of electrical services for most of the State of Utah, PacifiCorp cannot sell its stock or utility assets, merge, combine or consolidate with another utility without Commission approval. Utah Code Ann. §§ 54-4-28 - 31. The merger or acquisition contemplated by the Applicants (the "Proposed Transaction") can only be approved if the Applicants

provide an adequate demonstration to the Commission that the Proposed Transaction is consistent with the “public interest.” *Id.* The “public interest” standard, while admittedly imprecise, is a standard properly delegated to the Commission and is within its area of expertise, particularly when read in conjunction with the entire Public Utilities Act. *White River Shale Oil v. Public Service Commission*, 700 P.2d 1088, 1091-92 (Utah 1985). Before the Proposed Transaction can be found to satisfy the “public interest” standard, the interests of ratepayers and shareholders must be protected and, in addition, the “overall public interest” must be accommodated. As explained by the Utah Supreme Court in the context of a rate case:

In the instant case, the role of the Commission is to protect the interests of both the ratepayers and the shareholders *and to accommodate both those interests to the overall public interest.*

Stewart v. Utah Public Service Commission, 885 P.2d 759, 776 (Utah 1994) (emphasis added). Similarly, in the context of the Proposed Transaction, the Commission’s statutory charge is to consider all relevant facets of the “overall public interest”--including areas both within and outside the Commission’s primary areas of regulatory jurisdiction.

A. The Applicants Have the Burden to Prove that the Proposed Transaction is Consistent with the Overall Public Interest.

The Applicants bear a heavy burden of proof to demonstrate by substantial evidence that, all things considered, the proposed transaction is in the overall public interest. Stated another way, the Applicants must convince the Commission by substantial evidence that any demonstrable “positives” flowing from the merger will outweigh any potential “negatives.” PacifiCorp carries the burden of proof as to all potential “positives” and “negatives”--whether or not they fall within the

Commission's normal regulatory jurisdiction or enforcement powers. As explained in an analogous context by the Utah Supreme Court:

In the regulation of public utilities by governmental authority, a fundamental principle is: *the burden rests heavily upon a utility* to prove it is entitled to rate relief and not upon the commission, the commission staff, or any interested party or protestant; to prove the contrary. A utility has the burden of proof to demonstrate its proposed increase in rates and charges is just and reasonable. *The company must support its application by way of substantial evidence*, and the mere filing of schedules and testimony in support of a rate increase is insufficient to sustain the burden. *Rate making is not an adversary proceeding in which the applicant needs only to present a prima facie case to be entitled to relief. A state regulatory commission, whose powers have been invoked to fix a reasonable rate, is entitled to know and before it can act advisedly must be informed of all relevant facts. Otherwise, the hands of the regulatory body could be tied in such fashion it could not effectively determine whether a proposed rate was justified.* In accordance with the mandate of Section 54-7-12(2) ("... On such hearing the commission shall establish the rates ... which it shall find to be just and reasonable.") *there must be substantial evidence to support the essential findings* in a rate order.

Utah Department of Business Regulation v. Public Service Commission, 614 P.2d 1242, 1245-46 (Utah 1980) (footnotes omitted; emphasis added). As with rate relief, proponents of a utility merger or acquisition with the potential for significant impacts on customers and other stakeholders have a heavy burden to establish by substantial evidence that the Proposed Transaction is in the interests of shareholders and ratepayers and otherwise is consistent with the overall public interest. It is not enough for the Applicants to make a *prima facie* showing as if this were an adversary court proceedings. As noted by the Utah Supreme Court, the Commission is "entitled to know and before it can act advisedly must be informed of *all relevant facts*" by the utility. *Id.* (emphasis added). The utility must thus present "substantial evidence" to support all "essential findings" that the proposed transaction is consistent with, and not adverse to, the overall public interest. *Id.* This heavy burden

of proof remains with the Applicants at all times.¹ This burden of proof does not mean that PacifiCorp must anticipate and respond in its initial testimony to every potential or claimed negative consequence of the Proposed Transaction. It does, however, require the Applicants' to present substantial evidence as to all reasonably anticipated consequences of the merger, both positive and negative. Absent such a showing, the Application should properly be dismissed or denied.

B. The Applicants Cannot Properly Shift Their Burden to Others.

The Applicants ultimately bear both the burden of proof and the burden of persuasion that the Proposed Transaction satisfies the "overall public interest" standard. The Applicants' Memorandum attempts to shift the Applicants' burden of proof with respect to (i) issues that Applicants consider to be outside the Commission's traditional jurisdiction; (ii) issues that the Applicants label as "speculative;" and (iii) proposed conditions. The Applicants cannot properly evade or shift to others their burden of proof. They must demonstrate by substantial evidence that the proposed transaction is in the overall public interest after consideration of *all* reasonably anticipated potential benefits and detriments of the transaction.

A party that advocates specific potential impacts or detriments of the Proposed Transaction obviously carries the burden to persuade the Commission that the perceived impacts or detriments

¹A portion of the Commission's order in the PacifiCorp/Utah Power merger case draws a distinction with respect to the merging companies' "burden" as between matters within and without the Commission's "normal regulatory jurisdiction and enforcement powers". Report and Order, Docket No. 87-035-27. While that distinction can be of value in analyzing the burden of persuasion as to certain aspects of certain issues, it cannot properly diminish the Applicants' overall heavy burden of proof to establish through substantial evidence that the proposed transaction is consistent with the overall public interest.

may indeed result from the Proposed Transaction. The ultimate burden of proof, however, remains always with the Applicants to demonstrate by substantial evidence either that any potential detriments do not exist or that the Proposed Transaction is in the public interest notwithstanding the same.

C. Issues Relating to Industry Restructuring Should Properly Be Considered in Connection with the Proposed Transaction.

The LCG identified "industry restructuring" as an issue to be considered in these proceedings. The LCG explained the relevance of this issue as follows:

Industry Restructuring. The merger may impact Utah's readiness for and response to industry restructuring. The merged company has not clearly articulated its position on or its intended response to federal and state restructuring efforts, unbundling of rates, transmission reform, existing and prospective competition, development of and participation in a Regional Grid Management Organization, and customer choice. Steps should be taken to ensure that the merged company is adequately prepared for and will not adversely impact ongoing discussions and decisions regarding, or preparations for, industry restructuring.

Large Customer Group's Statement of Issues, February 17, 1999, at 2.

The Applicants' Memorandum suggests that these issues are completely beyond the pale of these proceedings. To the contrary, PacifiCorp customers are clearly entitled to ask of a company seeking to acquire and control their exclusive electric service provider its views on industry restructuring and whether and in what manner the merger may have an impact on attitudes, discussions or processes relating to the same. The LCG is not asking this Commission to enter orders or rulings on industry restructuring or to supplant other legislative or administrative processes. Rather, the LCG seeks information on issues of critical and timely importance to all customers that may be impacted by the Proposed Transaction.

The nature of the Applicants' responses to these kinds of questions--including ambiguous or evasive responses or an outright refusal to respond--will (and should) inform both the customers' and the Commissions' evaluation of the "overall public interest" standard. To claim that "industry restructuring" is an issue wholly beyond the scope of these proceedings as suggested by the Applicants is to say that customers of PacifiCorp have no right to ask or know in advance about existing attitudes and experiences of their potential exclusive electric service provider on issues of critical importance to them. Customers clearly have such a right and both they and this Commission should carefully consider the Applicants' responses in determining whether this Proposed Transaction meets the public interest standard. To muzzle the customers' inquiry into critical and relevant areas would be wholly inappropriate.

D. Mandatory and Voluntary Conditions to the Proposed Transaction Should be Carefully Considered by the Commission.

The LCG listed "transmission organizations" as an issue to be considered in this case and framed the questions explaining its relevance as follows:

Transmission Organizations. Is it in the public interest for the Commission to take advantage of this unique opportunity to require the merged company to participate meaningfully in an effective regional transmission organization, regional grid management organization or similar transmission organization? What merger conditions are necessary or appropriate and in the public interest with respect to transmission control?

LCG and UIEC Statement of Additional Issues, March 30, 1999, at 2.

Based upon a review of the Applicants' testimony and information obtained to date, the apparent public interest benefits of this transaction, if any, appear thin and the potential risks appear significant. There is a definite possibility that the Commission could ultimately conclude that the

Applicants have not meet their burden of proof to demonstrate that the Proposed Transaction as currently contemplated is in the public interest. In such a case, it would clearly be within the Commission's ability and discretion to condition potential approval of the merger on conditions that would make the transaction consistent with the public interest, including conditions within the scope of the Commission's typical regulatory jurisdiction (such as adequate and effective reliability and performance standards) and those outside its normal regulatory functions (such as joining an RTO) that could be voluntarily accepted by the Applicants. FERC and many other states have utilized such approaches in approving mergers (including the FERC's approval of the PacifiCorp/Utah Power merger). Moreover, it appears that certain conditions--including a voluntary separation of generation facilities by Scottish Power--will be required for approval of this merger in the U.K.

Customers of PacifiCorp must not be foreclosed at this stage of the proceeding from discussing or presenting to the Commission various types of voluntary or mandatory conditions or remedies that they believe the Commission should consider offering or imposing before it finds that the Proposed Transaction is consistent with the public interest. The proponents of any such conditions obviously bear the burden of persuading the Commission that the same are appropriate and meaningful. Discussion of such conditions cannot properly be ruled "off limits" from the start of the process as requested by the Applicants.

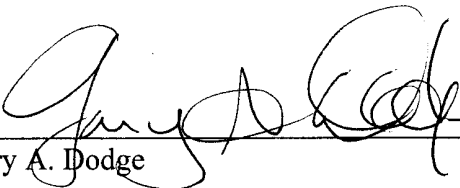
CONCLUSION

The transaction proposed by the Applicants in this proceeding holds the potential for significant ramifications, both positive and negative, to all stakeholders. The right to own and control the means of providing essential utility services to captive customers carries with it

significant public interest considerations delegated to this Commission's sound discretion. The Applicants properly bear the heavy burden of proof to demonstrate that the Proposed Transaction is in the best interests of their shareholders and ratepayers, and is otherwise consistent with the overall public interest. That burden cannot properly be avoided or shifted to others. The Applicants must present substantial evidence on all reasonably foreseeable impacts of the Proposed Transaction. Other parties must be permitted to seek discovery and present evidence on any issues that might help inform the Commission's deliberations as to overall public interest.

DATED this 29th day of April, 1999.

PARR WADDOUPS BROWN GEE & LOVELESS



Gary A. Dodge

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 29th day of April, 1999, to the following:

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, UT 84111

Stephen R. Randle
RANDLE DEAMER ZARR ROMRELL &
LEE
139 East South Temple, Suite 330
Salt Lake City, UT 84111

Brian W. Burnett
CALLISTER NEBEKER &
MCCULLOUGH
10 East South Temple, #800
Salt Lake City, UT 84133

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD BURCHETTE & RITTS
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline Rd., Suite 200
Boulder, CO 80302

Douglas C. Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Matthew F. McNulty, III
VANCOTT BAGLEY CORNWALL &
MCARTHY
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Lee R. Brown
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

F. Robert Reeder
William J. Evans
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, UT 84145-0898

Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN &
PETERS
185 South State Street, Suite 700
Salt Lake City, UT 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108

Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, UT 84102

Steven W. Allred
Salt Lake City Law Department
451 S. State, Suite 505
Salt Lake City, UT 84111

Paul T. Morris
3600 Constitution Blvd.
West Valley City, UT 84119

Joni B. Jibbett

16805

RECEIVED

APR 23 3 39 PM '99

VAN COTT, BAGLEY, CORNWALL & McCARTHY
Matthew F. McNulty, III (3828)
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333
Facsimile: (801) 534-0058

UTAH PUBLIC SERVICE COMMISSION REVIEWED BY COMMISSIONERS
SERVICE COMMISSIONER MEDIUM *SM*
CONSTANCE B. WHITE *CBW 4/4*
CLARK D. JONES *CJ 4/7*

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp
and Scottish Power plc for an Order
Approving the Issuance of PacificCorp
Common Stock

DOCKET NO. 98-2035-04

**UTAH ASSOCIATED
MUNICIPAL POWER SYSTEMS'
MEMORANDUM IN RESPONSE
TO APPLICANTS' ISSUES
MEMORANDUM**

Utah Associated Municipal Power Systems ("UAMPS"), by and through its attorneys of record, and on behalf of its members, submits this Memorandum in Response to Applicants' Issues Memorandum to the Public Service Commission of Utah (the "Commission"), pursuant to the Commission's Supplemental Scheduling Order issued April 2, 1999.

INTRODUCTION

In their Issues Memorandum, the Applicants asserted that at least four of the issues raised by the intervening parties lie outside the Commission's jurisdiction. The Applicants also asserted that all issues raised by the intervening parties are irrelevant and claimed that the intervening parties have a certain burden of proof on those issues based on the Commission's March 31, 1999 Memorandum. In sum, the Applicants have responded to all issues raised by the intervening parties simply by asserting either that those issues lie outside the Commission's jurisdiction or that the intervening parties have not met their burden of demonstrating the issues' relevance to this proceeding. It would appear that the Applicants

believe that if they can limit this docket to only those issues with which they feel comfortable, their chances of securing Commission approval will be improved.

I. GENERAL JURISDICTION DISCUSSION

The Commission Has Both Express and Implied Jurisdiction to Examine Proposed Mergers

The Commission possesses both express and implied statutory authority to approve or disapprove mergers of public utilities. *See* Utah Code Ann. § 54-4-28 (1994). Specifically, the Utah Code provides that “[n]o public utility shall combine, merge nor consolidate with another public utility engaged in the same general line of business in this state, without the consent and approval of the [Commission], which shall be granted only after investigation and hearing and finding that such proposed merger, consolidation or combination is in the public interest.” *Id.* (emphasis added). In conjunction with this express authority to approve mergers, the Commission has a broad, implied grant of jurisdiction over public utilities. *Id.* § 54-4-1. Under this section, the Commission is “vested with power and jurisdiction to supervise and regulate every public utility in this state, and to supervise all of the business of every public utility in this state, and to do all things, whether herein specifically designated or in addition thereto, which are necessary or convenient in the exercise of such power.” *Id.* Construing these sections of the Utah Code together, the Utah legislature has given the Commission the express power to approve mergers when in the public interest. It follows that the Commission has the implied authority to do what is necessary to effectively exercise that power.

The Utah Supreme Court has interpreted the scope of the implied authority set forth in section 54-4-1 of the Utah Code. *See Mountain States Tel. v. Public Serv. Comm’n*, 754

P.2d 928, 930 (Utah 1988); *Williams v. Public Serv. Comm'n*, 754 P.2d 41, 50 (Utah 1988).

Under section 54-4-1, “[i]t is well established that the Commission has no inherent regulatory powers other than those expressly granted or clearly implied by statute. *Mountain States*, 754 P.2d at 930. However, the Utah Supreme Court has also noted that it will grant deference to the Commission’s determination of its own jurisdiction “if that determination is within the tolerable limits of reason.” *Williams*, 754 P.2d at 50. Accordingly, based upon both Utah statutory and case law authority, the Commission has the express and implied authority to approve a merger when it is in the “public interest.”

When considering the “public interest” in the context of a merger, the Commission has considered a wide variety of issues. *See Re Utah Power & Light*, 97 P.U.R.4th 79 (Utah P.S.C. 1988). In *Re Utah Power & Light*, the Commission identified numerous categories of information that it determined were relevant to an analysis of a merger between UP&L and PacifiCorp. This evidence included: (1) the qualification and organization of the companies proposing the merger; (2) non-power supply savings resulting from the merger; (3) long-run resource acquisition savings resulting from the merger; (4) net power cost savings from the merger; (5) allocations; (6) regulatory burdens associated with the merger; (7) local control issues; (8) the effect of the merger on retail prices, including both general rates and the energy balancing account; (9) the effect of the merger on major industrial customers; (10) coal issues related to the merger; (11) merger costs; and (12) other miscellaneous conditions. *Id.*

In sum, the Commission has the ability to condition approval of the merger in any number of ways. The Commission can condition approval to require premerger sales, acquisitions and other transactions that will protect the citizens of Utah. The Commission can condition approval of the merger so as to require the applicants to be responsible for fines in the

event promises and representations made during the “courting process” of the application period are not fulfilled. The Commission need not be shy when it is imposing conditions; after all, the applicants are seeking the right and privilege to serve Utah’s citizens, the right to serve is not the Applicant’s in perpetuity. The right to serve is not an easily assigned interest; the right to serve requires thorough oversight, scrutiny and investigation. The Commission’s ability to investigate and place conditions upon a merger is required.

There is no Utah case law, that directly holds that the Commission can, when considering a merger request, consider an issue that is not specifically identified as within the Commission’s jurisdiction. However, by analogy, federal courts have recognized the authority of the Federal Energy Regulatory Commission (“FERC”) to consider the effect of issues that are beyond the scope of FERC’s jurisdiction when resolving other matters “within” FERC’s regulatory authority. *See Federal Power Comm’n v. Conway Corp.*, 426 U.S. 271, 276 (1976); *Panhandle East Pipe Line Co. v. Federal Power Comm’n*, 324 U.S. 635, 646-47 (1945); *Corning Glass Works v. Federal Energy Reg. Comm’n*, 675 F.2d 392, 394-96 (D.C. Cir. 1982); *Public Utilities Comm’n v. Federal Energy Reg. Comm’n*, 660 F.2d 821, 826 (D.C. Cir. 1981).

This line of cases has followed the reasoning articulated by the Supreme Court in the *Panhandle East* case. In *Panhandle East*, the Federal Power Commission (“FPC”) was faced with the jurisdictional bar from fixing gas rates for “direct industrial sales.” *Panhandle East*, 426 U.S. at 646. By contrast, the FPC was statutorily empowered to set rates for the sale of gas in “interstate wholesale sales.” *Id.* The Court found that the language of Section 5(a) of the Natural Gas Act¹ indirectly permitted FPC to consider “direct industrial sale” rates when setting “wholesale” rates within its jurisdiction. *Id.* The Court held that the FPC, “while [lacking]

authority to fix rates for direct industrial sales, may take those rates into consideration when it fixes the rates for interstate wholesale sales which are subject to its jurisdiction.” *Id.* Although the FPC was not free to “disregard the jurisdictional lines which Congress [had] drawn,” it could include other (non-jurisdictional) “relevant considerations” when exercising its authority to set rates. *Id.* at 647. Other federal courts have followed the *Panhandle East* decision. *See, e.g., Corning Glass Works*, 675 F.2d at 394-96 (noting that “[i]t is well settled that [FERC] may consider nonjurisdictional activities and transactions . . . when it fixes the rates for interstate wholesale sales which are subject to its jurisdiction”); *Public Utilities Comm’n*, 660 F.2d at 826 (reasoning that “FERC, and its predecessor FPC, may take into consideration nonjurisdictional items when setting jurisdictional rates”).

Based upon the *Panhandle Eastern* line of authority, the Commission, like FERC, has the authority to consider nonjurisdictional issues when necessary to the effective exercise of the Commission’s authority within its jurisdiction. Moreover, the Utah Code grants the Commission both an express authority to approve mergers and an implied authority to carry out its proper functions. Because the approval of a merger requires a “public interest” analysis by the Commission, like FERC under the Natural Gas Act, the Commission should consider all relevant issues that impact the public interest (e.g. the price paid by the municipality for annexed property), even when such issues are “nonjurisdictional.” Thus, the Utah Code’s grant of statutory authority to the Commission appears to be congruent with the holdings and reasoning in the *Panhandle Eastern* line of cases.

II. ISSUE ALLEGEDLY BEYOND THE COMMISSION’S JURISDICTION: ANNEXATION

In its Amended Petition for Intervention in this proceeding, UAMPS identified the condemnation and/or purchase of certain PacifiCorp facilities as a potential issue in this proceeding. The Applicants responded that condemnation and annexation issues lie outside the Commission’s jurisdiction. In their Issues Memorandum, the Applicants stated the following:

¹ Section 5(a) of the Natural Gas Act set forth the FPC’s jurisdiction to set rates for interstate wholesale sales. *Id.*

Under the provisions of Utah Code Ann. Section 10-2-421, a municipality cannot begin serving customers in a newly annexed area until it has reimbursed the current utility service provider for the “fair market value” of its facilities. *If the parties cannot agree on the fair market value, it is determined, by the state courts.*

Even assuming that the Commission had the requisite authority to assume the role delegated by statute to the courts, this is certainly not a proceeding in which the Commission could perform the extensive factual analysis required under Utah law to determine “fair market value.” *Logan City v. Utah Power & Light*, 796 P.2d 697 (Utah 1990); *Strawberry Electric Service District v. Spanish Fork City*, 918 P.2d 870 (Utah 1996). The price and timing for annexations has *already been resolved by the Utah legislature and those issues are not within the jurisdiction of the Commission*, or within the scope of this proceeding.

Applicants’ Issues Memorandum, p. 3. (emphasis added). PacifiCorp misapplies both Utah Code Ann. § 10-2-421, as well as the *Logan City* and *Strawberry Electric* decisions. First, Utah Code Ann. § 10-2-421 simply entitles an electric utility company in an unincorporated area to be compensated for the fair market value of its facilities before the municipality may provide electrical service. *Id.* § 10-2-421(1). If the annexing municipality and electric company cannot agree on the fair market value, a state district court shall make the determination. *Id.* § 10-2-421(2). The statute says nothing about the role of the Commission in the process, or establishing non-binding guidelines for the parties to follow in making a fair market value determination. Likewise, neither *Logan City* nor *Strawberry Electric* address the jurisdiction of the Commission over a municipality that is annexing electrical utilities in unincorporated areas. *Logan City* and *Strawberry Electric* simply define the requirements of Utah Code Ann. § 10-2-421.

UAMPS, nevertheless, welcomes the Applicants' position regarding the Utah court jurisdiction in annexation matters.² UAMPS notes, however, that PacifiCorp historically has assumed a contrary position in annexation litigation. Recently, as an affirmative defense to Kaysville City's complaint for condemnation of certain property and facilities as part of Kaysville's annexation of a portion of Davis County, PacifiCorp asserted that the Utah State Second District Court lacked primary jurisdiction over determination of fair market value. PacifiCorp's Seventh Affirmative Defense stated: "In the event condemnation is awarded, this Court should abstain and defer primary jurisdiction of the issue of fair market value of the facilities to the Federal Energy Regulatory Commission ("FERC")." PacifiCorp's Answer to Kaysville City's Complaint, dated Dec. 1, 1997, p. 5, attached as Exhibit "A". PacifiCorp now recognizes that fair market value is determined by state courts not by FERC or by the Commission. *See* Utah Code Ann. § 10-2-421(2) (Supp. 1998).

UAMPS is pleased that the Applicants now agree that Utah courts have jurisdiction over determinations of fair market value of annexed facilities. With that admission, UAMPS will not ask the Commission to resolve pricing and fair market value issues vis-a-vis PacifiCorp facilities that are subject to annexation/condemnation proceedings.

² The Utah Code expressly sets forth a municipality's right to use the power of eminent domain over electrical power generation and transmission facilities. *See* Utah Code Ann. § 78-34-1(8) (1994) (power to use eminent domain to acquire electrical lines and plants). In addition, the Utah Code empowers municipalities to conduct a variety of other actions related to acquisition and regulation of electrical utilities. *See, e.g.*, Utah Code Ann. § 55-3-1 (1994) (authority to purchase electric systems); Utah Code Ann. § 10-8-21 (1994) (authority to regulate electrical power within the city). Based upon the comprehensive statutory scheme, there is little doubt that a court would find the annexation and regulation of electrical utilities to be a "municipal function."

III. ISSUES ON WHICH APPLICANTS CLAIM UAMPS SHOULD HAVE BURDEN OF SHOWING EITHER BENEFIT OR SUBSTANTIAL HARM

In its Amended Petition for Intervention and Statement Regarding Issues Raised by the Application of PacifiCorp and Scottish Power, UAMPS articulated how the following issues surrounding the proposed merger potentially create substantial harm to the public interest: (1) acquisition of the Hunter II Generation Facility; and (2) impacts on the Utah economy and workforce.

UAMPS has raised the question whether any “acquisition premium” paid for PacifiCorp’s generation, transmission, and distribution assets, especially the Hunter II Generation Facility, could be passed on Utah rate payers which would be contrary to the public interest. The applicants should respond and provide evidence which addresses this issue. If Scottish Power’s shareholders believe PacifiCorp’s assets are worth more than book value, those shareholders must bear the risk of being wrong. Moreover, UAMPS and its citizens should not be expected to cover any increased operation and ownership costs of the Hunter II facility that may result from ownership being transferred to a non-U.S. company. The sale of PacifiCorp’s generation, transmission, and distribution assets and any payment of an “acquisition premium” for those assets will impact rates for Utah customers and thus the public interest. The Commission must address questions regarding the potential for increased costs stemming from the sale of PacifiCorp’s generation, transmission, and distribution assets to Scottish Power. The Commission should be particularly concerned with the potential for passing on such costs to any Utah rate payers. Increased costs passed on to any Utah rate payers as a result of the proposed merger present substantial harm and must be addressed by the Commission.

Additionally, UAMPS has raised questions about how the proposed merger will impact Utah's economy and its workforce. Utah's experience with the result of the previous merger requires this type of inquiry. Since the merger of Utah Power & Light ("UP&L") with PacifiCorp, UAMPS and its members have grown concerned about the quality of transmission and distribution service within PacifiCorp's service area. UAMPS has experienced significant reliability problems with PacifiCorp's transmission system and believes the transmission system is less reliable than it was before the UP&L merger.

Since the UP&L merger, PacifiCorp has conducted aggressive cost-cutting measures reducing its Utah workforce. Out-of-state utility executives control much of the operations of Utah Power. The cost-cutting measures and loss of local control have undoubtedly contributed to declining reliability for electric transmission and distribution for Utah consumers of electricity. Moreover, the cost-cutting and lack of local control has impacted Utah workers and the Utah economy.

The currently proposed merger promises additional cost-cutting and further loss of control. The impact on Utah's economy and on Utah's workforce of moving the headquarters of Utah's so-called electric utility to another country rather than simply to another state should not be underestimated. Utah Power's earlier merger with PacifiCorp affected not only the Utah workforce and economy but also the reliability and quality of electric transmission and distribution within Utah. Any further cuts in Utah's workforce or reductions in reliability and quality of transmission will create substantial harm to the public interest; accordingly, such issues must be carefully scrutinized by the Commission.

IV. FACTUAL FINDINGS AND STANDARD OF PROOF REQUIRED FOR APPROVAL OF APPLICANTS' PROPOSED MERGER

The Commission may approve a merger only after issuing factual findings and an opinion that the merger is "in the public interest." *See* Utah Code Ann. § 54-4-28 (1994). However, there is no Utah case law or statute addressing the "public interest" requirement. In its 1988 Order approving the PacifiCorp-UP&L merger, the Commission applied the "net positive benefits" standard to the proposed merger. In that opinion, the Commission analyzed the benefits and drawbacks to the proposed merger and, after a lengthy factual analysis, concluded that the "net positive benefits" of the merger outweighed any possible drawbacks to ratepayers, shareholders, and the State of Utah. *Id.* Consequently, the Commission should apply the "net positive benefits" standard, rather than the "no harm to ratepayers" standard.

Utah courts have consistently required the Commission to provide detailed factual analyses and conclusions to support its orders and opinions. *See, e.g., In re Worthen*, 926 P.2d 853, 872 (Utah 1996) (noting that "[t]here must be an explanation of the linkage between the raw facts and the [Commission's] ultimate conclusions, including an explanation of why the [Commission] drew the inferences from the facts that it did"); *U.S. West Communications, Inc. v. Public Serv. Comm'n*, 882 P.2d 141, 144-45 (Utah 1994) (stating that "it is essential that the [Commission] make subsidiary findings in sufficient detail that the critical subordinate factual issues are focused on and resolved in such a fashion as to demonstrate that there is a logical and legal basis for the ultimate conclusions").

As is noted above, there are no statutory requirements to guide the Commission in analyzing a proposed merger. Nonetheless, the Commission's 1988 *In Re Utah Power & Light Co.* decision (the "1988 UP&L Order") is instructive on this issue. *See In Re Utah Power &*

Light, 97 P.U.R.4th 79 (Utah P.S.C. 1988). In the 1988 UP&L Order, the Commission identified numerous categories of information that it determined were relevant to an analysis of a merger between UP&L and PacifiCorp. This evidence included: (1) the qualification and organization of the companies proposing the merger; (2) non-power supply savings resulting from the merger; (3) long-run resource acquisition savings resulting from the merger; (4) net power cost savings from the merger; (5) allocations; (6) regulatory burdens associated with the merger; (7) local control issues; (8) the effect of the merger on retail prices, including both general rates and the energy balancing account; (9) the effect of the merger on major industrial customers; (10) coal issues related to the merger; (11) merger costs; and (12) other miscellaneous conditions. *Id.* The Commission made detailed and comprehensive factual findings on each of these issues. *Id.* The Commission then made a legal determination that the proposed merger provided a “net positive benefit” to ratepayers, shareholders and the State of Utah and approved the merger. *Id.* The Commission did so based on the fact that they had extensive and comprehensive evidence as to these issues. The Commission should require nothing less than the same evidentiary support for this proposed merger.

In the present case, the Commission must make detailed findings of fact, not only on basic factual issues, but on ultimate factual conclusions regarding the “benefits” and “harms” caused by the proposed merger. In analyzing the evidence from the parties, the Commission must provide detailed factual findings to support its opinion and order. The Commission should analyze the factual evidence to determine whether the proposed merger provides “net positive benefits” to ratepayers, shareholders and the State of Utah. In order to provide the types of findings as to the “benefits” and the “harms” of the merger, the Commission should require the

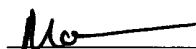
Applicants to provide meaningful evidence as to acquisition premiums, local control and local workforce issues.

CONCLUSION

UAMPS accepts PacifiCorp's admission that state courts alone have jurisdiction over issues surrounding annexation related condemnation of PacifiCorp's facilities, particularly the issue of fair market value of those facilities. UAMPS believes the proposed merger potentially impacts operation of the Hunter II Generation Facility and potentially impacts Utah's economy and workforce. The Applicants should be required to affirmatively show that those potential impacts will not harm the public interest. UAMPS urges the Commission to address those specific issues and condition approval of the merger so as to guarantee the merger provides a positive benefit to the citizens of the State of Utah.

RESPECTFULLY SUBMITTED this 29th day of April, 1999.

VAN COTT, BAGLEY, CORNWALL & McCARTHY



Matthew F. McNulty, III
Attorneys for Utah Associated Municipal
Power Systems

MAILING CERTIFICATE

I hereby certify that I caused a copy of the foregoing **UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS' MEMORANDUM IN RESPONSE TO APPLICANTS' ISSUES MEMORANDUM** regarding Docket No. 98-2035-04, to be mailed by first class mail, postage prepaid, this 29th day of April, 1999 to the following:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle Deamer Zarr Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Colorado 80302

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, Suite 800
Salt Lake City, Utah 84133

Glen F. Davies
Bill Thomas Peters
Parsons Davies Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Boulevard, Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
Salt Lake City, Utah 84145

Robert Green
Scottish Power plc
121 SW Morrison, Suite 1800
Portland, Oregon 97204

Lawrence H. Reichman
Perkins Coie LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715

Anne E. Eakin
PacifiCorp
825 NE Multnomah Street
Portland, Oregon 97332

D. Douglas Larson
PacifiCorp
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000

Roger O. Tew
Utah League of Cities and Towns
50 South 600 East
Salt Lake City, Utah 84102

Steven W. Allred
Salt Lake City Legal Department
451 South State, Suite 505
Salt Lake City, Utah 84111

Paul T. Morris
3600 Constitution Boulevard
West Valley City, Utah 84119



16804

F. Robert Reeder (2710)
William J. Evans (5276)
Mark A. Glick (6093)
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, Utah 84145-0898
Telephone: (801) 532-1234

RECEIVED

APR 29 3 40 PM '99

UTAH PUBLIC
SERVICE COMMISSION

REVIEWED BY COMMISSIONERS
STEPHEN F. MEDHAM
CONSTANCE D. WHITE
CLARK D. JONES

Attorneys for Utah Industrial Energy Consumers

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	
PACIFICORP and SCOTTISHPOWER	)	DOCKET NO. 98-2035-04
PLC for an Order Approving the Issuance of)	
PACIFICORP Common Stock	)	REPLY OF THE UTAH
	)	INDUSTRIAL ENERGY
	)	CONSUMERS TO APPLICANTS'
	)	ISSUES MEMORANDUM

Pursuant to the Supplemental Scheduling Order of the Public Service Commission of Utah ("Commission"), the Utah Industrial Energy Consumers ("UIEC") hereby respond to Applicants' Issues Memorandum dated April 12, 1999.

INTRODUCTION

ScottishPower and PacifiCorp (the "Applicants") cannot complete their proposed merger (the "Transaction") without the approval of the Commission. Utah Code Ann. §§ 54-4-28. The Commission can only approve the Transaction if it finds that it is in the interest of Utah ratepayers. Id. In undertaking the required analysis of the Transaction, the

UIEC believes that no issues or remedies related to the public interest should be excluded from the proceedings. In this submission, the UIEC addresses the critical issue of restructuring in the context of the Transaction, identifies the remedies available in the restructuring context (i.e., regional transmission organization and the separation of functions), and suggests that the Commission consider retaining the ability to use restructuring-type remedies to mitigate the risks in this Transaction.

INDUSTRY RESTRUCTURING
SHOULD BE CONSIDERED IN ANALYZING
THE PROPOSED TRANSACTION

Remedies for the risks created by the Transaction must play an important role in the Commission's consideration of the Transaction. There are several important reasons why the Commission should not take restructuring-type remedies off the table in advance. Instead, the Commission should reject Applicants' request for a blanket bar on any remedy in advance of understanding the issues that the Transaction could raise for Utah ratepayers.¹

Restructuring covers a wide set of specific remedies for electric utility industry problems and it is not prudent for the Commission to decide at present that any particular remedy is not an efficient or effective means of protecting Utah ratepayers. While the UIEC recognizes that the acquisition of PacifiCorp by ScottishPower involves entities with no overlapping service areas, and while restructuring in some fashion is the usual remedy for increased concentration, it does not follow from this fact that similar remedies are irrelevant as Applicants contend. In several merger cases involving non-overlapping service areas, regulatory agencies have conditioned merger approval on some type of

¹ The contours of what is included under the umbrella of "restructuring" is not well defined. If the Commission accepts the Applicants' argument, it is likely any future conditions that it may order will be labeled by Applicants as "restructuring."

restructuring-type remedy. For example, the recent merger of Sierra Pacific Power Company and Nevada Power Company was conditioned on an agreement to divest production assets and to join a regional ISO within three years, even though the companies were not interconnected and operated in different geographic markets. See Order Approving Merger and Conditionally Accepting For Filing Proposed Joint Open Access Transmission Tariff, 87 FERC ¶ 61,077 (1999) (“our approval of the merger is premised in part on the Applicants’ representation that divestiture of their generating assets will take place.”) See Attachment A. Indeed, in this very case, the UK Competition Commission has ordered several restructuring-type remedies as a condition for regulatory approval of this transaction. See Department of Trade and Industry Press Notice dated April 13, 1999 (“ScottishPower have assured the Secretary of State that, following restructuring, a financial ring-fence will be placed around the electricity supply and transmission business currently carried on by ScottishPower” and “restructure its business in Great Britain as soon as is reasonably practicable, and in any event within years, so as to place generation and any non-electricity activities in separate group companies.”). See Attachment B. ScottishPower has acquiesced to the UK Competition Commission requirements. That acquiescence is attached as Attachment C. There is no a priori reason why their remedy should not be carefully considered in this proceeding.

Applicants inappropriately allude to early termination in the Hart-Scott-Rodino process as a reason for muting any discussion of restructuring. The Commission cannot defer its authority to order restructuring to either the Federal Trade Commission or to the FERC. Both of these agencies currently analyze mergers under a competitive standard that does not take account of the impact of a transaction on either (1) the ability of the state

commission to effectively regulate the new entity, or (2) the possibility of the impairment of the specific interests of Utah ratepayers. See Department of Justice and Federal Trade Commission 1992 Horizontal Merger Guidelines; FERC Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act 61 FR 68595 (1996). Even if the Transaction is found to not significantly increase market power in the United States, the behavior of the utility and its pre-existing dominance in a market may compel restructuring-type remedies to facilitate effective regulation by Utah regulators and to avoid any negative impact of the Transaction on Utah ratepayers. The Commission may only have the opportunity to remedy such problems in merger cases.

The absence of a restructuring risk is at the center of ScottishPower's rationale for investment in PacifiCorp. The Transaction will create strong incentives to at least slow down Utah's ability to restructure or to adjust rates. One of ScottishPower's reasons for investing, as reported by its investment advisors, is to increase efficiencies that will raise the new entity's rate of return, but only so long as no restructuring occurs, and rates are not "reset" to channel any accrued benefits to Utah ratepayers. According to the Warburg Dillon Read report commissioned by ScottishPower, the primary risk to investors is a regulatory reset which reduces the allowed return or the initiation of competition. Bates SP5993. The document states that "in most of the states in which PacifiCorp operates we believe there is little risk of any imminent rate review initiated by the state regulators." Id. The report predicts that in states in which PacifiCorp operates "deregulation may not occur for four-to-five years." Bates SP5994. The report characterizes Utah as in "the slow lane moving toward the Federal goal of liberalization." Bates SP6001. In sum, ScottishPower believes that the Transaction is a good investment because of the combination of

efficiencies gained through competitive practices combined with an absence of restructuring: "There is, therefore, an opportunity to reduce costs in order to increase the achieved return and ensure that the benefits flow to shareholders." (Emphasis added) Bates SP6003. See Attachment D.

While ScottishPower is investing with the expectation that restructuring is off the table, thereby ensuring that any efficiency benefits flow to shareholders, witnesses in this proceeding have testified differently before this Commission. At the February 2, 1999 hearing before the Commission, ScottishPower PLC and PacifiCorp testified as follows:

Q. How will the benefits that you expect be reflected in PacifiCorp's prices?

A. ... Following the initial period of service quality and customer service improvements, cost savings will begin to occur and will reduce the need for pure increases. These benefits will result in prices lower than they would be without the transaction. (Emphasis added.)

Direct Testimony of Richard T. O'Brien at 9. In other words, Scottish Power is investing because the risk of rate resetting or restructuring is low, and because profits will rise as costs decline. Yet, they have told the Commission that costs will not decline but only fail to rise sufficiently to require rate increases. Accordingly, some restructuring-type remedies may be required to assure that ratepayers benefit from the efficiency that competitive practices might bring. This is especially true given the unwillingness of Scottish Power to make any commitment regarding rate levels and renewal or continuation of special contracts.

Other State Commissions or the FERC may place conditions on the Transaction before approval. Those conditions could involve restructuring-type remedies. If this

happens, the Commission's ability to regulate and enforce its own Transaction conditions could be adversely affected. The State Commissions in Washington, Oregon, Idaho and Wyoming, and the FERC, must approve the Transaction, and any restructuring in those states could have unintended effects on Utah ratepayers who may be left without a remedy unless Utah also implements restructuring. See e.g., The Unintended Impacts of Restructuring, National Counsel on Competition and the Electric Industry IX (1996) ("neighboring states may need to take defensive regulatory or legislative actions to address harmful impacts" from restructuring in other states). Equally at play is the risk of federal legislation and the FERC RTO rulemaking. The recently filed Administration Bill may breathe new life into the legislation, and FERC releases give the impression that a proposed rulemaking on regional transmission is only weeks away. The enforceability of any merger condition, whether restructuring-type remedies or otherwise, requires that it be crafted to be enforceable in a restructured environment. Only by examining restructuring and restructuring-type remedies can the Commission begin to understand what remedies to fashion and enforce in order to protect Utah ratepayers.

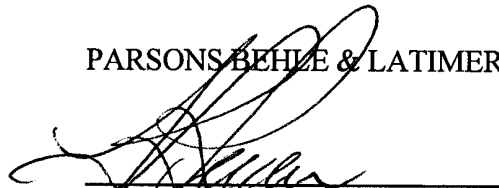
Finally, Applicants' suggestion that any industry restructuring must be delayed because of legislative action is misguided. The fact that the Utah legislature is considering future deregulation does not in any way preclude the Commission from ordering relief in the interest of Utah ratepayers. Restructuring-type remedies must often be imposed when the need and opportunity arises and often do not await legislative action. Moreover, the public interest is clearly at issue if the proposed Transaction adversely impacts the future ability of the legislature to craft deregulatory legislation. The Commission has a responsibility to insure that the Transaction does not harm the public interest by

undermining any future legislation. Taking restructuring off the table will clearly not advance this goal.

For the foregoing reasons the Commission should reject Applicants' request to exclude consideration of industry restructuring for these proceedings.

DATED this 29th day of April, 1999.

PARSONS BEHLE & LATIMER

A handwritten signature in black ink, appearing to be 'F. Robert Reeder', written over a horizontal line.

F. Robert Reeder
William J. Evans
Mark A. Glick
Attorneys for UIEC

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of April, 1999, I caused to be mailed,
first class, postage prepaid, a true and correct copy of the foregoing UIEC ISSUES

STATEMENT to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300-South
Salt Lake City, Utah 84111

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Bill Thomas Peters
Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Dr. Charles E. Johnson
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Matthew F. McNulty, III
Van Cott, Bagley, Cornwall & McCarthy
50 South Main St., Suite 1600
P.O. Box 45340
Salt Lake City, Utah 84145

Steven Allred
Salt Lake City Corp. Law Dept.
451 South State St., Suite 505
Salt Lake City, Utah 84111

Douglas O. Hunter
General Manager
Utah Associated Municipal Power Systems
2825 E. Cottonwood Parkway, Suite 200
Salt Lake City, Utah 84121

Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, Utah 84102

David F. Crabtree
Deseret Generation & Transmission Co.
5295 South 300 West, Suite 500
Murray, Utah 84107

Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 84119

Brian L. Farr
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, UT 84114-0857

Margi Gillman

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James J. Hoecker, Chairman;
Vicky A. Bailey, William L. Massey,
Linda Breathitt, and Curt Hébert, Jr.

Sierra Pacific Power Company and) Docket Nos. EC99-1-000
Nevada Power Company) ER99-34-000

ORDER APPROVING MERGER AND CONDITIONALLY
ACCEPTING FOR FILING PROPOSED JOINT
OPEN ACCESS TRANSMISSION TARIFF

(Issued April 15, 1999)

On October 2, 1998, as supplemented on October 9, 1998, Sierra Pacific Power Company (Sierra) and Nevada Power Company (Nevada Power) (collectively, the Applicants) filed a joint application pursuant to section 203 of the Federal Power Act (FPA) ^{1/} for approval of the merger of Nevada Power and Sierra Pacific Resources, Inc. (SPR), the holding company parent of Sierra. The proposed merger would create an exempt holding company structure in which SPR would be the surviving parent company and Sierra and Nevada Power would be the operating utility subsidiaries, as described more fully below.

On October 2, 1998, the Applicants filed a proposed joint Open Access Transmission Tariff (OATT) in connection with the proposed merger to apply to transmission service provided by the Applicants following the merger.

As discussed below, the Commission has reviewed the proposed merger under the Commission's Merger Policy Statement. ^{2/} In this order, we will approve the merger, as proposed. Further, the Commission will conditionally accept for filing, without setting for hearing, the proposed OATT under which transmission will be provided by the Applicants following the merger.

^{1/} 16 U.S.C. § 824b (1994).

^{2/} Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act: Policy Statement, Order No. 592, 61 Fed. Reg. 68,595 (1996), FERC Statutes and Regulations ¶ 31,044 (1996), reconsideration denied, Order No. 592-A, 62 Fed. Reg. 33,341 (1997), 79 FERC ¶ 61,321 (1997) (Merger Policy Statement).

I. Background

A. Description of the Parties to the Merger

1. Sierra/SPR

SPR is a holding company whose principal subsidiary is Sierra, ^{3/} an electric generation, transmission, and distribution utility serving approximately 287,000 customers in northern Nevada and northeastern California. Sierra's service territory covers an area of approximately 50,000 square miles, including the cities of Reno, Sparks, Carson City, and Echo, as well as the Lake Tahoe area. Sierra also provides natural gas and water service in the cities of Reno and Sparks.

Sierra is both a summer and a winter peaking utility. Its 1998 summer peak was 1429 MW and its 1997-98 winter peak was 1302 MW. Sierra's generation has a total summer capacity of 1052 MW. Because its generation resources are inadequate by themselves to serve its load, Sierra also must make significant purchases of power both from within and outside of its control area. Sierra's simultaneous import capability is currently 660 MW.

2. Nevada Power

Nevada Power is an electric generation, transmission, and distribution company serving approximately 533,800 customers in southern Nevada. ^{4/} Its service territory covers approximately 4,500 square miles and includes the cities of Las Vegas, North Las Vegas, Henderson, and surrounding unincorporated areas and load centers within Clark and Nye counties.

Nevada Power is a summer peaking utility, with a 1998 summer peak of 3855 MW. Nevada Power owns approximately 2190 MW of installed capacity. Like Sierra, Nevada Power relies on significant purchases of power to meet its peak load. Nevada Power's import capacity is 2456 MW, which will increase by approximately 850 MW when its Crystal Project is completed in the spring of 1999.

^{3/} SPR also owns four other subsidiaries: (1) Tuscarora Gas Pipeline Company, which owns an interest in and operates the Tuscarora Pipeline, an interstate natural gas pipeline; (2) e-three, a unregulated natural energy services company; (3) Sierra Pacific Energy, a customer information system developer; and (4) Lands of Sierra, a real estate management company.

^{4/} While Nevada Power is not owned by a holding company, it does own six non-utility subsidiaries.

B. Description of Proposed Merger and Proposed OATT

1. The Proposed Merger

The Applicants state that the merger between Nevada Power and SPR would be a merger of equals between the two companies and would create a holding company structure in which SPR would be the surviving parent company and Sierra and Nevada Power would be the operating utility subsidiaries. 5/

Each share of SPR and Nevada Power common stock would be converted into the right to receive either cash or post-merger SPR common stock. Each owner of pre-merger SPR common stock would be entitled to receive either 1.44 shares of post-merger SPR common stock or \$37.55 in cash for each share of pre-merger SPR common stock that it owns. Each owner of Nevada Power common stock would be entitled to receive either 1.00 share of post-merger SPR common stock or \$26.00 in cash for each share of Nevada Power stock that it owns.

The Applicants indicate that they are not interconnected and have never engaged in transactions between themselves. They also state that they do not compete for sales in each other's service territories and that their competitive screen analysis shows that there are no vertical or horizontal competitive issues raised by the proposed merger.

In order to eliminate any adverse rate impacts, the Applicants make several commitments. They propose a three-year rate freeze for requirements rates. Thereafter, a "hold harmless" provision would apply under which merger-related costs would not be included in rates unless such costs are outweighed

5/ The merger would occur after SPR creates two wholly-owned special purpose subsidiaries: Desert Merger Sub, Inc. (Desert Merger Sub) and Lake Merger Sub, Inc. (Lake Merger Sub). In the next stage, Lake Merger Sub (a Nevada corporation) would merge with and into SPR. SPR would be the surviving corporation and would continue its corporate existence under the laws of the State of Nevada. In the final stage, Nevada Power would merge with and into Desert Merger Sub, becoming a subsidiary of SPR. Desert Merger Sub would be the surviving corporation and would immediately change its name to Nevada Power Company, Inc. SPR also would continue to own directly the non-utility subsidiaries that it owns today, as well as Nevada Power's non-utility subsidiaries, which would be transferred to SPR.

by merger-related cost savings. 5/ In addition, the Applicants have designated a series of "open season" opportunities for wholesale customers to switch to other suppliers. For transmission rates, the Applicants commit to a similar five-year "hold harmless" provision.

The Applicants also commit to either joining a regional ISO or forming an independent transco within three years of the consummation of the proposed merger. They state that they will divest their generation to unaffiliated entities after completion of the proposed merger, as part of the Nevada electric retail restructuring process. In order to address issues of limited import capability on each Applicant's system, the Applicants also commit to investing the proceeds of their divestiture in transmission expansion, to the extent permitted by the Nevada Commission.

2. The Proposed OATT

In support of their merger application, the Applicants have filed a proposed OATT that would govern the terms of transmission service provided by the merged entity after the merger is consummated. 7/ The Applicants state that the proposed OATT is consistent with the terms of Order No. 888 B/ except for two changes: (1) the proposed OATT provides for a zonal rate structure; and (2) certain changes have been made to accommodate retail open access in California. 9/

5/ Merger-related costs consist of transaction costs, transition costs, and amortization of goodwill (approximately \$445 million amortized evenly over forty years).

7/ The Applicants request a waiver of the 120-day notice requirement and that the OATT be accepted for filing and put into effect on the date the merger is consummated.

8/ Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities, Order No. 888, 61 Fed. Reg. 21,540 (1996), FERC Stats. & Regs. ¶ 31,036 (1996), Order on reh'g, Order No. 888-A, 62 Fed. Reg. 12,274 (1997), FERC Stats. & Regs. ¶ 31,048 (1997), Order on reh'g, Order No. 888-B, 81 FERC ¶ 61,248 (1997), Order on reh'g, Order No. 888-B, 82 FERC ¶ 61,046 (1998).

9/ The joint proposed OATT contains all of the provisions implemented by the settlement approved by the Commission in Docket No. ER98-12-000. See, Sierra Pacific Power Company, (continued...)

II. Notices of Filing, Interventions, and Answers

A. The Merger

Notice of the Applicants' merger filing was published in the Federal Register, 63 Fed. Reg. 56,020 (1998), with comments, interventions, and protests due on or before December 2, 1998. Notice of the supplemental filing was published at 63 Fed. Reg. 57,115 (1998), with comments, interventions, and protests due on or before December 2, 1998. 10/

The Nevada Independent Energy Coalition (NIEC), a trade association of cogenerators, filed a timely motion to intervene. While NIEC does not oppose the proposed merger, it states that the Commission's order approving the merger should set forth clear principles for the treatment of the Qualifying Facility (QF) Power Purchase Agreements, including stranded cost recovery, by the merged entity.

The Public Utilities Commission of Nevada (Nevada Commission) filed a timely notice of intervention, motion to consolidate, request to submit further comments, and request for additional information. It later filed a motion to submit supplementary comments together with its supplementary comments, including its order conditionally accepting the merger. 11/ In

9/ (... continued)
85 FERC ¶ 61,169 (1998).

10/ Timely motions to intervene were filed by Overton Power District No. 5 (Overton); Kal Kan Foods, Inc. (Kal Kan); the Western Area Power Administration (WAPA); Palute Pipeline Company (Palute); Wells Rural Electric Company (Wells); the United States Department of Energy's Nevada Operations Office (DOE/NV); Barrick Goldstrike Mines, Inc. (Barrick); Newmont Mining Corporation (Newmont); and the Truckee-Carson Irrigation District (Truckee-Carson). The Public Utilities Commission of the State of California (California Commission) filed a notice of intervention. Late motions to intervene were filed on December 23, 1998, by the Southern Nevada Water Authority (SNWA); on January 15, 1999, by the Oxbow Power Corporation (Oxbow); and on January 26, 1999, by the City of Fallon, Nevada (Fallon). The above-listed motions and notice raised no substantive issues.

11/ Compliance Order. In Re Application of Nevada Power Co., Sierra Pacific Power Co., and Sierra Pacific Resources for approval of agreement and plan of merger. Docket No. 98-7023 (issued Dec. 31, 1998) (the Compliance Order). The Nevada Commission subsequently submitted to us the Order (continued...)

the Compliance Order, the Nevada Commission attaches numerous conditions to the approval of the proposed merger, including requiring the divestiture of generation assets and the submittal of an application to recover stranded costs. In the Clarifying Order, the Nevada Commission clarified the terms of the conditions it attached to the approval of the merger.

Specifically, it stated that the Applicants must file a plan of divestiture and agree to submit an application to recover stranded costs. The Nevada Commission takes no position on the merits of the merger and moves that this Commission consolidate the merger application in Docket No. EC99-1-000 with the Joint OATT filed in Docket No. ER99-34-000. It requests that we consider the Nevada Commission's findings and rulings on the merger. 12/

Valley Electric Association (Valley), a small electric membership cooperative in southwestern Nevada that is a customer of Nevada Power, filed a timely motion to intervene and a timely protest. Concerning market power, Valley states that the Applicants maintain significant existing market power over the utilities in their areas and that the Commission should impose appropriate mitigation measures as a condition of its approval of the merger. Valley argues that the Commission should require the Applicants to report on a regular basis the status of their efforts at developing and joining an ISO or Transco, and impose such conditions as may be appropriate should the Applicants fail to join a suitable transmission entity within three years.

Concerning the Applicants' promise to use the proceeds from their divestiture of generation facilities to invest in new transmission facilities, Valley argues that the Commission should condition its approval of the merger on the Applicants' commitment to a specified minimum investment in transmission facilities. Concerning merger costs, Valley states that the Applicants should be permitted to recover merger-related costs only to the extent that such costs are offset by savings resulting from the merger. Concerning ratepayer protection issues, Valley finds fault with the Applicants' proposed three-year rate freeze and open season provisions. Finally, Valley

11/ (... continued)

Clarifying Compliance Order, In Re Application of Nevada Power Co., Sierra Pacific Power Co., and Sierra Pacific Resources for approval of agreement and plan of merger (issued January 29, 1999) (the Clarifying Order).

12/

See, e.g., the Nevada Commission's rulings on generation divestiture and the filing of jurisdictional rate schedules (including an Independent System Administrator and a Generation Aggregation Tariff) that would govern the wholesale sales of electricity from divested generation facilities to retail aggregators.

objects to the Applicants' inclusion of goodwill costs to be recovered from ratepayers.

Truckee-Donner Public Utility District and the Plumas-Sierra Electric Cooperative, Inc. (Plumas) (collectively, TD-PS) filed a timely motion to intervene and a timely protest. TD-PS claims that the Applicants have not shown that the proposed merger is beneficial to retail ratepayers or to wholesale customers. It finds fault with the Applicants' merger analysis, the Applicants' portrayal of the proposed merger as being pro-competitive, and the Applicants' suggested mitigation measures as conditions to the merger. TD-PS requests that the Commission reject the proposed merger and require the Applicants to refile using a revised screen analysis; or, in the alternative, set the proposed merger for hearing; or, if the Commission approves the merger without a hearing, attach certain conditions to protect ratepayers and transmission customers from anticompetitive consequences.

The Salt River Project Agricultural Improvement and Power District (Salt River), which operates the Salt River Project 13/ and owns and operates electric power generation, transmission, and distribution facilities that provide power to various customers in the State of Arizona, filed a timely motion to intervene and a timely protest. Salt River does not oppose the merger, but argues that the Applicants have not provided sufficient information regarding the transfer of certain generation facilities that could be pertinent to the Commission's evaluation of the effect of the proposed merger on competition.

The Transmission Agency of Northern California (TANC), which provides electric transmission facilities and services for its members, 14/ filed a timely motion to intervene and a timely protest. TANC argues that Sierra has failed to comply with the

13/ A federal reclamation project authorized under the Federal Reclamation Act of 1902.

14/ TANC's members are the California cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara (now Silicon Valley Power), and Ukiah; the Sacramento Municipal Utility District; the Modesto Irrigation District; and the Turlock Irrigation District. Plumas is an associate member of TANC.

terms of a Commission order 15/ addressing the Alturas Intertie Project. 15/

The Utah Associated Municipal Power Systems (UAMPS) filed a late motion to intervene and comments on February 19, 1999. UAMPS stated that the Commission should advance the development of regional transmission organizations (RTOs) by requiring the Applicants to join an RTO.

On December 17, 1998, the Applicants filed an answer raising substantive arguments in response to the motions to intervene, protests, and related motions filed in this proceeding. In addition, the Applicants claim that TANC and Plumas have no interests that will be affected by the outcome of this proceeding and thus object to those parties' motions for intervention.

On February 5, 1999, the Applicants filed an answer to the Supplementary Comments of the Nevada Commission. The Applicants state that the Compliance Order does not require any supplement or modification to their section 203 filing with the Commission. The Applicants state that there is no need for the Commission to either attach conditions to its approval of the merger or to address any of the issues raised by the Nevada Commission.

On March 12, 1999, the Applicants filed an answer to UAMPS' motion to intervene, stating that they agree with the theory of UAMPS' request, but that its request that the Applicants be required to join a RTO is premature.

On November 2, 1998, the Applicants filed a motion requesting the issuance of a protective order. On February 12, 1999, the Nevada Commission filed a motion to lodge its clarifying order in the record in this proceeding. On March 29, 1999, the Commission issued an order adopting the protective order. 17/

15/ Sierra Pacific Power Company, 85 FERC ¶ 61,314 (1998) (the November 30 order), rehearing granted, 86 FERC ¶ 61,198 (1999).

16/ The Alturas Intertie Project is Sierra's construction of a 200-mile, 345 kV transmission line between Sierra's North Valley Road substation, near Reno, Nevada, and its new Hilltop Substation near Alturas, California.

17/ Sierra Pacific Power Company & Nevada Power Co., 86 FERC ¶ 61,304 (1999).

B. The OATT

Notice of the Applicants' OATT filing was published in the Federal Register, 63 Fed. Reg. 56,014 (1998), with comments, interventions, and protests due on or before October 22, 1998. 18/

Valley filed a timely motion to intervene and a timely protest. Valley protests six different elements of the Applicants' filing: (1) the Applicants' failure to specify the rates under which they would operate once they are merged; (2) language that would allow the Applicants to curtail service and allocate redispach costs on an inter-zonal basis (rather than solely on an intra-zonal basis); (3) the lack of a cap on penalties for over-runs of capacity reservations; (4) the failure to adopt regional practices for scheduling matters; (5) the ambiguity resulting from the modification of a section of the filing regarding the operation of network resources; and (6) the failure to provide detailed methodologies for calculating available transmission capacity and completing system impact studies.

TD-PS filed a timely motion to intervene and for an extension of time for filing comments, or, in the alternative, protest and motion for hearing. TD-PS expresses no opinion on the rates to be charged in Nevada, but claims that the rates to be charged in California are not just and reasonable.

The Nevada Commission filed a timely notice of intervention. It states that the question of possible future interconnection between the Applicants "may" warrant an evidentiary hearing. While the Applicants' filings with this Commission state that they do not plan to interconnect, the Nevada Commission is concerned that they may be contemplating such an interconnection. It states that any such interconnection would raise a variety of issues.

On November 6, 1998, the Applicants filed a joint answer to the motions to intervene and related motions filed in this proceeding. This filing contains "factual clarifications" of assertions made concerning alleged deviations from Order Nos. 888 and 888-A, 19/ proposed rates, scheduling matters, and future intent to interconnect.

18/ Timely motions to intervene were filed by Overton, TANC, Newmont, and Electric Clearinghouse, Inc. (ECI). A late motion to intervene was filed on November 6, 1998, by Kal Kan. The above-listed motions raised no substantive issues.

19/ See supra note 8.

C. Request For Abeyance and Response

On April 12, 1999, the Nevada Commission filed a motion requesting that this Commission hold this proceeding in abeyance. It noted its intention to meet on April 12 to consider whether to issue an order requiring the Applicants to show cause why they are not in violation of the Nevada Commission's Compliance Order on the merger. According to the Nevada Commission, recent filings by Sierra and Nevada Power appeared to be "inconsistent with the condition that the Companies file with the [Nevada Commission] a divestiture plan that includes an appropriate [Generation Aggregation Tariff], along with a representation that the Companies intend to implement the divestiture plan, in good faith." 20/ The Generation Aggregation Tariffs (GATs) referred to by the Nevada Commission are tariffs related to future sales of power at wholesale from the generation facilities to be divested. 21/ The Nevada Commission argues that these GAT filings could cause Nevada to be deprived of the benefits of a truly competitive generation market. It argues that unless this Commission delays action on the merger until the Nevada Commission completes its show cause proceeding, the federal proceeding might thwart the State's efforts, due to preemption.

The Nevada Commission also argues that we should hold this proceeding in abeyance because of Sierra's March 30, 1999 filing with this Commission of what the Nevada Commission characterizes as "a revised version" of the Applicants' joint OATT. The Nevada Commission says that this filing would revise the terms and conditions of the OATT, as well as the rates. 22/

On April 12, 1999, the Nevada Commission issued an order to show cause in which it says that its Compliance Order

requires that any tariff for sales of generation services to retail aggregators from load pocket generators which is submitted to FERC [the GAT tariffs] must further the legislative objectives of encouraging and enhancing the development of a competitive generation market in the State of Nevada. . . . [Nevada Power and Sierra] should be ordered to appear and provide evidence to demonstrate how they have

20/ Nevada Commission filing of April 12, 1999, at 2 (footnote omitted).

21/ Docket Nos. ER99-2332 and ER99-2338 (filed March 31, 1999).

22/ Nevada Commission filing of April 12, 1999 at 3. See note 49, below, and accompanying text.

attempted to comply with [the Nevada Commission's merger order]. 23/

On April 13, the Applicants made a filing with this Commission in response to the Nevada Commission's request that we delay action on the merger. They argue that the pendency of neither the GAT proceeding nor proceeding on the revised rates for the OATT should delay our action on the merger. They state that the Nevada Commission has ample authority to enforce its orders.

III. Discussion

A. Procedural Matters

1. The Merger

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 24/ the timely, unopposed motions to intervene and notices of intervention serve to make those who filed them parties to this proceeding. Due to the absence of any undue prejudice or delay, the Commission will grant the late, unopposed motions to intervene in this proceeding of SNWA, Oxbow, Fallon, and UMFS.

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 25/ we will reject those portions of the Applicants' answers of December 17, 1998, February 5, 1999, and March 12, 1999 that respond to protests submitted by intervenors in this proceeding. These pleadings are largely repetitive and, as we stated in the Merger Policy Statement, 26/ considering such pleadings would merely bog down the process of considering mergers. The Applicants have not shown good cause to waive our regulations to allow them to answer the substantive arguments raised in the interventions. We will grant the opposed motions to intervene of TANC and Plumas, which have demonstrated a sufficient interest in this proceeding to justify intervention.

Several parties have raised issues that are being addressed in other proceedings. TANC has raised issues concerning the Alturas Intertie project that will be addressed in Docket Nos.

23/ In Re Application of Nevada Power Co., Sierra Pacific Power Co., and Sierra Pacific Resources, Docket No. 98-7023, Order to Appear and Show Cause issued April 12, 1999 at 1-2.

24/ 18 C.F.R. § 385.214 (1998).

25/ 18 C.F.R. § 385.213(2) (1998).

26/ Merger Policy Statement at 30,127.

ER99-28-000, et al.; Salt River raises issues concerning the future transfer of generation facilities, which will be the subject of a subsequent filing; NIEC raises issues related to the treatment of QFs, a subject which, as framed by NIEC, is beyond our jurisdiction; and UAMPS raises an issue concerning RTO formation in the Applicants' region, which will be addressed in future RTO proceedings.

2. The OATT

Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, the timely, unopposed motions to intervene and notice of intervention serve to make those who filed them parties to this proceeding. Due to the absence of any undue prejudice or delay, the Commission will grant the late, unopposed motion to intervene in this proceeding of Kal Kan.

Pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 27/ we reject those portions of the Applicants' answer of November 6, 1998 that respond to protests submitted in this proceeding.

3. Whether We Should Defer Action on These Proceedings

We conclude that it is not necessary to delay this proceeding, as the Nevada Commission requested, to avoid preemption or interference with the State's goals. As discussed below, we do not believe that our action approving the Applicants' proposed merger preempts or interferes with the Nevada Commission's independent merger approval authority. We believe it is important to clarify several matters.

As an initial matter, our approval of the merger is premised in part on the Applicants' representation that divestiture of their generating units will take place. Thus, if the Applicants do not divest the units, the approval in this order is a nullity. Second, our merger authority is independent of the Nevada Commission's merger authority and we do not perceive anything in this order as preempting the separate merger conditions of the Nevada Commission or the need for the Applicants to file a divestiture plan that satisfies the Nevada Commission's requirements. Third, the Nevada Commission's primary concerns appear to be the rate and market power issues associated with the GAT filings. Nothing in this merger order prejudices those issues and we will take into account the Nevada Commission's concerns in those dockets.

With regard to the March 30, 1999 filing by Sierra of rates for the joint OATT, we do not agree with the Nevada Commission's

27/ 18 C.F.R. § 385.213(2) (1998).

characterization of this filing as a revision to the terms and conditions of that tariff. It is a proposed revision to the rates only, and in fact, as discussed below, such a rate filing is necessary for both companies.

For these reasons, we will not delay action on the merger or on the joint OATT in Docket No. ER99-34-000. We do not believe, however, that our action today will in any way preempt the Nevada Commission from taking whatever actions it believes are necessary to obtain for its ratepayers the benefits of a competitive generation market.

B. The Merger

1. Standard of Review

Section 203(a) of the FPA 28/ provides, in relevant part, as follows:

No public utility shall sell, lease, or otherwise dispose of the whole of its facilities subject to the jurisdiction of the Commission, or any part thereof of a value in excess of \$50,000, or by any means whatsoever, directly or indirectly, merge or consolidate such facilities or any part thereof with those of any other person, or purchase, acquire, or take any security of any other public utility, without first having secured an order of the Commission authorizing it to do so.

Under section 203(a), the Commission must approve a proposed merger if it finds that the merger "will be consistent with the public interest." 29/

In 1996, the Commission issued its Merger Policy Statement updating and clarifying its procedures, criteria and policies applicable to public utility mergers. 30/ The Merger Policy Statement provides that the Commission will generally take account of three factors in analyzing proposed mergers: (a) the effect on competition; (b) the effect on rates; and (c) the effect on regulation.

For the reasons discussed below, we find that the Applicants' proposed merger and mitigation commitments are

28/ See supra note 1.

29/ Id.

30/ See supra note 2.

consistent with the public interest. Accordingly, we will approve the merger without further investigation.

2. Effect on Competition

a. The Applicants' Analysis

The Applicants perform an Appendix A analysis to evaluate the competitive effects on wholesale electricity markets of the proposed merger. They identify firm and non-firm energy as the relevant product and use economic and available economic capacity as measures of suppliers' ability to provide it. 31/ The Applicants identify and define ten destination markets. 32/ The Applicants state that their analysis shows that pre- to post-merger changes in concentration for various time periods in ten destination markets do not exceed the Guidelines' thresholds. They conclude that the merger poses no competitive concerns.

b. Intervenor's Concerns

Valley argues that while the Applicants' analysis shows that there is no pre- to post-merger increase in concentration that would signal competitive concern, the Nevada Power destination market is highly concentrated. It claims that Nevada Power has in the past used its monopoly power, for example, to demand unreasonable conditions for building an interconnection. As a result, Valley believes that the merger should be conditioned, among other things, on the Applicants acting in a timely and good faith manner to join a fully independent ISO. They also ask this Commission to impose a specific requirement that the Applicants invest in transmission facilities.

TD-PS raises a number of concerns about the data and assumptions used by the Applicants in their delivered price test analysis. It argues that the Applicants' analysis inappropriately excludes Nevada Power as a supplier in the Sierra

31/ For firm and non-firm energy, the Applicants account for different market conditions by evaluating off-peak, shoulder, and peak periods (defined by hours) for the Winter, Spring/Fall, and Summer seasons. The Applicants also define intermediate capacity as a relevant product. However, they find that because the Applicants have no uncommitted capacity, the merger has no effect.

32/ These markets include: Sierra Pacific, Nevada Power, Arizona Public Service, PacifiCorp, Southern California Edison, Pacific Gas & Electric, Idaho Power, Bonneville Power Administration, Los Angeles Department of Water and Power, and Western Area Power Administration (Lower Colorado).

Pacific market because: (1) the Applicants assume too low a price in the Sierra Pacific destination market; (2) available transmission capacity into the Sierra Pacific market is too low; and (3) the Applicants used ceiling transmission rates instead of discounted rates. 31/ As a result, the Applicants' analysis does not accurately portray the degree to which the merger would adversely affect competition. Truckee-Donner also claims that the Applicants' analysis does not properly account for limited entry and that the Appendix A screen analysis fails to examine the competitive consequences of the merged company's increased transmission market power. 34/

c. Commission Determination

We note that the Applicants have committed to the Nevada Commission to divest all their electric generation facilities to non-affiliates in response to restructuring requirements in Nevada. Generation divestiture will moot any concerns regarding the Applicants' analysis. 35/ We also note that this Commission must approve the prices, terms, and conditions of wholesale sales from the Applicants' divested generation facilities (the GAR tariffs). 36/ As a result, we believe that the proposed merger would not adversely affect competition, and we approve it, based on our understanding that the Applicants will divest their generation as required by the Nevada Commission.

Since we have concluded that the Applicants' divestiture of their generation is sufficient to ensure that the merger would not adversely affect competition, it has not been necessary to consider the propriety of several assumptions that the Applicants used in their analysis. We address only one issue here. 37/ While we see no need to expend additional resources in

31/ Truckee-Donner argues that Nevada Power must incur wheeling charges to deliver supplies to the Sierra Pacific system. Consequently, the use of ceiling rates (relative to discounted rates) will increase the delivered cost of Nevada Power supplies.

34/ Truckee-Donner Intervention at 16, n.15.

35/ See, Consolidated Edison Company of New York, Inc. and Rockland Utilities, Inc., 86 FERC ¶ 61,054 (1999).

36/ Our conclusion in no way pre-judges market power issues that may be associated with wholesale sales from the generation facilities to be divested.

37/ We note, in particular, that the Applicants have estimated market prices that appear to be inconsistent with trading patterns in the markets affected by the merger.

considering issues that are, in this case, moot, we do not want our silence to necessarily be construed as our endorsement of all of the Applicants' assumptions.

3. Effect of the Merger on Rates

Nevada Power and Sierra both have several wholesale requirements and transmission customers. 38/ The Applicants assert that they are attempting to reach agreement with all of their wholesale requirements customers and intend to file those agreements with the Commission as they are executed.

If they are unable to reach agreements with these customers, the Applicants offer "default" commitments, including a three-year rate freeze, a designated series of "open season" opportunities for wholesale customers to switch to other suppliers, and a "hold harmless" provision. The Applicants offer a series of four 30-day open seasons within the first two years after the merger is consummated. 39/ Under the hold harmless commitment, the Applicants offer to exclude any merger-related costs in wholesale rates for five years after the merger, unless they show that such costs are outweighed by merger-related cost savings. Because the Applicants have transmission projects in various stages of construction and intend to initiate new transmission projects post-merger, the rate freeze would not apply to transmission service. Given their intention to file for inclusion of the cost of these projects in their transmission rates, the Applicants commit only to exclude any merger-related costs from transmission rates for five years unless they show that such costs are outweighed by merger savings. The Applicants are not interconnected and therefore propose to provide transmission under a joint tariff with zonal rates. They state that zonal rates will allow the customers of each Applicant to continue to pay the same rate they would have paid absent the merger, and will eliminate rate pancaking for transactions that use both systems.

Valley argues that these proposed ratepayer protections are inadequate because the open season provisions are unnecessarily rigid and the rate freeze does not allow customers to participate

38/ According to the application, Sierra's affected customers are: Fallon, the Hawthorne Army Depot, PG&E's system at Echo Bay, and Plumas. Nevada Power's affected customers are: City of Boulder City, Lincoln Power District No. 1, Overton, Valley, and the City of Needles, California.

39/ We note that three of the four open seasons are set at intervals tied to the date the merger is consummated. The certainty of these dates will provide more lead time than the stated 30-day notice period.

in any reductions in rates. According to Valley, Nevada Power initiated negotiations prior to the filing of the merger application, but no agreement was reached. At that time Nevada Power allegedly offered Valley the right to terminate its contract at any time on thirty days' notice. Valley requests that the Commission condition the merger on the Applicants' commitment to retain this more flexible open season provision. TD-PS asserts that the merger benefits have not been quantified, thus making the hold harmless provisions untenable.

We find that the "default" commitment offers of a rate freeze, scheduled open seasons, and a hold harmless provision is adequate protection for customers. 40/ In addition, we noted in the Merger Policy Statement that the most promising and expeditious means of addressing ratepayer protection is for the parties to negotiate an agreement on ratepayer protection mechanisms. 41/ We note the Applicants' continued efforts in this respect.

We find that the lack of an estimate of merger savings does not diminish the hold harmless provision, noting that a detailed estimate of savings is no longer required in a merger application. 42/ In addition, the Applicants' open season proposal provides adequate lead time for planning purposes for alternative power suppliers and for responses to a Request For Proposals. We do not agree with Valley that Nevada Power must give it the right to terminate its contract at any time on thirty days' notice. While Nevada Power may have made this offer as part of earlier negotiations that failed, this does not mean that such an offer is critical to adequate customer protection.

Accordingly, we conclude that the proposed merger will not adversely affect rates.

4. Effect of the Merger on Regulation

As explained in the Merger Policy Statement, the Commission's primary concern with the effect on regulation of a proposed merger involves possible changes in the Commission's jurisdiction when a registered holding company is formed, thus invoking the jurisdiction of the Securities and Exchange Commission. We are also concerned with the effect on state

40/ Merger Policy Statement at 30,124.

41/ Merger Policy Statement at 30,123.

42/ Merger Policy Statement at 30,123.

regulation where a state does not have the authority to act on a merger. 43/

The Applicants state that the merger will not adversely affect regulation. With regard to this Commission's jurisdiction, the Applicants state that since SPR is and will remain a public utility holding company that is exempt from regulation under PUHCA, there will be no change in the Commission's authority to regulate the Applicants. With regard to state regulation, they state that the Nevada and California Commissions have authority to act on the merger.

With respect to state regulation, the Applicants state that they requested approval of the merger from the Nevada Commission. The Nevada and California Commissions intervened in this docket, with the California Commission raising no substantive issues. The Nevada Commission submitted to the Commission its ruling conditionally accepting the merger application. We have considered these rulings and our order approving the merger in no way interferes with retail restructuring in Nevada.

Accordingly, in light of the facts stated above, we are satisfied that the proposed merger will not have an adverse effect on regulation.

5. Accounting Issues

The Applicants state that the merger would be recorded using the "purchase" method of accounting in accordance with Accounting Principles Board Opinion No. 16 (APB 16). In using the purchase method, the Applicants indicate that the fair value of the net assets is assumed to be book value. The Applicants state that the difference between the purchase price and the net assets (at book value) would be reflected as goodwill on the books of Nevada Power. We have no basis to dispute the Applicants' claim that this business combination qualifies for the purchase method of accounting and will therefore approve its use. 44/

The Applicants do not identify specific accounts for recording goodwill or the related amortization. Furthermore, they do not fully explain why it is appropriate to record the goodwill on the books of Nevada Power instead of SPR or Sierra. We will direct the Applicants to begin the amortization of goodwill upon consummation of the merger. Amounts that are not authorized to be recovered in rates should be amortized to Account 425, Miscellaneous Amortization. Amounts that are

43/ Merger Policy Statement at 30,124-25.

44/ Entergy Services, Inc. and Gulf States Utilities Company, 65 PERC ¶ 61,332 (1993).

authorized to be recovered in rates should be amortized to Account 406, Amortization of Electric Plant Acquisition Adjustments.

The Applicants state that the costs associated with the proposed merger include transaction and transition costs. However, they do not identify specific accounts for recording the merger related costs. If the Applicants determine that rate recovery of any portion of the merger related costs is probable, they may account for that portion as a regulatory asset and amortize it to income commensurate with its rate recovery. If rate recovery is not probable, then transaction costs should be charged to Account 426, Other Deductions 45/ and transition costs should be charged to operating expense as incurred.

We will direct the Applicants to submit their accounting for the merger, including a detailed explanation of the proposed accounting for goodwill and merger related costs, within six months after the date the merger is consummated. 46/

C. The OATT

In connection with the proposed merger, the Applicants submitted for filing a joint OATT (the Tariff) that would apply to the transmission service provided by the Applicants after the merger. The Applicants assert that the Tariff is based on the Order No. 888 pro forma tariff, with certain modifications: (1) the Tariff provides for a zonal rate structure, and (2) certain changes have been made to accommodate retail open access in California. The Applicants request that the Commission waive its 120-day notice requirement and allow the Tariff to be accepted and be made effective on the date that the merger is consummated.

1. Non-rate Terms and Conditions

We will accept the non-rate terms and conditions of the proposed tariff, as discussed below.

a. Penalties

Valley complains that the Applicants have failed to articulate the specific penalty to be imposed for exceeding a capacity reservation. It says that the Commission should order the Applicants to revise the sections of the Tariff so that the penalty is specified. Valley also complains that the imposition

45/ MidAmerican Energy Company and MidAmerican Energy Holdings, 85 FERC ¶ 61,354 (1998).

46/ See Electric Plant Instruction No. 5, and paragraph B of Account No. 102, 18 C.F.R. Part 101 (1998).

of a penalty of either 150 percent of the applicable rate or the incremental costs incurred for providing the capacity is unjust and argues that the Commission should cap the incremental costs at 150 percent of the applicable rate. TD-PS requests a clarification of how incremental costs would be determined following the Applicants' generation divestiture.

The Applicants' penalty provision is identical to the one approved by the Commission in Sierra's individual open access tariff 47/ and is therefore accepted. TD-PS's request for clarification is premature and is thus denied.

b. Scheduling

Valley claims that the Applicants did not justify the following changes made to nonfirm scheduling and reservation deadlines and the deadline for changes to schedules: (1) scheduling changes must be made thirty minutes before the start of the next hour rather than the twenty minutes permitted in Nevada Power's tariff and the pro forma tariff; (2) the scheduling deadline for nonfirm service has changed from 2:00 P.M. to 1:00 P.M. of the day before service is provided; and (3) the reservation deadline for hourly nonfirm service has changed from 12:00 P.M. to 11:00 A.M. of the day before service.

The Applicants respond that the nonfirm scheduling and reservation deadlines were revised to reflect North American Electric Reliability Council (NERC) tagging rules that require that all transactions be reported no later than 2:00 P.M. in the easternmost time zone where transactions could occur (which in this case is the Sierra Pacific system). In addition, the Applicants contend that the scheduling change deadline was increased from twenty to thirty minutes to give the Applicants an additional ten minutes to make any necessary corresponding changes with neighboring control areas.

We conclude that the Applicants have provided adequate justification for the revisions and that the revisions are consistent with or superior to the pro forma tariff. We will therefore approve them as submitted.

c. Curtailments and Redispatch

Valley requests that language be added to clarify that the Applicants would not curtail service on one system unless the constraint is on that system, and for service using both systems, that only the portion of service in the affected system would be curtailed. Valley also requests that language be added to limit redispatch to the system where the curtailment occurs.

47/ Sierra Pacific Power Company, 85 FERC ¶ 61,169 (1998).

These changes are unnecessary. The Applicants would not be operating a single system and no changes to the Tariff are needed to emphasize that fact.

d. Attachments

Valley expresses concern about the Applicants' methodology for calculating available transmission capacity (ATC) and for completing system impact studies. TD-PS takes issue with some of the Applicants' characterizations of the Applicants' system.

We find that the Applicants' description of procedures satisfy the Commission's requirements.

e. Miscellaneous

TD-PS and Valley complain that certain language in the sections addressing reciprocity, curtailment of Firm Transmission Service, and Operation of Network Resources are inconsistent with the pro forma tariff.

The disputed language is specifically required by Order No. 888-A and is thus accepted.

2. Rates

The Applicants state that they intend to neither physically interconnect their two systems nor acquire firm transmission rights to permit integrated system operations. Thus, the Applicants propose separate rates that are based on the existing system costs and revenue requirements for Sierra and Nevada Power as reflected in their individual open access transmission rates on file with the Commission. 48/ The Applicants stated in their original filing that they intend to file new rates prior to the merger effective date in order to reflect the costs of Sierra's Alturas Intertie Project and Nevada Power's Crystal Project. 49/

Service on one system would be priced based on the applicable rates for that system. Service across both systems would be priced at a single rate based on the location of the delivery point. Transmission customers would need to acquire and pay separately for third party service to effect service between the systems. The Applicants have committed to joining an ISO

48/ See, Sierra Pacific Power Company, 85 FERC ¶ 61,169 (1998) and Nevada Power Company, 74 FERC ¶ 61,034 (1996).

49/ Sierra filed its updated rate schedule with the Commission on March 30, 1999, in Docket Nos. ER99-2339-000 and ER99-34-000.

within three years of the merger consummation, and state that at that time it is likely they will adopt single-system rates.

TD-PS protests these proposed rates and requests that the Commission order the Applicants to adopt a single system rolled-in rate instead of separate system rates. TD-PS states that, even if the Commission adopts the Applicants' rate structure, a hearing is required on the reasonableness of Sierra's rates, given that Sierra has proposed, in a retail rate proceeding, to reclassify about fifty percent of its transmission facilities as distribution. Valley protests the Applicants' failure to submit new rates concurrently with their merger filings. It requests that the Commission place conditions on its approval of the merger and the Tariff in order to prevent the Applicants from recovering merger costs in future rate filings and implementing inter-company subsidization.

We find that the Applicants' proposal to use separate rates is acceptable, given that: (1) the Applicants do not intend to interconnect their systems; (2) there is a large rate disparity between the transmission rates charged by Sierra and Nevada Power, 50/ and the use of a single system rate at this time would shift costs for the ratepayers of one company to the other; and (3) the Applicants have voluntarily agreed to join an ISO within three years of the merger consummation.

We believe that the concerns raised by the Nevada Commission with regard to possible future interconnection are premature. Nevada Power has committed to file new rates to reflect the cost of new transmission facilities prior to the effective date of the merger and Sierra has already filed new rates. We will address in such future proceedings any concerns raised by the Nevada Commission about the effect of possible transmission expansion projects.

In addition, Nevada Power addresses concerns that the new refunctionalization of transmission and distribution would lower rates by indicating that it intends to file updated rates prior to the merger effective date.

The Commission orders:

- (A) The untimely and the opposed motions to intervene are hereby granted.
- (B) Intervenor's requests for hearing are hereby denied.
- (C) The answers are hereby rejected to the extent discussed in the body of this order.

50/ \$2.80/kW versus \$1.26/kW.

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Sierra Pacific Power Company and) Docket Nos. EC99-1-000
Nevada Power Company) ER99-34-000

(Issued April 15, 1999)

MASSEY, Commissioner, concurring:

Today's order approves the merger of Sierra Pacific Power Company and Nevada Power Company.

While the Applicants' analysis indicates that the pre- to post-merger changes in generation concentration do not exceed the merger guidelines' thresholds, an intervenor raises concerns about the Applicants' analysis. Since the Applicants have committed to divest all of their generation facilities, the order finds these concerns moot and approves the merger based on that commitment. Our order emphasizes, however, that the approval is not an endorsement of the Applicants' assumptions, and we point out one problem in particular -- the use of estimated market prices that appear inconsistent with trading patterns.

For the benefit of future applicants, I would have preferred an order that gave more detailed guidance on what particular problems the Applicants' analysis contained. The Applicants' use of estimated market prices may indeed be the most important problem, but it is not the only one. A review of the Appendix A analysis reveals that the Applicants' treatment of transmission availability is questionable since they use a mixture of simultaneous and non-simultaneous import capability. This may not accurately portray what suppliers are in the relevant geographic market. 1/ Also, the Applicants define time periods by hour, as opposed to load level, which may mask important merger-related effects that occur within long time periods. 2/ In addition, the Applicants include suppliers in the destination market that do not pass the delivered price test because their capacity is too costly to compete in that market. 3/

- 1/ See Ohio Edison Company, et al., 80 FERC ¶ 61,039 at 61,104 for fuller discussion of the use of non-simultaneous transmission limits.
- 2/ See American Electric Power Company and Central and Southwest Corporation, 85 FERC ¶ 61,201, fn. 78, (1999).
- 3/ Merger Policy Statement, Order 592, FERC Stats. & Regs. ¶ 31,044 at 30,130-31 (1996).

(D) The Applicants' proposed merger is hereby approved as discussed in the body of this order.

(E) The Applicants shall advise the Commission within 10 days of the date the merger is consummated.

(F) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, services, account, valuation, estimates, or determinations of cost, or any other matter whatsoever now pending or that may come before the Commission.

(G) The Applicants' proposed use of the purchase method of accounting for the merger is approved. The Applicants must submit their accounting for the merger within six months of the merger's completion. The Applicants must promptly inform the Commission of any change in circumstances that would reflect a departure from the facts the Commission has relied upon in approving the merger accounting.

(H) The Commission retains authority under section 203(b) of the FPA to issue supplemental orders as appropriate.

(I) The Applicants' proposed joint open access transmission tariff is hereby accepted for filing, conditioned upon Nevada Power submitting its updated rates, as required in ordering paragraph (L).


(J) The Applicants' request for waiver of the 120-day notice requirement in Docket No. ER99-34-000 is hereby granted.

(K) The Applicants are hereby informed of the following rate schedule designation: Sierra Pacific Resources Operating Companies, FERC Electric Tariff, Original Volume No. 1 (Open Access Transmission Tariff) (supersedes Sierra Pacific Power Company's FERC Electric Tariff, Original Volume No. 3 and Nevada Power Company's FERC Electric Tariff, Original Volume No. 1).

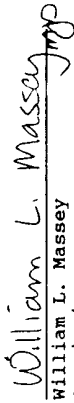
(L) Nevada Power is hereby directed to file updated transmission rates prior to the consummation of the merger.

By the Commission. Commissioner Massey concurred with a separate statement attached.

(S E A L)


Linwood A. Watson, Jr.,
Acting Secretary.

The order should have listed these flaws in more detail. Recently, commissioners have expressed concern that perhaps the guidance we give applicants on how to file merger applications has been insufficient. The industry is better served by giving potential merger applicants a clear understanding of how to perform the Appendix A analysis. The Merger Policy Statement was the first step in that direction, and since then the Commission has on many occasions used individual merger orders to refine the analysis and to make clear what data and assumptions applicants should use. 4/ Last April, we issued a Notice of Proposed Rulemaking that set out in great detail our merger filing requirements. 5/ We have not issued a Final Rule in that proceeding, but I hope we will in the not too distant future. Meanwhile, we should continue to issue orders in merger cases that clearly and specifically set out the flaws in applicants' analysis, even when, as here, we approve the merger. Moving through the regulatory process in a timely manner requires the filing of complete and accurate applications in the first instance. We can help future merger applicants by giving as much guidance as we can in individual merger orders.


 William L. Massey
 Commissioner

4/ See, e.g., Atlantic City Electric Company and Delmarva Power & Light Company, 80 FERC ¶ 61,126 (1997).

5/ Revised Filing Requirements Under Part 33 of the Commission's Regulations, Notice of Proposed Rulemaking, 63 FR 20340 (April 24, 1998), FERC Stats. & Regs. ¶ 35,528 (1998).

dti

Department of Trade and Industry

press notice

P/99/316

13 April 1999

**KIM HOWELLS CLEARS PROPOSED MERGER OF SCOTTISH POWER
PLC AND PACIFICORP**

Kim Howells, Competition and Consumer Affairs Minister, has decided not to refer to the Competition Commission the proposed merger of Scottish Power plc and PacificCorp.

Dr Howells made his decision in accordance with the advice of the Director General of Fair Trading (DGFT) and with the views of the Director General of Electricity Supply (DGES).

Announcing his decision, Dr Howells said:

"I have considered carefully the advice of the DGFT and the views of the DGES on this case. They both consider that the concerns posed by the proposed merger could be met by assurances from Scottish Power plc.

"Scottish Power plc (ScottishPower) have given assurances to the Secretary of State to address the regulatory concerns of the DGES. These include assurances relating to the establishment of a holding company for the ScottishPower group, to the financial and management resources of ScottishPower and Manweb plc, and to ensuring that the DGES continues to have access to the information which he needs to carry out his duties.

"ScottishPower have given assurances that they will secure that the holding company will restructure its business in Great Britain as soon as is reasonably practicable, and in any event within three years, so as to place generation and any non-electricity activities in separate group companies. ScottishPower have assured the Secretary of State that, following restructuring, a financial ring-fence will be placed around the electricity supply and transmission businesses currently carried on by Scottish Power plc, on similar terms to the standard ring-fence terms developed by the DGES.

"The DGES intends to incorporate commitments given by ScottishPower into the licence conditions of ScottishPower or Manweb's licences. ScottishPower have given an assurance that until licence modifications are made, the parties will act as if they are already in place.

"The DGES and the DGFT considered that the regulatory concerns raised by the merger could be met by assurances of the type which have now been given by ScottishPower. The DGFT advised that the merger would not give rise to competition concerns which warranted reference to the Competition Commission. Taking into account the assurances which have been given, I agree that there are no competition or regulatory concerns which warrant a reference to the Competition Commission."

Notes for Editors

1. A copy of the assurances given by ScottishPower is attached to this Press Notice.
2. The Monopolies and Mergers Commission was dissolved on 1 April 1999, as a result of the coming into force of section 45 the Competition Act 1998, and its functions were transferred to the Competition Commission.

Press Enquiries: 0171-215 5972
(Out of Hours : 0171-215 5110/5600)
Public Enquiries: 0171-215 5000
Textphone (for people with hearing impairments): 0171-215 6740
<http://www.dti.gov.uk>



ScottishPower

The Rt Hon Stephen Byers MP
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
London
SW1H 0ET

Corporate Office

Your ref

Our ref

Date

1/4/99

Contact/Extension

Dear Secretary of State,

Scottish Power plc has separately announced proposals for a merger with PacifiCorp and for the creation of a holding company for the ScottishPower group. Having regard to these proposals, Scottish Power plc assures the Secretary of State for Trade and Industry that it will establish a holding company and that it will secure that this holding company will:

- 1) ensure that sufficient financial and management resources and other facilities are available to enable subsidiaries licensed under the 1989 Electricity Act to carry out their statutory and licence obligations;
- 2) ensure that the DGES is provided with such information from any company in the holding company group as he requires in relation to the exercise of his regulatory functions;
- 3) co-operate with the DGES in ensuring appropriate financial separation and financial independence for subsidiaries licensed under the 1989 Electricity Act;
- 4) ensure that any published regulatory accounts required from subsidiaries Licensed under the 1989 Electricity Act, are available to the public by 30 September of each year;
- 5) co-operate in maintaining the timeliness and extent of published accounting information on each of Scottish Power plc and Manweb plc;
- 6) restructure its business in Great Britain as soon as reasonably practicable and in any event within three years so as to place generation, and any non-electricity activities, in one or more separate group companies which would be affiliates but not subsidiaries or parent companies of the remaining electricity activities. In the meantime, it will ensure that any new investment in additional generation capacity or other significant diversification by group companies licensed under the 1989 Electricity Act will be undertaken by a separate group company or companies, and not by any company or by any subsidiary of any company holding any existing licences granted under the

GD

1989 Electricity Act; and dealings between the holders of such licences and any such separate group company will be at arm's length and on normal commercial terms;

- 7) following restructuring, to accept a financial ring-fence around the public electricity supply and transmission businesses presently carried on by Scottish Power plc on similar terms to the standard ring-fence terms;
- 8) invite the DGES's views on its proposals to restructure its business and report progress on the restructuring, on a six monthly basis. It will take due regard of any comments made by the DGES.

In addition Scottish Power plc assures the Secretary of State for Trade and Industry, that it will:

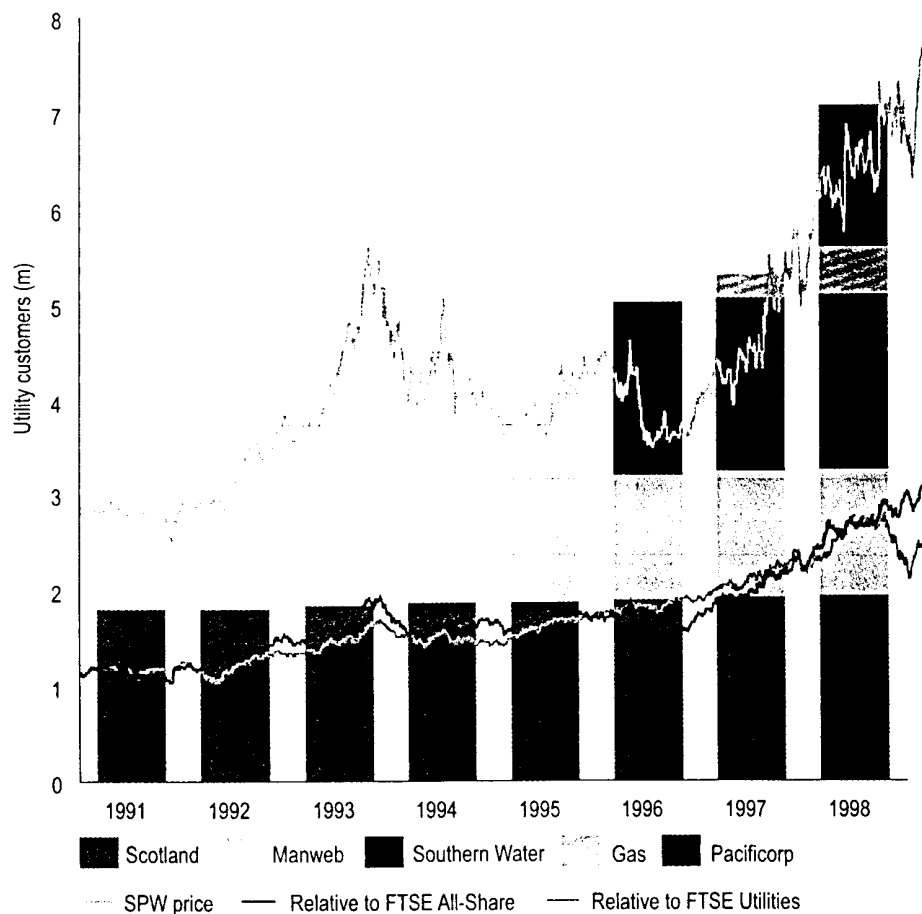
- 9) where the above matters relate to licence modifications, agree to such licence modifications and will secure that Manweb plc does likewise;
- 10) where assurances relate to licence modifications, ensure that the parties will act as if they are already in place from the time of giving the assurances or in respect of assurance 7 from the time of restructuring.



Charles A Berry
Executive Director

for and on behalf of Scottish Power plc

ScottishPower/PacifiCorp



West Side Story

December 1998

Warburg Dillon Read

1. Rate reviews
2. Wholesale prices
3. Deregulation

Rate reviews

Rate of return regulation the key...

Following the proposed disposal of the Montana and California distribution assets, all of PacifiCorp's distribution assets are currently regulated on a rate of return basis.

...but under-earning assets limits risk of re-set

The risk is therefore a regulatory re-set which reduces the allowed return. The table below shows PacifiCorp's actual and allowed rates of return on assets. However, in most of the states in which PacifiCorp operates we believe there is little risk of any imminent rate review initiated by the state regulators. This is because PacifiCorp currently earns a return of 9.3% versus its average allowed return of c13.2%. This is a result of excessive costs and a decision not to apply for rate increases in the past.

PacifiCorp rate of return regulation — 1997

Average return of c9% is c2-3% below US average

State	Rate Base (\$bn)	% of Rate Base	Allowed ROE (%)	Actual (%)	Comment
Washington	0.7	11	13.25	9.2	No rate case for 10 years
Oregon	2.5	38	15.80	8.4	Price cap regulation introduced 5/98
Idaho	0.2	3	13.40	9.9	No rate case for 10 years
Utah	2.3	35	12.10	11.6	Rate case impending
Wyoming	0.9	14	11.25	7.2	Price cap regulation to be introduced

Source: WDR

Utah rate cut factored in for 1999

However, the biggest near-term rate threat lies in Utah. A rate cut has been proposed via a joint petition filed by Utah's Division of Public Utilities ("DPU") and the Committee of Consumer Service ("CCS") in February 1997. Due to legislation barring any movement on the petition until after the adjournment of the 1998 legislative session, PacifiCorp's rates were declared as interim rates and therefore subject to refund. While the DPU is supporting a \$57.4m rate cut, the CCS is recommending a \$78.5m reduction in rates. The DPU filing supports a 10% return on equity as opposed to the CCS proposal which is based on a 10.3% ROE. In late July, PacifiCorp filed its own testimony that supported only a 1% or \$6.6m rate reduction. Hearings are currently in progress and a final order should be handed down by mid-January 1999. WDR financial projections for PacifiCorp assume the imposition of a US\$57m revenue reduction from 1 January 1999.

We consider the scope for an improvement in the rate of return at PacifiCorp on pp48.

SP5993

Wholesale prices

Interstate sales of electricity and interstate wheeling rates are regulated by FERC. Wholesale prices have dropped significantly over the past three years as a result of excess capacity and increased competition. Prices fell 21% in 1996 and 4% in 1997.

Although the scale of price decline is a concern, to an extent, PacifiCorp is hedged against movements in wholesale prices by its net short position in the market (40% of sales are hedged by power purchases). In addition, PacifiCorp has a relatively low cost generation base utilising hydro and low-cost coal plants.

Deregulation

Liberalisation in NW a distant prospect

The FERC guidelines for deregulation provide a broad framework for the scope of restructuring that will occur in each state after liberalisation. However, specific plans are required on a state-by-state basis. In the five states in which PacifiCorp operates it appears that liberalisation is a distant prospect. There is currently little pressure to liberalise markets as electricity prices in the western states are low. These states therefore either only have an informational or fact-finding workshop or study underway, or legislation is still pending. WDR's best guess is that deregulation may not occur for four-to-five years.

In Idaho, no action was taken in the 1998 legislative session and it is foreseeable that there will not be any meaningful near-term restructuring due to fears of a rate increase caused by such action.

Oregon's state legislature adjourned its 1998 session without making any decisions and its public utility commission ("PUC") has announced that it would not take any restructuring steps without legislative approval.

Washington also ended its 1998 legislative session without taking any significant action, but it is expected that comprehensive industry restructuring will be addressed in the 1999 session. While the Washington Utilities and Transportation Commission ("WUTC") has been approving experimental or pilot programmes, over the past two years, it is taking a relatively slow approach to industry restructuring and has terminated its generic investigation.

Wyoming is probably the last in the restructuring line. While the legislature broached the subject of electric industry restructuring in its 1998 term, no defined action was taken. An investigation is underway that will determine if there is potential for voluntary restructuring in the electric industry similar to that of an implemented plan for the state's major investor-owned gas distribution companies. The state's Task Force has been diligently studying restructuring issues and is expected to introduce legislation during the 1999 general session.

This has conflicting implications for PacifiCorp:

SP5994

➤ **Deregulation timetable is uncertain:** Deregulation in the US is developing slowly as a result of the difficulties linked to deregulation of 50 states and 100 large integrated utilities. PacifiCorp operates in five main US states – Utah, Wyoming, Oregon, Washington and Idaho. None of these states has laid out a clear timetable for liberalisation. They are, therefore, in the “slow” lane moving toward the Federal goal of liberalisation for all customers by 2001. All five states have established fact-finding studies, but legislation has yet to be drafted. Although there is some comfort for investors that FERC guidelines recommend the allowance of recovery of an “equitable allowance” of stranded costs before retail access begins, the detailed process is uncertain.

➤ **Liberalisation is uncertain:** the actual impact of competition on prices and incumbent market share is difficult to estimate because of uncertainties regarding future generation costs, market structure (for example, the scale of divestiture required in generation) and the behaviour of market participants (incumbents and new entrants).

However, we believe that PacifiCorp enjoys two advantages that should mean that the impact of liberalisation on valuation is minimised:

But PacifiCorp relatively underexposed as rates are low

PacifiCorp rates are low: PacifiCorp has the lowest industrial rates in the US of any of the 45 utilities WDR researches. PacifiCorp 1997 average industrial rate was 3.43c/kWh, a 35% discount to the US sector average. PacifiCorp’s rates are also the lowest in the western states. The chart below shows that PacifiCorp has the lowest rates in four of the five states it distributes in.

SP6001

Scope for ST cost reduction to immediately benefit ScottishPower shareholders

costs to cut costs via an increase in actual ROE on RAB

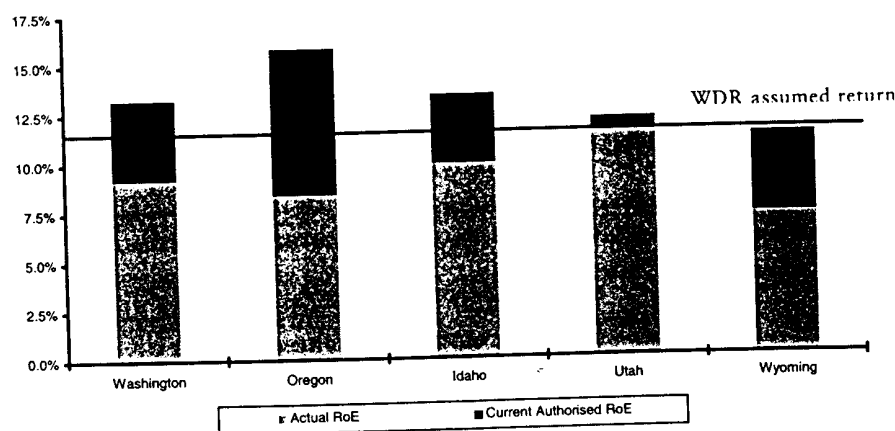
PacifiCorp has failed to achieve its allowed rate of return on its regulated asset base in all five states in which it owns distribution. This is a result of poor cost control. There is, therefore, an opportunity to reduce costs in order to increase the achieved return and ensure that the benefits flow to shareholders. This is a significantly more attractive position than if PacifiCorp was already earning at or above its allowed rate of return. This is because significant cost reductions could result in a regulatory re-set, therefore ensuring that the majority of the benefits flow to customers not shareholders.

The table below shows that PacifiCorp is currently earning an average return of 9.3% post-tax nominal versus the average allowed return of 13.2%.

PacifiCorp regulatory returns

State	Rate Base (\$bn)	Base Rate (%)	Allowed ROE (%)	Actual (%)	Comment
Washington	0.7	11	13.25	9.2	No rate case for 10 years
Oregon	2.5	38	15.80	8.4	Price cap regulation introduced 5/98
Idaho	0.2	3	13.40	9.9	No rate case for 10 years
Utah	2.3	35	12.10	11.6	Rate case impending
Wyoming	0.9	14	11.25	7.2	Price cap regulation to be introduced

Source: WDR



Source: WDR

WDR synergy projections (details are contained in 47 pp47) assume that ScottishPower has scope to increase the achieved return to an average of c11.5% without the risk of a regulatory rate review. This is clearly a subjective judgement not science. However, we believe that an achieved rate of return of 11.5% is uncontroversial given the evidence from other rate sets in the US in recent years.

SP6003

16803

SECRETARY COMMISSIONERS
SECRETARY MEDIAN JK
CLERK DANIEL WHITE CP No 4/4
CLERK D. JONES

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD, BURCHETTE & RITTS, P.C. pb
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
Telephone: (202) 342-0800

Glen E. Davies
PARSONS, DAVIES, KINGHORN & PETERS, P.C.
185 South State Street
Suite 700
Salt Lake City, UT 84111
Telephone: (801) 363-4300

RECEIVED
APR 29 3 25 PM '99
UTAH PUBLIC
SERVICE COMMISSION

ATTORNEYS FOR NUCOR STEEL, A DIVISION OF NUCOR CORPORATION
BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of) Docket No. 98-2035-04
PACIFICORP and SCOTTISH POWER PLC)
for an Order Approving the Issuance of) NUCOR STEEL'S RESPONSE
PACIFICORP Common Stock) TO APPLICANTS'
) ISSUES MEMORANDUM

Pursuant to the Public Service Commission of Utah's (the "Commission") April 2, 1999 Order issued in this docket (the "Order"), Nucor Steel, a Division of Nucor Corporation ("Nucor") hereby submits this response to *Applicants' Issues Memorandum*, filed on April 12, 1999. In support of this Response, Nucor states as follows:

I. General Concerns

The lists of issues submitted by parties to this proceeding for consideration by the Commission are, by their very nature, general and non-specific. The issues in this proceeding are only just now being developed, and will be further formed and refined as we move towards the hearing. At this stage in the process, issues lists represent little more than areas in which various participants have concern, and items they believe they may want to address at hearing. This is particularly true with issues as general as "competition" - a very general concern, some portion of which falls within the purview of federal regulatory agencies, some of which falls within the purview of state regulatory

agencies. As the parties move forward, the issues each party will pursue naturally shrinks. In this context, Nucor urges the Commission to take an expansive view as it considers appropriate potential issues for this proceeding.

Moreover, Nucor is concerned that Applicants' suggestions as to a number of "issues" (e.g., industry restructuring, divestiture) represent an attempt to limit potential conditions that may be applied by the Commission to remedy problems caused by the acquisition. For example, there are numerous concepts contained within the rubric of "industry restructuring," such as unbundling of tariffs, functional unbundling, corporate/affiliate reorganization, transmission system reorganization, and transmission access, that may be suggested as appropriate conditions on the merger. Nucor asks the Commission to decline to take potential remedies off the table at this stage in the process. Clear development of the issues is lacking at this time, and the identification of appropriate remedies as to any problems identified lags further behind. While Nucor did not submit an issues list in this proceeding, Nucor intends to participate, and is concerned with any attempt by the Applicants to unnecessarily limit the issues to be heard, or the remedies/conditions that may be imposed.

II. Special Contract Issues

The Commission ordered the Applicants to provide a memorandum "in which the Applicants shall identify all issues, which have previously been identified in any of the parties' Issue list submissions, that the Applicants contend are irrelevant to the considerations which the Commission must make in determining whether to grant or deny the Applicants' Joint Application," as well as identify issues as to which the Applicants contend that "other parties, rather than the Applicants, have the burden of proof." Order at pp. 1-2. The Applicants', in their Issues Memorandum, argue that, "the parties have raised, in relatively cursory fashion, some issues which require speculation regarding future events, including potential changes in the existing statutory framework. Applicants' submit

that the parties who raised those issues should have the burden to show that the transaction has either a beneficial or harmful impact on those issues.” *Applicants’ Issues Memorandum*, at p. 8. This response to the issues lists is likewise cursory in nature, oversimplifies issues to suit their purposes, and, in characterizing certain issues as speculative, attempts to use the very nature of issues in a forward-looking proceeding as the basis for excluding issues.

Of particular concern to Nucor is Applicants’ designation of special contract issues as “speculative,” and therefore subject to a shift in the burden of proof. In their *Statement of Additional Issues*, the Large Customer Group and the Utah Industrial Energy Consumers listed as issues for the proceeding, among others, “the impacts of the merger on special contract customers,” and the “merger conditions . . . necessary or appropriate to protect special contract customers, as well as all Utah ratepayers, from potential risks or adverse consequences of the merger.” *LGC and UIEC Statement of Additional Issues*, at p. 2. Similarly, the DPU questioned whether Scottish Power will assume PacifiCorp’s existing obligations, including special contracts, and if so for how long. *Division of Public Utilities Statement of Issues*, at ¶4.e. The Committee of Consumer Services likewise identifies “ScottishPower’s corporate policy on special contracts” as an issue. *Committee of Consumer Services Statement of Issues*, at p. 4. In a similar vein, the Committee identifies the following issue to be considered:

Cost-benefit analysis detailing the impact of the merger on Utah. Such analysis should include: economic development; low income programs; environmental stewardship; energy conservation initiatives; community presence; etc.

Committee of Consumer Services Statement of Issues, at p. 4. As economic development is one of the reasons for entering into and perpetuating special contracts, the impact of the merger on economic development necessarily implicates special contracts.

The Applicants dismiss the relevance of issues related to special contract customers by (1) noting the Applicants' statement that it "will honor all existing contractual obligations" and (2) noting the existence of the task force considering special contracts, which process, the Applicants assert, "will determine the offer, renewal, availability and terms for future special contracts in Utah." *Applicants' Issues Memorandum*, at p. 9. As a result of these conclusions, as well as the speculative nature of the concern, the Applicants conclude that as to special contracts the burden of proof should shift to other parties to show that special contracts are harmed by the acquisition. *Id.* It is unclear to Nucor what "burden of proof" the Applicants believe they are proposing to shift, but Nucor does not know of any reason why special contract customers should be singled out for disparate treatment. The Applicants seem to suggest that the burden on them is to show that the acquisition would provide net positive benefits to customers, except that they do not need to consider the impact on special contract customers in making their case. Nucor suggests that the Applicants' view is unfairly limiting. The Applicants have done nothing to demonstrate why special contract customers, as a class, should be singled out for treatment different from other classes of ratepayers.

Examined in isolation, the impact of the acquisition on any class of PacifiCorp customers is speculative. But it is the impact on customers that is of importance to the Commission in determining whether the proposed transaction provides a net positive benefit. Special contract customers should be viewed no differently from the tariffed ratepayers in terms of the potential impacts of the proposed transaction, and should be considered along with all of PacifiCorp's ratepayers in evaluating the net positive benefits of the acquisition on customers. To this end, the Commission, in language set forth in the Applicant's pleading, stated:

However, Applicants do carry the burden in all areas subject to our jurisdiction to show that on balance the merger will be beneficial and those areas will be our primary focus in this case.

Commission Report and Order, Docket No. 87-035-27 (the *Utah Power/PacifiCorp* merger).

Nothing in the Applicants' Memorandum details why the burden of proof should shift with respect to the impact of the acquisition on special contract customers. The impact of the acquisition on special contracts (including the economic development aspects of those types of contracts) is as relevant to the net positive benefits analysis as the impact on any class, and it would be inappropriate at this stage of the process to shift the burden of proof away from the Applicants as to how the acquisition impacts any ratepayer class.

WHEREFORE, for the reasons set forth above, Nucor requests that the Commission take an expansive view of the issues to be considered in this proceeding and the remedies and conditions available, and that specifically the Commission decline to single out special contract customers and shift the Applicants' burden of proof with respect to special contract issues as requested by Applicants.

DATED this 29th day of April, 1999.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Glen E. Davies", is written over a horizontal line.

Glen E. Davies
PARSONS, DAVIES, KINGHORN & PETERS, P.C.
185 South State Street, Suite 700
Salt Lake City, UT 84111
(801) 363-4300

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
(202) 342-0800
(202) 342-0807 -- Telefax

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of April, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of NUCOR STEEL'S RESPONSE TO APPLICANTS'

ISSUES MEMORANDUM to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, UT 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, UT 84111

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 South Main Street, #1100
Salt Lake City, UT 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, UT 84133

Dr. Charles E. Johnson
1338 Foothill Boulevard, Suite 134
Salt Lake City, UT 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, UT 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, UT 84111-1536

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, UT 84145-0898

Matthew F. McNulty, III
Van Cott, Bagley, Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Douglas O. Hunter
General Manager
Utah Associated Municipal Power Systems
2825 East Cottonwood Parkway, Suite 200
Salt Lake City, UT 84121

David F. Crabtree
Deseret Generation & Transmission Co.
5295 South 300 West, Suite 500
Murray, UT 84107

Brian L. Farr
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, UT 84114-0857

Steven Allred
Salt Lake City Corp. Law Dept.
451 South State Street, Suite 505
Salt Lake City, UT 84111

Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, UT 84102

Paul T. Morris
3600 Constitution Boulevard
West Valley City, UT 84119



Glen E. Davies

16802

RECEIVED

APR 29 3 10 PM '99

UTAH PUBLIC SERVICE COMMISSION

David F. Crabtree , #A5459
Deseret Generation & Transmission Co-operative
5295 South 300 West, Suite 500
Murray, Utah 84107
Telephone: 801-892-6522
Attorney for Deseret and its Members

SECRETARY COMMISSIONERS
BY: _____
CHRISTINE S. WHITE *CSW 4/4*
CLARA O. JONES

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PacifiCorp and Scottish Power plc) Docket No. 98-2035-04
for an Order Approving the Issuance)
of PacifiCorp Common Stock) RESPONSE OF DESERET AND
ITS MEMBERS TO ISSUES
MEMORANDUM FILED BY
APPLICANTS)

Deseret Generation & Transmission Co-operative ("Deseret") and its Member co-operatives ("Members") submit this memorandum in response to the Applicants' Issues Memorandum dated April 12, 1999. The Applicants' Issues Memorandum claims that issues relating to "competition" as raised by Deseret and its Members should not be considered by this Commission, at least insofar as those issues touch on possible application of federal antitrust law. The Applicants' Issues Memorandum also asserts that two other issues raised by Deseret and its Members (Hunter II costs and Certificate Transfer issues) are matters on which Deseret and its Members should bear the burden

of proof. The Applicants have not challenged the principal issues identified by Deseret (Impacts on Rural Utah and Reliability Issues) nor have the Applicants suggested that Deseret or its Members should bear the burden of proof with respect to the same.

Hunter II and Certificated Service Areas. Deseret and its Members intend to introduce evidence explaining their concerns on the possible effects of the proposed Merger relating to Hunter II plant costs and disparate or inappropriate diminishment of service within service areas currently certificated to PacifiCorp where Deseret's Members could provide equivalent or better service after the proposed Merger. There appears to be little value in debating which party bears the "burden" with respect to such issues. The Applicants clearly have the burden of demonstrating to the Commission that the proposed Scottish Power acquisition is in the "public interest," including the impact of the merger on these and other issues. Deseret and its Members accept the burden of filing testimony to explain their concerns and issues in connection with Hunter II costs and certificated service areas, as well as their proposals for dealing with the same in the context of the proposed Merger.

Competition. Deseret and its Members submit that the "anti-competitive issues" they have raised are relevant to this proceeding. The Applicants point to the FTC's actions under the Hart-Scott-Rodino Act as proof that competition, at least as it touches on federal anti-trust policy, is not an issue. The issues raised by Deseret and its Members, however,

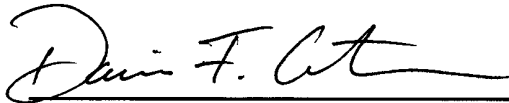
relate to in-state division of utility services and interactions among PacifiCorp, rural electric cooperatives and municipal utilities, especially in the rural areas of the State.

Proper interaction and healthy and efficient allocation of utility service responsibilities among all electric utilities serving in rural Utah are important to the continued well-being of rural Utahns. The Applicants have acknowledged that impacts on rural Utah are directly relevant to this proceeding. The potential for anti-competitive or unfair effects of the merger among those utilities serving in rural areas within Utah are largely a subset of those issues. PacifiCorp's dominance in most of the State, its control over most of the infrastructure necessary for providing adequate and reliable electric services, and its management of facilities jointly owned by it and public power utilities all provide PacifiCorp with unique and powerful means of using, exploiting and manipulating facilities to its advantage and to the disadvantage of rural utilities and their customers. Added strength, changes in attitude and control, different corporate philosophies, additional pressure to reduce costs and services or increase corporate profits and other potential consequences of the merger may affect, change and intensify these types of issues and impacts.

Deseret and its Members, particularly as public utilities whose customers' best interests are within the direct regulatory purview of this Commission, are entitled to present to this Commission their concerns on all such issues and to offer proposed solutions. The Commission should reject as overbroad and inappropriate Applicants' suggestion that all

issues relative to "competition" in the broad sense of the word are outside the scope of these proceedings.

DATED this 28th day of April, 1999.



David F. Crabtree,
Counsel for Deseret and its Members

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 29th day of April, 1999, to the following:

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, UT 84111

Brian W. Burnett
CALLISTER NEBEKER &
MCCULLOUGH
10 East South Temple, #800
Salt Lake City, UT 84133

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Douglas C. Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

F. Robert Reeder
William J. Evans
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
RANDLE DEAMER ZARR ROMRELL &
LEE
139 East South Temple, Suite 330
Salt Lake City, UT 84111

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD BURCHETTE & RITTS
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline Rd., Suite 200
Boulder, CO 80302

Matthew F. McNulty, III
VANCOTT BAGLEY CORNWALL &
MCARTHY
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Lee R. Brown
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

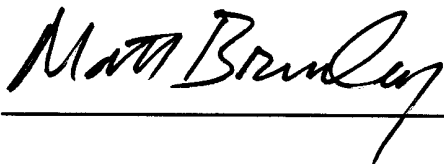
Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN &
PETERS
185 South State Street, Suite 700
Salt Lake City, UT 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108

Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, UT 84102

Steven W. Allred
Salt Lake City Law Department
451 S. State, Suite 505
Salt Lake City, UT 84111

Paul T. Morris
3600 Constitution Blvd.
West Valley City, UT 84119



16790

BILL THOMAS PETERS - 2574 10
DAVID W. SCOFIELD - 4140
PARSONS, DAVIES, KINGHORN & PETERS
185 South State Street, Suite 700
Salt Lake City, Utah 84111
Telephone: (801) 363-4300

Attorneys for Petitioner Emery County

RECEIVED
APR 20 2 40 PM '99
STATE PUBLIC SERVICE COMMISSION
REVIEWED BY COMMISSIONERS
STEPHEN F. MECHAM SM
CONSTANCE B. WHITE CBW 4/20
CLARK D. JONES CJ 4/20

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of
PacifiCorp and Scottish Power plc for an
Order approving the Issuance of
PacifiCorp Common Stock

: **INTERVENOR EMERY**
: **COUNTY'S RESPONSE TO**
: **APPLICANT'S ISSUES**
: **MEMORANDUM**
: **Docket No. 98-3025-04**

In their joint April 12, 1999 Issues Memorandum, Applicants PacifiCorp and Scottish Power plc (the "Applicants"), submitted a memorandum identifying the issues which Applicants assert are beyond the scope of this proceeding and the issues for which Applicants claim other parties have the burden of proof. Pursuant to the direction of the Commission, Intervenor Emery County submits the following response to those portions of Applicants' Memorandum that deal with Emery County.

Utah Code Ann. § 544-1-3(2) provides in part as follows:

"The following proceedings shall be heard by at least a majority of the Commissioners:

(b) Any proceeding which the Commission determines involves an issue of **significant public interest.**" (Emphasis provided.)

A. Public Interest and Financial Agency Issues

1. The Public Service Commission statute clearly states that the PSC should act in the public interest.

Utah Code Ann. § 54-4-28 provides as follows:

"No public utility shall combine, merge nor consolidate with another public utility engaged in the same general line of business in this state, without the consent **and approval of the Public Utilities Commission, which shall be granted only after investigating and hearing and finding that such proposed merger, consolidation or combination is in the public interest.**" (Emphasis provided.)

While numerous parties have intervened in this proceeding, it is clear that the following four sets of stakeholders are components of the public interest: ratepayers, shareholders, bondholders and government bodies such as counties. (Emery County has sponsored \$121,940,000.00 in pollution control bonds for PacifiCorp.) The PSC should consider the interests of each of these four groups.

2. Ratepayers, shareholders, bondholders and counties have a clear interest in making sure that the proposed common stock equity transfer is based on a reasonable estimate of fair market value of PacifiCorp.

3. In a strict financial sense, PacifiCorp officers are financial agents for PacifiCorp shareholders and bondholders. In a broader financial sense, PacifiCorp officers are financial agents for ratepayers and governmental bodies, such as counties, where generation, transmission, or distribution assets are located.
4. The burden of proof should clearly be on PacifiCorp management, not on Emery County, to demonstrate that the proposed acquisition of PacifiCorp assets and related issuances of securities is based on a reasonable and fair market value. Specifically, the Applicants (PacifiCorp and Scottish Power) need to show and explain the valuation methods and associated valuation numbers concerning this financial transaction.
5. Without knowing and understanding the valuation methods and associated valuation numbers, there exists a serious uncertainty if PacifiCorp management appropriately and reasonably executed their duties as financial agents. The decision by PacifiCorp management to accept the offer was made at a time when PacifiCorp had experienced significant failures in previous transactions such as the proposed acquisition of the Big Rivers Co-op and The Energy Group, PLC. PacifiCorp experienced a change in its Chief Executive Officer position. In addition, PacifiCorp had received

consistently poor ratings from Wall Street analysts during the time period leading up to the acceptance of the Scottish Power proposal. These circumstances could have created an environment where there was a potential for management to overreact, and possibly accept an offer for less than market value, i.e. a financial agency problem.

The fact that Emery County is responding with this brief increases concern about the transaction and potential financial agency problems. The Applicants' claim that Emery County should bear the burden to demonstrate the relevance of fair market value as an issue to be considered in a proposed acquisition of a regulated utility speaks for itself. PacifiCorp management, not Emery County, is the financial agent in this proposed transaction.

6. If the proposed acquisition represents an undervaluation of PacifiCorp, then costs and harm (negative benefits) arise for the public interest.

Shareholders and bondholders who have invested in PacifiCorp will not receive adequate compensation for their investments. Ratepayers who have funded the construction and operation of PacifiCorp assets will not receive a fair value. Counties who receive property tax payments will not receive fair value.

7. If the proposed acquisition represents an overvaluation of PacifiCorp, questions should then be raised about the distribution of the acquisition premium associated with the overvaluation. Shareholders and ratepayers could both make legitimate claims to receiving some of the value of the premium.
8. Utah shareholders will rely, to some extent, on the Utah Public Service Commission to conduct a prudence review of the proposed transaction to evaluate the reasonableness of the valuation of the transaction. Again, to the extent that shareholder interests are part of the public interest this proceeding is the relevant point to review the valuation assumptions associated with the transaction.

B. Jurisdictional Issues

9. As of 1996, PacifiCorp was the largest centrally assessed property tax payer in the state of Utah. PacifiCorp is the largest property taxpayer in nine Utah Counties, including Emery County. (Exhibits 1, 2 & 3.) While Utah property tax assessments are determined by the Utah State Tax Commission, the market sale price that will result from the proposed transaction will not be subjected to any type of prudence review by the Utah State Tax Commission. The only jurisdiction in the state of Utah where a

prudence review of the value of the proposed transaction can take place is before the Utah Public Service Commission. To the extent that Utah counties' interests are part of the public interest, this proceeding is the relevant point to review the valuation assumptions associated with the transaction. It is clear that a reasonable prudence review of the valuation of this transaction by the Utah Public Service Commission will be beneficial and relied upon by the Utah State Property Tax Division and the Utah State Tax Commission in future centrally assessed valuations of this business enterprise.

10. If PacifiCorp were proposing to sell a single asset, such as a generation plant in a particular state, or the distribution system in one state, the Public Service Commission in that state would conduct a prudence review of the transaction to determine if the asset sale represents a reasonable transaction based on the fair market value of the asset. In the case of the Scottish Power proposal, all PacifiCorp assets are being sold, and PSC review of the valuation of the assets is an appropriate step in acting in the public interest.

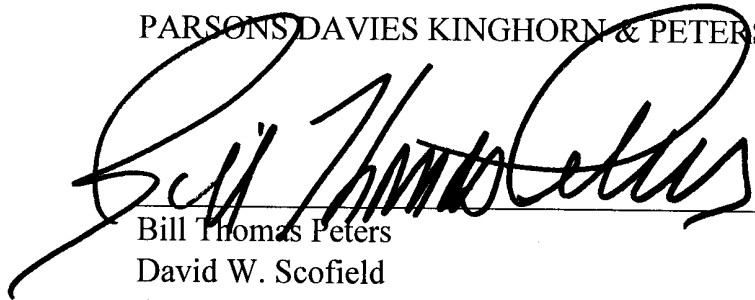
C. Procedural Issue

11. Regarding the claim that Emery County's original issues list was in the form of discovery, the issue list submitted by Emery County was in no way

intended to be a discovery document. The document included some questions that were intended to illustrate the issues of interest. Emery County has filed separate discovery requests to which the Applicants have responded with less than adequate information. Emery County will file additional discovery requests in an attempt to obtain reasonable data.

DATED this 27th day of April, 1999.

PARSONS DAVIES KINGHORN & PETERS



Bill Thomas Peters
David W. Scofield
Attorneys for Emery County

CERTIFICATE OF SERVICE

The undersigned hereby certifies that true and correct copies of INTERVENOR EMERY COUNTY'S RESPONSE TO APPLICANTS' ISSUES MEMORANDUM, to the following this 22nd day of April, 1999.

Michael Ginsberg
Assistant Attorney General
160 East 300 South
Salt Lake City, Utah 84111

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, Utah 84145-0898

Doug Tingey
Assistant Attorney General
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Brickfield Burchette & Ritts
1025 Thomas Jefferson St. N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle Deamer Zarr Romell & Lee
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land & Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Edward A. Hunter
Stoel Rives Boley Jones & Gray
201 South Main Street, #1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister Nebeker & McCullough
10 East South Temple, #8000
Salt Lake City, Utah 84133

Dr. Charles E. Johnson
1338 Foothill Boulevard, Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

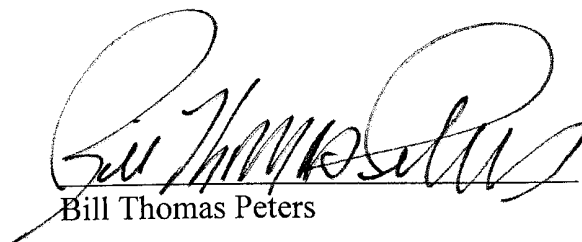
Matthew F. McNulty, III
VanCott Bagley Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. BOX 45340
Salt Lake City, Utah 84145

David F. Crabtree
Deseret Generation & Transmission Co.
5295 South 300 West, Suite 500
Murray, Utah 84107

Steven Allred
Salt Lake City Corporation, Law Dept.
451 South State Street, Suite 505
Salt Lake City, Utah 844102

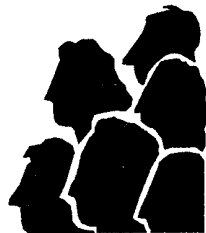
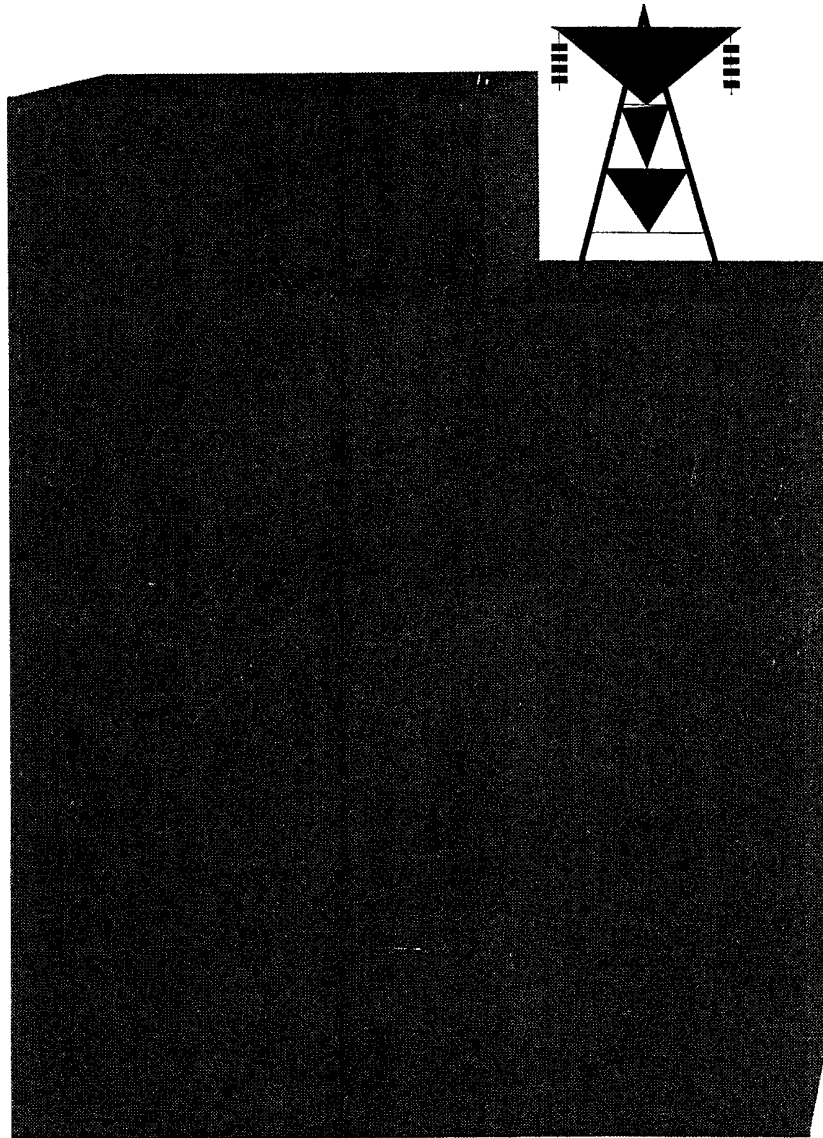
Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, Utah 84102

Paul T. Morris
3600 Constitution Boulevard
West Valley City, Utah 84119



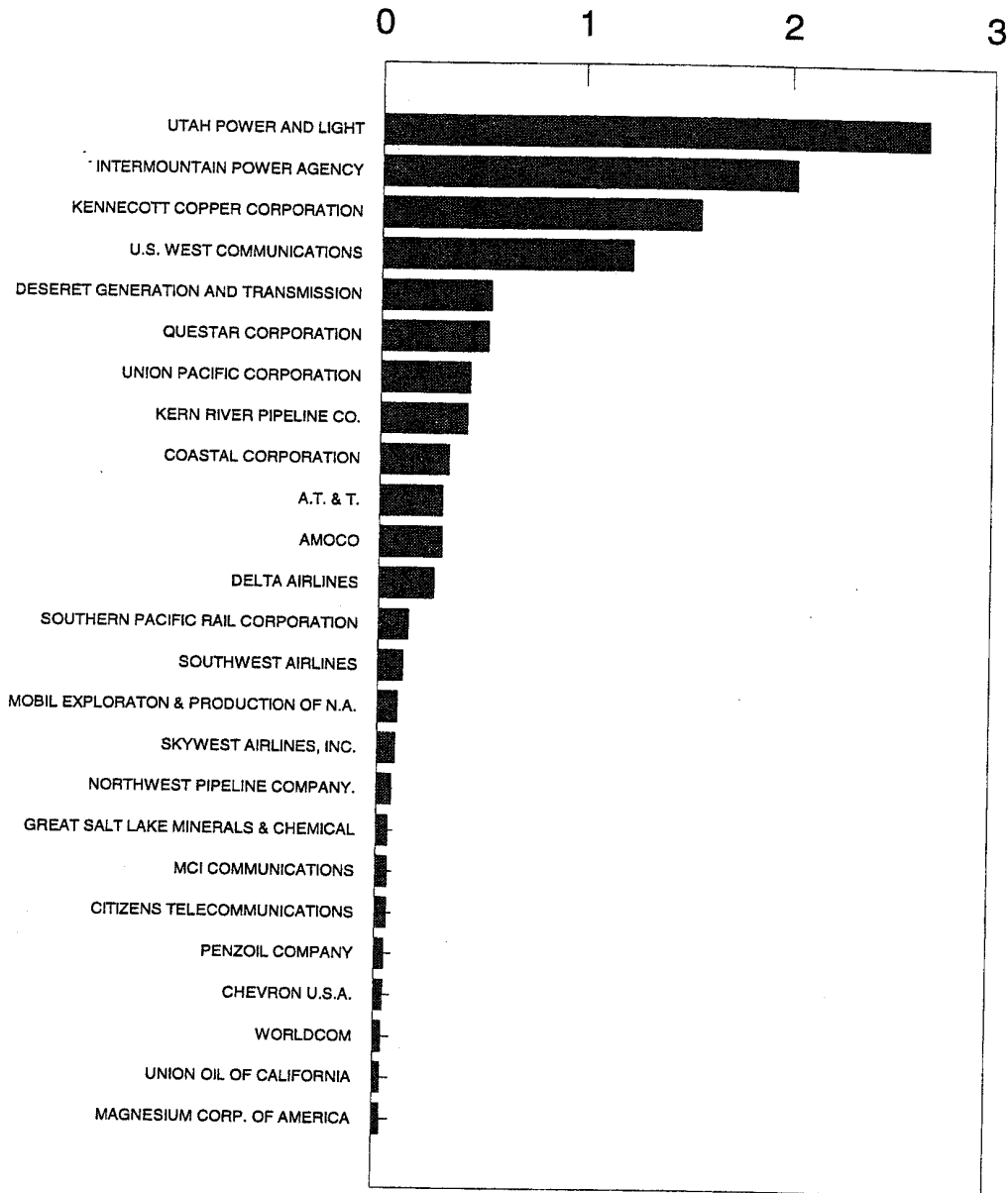
Bill Thomas Peters

1996 ANNUAL STATISTICAL REPORT PROPERTY TAX DIVISION UTAH STATE TAX COMMISSION



**LOCAL, PERSONAL AND CENTRALLY ASSESSED PROPERTY
PREPARED BY RUDY GONZALES,
SENIOR RESEARCH ANALYST**

GRAPH 36 - TAXABLE VALUE FOR UTAH'S 25
LARGEST CENTRALLY ASSESSED COMPANIES FOR 1996



TAXABLE VALUE IN BILLIONS
SOURCE: UTAH STATE TAX COMMISSION, PROPERTY TAX DIVISION.

**TABLE 16 - THE LARGEST CENTRALLY ASSESSED COMPANIES
FOR EACH OF UTAH'S COUNTIES FOR THE 1996
ASSESSMENT YEAR**

COUNTY NAME	COMPANY NAME
BEAVER	PACIFICORP(Utah Power & Light)
BOX ELDER	PACIFICORP(Utah Power & Light)
CACHE	U.S. WEST COMMUNICATIONS
CARBON	PACIFICORP(Utah Power & Light)
DAGGETT	QUESTAR CORPORATION
DAVIS	U.S. WEST COMMUNICATIONS
DUCHESNE	PENNZOIL COMPANY
EMERY	PACIFICORP(Utah Power & Light)
GARFIELD	SOUTH CENTRAL UTAH TELEPHONE
GRAND	PACIFICORP(Utah Power & Light)
IRON	KERN RIVER PIPELINE CO.
JUAB	KERN RIVER PIPELINE CO.
KANE	GARKANE POWER ASSOC.
MILLARD	INTERMOUNTAIN POWER AGENCY
MORGAN	KERN RIVER PIPELINE CO.
PIUTE	PACIFICORP(Utah Power & Light)
RICH	QUESTAR CORPORATION
SALT LAKE	KENNECOTT CORP.
SAN JUAN	MOBIL
SANPETE	PACIFICORP(Utah Power & Light)
SEVIER	COASTAL CORPORATION
SUMMIT	AMOCO
TOOELE	UNION PACIFIC CORPORATION
UNITAH	DESERET GENERATION AND TRANS.
UTAH	U.S. WEST COMMUNICATIONS
WASATCH	DESERET GENERATION AND TRANS.
WASHINGTON	PACIFICORP(Utah Power & Light)
WAYNE	GARKANE POWER ASSOC.
WEBER	PACIFICORP(Utah Power & Light)

**SOURCE: UTAH STATE TAX COMMISSION, PROPERTY TAX
DIVISION.**

10777

Steven W. Allred
Salt Lake City Legal Department
451 S. State, Suite 505
Salt Lake City, Utah 84111

RECEIVED

APR 28 8 29 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, Utah 84102

REVIEWED BY COMMISSIONERS
STEPHEN F. MEGNAM SFM
CONSTANCE B. WHITE CBW 4/30
CLARK D. JONES CJ 4/30

Paul T. Morris
3600 Constitution Blvd.
West Valley, Utah 84119

Special Counsels for the Utah League of Cities and Towns

(I -BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the Matter of the Application)
of PacifiCorp and Scottish Power)
Plc for an Order Approving the)
Issuance of PacifiCorp Common)
Stock)

DOCKET NO. 98-2035-04

**ULCT'S RESPONSE
TO APPLICANT'S ISSUES
MEMORANDUM**

INTRODUCTION

In its April 2, 1999 Supplemental Scheduling Order, the Commission directed PacifiCorp and Scottish Power plc (the "Applicants") to submit a memorandum identifying those issues which the Applicants assert are beyond the scope of the current proceeding before the Commission and those issues where the Applicants assert that other parties have the burden of proof. On April 12, 1999, the Applicants filed such a memorandum. Pursuant to the April 2, 1999 Supplemental Order, the Utah League of

Cities and Towns (“ULCT”), a designated intervenor in this proceeding submits the following response memorandum.

RESPONSE

Municipal Self-Determination **(Paragraph 3 of Applicants’ Issues Memorandum).**

In asserting that these issues are beyond the scope of these proceedings, PacifiCorp and Scottish Power have either misunderstood or mischaracterized the “municipalization” or “self determination” issues raised by the Utah League of Cities and Towns. Both their memorandum and statements made during hearings would have the PSC believe that an esoteric policy debate over the relative virtues of public versus private electrical power is being raised by ULCT. Such is not the case and ULCT agrees that such a debate is more appropriate in a different forum. Rather, the ULCT, submits that the issues of “municipalization” or “self determination” are issues that are germane, if not essential to the Commission’s consideration on the proposed merger.

Utah’s municipalities are vested with a constitutional authority to provide for delivery of public services to their constituencies. Art XI, Sec. 5(c), Constitution of Utah. *See also* City of Logan v. Utah Power & Light, 796 P.2d 697 (Utah 1990). Indeed, prior to operating within the incorporated boundaries of any Utah municipality, utilities must obtain a franchise from the city or town. Constitution of Utah Art XII, Sec 8. *See also* Utah Code Ann. § 54-4-25 (4)(a).

Concerns over the prior UP&L/PacifiCorp merger and whether that merger did, in fact, provide a net benefit to cities and towns increased the awareness among Utah cities over the need to examine all available alternatives – including authorization of other providers or even providing services themselves. Similarly, the Commission cannot

make a determination that the proposed merger is in the best interest of the residents of the State of Utah without examining both the available alternatives to such a merger and the consequences of such a merger. The League's issues are vital to both such issues.

Municipalities have independent authority regarding the presence of a public utility within their borders and if the proposed merger is approved, cities and towns will, by necessity, carefully examine their current franchise authorizations with PacifiCorp (or in some cases, with Utah Power and Light.). That action may well result in decisions to renegotiate or repeal current franchises. The status of these agreements varies greatly among locations: some are due to expire shortly, others do not provide for successor authorization, some may not actually have an agreement (although the individual cities and towns have never waived their authority to require one), and others were entered into so long ago and under terms, or parties, so different from the present circumstances as to be unenforceable.¹

For the Commission to undertake a review of a proposed utility merger and not consider the role of franchise-authorizing entities such as Utah's cities and the possibility of alternative methods of providing electrical services would on its face appear to vitiate the net-benefits standard already outlined by the Commission.

Applicants, somewhat disingenuously, argue that the Commission lacks the authority to require the granting of an option to acquire Applicants' distribution system as a condition of the merger. Frankly speaking, Applicants know better. The Commission's attention is invited to Utah Power & Light v. Public Service Commission of Utah, 712

¹ ULCT and its members do not suggest that the PSC has jurisdiction over franchise-related matters but submit that an orderly forum for the issues related to the viability of the merger are in the interest of all parties. The issues raised by the ULCT are such issues.

P.2d 251 (Utah 1985) in which the Supreme Court held, in the context of a sale of the CP National system to UP&L:

UP&L further concedes that the Commission had the authority to require it to extend options to the municipalities to acquire CPN's distribution system within their corporate limits. . . As a concomitant of its authority to require the option to be granted in the first instance, the PSC had the authority to later require that the option be extended.

It cannot be gainsaid that, given a virtually identical factual scenario, the Commission concluded, and the Supreme Court affirmed, that the Commission does have the jurisdictional authority to require options to acquire Applicant's distribution system.² Until discovery is complete, it is not possible to determine if such options are desirable, either for the municipalities or for the State of Utah. However, even if such options are later determined to be contrary to the various interests represented in these proceedings and to the net-benefits standard applicable herein, the Commission may well determine that some of the benefits derived from the granting and/or exercise of the options may be provided by other means.

For instance, even if it determined that an option is not appropriate, the Commission may determine that municipalities should be given a right of first refusal if Applicants make an effort to sell some or all of its distribution system; the Commission may wish to ensure that Utah municipalities derive the benefit that is provided to any other municipalities within the Applicants' service area; and the Commission may want to ensure that the operation of the Applicants' system is consistent with long term

² It is noteworthy that in Paragraph 4 of Applicants' Issues Memorandum, Applicants argue that competition is not among the issues that should be considered by the Commission. ULCT disagrees. Based upon the lack of net-benefits from the last merger, the Commission is duty bound to examine the likelihood of municipal competition and its overall effect on the future viability of the proposed merger. See CP National, *supra*.

economic development and planned growth within Utah's municipalities rather than act as a barrier to that growth and development.

Work Force/Local Control/Economic Development
(Paragraph 1.c. of Applicants' Issues Memorandum)

The ULCT along with other parties has raised issues regarding the impact the potential for the continued loss of local management and control over Utah utility operations. The very fact that Applicants fail to acknowledge the importance of this issue is the reason why it is so important. ULCT proffers that the testimony will demonstrate that prior to the Utah Power & Light merger with PacifiCorp, municipal/electrical utility issues were resolved locally between individuals and entities that had a well-defined commonality of interests. That same testimony will equally demonstrate that, subsequent to the merger, there was a material and substantial depreciation in those common interests and the ability to resolve them informally, efficiently and expeditiously. That pattern, through the Commission's inaction, should not be encouraged. The fear of even greater loss of local control is all the more given that the power structure, once removed from Utah, is not simply in a neighboring state but in another country. Similar to the self-determination issues raised *supra*, if municipalization were to take place, local control would be assured. There is no apparent reason why, even if the claim for municipalization is later discarded, the benefits associated with such option, i.e. local control, should not be realized through the Commission's application of the net-benefits standard.

Similarly, municipalities are at the forefront of the economic development efforts of the State of Utah. ULCT's interest in assuring that the operation of the electric utility

within its members' borders provide not only efficient, reliable and affordable utility service but that such utility act as component part of increased and improved development and planning efforts. It is in the interest of ULCT members, the State of Utah and the Applicants to foster efforts of sound economic development and planned community growth. Applicant should be required to demonstrate their willingness to do so and, by such efforts, Applicants facilitate a finding of net-benefit. Similar to the issue of local control, *supra*, these efforts could be managed under a concept of municipalization and if such a concept is not furthered, ULCT members should not be in a position of having a utility less willing to provide such efforts than would be provided by a municipally-run utility. Such loss of effort would constitute a net-loss rather than a net-benefit.

Undergrounding and Related Issues
(Paragraph 1.e. of Applicants' Issues Memorandum)

Applicants further demonstrate an apparent lack of understanding and/or interest in the issues related to sound community development when they seek to place the burden upon the ULCT to evidence the relevance of undergrounding as part of these proceedings. As set forth in the immediately preceding section, the developmental interests of ULCT members and the State of Utah dictate that growth and development be directed by sound economic and planning goals not by the self-interests of Applicants. To the extent that overhead lines militate against that orderly development, the larger interests of the public must subsume the interests of the Applicants. The Commission is respectfully advised that neither this Commission nor the Legislature of the State of Utah may preempt the

governance of municipal street vis-à-vis Applicants use thereof. The Constitution is clear:

No law shall be passed granting the right to construct and operate a street railroad, telegraph, telephone or electric light plant within any city or incorporated town, without the consent of the local authorities who have control of the street or highway proposed to be occupied for such purposes.

Constitution of Utah Art. XII, Sec 8.

Given this broad grant of local control, most municipalities have granted franchises to Utah Power & Light or PacifiCorp. Those franchises dictate that the Company will, upon the request of the municipality, relocate or reinstall any property of the Company at the Company's expense. The municipalities presently have the constitutional and contractual ability to mandate removal of the Company's property from municipal property. However, the language is even greater than the issue of relocation of lines and poles.

The Constitutional provision dictates that a utility may not operate "within any city or town" without the consent of the city or town. That consent may be granted or withheld within the discretion of municipality. The granting or withholding of this right may have a profound effect upon the Applicants' system wide service efficiency and economy and accordingly, cannot be ignored by the Commission in determining if there is a net benefit resulting from the merger. Currently, PacifiCorp has refused to consider undergrounding its facilities except at the expense of the municipality. If Scottish Power takes the same position, the proposed merger offers no change in that position *ipso facto* offers no net benefit. If, on the other hand, Scottish Power demonstrates an acknowledgment of municipal authority and a willingness to be integral to sound municipal planning rather than an impediment, it has, in the view of the municipalities,


demonstrated a material net benefit – one which helps sustain the standard for this merger.

CONCLUSION

Applicants appear to presenting the position that the only matters which may be reasonably considered by this Commission are those related to the economics of the merger. ULCT respectfully submits that such was the primary basis of review for the UP&L/PacifiCorp merger and such a minimalist approach has been adequately shown, through time and experience, to be folly. Indeed, the primary reason that Utah's municipalities have chosen to intervene in this proceeding is due to the failure to assess these issues in that prior merger. The decision regarding the corporate identity and characteristics of the primary provider of electrical service to the residents of the State of Utah and to the ULCT members should be one of not only economics, but of corporate citizenship and an affirmative approach to problems facing its customers, including ULCT members.

It is disconcerting that Applicants argue that these matters of substantial import to its municipal customers and their residents are not issues that Applicants view as appropriate for Commission consideration. That fact, in and of itself, suggests that great scrutiny needs to be given to the nature and quality of the service to be delivered by PacifiCorp's successor. In the event that the successor's corporate approach to the concerns, issues and constitutional authority of ULCT members does not differ from those of PacifiCorp, it would be difficult for ULCT to find the net benefit required for merger approval.

DATED this 27th day of April, 1999.



~~STEVEN W. ALLRED~~
Special Counsel

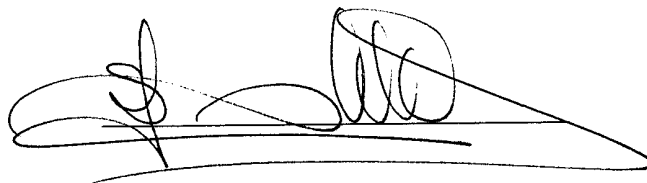
F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
Randle Deamer Zarr Romrell &
Lee P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, UT 84107

Matthew F. McNulty III
Van Cott Bagley Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke at the bottom.

16584

Edward A. Hunter
STOEL RIVES LLP
201 South Main, Suite 1100
Salt Lake City, Utah 84111-4904
Telephone: (801)578-6936

RECEIVED

APR 13 8 28 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Attorneys for PacifiCorp

Brian W. Burnett
CALLISTER NEBEKER & McCULLOUGH
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, Utah 84133
Telephone: (801) 530-7428

REVIEWED BY COMMISSIONERS

STEPHEN F. MEDHAM *SM*
CONSTANCE D. WHITE *CDW* 3/17/99
CLARK D. JONES *CJ* 4/21/99

Attorneys for Scottish Power plc

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application	)	DOCKET NO. 98-2035-04
of PacifiCorp and Scottish Power)	
plc for an Order Approving the	)	APPLICANTS' ISSUES
Issuance of PacifiCorp Common	)	MEMORANDUM
Stock)	

In its April 2, 1999 Supplemental Scheduling Order, the Commission directed PacifiCorp and Scottish Power plc (the "Applicants") to submit a memorandum identifying the issues which are beyond the scope of this proceeding and the issues for which other parties have the burden of proof. Pursuant to the direction of the Commission, the Applicants submit the following memorandum.

ISSUES BEYOND THE SCOPE OF THESE PROCEEDINGS

The Applicants believe that a number of the issues identified in the parties' issues statements are not relevant to the Commission's analysis of the proposed transaction. The Applicants request that the Commission exclude the following issues: Industry Restructuring, Annexation, Municipalization and Competition. These issues are not only irrelevant to the Commission's analysis, they are also beyond the scope of the Commission's jurisdiction, would substantially expand the scope of this proceeding and reflect, in some instances, an attempt to use this proceeding to achieve the resolution of pre-existing disputes on more favorable terms than those available under current law.

1. Industry Restructuring.

The Large Customer Group, the Utah Industrial Energy Consumers ("UIEC"), the Office of Energy and Resource Planning ("OERP") and the Land and Water Fund of the Rockies seek to include industry restructuring issues in this proceeding.¹ The rate unbundling, transmission reform, regional grid management and other restructuring topics raised by those parties have already been the subject of multi-year analyses by the Commission, in Docket No. 96-999-01, and by the Electrical Deregulation and Customer Choice Task Force ("Task Force") of the Utah legislature.

In its 1998 Report to the legislature, the Task Force declined to adopt a proposed option that would have authorized the Commission to take responsibility for electrical

¹While the Division of Public Utilities and Committee of Consumer Services identified several restructuring topics in their issue statements, they have informed Applicants that they no longer believe that restructuring should be an issue in this proceeding.

restructuring in the state. Despite the efforts of some of the parties who have raised deregulation issues in this case, the legislature also failed to adopt restructuring legislation, instead directing the Commission to assist the Task Force in its analysis of electrical restructuring. See SB 15, enacting Utah Code Ann. Sections 54-7-12.5 and 54-7-12.7. Since it is clear that restructuring issues will be resolved by the Utah legislature, and since the legislature has yet to decide the future of restructuring in Utah, the Applicants submit that restructuring issues have no place in this proceeding.

2. Annexation

The Utah Associated Municipal Power Systems ("UAMPS") has identified the annexation of PacifiCorp's facilities, specifically including the "pricing and timing" of those annexations, as an issue in this proceeding. Under the provisions of Utah Code Ann. Section 10-2-421, a municipality cannot begin serving customers in a newly annexed area until it has reimbursed the current utility service provider for the "fair market value" of its facilities. If the parties cannot agree on the fair market value, it is determined by the state courts.

Even assuming that the Commission had the requisite authority to assume the role delegated by statute to the courts, this is certainly not a proceeding in which the Commission could perform the extensive factual analysis required under Utah law to determine "fair market value". *Logan City v. Utah Power & Light*, 796 P.2d 697 (Utah 1990); *Strawberry Electric Service District v. Spanish Fork City*, 918 P.2d 870 (Utah 1996). The price and timing for annexations has already been resolved by the Utah legislature and those issues are not within the jurisdiction of the Commission, or within the scope of this proceeding.

3. Municipalization

The Utah League of Cities and Towns has identified municipal self-determination as an issue in this proceeding. In recent years, the Utah Supreme Court has emphasized that the Commission has only those powers granted to it by statute. *High-Country Estates Homeowners Ass'n v. Bagley & Co.*, 901 P.2d 1017 (Utah 1995); *see also Williams v. Public Serv. Comm'n*, 754 P.2d 41 (Utah 1988). There is no statute which grants the Commission authority to address municipal self-determination.

The Commission lacks authority to require the involuntary transfer of utility property to a municipality under the rubric of granting an option. The power of eminent domain is a legislative power and the Utah Legislature has not granted that power to the Commission. *See, e.g., Missouri v. Dodge*, 878 S.W. 2d 819 (Miss. 1994).

The Commission also lacks the authority to create or modify municipal rights of self-determination. A municipality's right to acquire utility property is a matter of statute and contract which is not within either the jurisdiction of the Commission, or the scope of this proceeding.

4. Competition

Desert Generation & Transmission and its members ("DG&T") and the UIEC have identified unspecified potential anti-competitive effects of the transaction as an issue in this proceeding. Applicants submit that the recent action of the Federal Trade Commission establishes that competition is not an issue in this proceeding.

Pursuant to the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, Applicants have made a filing regarding the proposed transaction with the Federal Trade

Commission ("FTC"). On February 12, 1999, less than 30 days after the filing was submitted to the agency, the FTC granted the Applicants' request for early termination of the waiting period. This action allows the transaction to proceed without FTC conditions.

Since, unlike the *CP National* case or the *Utah Power/PacifiCorp* merger, this transaction does not involve the acquisition of additional service territory, customers or facilities, that expeditious resolution is not surprising. After the transaction, PacifiCorp will continue to provide service to the same customers, in the same service territory, using the same facilities and subject to the continuing jurisdiction of this Commission. Under the facts of this transaction, there is no legitimate issue regarding any potential anti-competitive effects of this transaction.

ISSUES ON WHICH OTHER PARTIES HAVE THE BURDEN

1. Issues Outside the Commission's Jurisdiction

In its March 31, 1999 Memorandum in this proceeding, the Commission quotes from its Report and Order in Docket No. 87-035-27 (the *Utah Power/PacifiCorp* merger) as follows:

"With respect to considerations outside our normal regulatory jurisdiction and enforcement powers . . . which nonetheless bear on the public interest, Applicants bear no affirmative burden to demonstrate benefits or even an absence of harm. In those areas other parties will carry the burden of demonstrating either some benefit or some substantial harm by reason of the merger. However, Applicants do carry the burden in all areas subject to our jurisdiction to show that on balance the merger will be beneficial and those areas will be our primary focus in the case."

The following issues are not relevant to this proceeding and, based upon the standard set forth above, the Applicants submit that other parties have the burden of proof on the following issues.

a. Hunter Plant Costs

DG&T and UAMPS have raised issues regarding the impact of the transaction on their costs under the Hunter Plant contracts. The Applicants submit that the Hunter Plant cost issues are a matter of contract, are irrelevant to this proceeding and outside the jurisdiction of the Commission. However, to the extent the Commission permits parties to address the issues, DG&T and UAMPS should have the burden to demonstrate how the transaction would impact their contract rights and why that is an issue relevant to this proceeding.

b. Fair Market Value of PacifiCorp's Facilities

Emery County has raised issues regarding the impact of the transaction on the fair market value of PacifiCorp's facilities. The Applicants submit that the issue is irrelevant and outside the jurisdiction of the Commission. Valuation issues involving PacifiCorp's property taxes are matters handled by the Utah State Tax Commission. However, to the extent the Commission permits parties to address the issue, Emery County should have the burden to demonstrate how the transaction would impact the fair market value of facilities and why that issue is relevant to this proceeding.

c. Work Force/Local Control/Economic Development/Coal Company

The Department of Community and Economic Development, the Board of Business and Economic Development, UAMPS , the Utah League of Cities and Towns and the Division of Public Utilities ("DPU") have raised several issues which address the impact of the transaction on the Utah economy, including the impact on economic development, the Utah workforce, local control and the coal industry. Although Applicants' Direct Testimony

addresses some of those issues, they generally involve considerations which fall outside the Commissions' normal regulatory jurisdiction and enforcement power. As a result, those are not issues on which the Applicants have the burden.

d. Environmental Issues

The Land and Water Fund of the Rockies, the Committee of Consumer Services ("CCS") and the OERP have raised environmental issues, including regional haze and carbon emission issues. Other agencies have the responsibility to develop and enforce environmental restrictions. Therefore, Applicants submit that those issues are irrelevant and outside the jurisdiction of the Commission. However, to the extent that the Commission allows the parties to address those issues, the Land and Water Fund and OERP should have the burden to show how the transaction could have an impact on those issues and why they are relevant to this proceeding.

e. Undergrounding and Related Issues

The Utah League of Cities and Towns has raised the aesthetics of existing facilities and undergrounding as issues in this case. The Utah Legislature has recently adopted a statute which, in part, establishes the Electrical Facility Review Board to resolve issues regarding the construction and installation of transmission lines and substations. See Utah Code Ann. Section 54-14-101 et. seq. Therefore, Applicants submit that those issues are irrelevant to this proceeding and outside the jurisdiction of the Commission. However, to the extent that the Commission allows the parties to address those issues, the League should have the burden to show why the transaction impacts those issues and why they are relevant to this proceeding.

2. Speculative Issues

The parties have raised, in relatively cursory fashion, some issues which require speculation regarding future events, including potential changes in the existing statutory framework. Applicants submit that the parties who raised those issues should have the burden to show that the transaction has either a beneficial or harmful impact on those issues.

a. Divestiture

UAMPS has raised the possible future divestiture of assets as an issue in this case. The Applicants have stated that, with the exception of the sale of the California service territory and the potential sale of the Centralia Plant, there is no intention to sell assets. We do not see what else could be said. In addition, Commission rules already establish a separate procedure for any future divestiture activities. See Commission Rule R746-401. However, if UAMPS believes that representation and that process are insufficient, it should have the burden to show why the transaction will have an impact on that issue.

b. Creation of Separate Business Units

The DPU has raised the possible separation of PacifiCorp into separate distribution, transmission and generation entities as an issue in this case. The Applicants have stated that they have no intention to create separate distribution, transmission and generation entities. The DPU should have the burden to show why the transaction will have an impact on that issue.

c. PUHCA

The DPU has raised the possible repeal of PUHCA as an issue in this case. The DPU should have the burden to show why the transaction will have an impact on that issue.

d. Special Contracts

In their filing on March 31, 1999, the Large Customer Group and UIEC identified the impact of the transaction on the offer, renewal, availability and terms of special contracts as additional issues in this proceeding. The Applicants have already stated that they will honor all existing contractual obligations. The potential terms and conditions of future special contracts are not only speculative and subject to Commission approval in a separate process, they are also the subject of a current Commission task force process.

In its March 4, 1999, Order in Docket No. 97-035-01, the Commission created a task force to examine the regulatory criteria for the examination and approval of special contracts. That process and future Commission action based on the task force recommendations, not this proceeding, will determine the offer, renewal, availability and terms for future special contracts in Utah.

e. Certificate Transfer

DG&T has suggested that "adjustments" to "certificated service areas" should be an issue in this proceeding. DG&T and its members have, for a number of years, sought unsuccessfully to acquire portions of PacifiCorp's service territory. They now seek to use this case as leverage to attain that goal. The Commission should reject that effort. If DG&T believes that it has a legitimate basis for a certificate transfer request, DG&T can, as it has in the past, bring that request to the Commission in a separate case where its merits can be

analyzed under the standards adopted by the Utah courts. *See e.g. Empire Elec. Ass'n v. P.S.C.*, 604 P.2d 930 (Utah 1979).

3. Proposed Conditions

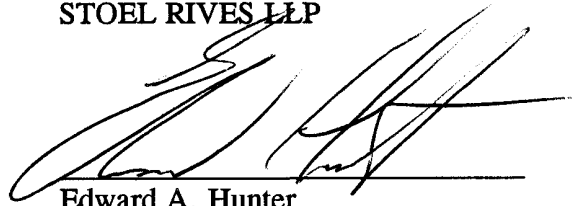
A number of parties have identified the imposition of conditions, incentives or penalties on the approval of the transaction as issues in their issue statements. The Applicants submit that the party who proposes a condition, incentive or penalty has the burden to show that it is required, is consistent with the public interest and is within the Commission's regulatory and enforcement authority.

4. Discovery

Some of the parties, including the CCS and Emery County, have structured their issue statements in large part as discovery documents. For example, Emery County's issue statement includes a series of questions regarding how PacifiCorp was "valued by Scottish Power when the merger price was determined?" To the extent those queries are relevant to this proceeding, the Applicants could respond to them in the discovery process. However, the Applicants submit that those discovery questions are not "issues" for which Applicants have the burden of proof in this proceeding.

Respectfully submitted this 12 th day of April, 1999.

STOEL RIVES LLP

A handwritten signature in black ink, appearing to read 'Edward A. Hunter', written over a horizontal line.

Edward A. Hunter
Attorneys for PacifiCorp

CALLISTER, NEBEKER & McCULLOUGH

A handwritten signature in black ink, appearing to read 'Brian W. Burnett', written over a horizontal line.

Brian W. Burnett
Attorneys for Scottish Power plc

CERTIFICATE OF SERVICE

I hereby certify that I caused the foregoing Issue Memorandum of PacifiCorp and Scottish Power PLC to be served upon the following persons by mailing a true and correct copy of the same, postage prepaid, to the following on the 12th day of April, 1999.

Michael Ginsberg
Assistant Attorney General
Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Service
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Peter J. Mattheis
Matthew J. Jones
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Bill Thomas Peters
David W. Scofield
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, UT 84111

F. Robert. Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street
P.O. Box 45898
Salt Lake City, UT 84145-0898

Roger O. Tew
60 South 600 East Suite 200
Salt Lake City, UT 84102

Lee R. Brown
Vice President
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, UT 84111-1536

Eric Blank
Law Fund Energy Project
2260 Baseline Rd., Suite 200
Boulder, CO 80302

Matthew F. McNulty III
Van Cott Bagley Cornwall & McCarthy
50 S. Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145


Steven W. Allred
Salt Lake City Law Department
451 S. State, Suite 505
Salt Lake City, UT 84111

Paul T. Morris
3600 Constitution Blvd.
West Valley City, UT 84119

Stephen R. Randle
Randle Deamer Zarr Romrell & Lee P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, UT 84107



DOCKETED

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for)
an Order Approving the Issuance of)
PacifiCorp Common Stock)

DOCKET NO. 98-2035-04
SUPPLEMENTAL
SCHEDULING ORDER

ISSUED: April 2, 1999

By The Commission:

After considering the parties' comments and discussion, made at the hearing on April 2, 1999, relating to the issues previously identified through the parties' Issue list submissions and the matters identified in the Commission's Memorandum to the parties, dated March 31, 1999, the Commission issues this supplemental scheduling order to supplement the schedule previously established by our Scheduling Order issued February 8, 1999.

We supplement the existing schedule for this docket as follows:

1. On April 12, 1999, PacifiCorp and Scottish Power plc (hereafter Applicants) shall file with the Commission and serve upon all parties a filing/memorandum in which the Applicants shall identify all issues, which have previously been identified in any of the parties' Issue list submissions, that the Applicants contend are irrelevant to the considerations which the Commission must make in determining whether to grant or deny the Applicants' Joint Application. The Applicants shall provide their reasons and argument supporting the Applicants' position that an identified issue is irrelevant. To the extent that relevancy or burden of proof may be fact dependent, the Applicants shall identify the factual circumstances in which the Applicants

contend the issue is irrelevant.

2. In the April 12, 1999, filing/memorandum, the Applicants shall also identify those issues which are relevant to the Commission's consideration, but for which the Applicants contend other parties, rather than the Applicants, have the burden of proof. To the extent that the burden of proof may be fact dependent, the Applicants shall identify the factual circumstances in which the Applicants contend the burden of proof is born by a party other than the Applicants.

3. On April 29, 1999, other parties shall file with the Commission and serve upon all parties responsive filings/memoranda which respond to the Applicants' April 12, 1999, filing/memorandum. The responsive filings/memorandum shall provide the responding party's reasons and argument for any position contrary to the Applicants' position on the relevancy of an issue or the burden of proof for an issue. To the extent that relevancy or burden of proof may be fact dependent, the response shall identify the factual circumstances in which the party contends the issue is relevant or the burden of proof is born by the Applicants. The responsive filings/memorandum may also provide the responding party's reasons and argument in support of the Applicants' position on the relevancy of an issue or the burden of proof for an issue.

4. The Commission has set further hearing upon the April 12 and 29, 1999, filings/memoranda for May 4, 1999, at 9:00 a.m., in the Commission's main hearing room #426, fourth floor, Heber M. Wells Building, 160 East Third South, Salt Lake City, Utah.


In compliance with the Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communicative aids and services) during this hearing should notify Julie Orchard, Commission Secretary, at 160 East 300 South, Salt Lake City Utah 84111,

(801) 530-6713, at least three working days prior to the hearing.


DATED at Salt Lake City, Utah, this 2nd day of April, 1999.



Stephen F. Mecham, Chairman




Constance B. White, Commissioner



Clark D. Jones, Commissioner

Attest:



Julie Orchard
Commission Secretary

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

PETER J. MATTHEIS, MATTHEW J. JONES, &
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

Mail Envelope Properties (37055225.2D6 : 8 : 11628)

Subject: 98-2035-04 Supplemental Scheduling Order, PacifiCorp/Scottish Power
Creation Date: Fri, Apr 2, 1999 4:26 PM
From: Public Service Commission
Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
inet	Transferred	04/02 4:26 PM
"AlanA@qstr.com" BC ("AlanA@qstr.com".inet		
"brianburnett@cnmlaw.com" BC ("brianburnet		
"cdsjoberg@stoel.com" BC ("cdsjoberg@stoel		
"CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE		
"coadmin@grand.state.ut.us" BC ("coadmin@g		
"eahunter@stoel.com" BC ("eahunter@stoel.c		
"edwarddm@kutv2.com" BC ("edwarddm@kutv2.c		
"gad@pwlaw.com" BC ("gad@pwlaw.com".inet)		
"gbmonson@stoel.com" BC ("gbmonson@stoel.c		
"gkratz@desnews.com" BC ("gkratz@desnews.c		
"janhull@trilliumusa.com" BC ("janhull@tri		
"jim-matheson@leavitt.com" BC ("jim-mathes		
"jwoody@union-tel.com" BC ("jwoody@union-t		
"kdyk@energystrat.com" BC ("kdyk@energystr		
"marie.malone@pacificorp.com" BC ("marie.m		
"mgillman@pblutah.com" BC ("mgillman@pblut		
"mmculty@vancott.com" BC ("mmculty@vanco		
"newsdesk@kutv2.com" BC ("newsdesk@kutv2.c		
"Phila77808@aol.com" BC ("Phila77808@aol.c		
"steve@sltrib.com" BC ("steve@sltrib.com".		
"togaard@utw.com" BC ("togaard@utw.com".in		
bear.com	Transferred	04/02 4:26 PM
sschefrin (Scott-sschefrin Schefrin-@bear		
br.state.ut.us		
BRMAIN.BRCMRC	Delivered	04/02 4:27 PM
BGARDNER BC (Barbara Gardner)	Opened	04/05 8:23 AM
CMOWER (Carl Mower)		
CMURRAY BC (Cheryl L. Murray)	Opened	04/02 4:28 PM
DGIMBLE BC (Dan Gimble)	Opened	04/05 9:26 AM
DHANSON (Darrell Hanson)	Opened	04/05 8:14 AM
DHANSON- (Diana Hanson-Steadman)	Opened	04/05 10:35 AM
DMILLER BC (Dennis Miller)	Opened	04/05 8:38 AM

IHENNING (Ingo Henningsen)	Opened	04/05 10:46 AM
KFRANCON (Kelly A. Francone)		
LALT BC (Lowell Alt)	Opened	04/05 8:17 AM
LLINEBAR (Laura Linebarger)		
MHOVINGH (Margo Hovingh)	Opened	04/02 5:01 PM
PBULLOCK (Phil Bullock)	Opened	04/05 8:33 AM
RCAMPBEL BC (Ric Campbell)	Opened	04/05 10:57 AM
RCREER (Ralph Creer)	Opened	04/02 4:41 PM
WHUNTSMA BC (Wes Huntsman)	Opened	04/02 4:30 PM
ci.slc.ut.us	Transferred	04/02 4:26 PM
steven.allred (Steven Allred)		
ci.west-valley.ut.us	Transferred	04/02 4:26 PM
pmorris (Paul-pmorris Morris-@ci.west-val)		
dced.state.ut.us		
CEMAIN.CEDOMAIN	Delivered	04/02 4:26 PM
EMAESER (Earl Maeser)	Opened	04/05 8:49 AM
RMAYFIEL (Rick Mayfield)		
deseretgt.com	Transferred	04/02 4:26 PM
crabtree (David Crabtree)		
ect.enron.com	Transferred	04/02 4:26 PM
pkaufma (Lisa-pkaufma Enron-@ect.enron.co)		
energystrat.com	Transferred	04/02 4:26 PM
randerson (Rick-randerson Anderson-@energ)		
faralloncapital.com	Transferred	04/02 4:26 PM
Bdague (Bettina-Bdague Dague-@faralloncap)		
hollandhart.com	Transferred	04/02 4:26 PM
nruder (N Ruder)		
hubwest.com	Transferred	04/02 4:26 PM
gparichfield BC (Mike-gparichfield Peterso)		
inconnect.com	Transferred	04/02 4:26 PM
joro61 (Joro Walker)		
le.state.ut.us		
LELFA.LEDOMAIN	Delivered	04/02 4:26 PM
WGREER BC (William Greer)	Opened	04/05 11:18 AM

pacificorp.com anne.eakin doug.larson	Transferred	04/02 4:26 PM
pblutah.com bobreeder wevans	Transferred	04/02 4:26 PM
pdkplaw.com btp	Transferred	04/02 4:26 PM
perkinscoie.com reicl	Transferred	04/02 4:26 PM
scottishpower.plc.uk bob.green	Transferred	04/02 4:26 PM
sltrib.com lisac BC	Transferred	04/02 4:26 PM
state.ut.us PUPSC.ASPOSUPT	Delivered	04/02 4:26 PM
CJONES BC		
JHARVEY	Opened	04/05 8:02 AM
JLOGAN		
KANDERS3	Opened	04/02 4:36 PM
LSTHOMAS		
RCOLLINS		
SFMECHAM		
SMOOY BC	Opened	04/05 8:48 AM
state.ut.us ATMAIN.ATDOMAIN		
BFARR	Opened	04/05 9:10 AM
DTINGEY BC	Opened	04/05 9:09 AM
LNODA BC	Opened	04/05 10:06 AM
MGINSBER BC	Opened	04/05 10:15 AM
state.ut.us NROERP.NRDOMAIN	Delivered	04/02 4:27 PM
JGALANIS BC	Opened	04/05 8:39 AM
ulct.org robertew	Transferred	04/02 4:26 PM

Post Office	Delivered	Route
inet		
BRMAIN.BRCMRC	04/02 4:27 PM	bear.com br.state.ut.us ci.slc.ut.us ci.west-valley.ut.us
CEMAIN.CEDOMAIN	04/02 4:26 PM	dced.state.ut.us deseretgt.com ect.enron.com energystrat.com faralloncapital.com hollandhart.com hubwest.com inconnect.com
LELFA.LEDOMAIN	04/02 4:26 PM	le.state.ut.us pacificorp.com pblutah.com pdkplaw.com perkinscoie.com scottishpower.plc.uk sltrib.com
PUPSC.ASPOSUPT	04/02 4:26 PM	state.ut.us
ATMAIN.ATDOMAIN	Pending	state.ut.us
NROERP.NRDOMAIN	04/02 4:27 PM	state.ut.us ulct.org

Files	Size	Date & Time
16487.WPD	7856	Friday, April 2, 1999 4:16 PM

Options

Auto Delete:	No
Expiration Date:	None
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None

Concealed Subject:	No
Security:	Standard

To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED
APR 2 12 42 PM '99
UTAH PUBLIC
SERVICE COMMISSION

J. Walker

Signature

JONATHAN WALKER

Name (Type or Print)

11 WASSER ST., ARLINGTON, MA

Residence Address

Resource Insight, Inc.

Employer or Firm

347 Broadway, Cambridge, MA 02139

Business Address

Committee of Consumer Services

Party

March 24, 1999

Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Rachel Brailove
Signature

Rachel Brailove
Name (Type or Print)

75 Lowden Ave, Somerville, MA
Residence Address

Resource Insight, Inc.
Employer or Firm

347 Broadway, Cambridge, MA 02139
Business Address

Committee of Consumer Services
Party

March 24, 1999
Date

RECEIVED

APR 2 12 42 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED
APR 2 12 42 PM '99
UTAH PUBLIC
SERVICE COMMISSION

Susan C. Geller
Signature

Susan C. Geller
Name (Type or Print)

199 School St Pelina + MA
Residence Address

Resource Insight, Inc.
Employer or Firm

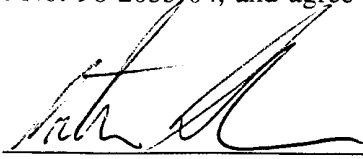
347 Broadway, Cambridge, MA 02139
Business Address

Committee of Consumer Services
Party

March 24, 1999
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.



Signature

Nathan Adams

Name (Type or Print)

36 Ames St. Apt. 2 Somerville, MA 02145

Residence Address

Resource Insight, Inc.

Employer or Firm

347 Broadway, Cambridge, MA 02139

Business Address

Committee of Consumer Services

Party

March 24, 1999

Date

RECEIVED

APR 2 12 42 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Paul Chernick
Signature

Paul Chernick
Name (Type or Print)

14 Somerset Rd, Lexington MA
Residence Address

Resource Insight, Inc.
Employer or Firm

347 Broadway, Cambridge, MA 02139
Business Address


Committee of Consumer Services
Party

March 24, 1999
Date

RECEIVED
APR 2 12 42 PM '99
UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.



Signature

ADAM AUSTER

Name (Type or Print)

10 Cottage Ave Arlington MA

Residence Address

Resource Insight, Inc.

Employer or Firm

347 Broadway, Cambridge, MA 02139

Business Address

Committee of Consumer Services

Party

March 24, 1999

Date

RECEIVED

APR 2 12 42 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.



Signature

NEIL H. TALBOT

Name (Type or Print)

81 GRAND ST.

NEW YORK NY 10013

Residence Address

SELF-EMPLOYED

Employer or Firm

SAME

Business Address

C. C. S.

Party

3/22/99

Date

RECEIVED

APR 2 12 42 PM '99

UTAH PUBLIC SERVICE COMMISSION

EXHIBIT "A"

RECEIVED

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

APR 2 12 42 PM '99
UTAH PUBLIC SERVICE COMMISSION

Peter Bradford
Signature

PETER A. BRADFORD
Name (Type or Print)

P.O. BOX 497, PERU, VT 05152
Residence Address

BRADFORD CONSULTING
Employer or Firm
BRADFORD ROAD, ROUTE 11
PO BOX 497, PERU, VT 05152
Business Address

C.C.S.
Party

3/23/99
Date

RECEIVED
APR 2 12 42 PM '99
UTAH PUBLIC SERVICE COMMISSION

RECEIVED

APR 2 12 41 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Kurt Blewald

Signature

KURT BLEWALD

Name (Type or Print)

6 Ashford St. Allston, MA 02134

Residence Address

Synapse Energy Economics, Inc.

Employer or Firm

22 Crescent St. Cambridge, MA 02138

Business Address

CCS

Party

3/28/99

RECEIVED

APR 2 12 41 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Bruce Biewald
Signature

Bruce Biewald
Name (Type or Print)

101 Chilton St., Cambridge MA 02138
Residence Address

Synapse Energy Economics, Inc.
Employer or Firm

22 Crescent St., Cambridge MA
Business Address

CCS
Party

3/23/99
Date

APR 2 12 41 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.


Signature

Jean Ann Ramsey
Name (Type or Print)

101 Chilton St., Cambridge MA
Residence Address

Synapse Energy Economics, Inc.
Employer or Firm

22 Crescent St, Cambridge MA
Business Address

CCS
Party

3/26/99

16464

Douglas C. Tingey, No. 5808
Assistant Attorney General
Committee of Consumer Services
Jan Graham, No. 1231
Utah Attorney General
160 East 300 South, 5th Floor
Salt Lake City, Utah 84111
Telephone: (801) 366-0338

RECEIVED

MAR 31 4 52 PM '99

UTAH PUBLIC
SERVICE COMMISSION

REVIEWED BY COMMISSIONERS

STEPHEN J. MOSE

CONSTANTINE J. MOSE

CLARK L.

[Handwritten signatures and initials]
COW 4/5
4/7

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the matter of the Application of	)	DOCKET NO. 98-2035-04
PACIFICORP and SCOTTISH POWER PLC)	
for an Order Approving the Issuance of	)	COMMITTEE OF CONSUMER
PACIFICORP Common Stock	)	SERVICES' STATEMENT OF
	)	ADDITIONAL ISSUES

Pursuant to the Commission's Order in this docket, the Committee of Consumer Services (the "Committee") submits this statement identifying additional issues to be considered in this matter.

Since filing of the parties' original issues lists, the Committee, and its recently retained consultants, have had the opportunity to analyze the direct testimony of the Applicants, and pursued a fair amount of discovery, and have met with representatives of the Applicants. Based on these steps the Committee and its consultants believe that at least two additional issues need to be raised: (1) the adequacy of the Applicants' initial filing; and (2) the proper burden of proof in this matter.

The Applicants' initial filing is almost completely devoid of any analysis of the magnitude of the alleged benefits and costs. Only two items are quantified: \$55 million in additional costs for customer service and system improvements over five years, and \$10 million

in corporate management savings. The \$55 million in additional costs was also proffered without any cost/benefit analysis, and ScottishPower has indicated that it cannot produce any plans as to how the \$55 million will be spent. That does not appear to be a net positive benefit. The Applicants have alleged that there will be other benefits and cost reductions, but have failed to quantify or analyze those alleged benefits and savings in any way. In response to numerous data requests on these subjects, the Applicants (primarily Scottish Power) have stated that they have not done the requested cost/benefit analysis, or do not have access to the data required to do the analysis.¹ The Applicants have therefore failed to quantify merger benefits in any meaningful way.

The repercussions of the deficiencies in the Applicants' filings are serious. First, if not corrected, the burden of proof may inappropriately switch to those parties examining the merits of the proposed merger. The Applicants have the burden to show net positive benefits, but if the deficient filings and lack of substantive responses to data requests are not remedied, the other parties will essentially be forced to disprove the unsupported assertions of the Applicants. That is not proper. Second, the parties are left without the ability to analyze this merger application to determine if it will produce net positive benefits. In the case of the Committee, it is seriously


¹ For example, discovery requests regarding total costs of the merger (CCS 3.6), effect on Pacificorp's bond rating and access to capital markets (CCS 3.3, 3.4), power supply changes (CCS 4.15, 4.16), compensation issues (CCS 4.13), transition plans (CCS 4.11, 4.12), manpower changes (CCS 4.9), and customer service technology implementation and costs (CCS 7.2, 7.4), all received responses indicating that no analysis had been done or could be done, and would not be done until after the merger. Perhaps the best example is CCS 3.12, seeking quantification of merger-related changes on PacifiCorp's annual, total budget for domestic (regulated) electric operations. A copy of the response, which states that it is not possible to quantify merger-related changes, is attached hereto as Exhibit "A".

hampered and perhaps prohibited from doing its statutory duty to represent the interests of the majority of PacifiCorp's residential and small business customers in Utah.

It is the Committee's understanding that the Scheduling Order in this matter allows the Applicants to remedy deficiencies in their initial testimony by filing additional testimony on April 14, 1999. The Committee requests that the Commission direct the Applicants to file testimony containing concrete cost/benefit analysis of all costs and benefits the Applicants claim will result from this merger. The Committee also requests direction to the Applicants to provide substantive responses, including cost/benefit analysis when appropriate, to data requests dealing with issues identified in this matter.

If the Applicants can remedy the deficiencies in their initial filing, the following additional issue should also be addressed: For each of the benefits claimed, why could those benefits not be obtained through actions other than the merger? That is, the Applicants should demonstrate in detail, and with concrete numerical analysis, whether some or all of the alleged benefits could be achieved by means other than the merger.

Dated this 31st day of March, 1999.



Douglas C. Tingey
Assistant Attorney General
Committee of Consumer Services

PUBLIC SERVICE COMMISSION OF UTAH

Docket No. 98-2035-04

**COMMITTEE OF CONSUMER SERVICES THIRD DATA REQUEST
TO SCOTTISHPOWER**

S3.12 Based on the information provided in 3.11, please quantify the impact of merger-related changes on PacifiCorp's annual, total budget for domestic (regulated) electric operations. Please provide all supporting documents, workpapers, etc. [S&P]

Response:

ScottishPower has not yet had the opportunity to review PacifiCorp's domestic electrical operations business in detail, or indeed any other component of PacifiCorp's business. Such a review will only be completed once the transaction has closed and ScottishPower has free and unfettered access to the PacifiCorp business. At this time, ScottishPower, in conjunction with PacifiCorp staff, will develop a Transition Plan that will detail the precise impacts on all parts of PacifiCorp's business.

It is therefore not possible to quantify the impact of merger-related changes on PacifiCorp. An account of the work that has been carried out to date, as well as details of the approach that ScottishPower will adopt to improve the efficiency of PacifiCorp's business in future, is contained within the direct testimony of Andrew MacRitchie that was filed with the Commission on February 26, 1999.

CERTIFICATE OF SERVICE

I hereby certify that on this 31st day of March, 1999, I caused to be mailed first class, postage prepaid, a true and correct copy of the foregoing Committee of Consumer Services Statement of Additional Issues.

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Edward A. Hunter
Stoel, Rives
201 S. Main St., #1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street N.W.
800 West Tower
Washington, D.C. 20007

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 180
P.O. Box 45898
Salt Lake City, Utah 84145-0898

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Colorado 80302

Bill Thomas Peters
David W. Scofield
Parsons Davies Kinghorn & Peters
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Gary Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Roger O. Tew
60 South 600 East Suite 200
Salt Lake City, Utah 84102

Steven Allred
Salt Lake City Corp. Law Dept.
451 South State Street Suite 505
Salt Lake City, Utah 84111

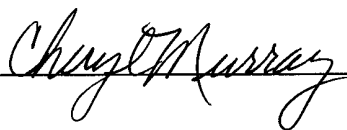
Lee R. Brown
Vice President, Contracts,
Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Matthew F. McNulty, III, Esq.
Van Cott, Bagley, Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, Utah 84145

Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 84119

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, Utah 84107

Brian L. Farr
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, Utah 84114-0857



16463

RECEIVED

MAR 31 4 48 PM '99

UTAH PUBLIC SERVICE COMMISSION

Gary A. Dodge, Esq. #0897
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536
Telephone: 801-532-7840
Attorneys for LCG

RECEIVED BY COMMISSIONERS

STEPHEN F. MECHAM SM
CONSTANCE B. WHITE CBW 4/5
CLARK D. JONES CDJ 4/7

F. Robert Reeder #2710
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, Utah 84145-0898
Telephone: 801-532-1234
Attorneys for UIEC

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PacifiCorp and Scottish Power plc) Docket No. 98-2035-04
for an Order Approving the Issuance)
of PacifiCorp Common Stock) LCG AND UIEC STATEMENT
) OF ADDITIONAL ISSUES
)

Pursuant to the Commission's Scheduling Order in this matter, the Large Customer Group ("LCG") and the Utah Industrial Energy Consumers ("UIEC") submit the following additional issues that they believe the Commission should consider in determining whether to approve the issuance of securities as requested by the Applicants.

1. **Special Contracts.** What will the merged company's attitude and approach be towards offering or renewing special contracts, interruptible contracts, and other non-tariff contracts,

including availability and terms? What will be the impacts of the merger on special contract customers? What merger conditions are necessary or appropriate to protect special contract customers, as well as all Utah ratepayers, from potential risks or adverse consequences of the merger?

2. **Public Interest.** Are the filings by PacifiCorp and Scottish Power, on their faces, sufficient to satisfy the public interest standard under Utah law?

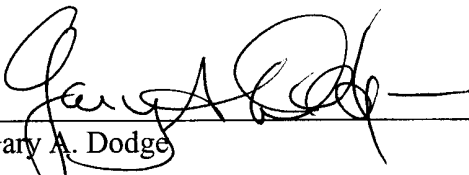
3. **Transmission Organizations.** Is it in the public interest for the Commission to take advantage of this unique opportunity to require the merged company to participate meaningfully in an effective regional transmission organization, regional grid management organization or similar transmission organization? What merger conditions are necessary or appropriate and in the public interest with respect to transmission control?

4. **Preference Share.** What are the impacts on this Commission's ability to regulate the merged company of the rights and controls of the Scottish government as a result of the "Preference Share" or "Special Share"? What merger conditions are necessary or appropriate to protect Utah ratepayers from potential controls or risks associated with the Preference Share?

5. **Ring Fence Conditions.** What will be the impacts of any "Ring Fence" or other conditions that may be imposed by U.K. regulators on Scottish Power in connection with the proposed merger? Are similar merger conditions necessary or appropriate for the benefit of Utah ratepayers?

DATED this 31 day of March, 1999.

PARR WADDOUPS BROWN GEE & LOVELESS



Gary A. Dodge

PARSONS BEHLE & LATIMER

/s/ _____
F. Robert Reeder

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 31st day of March, 1999, to the following:

Edward Hunter

John Eriksson

STOEL RIVES

201 South Main Street, Suite 1100

Salt Lake City, UT 84111

Brian W. Burnett

CALLISTER NEBEKER MCCULLOUGH

10 East South Temple, #800

Salt Lake City, UT 84133

Michael Ginsberg

ASSISTANT ATTORNEY GENERAL

500 Heber M. Wells Building

160 East 300 South

Salt Lake City, UT 84111

Douglas C. Tingey

ASSISTANT ATTORNEY GENERAL

Committee of Consumer Services

160 East 300 South, 5th Floor

Salt Lake City, UT 84111

Daniel Moquin

ASSISTANT ATTORNEY GENERAL

1594 West North Temple, Suite 300

Salt Lake City, UT 84116

F. Robert Reeder

William J. Evans

PARSONS BEHLE & LATIMER

201 South Main Street, Suite 1800

P.O. Box 45898

Salt Lake City, UT 84145-0898

Stephen R. Randle

RANDLE DEAMER ZARR ROMRELL

139 East South Temple, Suite 330

Salt Lake City, UT 84111

Peter J. Mattheis

Matthew J. Jones

BRICKFIELD BURCHETTE & RITTS

1025 Thomas Jefferson Street, N.W.

800 West Tower

Washington, D.C. 20007

Eric Blank

Land and Water Fund of the Rockies

2260 Baseline Rd., Suite 200

Boulder, CO 80302

Matthew F. McNulty, III

VANCOTT BAGLEY CORNWALL

50 South Main Street, Suite 1600

P.O. Box 45340

Salt Lake City, UT 84145

Lee R. Brown

Magnesium Corporation of America

238 North 2200 West

Salt Lake City, UT 84116

Bill Thomas Peters

David W. Scofield

PARSONS DAVIES KINGHORN

185 South State Street, Suite 700

Salt Lake City, UT 84111

Dr. Charles E. Johnson

The Three Parties

1338 Foothill Blvd., Suite 134

Salt Lake City, UT 84108

Joni B. Tibbitts



Michael O. Leavitt
Governor

State of Utah

PUBLIC SERVICE COMMISSION OF UTAH

Heber M. Wells Building
160 East 300 South, 4th Floor
Box 45585
Salt Lake City, Utah 84145-0585
(801) 530-6716; (801) 530-6796 Fax

Commissioners
Stephen F. Mecham
Chairman
Constance B. White
Clark D. Jones
Douglas C.W. Kirk
Executive Staff Director
Sandy Mooy
Legal Counsel
Julie Orchard
Commission Secretary

DOCKETED

MEMORANDUM

March 31, 1999

TO: PARTIES, DOCKET NO. 98-2035-04
FROM: PUBLIC SERVICE COMMISSION
SUBJECT: GUIDANCE FOR THE APRIL 2, 1999 HEARING IN THIS DOCKET

1. Before we decide whether to reject any merger-approval issues raised by parties, it is our intention to permit each party to present in direct testimony the case for the issues it raises. This testimony must carefully explain why the issue is germane to our consideration of the Application, and it must discuss the remedy that the party seeks. On the basis of our review of the direct testimony, we will decide whether some issues should be excluded.

We assume the merger-approval issues so far presented by parties exhaust all that may be relevant and material to the inquiry. A compilation of these is appended. If a party wishes to raise others, it is appropriate to use the hearing scheduled for April 2, 1999, to do so.

2. Not least of our concerns at this early point in the proceedings is the absence of a clear sense of the findings we must make to support a public interest decision on the Application. We ask parties to address this at the April 2 hearing.

3. All parties agree the approval standard is net positive benefits. Applicants have

indicated they will comply with it and have so structured testimony filed to date. There being good reason to adopt this standard and none to do otherwise, we will employ the net positive benefits standard in this Docket just as we have in preceding dockets, notably, the 1989 merger of Pacific Power and Light and Utah Power and Light Companies.

We do not comment beyond the following on PacifiCorp's verbal statement that it may argue, at a later point, if it chooses, that the proper standard is not net positive benefits but no harm to ratepayers. In every docket that comes before us, we make it a practice to hear all relevant argument and testimony so the evidentiary record is complete. We will do so here. To the extent parties feel the PacifiCorp statement may undermine their efforts, we assure them this is not the case. For the evidentiary record to be complete, parties must make every effort to present their positions on issues. This would be true regardless of the approval standard, unless the different standards required consideration of different issues. Net positive benefits creates the more extensive list, it seems to us, and therefore drives the more exhaustive examination. We believe that is appropriate for a case of this importance.

4. Clearly, Applicants have the burden to show that the merger is in the public interest, meaning, given the approval standard, that it will produce net positive benefits. This means that the record must show both the costs and the benefits of the merger so we can determine whether, on balance, netting costs and benefits, the merger is or is not in the public interest.

We understand that parties might be concerned to address particular issues in detail and others either to a lesser extent or not at all. We will not interpret lack of critical analysis of an issue by a party to indicate indifference unless we are informed otherwise. Because it is our investigative staff, however, the Division must give its best effort to address everything it believes may affect the public interest.

As our first statement on burden of proof in this Docket, we repeat what the Commission stated on the subject in its November 20, 1987 Report and Order in Docket No. 87-035-27 (the Pacific Power - Utah Power merger), pp. 2 - 3: "With respect to considerations outside our normal regulatory jurisdiction and enforcement powers . . . which nonetheless bear on the public interest, Applicants bear no affirmative burden to demonstrate benefits or even an absence of harm. In those areas other parties will carry the burden of demonstrating either some benefit or some substantial harm by reason of the merger. However, Applicants do carry the burden in all areas subject to our jurisdiction to show that on balance the merger will be beneficial and those areas will be our primary focus in the case."

We will give parties opportunity, if desired, to present further argument on burden during the April 2, 1999 hearing.

5. We can decide whether to approve the merger, approve it with conditions, or disapprove it. The approval-with-conditions choice makes little sense unless conditions can be enforced and we can determine whether conditions have been violated. We would like the preliminary comments of parties on this issue during the April 2 hearing, as we consider whether this issue must be briefed.

COMPILATION OF ISSUES RAISED BY PARTIES

1. Local Control: If loss of local control occurs, cost cutting and declines in service quality and reliability are a threat. Vulnerability increased with management control over both capital and O&M budgets perhaps not local but emanating from Scotland. Effects on Utah work force. Condition approval on improved local control and local accountability.
2. Restructuring: Possible inducement to vertical disaggregation, divestiture, diversification. Service upgrades; permanent access to Company's low-cost generation; new policies to protect

quality and reliability of service if disaggregation occurs. Merger-approval conditions sought.

3. Quality of Service: Merger-approval conditions required to ensure promised improvements.

Standards. Benchmarks. Penalties. Improved aesthetics of local facilities; policy on placing lines underground; low-income impacts.

4. Reliability: Transmission standards; a new reliability data base; Commission control over reliability; interconnection issues and ScottishPower's intentions.

5. Rural Concerns: Higher cost of service and lower returns make rural areas a target for cost cutting especially if the merged company employs a profit-driven strategy. Seek conditions and safeguards.

6. Effects on Regulation: Scope of Utah Commission jurisdiction; access to books and information; future of integrated resource planning; authority over transfers of assets; effects of UK regulatory policy and practice if felt here; impact on costs of regulation.

7. Corporate Structure: Independence of US electric operations in a holding company structure; new cost allocation and affiliate relations problems; likelihood of vertical disaggregation, divestiture, or diversification.

8. Cost Allocations: Allocation of costs of new corporate structure and functions (treasury, accounting, legal, computing, etc.). Retention of existing PacifiCorp accounting system based on the Uniform System of Accounts.

9. Access to Capital: External and internal sources; dividend policy; currency exchange impacts; bond ratings and cost of capital.

10. Acquisition Premium: Effects on ratepayers; effects on distribution or generation plant valuation. If not recovered from ratepayers, how? Pressure to alter operations, sell plant (disaggregation and divestiture), seek nonregulated investments (diversification)?

11. Merger Transactions Costs: Amounts, by category -- legal, consulting, etc. Ratepayers not to bear these costs. Approval conditions.

12. Effects on Competition: Between the merged company and cities; between the merged company and other suppliers; incentives; retail access.

13. Property Valuation: Book value for rates but fair market value for merger. Merger effect on local (county) taxation.

14. Environment and Energy Efficiency: Effects on air quality, carbon emissions; demand-side management programs; renewable resources; integrated resource planning.

15. Municipal Annexation and Purchase of Company Distribution Facilities: Effect of merger on book value of distribution plant.

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

DOCKETED

AFFIDAVIT OF MAILING

_____)
In the Matter of the Application of)
PacifiCorp and Scottish Power plc for an)
Order Approving the Issuance of)
PacifiCorp Common Stock)
_____)

DOCKET NO. 98-2035-04

MEMORANDUM

County of Salt Lake)
) ss.
State of Utah)

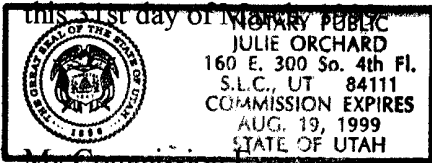
Glen T. Larsen being duly sworn, deposes and says that he is a secretary regularly employed in the office of the Public Service Commission of Utah, whose office is located at 160 East 300 South, Fourth Floor, Heber M. Wells State Office Building, Salt Lake City, Utah.

That there is a United States Post Office at Salt Lake City, and at the place of residence or place of business of the person(s) whose name(s) are set forth below; and between Salt Lake City and residence or places of business, there is a regular communication by mail.

That on the 31st day of March, 1999, affiant served a true copy of the hereto attached MEMORANDUM on the said persons by mailing such copy on said date in a post office in Salt Lake City, Utah, properly enclosed in a sealed envelope with postage prepaid thereon, legibly addressed to the following person(s), at the addresses shown:

* See attached Mailing Lists and "E" Mailing Lists

Subscribed and sworn to before me



My Commission Expires
August 19, 1999.

Glen T. Larsen

Secretary

Julie Orchard

Notary Public

Residing at Salt Lake City, Utah

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

PETER J. MATTHEIS, MATTHEW J. JONES, &
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

STEVEN ALLRED
SALT LAKE CITY CORP. LAW DEPT.
451 SOUTH STATE, SUITE #505
SALT LAKE CITY, UTAH 84111

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

ROGER O. TEW
60 SOUTH 600 EAST, SUITE #200
SALT LAKE CITY, UTAH 84102

JORO WALKER
165 SOUTH MAIN STREET
SALT LAKE CITY, UTAH 84111

Mail Envelope Properties (3702B7AA.2D6 : 8 : 11628)

Subject: 98-2035-04 Memo, Issues in PacifiCorp & Scottish Power
Creation Date: Wed, Mar 31, 1999 5:02 PM
From: Public Service Commission
Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
inet	Transferred	03/31 5:03 PM
"AlanA@qstr.com" BC ("AlanA@qstr.com".inet "brianburnett@cnmlaw.com" BC ("brianburnet "cdsjoberg@stoel.com" BC ("cdsjoberg@stoel "CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE "coadmin@grand.state.ut.us" BC ("coadmin@g "eahunter@stoel.com" BC ("eahunter@stoel.c "edwarddm@kutv2.com" BC ("edwarddm@kutv2.c "gad@pwlaw.com" BC ("gad@pwlaw.com".inet) "gbmonson@stoel.com" BC ("gbmonson@stoel.c "gkratz@desnews.com" BC ("gkratz@desnews.c "janhull@trilliumusa.com" BC ("janhull@tri "jim-matheson@leavitt.com" BC ("jim-mathes "jwoody@union-tel.com" BC ("jwoody@union-t "kdyk@energystrat.com" BC ("kdyk@energystr "marie.malone@pacificorp.com" BC ("marie.m "mgillman@pblutah.com" BC ("mgillman@pblut "mmcnulty@vancott.com" BC ("mmcnulty@vanco "newsdesk@kutv2.com" BC ("newsdesk@kutv2.c "Phila77808@aol.com" BC ("Phila77808@aol.c "steve@sltrib.com" BC ("steve@sltrib.com". "togaard@utw.com" BC ("togaard@utw.com".in		
bear.com	Transferred	03/31 5:03 PM
sscheffrin (Scott-sscheffrin Scheffrin-@bear		
br.state.ut.us		
BRMAIN.BRCMRC	Delivered	03/31 5:03 PM
BGARDNER BC (Barbara Gardner)	Opened	04/01 7:15 AM
CMOWER (Carl Mower)	Opened	04/01 7:06 AM
CMURRAY BC (Cheryl L. Murray)	Opened	04/01 7:59 AM
DGIMBLE BC (Dan Gimble)	Opened	03/31 5:10 PM
DHANSON (Darrell Hanson)		
DHANSON- (Diana Hanson-Steadman)	Opened	04/01 7:47 AM
DMILLER BC (Dennis Miller)	Opened	04/01 8:26 AM
IHENNING (Ingo Henningsen)	Opened	04/01 7:38 AM

KFRANCON (Kelly A. Francone)		
LALT BC (Lowell Alt)	Opened	04/01 7:19 AM
LLINEBAR (Laura Linebarger)		
MHOVINGH (Margo Hovingh)		
PBULLOCK (Phil Bullock)		
RCAMPBEL BC (Ric Campbell)		
RCREER (Ralph Creer)	Opened	04/01 10:19 AM
WHUNTSMA BC (Wes Huntsman)	Opened	04/01 9:08 AM
ci.west-valley.ut.us		
pmorris (Paul-pmorris <u>Morris-@ci.west-val</u>)	Transferred	03/31 5:03 PM
dced.state.ut.us		
CEMAIN.CEDOMAIN	Delivered	03/31 5:03 PM
EMAESER (Earl Maeser)	Opened	04/01 9:07 AM
RMAFYIEL (Rick Mayfield)		
deseretgt.com		
crabtree (David Crabtree)	Transferred	03/31 5:03 PM
ect.enron.com		
pkaufma (Lisa-pkaufma <u>Enron-@ect.enron.co</u>)	Transferred	03/31 5:03 PM
energystrat.com		
randerson (Rick-randerson Anderson-@energ)	Transferred	03/31 5:03 PM
faralloncapital.com		
Bdague (Bettina-Bdague Dague-@faralloncap)	Transferred	03/31 5:03 PM
hubwest.com		
gparichfield BC (Mike-gparichfield Peterso)	Transferred	03/31 5:03 PM
le.state.ut.us		
LELFA.LEDOMAIN	Delivered	03/31 5:03 PM
WGREER BC (William Greer)		
pacificorp.com		
anne.eakin (Anne-anne.eakin Eakin-@pacifi)	Transferred	03/31 5:03 PM
doug.larson (Doug-doug.larson Larson-@pac)		
pblutah.com		
wevans (William-wevans Evans-@pblutah)	Transferred	03/31 5:03 PM
perkinscoie.com		
reicl	Transferred	03/31 5:03 PM

scottishpower.plc.uk bob.green	Transferred	03/31 5:03 PM
sltrib.com lisac BC	Transferred	03/31 5:03 PM
state.ut.us PUPSC.ASPOSUPT CJONES BC JHARVEY JLOGAN KANDERS3 LSTHOMAS RCOLLINS SFMECHAM SMOY BC	Delivered Opened Opened Opened	03/31 5:03 PM 04/01 7:45 AM 04/01 9:43 AM 04/01 10:33 AM
state.ut.us ATMAIN.ATDOMAIN BFARR DTINGEY BC LNODA BC MGINSBER BC	Delivered Opened Opened Opened Opened	03/31 5:06 PM 04/01 8:10 AM 03/31 5:38 PM 04/01 9:08 AM 04/01 8:21 AM
state.ut.us NROERP.NRDOMAIN JGALANIS BC	Delivered Opened	03/31 5:03 PM 04/01 8:36 AM
Post Office inet	Delivered	Route
BRMAIN.BRCMRC	03/31 5:03 PM	bear.com br.state.ut.us ci.west-valley.ut.us
CEMAIN.CEDOMAIN	03/31 5:03 PM	dced.state.ut.us deseretgt.com ect.enron.com energystrat.com faralloncapital.com hubwest.com
LELFA.LEDOMAIN	03/31 5:03 PM	le.state.ut.us pacificorp.com pblutah.com perkinscoie.com scottishpower.plc.uk

PUPSC.ASPOSUPT	03/31 5:03 PM	sltrib.com
ATMAIN.ATDOMAIN	03/31 5:06 PM	state.ut.us
NROERP.NRDOMAIN	03/31 5:03 PM	state.ut.us

Files	Size	Date & Time
16450.WPD	9623	Wednesday, March 31, 1999 3:36 PM

Options

Auto Delete:	No
Expiration Date:	None
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None

Concealed Subject:	No
Security:	Standard

To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

MAR 17 8 49 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Betsy Wolf
Signature

Betsy Wolf
Name (Type or Print)

P.O. Box 58165, Salt Lake City, UT 84158
Residence Address

Salt Lake Community Action Program
Employer or Firm

1338 Foothill Dr., Suite 134, Salt Lake City, UT 84108
Business Address

Salt Lake Community Action Program
Crossroads Hebrew Center
Party

March 9, 1999
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Jeff Fox
Signature

Jeff Fox
Name (Type or Print)

149 South Windsor St. SLU, UT 84106
Residence Address

Crossroads Urban Center
Employer or Firm

1338 Foothill Drive, Suite ~~134~~ 134
Business Address

Salt Lake Community Action Program and Crossroads Urban Center
Party

March 9, 1999
Date

RECEIVED

MAR 17 8 49 AM '99

UTAH PUBLIC SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Charles E. Johnson
Signature

Charles E. Johnson
Name (Type or Print)

Residence Address

Employer or Firm
1338 Foothill Dr. Suite 134
Suite 443
Salt Lake City UT 84108

Business Address
Salt Lake Community Action Program
and Crossroads Urban Center
Party

3/9/99
Date

RECEIVED

MAR 17 8 49 AM '99

UTAH PUBLIC
SERVICE COMMISSION

DOCKETED

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of	)	<u>DOCKET NO. 98-2035-04</u>
PacifiCorp and Scottish Power plc for)	
an Order Approving the Issuance of)	
PacifiCorp Common Stock	)	<u>ORDER GRANTING INTERVENTION</u>

ISSUED: March 15, 1999

By the Commission:

Utah Industrial Energy Consumers, as described in the Petition to Intervene, Alliant Techsystems, Inc., Hexcel Corporation, Thiokol Corporation, Chevron, SF Phosphates, E.A. Miller, Inc., IHC Hospitals, Inc., Geneva Steel, Western Electrochemical Company, Utah Electric Deregulation Group, Utah Associated Municipal Power Systems, as described in the Petition to Intervene, The Utah League of Cities and Towns, as described in the Petition to Intervene, Magnesium Corporation of America ("Magcorp"), Emery County, Nucor Steel, Land and Water Fund of the Rockies, as described in the Petition to Intervene, Office of Energy & Resource Planning of the State of Utah, Deseret Generation & Transmission Co-operative, Bridger Valley Electric Association, Inc., Dixie-Escalante Rural Electric Association, Inc., Flowell Electric Association, Inc., Garkane Power Association, Inc., Moon Lake Electric Association, Inc., Mount Wheeler Power, Inc., Salt Lake Community Action Program and the Crossroads Urban Center, Utah Farm Bureau

Federation, Department of Community and Economic Development of the State of Utah, have petitioned the Commission for leave to intervene in the above-described and numbered matter.

Based upon the Petitions, and good cause appearing, therefore, the Commission makes the following

ORDER


NOW, THEREFORE, IT IS HEREBY ORDERED, that leave to intervene is granted to Utah Industrial Energy Consumers, as described in the Petition to Intervene, Alliant Techsystems, Inc., Hexcel Corporation, Thiokol Corporation, Chevron, SF Phosphates, E.A. Miller, Inc., IHC Hospitals, Inc., Geneva Steel, Western Electrochemical Company, Utah Electric Deregulation Group, Utah Associated Municipal Power Systems, as described in the Petition to Intervene, The Utah League of Cities and Towns, as described in the Petition to Intervene, Magnesium Corporation of America ("Magcorp"), Emery County, Nucor Steel, Land and Water Fund of the Rockies, as described in the Petition to Intervene, Office of Energy & Resource Planning of the State of Utah, Deseret Generation & Transmission Co-operative, Bridger Valley Electric Association, Inc., Dixie-Escalante Rural Electric Association, Inc., Flowell Electric Association, Inc., Garkane Power Association, Inc., Moon Lake Electric Association, Inc., Mount Wheeler Power, Inc., Salt Lake Community Action Program and the Crossroads Urban Center, Utah Farm Bureau Federation, Department of Community and Economic Development of the State of Utah, in said matter as their

interests may appear.

DATED at Salt Lake City, Utah, this 15th day of March, 1999.



Stephen F. Meham, Chairman

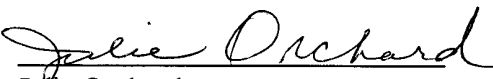


Constance B. White, Commissioner



Clark D. Jones, Commissioner

Attest:



Julie Orchard
Commission Secretary

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

STEVEN ALLRED
SALT LAKE CITY CORP. LAW DEPT.
451 SOUTH STATE, SUITE #505
SALT LAKE CITY, UTAH 84111

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

Mail Envelope Properties (36ED5F79.2D6 : 8 : 11628)

Subject: 98-2035-04 Order Granting Intervention, PacifiCorp/Scottish Power
Creation Date: Mon, Mar 15, 1999 12:28 PM
From: Public Service Commission
Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
inet		
"AlanA@qstr.com" BC ("AlanA@qstr.com".inet		
"brianburnett@cnmlaw.com" BC ("brianburnet		
"cdsjoberg@stoel.com" BC ("cdsjoberg@stoel		
"CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE		
"coadmin@grand.state.ut.us" BC ("coadmin@g		
"eahunter@stoel.com" BC ("eahunter@stoel.c		
"edwarddm@kutv2.com" BC ("edwarddm@kutv2.c		
"gad@pwlaw.com" BC ("gad@pwlaw.com".inet)		
"gbmonson@stoel.com" BC ("gbmonson@stoel.c		
"gkratz@desnews.com" BC ("gkratz@desnews.c		
"janhull@trilliumusa.com" BC ("janhull@tri		
"jim-matheson@leavitt.com" BC ("jim-mathes		
"jwoody@union-tel.com" BC ("jwoody@union-t		
"kdyk@energystrat.com" BC ("kdyk@energystr		
"marie.malone@pacificorp.com" BC ("marie.m		
"mgillman@pblutah.com" BC ("mgillman@pblut		
"mmculty@vancott.com" BC ("mmculty@vanco		
"newsdesk@kutv2.com" BC ("newsdesk@kutv2.c		
"Phila77808@aol.com" BC ("Phila77808@aol.c		
"steve@sltrib.com" BC ("steve@sltrib.com".		
"togaard@utw.com" BC ("togaard@utw.com".in		
bear.com	Transferred	03/15 12:29 PM
sschefrin (Scott-sschefrin Schefrin-@bear		
br.state.ut.us		
BRMAIN.BRCMRC		
BGARDNER BC (Barbara Gardner)		
CMOWER (Carl Mower)		
CMURRAY BC (Cheryl L. Murray)		
DGIMBLE BC (Dan Gimble)		
DHANSON (Darrell Hanson)		
DHANSON- (Diana Hanson-Steadman)		
DMILLER BC (Dennis Miller)		
IHENNING (Ingo Henningsen)		

LALT BC (Lowell Alt)
PBULLOCK (Phil Bullock)
RCAMPBEL BC (Ric Campbell)
RCREER (Ralph Creer)
WHUNTSMA BC (Wes Huntsman)

ci.west-valley.ut.us pmorris (Paul-pmorris Morris-@ci.west-val)	Transferred	03/15 12:29 PM
dced.state.ut.us CEMAIN.CEDOMAIN EMAESER (Earl Maeser) RMAYFIEL (Rick Mayfield)	Delivered	03/15 12:29 PM
ect.enron.com pkaufma (Lisa-pkaufma Enron-@ect.enron.co)	Transferred	03/15 12:29 PM
energystrat.com randerson (Rick-randerson Anderson-@energ)	Transferred	03/15 12:29 PM
faralloncapital.com Bdague (Bettina-Bdague Dague-@faralloncap)	Transferred	03/15 12:29 PM
hubwest.com gparichfield BC (Mike-gparichfield Peterso)	Transferred	03/15 12:29 PM
le.state.ut.us LELFA.LEDOMAIN WGREER BC (William Greer)		
pacificorp.com anne.eakin (Anne-anne.eakin Eakin-@pacifi doug.larson (Doug-doug.larson Larson-@pac)	Transferred	03/15 12:29 PM
pblutah.com wevans (William-wevans Evans-@pblutah)	Transferred	03/15 12:29 PM
perkinscoie.com reicl (Lawrence-reicl Reichman-@perkinsco)	Transferred	03/15 12:29 PM
scottishpower.plc.uk bob.green (Robert-bob.green Green-@scotti)	Transferred	03/15 12:29 PM
sltrib.com lisac BC (Lisa-lisac Carricaburu-@sltrib.c)	Transferred	03/15 12:29 PM

state.ut.us PUPSC.ASPOSUPT CJONES BC (Clark Jones) JHARVEY JLOGAN KANDERS3 LSTHOMAS RCOLLINS SFMECHAM SMOY BC	Delivered	03/15 12:29 PM
state.ut.us ATMAIN.ATDOMAIN DTINGEY BC LNODA BC MGINSBER BC		
state.ut.us NROERP.NRDOMAIN JGALANIS BC		
ulct.org robertew	Transferred	03/15 12:29 PM
Post Office inet	Delivered Pending	Route
BRMAIN.BRCMRC	Pending	bear.com
CEMAIN.CEDOMAIN	03/15 12:29 PM	br.state.ut.us ci.west-valley.ut.us dced.state.ut.us ect.enron.com energystrat.com faralloncapital.com hubwest.com
LELFA.LEDOMAIN	Pending	le.state.ut.us pacificorp.com pblutah.com perkinscoie.com scottishpower.plc.uk sltrib.com
PUPSC.ASPOSUPT ATMAIN.ATDOMAIN NROERP.NRDOMAIN	03/15 12:29 PM Pending Pending	state.ut.us state.ut.us state.ut.us ulct.org

Files	Size	Date & Time
16198.WPD	6017	Wednesday, March 10, 1999 8:56 AM

Options

Auto Delete:	No
Expiration Date:	None
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None

Concealed Subject:	No
Security:	Standard

To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

16184



Michael O. Leavitt
Governor

State of Utah

PUBLIC SERVICE COMMISSION OF UTAH

Heber M. Wells Building
160 East 300 South, 4th Floor
Box 45585
Salt Lake City, Utah 84145-0585
(801) 530-6716; (801) 530-6796 Fax

Commissioners
Stephen F. Mecham
Chairman
Constance B. White
Clark D. Jones
Douglas C.W. Kirk
Executive Staff Director
Sandy Mooy
Legal Counsel
Julie Orchard
Commission Secretary

MEMORANDUM

To: All Parties Submitting Filings in 98-2035-04

From: Julie Orchard
Commission Secretary *J.P.O.*

Date: March 9, 1999

Subject: Additional Hard Copies Requested

Because of the interest in docket no. 98-2035-04, the PacifiCorp / Scottish Power Merger Docket, we ask that 15 copies and an original be submitted along with the electronic copy for this case. This includes petitions, issue statements, notices, or any other document relating to this docket. We are aware that this takes exception with the specified amounts listed in Commission Rules, but we encourage your cooperation.

Thank you, your assistance is much appreciated in this matter. If you have any questions regarding number of copies for any filing, please contact myself, or Janna Nelson (801) 530-6716.

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

AFFIDAVIT OF MAILING

)
In the Matter of the Application of)
PacifiCorp and Scottish Power plc for an)
Order Approving the Issuance of)
PacifiCorp Common Stock)
_____)

DOCKET NO. 98-2035-04

MEMORANDUM

County of Salt Lake)
) ss.
State of Utah)

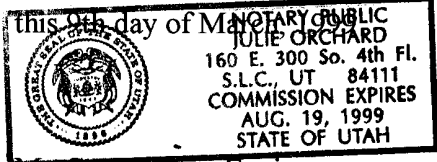
Glen T. Larsen being duly sworn, deposes and says that he is a secretary regularly employed in the office of the Public Service Commission of Utah, whose office is located at 160 East 300 South, Fourth Floor, Heber M. Wells State Office Building, Salt Lake City, Utah.

That there is a United States Post Office at Salt Lake City, and at the place of residence or place of business of the person(s) whose name(s) are set forth below; and between Salt Lake City and residence or places of business, there is a regular communication by mail.

That on the 9th day of March, 1999, affiant served a true copy of the hereto attached MEMORANDUM on the said persons by mailing such copy on said date in a post office in Salt Lake City, Utah, properly enclosed in a sealed envelope with postage prepaid thereon, legibly addressed to the following person(s), at the addresses shown:

* See attached Mailing Lists and "E" Mailing Lists

Subscribed and sworn to before me



My Commission Expires
August 19, 1999.

Glen T. Larsen

Secretary

Julie Orchard

Notary Public
Residing at Salt Lake City, Utah

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

STEVEN ALLRED
SALT LAKE CITY CORP. LAW DEPT.
451 SOUTH STATE, SUITE #505
SALT LAKE CITY, UTAH 84111

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

Mail Envelope Properties (36E5ADDB.C21 : 13 : 49693)

Subject: 98-2035-04 Memorandum Re: Number of Copies of items Filed with the Commission
Creation Date: Tue, Mar 9, 1999 4:25 PM
From: Glen Larsen
Created By: GTLARSEN.PUPSC@state.ut.us

Recipients	Action	Date & Time
inet "AlanA@qstr.com" BC ("AlanA@qstr.com".inet "brianburnett@cnmlaw.com" BC ("brianburnet "cdsjoberg@stoel.com" BC ("cdsjoberg@stoel "CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE "coadmin@grand.state.ut.us" BC ("coadmin@g "eahunter@stoel.com" BC ("eahunter@stoel.c "edwarddm@kutv2.com" BC ("edwarddm@kutv2.c "gad@pwlaw.com" BC ("gad@pwlaw.com".inet) "gbmonson@stoel.com" BC ("gbmonson@stoel.c "gkratz@desnews.com" BC ("gkratz@desnews.c "janhull@trilliumusa.com" BC ("janhull@tri "jim-matheson@leavitt.com" BC ("jim-mathes "jwoody@union-tel.com" BC ("jwoody@union-t "kdyk@energystrat.com" BC ("kdyk@energystr "marie.malone@pacificorp.com" BC ("marie.m "mgillman@pblutah.com" BC ("mgillman@pblut "mmcnulty@vancott.com" BC ("mmcnulty@vanco "newsdesk@kutv2.com" BC ("newsdesk@kutv2.c "Phila77808@aol.com" BC ("Phila77808@aol.c "steve@sltrib.com" BC ("steve@sltrib.com". "togaard@utw.com" BC ("togaard@utw.com".in	Transferred	03/09 4:25 PM
bear.com sscheffrin (Scott-sscheffrin Scheffrin-@bear	Transferred	03/09 4:25 PM
br.state.ut.us BRMAIN.BRCMRC	Delivered	03/09 4:25 PM
BGARDNER BC (Barbara Gardner) CMURRAY BC (Cheryl L. Murray)	Opened	03/09 4:26 PM
DGIMBLE BC (Dan Gimble) DHANSON (Darrell Hanson) DHANSON- (Diana Hanson-Steadman) DMILLER BC (Dennis Miller) IHENNING (Ingo Henningsen)		

LALT BC (Lowell Alt)
PBULLOCK (Phil Bullock)
RCAMPBEL BC (Ric Campbell)
RCREER (Ralph Creer)
WHUNTSMA BC (Wes Huntsman)

ci.west-valley.ut.us pmorris (Paul-pmorris Morris-@ci.west-val	Transferred	03/09 4:25 PM
dced.state.ut.us CEMAIN.CEDOMAIN EMAESER (Earl Maeser) RMAYFIEL (Rick Mayfield)	Delivered	03/09 4:25 PM
ect.enron.com pkaufma (Lisa-pkaufma Enron-@ect.enron.co	Transferred	03/09 4:25 PM
energystrat.com randerson (Rick-randerson Anderson-@energ	Transferred	03/09 4:25 PM
faralloncapital.com Bdague (Bettina-Bdague Dague-@faralloncap	Transferred	03/09 4:25 PM
hubwest.com gparichfield BC (Mike-gparichfield Peterso	Transferred	03/09 4:25 PM
le.state.ut.us LELFA.LEDOMAIN WGREER BC (William Greer)	Delivered	03/09 4:25 PM
pacificorp.com anne.eakin (Anne-anne.eakin Eakin-@pacifi doug.larson (Doug-doug.larson Larson-@pac	Transferred	03/09 4:25 PM
pblutah.com wevans (William-wevans Evans-@pblutah)	Transferred	03/09 4:25 PM
perkinscoie.com reicl (Lawrence-reicl Reichman-@perkinsco	Transferred	03/09 4:25 PM
scottishpower.plc.uk bob.green (Robert-bob.green Green-@scotti	Transferred	03/09 4:25 PM
sltrib.com lisac BC (Lisa-lisac Carricaburu-@sltrib.c	Transferred	03/09 4:25 PM

state.ut.us PUPSC.ASPOSUPT CJONES BC (Clark Jones) JHARVEY (John Harvey) JLOGAN KANDERS3 LSTHOMAS RCOLLINS SFMECHAM SMOODY BC	Delivered	03/09 4:25 PM
state.ut.us ATMAIN.ATDOMAIN DTINGEY BC LNODA BC MGINSBER BC		
state.ut.us NROERP.NRDOMAIN JGALANIS BC	Delivered	03/09 4:25 PM
ulct.org rogertew	Transferred	03/09 4:25 PM
Post Office inet	Delivered	Route
BRMAIN.BRCMRC	03/09 4:25 PM	bear.com br.state.ut.us ci.west-valley.ut.us
CEMAIN.CEDOMAIN	03/09 4:25 PM	dced.state.ut.us ect.enron.com energystrat.com faralloncapital.com hubwest.com
LELFA.LEDOMAIN	03/09 4:25 PM	le.state.ut.us pacificorp.com pblutah.com perkinscoie.com scottishpower.plc.uk sltrib.com
PUPSC.ASPOSUPT ATMAIN.ATDOMAIN NROERP.NRDOMAIN	03/09 4:25 PM Pending 03/09 4:25 PM	state.ut.us state.ut.us state.ut.us ulct.org

Files	Size	Date & Time
16184.WPD	3345	Tuesday, March 9, 1999 10:53 AM

Options

Auto Delete:	No
Expiration Date:	Thu, Apr 8, 1999
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None
Concealed Subject:	No
Security:	Standard
To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

16175

BILL THOMAS PETERS - 2574
DAVID W. SCOFIELD - 4140
PARSONS, DAVIES, KINGHORN & PETERS
185 South State Street, Suite 700
Salt Lake City, Utah 84111
Telephone: (801) 363-4300
Attorneys for Petitioner Emery County

RECEIVED

MAR 9 2 35 PM '99

UTAH PUBLIC SERVICE COMMISSION
REVIEWED BY COMMISSIONERS
STEPHEN F. MECHAM *SM 3/10/99*
CONSTANCE B. WHITE *CBW 3/11*
CLARK A. JONES *CJ 3/15*

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock

Docket No. 98-2035-04
**AMENDED
PETITION TO INTERVENE
AND
STATEMENT OF ISSUES**

Emery County, a political subdivision of the State of Utah, by and through its attorney Bill Thomas Peters, of Parsons Davies Kinghorn & Peters, and pursuant to Utah Code Ann. § 63-46b-9 and Rule R746-100-7, respectfully amends its previous petition and restates the same in its entirety and petitions the Public Service Commission of Utah for leave to intervene in this proceeding. In support of this Petition, Petitioner states as follows:

1. Petitioner is a political subdivision of the State of Utah.
2. As a political subdivision of the State of Utah, Petitioner has the authority to assess and collect and distribute an ad valorem property tax upon the taxable value of all taxable property located within Emery County, State of Utah.
3. PacifiCorp is the owner and operator of major power generating facilities located within Emery County, State of Utah which are subject to property tax. As a result of said location, in excess of 80% of the annual property tax revenues received within Emery County and the political

subdivisions for which Emery County collects an ad valorem tax are collected from PacifiCorp upon the value of its power production, transmission and coal facilities located within Emery County, State of Utah. Any substantial change in ownership of PacifiCorp pursuant to the proposed acquisition by Scottish Power could have a substantial corresponding impact upon the fair market value of said properties for purposes of taxation revenues to be received by Emery County and its political subdivisions and taxing districts.

4. Emery County, for and in behalf of itself, as well as for the political subdivisions, including its special service district and other taxing districts located within Emery County, has a fiduciary responsibility to assess, collect and distribute said tax revenues. See Board of Education Granite School District v. Salt Lake County, 659 P.2d 1030 (Utah 1983).

5. The legal rights and interests of Petitioner may be substantially affected by this proceeding.

6. Petitioner has not fully determined the specific position it will take or the relief it will seek. However, Petitioner seeks to intervene for purposes of protecting its interests as well as the interests of the taxing districts within Emery County for which Emery County must assess, collect and distribute tax revenues and as said interest may appear, and in particular issues of relevance to large electric power generating facilities and the impact of the proposed acquisition upon the fair market value of said facilities. In that regard, the following initial list of issues should be explored:

STATEMENT OF ISSUES

- A. (1) How was PacifiCorp valued by Scottish power when the merger price was determined?
- (2) Were PacifiCorp U.S. electric operations valued separately? If so, how

were they valued?

(3) Were PacifiCorp's U.S. electric operations valued in a more itemized manner (e.g. by state, by function such as generation, transmission, or distribution). If so, how were these itemized assets valued? And, what was the value of each?

B. (1) How did PacifiCorp value PacifiCorp when the merger price was determined?

(2) Were PacifiCorp U.S. electric operations valued separately? If so, how were they valued?

(3) Were U.S. electric operations valued in a more itemized manner (e.g. by state, by function such as generation, transmission, or distribution). If so, how were these itemized assets valued? And, what was the value of each?

C. (1) In evaluating the merger, did Scottish Power consider future divestiture of any PacifiCorp assets? If so, which assets, and what was the assumed divestiture price?

7. Petitioner reserves the right to raise additional issues which may become apparent during these proceedings.

8. In the interest of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing Petitioner to intervene. Petitioner can meet the schedule established in this case.

9. Notices of this proceeding should be sent to the following:

Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN & PETERS
185 South State Street, Suite 700
Salt Lake City, Utah 84111
Telephone: (801) 363-4300
Facsimile: (801) 363-4378

Jim Matheson
Dr. Robert Malko
The Matheson Group
466 East 500 South, Suite 200
Salt Lake City, Utah 84111
Telephone: (801) 994-3473

WHEREFORE, Petitioner requests leave to intervene in this proceeding to protect its interests and the interests of the other taxing entities within Emery County for whom Petitioner has statutory responsibility to assess, collect and distribute ad valorem property taxes, and for such other interests as they may appear.

DATED this 5th day of March, 1999.

PARSONS DAVIES KINGHORN & PETERS



Bill Thomas Peters

CERTIFICATE OF SERVICE

I hereby certify that I caused to be mailed, postage prepaid, a true and correct copy of the foregoing AMENDED PETITION TO INTERVENE AND STATEMENT OF ISSUES, to the following this 8th day of March, 1999.

Gary A. Dodge
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

CERTIFICATE OF SERVICE Continued

Dave Blackwell
EMERY COUNTY ATTORNEY
P.O. Box 249
Castle Dale, Utah 84513

Stephen R. Randle
RANDLE, DEAMER, ZARR, ROMRELL & LEE, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Brian W. Burnett
CALLISTER NEBEKER & McCULLOUGH
Gateway Tower East Suite 900
10 East South Temple
Salt Lake City, Utah 84133

Dr. Charles E. Johnson
THE THREE PARTIES
1338 Foothill Blvd., suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
PUBLIC & GOVERNMENT AFFAIRS
238 North 2200 West
Salt Lake City, Utah 84116

Eric Blank
LAND AND WATER FUND OF THE ROCKIES
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

CERTIFICATE OF SERVICE Continued

Robert Green
SCOTTISH POWER PLC
121 SW Morrison, Suite 1800
Portland, Oregon 97204

Lawrence H. Reichman
PERKINS COLE LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715

Anne E. Eakin
Vice President, Regulation
PACIFICORP
825 NE Multnomah Street
Portland, Oregon 97332

D. Douglas Larson
Director, Regulatory Policy
PACIFICORP
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000



Bill Thomas Peters

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Ron Burrup
Signature

RONALD L BURRUP
Name (Type or Print)

2409 Temple View
Residence Address

State of Utah
Employer or Firm

180 E 300 SO
Business Address

DPU
Party

3-5-99
Date

RECEIVED

MAR 8 8 14 AM '99

UTAH PUBLIC
SERVICE COMMISSION

16194

RECEIVED

MAR 2 3 25 PM '99

UTAH PUBLIC SERVICE COMMISSION

BRIAN L. FARR -- Bar No. 1037
Assistant Attorney General
JAN GRAHAM -- Bar No. 1231
Attorney General
160 EAST 300 SOUTH
P.O. BOX 140857
SALT LAKE CITY, UTAH 84114-0857
TELEPHONE: (801) 366-0353

APPROVED BY COMMISSIONERS
STEPHEN E. MECHAM SKM 3/1/99
CONSTANCE B. WHITE CBW 3/11
CLARK D. JONES CDJ 3/15

Attorney for the Department of Community and Economic Development
and the Board of Business and Economic Development

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

---oo0oo---

IN THE MATTER OF THE APPLICATION : **PETITION TO INTERVENE**
OF PACIFICORP AND SCOTTISH POWER
PLC FOR AN ORDER APPROVING THE : **DOCKET NO. 98-2035-04**
ISSUANCE OF PACIFICORP COMMON
STOCK :

---oo0oo---

In accordance with Rule 746-100-7 of the Public Service Commission's Rules of Practice and Procedure and the provisions of Utah Code Ann. § 63-46b-9, the Department of Community and Economic Development of the State of Utah, and the Board of Business and Economic Development, hereby move the Commission for leave to intervene in the above-referenced proceeding.

In support of this petition to intervene, Petitioners state as follows:

1. The Department of Community and Economic Development (DCED), as created by Utah Code Ann. § 9-1-201, is responsible for community and economic development within the State of Utah. In furtherance of that responsibility the executive director of DCED or his designee is authorized to “appear in any proceeding before the Public Service Commission to testify, advise, or present argument regarding the economic development impact of any matter that is the subject of the proceeding.” Utah Code Ann. § 9-1-207(2).

2. The Board of Business and Economic Development (DBED), as created by Utah Code Ann. 9-2-202 is responsible to “promote and encourage the economic, commercial, financial, industrial, agricultural, and civic welfare of the State, and do all lawful acts for the development, attraction, and retention of businesses, industries, and commerce within the State.” Utah Code Ann. § 9-2-204(1).

3. To Petitioners’ knowledge, the interests of Petitioners will not be represented by any other party to the proceeding.

4. If Petitioners are granted intervention, they hereby request that service of all pleadings, notices, etc., be made to the following;

Brian L. Farr, No. 1037
Assistant Attorney General
Attorney for Department of Community and Economic Development
and the Board of Business and Economic Development
160 East 300 South
P.O. Box 140857
Salt Lake City, UT 84114-0857

5. The interests of justice and the orderly and prompt conduct of this proceeding will be enhanced and not be impaired by Petitioners' intervention. Moreover, the interests of justice require that Petitioners should be allowed to intervene even though this petition is being submitted a few days after the filing deadline. The executive director of DCED has a statutory responsibility to monitor and study the potential economic development impact of proceedings before the Public Service Commission. (Utah Code Ann. § 9-1-207.) Pursuant to that responsibility, and to DCED's prior request, DCED has long been on the Public Service Commission's mailing list. Nevertheless, DCED did not receive a copy of the Scheduling Order in this matter until February 26, 1999. This petition was filed within two business days thereafter.

6. Petitioners have not completed their evaluation on the potential affects of the merger. Therefore, Petitioners have not yet determined the precise nature of the relief they will seek, if any, and request that the Commission grant them intervention as their interests may appear. However, Petitioners identify at least the following issues that they believe should be considered by the Commission in this proceeding:

- a. The impact of expected rates on economic development in Utah;
- b. The level of Scottish Power's support for economic development in Utah including Scottish Power's anticipated involvement as a corporate citizen. Of particular concern is Scottish Power's corporate structure to facilitate that involvement. Petitioners

believe Scottish Power should have an executive who resides in Utah that has authority to approve corporate involvement in economic development and corporate citizenship activities;

c. The impact on Utah coal companies, particularly those owned and/or operated by PacifiCorp or an affiliate or subsidiary of PacifiCorp;

d. The impact on power plants in the State, most particularly those owned and/or operated by PacifiCorp or an affiliate or subsidiary of PacifiCorp;


e. The impact on Utah employees; and

f. How Utah assets of PacifiCorp will be insulated from liability associated with Scottish Power's nuclear facilities, if the transaction is approved.

WHEREFORE, Petitioners request that the Public Service Commission enter an order permitting DCED and DBED to intervene in this docket, and to participate to the full extent allowed by the law and the Commission's rules.

DATED this 2nd day of March, 1999.

JAN GRAHAM
Attorney General


BRIAN L. FARR
Assistant Attorney General
Attorney for Petitioners

CERTIFICATE OF SERVICE

I hereby certify that on this 2nd day of March, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing PETITION TO INTERVENE to:

Edward Hunter
Stoels Rives LLP
One Utah Center
201 South Main Street #1100
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Boulevard #134
Salt Lake City, Utah 84108

Mike Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, Utah 84114-0857

Doug Tingey
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, Utah 84114-0857

Stephen R. Randle
Randle Deamer Zarr Romrell & Lee PC
139 East South Temple #330
Salt Lake City, Utah 84111-1004

Brian W Burnett
Callister Nebeker & McCullough
10 East South Temple #900
Salt Lake City, Utah 84133

Peter J. Mattheis
Dean S. Brockbank
Brickfield Burchette & Ritts PC
1026 Thomas Jefferson Street NW
800 West Tower
Washington, D.C. 20007

Glen E. Davies
Parsons Davies Kinghorn & Peters PC
185 South State Street #700
Salt Lake City, Utah 84111

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
PO Box 45898
Salt Lake City, Utah 84145-0898

Lee R. Brown
Vice President, Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Daniel Moquin
Assistant Attorney General
1594 West North Temple #300
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street #1300
Salt Lake City, Utah 84111-1536

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline #200
Boulder, Colorado 80302

Amy Casterline

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Thomas F. Peel

Signature

THOMAS F. PEEL

Name (Type or Print)

23 W. 1005 N. CIRCLE
AMERICAN FORK, UTAH 84003

Residence Address

STATE OF UTAH, DEPT OF COMMERCE,
DIVISION OF PUBLIC UTILITIES

Employer or Firm

HEBER WELLS BLDG.
140 E. 300 S., BOX 146751
SALT LAKE CITY, UTAH 84114-
6751

Business Address

DIVISION OF PUBLIC UTILITIES

Party

3/1/99

Date

RECEIVED

MAR 2 3 20 PM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Mark V. Frando
Signature

MARX V. FRANDO
Name (Type or Print)

Residence Address

STATE OF UTAH - DPU
Employer or Firm

160 E 300 SO
Business Address

DIV OF PUBLIC UTILITIES
Party

2/26/99
Date

RECEIVED

FEB 26 11 05 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

FEB 26 11 05 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Wesley Huntsman
Signature

Wesley Huntsman
Name (Type or Print)

2579 West Alice Drive
Residence Address
West Jordan, Utah 84088

Utah Division of Public Utilities
Employer or Firm

140 E 300 So SLC Utah
Business Address

DPU
Party

Feb 26, 1999
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Lowell E. Alt Jr.
Signature

LOWELL E. ALT, JR.
Name (Type or Print)

4084 Emma Circle, SLC, UT
Residence Address

Division of Public Utilities
Employer or Firm

160 East 300 South, SLC, UT.
Business Address

DIVISION
Party

2-25-99
Date

RECEIVED

FEB 26 10 32 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Pic Campbell
Signature

Pic Campbell
Name (Type or Print)

12263 S. 1925 W.
Residence Address

State of Utah
Employer or Firm

160 E. 300 S.
Business Address

Division of Public Utilities
Party

2-25-99
Date

RECEIVED

FEB 26 10 32 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

FEB 26 10 32 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Mary Cleveland
Signature

Mary Cleveland
Name (Type or Print)

551 E. 4180 S.
Residence Address

Ut Div. of Public Utilities
Employer or Firm

160 E. 300 S.
Business Address

Ut Div. of Public Utilities
Party

2/25/99
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

FEB 26 10 32 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Michael Ginsky
Signature

Michael Ginsky
Name (Type or Print)

3690 S Terrace Hill
Residence Address

ATTORNEY CARD
Employer or Firm

3660355
Business Address

DRY
Party

2/25/99
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

FEB 26 10 33 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Robert J. Maloney
Signature

Robert J. MALONEY
Name (Type or Print)

83E 837 E. Stratford Cir.
SLC, UT 84106

Residence Address
Div. of Public Ut
Dept. of Commerce

Employer or Firm
160 E 300 S
SLC UT 84114

Business Address

DPY
Party

2/25/99
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Carl L Mower

Signature

Carl L Mower

Name (Type or Print)

9047 S Edenbrooke Way
West Jordan, UT 84088

Residence Address

Utah Division of Public Utilities

Employer or Firm

160 E 300 S
Salt Lake City, UT

Business Address

Utah Division of Public Utilities

Party

2-25-99

Date

RECEIVED

FEB 26 10 33 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Kenneth B. Powell
Signature

Kenneth B. Powell
Name (Type or Print)

4263 Park ST
Residence Address

Utah Div of Publ Util
Employer or Firm

160 E 300 So SLC UT
Business Address

DPU
Party

2/25/99
Date

RECEIVED

FEB 26 10 33 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

William A. Powell
Signature

William A. Powell
Name (Type or Print)

7267 E 300 S Huntsville
Residence Address

Division of Public Utilities
Employer or Firm

160 E 300 S SLB
Business Address

DPU
Party

2/25/99
Date

RECEIVED

FEB 26 10 33 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Neal Townsend
Signature

NEAL TOWNSEND
Name (Type or Print)

1565 E. LOGAN AVE
SALT LAKE CITY, UT 84105
Residence Address

STATE OF UTAH
Employer or Firm

160 E. 300 S.
SALT LAKE CITY, UT
Business Address

DIV. OF PUBLIC UTIL.
Party

FEB. 25, 1999
Date

RECEIVED

FEB 26 10 33 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Rebecca R. Wilson

Signature

REBECCA WILSON

Name (Type or Print)

1075 PRINCETON AVE, SLC, UT 84105

Residence Address

UTAH DIVISION OF PUBLIC UTILITIES

Employer or Firm

160 E 300 S SLC, UT 84

Business Address

STATE OF UTAH, DPU

Party

2/25/99

Date

RECEIVED

FEB 26 10 33 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

FEB 26 8 12 AM '99

UTAH PUBLIC
SERVICE COMMISSION

[Handwritten Signature]
Signature

Doug Tugger
Name (Type or Print)

1990 Highland Ave
Residence Address

AG/Committee
Employer or Firm

160 E. 300 S.
Business Address

Committee
Party

2/25/99
Date



PROOF OF PUBLICATION

CUSTOMER NAME AND ADDRESS	ACCOUNT NUMBER	DATE
STOEL RIVES LLP ATTN: CAROL D. SJOBERG 201 SO MAIN, SUITE 1100 SALT LAKE CITY UT 84111	S5786953L-07	02/13/99

ACCOUNT NAME	
STOEL RIVES LLP	
TELEPHONE	INVOICE NUMBER
801-578-6953	TL298201091
SCHEDULE	
START 02/12/99 END 02/13/99	
CUST. REF. NO.	
98-2035-04	
CAPTION	
BEFORE THE PUBLIC SERVICE COMM	
SIZE	
153 LINES	2.00 COLUMN
TIMES	RATE
2	1.64
MISC. CHARGES	AD CHARGES
.00	1,003.68
TOTAL COST	
1,003.68	

RECEIVED

FEB 25 8 57 AM '99

UTAH PUBLIC SERVICE COMMISSION

AFFIDAVIT OF PUBLICATION

AS NEWSPAPER AGENCY CORPORATION LEGAL BOOKKEEPER, I CERTIFY ADVERTISEMENT OF BEFORE THE PUBLIC SERVICE COMM STOEL RIVES LLP WAS PUBLISHED BY THE CORPORATION, AGENT FOR THE SALT LAKE TRIBUNE AND DESERET NEWS PRINTED IN THE ENGLISH LANGUAGE WITH GENERAL CIRCULATION IN IN SALT LAKE CITY, SALT LAKE COUNTY IN THE STATE OF UTAH.

PUBLISHED ON START 02/12/99 END 02/13/99

SIGNATURE [Signature]

DATE 02/13/99

THIS IS NOT A STATEMENT BUT A "PROOF OF PUBLICATION"
PLEASE PAY FROM BILLING STATEMENT

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH
SCHEDULING ORDER, DOCKET NO. 98-2035-04

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock
ISSUED: February 8, 1999

BY THE COMMISSION:
A scheduling conference was held pursuant to notice on January 26, 1999. The following entered appearances:

Edward A. Hunter George Galloway Stoel Rives LLP	for PacifiCorp
Brian Burnett Callister, Nebeker & McCullough; Jamie Van Nostrand Perkins Cole	Scottish Power
Richard Ginsberg Assistant Attorney General	Division of Public Utilities
Doug Tingey Assistant Attorney General	Committee of Consumer Services
Betsy Wolf	Salt Lake Committee Action Program
Bill Thomas Peters Parsons, Davies, Kinghorn & Peters	Emery County, Utah Association of Counties
Robert Reeder Parsons, Behle & Latimer	Utah Industrial Energy Consumers (UIEC)
Roger Tew Van Cott, Bagley, Cornwall & McCarthy Steven Alford Salt Lake City Deputy Attorney; Paul Morris West Valley City Attorney	Utah League of Cities and Towns
Matthew F. McNulty III Van Cott, Bagley, Cornwall & McCarthy	Utah Municipal Power Systems
Gary Dodge Parr, Wooddups, Brown, Gee & Loveless	Large Customer Group

After hearing from the parties and being fully advised, the Commission makes the following order regarding schedule and procedure in this docket:

ORDER
NOW, THEREFORE, IT IS HEREBY ORDERED, that:

- The following schedule shall apply in this case:
 - February 17, 1999 Filing deadline for petitions to intervene.
 - February 17, 1999 The Applicants, the Division of Public Utilities, the Committee of Consumer Services, and each party who has petitioned to intervene shall file written statements identifying the issues to be considered in this case.
 - March 1, 1999 Applicants shall file their direct testimony and exhibits.
 - March 5, 1999 Prehearing Conference at which the following matters will be considered:
 - (a) The February 17 issue statements and the issues that should be considered in this case;
 - (b) Whether there is potential to group intervening parties with common interests in the case and provide for lead counsel; and
 - (c) Objections and argument regarding the intervention of any petitioner.
 - March 31, 1999 The Committee of Consumer Services shall file a written statement identifying any additional issues to be considered in this case.
 - April 1, 1999 Prehearing Conference to hear argument on the Committee of Consumer Services' additional issues statement.
 - April 16, 1999 Applicants shall file direct testimony to address any additional issues requested by the Commission for consideration in this case.

In compliance with Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communication aids and services) during this hearing should notify Julie Orchard, Commission Secretary, at 469 East 300 South, Salt Lake City, Utah, 84111, (801) 530-6743, at least three working days prior to the hearing.

DATED at Salt Lake City, Utah, this 8th day of February, 1999.

(SEAL) /s/ Stephen F. Mecham, Chairman
/s/ Constance B. White, Commissioner
/s/ Clark D. Jones, Commissioner

Attest:
/s/ Julie Orchard
Commission Secretary
29820100

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Cheryl Murray
Signature

Cheryl Murray
Name (Type or Print)

113W. 550N Centerville, UT 84204
Residence Address

Dept. of Commerce
Employer or Firm

160 E. 300 S. SLU, UT 84111
Business Address

Committee of Consumer Services
Party

Feb. 17 1999
Date

16010

RECEIVED

FEB 17 4 50 PM '99

UTAH PUBLIC SERVICE COMMISSION

Edward A. Hunter
STOEL RIVES LLP
201 South Main, Suite 1100
Salt Lake City, Utah 84111-4904
Telephone: (801) 578-6936

Attorneys for PacifiCorp

Brian W. Burnett
CALLISTER NEBEKER & McCULLOUGH
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, Utah 84133
Telephone: (801) 530-7428

Attorneys for Scottish Power plc

REVIEWED BY COMMISSIONERS
STEPHEN H. MCGONIGLE *SM*
CONSTANCE H. WHITE *CHW 2/26*
CLARK D. JONES *CJ 2/4/99*

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application	)	DOCKET NO. 98-2035-04
of PacifiCorp and Scottish Power)	
plc for an Order Approving the	)	JOINT ISSUE STATEMENT
Issuance of PacifiCorp Common	)	OF PACIFICORP AND
Stock	)	SCOTTISH POWER PLC

Pursuant to the direction of the Commission in its February 8, 1998 Scheduling Order in this docket, PacifiCorp and Scottish Power plc submit the following statement identifying the issues to be considered in this case.

1. ORGANIZATIONAL STRUCTURE
 - a. How will PacifiCorp be organized after the transaction?
 - b. Why was this structure selected?

2. FINANCIAL ISSUES

- a. How will the transaction affect PacifiCorp's cost of capital?
- b. How will the transaction affect PacifiCorp's bond ratings?
- c. How can the Utah Commission be assured that PacifiCorp's Utah operations will have adequate access to capital?

3. BENEFITS AND COSTS OF THE TRANSACTION

- a. How will the transaction affect the costs of providing service to Utah customers?
- b. How will the transaction affect the level of corporate costs allocated to PacifiCorp?
- c. How will the transaction affect the quality of service to Utah customers?
- d. How will the transaction affect PacifiCorp's commitment to the State of Utah and the Utah communities in which it serves?
- e. How will costs of the transaction be handled?

4. IMPACT ON REGULATION

- a. How does the transaction affect the Utah Commission's ability to exercise regulatory powers over PacifiCorp?
- b. How will the transaction affect the Utah Commission's access to PacifiCorp information?
- c. How will the transaction affect the Utah Commission's cost of regulating PacifiCorp?
- d. How will the transaction affect PacifiCorp's affiliate transactions?

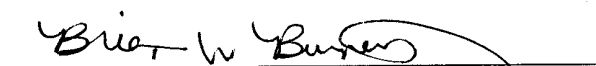
DATED this 17th day of February, 1999.

STOEL RIVES LLP



Edward A. Hunter
Attorneys for PacifiCorp

CALLISTER, NEBEKER & McCULLOUGH



Brian W. Burnett
Attorneys for Scottish Power plc

CERTIFICATE OF SERVICE

I hereby certify that I caused the foregoing Joint Issue Statement of PacifiCorp and Scottish Power PLC to be served upon the following persons by mailing a true and correct copy of the same, postage prepaid, to the following on the 17th day of February, 1999.

Michael Ginsberg
Assistant Attorney General
Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Service
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Peter J. Mattheis
Matthew J. Jones
Brickfield, Burchette & Ritts,
P.C.
1025 Thomas Jefferson Street,
N.W.
800 West Tower
Washington, D.C. 20007

Bill Thomas Peters
David W. Scofield
Parsons, Davies, Kinghorn &
Peters, P.C.
185 South State Street, Suite
700
Salt Lake City, UT 84111

Robert F. Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street
P.O. Box 45898
Salt Lake City, UT 84145-0898

Lee R. Brown
Vice President
Magnesium Corporation of
America
238 North 2200 West
Salt Lake City, UT 84116

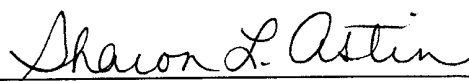
Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite
300
Salt Lake City, UT 84116

Gary A. Dodge
Parr Waddoups Brown Gee &
Loveless
185 South State Street, Suite
1300
Salt Lake City, UT 84111-1536

Eric Blank
Law Fund Energy Project
2260 Baseline Rd., Suite 200
Boulder, CO 80302

Matthew F. McNulty III
Van Cott Bagley Cornwall &
McCarthy
50 S. Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Steven W. Allred
Salt Lake City Law Department
451 S. State, Suite 505
Salt Lake City, UT 84111



16011

RECEIVED

FEB 17 4 52 PM '99

STEPHEN R. RANDLE - NO. 2687
RANDLE, DEAMER, ZARR, McCONKIE & LEE, P.C.
Attorneys for Utah Farm Bureau Federation
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1169
Telephone: (801) 531-0441
Facsimile : (801) 531-0444

UTAH PUBLIC
SERVICE COMMISSION

REVIEWED BY COMMISSIONERS
SILVIA E. MEDNAM SM
CONSTANCE B. WHITE CBW 2/26
CLARK D. JONES CDJ 3/4/99

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	<u>DOCKET NO. 98-2035-04</u>
PACIFICORP and SCOTTISH POWER)	
PLC for an Order Approving the)	
Issuance of PACIFICORP Common	)	PETITION TO INTERVENE
Stock.	)	(UTAH FARM BUREAU
	)	FEDERATION)

The Utah Farm Bureau Federation ("Farm Bureau") respectfully petitions the Commission for leave to intervene in the above-captioned matter, such intervention to be as the Farm Bureau's interests may appear. In support of its Petition, this Petitioner states:

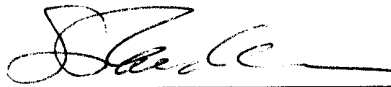
1. The Farm Bureau is a Utah non-profit corporation, organized, *inter alia*, to advance and improve the economic, educational, political and social interests of agriculture and the general welfare of this state and nation. Members of the Farm Bureau include irrigation farmers who use electric power furnished by PacificCorp in their irrigation pumping operations and for residential and other farming uses.
2. The interests of said irrigation pumpers are, or may be, substantially affected by this proceeding.
3. The interests of justice will be furthered, and the orderly and proper conduct of this

proceeding will not be materially impaired, by allowing this intervention.

4. Petitioner has not fully determined the specific positions that it will advocate if intervention is allowed. The focus of its concerns will be protecting the interests of rural agricultural customers of PacifiCorp within the State of Utah.

DATED this 17th day of February, 1999.

RANDLE, DEAMER, ZARR, McCONKIE
& LEE, P.C.



Stephen R. Randle
Attorneys for Utah Farm Bureau Federation

CERTIFICATE OF MAILING

I hereby certify that I mailed a true and correct copy of the foregoing PETITION TO INTERVENE (UTAHFARMBUREAU FEDERATION) this 17th day of February, 1999, postage prepaid, to the following:

Edward Hunter
George Galloway
Stoel Rives
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111-4904

F. Robert Reeder
William J. Evans
Parsons, Behle & Latimer
201 South Main Street, Suite 1800
Salt Lake City, Utah 84145-0898

Michael Ginsberg
Assistant Attorney General
Heber M. Wells Building, 5th Floor
160 East 300 South
Salt Lake City, Utah 84111

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary A. Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

Dr. Charles Johnson
The Three Parties
1339 Foothill Boulevard, Suite 134
Salt Lake City, Utah 84108

Peter J. Mattheis
Matthew J. Jones
Brickfield, Burchette & Ritts, P.C.
1025 Jefferson Street, S.W.
800 West Tower
Washington, D.C. 20007

Glen E. Davies
Bill Thomas Peters
Parsons, Davies, Kinghorn & Peters, P.C.
185 So. State Street
Suite 700
Salt Lake City, UT 84111

Brian Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, UT 84133

Doug Tingey
Assistant Attorney General
160 East 300 South
Salt Lake City, UT 84111

Roger Tew
Matthew F. McNulty, III
Van Cott Bagley Cornwall & McCarthy
P.O. Box 45340
Salt Lake City, UT 84145

Betsy Wolf
Salt Lake Community Action Program
764 So. 200 West
Salt Lake City, UT 84101



8srpj\845

Docket No. 98-2035-04

16007

VAN COTT, BAGLEY, CORNWALL & McCARTHY
Matthew F. McNulty, III, Esq. (3828)
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333

RECEIVED

REMOVED BY COMMISSIONERS
STEPHEN F. MECHAM
CONSTANCE D. WHITE
BY CLERK

FEB 17 5 08 PM '99
UTAH PUBLIC
SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacificCorp Common Stock</p>	<p>DOCKET NO. 98-2035-04 ORDER ON AMENDED PETITION FOR INTERVENTION OF UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS</p>
--	---

By the Commission:

Utah Associated Municipal Power Systems has petitioned the Commission to intervene in the above-described and number matter.

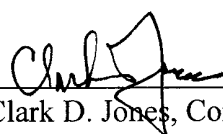
Based upon the Petition, and good cause appearing therefore, the Commission makes the following

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED that the petition of the Utah Associated Municipal Power Systems to intervene is hereby granted.

DATED in Salt Lake City, Utah, this ____ day of February, 1999.

Stephen F. Mecham, Chairman



Clark D. Jones, Commissioner

Constance White, Commissioner

ATTEST:

Julie Orchard
Commission Secretary

16005

~~16005~~

RECEIVED BY COMMISSIONERS

RECEIVED

DATE: FEBRUARY 17, 1999

BY: DAVID B. WHITE *DBW 2/17*

FEB 17 4 59 PM '99

FILED: FEBRUARY 17, 1999

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

UTAH PUBLIC SERVICE COMMISSION

In the matter of the Application of	)	DOCKET NO. 98-2035-04
PACIFICORP and SCOTTISH POWER PLC)	
for an Order Approving the Issuance of	)	COMMITTEE OF CONSUMER
PACIFICORP Common Stock	)	SERVICES STATEMENT OF
	)	ISSUES

Pursuant to the Commission's Order in this docket dated February 8, 1999, the Committee of Consumer Services herewith files its statement identifying issues to be considered in this matter.

DATED this 17th day of February, 1999.

By *DC*
 Douglas C. Tingey
 Assistant Attorney General

A. Introduction

In their application, ScottishPower and PacifiCorp ("the applicants" or "the companies") claim that the merger will produce efficiencies (i.e., merger benefits) in specific areas such that Utah ratepayers are better off with the merger than without the merger. In fact, ScottishPower was bold enough to state that annual merger benefits may approach \$200 million—a figure which, according to its finance director, translates into a shareholder value of \$2 billion.¹ The application, however, provides no cost-benefit analysis supporting the assertion of merger benefits for Utah ratepayers.

The Committee believes that the onus is on the applicants to provide rigorous cost-benefit analysis that quantifies merger benefits/costs by area, and in the aggregate. Such analysis is necessary to substantiate their claim that the proposed combination will foster net merger benefits for PacifiCorp's Utah ratepayers. Additionally, we believe the applicants carry the burden to demonstrate that the magnitude of merger benefits is significant and ongoing. (There exists a very real concern that ScottishPower may have plans to dismantle PacifiCorp's vertically integrated system and sell off certain transmission and generation assets.) If the amount of merger benefits is found to be neither remarkable nor sustainable, we submit that the proposed merger is of questionable value for Utah ratepayers and is unlikely to be in the public interest.

B. Issues List

1. Overall Cost-Benefit Analysis

Based on our conversations with the applicants, we understand they are prepared to meet a merger review standard of "positive net benefits." In order to meet this standard, the applicants should prepare a comprehensive cost-benefit study predicated on a rigorous cost-benefit analysis of items set forth in B2 --B9 below.

¹Attachment A is an article taken from the "Financial Times" (London), December 8, 1998, which quotes ScottishPower's finance director on the magnitude of annual merger benefits.

2. Financial Issues
 - 2.1 Cost-benefit study encompassing 2.2 –2.8.
 - 2.2 Cost of capital elements with and without the merger (capital structure, components, ratios, and returns).
 - 2.3 Access to capital markets and application of capital funds.
 - 2.4 Impact on bond ratings and bond refinancing.
 - 2.5 Tax effects of the merger and their repercussions for Utah ratepayers.
 - 2.6 Currency exchange impacts.
 - 2.7 Transactions costs (Costs of effectuating the merger):
 - 2.7.1 Total amount separated by specific category (legal and consulting fees, administrative expense, etc.);
 - 2.7.2 Acquisition adjustment and proposed ratemaking treatment; and
 - 2.7.3 Proposed allocation of transactions costs between shareholders and ratepayers.
 - 2.8 Budget considerations:
 - 2.8.1 Impact of merger-related changes on PacifiCorp's annual, total budget;
 - 2.8.2 Impact of merger-related changes on the allocation of PacifiCorp's budget by operational area (generation, transmission, distribution) and sub-area (customer service, maintenance, etc.); and
 - 2.8.3 Proposed budget-setting process for the combined companies and regulatory oversight of that process.
 - 2.9 Financial and business risks posed by the merger.
 - 2.9.1 Methods to minimize and assign such risks.
 - 2.10 Time-series (1988-1998) earnings comparisons of ScottishPower to other providers of electricity in Great Britain.
3. Affiliate Transactions
 - 3.1 Cost-benefit analysis encompassing 3.2 –3.5.
 - 3.2 Changes in the current structure of PacifiCorp's affiliate transactions. Quantify the increase/decrease in current affiliate costs attributable to the proposed merger (e.g., corporate overhead, etc.).
 - 3.3 Identify new affiliate transactions by type that result from the proposed merger and quantify the impact.
 - 3.4 Identify changes in methods for allocating affiliate costs and quantify the impact.
 - 3.5 Changes in procurement protocols and cost impacts.

4. Corporate-Organizational Structure Issues
 - 4.1 Cost-benefit analysis of the proposed organizational structure of the combined companies. The analysis should encompass 4.2 – 4.5.
 - 4.2 Identify areas or activities where consolidation or "rightsizing" is expected and quantify merger savings (benefits) by area or activity (e.g., corporate group, accounting and finance, operations, etc.).
 - 4.3 Comparison of alternative organizational structures and criteria applied to develop the proposed structure.
 - 4.4 Transition plan for merging the two organizations (elements, cost, timetable, etc.)
 - 4.5 Changes in executive compensation packages, incentive compensation plans, management severance packages, union contracts, etc. stemming from the proposed merger.
 - 4.6 Preservation of local control over PacifiCorp's assets, prices, annual budget and allocation of budget by area, reliability, customer service, etc.

5. Customer Service, Quality of Service, Reliability

In their application, the companies maintain that ScottishPower will bring managerial expertise to bear particularly in the areas of customer service, quality-of-service and reliability. These areas should be closely scrutinized in the merger review process.

 - 5.1 Comparison of ScottishPower to other British electricity providers in the areas of customer service, quality-of-service and reliability.

 - 5.2 Comparison of PacifiCorp's customer service criteria and performance record vis-a-vis ScottishPower.
 - 5.3 Comparison of PacifiCorp's reliability criteria and performance record vis-a-vis ScottishPower.
 - 5.4 Description of changes to systems, protocols and budgets involving customer service, quality-of-service and reliability.
 - 5.5 Cost-benefit analysis of all changes (technological, systems management, manpower, budgetary) proposed by the applicants which impact customer service, quality-of-service and reliability.

6. Operations
 - 6.1 Cost-benefit analysis of changes in operations (e.g., plant maintenance scheduling, plant dispatch protocols, fuel procurement strategy, wholesale power marketing, manpower savings, etc.)

7. Impact of the Proposed Merger on Utah
 - 7.1 Cost-benefit analysis detailing the impact of the merger on Utah. Such analysis should include: economic development; low income programs; environmental stewardship; energy conservation initiatives; community presence; etc.

8. Regulatory Cost Issues
 - 8.1 Identification of areas where the merger is anticipated to increase/decrease regulatory costs. Based on the foregoing, the applicants should quantify the expected cost increases/decreases by area and prepare a cost-benefit study to which parties can respond.
 - 8.2 Access to information. In particular, the ability to effectively audit and monitor the affiliated activities of the combined company.
 - 8.3 Compliance with existing PacifiCorp filing requirements, audit protocols and integrated resource planning processes.
 - 8.4 New or changed filing requirements resulting from the merger.
 - 8.5 Plans for future rate cases.
 - 8.6 ScottishPower's filing requirements in the United Kingdom (UK) and relationship with OFFER (i.e., attitude towards regulators).

9. Impact of the Proposed Merger on PacifiCorp's Prices in Utah
 - 9.1 Short-term (1-2 years), intermediate (3-5 years), and long-term (5-10 years) price impacts in Utah resulting from the proposed merger.
 - 9.2 Time series (1988-1998) price comparisons of ScottishPower to other providers of electricity in the UK.
 - 9.3 Time series (1988-1998) price comparisons by rate class of ScottishPower to other providers of electricity in the UK.
 - 9.4 Time series (1988-1998) price comparisons of ScottishPower to other providers of electricity in the UK by generation, transmission and distribution components.
 - 9.5 ScottishPower's corporate policy on special contracts.
 - 9.6 ScottishPower-Customer segmentation and price discrimination practices in the UK.

10. Electric Restructuring
 - 10.1 Preservation of PacifiCorp's assets (especially its low cost generation assets) for residential and small business customers.
 - 10.2 Examine ScottishPower's business plans, strategic planning documents, corporate board minutes, etc. to ensure that ScottishPower has no plans to spin-down PacifiCorp's assets into a non-regulated subsidiary or sell any assets outright.

11. ScottishPower's UK Holdings

- 11.1 Examination of changes mandated by ScottishPower management with respect to utilities it has acquired. Areas that require examination are: changes in dollar outlay per customer; budgetary changes; changes in employee numbers; changes in corporate structure and affiliate relations; changes in executive compensation and incentive packages; asset spin-downs or sales; price changes; changes in customer service; changes in reliability; etc.
- 11.2 Risk profile of ScottishPower's affiliated companies.
- 11.3 ScottishPower's plans for future expansion.

12. Merger Conditions

- 12.1 Analysis of merger-related issues will invariably give rise to concerns that necessitate the development of merger conditions to safeguard the interests of Utah ratepayers. Any merger approval, therefore, will likely require the applicants to comply with an explicit set of merger conditions. Sub-issues attendant to this category include:
 - 12.1.1 Merger conditions and underlying rationale;
 - 12.1.2 Time frame (permanent, temporary subject to review, short-lived with a sunset date, etc); and
 - 12.1.3 Enforcement (legal authority, agencies, power to impose penalties for non-compliance, etc.).

Attachment A

FT.com
 FINANCIAL TIMES

**WORLD'S MOST
 RESPECTED COMPANIES**
 CLICK HERE

FT.com
 SPECIAL REPORTS

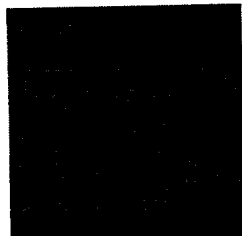
TUESDAY DECEMBER 8 1998

HEADLINES**WORLD****COMPANIES****MARKETS****INDUSTRIES**

[Banking](#)
[Other Financial](#)
[Computing](#)
[Consumer Inds.](#)
[Energy and Mining](#)
[General Inds.](#)
[Healthcare](#)
[Services](#)
[Telecoms](#)
[Transport](#)

INSIDE TRACK**TALK BACK****ARCHIVE****FT INDUSTRIES****Energy & Mining****US: Consumers switch to Scottish Power**

Andrew Taylor on whether Scottish Power will be able to transplant its cost-cutting skills to PacifiCorp



The third time was lucky for Scottish Power, which yesterday ended a year-long hunt for a US acquisition when it announced an agreed all-share offer, worth £4.2bn, for PacifiCorp, which supplies electricity to 1.4m customers in six western states.

On two previous occasions this year, negotiations between Scottish Power and potential US partners broke down. The UK group failed to reach agreements with Florida Light and Power, and Cinergy, the Ohio-based energy group.

British power companies seeking US acquisitions have previously been deterred by concerns over whether shareholder returns will be high enough to justify the high cost of buying US power utilities; worries over potential US regulatory and competition hurdles, and so called "social issues" over whether UK or US executives get to run the merged business.

There is no doubt that Scottish Power is the dominant force in the new business, even though it describes its all-share offer as a merger rather than a takeover.

The combined group will be called Scottish Power and have its headquarters in Glasgow. Scottish Power executives will fill the three senior posts of chairman, chief executive and finance director; a fourth UK executive, Alan Richardson, currently Scottish Power's managing director of power systems, will become chief executive of PacifiCorp.

Scottish Power shareholders will want to be convinced that a change at the top of the new group, assuming regulatory hurdles can be cleared, will generate sufficient shareholder value to justify the high premium its company is paying for the US utility.

Ian Russell, Scottish Power's finance director, calculates the offer represented a premium of more than \$1bn based on average share prices before yesterday's offer.

At last night's close, PacifiCorp shareholders would receive Scottish Power paper worth \$23.34½ a share, 12.5 per cent more than PacifiCorp's closing price of \$20¾ on Friday.

Mr Russell says that increased shareholder value, justifying this premium, will mainly come from improved efficiency at PacifiCorp and from growth in power

market data

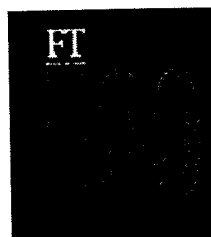
[Trading day](#)
[My portfolio](#)
[London latest](#)
[World shares](#)
[World indices](#)

company data

[Company briefing](#)
[UK results](#)
[FT annual reports](#)

economics

[Economics Notebook](#)
[Economic indicators](#)

ft 500

[Top global companies](#)

net resources

[Cybersightings](#)

newsgroups

[Your Views](#)
[Eagle Eye](#)

sister sites

[FT Energy](#)

ABOUT US**FT Newspaper**

[Subscribe](#)
[Advertise](#)

FTEP

[Les Echos](#)
[Recoletos](#)
[FT Group](#)

demand in the west of the US. Scottish Power's cost-cutting experience in UK electricity and water markets will be valuable, he says.

Operating costs at Manweb have reduced by 50 per cent, representing overhead annual savings of £85m, since Scottish Power bought the north Wales and Mersey side power utility for £1.1bn in 1995. By 2000, the group expects to have cut £50m of annual costs at Southern Water, which was bought for £1.7bn in 1996.

Scottish Power will have to prove that it can perform the same trick at PacifiCorp which, by its own management's admission, has significantly undershot the equity returns allowed by state power industry regulators.

Dick O'Brien, PacifiCorp's chief operating officer, says equity returns of between 7 and 10 per cent earned by the utility in Oregon, Idaho and Utah - which generate 80 per cent of the group's revenues - were up to three percentage points below average allowable national returns.

Another measure of efficiency, by the US Federal Energy Regulatory Commission, reported that PacifiCorp in 1996 was 56th out of 150 US power utilities measured by non-generation costs a customer. PacifiCorp's costs of \$300, which have since risen to \$340, compare with the current cost of \$155 for the most efficient company.

Scottish Power's finance director calculates that by cutting non-generation costs by \$150 a customer, PacifiCorp would release \$200m a year; equivalent to shareholder value of \$2bn "based on a forward price/earnings multiple of 10".

This would more than recoup the premium paid for PacifiCorp, without taking into account savings in other parts of the business such as electricity generation where PacifiCorp has 10,000MW of mostly coal-fired capacity.

The group's share price, which peaked at \$27.31 a year ago, has suffered badly since it sold its telecommunications interests to buy Energy Group of the UK, only to be outbid by Texas Utilities. "We became distracted by chasing [abortive] deals in the UK and Brazil and took our eye off the ball," says Mr O'Brien.

Scottish Power supplies about 3m electricity customers in the UK with about the same size labour force as PacifiCorp, which supplies half as many customers. The UK utility, which supplies electricity, gas, water or telecommunications services to one in five homes in the UK, has long recognised its need for a large US acquisition.

Following its purchases of Manweb and Southern Water, it has gone as far as it can in expanding its UK electricity and water interests through acquisitions without provoking the opposition of competition and regulatory authorities.

It is confident that it can overcome any such hurdles in the US. State regulators must be convinced that

customers will not suffer as a result of the takeover and that Scottish Power will be able to deliver promised efficiencies.

The group says federal competition issues are unlikely to be triggered as it does not own any other assets in the US. It has met the US Securities and Exchange Commission to discuss potential restrictions on foreign ownership of domestic electricity companies. "As a result of these discussions we do not believe foreign ownership of PacifiCorp will be a problem," says Ian Robinson, Scottish Power chief executive.

The UK utility must now show that it can transplant its cost-cutting skills to other side of the Atlantic. However, Ian Robinson, as a keen sportsman, will know that it is much harder to play away from home.

RELATED ARTICLES

[CONTACT ENERGY: NZ to privatise power generator](#)

[BRITISH ENERGY: Proposal tests gas-fired plant curbs](#)

[SCOTTISH POWER/PACIFICORP: Big Mouthful](#)

 [Back to top](#)

For more information search the past 30 days of FT.com.

Try our new [Archive](#) where you can search from over 4m articles from 3,000 publications.

[Help](#) | [Feedback](#) | [Site Map](#)

ONE ARCHIVE
click here

© Copyright the [Financial Times Limited](#) 1998

"FT" and "Financial Times" are trademarks of The Financial Times Limited.

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of February, 1999, I caused to be mailed first class, postage prepaid, a true and correct copy of the foregoing Committee of Consumer Services Statement of Issues.

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Edward A. Hunter
Stoel, Rives, Boley, Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Brian Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street N.W.
800 West Tower
Washington, D.C. 20007

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite
Salt Lake City, Utah 84108

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 180
P.O. Box 45898
Salt Lake City, Utah 84145-0898

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Colorado 80302

Bill Thomas Peters
David W. Scofield
Parsons Davies Kinghorn & Peters
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Gary Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Roger O. Tew
60 South 600 East Suite 200
Salt Lake City, Utah 84102

Steven Allred
Salt Lake City Corp. Law Dept.
451 South State Street Suite 505

Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 84119

Lee R. Brown
Vice President, Contracts,
Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, Utah 84107



10012

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH RECEIVED

FEB 17 4 53 PM '99

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for)
an Order Approving the Issuance of)
PacifiCorp Common Stock)

DOCKET NO. 98-2035-04 PUBLIC
SERVICE COMMISSION

REMOVED BY COMMISSIONERS

SULLIVAN E. MEDNAM

CONSTABLE D. WHITE

24
CPW/2/26
01/3/99

The Utah League of Cities and Towns (hereinafter referred to as

"ULCT") submits the following General Statement of Issues in the above-captioned proceedings.

INTRODUCTION

ULCT is an association of 232 cities and towns in the State of Utah that represents the governmental, financial and political interests of its members. Rather than submit individual petitions, the members of ULCT have directed it to file a consolidated Petition to Intervene in this matter as a matter of administrative efficiency. Nothing in ULCT's Petition to Intervene should be viewed as precluding individual municipalities from petitioning in their own interests.

The cities and towns of Utah are granted with the power "[t]o furnish all local public services, to purchase, hire, construct, own, maintain and operate, or lease, public utilities local in extent and use..." *Art. XI, Sec. 5, Constitution of Utah; City of Logan v. Utah Power & Light*, 796 P.2d 697 (1990).

Many cities and towns are direct suppliers of electrical generation, distribution and transmission facilities to the constituents of their municipalities. Others, primarily through the use of franchise agreements, indirectly supply such services through PacifiCorp. Each municipality is dependent upon PacifiCorp to facilitate the supply of low-cost, efficient and reliable electrical power to the municipal residents and businesses. Through the granting of franchises or similar agreements, Utah municipalities have the means to assess the impact of the proposed merger; however, the ULCT believes there is value in working within the authority of the Commission to provide for an orderly review of the merger application and related matters.

Most cities that rely upon PacifiCorp for the direct supply of electrical power impose a franchise fee, energy sales and use tax or a combination thereof. For most municipalities, those fees and taxes are a material revenue resource and are directly effected by the ratemaking and other decisions of this Commission. Those fees and taxes are intended to be paid as consideration for the right to use public property and are currently established upon the tariffs allowed by the Commission and charged by PacifiCorp. That consideration may not represent the fair market value for the right to use public property.

ULCT has concurred in the accelerated schedule established by the parties and approved by the Commission; however, such concurrence was predicated upon the assumption that certain records of the Commission's

previous related actions would be available for review and, to the extent practical, adopted by reference. ULCT has been unable to readily acquire such records.¹ In addition, ULCT has not been party to any discovery to date nor has it had been made aware of the nature of the testimony that will be offered by the applicants in support of such merger.

Accordingly, ULCT submits the following Statement of Issues as a tentative statement and specifically reserves the right to modify or augment such statement as such records and testimony become available.

STANDARD FOR REGULATORY REVIEW

ULCT urges the Commission to adopt and apply the "positive benefit test" to determine the reasonableness of the proposed merger.

STATEMENT OF ISSUES

1. Will the proposed merger result in an increase in reliability?

This would include the merged companies' commitment to use its best efforts to incorporate technological advances into its equipment and services when such advances have been demonstrated to be technically and economically feasible, safe and beneficial to the customers of the merged company. This would also include the obligation to upgrade the existing system to the extent it has been allowed to deteriorate from an acceptable level of maintenance.

¹ ULCT is primarily interested in those records that pertained to the Commission's earlier actions related to the application of CP National Corporation and Utah Power & Light Company for the sale and purchase of the public utility electric business of CP National for services in Washington, Iron and Kane Counties, Case nos. 80-023-01 and 80-035-02.

This would also include the promulgation of standards to demonstrate service reliability and customer satisfaction by independent audit.

In addition, this would include an analysis of service reliability, availability and cost; quality of service; and the availability of quality resources within the merged company.

2. Will the merged company recognize a process facilitating municipal self-determination in providing electric distribution to their residents, including corresponding rights and obligations to generation and transmission system?

This would include the promulgation of an equitable valuation methodology that protects the municipality from unreasonable valuation and fairly compensates the company.

3. Will the merged company have local accountability?

This would include commitments from the merged company that there will be high-ranking executive personnel, resident in Utah, who have the necessary resources and authority to provide local responses to local issues. ULCT expresses its perception that since the merger of Utah Power & Light Company and PacifiCorp, such authority has migrated to the State of Oregon and Utah's municipalities have not had adequate access to the appropriate personnel.

4. Will the merged company be able to demonstrate that it is financially stable so that it will be capable of providing appropriate return to

its stockholders without prejudice to the customers and municipalities in Utah?

The analysis would demonstrate that the merger would not adversely effect the ability to attract and maintain commercial and industrial business into the corporate limits of Utah's municipalities.

In addition, the analysis should demonstrate that the merger would not adversely effect employment, housing or resource development within the various municipalities.

5. Will the merged company pursue an aggressive program of improving the location and aesthetics of its existing facilities and cooperate in the removal of barriers to sound planned development?

This would include an analysis of the costs associated with undergrounding and improving the aesthetics of substations and other facilities.

6. Will the merger hearings provide adequate opportunity to address infrastructure development and regulatory reform?

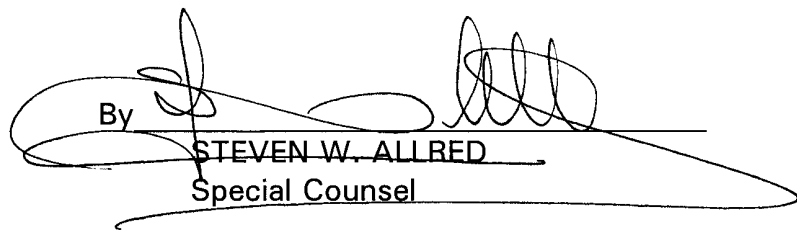
This will include the review of rate restructuring that provides incentives and assurances that future infrastructure needs will be given a priority in company capital investment as well as operation and maintenance programs.

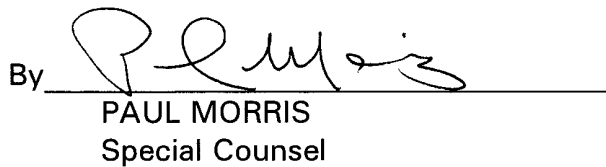
This will also include review of opportunities for streamlining the administrative process to enhance the regulatory benefits to the company

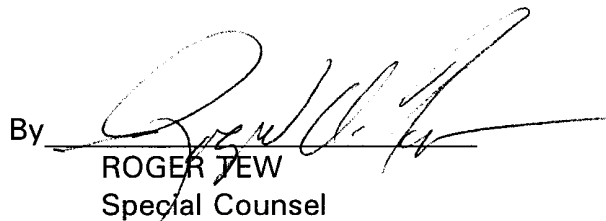
and its customers, expedite review and responses to applications and lower the economic barrier to regulatory review.

DATED this 17TH day of February 1999.

UTAH LEAGUE OF CITIES AND TOWNS

By 
STEVEN W. ALLRED
Special Counsel

By 
PAUL MORRIS
Special Counsel

By 
ROGER TEW
Special Counsel

16008

RECEIVED

VAN COTT, BAGLEY, CORNWALL & McCARTHY
Matthew F. McNulty, III (3828)
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333

FEB 17 5 09 PM '99

UTAH PUBLIC
SERVICE COMMISSION
RECEIVED BY COMMISSIONERS

STEPHEN E. MEDNAM *See*
CHRISTOPHER WHITE *CPW 2/26*
dy 3/4/99

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacificCorp Common Stock	DOCKET NO. 98-2035-04
---	-----------------------

UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS' AMENDED PETITION FOR INTERVENTION AND STATEMENT REGARDING ISSUES RAISED BY THE APPLICATION OF PACIFICORP AND SCOTTISH POWER

In light of the comments of PacifiCorp's representative at the January 26th scheduling conference in this matter, Utah Associated Municipal Power Systems ("UAMPS"), by and through its attorneys of record, and on behalf of its members, respectfully submits this Amended Petition for Intervention of UAMPS to the Public Service Commission of Utah (the "PSC"), pursuant to Utah Code Annotated § 63-46b-9 and Utah Admin. Code R. 746-100-7 for leave to intervene in the above captioned matter. UAMPS also submits the following statement regarding its views and positions as to several issues raised by the PacifiCorp and Scottish Power Application for merger (the "Application").

INTRODUCTION

UAMPS believes and asserts that the Application that provides the genesis for these proceedings is woefully lacking in substantive detail. As a result, a reasoned review of the

Application is difficult, if not impossible. When little or no detail is provided vis-a-vis a transaction involving multi-jurisdictional entities, multi-jurisdictional customers and multi-jurisdictional regulators, the PSC's ability to make a meaningful determination as to what is, or is not, in the "public interest" is threatened. The PSC, provided with piecemeal information as to a global Application, must necessarily struggle to insure that the Application will, not only not hurt Utah's citizens, but provide tangible benefits to those same citizens. The PSC cannot and should not reasonably rely on other state or federal regulators to provide broad protection to Utah's ratepayers and citizens.

1. **Identity of Petitioner.** UAMPS is a political subdivision of the State of Utah, and is comprised of thirty-one (31) Utah municipalities, two Arizona municipalities, one Idaho municipality, one Utah electric service district, one Utah interlocal agency and one Utah water conservancy district (hereinafter "UAMPS members").¹ UAMPS was established in 1980 pursuant to the applicable provisions of the Interlocal Cooperative Act, Title 11, Chapter 13, Utah Code Annotated (1953), as amended and supplemented from time to time (the "Act"). UAMPS' purposes include planning, financing, development, acquisition, construction, improvement, betterment, operation, and maintenance of projects for the generation, transmission, and distribution of electric energy, for the benefit of its members. UAMPS members, through their very existence, provide "yardstick competition" and "yardstick performance" against which PacifiCorp's rates, service performance and general reliability can be assessed.

¹ A list of UAMPS' members is provided as Exhibit "A" to this Amended Petition.

2. **Statement of Interest / Statement of Issues.** PacifiCorp is currently providing electric service to customers located within the municipal boundaries of some UAMPS members. PacifiCorp is additionally providing electric service to customers located in areas scheduled to be, or anticipated to be, annexed into the municipal boundaries of some UAMPS members. PacifiCorp service to customers within the boundaries of UAMPS members is not anticipated to continue. In order to serve these customers, it may be necessary for UAMPS members to condemn and/or purchase the PacifiCorp distribution facilities, and in some limited cases the generation facilities, that serve these customers. The PSC, with the filing of this Application, is now uniquely positioned to resolve pricing, timing and other related issues via-a-vis PacifiCorp facilities that serve these customers.

It is unlikely that PacifiCorp's distribution assets will be transferred to Scottish Power at a discounted value. Ironically, despite the fact that maintenance of the distribution system in Utah has gone wanting for some time, it is anticipated this acquisition/merger will act to "bump" or increase the book value of the distribution system. Approval of the Application should not create an "acquisition premium" that will be borne by UAMPS' members that are negotiating to purchase, or condemning, degraded distribution facilities within their boundaries. In addition, the PSC should not allow an "acquisition premium" to be passed through to any Utah rate payer; if Scottish Power's shareholders believe PacifiCorp's assets are worth more than book value, those shareholders should bear the risk of being wrong.

UAMPS is one of the joint owners of the Hunter II Generation Facility with PacifiCorp. If a "acquisition premium" is paid for both the coal operations that serve this plant and the plant itself, UAMPS' members should not be expected to help "cover" increased operation and ownership costs of this facility. The question then becomes, if UAMPS does not

cover the increased costs, then who will; the rate payers of the merging entities? Questions must be addressed and answered as to how a “acquisition premium” paid by Scottish Power for PacifiCorp’s coal operations, distribution, generation and transmission facilities should be treated vis-a-vis rates for Utah customers.

UAMPS and its members, as a result of serving their customers, provide “yardstick competition” and “yardstick performance” as to electric service issues in the State of Utah. UAMPS and its members are deeply concerned about the quality of transmission and distribution service within PacifiCorp’s service area. UAMPS and its members have experienced significant reliability problems with PacifiCorp’s transmission system over the past several years and believe that PacifiCorp’s transmission service is noticeably less reliable than it was before the merger of Utah Power & Light and PacifiCorp. Since the same lines that serve UAMPS in most cases also serve PacifiCorp’s own customers, UAMPS suspects that transmission reliability is a state-wide issue. It is entirely possible , if not likely, that PacifiCorp’s pattern of aggressive cost cutting measures, when coupled with the loss of control to out-of-state utility executives, contributed to declining transmission and distribution reliability for the citizens of the State of Utah. As a result of the merger, Utah Power & Light is now a local Utah utility in name only.

PacifiCorp now proposes to merge with an entity that will make decisions and control operations from another continent. The proposed merger requires close scrutiny prior to approval of the transaction. A number of issues must be examined:

1. Is the work force that service Utah customers to be further reduced?
2. If reduced, how will the work force assure reliable service?
3. What degree of budgetary and other types of control will the PSC retain over the merged entity?

4. What plans have been made to modernize and repair the now degraded PacifiCorp transmission and distribution facilities?

Frankly, Utah was misled, and as a result, guessed wrong on similar questions with the Utah Power & Light and PacifiCorp merger. "Caution" should be the watchword during these new merger proceedings. Simply because the Federal Energy Regulatory Commission ("FERC") sets the rates and terms of transmission service, the PSC should not rely upon FERC to protect Utah's citizens from unreliable operation and maintenance of transmission facilities. The PSC has the duty and the necessary jurisdiction to protect Utah's citizens as to issues such as unreliable service. Acting so as to protect the public interest, the PSC can, and should, as part of these proceedings, mandate and regulate the protection of, and supplementation of, transmission and distribution facilities, no matter where located, that are relied upon by Utah's citizens.

UAMPS asserts that one of the unfortunate "benefits" of the Utah Power & Light and PacifiCorp merger is a lack of local control and information vis-a-vis reliability issues. As part of any approval of this Application, the PSC should mandate creation of a reliability database that would include, at a minimum, outage information and voltage fluctuation data. This would allow future reliability compliance proceedings designed to punish and/or reward the joint Applicants as to reliability performance in Utah.

PacifiCorp is a fully vertically integrated public utility. As a result the PSC now has the broad authority and ability to enter orders concerning operations well beyond Utah's geographic boundaries. As is noted above, there is precious little in the subject application that identifies whether the merged entities will divest, some or all, of the generation and/or transmission facilities that are currently part of PacifiCorp's system. If divestiture of certain assets, or groups of assets, is necessary, now, or in the future, it is likely that the PSC's ability to

make demands that protect Utah's citizen will be severely curtailed. The PSC must prior to approval of this Application create a process designed to protect against divestiture policies that will leave Utah's citizens at the mercy of wholly unregulated business entities.

Finally, the PSC should take advantage of the lessons learned during, and after, the Utah Power & Light and PacifiCorp merger. Because of that merger there is no shortage of information as to the pitfalls of losing control of a state resource that is relied upon by so many of Utah's citizens. The PSC should consider doing two things:

- (1) Review all the promises made during the Utah Power & Light and PacifiCorp application for merger process as to rates, reliability, staffing and local control issues; and,
- (2) Compare those promises with current performance.

As part of this review and comparison process the PSC should seek the testimony of the then-sitting PSC commissioners, longtime Utah Power & Light customers and long-time Utah Power & Light employees. It should determine if these groups believe Utah's citizens benefited from control policies provided by a Portland based entity. It should then ask whether Utah citizens will benefit from control by an entity a half a world away.

3. **Interest of Justice Not Impaired.** The interests of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing the intervention of UAMPS. UAMPS' intervention will not prejudice any party nor will intervention in this proceeding unduly broaden its nature or scope. Allowing this timely intervention of UAMPS will not delay this proceeding.

4. **Notice.** If intervention is granted, copies of all notices and filings should be served on the following:

Matthew F. McNulty, III
Van Cott, Bagley, Cornwall & McCarthy
Attorneys for UAMPS
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333

Douglas O. Hunter
General Manager
Utah Associated Municipal Power Systems
2825 East Cottonwood Parkway, Suite 200
Salt Lake City, Utah 84121

NOW THEREFORE, UAMPS respectfully requests that the PSC issue an Order authorizing UAMPS to intervene and fully participate in the above captioned proceeding. A proposed form of Order is submitted herewith.

RESPECTFULLY SUBMITTED this 17 day of February, 1999.

VAN COTT, BAGLEY, CORNWALL & McCARTHY

By: Ma
Matthew F. McNulty, III
Attorneys for UAMPS

MAILING CERTIFICATE

I hereby certify that I caused a copy of the foregoing **UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS' AMENDED PETITION FOR INTERVENTION AND STATEMENT REGARDING ISSUES RAISED BY THE APPLICATION OF PACIFICORP AND SCOTTISH POWER** regarding Docket No. 98-2035-04, to be mailed by first class mail, postage prepaid, this 17 day of February, 1999 to the following:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle Deamer Zarr Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Colorado 80302

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, Suite 800
Salt Lake City, Utah 84133

Glen F. Davies
Bill Thomas Peters
Parsons Davies Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Boulevard, Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
Salt Lake City, Utah 84145

Robert Green
Scottish Power plc
121 SW Morrison, Suite 1800
Portland, Oregon 97204

Lawrence H. Reichman
Perkins Coie LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715

Anne E. Eakin
PacifiCorp
825 NE Multnomah Street
Portland, Oregon 97332

D. Douglas Larson
PacifiCorp
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000

Roger O. Tew
Utah League of Cities and Towns
50 South 600 East
Salt Lake City, Utah 84102



16009

Daniel G. Moquin, No. 7585
Assistant Attorney General
Jan Graham, No. 1231
Utah Attorney General
1594 West North Temple, #300
Salt Lake City, Utah 84116
Telephone: (801) 538-7227

RECEIVED

FEB 17 4 55 PM '99

UTAH PUBLIC
SERVICE COMMISSION

REVIEWED BY COMMISSIONERS

STEPHEN J. MEDHAM *SM*
CONSTABLE B. WHITE *OW 2/26*
CLARK D. JONES *cdj 2/4/99*

Attorney for the Office of Energy and Resource Planning

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

---oo0oo---

IN THE MATTER OF THE	:	DOCKET NO. 98-2035-04
APPLICATION OF PACIFICORP AND	:	ISSUE STATEMENT OF THE
SCOTTISH POWER PLC FOR AN	:	OFFICE OF ENERGY AND
ORDER APPROVING THE ISSUANCE	:	RESOURCE PLANNING
OF PACIFICORP COMMON STOCK	:	

---oo0oo---

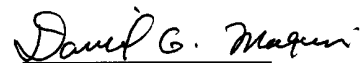
Pursuant to the invitation of the Public Service Commission of Utah ("Commission") the Utah Office of Energy and Resource Planning ("OERP") submits the following statement of issues we believe should be considered as part of this case. In doing so, we offer that we have had the opportunity to review the statement of issues prepared by the Utah Division of Public Utilities and believe the issues raised by the Division are appropriate and should be addressed as part of this proceeding. In addition, we raise the following issues:

1. To what extent will the merged company continue to support and cooperate in a meaningful RAMPP process? Will the merged company commit to acquiring cost-effective demand-side resources at levels identified in the most recent Resource and Marketing Planning Program report?

2. What effect would the merger effect PacifiCorp's participation in the Western Regional Air Partnership and their support for a regional cap and trade system to reduce visibility impairing emissions in the west?
3. Would the merged company support the development of reliability standards in the Western Interconnection and deference to such regional standards by the North American Electric Reliability Council (NERC) and its successor?
4. To what extent would the merged company support review of proposed interconnection reliability standards and the enforcement of such standards by a regional organization comprised of the states and Canadian provinces in the Western Interconnection?
5. If retail access were to be authorized in Utah how would the merged company propose to mitigate market power in the Utah market? How would the company propose to preserve public benefits programs for low income customers, renewable energy, the environment and energy efficiency?
6. What is Scottish Power's corporate policy on carbon emissions reductions? Will this policy be extended to PacifiCorp's Utah operations?
7. How would Scottish Power envision PacifiCorp's Utah operations being positioned to respond to potential federal mandates on carbon emissions reductions?
8. Will Scottish Power/PacifiCorp support full disclosure of information of fuel sources and related emissions for electricity supplied to the company's wholesale and retail customers?

9. If Scottish Power/PacifiCorp's Utah operations remain a vertically integrated utility to what extent will the company offer customers a portfolio of electric supply options and energy efficiency services? What might those supply options and services include?
10. What is Scottish Power's policy towards conservation and land management with respect to corporate operations and public resources? To what extent would these policies be integrated into PacifiCorp's operations in Utah?
11. To what extent would the Scottish Power/PacifiCorp merger enhance the Utah company's acquisition of a clean, diversified, resource mix?
12. What is Scottish Power's corporate policy towards the environment and sustainable development issues? How would the merger enhance (or detract) from PacifiCorp's current corporate policy in these areas?

DATED this 16th day of February, 1999


Daniel G. Moquin
Assistant Attorney General
State of Utah

CERTIFICATE OF SERVICE

I hereby certify that on this 16th day of February, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing ISSUES STATEMENT to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1026 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 S. Main Street, #1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133


Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
Salt Lake City Utah 84145-0898



Daniel G. Moquin
Assistant Attorney General
State of Utah

16027

BEFORE THE PUBLIC SERVICE COMMISSION RECEIVED
OF THE STATE OF UTAH

FEB 17 9 58 AM '99

* * *

In the Matter of the Application of PacifiCorp)
and Scottish Power plc for an Order Approving)
the Issuance of PacifiCorp Common Stock)

UTAH PUBLIC SERVICE COMMISSION
Docket No. 98-2035-04

REVIEWED BY COMMISSIONERS

STEPHENE E. MECHAM *SEM*

CONSTANCE B. WHITE *CBW 2/26*

CLARK D. JONES *CJ 3/4/99*

ISSUE STATEMENT OF THE
LAND AND WATER FUND OF THE ROCKIES

Pursuant to the invitation of the Utah Public Service Commission ("Commission"), the Land and Water Fund of the Rockies ("LAW Fund") hereby provides its statement of issues for this proceeding. At this time, the LAW Fund has five general issues it would like to bring to the Commission's attention.

1. Energy Efficiency: Over the past five years, PacifiCorp has provided low-cost loans and a variety of technical support services to help its customers use energy more efficiently. These programs have helped reduce customer energy use, avoid the need for future power plants at a fraction of the cost, and improved the competitiveness of a number of Utah businesses. Indeed, PacifiCorp's resource planning analysis has consistently shown that the Company's energy efficiency programs are highly cost effective and produce real environmental benefits. How will the acquisition impact ongoing efforts to promote energy efficiency? Will the Company use the same approaches and programs? What are the Company's plans for energy efficiency? Do additional regulatory mechanisms need to be put in place in regard to energy efficiency?

2. Renewable Resources: In the last rate case PacifiCorp agreed to participate in a Task Force that would lead to the development of a program that would allow interested customers

to pay a little more on their electric bill to purchase clean energy generated from wind or other renewable sources. Customer responses to similar programs outside of Utah have been unexpectedly high. Would the newly acquired Company be willing to offer its customers a choice of purchasing a renewable energy product? What might such a choice look like? In addition to exploring providing customer choices, PacifiCorp had purchased a small, but not insignificant, amount of wind power as part of its regulated resource base from a wind site located in central Wyoming. Is it the intent of the new management to keep this wind power as part of its regulated resource mix? What are the Company's intentions with regard to renewable resources? Do additional regulatory mechanisms need to be put into place in regard to renewable resources?

3. Air Quality/Regional Haze: Over the years, PacifiCorp has done a reasonable job of seeking to improve air quality and to solve visibility and other problems resulting from the contribution of utility pollutant emissions to regional haze. What effect will the acquisition have on the Company's air quality improvement and regional haze activities? Do any additional regulatory mechanisms need to be put in place in regard to encouraging the Company to proactively pursue air quality improvements?

4. The Risk of CO2 Controls: One of the major risks confronted by a coal-based utility like PacifiCorp is the potential for tighter federal controls on carbon dioxide emissions. What effect will the acquisition have on PacifiCorp's efforts to deal with the risk of future carbon dioxide controls? What plans does the new management have to mitigate these risks?

5. Retail Competition: A number of states in the West -- including California, Nevada, Arizona, and Montana -- have made a policy decision that would allow retail customers to choose their own electric supplier. What impact will the acquisition have on PacifiCorp's attitude toward retail competition in Utah?

DATED this 17th day of February 1999.

Respectfully submitted,

A handwritten signature in cursive script that reads "Eric Blank".

ERIC BLANK, Director
LAW Fund Energy Project
2260 Baseline Rd., Suite 200
Boulder, CO 80302
Telephone: (303) 444-1188 x220
Facsimile: (303) 786-8054

CERTIFICATE OF SERVICE

I hereby certify that the original and eight (8) copies of the STATEMENT OF ISSUES OF THE LAND AND WATER FUND OF THE ROCKIES was sent via Federal Express to Stephen F. Mecham, Chairman, Public Service Commission of Utah, 160 East 300 South, Salt Lake City, Utah 84145, on this 9th day of February, 1999, and a true and correct copy was sent by U.S. mail, first-class and postage prepaid, to the following persons:

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 S. State St. #1300
Salt Lake City UT 84111-1536

Edward Hunter
John Eriksson
Stoel Rives
201 S. Main St. #1100
Salt Lake City UT 84111

Michael Ginsberg
Asst. Attorney General
500 Heber M. Wells Bldg.
150 East 300 South
Salt Lake City UT 84111

Doug Tingey
Asst. Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City UT 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson St. NW
800 West Tower
Washington DC 20007

Dave Blackwell
Emery County Attorney
PO Box 249
Castle Dale UT 84513

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple #330
Salt Lake City UT 84111-1004

Daniel Moquin
Asst. Attorney General
1594 West North Temple #300
Salt Lake City UT 84116

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East #900
10 East South Temple
Salt Lake City UT 84133

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd. #134
Salt Lake City UT 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City UT 84116

Robert Green
Scottish Power
121 SW Morrison #1800
Portland OR 97204

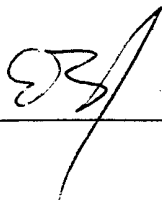
Lawrence H. Reichman
Perkins Cole LLP
1211 SW 5th Ave. #1500
Portland OR 97204-3715

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah St.
Portland OR 97332

D. Douglas Larson
Director, Regulatory Policy
PacifiCorp
One Utah Center #2200
201 S. Main
Salt Lake City UT 84140-2000

Glen E. Davies
Parsons, Davies, Kinghorn & Peters
185 S. State St. #700
Salt Lake City UT 84111

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 S. Main St. #180
PO Box 45898
Salt Lake City UT 84145-0898



15997

RECEIVED

FEB 17 4 06 PM '99

Gary A. Dodge, Esq. #AO897
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536
Telephone: 801-532-7840
Attorneys for Large Customer Group

UTAH PUBLIC
SERVICE COMMISSION
RECEIVED BY COMMISSIONER
STEPHEN E. MICHAM *SM*
CONSTANCE D. WHITE *CDW 2/26*
CLAIRE J. JONES *CJ 3/4/99*

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PacifiCorp and Scottish Power plc) Docket No. 98-2035-04
for an Order Approving the Issuance)
of PacifiCorp Common Stock) LARGE CUSTOMER GROUP'S
) STATEMENT OF ISSUES

Pursuant to the Commission's Scheduling Order in this matter, the Large Customer Group ("LCG") submits an initial list of issues that the LCG believes the Commission should consider in determining whether to approve the issuance of securities as requested by the Applicants. At this point, the LCG has identified the following issues that it believes should be addressed by this Commission in the course of its investigation into whether the relief requested by the Applicants should be granted:

1. **Reliability/Quality of Service.** The merged company's proposed cost-cutting measures could impact reliability and quality of service in an unreasonable and unacceptable manner. If the merger is approved, appropriate and effective quality/reliability standards should be explored, adopted and enforced. Moreover, appropriate incentives and requirements should be adopted to ensure appropriate levels of investment in electric facilities and services.

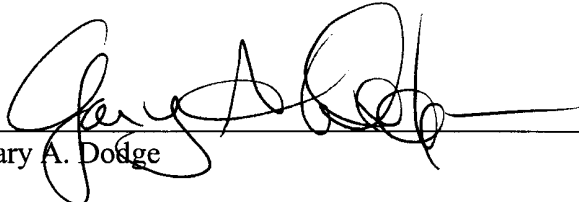
2. **Rates/Terms of Service.** PacifiCorp's electric rates and terms of service could be negatively impacted by the merger. The merger will add complexities in the area of cost allocation. Moreover, the merger puts ratepayers at risk if it proves to be an unwise or inefficient move. The company should be prepared to make specific and measurable commitments to ensure that its customers are benefitted and to avoid the risk of any adverse impact of the merger on ratepayers.

3. **Industry Restructuring.** The merger may impact Utah's readiness for and response to industry restructuring. The merged company has not clearly articulated its position on or its intended response to federal and state restructuring efforts, unbundling of rates, transmission reform, existing and prospective competition, development of and participation in a Regional Grid Management Organization, and customer choice. Steps should be taken to ensure that the merged company is adequately prepared for and will not adversely impact ongoing discussions and decisions regarding, or preparations for, industry restructuring.

4. **Other.** The LCG reserves the right to take positions and submit testimony on any other issues identified by any other participants to this proceeding. The LCG also reserves the right to submit additional issues that it or its consultants may hereafter determine to be relevant.

DATED this 17th day of February, 1999.

PARR WADDOUPS BROWN GEE & LOVELESS



Gary A. Dodge

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 17th day of February, 1999, to the following:

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, UT 84111

Brian W. Burnett
CALLISTER NEBEKER MCCULLOUGH
10 East South Temple, #800
Salt Lake City, UT 84133

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Douglas C. Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

F. Robert Reeder
William J. Evans
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
RANDLE DEAMER ZARR ROMRELL
139 East South Temple, Suite 330
Salt Lake City, UT 84111

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD BURCHETTE & RITTS
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline Rd., Suite 200
Boulder, CO 80302

Matthew F. McNulty, III
VANCOTT BAGLEY CORNWALL
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Lee R. Brown
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN
185 South State Street, Suite 700
Salt Lake City, UT 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108

Jeni Tibbitts

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM

CONSTANCE B. WHITE

CLARK D. JONES

CBW 2/24

3/1/99

15995

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

FEB 17 3 48 PM '99

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for an)
Order Approving the Issuance of)
PacifiCorp Common Stock)

UTAH PUBLIC SERVICE COMMISSION
Docket No. 98-2035-04
PETITION FOR LEAVE TO INTERVENE

Pursuant to the Rules of Practice and Procedure of the Utah Public Service Commission (Commission), The Salt Lake Community Action Program and the Crossroads Urban Center hereby petition for leave to intervene in the above-captioned docket and, in support thereof, state as follows:

1. The Salt Lake Community Action Program (CAP) is a private nonprofit community-based organization that addresses the needs of low-income people through service delivery and advocacy.
2. Crossroads Urban Center (Crossroads) is a nonprofit community-based organization serving the needs of low-income people in the Salt Lake Metropolitan Area.
3. CAP and Crossroads have a special interest in ensuring that the people they represent are charged fair and reasonable electric rates. Any final order issued by the Commission affecting the ownership of PacifiCorp may have an impact on residential electric customers and the price that residential electric customers will have to pay.
4. Furthermore, since Salt Lake Community Action Program and Crossroads Urban Center represent low income people, those organizations have a particular interest in ensuring that electric utility rates remain as low as possible since people with limited incomes pay such a disproportionate share of their income for electric service.
5. Accordingly, CAP and Crossroads possess a direct and substantial interest in the subject matter of this case, and seek via this intervention petition to protect that interest as it may appear. Participation in this docket will be in the public interest and may also be of particular assistance to the Commission in rendering informed decisions on the issues that will likely be raised.
6. Intervention by CAP and Crossroads will not delay the proceeding or unduly burden the other parties in the proceeding.

7. CAP and Crossroads request that all pleadings, correspondence, discovery, and other documents be served on:

Dr. Charles E. Johnson
1338 Foothill Blvd. Suite 134
Salt Lake City, Utah 84108
FAX: (801) 274-0075
VOICE: (801) 274-2605

Respectfully submitted this 17th day of February, 1999.



Betsy Wolf, Utility Ratepayer Advocate
Salt Lake Community Action Program

Jeff Fox
Urban Crossroads Center

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for an)
Order Approving the Issuance of)
PacifiCorp Common Stock)

Docket No. 98-2035-04
LIST OF ISSUES

Salt Lake Community Action Program (CAP) and Crossroads Urban Center (Crossroads) represent the interests of low-income residential customers of PacifiCorp in Utah. In that regard, they raise the following issues in the request of PacifiCorp and Scottish Power plc in this proceeding:

1. What will be the impact of the merger on low-income customers, both in the near term and in the longer term?
2. What will be the impact of the merger on the provision of customer service?
3. What will be the impact of the merger on energy conservation programs?
4. What will be the impact of the merger on the disposition of assets of PacifiCorp?

CAP and Crossroads expect to explore these issues and issues raised by other parties in this proceeding, paying special attention to any issues raised that may affect low-income customers.

Respectfully submitted this 17th day of February, 1999.

Betsy Wolf
Betsy Wolf, Utility Ratepayer Advocate
Salt Lake Community Action Program

Jeff Fox
Urban Crossroads Center

CERTIFICATE OF SERVICE

This is to certify that on this 17th day of February, 1999 I caused to be filed with the Public Service Commission of Utah the original and 15 copies of this Petition for Leave to Intervene and List of Issues in Utah PSC Docket No 98-2035-04 of The Salt Lake Community Action Program and the Urban Crossroads Center and delivered by hand or First Class Mail copies to the following parties:

Utah Power & Light Company

Douglas Larson
Utah Power & Light Company
One Utah Center
201 South Main, Ste 800
Salt Lake City, UT 84140-0800

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah Street
Portland, Oregon 97332

Edward Hunter
John Eriksson
Stoel Rives LLP
201 South Main, Ste 1100
Salt Lake City, UT 84111-4904

Scottish Power plc

Brian W. Burnett, Esq.
Calister Nebeker & McCullough
Gateway Tower East Suite 900
10 East South Temple
Salt Lake City, Utah 84133

Robert Green
Scottish Power plc
121 SW Morrison, Suite 1800
Portland, Oregon 97204

Lawrence H. Reichman
PERKINS COLE LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204

Land and Water Fund of the Rockies

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline Road, suite 200

Boulder, CO 80302

Division of Public Utilities

Michael L. Ginsberg
Assistant Attorney General
Division of Public Utilities
160 East 300 South 5th Floor
Salt Lake City, Utah 84111

Committee of Consumer Services

Douglas Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, Utah 84111

Nucor Steel

Peter J. Mattheis
Dean S. Brockbank
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, NW
800 West Tower
Washington, D.C. 20007

Glen E. Davies
PARSONS, DAVIES, KINGHORN & PETERS, P.C.
185 South State Street
Suite 700
Salt Lake City, Utah 85111

Curtis Broadbent
Controller
NUCOR STEEL
P.O. Box 100
Plymouth, Utah 84330

Utah Industrial Energy Consumers

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street Suite 1800
Salt Lake City, Utah 84145-0898

Emery County

Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN & PETERS
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Jim Matheson
Dr. Robert Malko
The Matheson Group
466 East 500 South, Suite 200
Salt Lake City, Utah 84111

Office of Energy & Resource Planning, State
of Utah (OERP)

Daniel G. Moquin, No. 7585
Assistant Attorney General
1594 West North Temple, #300
Salt Lake City, Utah 84116

Alliant Techsystems, Inc.
Hexcell Corporation
Thiokol Corporation
Chevron
SF Phosphates

E.A. Miller, Inc.
IHC Hospitals, Inc.
Geneva Steel
Western Electrochemical Company
Utah Electric Deregulation Group
Utah Associated Municipal Power Systems

Gary A. Dodge
Kimball, Parr, Waddoups, Brown & Gee
PO Box 45898
Salt Lake City, Utah 84145-0898

Utah League of Cities and Towns

Roger O. Tew
60 South 600 East Suite 200
Salt Lake City, Utah 84102

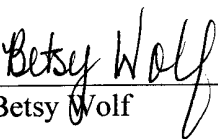
Steven Allred
Salt Lake City Corp. Law Dept.
451 South State Street Suite 505
Salt Lake City, Utah 84111

Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 84119

Utah Farm Bureau

Stephen R. Randle
RANDLE, DEAMER, ZARR, ROMRELL & LEE PC
139 East South Temple, Suite 330
Salt Lake City, Utah, 84111

Respectfully,


Betsy Wolf

15982

RECEIVED

FEB 17 12 05 PM '99

Lee R. Brown
Vice President, Contracts, Human
Resources, Public & Government Affairs
MAGNESIUM CORPORATION OF AMERICA
238 North 2200 West
Salt Lake City, Utah 84116

UTAH PUBLIC SERVICE COMMISSION REVIEWED BY COMMISSIONERS

STEPHEN F. MECHAM
CONSTANCE B. WHITE CBW 2/24
CLARK D. JONES CDJ 3/4/99

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	Docket No. 98-2035-04
PACIFICORP and SCOTTISH POWER)	
PLC for an Order Approving the Issuance	)	ISSUE STATEMENT OF
of PACIFICORP Common Stock	)	MAGNESIUM CORPORATION
	)	OF AMERICA

Pursuant to the scheduling order entered by the Commission on February 8, 1999 in this docket, Magnesium Corporation of America ("Magcorp") submits its Issue Statement.

The Utah Industrial Energy Consumers and the Large Customer Group have each submitted an Issue Statement. Magcorp hereby adopts the issues set out therein without repeating them here. In addition, Magcorp hereby sets out the following issues to be addressed:

1. The impact of the merger upon special contracts in Utah, including the continuation of such classes and the rates, terms and conditions upon which such contracts will be served and extended.
2. The impact of the merger upon the competitiveness of the power rates, terms and conditions of service to be afforded to industrial customers in Utah.

3. Whether conditions should be imposed upon the merger to assure that industrial customers such as Magcorp have access to competitively priced sources of power.
4. If conditions are imposed to assure access to competitively priced sources of power, what are the terms and conditions of the service to be provided.
5. Whether conditions should be imposed to assure that Utah ratepayers, including Utah industrial customers, are not discriminated against as compared to other customers of PacifiCorp in other states and jurisdictions.

Upon completion of discovery and the review of issues raised by other parties in this case, Magcorp reserves the right to supplement this issue list to assure that all issues subsidiary and/or attendant to the issue of PacifiCorp's willingness and future ability to assure competitively priced energy to industrial customers in Utah and the non-impairment for the future of the terms and conditions on which industrial customers in Utah are currently served.

Respectively submitted,

MAGNESIUM CORPORATION
OF AMERICA

By 
Lee R. Brown
Vice President, Contracts,
Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116
Phone: 801-532-2043
Fax: 801-534-1407

Dated: February 16, 1999

CERTIFICATE OF SERVICE

I hereby certify that on this 17th day of February, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing **MAGCORP ISSUES STATEMENT** to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300-South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Co 80302

Edward A. Hunter
Stoel, Rives, Boley, Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Brian Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 180
P.O. Box 45898
Salt Lake City, Utah 84145-0898

Gary Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536



15972

RECEIVED PUBLIC UTILITIES COMMISSIONERS

STEPHEN E. MCDONAM *SM*
CONSTANCE B. WHITE *CBW 2/26*
CLARK D. JONES *CDJ 3/4/99*

RECEIVED

FEB 17 11 10 AM '99

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH (UTAH PUBLIC SERVICE COMMISSION)

In the Matter of the Application of	)	<u>DOCKET NO. 98-2035-04</u>
PacifiCorp and Scottish Power plc for)	
an Order Approving the Issuance of	)	<u>DIVISION OF PUBLIC UTILITIES</u>
PacifiCorp Common Stock	)	<u>STATEMENT OF ISSUES</u>

Pursuant to the Commission's order in this docket dated February 8, 1999, the Division of Public Utilities herewith files its statement identifying the issues to be considered in this case.

Dated this 17th day of February, 1999

Michael Ginsberg
 Michael Ginsberg
 Assistant Attorney General

Statement of Issues

Utah Division of Public Utilities
Scottish Power plc / PacifiCorp Acquisition
Docket 98-2035-04 - February 17, 1999

1. **Standard of Review and Basic Qualifications**

- a. Should the "positive benefit" merger standard that was adopted in the prior merger case apply in this case? How will these benefits be measured and for how long?
- b. Will the proposed parent company meet all the traditional legal and financial requirements for issuance of a certificate of public convenience and necessity?
- c. Are there any legal or policy considerations from a national or state perspective relating to a US electric utility being owned by a foreign corporation? How do the requirements of other regulatory agencies impact Utah?

2. **Structure of the Firm**

- a. How do the relative merits and detriments of the proposed corporate structure compare to the existing corporate structure? Will the proposed structure allow PacifiCorp to act independently? Will it have its own board and what will be its purpose and authority? How will conflicts of interest between PacifiCorp and the parent or other members of the Scottish Power group be resolved?
- b. Under what conditions might Scottish Power separate PacifiCorp into distinct distribution, transmission and generation entities within the next five to ten years?
- c. Does Scottish Power support a regional grid management organization?
- d. What will happen to PacifiCorp's existing subsidiaries?
- e. Will there be changes in the organization structure or personnel exchanges that impact the PacifiCorp's ability to provide quality service?
- f. What role will the SEC have in regulating Scottish Power and what will happen if PUHCA is repealed?

3. **Financial Issues**

- a. What impact will the merger have on dividend policies? Will the Utah PSC have jurisdiction over dividends and security issuances?
- b. How does the acquisition impact bond ratings of both companies, compared to anticipated bond ratings of PacifiCorp without the acquisition?
- c. How will the acquisition effect the capital structure and the cost of capital?
- d. What tax issues arise from the proposed acquisition?
- e. How can the Utah Commission be assured that Utah operations will have adequate access to capital to meet its service obligations? Will PacifiCorp retain any of its own earnings? Who will determine capital expenditures for PacifiCorp?
- f. How will currency risk be addressed and losses/gains allocated to subsidiaries?

4. **Benefits and Costs of the Merger**

- a. How will the Utah jurisdictional revenue requirement change? Will the cost of providing service be less with the merger? Can these benefits be achieved without the merger?
- b. How will the expected annual operating costs be impacted by the merger over the

- next five years for generation, transmission, and the distribution system? How will operating efficiencies be shared between shareholders and ratepayers?
- c. How will future capital costs of generation, transmission, distribution capacity be impacted by the merger?
 - d. How will the allocation of general and corporate overhead of PacifiCorp and Scottish Power be impacted? How will separation of non-utility costs be maintained? What costs of Scottish Power will be allocated to Utah and vice versa?
 - e. Will Scottish Power assume PacifiCorp's existing obligations such as intra-company loan agreements, prior merger conditions, labor contracts, employee benefits, pension plans and special industrial contracts and for how long?
 - f. How will the State of Utah, and local economies be impacted? Will Scottish Power continue support for community and economic development programs currently supported by PacifiCorp? Will Utah jobs be moved to another state or eliminated?
 - g. Who should pay for direct merger costs, and what do they include?
 - h. What are the benefits and costs to PacifiCorp shareholders?

5. Impact on Customer Service

- a. What will be the short and long term impact on service quality and reliability?
- b. How will customer service quality and reliability be measured before and after the acquisition? How can improved service and lower operational costs be achieved at the same time?
- c. What options will Scottish Power offer customers to enhance customer satisfaction?

6. Impact on Regulation

- a. How does the acquisition impact the Utah Commission's ability to regulate PacifiCorp? What conditions should be imposed on the acquisition?
- b. Will access to information be impeded? Will Scottish Power provide access to information and reimburse the State for costs associated with accessing out of state information?
- c. What will be the impact on the RAMPP process?
- d. What additional cost of regulation will the acquisition require?
- e. Will Scottish Power seek regulatory approval prior to transferring assets and/or business segments to affiliates? How will transferred assets be valued and accounted for? How will goods and services be procured and priced between affiliates?
- f. What relationship will Utah regulators have with Scottish Power headquarters in Glasgow?
- g. How will regulation of Scottish Power in the UK impact regulation of PacifiCorp in Utah?
- h. Since Utah regulators are not bound by regulatory policies in the United Kingdom, will Scottish Power assume the risk of unrecovered costs due to differences in regulatory policies or allocation methods?

15967

RECEIVED

FEB 16 4 37 PM '99

David F. Crabtree
Deseret Generation & Transmission Co-operative
5295 South 300 West, Suite 500
Murray, Utah 84107
Telephone: 801-892-6522
Attorney for Petitioners

UTAH PUBLIC
SERVICE COMMISSION

REVIEWED BY COMMISSIONERS
STEPHEN F. MECHAM SM
CONSTANCE B. WHITE CBW 2/26
CLARK D. JONES CJ 3/4/99

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	Docket No. 98-2035-04
PacifiCorp and Scottish Power plc for an)	
Order Approving the Issuance of PacifiCorp	)	PETITION TO INTERVENE AND INITIAL
Common Stock	)	ISSUE STATEMENT OF DESERET
	)	GENERATION & TRANSMISSION CO-
	)	OPERATIVE AND ITS MEMBERS

Pursuant to Utah Code Ann. § 63-46b-9 and Rule R746-100-7, Petitioners Deseret Generation & Transmission Co-operative, Bridger Valley Electric Association, Inc., Dixie-Escalante Rural Electric Association, Inc., Flowell Electric Association, Inc., Garkane Power Association, Inc., Moon Lake Electric Association, Inc. and Mount Wheeler Power, Inc. hereby petition for leave to intervene in this proceeding. In support of this petition, Petitioners state as follows:

1. Petitioner Deseret Generation & Transmission Co-operative ("Deseret") is a wholesale electric generation and transmission cooperative located in Salt Lake County, Utah, with interests in generation assets in Uintah and Emery Counties, and transmission facilities in various other counties

throughout Utah. Deseret's primary function is to generate and transmit power and energy for the benefit of its six members, Petitioners Bridger Valley Electric Association, Inc., Dixie-Escalante Rural Electric Association, Inc., Flowell Electric Association, Inc., Garkane Power Association, Inc., Moon Lake Electric Association, Inc., and Mt. Wheeler Power, Inc. (collectively, "Members"). Each of the Members is a rural electrical cooperative that provides retail electric services to its members/consumers in many rural portions of the State of Utah. Certain of Deseret's Members also provide retail electric services to their members in rural parts of the contiguous states of Wyoming, Arizona, Colorado and Nevada.

2. The legal rights and interests of Petitioners may be substantially affected by this proceeding. Petitioners are located and serve consumers exclusively within rural areas. Petitioners and their rural electric consumers may be impacted in many ways, both directly and indirectly, as a result of the proposed merger.

3. Some of the Petitioners and their consumers rely upon PacifiCorp for delivery of electric power and energy. Petitioners and their customers may be directly affected by the merger to the extent it has any impact on the reliability, quality or cost of services provided.

4. Petitioners and their customers may also be impacted by an inability or unwillingness of the merged company to develop and maintain an effective and reliable electric infrastructure throughout rural Utah. The economic health and growth of rural Utah is dependent upon the existence and maintenance of a healthy infrastructure, including available and reliable electric supplies. Utilities servicing rural Utah often serve within the same strategic and geographical areas, leading to interdependencies and wide-felt impacts. Rural electric consumers

served by all electric utilities--including PacifiCorp, the Petitioners and municipal utilities--will be impacted and disadvantaged if the merged company is unable or unwilling to develop, maintain and extend adequate and reliable electric facilities and services within its rural service territories. The announced intention of the merged company to dramatically slash non-generation costs and expenses appear to hold serious potential for disproportionate impacts in rural Utah. Because per-customer expenses often tend to be higher and per-customer returns very often lower in rural areas, such areas are natural targets for cost reduction strategies. While the pursuit of economic efficiency is certainly appropriate, proper conditions and safeguards must be put in place to prevent profit-driven tradeoffs between economic returns and the development and maintenance of reliable rural electric systems. Petitioners and their consumers, along with all rural electric consumers, face the potential of significant harm unless appropriate steps are taken to ensure continued investment at an appropriate level in development, expansion and maintenance of adequate electric facilities within all areas in Utah.

5. Because Deseret owns an interest in Hunter II, the merger may also potentially impact Petitioners to the extent the levels, assignments or allocations of coal, O&M or A&G costs relative to Hunter II are directly or indirectly affected by the merger.

6. Petitioners have not fully determined the specific positions they will take or the relief they will seek. In response to the Commission's Scheduling Order in this matter, Petitioners identify at least the following issues that they believe should be considered by the Commission in this proceeding:

a. ***Impacts on Rural Utah.*** How will the proposed merger impact electric consumers living within rural areas in the State of Utah? How can potential adverse impacts be avoided/mitigated? What requirements/conditions should be imposed on the merged company to ensure appropriate investment in developing, extending, improving and maintaining electric services and facilities necessary for the economic health and growth of rural Utah? What adjustments could be made to the certificated service areas in rural Utah that would otherwise be served by a merged company which adjustments could have the effect of improving service, lowering costs, increasing local involvement and oversight, and better serve the public interest in the rural areas of the State in light of a proposed merger?

b. ***Reliability Issues.*** What are the potential adverse impacts of the merger on reliability and quality of service, particularly in remote areas? How can potential adverse impacts be avoided/mitigated? What requirements/conditions should be imposed on the merged company to ensure appropriate levels of reliability and quality of service in rural Utah?

c. ***Anti-Competitive Issues.*** What are the potential anti-competitive effects of the merger vis-a-vis rural electric cooperatives and other public power entities? How can potential anti-competitive impacts be avoided/mitigated? What requirements/conditions should be imposed on the merged company to encourage and foster healthy competition in rural Utah?

d. *Hunter II Costs.* How will the proposed merger affect the level, allocation or responsibility for coal, O&M or A&G costs relative to the Hunter II plant? How can fair and non-discriminatory allocation or assignment of costs be ensured? What requirements/conditions should be imposed on the merged company to ensure fair, non-discriminatory and appropriate levels and allocations of costs?

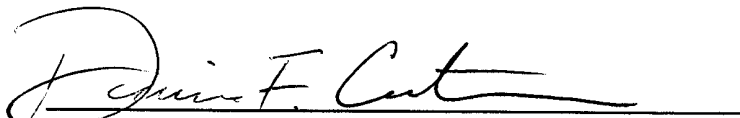
7. The interests of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing Petitioners to intervene. No other parties will adequately represent the interests of Petitioners.

8. Notices in this proceeding should be sent to the following:

David F. Crabtree
Deseret Generation & Transmission Co-operative
5295 South 300 West, Suite 500
Murray, Utah 84107
Telephone: 801-892-6522
Attorney for Petitioners

WHEREFORE, Petitioners request leave to intervene in this proceedings to protect their interests as they may appear.

DATED this 16th day of February, 1999.


David F. Crabtree,
Counsel for Petitioners

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 16th day of February, 1999, to the following:

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, UT 84111

Brian W. Burnett
CALLISTER NEBEKER MCCULLOUGH
10 East South Temple, #800
Salt Lake City, UT 84133

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Douglas C. Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

F. Robert Reeder
William J. Evans
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
RANDLE, DEAMER, ZARR, ROMRELL
LEE
139 East South Temple, Suite 330
Salt Lake City, UT 84111

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD BURCHETTE & RITTS
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Eric Blank
Land and water fund of the Rockies
2260 Baseline Rd., Suite 200
Boulder, CO 80302

Matthew F. Mc Nulty, III
VANCOTT BAGLEY CORNWALL
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Lee R. Brown
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN
185 South State Street, Suite 700
Salt Lake City, UT 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108



15945

REVIEWED BY COMMISSIONERS
STEPHEN F. MEGHAM JJA
CONSTANCE B. WHITE CBW2/R
CLARK D. JONES CDJ 3/2/99

RECEIVED

FEB 12 1 59 PM '99

UTAH PUBLIC SERVICE COMMISSION

Daniel G. Moquin, No. 7585
Assistant Attorney General
Jan Graham, No. 1231
Utah Attorney General
1594 West North Temple, #300
Salt Lake City, Utah 84116
Telephone: (801) 538-7227

Attorney for the Office of Energy and Resource Planning

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

---oo0oo---

IN THE MATTER OF THE	:	PETITION TO INTERVENE
APPLICATION OF PACIFICORP AND	:	
SCOTTISH POWER PLC FOR AN	:	DOCKET NO. 98-2035-04
ORDER APPROVING THE ISSUANCE	:	
OF PACIFICORP COMMON STOCK	:	

---oo0oo---

In accordance with Rule 746-100-7 of the Public Service Commission's Rules of Practice and Procedure and the provisions of Utah Code Ann. § 63-46b-9, the Office of Energy & Resource Planning, State of Utah, (hereinafter and throughout the course of this proceeding referred to as "OERP"), hereby moves the Commission for leave to intervene in the above-referenced proceeding.

In support of this petition to intervene, OERP states as follows:

1. ON THE JOINT APPLICATION OF SCOTTISH POWER PLC AND PACIFICORP FOR AN ORDER APPROVING THE ISSUANCE OF PACIFICORP COMMON STOCK, the Public Service Commission has opened a formal docket.

2. OERP is part of the Utah Department of Natural Resources.
3. OERP promotes efficient use and prudent development of Utah's energy and natural resources. Consequently, OERP has a direct, immediate and substantial interest in this proceedings because the merger may affect the development of energy resources within the State of Utah.
4. To OERP's knowledge, the interests of OERP will not be represented by any other party to the proceeding.
5. If OERP is granted intervention, it hereby requests that service of all pleadings, notices, etc., be made to the following:

Daniel G. Moquin, No. 7585
Assistant Attorney General
Attorney for OERP
1594 West North Temple, #300
Salt Lake City, Utah 84116

6. The interests of justice and the orderly and prompt conduct of this proceeding will be enhanced and not be impaired by OERP's intervention.
7. OERP has not completed its evaluation on the potential affects of the merger. Therefore, OERP has not yet determined the precise nature of the relief it will seek and requests that the Commission grant it intervention as its interests may appear.

WHEREFORE, OERP requests that the Public Service Commission enter an order permitting OERP to intervene in this docket, and to participate to the full extent allowed by the law and the Commission's rules.

DATED this 11th day of February, 1999

Daniel G. Moquin

Daniel G. Moquin
Assistant Attorney General
State of Utah

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of February, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing PETITION TO INTERVENE to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1026 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 S. Main Street, #1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
Salt Lake City Utah 84145-0898

15939

F. Robert Reeder (2710)
William J. Evans (5276)
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, Utah 84145-0898
Telephone: (801) 532-1234

RECEIVED

FEB 11 4 39 PM '99

UTAH PUBLIC
SERVICE COMMISSION

RECEIVED BY COMMISSIONERS

STEPHEN F. MECHAM *SM*
CONSTANCE B. WHITE *CBW 2/18*
CLARK D. JONES *CJ 3/4/04*

Attorneys for Utah Industrial Energy Consumers

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	DOCKET NO. 98-2035-04
PACIFICORP and SCOTTISH POWER)	
PLC for an Order Approving the Issuance of	)	ISSUE STATEMENT OF
PACIFICORP Common Stock	)	THE UTAH INDUSTRIAL
	)	ENERGY CONSUMERS
)	

Pursuant to the invitation of the Public Service Commission of Utah ("Commission") the Utah Industrial Energy Consumers ("UIEC) submit the following statement identifying the issues to be considered in this case. We had the opportunity to review an early draft statement of the issues prepared by the Division of Public Utilities. We believe that the issues raised by the Division of Public Utilities are appropriate and should be addressed in this proceeding. In addition, we raise the following issues:

1. **Transaction costs/rate impact.**
 - a. How will the ratepayers of PacifiCorp in Utah be protected from the transaction costs of the acquisition by Scottish Power of PacifiCorp?

- b. How will ratepayers of PacifiCorp in the State of Utah be assured that the potential for "... prices ...lower than they would be ..." are in fact realized in Utah?
- c. What incentives or penalties should the Commission order as a condition of the merger to assure ratepayers are shielded from the transaction costs and that the prices are reduced as promised?

2. **Quality**

- a. What effect will the acquisition have on the ability of PacifiCorp to maintain the quality of service to retail and wholesale customers in Utah?
- b. What effect will the acquisition have on the availability of and access to funds, both internal and external, necessary to maintain and enhance the electrical infrastructure providing service in Utah?
- c. What benchmarks can be established to measure the quality of service for the entity after the acquisition?
- d. What benchmarks should be established separately for transmission services?
- e. What benchmarks should be established separately for distribution services?
- f. What benchmarks should be established separately for the commodity (electricity) business?
- g. What benchmarks should be established separately for the metering and billing portion of the business?
- h. What incentives or penalties should the Commission order to assure that the quality of transmission services, distribution service, commodity service and

metering and billing are maintained at the benchmark level or, in fact, improved as a result of the transaction?


- i. What incentives or penalties should the Commission order to assure adequate funds, both internal and external, are available to maintain and enhance the electrical structure in Utah?

3. **Effect on Competition**

- a. How will the acquisition affect competition (i) between cities and PacifiCorp for retail customers; (ii) between PacifiCorp and other alternative sellers for retail customers, and (iii) between PacifiCorp and potential alternative sellers for retail customers?
- b. What incentives or penalties should the Commission order to assure that the acquisition promotes competition and prevents adverse effects on existing competition?

DATED this 11th day of February, 1999.

PARSONS BEHLE & LATIMER



F. Robert Reeder
William J. Evans
Attorneys for UIEC

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of February, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing UIEC ISSUES

STATEMENT to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300-South
Salt Lake City, Utah 84111

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Margie Gillman

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

DOCKETED

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for)
an Order Approving the Issuance of)
PacifiCorp Common Stock)

DOCKET NO. 98-2035-04

ORDER

ISSUED: February 11, 1999

By The Commission:

The Commission rescinds its Order Granting Intervention issued February 9, 1999. As intervention is to be heard at the 5th of March 1999 Prehearing Conference, the Commission erroneously ruled upon the merits of the Petitions to Intervene prior to allowing the objections and argument regarding the intervention of any petitioner.

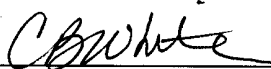
ORDER

NOW, THEREFORE, the Commission hereby rescinds its Order issued February 9, 1999. This Rescinding Order shall be retroactive to the date of issuance of the said Order.

DATED at Salt Lake City, Utah, this 11th day of February, 1999.



Stephen F. Mecham, Chairman




Constance B. White, Commissioner



Clark D. Jones, Commissioner

Attest:


Julie Orchard
Commission Secretary

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

AFFIDAVIT OF MAILING

DOCKETED

)
In the Matter of the Application of)
PacifiCorp and Scottish Power plc for an)
Order Approving the Issuance of)
PacifiCorp Common Stock)
_____)

DOCKET NO. 98-2035-04

ORDER

County of Salt Lake)
) ss.
State of Utah)

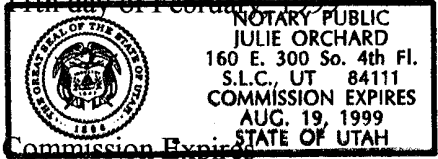
Glen T. Larsen being duly sworn, deposes and says that he is a secretary regularly employed in the office of the Public Service Commission of Utah, whose office is located at 160 East 300 South, Fourth Floor, Heber M. Wells State Office Building, Salt Lake City, Utah.

That there is a United States Post Office at Salt Lake City, and at the place of residence or place of business of the person(s) whose name(s) are set forth below; and between Salt Lake City and residence or places of business, there is a regular communication by mail.

That on the 11th day of February, 1999, affiant served a true copy of the hereto attached ORDER on the said persons by mailing such copy on said date in a post office in Salt Lake City, Utah, properly enclosed in a sealed envelope with postage prepaid thereon, legibly addressed to the following person(s), at the addresses shown:

* See attached Mailing Lists and "E" Mailing Lists

Subscribed and sworn to before me
this 11th day of February, 1999.



My Commission Expires
August 19, 1999.

Glen T. Larsen

Secretary

Julie Orchard

Notary Public

Residing at Salt Lake City, Utah

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE, SUITE 200
BOULDER, CO 80302

STEVEN ALLRED
SALT LAKE CITY CORP. LAW DEPT.
451 SOUTH STATE, SUITE #505
SALT LAKE CITY, UTAH 84111

ROGER O. TEW
60 SOUTH 600 EAST, SUITE #200
SALT LAKE CITY, UTAH 84102

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

SUSAN PURCELL
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

PAUL T. MORRIS
3600 CONSTITUTION BLVD.
WEST VALLEY CITY, UTAH 84119

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

Mail Envelope Properties (36C36243.2D6 : 8 : 11628)

Subject: 98-2035-04 Order Rescinding Order Granting Intervention -
PacifiCorp/Scottish Power
Creation Date: Thu, Feb 11, 1999 4:05 PM
From: Public Service Commission
Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
------------	--------	-------------

inet

"AlanA@qstr.com" BC ("AlanA@qstr.com".inet		
"brianburnett@cnmlaw.com" BC ("brianburnet		
"ccrosby@sltrib.com" BC ("ccrosby@sltrib.c		
"cdsjoberg@stoel.com" BC ("cdsjoberg@stoel		
"CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAELIS		
"coadmin@grand.state.ut.us" BC ("coadmin@g		
"eahunter@stoel.com" BC ("eahunter@stoel.c		
"edwarddm@kutv2.com" BC ("edwarddm@kutv2.c		
"gad@pwlaw.com" BC ("gad@pwlaw.com".inet)		
"gbmonson@stoel.com" BC ("gbmonson@stoel.c		
"gkratz@desnews.com" BC ("gkratz@desnews.c		
"janhull@trilliumusa.com" BC ("janhull@tri		
"jim-matheson@leavitt.com" BC ("jim-mathes		
"jwoody@union-tel.com" BC ("jwoody@union-t		
"kdyk@energystrat.com" BC ("kdyk@energystr		
"marie.malone@pacificorp.com" BC ("marie.m		
"mgillman@pblutah.com" BC ("mgillman@pblut		
"mmcnulty@vancott.com" BC ("mmcnulty@vanco		
"newsdesk@kutv2.com" BC ("newsdesk@kutv2.c		
"Phila77808@aol.com" BC ("Phila77808@aol.c		
"rtuttle@webzone.net" BC ("rtuttle@webzone		
"steve@sltrib.com" BC ("steve@sltrib.com".		
"togaard@utw.com" BC ("togaard@utw.com".in		

bear.com

sschefrin (Scott-sschefrin Schefrin-@bear

ect.enron.com

pkaufma (Lisa-pkaufma Enron-@ect.enron.co

energystrat.com

randerson (Rick-randerson Anderson-@energ

pacificorp.com

anne.eakin (Anne-anne.eakin Eakin-@pacifi
doug.larson (Doug-doug.larson Larson-@pac

pblutah.com

wevans (William-wevans Evans-@pblutah)

perkinscoie.com

reicl (Lawrence-reicl Reichman-@perkinsco

scottishpower.plc.uk

bob.green (Robert-bob.green Green-@scotti

state.ut.us

PUPSC.ASPOSUPT

Delivered

02/11 4:05 PM

CJONES BC (Clark Jones)

JHARVEY (John Harvey)

JLOGAN (James Logan)

KANDERS3 (Kristina Anderson)

LSTHOMAS (Lori Thomas)

RCOLLINS (Richard Collins)

SFMECHAM (Stephen F. Mecham)

SMOOY BC (Sandy Mooy)

state.ut.us

ATMAIN.ATDOMAIN

DTINGEY BC (Doug Tingey)

LNODA BC (Laurie Noda)

MGINSBER BC (Michael Ginsberg)

state.ut.us

BRMAIN.BRCMRC

BGARDNER BC (Barbara Gardner)

CMURRAY BC (Cheryl L. Murray)

DGIMBLE BC (Dan Gimble)

DHANSON (Darrell Hanson)

DHANSON- (Diana Hanson-Steadman)

DMILLER BC (Dennis Miller)

IHENNING (Ingo Henningsen)

LALT BC (Lowell Alt)

PBULLOCK

RCAMPBEL BC

RCREER

WHUNTSMA BC

state.ut.us

LELFA.LEDOMAIN
WGREER BC

state.ut.us
NROERP.NRDOMAIN
JGALANIS BC

Post Office
inet

Delivered**Route**

PUPSC.ASPOSUPT
ATMAIN.ATDOMAIN
BRMAIN.BRCMRC
LELFA.LEDOMAIN
NROERP.NRDOMAIN

Pending
Pending
Pending
Pending
Pending
Pending
Pending
Pending
02/11 4:05 PM
Pending
Pending
Pending
Pending
bear.com
ect.enron.com
energystrat.com
pacificorp.com
pblutah.com
perkinscoie.com
scottishpower.plc.uk
state.ut.us
state.ut.us
state.ut.us
state.ut.us
state.ut.us

Files

15924.WPD

Size

5481

Date & Time

Thursday, February 11, 1999 12:26 PM

Options

Auto Delete: No
Expiration Date: None
Notify Recipients: Yes
Priority: Standard
Reply Requested: No
Return Notification: None

Concealed Subject: No
Security: Standard

To Be Delivered: Immediate
Status Tracking: Delivered & Opened

15909

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

RECEIVED

FEB 10 8 56 AM '99

* * *

In the Matter of the Application of PacifiCorp)
and Scottish Power plc for an Order Approving)
the Issuance of PacifiCorp Common Stock)

Docket No. 98-2035-04

UTAH PUBLIC
SERVICE COMMISSION

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM *SFM 2/10/99*

CONSTANCE B. WHITE *CBW 2/26*

CLARK D. JONES *CJ 2/10/99*

PETITION FOR LEAVE TO INTERVENE

Pursuant to the Rules of Practice and Procedure of the Utah Public Service Commission ("Commission"), the Land and Water Fund of the Rockies ("LAW Fund") hereby petitions for leave to intervene in the above-captioned docket and, in support thereof, states as follows:

1. The LAW Fund is a regional environmental law center serving the Rocky Mountain states. The LAW Fund has a Utah Steering Committee, a Utah Board member, and individual members who live in Utah and are PacifiCorp ratepayers.

2. The LAW Fund's Energy Project promotes energy efficiency, renewable resources, and other measures that help to minimize the environmental impacts of meeting the demand for energy services in an economically and politically acceptable fashion.

3. The LAW Fund has been involved in proceedings and other collaborative efforts in Utah for about five years, mainly on resource planning and demand-side management issues. As part of this work, we have represented a number of other Utah non-profit organizations interested in clean energy issues.

4. PacifiCorp is currently engaged in a number of activities that influence environmental quality in Utah including investing in renewable resources, running programs that

encourage customers to use energy more efficiently, participating in efforts to reduce regional haze, and facilitating a system-wide resource planning process.

5. The LAW Fund has an interest in the above-captioned proceeding because a change in the ownership and management of PacifiCorp, as contemplated by the proposed acquisition by Scottish Power, could have a substantial impact -- either positively or negatively -- on PacifiCorp's efforts to manage the impact of its activities on the environment.

6. Intervention by the LAW Fund will not unduly broaden the issues or delay the proceeding.

7. The LAW Fund requests that all pleadings, correspondence, discovery, and other documents be served on the following:

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline Rd., Suite 200
Boulder, CO 80302

WHEREFORE, the LAW Fund respectfully requests that the Commission issue an order granting it leave to intervene in the above-captioned proceedings.

DATED this 9th day of February 1999.

Respectfully submitted,



ERIC BLANK, Director
LAW Fund Energy Project
2260 Baseline Rd., Suite 200
Boulder, CO 80302
Telephone: (303) 444-1188 x220
Facsimile: (303) 786-8054

CERTIFICATE OF SERVICE

I hereby certify that the original and eight (8) copies of the PETITION FOR LEAVE TO INTERVENE OF THE LAND AND WATER FUND OF THE ROCKIES was sent via Federal Express to Stephen F. Mecham, Chairman, Public Service Commission of Utah, 160 East 300 South, Salt Lake City, Utah 84145, on this 9th day of February, 1999, and a true and correct copy was sent by U.S. mail, first-class and postage prepaid, to the following persons:

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 S. State St. #1300
Salt Lake City UT 84111-1536

Edward Hunter
John Eriksson
Stoel Rives
201 S. Main St. #1100
Salt Lake City UT 84111

Michael Ginsberg
Asst. Attorney General
500 Heber M. Wells Bldg.
150 East 300 South
Salt Lake City UT 84111

Doug Tingey
Asst. Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City UT 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson St. NW
800 West Tower
Washington DC 20007

Dave Blackwell
Emery County Attorney
PO Box 249
Castle Dale UT 84513

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple #330
Salt Lake City UT 84111-1004

Daniel Moquin
Asst. Attorney General
1594 West North Temple #300
Salt Lake City UT 84116

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East #900
10 East South Temple
Salt Lake City UT 84133

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd. #134
Salt Lake City UT 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City UT 84116

Robert Green
Scottish Power
121 SW Morrison #1800
Portland OR 97204

Lawrence H. Reichman
Perkins Cole LLP
1211 SW 5th Ave. #1500
Portland OR 97204-3715

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah St.
Portland OR 97332

D. Douglas Larson
Director, Regulatory Policy
PacifiCorp
One Utah Center #2200
201 S. Main
Salt Lake City UT 84140-2000

Glen E. Davies
Parsons, Davies, Kinghorn & Peters
185 S. State St. #700
Salt Lake City UT 84111

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 S. Main St. #180
PO Box 45898
Salt Lake City UT 84145-0898



- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

DOCKETED

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for)
an Order Approving the Issuance of)
PacifiCorp Common Stock)

DOCKET NO. 98-2035-04

ORDER GRANTING INTERVENTION

ISSUED: February 9, 1999

By the Commission:

Utah Industrial Energy Consumers, as described in the Petition to Intervene, Alliant Techsystems, Inc., Hexcel Corporation, Thiokol Corporation, Chevron, SF Phosphates, E.A. Miller, Inc., IHC Hospitals, Inc., Geneva Steel, Western Electrochemical Company, Utah Electric Deregulation Group, Utah Associated Municipal Power Systems, as described in the Petition to Intervene, The Utah League of Cities and Towns, as described in the Petition to Intervene, Magnesium Corporation of America ("Magcorp"), Emery County, Nucor Steel, have petitioned the Commission for leave to intervene in the above-described and numbered matter.

Based upon the Petitions, and good cause appearing, therefore, the Commission makes the following

ORDER


NOW, THEREFORE, IT IS HEREBY ORDERED, that leave to intervene is granted to Utah Industrial Energy Consumers, as described in the Petition to Intervene, Alliant Techsystems, Inc., Hexcel Corporation, Thiokol Corporation, Chevron, SF Phosphates, E.A. Miller, Inc., IHC Hospitals, Inc., Geneva Steel, Western Electrochemical Company, Utah Electric Deregulation Group, Utah Associated Municipal Power Systems, as described in the Petition to Intervene, The Utah

League of Cities and Towns, as described in the Petition to Intervene, Magnesium Corporation of America ("Magcorp"), Emery County, Nucor Steel, in said matter as their interests may appear.

DATED at Salt Lake City, Utah, this 9th day of February, 1999.



Stephen F. Mecham, Chairman




Constance B. White, Commissioner



Clark D. Jones, Commissioner

Attest:



Julie Orchard
Commission Secretary

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE, SUITE 200
BOULDER, CO 80302

STEVEN ALLRED
SALT LAKE CITY CORP. LAW DEPT.
451 SOUTH STATE, SUITE #505
SALT LAKE CITY, UTAH 84111

ROGER O. TEW
60 SOUTH 600 EAST, SUITE #200
SALT LAKE CITY, UTAH 84102

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

SUSAN PURCELL
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

PAUL T. MORRIS
3600 CONSTITUTION BLVD.
WEST VALLEY CITY, UTAH 84119

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

Mail Envelope Properties (36C0C3FD.2D6 : 8 : 11628)

Subject: 98-2035-04 Order Granting Intervention PacifiCorp/Scottish Power
Creation Date: Tue, Feb 9, 1999 4:25 PM
From: Public Service Commission

Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
inet "AlanA@qstr.com" BC ("AlanA@qstr.com".inet "brianburnett@cnmlaw.com" BC ("brianburnet "ccrosby@sltrib.com" BC ("ccrosby@sltrib.c "cdsjoberg@stoel.com" BC ("cdsjoberg@stoel "CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE "coadmin@grand.state.ut.us" BC ("coadmin@g "eahunter@stoel.com" BC ("eahunter@stoel.c "edwarddm@kutv2.com" BC ("edwarddm@kutv2.c "gad@pwlaw.com" BC ("gad@pwlaw.com".inet) "gbmonson@stoel.com" BC ("gbmonson@stoel.c "gkratz@desnews.com" BC ("gkratz@desnews.c "janhull@trilliumusa.com" BC ("janhull@tri "jim-matheson@leavitt.com" BC ("jim-mathes "jwoody@union-tel.com" BC ("jwoody@union-t "kdyk@energystrat.com" BC ("kdyk@energystr "marie.malone@pacificorp.com" BC ("marie.m "mgillman@pblutah.com" BC ("mgillman@pblut "mmculty@vancott.com" BC ("mmculty@vanco "newsdesk@kutv2.com" BC ("newsdesk@kutv2.c "Phila77808@aol.com" BC ("Phila77808@aol.c "rtuttle@webzone.net" BC ("rtuttle@webzone "steve@sltrib.com" BC ("steve@sltrib.com". "togaard@utw.com" BC ("togaard@utw.com".in	Transferred	02/09 4:26 PM
bear.com sschefrin (Scott-sschefrin Schefrin-@bear	Transferred	02/09 4:25 PM
ect.enron.com pkaufma (Lisa-pkaufma Enron-@ect.enron.co	Transferred	02/09 4:25 PM
energystrat.com randerson (Rick-randerson Anderson-@energ	Transferred	02/09 4:25 PM
pacificorp.com anne.eakin (Anne-anne.eakin Eakin-@pacifi	Transferred	02/09 4:25 PM

doug.larson (Doug-doug.larson Larson-@pac pblutah.com wevans (William-wevans Evans-@pblutah)	Transferred	02/09 4:25 PM
perkinscoie.com reicl (Lawrence-reicl Reichman-@perkinsco	Transferred	02/09 4:25 PM
pwlaw.com gad (Gary-gad Dodge-@pwlaw.com)	Transferred	02/09 4:26 PM
scottishpower.plc.uk bob.green (Robert-bob.green Green-@scotti	Transferred	02/09 4:26 PM
state.ut.us PUPSC.ASPOSUPT	Delivered	02/09 4:25 PM
CJONES BC (Clark Jones)		
GTLARSEN (Glen Larsen)	Opened	02/09 4:25 PM
JHARVEY (John Harvey)	Opened	02/09 4:26 PM
JLOGAN (James Logan)	Opened	02/09 5:12 PM
KANDERS3 (Kristina Anderson)	Opened	02/09 4:37 PM
RCOLLINS (Richard Collins)	Opened	02/09 4:26 PM
SFMECHAM (Stephen F. Mecham)		
SMOODY BC (Sandy Mooy)		
state.ut.us ATMAIN.ATDOMAIN	Delivered	02/09 4:28 PM
DTINGEY BC (Doug Tingey)	Opened	02/09 4:34 PM
LNODA BC (Laurie Noda)		
MGINSBER BC (Michael Ginsberg)		
state.ut.us BRMAIN.BRCMRC	Delivered	02/09 4:26 PM
BGARDNER (Barbara Gardner)		
CMURRAY (Cheryl L. Murray)	Opened	02/09 4:29 PM
DHANSON (Darrell Hanson)	Opened	02/10 7:41 AM
DHANSON- (Diana Hanson-Steadman)		
DMILLER (Dennis Miller)		
IHENNING (Ingo Henningsen)	Opened	02/10 8:21 AM
LALT (Lowell Alt)	Opened	02/10 7:42 AM
PBULLOCK		
RCAMPBEL	Opened	02/09 5:34 PM
RCREER	Opened	02/10 7:41 AM
state.ut.us		

LELFA.LEDOMAIN WGREER BC	Delivered Opened	02/09 4:26 PM 02/09 4:59 PM
state.ut.us NROERP.NRDOMAIN JGALANIS BC	Delivered	02/09 4:26 PM
Post Office inet	Delivered	Route
		bear.com ect.enron.com energystrat.com pacificorp.com pblutah.com perkinscoie.com pwlaw.com scottishpower.plc.uk state.ut.us state.ut.us state.ut.us state.ut.us state.ut.us
PUPSC.ASPOSUPT ATMAIN.ATDOMAIN BRMAIN.BRCMRC LELFA.LEDOMAIN NROERP.NRDOMAIN	02/09 4:25 PM 02/09 4:28 PM 02/09 4:26 PM 02/09 4:26 PM 02/09 4:26 PM	

Files	Size	Date & Time
15908.WPD	5859	Tuesday, February 9, 1999 4:15 PM

Options

Auto Delete:	No
Expiration Date:	None
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None

Concealed Subject:	No
Security:	Standard

To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

Mail Envelope Properties (36C1B441.2D6 : 8 : 11628)

Subject: 98-2035-04 Order Granting Intervention, PacifiCorp/Scottish Power
Creation Date: Wed, Feb 10, 1999 9:30 AM
From: Public Service Commission

Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
state.ut.us		
BRMAIN.BRCMRC		
DGIMBLE BC (Dan Gimble)		
DMILLER BC (Dennis Miller)		
LALT BC (Lowell Alt)		
WHUNTSMA BC (Wes Huntsman)		

Post Office	Delivered	Route
BRMAIN.BRCMRC	Pending	state.ut.us

Files	Size	Date & Time
15908.WPD	4864	Wednesday, February 10, 1999 8:56 AM

Options

Auto Delete: No
Expiration Date: None
Notify Recipients: Yes
Priority: Standard
Reply Requested: No
Return Notification: None

Concealed Subject: No
Security: Standard

To Be Delivered: Immediate
Status Tracking: Delivered & Opened

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

DOCKETED

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for)
an Order Approving the Issuance of)
PacifiCorp Common Stock)

DOCKET NO. 98-2035-04

SCHEDULING ORDER

ISSUED: February 8, 1999

BY THE COMMISSION:

A scheduling conference was held pursuant to notice on January 26, 1999. The following entered appearances:

Edward A. Hunter George Galloway Stoel Rives LLP	for	PacifiCorp
Brian Burnett Callister, Nebeker & McCullough; Jamie Van Nostrand Perkins Coie	||	Scottish Power
Michael Ginsberg Assistant Attorney General	||	Division of Public Utilities
Doug Tingey Assistant Attorney General	||	Committee of Consumer Services
Betsy Wolf	||	Salt Lake Community Action Program
Bill Thomas Peters Parsons, Davies, Kinghorn & Peters	||	Emery County, Utah Association of Counties

Robert Reeder
Parsons, Behle & Latimer

"

UIEC

Roger Tew
Van Cott, Bagley,
Cornwall & McCarthy;
Steven Allred
Salt Lake City Deputy
Attorney;
Paul Morris
West Valley City Attorney

"

Utah League of Cities and Towns

Matthew F. McNulty III
Van Cott, Bagley,
Cornwall & McCarthy

"

Utah Municipal Power Systems

Gary Dodge
Parr, Waddoups, Brown,
Gee & Loveless

"

Large Customer Group

After hearing from the parties and being fully advised, the Commission makes the following order regarding schedule and procedure in this docket:

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. The following schedule shall apply in this case:

February 17, 1999

Filing deadline for petitions to intervene.

February 17, 1999

The Applicants, the Division of Public Utilities, the Committee of Consumer Services, and each party who has petitioned to intervene shall file written statements identifying the issues to be considered in this case.

March 1, 1999

Applicants shall file their direct testimony and

exhibits.

March 5, 1999

Prehearing Conference at which the following matters will be considered:

(a) The February 17 issue statements and the issues that should be considered in this case;

(b) Whether there is potential to group intervening parties with common interests in the case and provide for lead counsel; and

(c) Objections and argument regarding the intervention of any petitioner.

March 31, 1999

The Committee of Consumer Services shall file a written statement identifying any additional issues to be considered in this case.

April 2, 1999

Prehearing Conference to hear argument on the Committee of Consumer Services' additional issues statement.

April 16, 1999

Applicants shall file direct testimony to address any additional issues identified by the Commission for consideration in this case.

June 18, 1999

The Division of Public Utilities, Committee of Consumer Services, and intervenors shall file their direct testimony and exhibits.

July 16, 1999

All parties shall file their rebuttal testimony of the direct testimony filed on June 18, 1999.

August 2-6 & 9-10, 1999

Hearings

August 6, 1999

Public witness day convening at 9:00 a.m.

2. All hearings set forth in the foregoing schedule shall be held in the Commission's

main hearing room #426, fourth floor, Heber M. Wells Building, 160 East Third South, Salt Lake City, Utah unless otherwise noted. The hearings on March 5, April 2 and August 2, 1999 will convene at 9:00 a.m. The schedule for hearings on subsequent days will be as directed by the Commission.

3. At the hearings scheduled in this matter, all prefiled testimony will be received as exhibits, without being repeated verbally, but each witness will be given an opportunity prior to cross examination to make any necessary corrections and to give a summary of his or her testimony which shall also be prefiled in accordance with the Commission rules.

4. All discovery requests shall be in writing and shall be served upon legal counsel for the party from whom discovery is sought. Responses to discovery requests shall be in writing and shall be served upon legal counsel for the party making the request.

5. Discovery responses shall be served within 14 days of service of requests on counsel.


6. PacifiCorp shall publish notice of the schedule set forth in this Order in two issues of at least two newspapers of general circulation in the State of Utah within one week of issuance of this Order.

In compliance with the Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communicative aids and services) during this hearing should notify Julie Orchard, Commission Secretary, at 160 East 300 South, Salt Lake City Utah 84111, (801) 530-6713, at least three working days prior to the hearing.

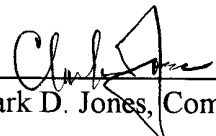
DATED at Salt Lake City, Utah, this 8th day of February, 1999.



Stephen F. Mecham, Chairman




Constance B. White, Commissioner



Clark D. Jones, Commissioner

Attest:



Julie Orchard
Commission Secretary

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE, SUITE 200
BOULDER, CO 80302

STEVEN ALLRED
SALT LAKE CITY CORP. LAW DEPT.
451 SOUTH STATE, SUITE #505
SALT LAKE CITY, UTAH 84111

ROGER O. TEW
60 SOUTH 600 EAST, SUITE #200
SALT LAKE CITY, UTAH 84102

CURTIS BROADBENT
CONTROLLER
NUCOR STEEL
P.O. BOX 100
PLYMOUTH, UTAH 84330

DOUGLAS O. HUNTER
GENERAL MANAGER
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS
2825 EAST COTTONWOOD PARKWAY, SUITE #200
SALT LAKE CITY, UTAH 84121

SUSAN PURCELL
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE RD STE 200
BOULDER CO 80302

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

GLEN E. DAVIES
BILL THOMAS PETERS
DAVID W. SCOFIELD
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

PAUL T. MORRIS
3600 CONSTITUTION BLVD.
WEST VALLEY CITY, UTAH 84119

JIM MATHESON
DR. ROBERT MALKO
THE MATHESON GROUP
466 EAST 500 SOUTH, SUITE #200
SALT LAKE CITY, UTAH 84111

MATTHEW F. MCNULTY, III
VAN COTT, BAGLEY, CORNWALL, & MCCARTHY
ATTORNEYS FOR UAMPS
50 SOUTH MAIN STREET, SUITE #1600
P.O. BOX 45340
SALT LAKE CITY, UTAH 84145

Mail Envelope Properties (36BF33F0.2D6 : 8 : 11628)

Subject: 98-2035-04 Scheduling Order PacifiCorp & Scottish Power
Creation Date: Mon, Feb 8, 1999 11:58 AM
From: Public Service Commission

Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
------------	--------	-------------

inet

"AlanA@qstr.com" BC ("AlanA@qstr.com".inet		
"brianburnett@cnmlaw.com" BC ("brianburnet		
"ccrosby@sltrib.com" BC ("ccrosby@sltrib.c		
"cdsjoberg@stoel.com" BC ("cdsjoberg@stoel		
"CMICHAELIS@BTL.P.STATE.UT.US" BC ("CMICHAELIS		
"coadmin@grand.state.ut.us" BC ("coadmin@g		
"eahunter@stoel.com" BC ("eahunter@stoel.c		
"edwarddm@kutv2.com" BC ("edwarddm@kutv2.c		
"gad@pwlaw.com" BC ("gad@pwlaw.com".inet)		
"gbmonson@stoel.com" BC ("gbmonson@stoel.c		
"gkratz@desnews.com" BC ("gkratz@desnews.c		
"janhull@trilliumusa.com" BC ("janhull@tri		
"jim-matheson@leavitt.com" BC ("jim-mathes		
"jwoody@union-tel.com" BC ("jwoody@union-t		
"kdyk@energystrat.com" BC ("kdyk@energystr		
"marie.malone@pacificorp.com" BC ("marie.m		
"mgillman@pblutah.com" BC ("mgillman@pblut		
"mmculty@vancott.com" BC ("mmculty@vanco		
"newsdesk@kutv2.com" BC ("newsdesk@kutv2.c		
"Phila77808@aol.com" BC ("Phila77808@aol.c		
"rtuttle@webzone.net" BC ("rtuttle@webzone		
"steve@sltrib.com" BC ("steve@sltrib.com".		
"togaard@utw.com" BC ("togaard@utw.com".in		

bear.com

sscheffrin (Scott-sscheffrin Scheffrin-@bear

ect.enron.com

pkaufma (Lisa-pkaufma Enron-@ect.enron.co

energystrat.com

randerson (Rick-randerson Anderson-@energ

pacificorp.com

anne.eakin (Anne-anne.eakin Eakin-@pacifi

doug.larson (Doug-doug.larson Larson-@pac

pblutah.com

wevans (William-wevans Evans-@pblutah)

perkinscoie.com

reicl (Lawrence-reicl Reichman-@perkinsco

pwlaw.com

gad (Gary-gad Dodge-@pwlaw.com)

scottishpower.plc.uk

bob.green (Robert-bob.green Green-@scotti

state.ut.us

PUPSC.ASPOSUPT

Delivered

02/08 11:59 AM

CJONES BC (Clark Jones)

GTLARSEN (Glen Larsen)

Opened

02/08 11:59 AM

JHARVEY (John Harvey)

JLOGAN (James Logan)

KANDERS3 (Kristina Anderson)

RCOLLINS (Richard Collins)

SFMECHAM (Stephen F. Mecham)

SMOOY BC (Sandy Mooy)

state.ut.us

ATMAIN.ATDOMAIN

DTINGEY BC (Doug Tingey)

LNODA BC (Laurie Noda)

MGINSBER BC (Michael Ginsberg)

state.ut.us

BRMAIN.BRCMRC

Delivered

02/08 11:59 AM

BGARDNER (Barbara Gardner)

CMURRAY (Cheryl L. Murray)

Opened

02/08 11:59 AM

DHANSON (Darrell Hanson)

DHANSON- (Diana Hanson-Steadman)

DMILLER (Dennis Miller)

IHENNING (Ingo Henningsen)

LALT (Lowell Alt)

PBULLOCK

RCAMPBEL

Opened

02/08 12:00 PM

RCREER

state.ut.us

LELFA.LEDOMAIN Delivered 02/08 11:59 AM
 WGREER BC

state.ut.us
 NROERP.NRDOMAIN Delivered 02/08 11:59 AM
 JGALANIS BC

Post Office	Delivered	Route
inet	Pending	
	Pending	bear.com
	Pending	ect.enron.com
	Pending	energystrat.com
	Pending	pacificorp.com
	Pending	pblutah.com
	Pending	perkinscoie.com
	Pending	pwlaw.com
	Pending	scottishpower.plc.uk
PUPSC.ASPOSUPT	02/08 11:59 AM	state.ut.us
ATMAIN.ATDOMAIN	Pending	state.ut.us
BRMAIN.BRCMRC	02/08 11:59 AM	state.ut.us
LELFA.LEDOMAIN	02/08 11:59 AM	state.ut.us
NROERP.NRDOMAIN	02/08 11:59 AM	state.ut.us

Files	Size	Date & Time
15880.WPD	18086	Monday, February 8, 1999 11:28 AM

Options

Auto Delete:	No
Expiration Date:	None
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None

Concealed Subject:	No
Security:	Standard

To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

FEB 5 8 50 AM '99

UTAH PUBLIC
SERVICE COMMISSION



Signature

Laura S. Linebarger

Name (Type or Print)

557 9th Ave

Residence Address

State of Utah / Commerce Dept.

Employer or Firm

162 E. 300 50 SLC. UT 84111

Business Address

Committee of Consumer Services

Party

2-5-99

Date

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM SM

CONSTANCE B. WHITE CBW 2/8

CLARK D. JONES CJ 1/9

15850

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
Telephone: (202) 342-0800

Glen E. Davies
PARSONS, DAVIES, KINGHORN & PETERS, P.C.
185 South State Street
Suite 700
Salt Lake City, UT 84111
Telephone: (801) 363-4300

ATTORNEYS FOR NUCOR STEEL, A DIVISION OF NUCOR CORPORATION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

RECEIVED
FEB 3 3 33 PM '99
UTAH PUBLIC
SERVICE COMMISSION

In the Matter of the Application of) Docket No. 98-2035-04
PACIFICORP and SCOTTISH POWER PLC)
for an Order Approving the Issuance of) MOTION TO INTERVENE
PACIFICORP Common Stock) OF NUCOR STEEL, A DIVISION
) OF NUCOR CORPORATION

Pursuant to Utah Code Ann. § 63-46b-9 (1992) and Utah Admin. Code § R746-100-7, Nucor Steel, a Division of Nucor Corporation ("Nucor") hereby moves for leave to intervene in the above-referenced proceeding before the Public Service Commission of Utah. In support of this Motion, Nucor states as follows:

1. Nucor owns and operates a steel mill in Plymouth, Utah, which is served by PacifiCorp (doing business as Utah Power) under a special contract approved by this Commission. Nucor is one of PacifiCorp's largest customers, purchasing tens of millions of kilowatt-hours of electricity per month at a cost of millions of dollars per year. Nucor's full name

and primary place of business is:

NUCOR STEEL
A Division of Nucor Corporation
P.O. Box 100
Plymouth, Utah 84330

2. As a major retail customer of PacifiCorp, Nucor has a direct interest in these proceedings and any outcome will have a substantial effect on Nucor.

3. Nucor's interest in the outcome of these proceedings will not adequately be represented by any other party nor will Nucor's participation impair the conduct of the proceeding. Nucor's participation will promote the interests of justice.

4. The following persons should be included on the service list in these proceedings, and all communications concerning this matter should be addressed to:

Peter J. Mattheis
Matthew J. Jones
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Glen E. Davies
PARSONS, DAVIES, KINGHORN & PETERS, P.C.
185 South State Street
Suite 700
Salt Lake City, UT 84111

Curtis Broadbent
Controller
NUCOR STEEL
P.O. Box 100
Plymouth, Utah 84330

5. As no order has yet been issued in this docket setting forth a date on which interventions are due, this filing is timely.

6. Because of the early stage of this proceeding, Nucor has not yet determined what, if any, positions it will take on the various aspects of the proposed transaction, nor what relief it may seek to protect its interests.

WHEREFORE, for the reasons set forth above, Nucor requests that the Public Service Commission of Utah grant this timely Motion to Intervene and permit Nucor to participate in this proceeding with full rights as a party.

DATED this 3rd day of February, 1999.

Respectfully submitted,



Peter J. Mattheis
Matthew J. Jones
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007
(202) 342-0800
(202) 342-0807 -- Telefax

Glen E. Davies
PARSONS, DAVIES, KINGHORN & PETERS, P.C.
185 South State Street, Suite 700
Salt Lake City, UT 84111
(801) 363-4300

CERTIFICATE OF SERVICE

I hereby certify that on this 3rd day of February, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing **MOTION TO INTERVENE OF NUCOR STEEL, A DIVISION OF NUCOR CORPORATION** to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, UT 84111

Edward A. Hunter
Stoel, Rives, Boley, Jones & Grey
201 South Main Street, #1100
Salt Lake City, UT 84111

Doug Tingey
Assistant Attorney General
160 East 300 South
Salt Lake City, UT 84111

Brian Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, UT 84133

Lee R. Brown
Vice President, Contracts, Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, UT 84116

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 180
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

Dr. Charles E. Johnson
The Three Parties
1339 Foothill Boulevard, Suite 134
Salt Lake City, UT 84108

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, UT 84111-1536

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302



15847

BILL THOMAS PETERS - 2574
DAVID W. SCOFIELD - 4140
PARSONS, DAVIES, KINGHORN & PETERS
185 South State Street, Suite 700
Salt Lake City, Utah 84111
Telephone: (801) 363-4300
Attorneys for Petitioner Emery County

RECEIVED

FEB 3 2 07 PM '90

UTAH PUBLIC SERVICE COMMISSION RECEIVED BY COMMISSIONERS

STEPHEN F. MECHAM *[Signature]*
CONSTANCE B. WHITE *[Signature]*
CLARK D. JONES *[Signature]*

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock</p>	<p>Docket No. 98-2035-04</p> <p>PETITION TO INTERVENE</p>
---	--

Emery County, a political subdivision of the State of Utah, by and through its attorney Bill Thomas Peters, of Parsons Davies Kinghorn & Peters, and pursuant to Utah Code Ann. § 63-46b-9 and Rule R746-100-7, respectfully petitions the Public Service Commission of Utah for leave to intervene in this proceeding. In support of this Petition, Petitioner states as follows:

1. Petitioner is a political subdivision of the State of Utah.
2. As a political subdivision of the State of Utah, Petitioner has the authority to assess and collect and distribute an ad valorem property tax upon the taxable value of all taxable property located within Emery County, State of Utah.
3. PacifiCorp is the owner and operator of major power generating facilities located within Emery County, State of Utah which are subject to property tax. As a result of said location, in excess of 80% of the annual property tax revenues received within Emery County and the political subdivisions for which Emery County collects an ad valorem tax are collected from PacifiCorp upon the value of its power production, transmission and coal facilities located within Emery County,

State of Utah. Any substantial change in ownership of PacifiCorp pursuant to the proposed acquisition by Scottish Power could have a substantial corresponding impact upon the fair market value of said properties for purposes of taxation revenues to be received by Emery County and its political subdivisions and taxing districts.

4. Emery County, for and in behalf of itself, as well as for the political subdivisions, including its special service district and other taxing districts located within Emery County, has a fiduciary responsibility to assess, collect and distribute said tax revenues. See Board of Education Granite School District v. Salt Lake County, 659 P.2d 1030 (Utah 1983).

5. The legal rights and interests of Petitioner may be substantially affected by this proceeding.

6. Petitioner has not fully determined the specific position it will take or the relief it will seek. However, Petitioner seeks to intervene for purposes of protecting its interests as well as the interests of the taxing districts within Emery County for which Emery County must assess, collect and distribute tax revenues and as said interest may appear, and in particular issues of relevance to large electric power generating facilities and the impact of the proposed acquisition upon the fair market value of said facilities. In that regard, the following initial list of issues should be explored:

- A. (1) How was PacifiCorp valued by Scottish power when the merger price was determined?
- (2) Were PacifiCorp U.S. electric operations valued separately? If so, how were they valued?
- (3) Were PacifiCorp's U.S. electric operations valued in a more itemized manner (e.g. by state, by function such as generation, transmission, or

distribution). If so, how were these itemized assets valued? And, what was the value of each?

- B. (1) How did PacifiCorp value PacifiCorp when the merger price was determined?
- (2) Were PacifiCorp U.S. electric operations valued separately? If so, how were they valued?
- (3) Were U.S. electric operations valued in a more itemized manner (e.g. by state, by function such as generation, transmission, or distribution). If so, how were these itemized assets valued? And, what was the value of each?
- C. (1) In evaluating the merger, did Scottish Power consider future divestiture of any PacifiCorp assets? If so, which assets, and what was the assumed divestiture price?

7. Petitioner reserves the right to raise additional issues which may become apparent during these proceedings.

8. In the interest of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing Petitioner to intervene. Petitioner can meet the schedule established in this case.

9. Notices of this proceeding should be sent to the following:

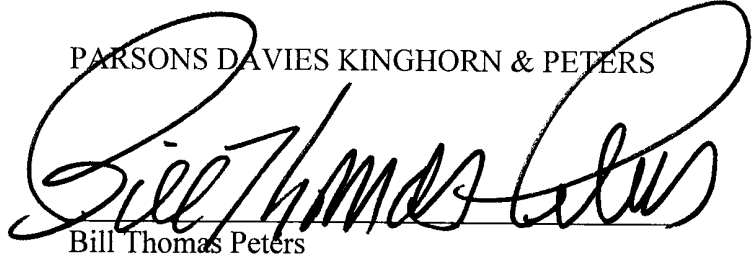
Bill Thomas Peters
David W. Scofield
PARSONS DAVIES KINGHORN & PETERS
185 South State Street, Suite 700
Salt Lake City, Utah 84111
Telephone: (801) 363-4300
Facsimile: (801) 363-4378

Jim Matheson
Dr. Robert Malko
The Matheson Group
466 East 500 South, Suite 200
Salt Lake City, Utah 84111
Telephone: (801) 994-3473

WHEREFORE, Petitioner requests leave to intervene in this proceeding to protect its interests and the interests of the other taxing entities within Emery County for whom Petitioner has statutory responsibility to assess, collect and distribute ad valorem property taxes, and for such other interests as they may appear.

DATED this 2 day of February, 1999.

PARSONS DAVIES KINGHORN & PETERS



Bill Thomas Peters

CERTIFICATE OF SERVICE

I hereby certify that I caused to be mailed, postage prepaid, a true and correct copy of the foregoing PETITION TO INTERVENE, to the following this 2 day of February, 1999.

Gary A. Dodge
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Dave Blackwell
EMERY COUNTY ATTORNEY
P.O. Box 249
Castle Dale, Utah 84513

CERTIFICATE OF SERVICE Continued

Stephen R. Randle
RANDLE, DEAMER, ZARR, ROMRELL & LEE, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Brian W. Burnett
CALLISTER NEBEKER & McCULLOUGH
Gateway Tower East Suite 900
10 East South Temple
Salt Lake City, Utah 84133

Dr. Charles E. Johnson
THE THREE PARTIES
1338 Foothill Blvd., suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
PUBLIC & GOVERNMENT AFFAIRS
238 North 2200 West
Salt Lake City, Utah 84116

Eric Blank
LAND AND WATER FUND OF THE ROCKIES
2260 Baseline Road, Suite 200
Boulder, Colorado 80302

Robert Green
SCOTTISH POWER PLC
121 SW Morrison, Suite 1800
Portland, Oregon 97204

CERTIFICATE OF SERVICE Continued

Lawrence H. Reichman
PERKINS COLE LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715

Anne E. Eakin
Vice President, Regulation
PACIFICORP
825 NE Multnomah Street
Portland, Oregon 97332

D. Douglas Larson
Director, Regulatory Policy
PACIFICORP
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000



Bill Thomas Peters

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

JAN 29 10 58 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Cheryl Murray
Signature

Cheryl Murray
Name (Type or Print)

1130 S. 550 N. Centerville, UT 84014
Residence Address

Dept of Commerce
Employer or Firm

160 E. 300 So. Rm 408 SLC, UT 84111
Business Address

Committee of Consumer Services
Party

January 28, 1999
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

JAN 29 10 58 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Kelly A. Francore
Signature

Kelly A. Francore
Name (Type or Print)

31335.500 E SLL UT
Residence Address

State of Utah
Employer or Firm

160 E 30050.
Business Address

Committee of consumer services
Party

1/28/99
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

JAN 29 10 57 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Nancy L. Kelly
Signature

Nancy L. Kelly
Name (Type or Print)

9463 N. Swallow Rd. Pocatello ID 83201
Residence Address

Dept. of Commerce
CCS State of Utah
Employer or Firm

160 E. 300 S. Salt Lake City Rm 408
Business Address

CCS
Party

1/27/99 NIK
Date

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Margo Hovingh
Signature

Margo Hovingh
Name (Type or Print)

721 Second Ave
Residence Address SLC UT 84103

Utah Dept. of Commerce
Employer or Firm

408 Heber Wells Bldg
Business Address Salt Lake City, UT

Committee of Consumer Services
Party

26 Jan 1999
Date

RECEIVED

JAN 29 10 57 AM '99

UTAH PUBLIC
SERVICE COMMISSION

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

RECEIVED

JAN 29 10 57 AM '99

UTAH PUBLIC
SERVICE COMMISSION

Daniel E. Smith

Signature

Daniel E. Smith

Name (Type or Print)

2457 E. 2100 S.

Residence Address

State of Utah / Dept. of Commerce

Employer or Firm

160 E. 300 S. Alton Wells Bldg

Business Address

Committee of Consumer Services

Party

January 27th, 1999

Date

15784

RECEIVED

JAN 27 4 08 PM '99

UTAH PUBLIC SERVICE COMMISSION

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM

CONSTANCE B. WHITE *CBW 2/1*

CLARK D. JONES *CJ 1/1*

Lee R. Brown
Vice President
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116
Telephone: 801-532-2043
Facsimile: 801-534-1407

Petitioner

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the application of) Docket No. 98-2035-04
Pacificorp and Scottish Power PLC)
For an Order approving the issuance) PETITION TO INTERVENE
Of Pacificorp Common Stock)

Pursuant to Utah Code Ann. § 63-46b-9 and Rule R746-100-7, Magnesium Corporation of America ("Magcorp") hereby petitions for leave to intervene in the above-referenced proceeding.

In support of its petition Magcorp submits as follows:

1. Magcorp is a magnesium producer whose facilities are located in Tooele County, Utah.
2. Magcorp is a significant power consumer purchasing all of its power from Utah Power & Light Company ("UP&L").
3. Magcorp is served by UP&L under a special contract approved by the Public Service Commission.
4. The legal rights and interests of Petitioner may be substantially affected by this proceeding.

5. Petitioner seeks to intervene for purposes of protecting its interests as they may appear, particularly on issues of relevance to its electric service contract as approved in Docket No. 97-035-08. Petitioner has not fully determined the specific positions it will take or the relief it will seek.
6. The interests of justice and the orderly and prompt conduct of this proceeding will be served by allowing Petitioner to intervene.
7. Notices in this proceeding should be sent to the following:

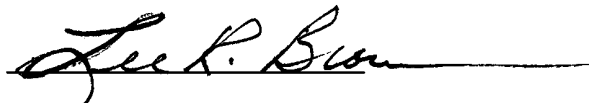
Lee R. Brown
Vice President, Contracts, Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, UT 84116
Telephone: (801) 532-2043
Facsimile: (801) 534-1407

WHEREFORE, Magnesium Corporation of America respectfully requests leave to intervene in this proceeding to protect its interests as they may appear.

DATED this 27th day of January 1999.

MAGNESIUM CORPORATION OF AMERICA

By:



Lee R. Brown
Vice President, Contracts, Human Resources,
Public & Government Affairs
238 North 2200 West
Salt Lake City, UT 84116
Telephone: (801) 532-2043
Facsimile: (801) 534-1407

cc: Charles Darling

CERTIFICATE OF SERVICE

I hereby certify that on this 27th day of January, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing **PETITION TO INTERVENE** to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300-South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Co 80302

Edward A. Hunter
Stoel, Rives, Boley, Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Brian Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 180
P.O. Box 45898
Salt Lake City, Utah 84145-0898

Gary Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536



MINUTE SLIP

LAW AND MOTION

DATE: January 26, 1999

CASE: 98-2035-04

IN THE MATTER OF: PacifCorp and Scottish Power P.L.C. for and Order Approving
The Issuance of PacifiCorp Common Stock

FILED BY: Public Service Commission

DISPOSITION: The parties suggested, and the Commission agreed to the following
schedule:

- February 17, 1999 - Filing deadline for petitions to intervene and issue statements.
- March 1, 1999 - Applicants' initial direct testimony deadline.
- March 5, 1999 - Prehearing Conference to consider issues statements filed on
2/17/99, and possible grouping of intervening parties with a lead counsel
as well as objections and arguments of petitioners for intervention. This
will begin at 9:00 a.m.
- March 31, 1999 - Additional issues filing deadline for the Committee of Consumer
Services (CCS).
- April 2, 1999 - Prehearing Conference to address additional issues raised by CCS.
The hearing will commence at 9:00 a.m.
- April 16, 1999 - Applicants file direct testimony to address additional issues
identified by the Commission.
- June 18, 1999 - Department of Public Utilities (DPU), Committee of Consumer
Service (CCS), and intervenors file direct testimony and exhibits.
- July 16, 1999 - All parties file rebuttal testimony in response to June 18th direct
testimony filing.
- August 2-6 and 9-10, 1999 - Hearings at 9:00 a.m.
- August 6, 1999 - Public Witness Day at 9:00 a.m.
- August 9, 10, 1999 - Hold over days only if needed.

The Commission ordered a 14 day turn-around period.
PacifiCorp shall publish notice of the schedule in two issues of at least two
newspapers of general circulation in the State of Utah as required by Commission rules.
Mr. Tim Hunter, attorney for Utah Power & Light, was requested to prepare an order
reflecting the proposed schedule.

COMMISSIONERS PRESENT

MECHAM X

WHITE X

JONES X

MINUTES BY: Julie Orchard, Commission Secretary

REPORTED BY: Mary Quinn

DOCKETED

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of)
PacifiCorp and Scottish Power plc for)
an Order Approving the Issuance of)
PacifiCorp Common Stock)

DOCKET NO. 98-2035-04

PROTECTIVE ORDER

ISSUED: January 25, 1999

By the Commission:

On January 15, 1999, PacifiCorp and Scottish Power plc (the "Applicants") submitted a proposed protective order in the above entitled proceeding. The Applicants stated that the entry of the proposed protective order would expedite the production of documents and other information and that said protective order would afford necessary protection to trade secret and confidential commercial, financial, and competitive information. The Commission finds that sufficient grounds exist for entry of the following Protective Order:

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. (a) Confidential Information. The documents, data, information, studies, and other materials furnished, or made available pursuant to any interrogatories, or requests for information, subpoenas, depositions, or other modes of discovery that are claimed by the Applicants or other parties to this proceeding to be of a trade secret, or a confidential commercial, financial, or competitive nature, shall be furnished pursuant to the terms of this Order, and shall be treated by all persons accorded access thereto pursuant to this Order as constituting trade secret, or confidential commercial, financial, or competitive information (hereinafter referred to as "Confidential

Information"), and shall neither be used, nor disclosed except for the purpose of this proceeding and solely in accordance with this Order. All material claimed to be Confidential Information shall be so marked by the party or its affiliates by stamping the same with the designation "Confidential Information" or such other designation as indicates its confidential nature. For purposes hereof, notes made pertaining to, or as the result of a review, of Confidential Information shall be considered Confidential Information and subject to the terms of this Order.

Only actual information for which confidentiality is claimed shall be marked as noted above, and not entire documents, where they also contain information which is not confidential. If a document or record contains both confidential and nonconfidential information, the party asserting confidentiality shall to the extent possible segregate information which is confidential from that which is not.

(b) Use of Confidential Information and Persons Entitled to Review. All Confidential Information made available pursuant to this Order shall be given solely to counsel for the parties, after counsel has executed a nondisclosure agreement in the form attached hereto as Exhibit "A", and shall not be used or disclosed except for the purpose of this proceeding; provided, however, that counsel for a party may authorize access to Confidential Information, solely for the purpose of this proceeding, to those persons who have been designated by counsel as that party's experts in this matter, but only after those persons have executed a nondisclosure agreement in accordance with paragraph 1(c) below. Any member of the Public Service Commission, or its staff, may have access to any Confidential Information made available pursuant to this Order and shall be bound by the terms of this Order.

(c) Nondisclosure Agreement. Prior to giving access to Confidential Information, as contemplated in paragraph 1(b) above, to any expert, counsel for the party seeking review of the Confidential Information shall deliver a copy of this Order to such person and, prior to disclosure, such person shall agree in writing to comply with and be bound by this Order. In connection therewith, Confidential Information shall not be disclosed to any person who has not signed a nondisclosure agreement in the form which is attached hereto as Exhibit A. The nondisclosure agreement shall require the person to whom disclosure is to be made to read a copy of this Protective Order and to certify in writing that he or she has reviewed the same and has consented to be bound by its terms. The nondisclosure agreement shall contain the signatory's full name, permanent address, and employer, and the name of the party with whom the signatory is associated. Such agreement shall be delivered to counsel for the providing party and the Commission.

(d) Availability of Documentation. As to highly sensitive Confidential Information, the party from whom information is requested shall have the right, at its option, to refuse to provide copies of that Confidential Information to counsel, or experts, for other parties. Should a producing party refuse to provide copies of Confidential Information, such Confidential Information shall be made available for inspection and review by counsel or experts for the parties at a mutually agreed upon place and time. Where copies are not provided, counsel and experts reviewing the Confidential Information may make notes regarding the Confidential Information for reference purposes only. Such notes shall not consist of a verbatim, or substantive transcript of the Confidential Information. Experts and counsel for the DPU or CCS shall not remove the notes from the place of inspection until the DPU or CCS, as applicable, has delivered to the producing party an executed letter, in the form

attached as Exhibit "B", classifying the notes as Protected Records under Utah Code Ann. § 63-2-304.

2. (a) Challenge to Confidentiality. This Order establishes a procedure for the expeditious handling of information that a party claims is confidential; it shall not be construed as an agreement, or ruling on the confidentiality of any such document.

(b) In the event that the parties hereto are unable to agree that certain documents, data, information, studies, or other matters constitute trade secret, or confidential commercial, financial or competitive information, the party objecting to the confidentiality claim shall forthwith submit the said matters to the Commission for its review pursuant to this Order. When the Commission rules on the question of whether any documents, data, information, studies, or other matters submitted to them for review and determination are Confidential Information, the Commission will enter an order resolving the issue.

(c) Any party at any time upon 10 days prior written notice may seek by appropriate pleading to have documents that have been designated as Confidential Information, or which were accepted into the sealed record in accordance with this Order removed from the protective requirements of this Order, or from the sealed record and placed in the public record. If the confidential, or proprietary nature of this information is challenged, resolution of the issue shall be made by the Commission after proceedings *in camera* which shall be conducted under circumstances such that only those persons duly authorized hereunder to have access to such confidential matter shall be present. The record of such *in camera* hearings shall be marked "CONFIDENTIAL--SUBJECT TO PROTECTIVE ORDER IN CASE NO. 98-2035-04." It shall be transcribed only

upon agreement by the parties, or order of the Commission, and in that event shall be separately bound, segregated, sealed, and withheld from inspection by any person not bound by the terms of this Order, unless and until released from the restrictions of this Order either through agreement of the parties, or after notice to the parties and hearing, pursuant to an order of the Commission. In the event that the Commission should rule in response to such a pleading that any information should be removed from the protective requirements of this Order, or from the protection of the sealed record, the parties, at the request of the providing party and to enable the providing party to seek a stay, or other relief, shall not disclose such information, or use it in the public record for 10 business days.

3. (a) Receipt into Evidence. Provision is hereby made for receipt of evidence in this proceeding under seal. Prior to the use of, or substantive reference to any Confidential Information as evidence, the party intending to use such Confidential Information shall provide written notice of that intention to the counsel for the providing party. The party intending to use such Information shall use its best efforts to provide said notice 10 days prior to the use of such Information, but, in any event, shall provide such notice at least three (3) days prior to the use of such Information. The requesting party and the providing party shall make a good faith effort to reach an agreement so that the Information can be used in a manner which will not reveal its confidential nature. If such efforts fail, the providing party shall separately designate which portions, if any, of the documents to be offered, or referenced on the record contain Confidential Information. At least one (1) day prior to the use of the Information, the providing party shall provide the Commission and counsel for the other parties with a written description of the portions of the documents so designated. The portions of the documents so designated shall be placed in the sealed record. Only one (1) copy of documents

designated by the providing party to be placed in the sealed record shall be made and only for that purpose. Otherwise, parties shall make only general references to Confidential Information in these proceedings.

(b) Seal. While in the custody of the Commission, these materials shall be marked "CONFIDENTIAL--SUBJECT TO PROTECTIVE ORDER IN CASE NO. 98-2035-04" and, due to their confidential nature, these materials shall not be considered as records received, or retained by, or in the possession of the Commission within the meaning of the open meetings, or government records access and management statutes.

(c) In Camera Hearing. Any confidential Information which must be orally disclosed to be placed in the sealed record in this proceeding shall be offered in an *in camera* hearing, attended only by persons authorized to have access to the Confidential Information under this Order. Similarly, cross-examination on, or substantive references to Confidential Information, as well as that portion of the record containing references thereto, shall be marked and treated as provided herein.

(d) Appeal. Sealed portions of the record in this proceeding may be forwarded to any court of competent jurisdiction on appeal in accordance with applicable rules and regulations, but under seal as designated herein, for the information and use of the court.

(e) Return. Unless otherwise ordered, Confidential Information, including transcripts of any depositions to which a claim of confidentiality is made, shall remain under seal, shall continue to be subject to the protective requirements of this Order, and shall be returned to counsel for the providing party within 30 days after final settlement, or conclusion of this matter, including administrative, or judicial review thereof. In order to facilitate their ongoing regulatory responsibility,

the Commission, the DPU, and the CCS may retain Confidential Information obtained under this Order subject to the other terms of this Order. At least six (6) days prior to the use of any of the retained Confidential Information in any subsequent case, the state regulatory agency which intends to use the retained Confidential Information shall provide written notice to counsel for the party providing the information.

4. Use in Pleadings. Where reference to Confidential Information in the sealed record is required in pleadings, cross-examinations, briefs, argument, or motions, it shall be by citation of title, or exhibit number, or by some other nonconfidential description. Any further use of, or substantive references to Confidential Information shall be placed in a separate section of the pleading, or brief and submitted to the Commission under seal. This sealed section shall be served only on counsel of record (one copy each), who have signed an Exhibit "A." All the protections afforded in this order apply to materials prepared and distributed under this paragraph.

5. (a) Use in Decisions and Orders. The Commission will attempt to refer to Confidential Information in only a general, or conclusionary form and will avoid reproduction in any decision of Confidential Information to the greatest possible extent. If it is necessary for a determination in this proceeding to discuss Confidential Information in other than a general, or conclusionary form, it shall be placed in a separate section of the order, or decision, under seal. This sealed section shall be served only on counsel of record (one copy each) who have signed an Exhibit "A." Counsel for other parties shall receive the cover sheet to the sealed portion and may review the sealed portion on file with the Commission once they have signed an Exhibit "A."

(b) Summary for Record. If deemed necessary by the Commission, the providing party shall prepare a written summary of the Confidential Information referred to in the decision, or order, to be placed on the public record.

6. Segregation of Files. Those parts of any writing, depositions reduced to writing, written examination, interrogatories and answers thereto, or other written references to Confidential Information in the course of discovery, if filed with the Commission, will be sealed by the Commission, segregated in the files of the Commission, and withheld from inspection by any person not bound by the terms of this Order, unless such Confidential Information is released from the restrictions of this Order, either through agreement of the parties, or after notice to the parties and hearing, pursuant to the order of the Commission and/or final order of a court having jurisdiction.

7. Preservation of Confidentiality. All persons who may be entitled to receive, or who are afforded access to any Confidential Information by reason of this Order shall neither use, nor disclose the Confidential Information for purposes of business, or competition, or any other purpose other than the purposes of preparation for and conduct of this proceeding, and then solely as contemplated herein, and shall take reasonable precautions to keep the Confidential Information secure in accordance with the purposes and intent of this Order.

8. Reservation of Rights. The parties hereto affected by the terms of this Protective Order further retain the right to question, challenge, and object on any legal ground to the admissibility of any and all data, information, studies and other matters furnished under the terms of this Protective Order in response to interrogatories, requests for information, other modes of discovery, or cross-examination.

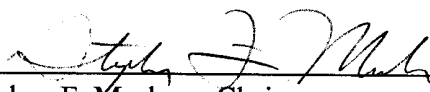
DOCKET NO. 98-2035-04

-9-

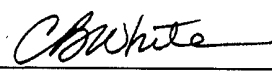
This Order shall in no way constitute any waiver of the rights of any party herein to contest any assertion, or finding of trade secret, confidentiality, or privilege, and to appeal any such determination of the Commission, or such assertion by a party.

9. The provisions of this order are specifically intended to apply to data, or information supplied by or from any party to this proceeding, and any non-party that supplies documents pursuant to process issued by this Commission.

DATED at Salt Lake City, Utah, this 25th day of January, 1999.



Stephen F. Mecham, Chairman



Constance B. White, Commissioner

Clark D. Jones, Commissioner

Attest:

Julie Orchard
Commission Secretary

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the 25th day of January, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Signature

Name (Type or Print)

Residence Address

Employer or Firm

Business Address

Party

Date

"EXHIBIT B"

[Date]

[Producing Party and Address]

Dear _____:

The [Division of Public Utilities or Committee of Consumer Services] has reviewed certain documents which were provided under the terms of paragraph 1.d. of the Protective Order issued by the Utah Public Service Commission on January 25, 1999, in Docket No. 98-2035-04. As part of its review, the [Division of Public Utilities or Committee of Consumer Services] hereby determines that these records, including any handwritten notes, are Protected Records, as defined in Utah Code Ann. § 63-2-103(16) and Utah Code Ann. § 63-2-304, which are subject to protection as specified in the Governmental Records Access and Management Act.

In the event any party other than the producing party makes a request for these records, including any handwritten notes, the [Division of Public Utilities or Committee of Consumer Services] will notify the producing party in accordance with Utah Code Ann. § 63-2-308 before releasing these records.

Sincerely,

[Division of Public Utilities or Committee of
Consumer Services]

By: _____

Title: _____

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

GLEN E. DAVIES
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

CARRIE RICE
MANAGER, STATE REGULATORY GROUP
FRONTIER TELEMAGEMENT, INC.
1221 NICOLLET AVE, SUITE 300
MINNEAPOLIS MN 55403

MOLLI HARPER
COMMNET CELLULAR, INC.
8350 EAST CRESCENT PARKWAY, SUITE 400
ENGLEWOOD CO 80111

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE, SUITE 200
BOULDER, CO 80302

Mail Envelope Properties (36ACD9D4.2D6 : 8 : 11628)

Subject: 98-2035-04 Protective Order PacifiCorp and Scottish Power
Creation Date: Mon, Jan 25, 1999 1:53 PM
From: Public Service Commission

Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
------------	--------	-------------

inet

"AlanA@qstr.com" BC ("AlanA@qstr.com".inet
 "brianburnett@cnmlaw.com" BC ("brianburnet
 "ccrosby@sltrib.com" BC ("ccrosby@sltrib.c
 "cdsjoberg@stoel.com" BC ("cdsjoberg@stoel
 "CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE
 "coadmin@grand.state.ut.us" BC ("coadmin@g
 "eahunter@stoel.com" BC ("eahunter@stoel.c
 "edwarddm@kutv2.com" BC ("edwarddm@kutv2.c
 "gad@pwlaw.com" BC ("gad@pwlaw.com".inet)
 "gbmonson@stoel.com" BC ("gbmonson@stoel.c
 "gkratz@desnews.com" BC ("gkratz@desnews.c
 "janhull@trilliumusa.com" BC ("janhull@tri
 "jim-matheson@leavitt.com" BC ("jim-mathes
 "jwoody@union-tel.com" BC ("jwoody@union-t
 "kdyk@energystrat.com" BC ("kdyk@energystr
 "marie.malone@pacificorp.com" BC ("marie.m
 "mgillman@pblutah.com" BC ("mgillman@pblut
 "mmculty@vancott.com" BC ("mmculty@vanco
 "newsdesk@kutv2.com" BC ("newsdesk@kutv2.c
 "Phila77808@aol.com" BC ("Phila77808@aol.c
 "rtuttle@webzone.net" BC ("rtuttle@webzone
 "steve@sltrib.com" BC ("steve@sltrib.com".
 "togaard@utw.com" BC ("togaard@utw.com".in

bear.com

sschefrin (Scott-sschefrin Schefrin-@bear

pacificorp.com

anne.eakin (Anne-anne.eakin Eakin-@pacifi
 doug.larson (Doug-doug.larson Larson-@pac

pblutah.com

bevans (Bill Evans)
 wevans (William-wevans Evans-@pblutah)

perkinscoie.com
reicl (Lawrence-reicl Reichman-@perkinsco)

pwlaw.com
gad (Gary-gad Dodge-@pwlaw.com)

scottishpower.plc.uk
bob.green (Robert-bob.green Green-@scotti)

state.ut.us		
PUPSC.ASPOSUPT	Delivered	01/25 1:53 PM
CJONES BC (Clark Jones)		
GTLARSEN (Glen Larsen)		
JHARVEY (John Harvey)		
JLOGAN (James Logan)		
KANDERS3 (Kristina Anderson)		
RCOLLINS (Richard Collins)		
SFMECHAM (Stephen F. Mecham)		
SMOOY BC (Sandy Mooy)		

state.ut.us
ATMAIN.ATDOMAIN
DTINGEY BC (Doug Tingey)
LNODA BC (Laurie Noda)
MGINSBER BC (Michael Ginsberg)

state.ut.us
BRMAIN.BRCMRC
BGARDNER (Barbara Gardner)
CMURRAY (Cheryl L. Murray)
DHANSON- (Diana Hanson-Steadman)
IHENNING (Ingo Henningsen)
PBULLOCK (Phil Bullock)
RCAMPBEL (Ric Campbell)
RCREER (Ralph Creer)

state.ut.us
LELFA.LEDOMAIN
WGREER BC (William Greer)

state.ut.us
NROERP.NRDOMAIN
JGALANIS BC

Post Office

Delivered

Route

inet

Pending

Pending

Pending

Pending

Pending

Pending

Pending

01/25 1:53 PM

Pending

Pending

Pending

Pending

bear.com

pacificorp.com

pblutah.com

perkinscoie.com

pwlaw.com

scottishpower.plc.uk

state.ut.us

state.ut.us

state.ut.us

state.ut.us

state.ut.us

PUPSC.ASPOSUPT
ATMAIN.ATDOMAIN
BRMAIN.BRCMRC
LELFA.LEDOMAIN
NROERP.NRDOMAIN

Files

15754.WPD

Size

27887

Date & Time

Monday, January 25, 1999 1:36 PM

Options

Auto Delete:

No

Expiration Date:

None

Notify Recipients:

Yes

Priority:

Standard

Reply Requested:

No

Return Notification:

None

Concealed Subject:

No

Security:

Standard

To Be Delivered:

Immediate

Status Tracking:

Delivered & Opened

15700

RECEIVED

Proposed Order

Edward A. Hunter
STOEL RIVES LLP
201 South Main, Suite 1100
Salt Lake City, Utah 84111-4904
Telephone: (801)578-6936

JAN 15 2 35 PM '99

UTAH PUBLIC
SERVICE COMMISSION

APPROVED BY COMMISSIONERS
STEPHEN F. MECHAM *SFM 1/2/99*
CONSTANCE B. WHITE *CBW 1/19/99*
CLARK D. JONES _____

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, Utah 84133
Telephone: (801) 530-7428

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application) DOCKET NO. 98-2035-04
of PacifiCorp and Scottish Power)
plc for an Order Approving the) PROTECTIVE ORDER
Issuance of PacifiCorp Common)
Stock)

ISSUED: _____, 1999

By the Commission:

On January 15, 1999, PacifiCorp and Scottish Power plc (the "Applicants") submitted a proposed protective order in the above entitled proceeding. The Applicants stated that the entry of the proposed protective order would expedite the production of documents and other information and that said protective order would afford necessary protection to trade secret and confidential commercial, financial and competitive information. The Commission finds that sufficient grounds exist for entry of the following Protective Order:

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, That:

1. (a) Confidential Information. The documents, data, information, studies and other materials furnished, or made available pursuant to any interrogatories, or requests for information, subpoenas, depositions, or other modes of discovery that are claimed by the Applicants or other parties to this proceeding to be of a trade secret, or a confidential commercial, financial, or competitive nature shall be furnished pursuant to the terms of this Order, and shall be treated by all persons accorded access thereto pursuant to this Order as constituting trade secret, or confidential commercial, financial or competitive information (hereinafter referred to as "Confidential Information"), and shall neither be used, nor disclosed except for the purpose of this proceeding and solely in accordance with this Order. All material claimed to be Confidential Information shall be so marked by the party or its affiliates by stamping the same with the designation "Confidential Information" or such other designation as indicates its confidential nature. For purposes hereof, notes made pertaining to, or as the result of a review of

Confidential Information shall be considered Confidential Information and subject to the terms of this Order.

Only actual information for which confidentiality is claimed shall be marked as noted above, and not entire documents, where they also contain information which is not confidential. If a document or record contains both confidential and nonconfidential information, the party asserting confidentiality shall to the extent possible segregate information which is confidential from that which is not.

- (b) Use of Confidential Information and Persons Entitled to Review. All Confidential Information made available pursuant to this Order shall be given solely to counsel for the parties, after counsel has executed a nondisclosure agreement in the form attached hereto as Exhibit "A", and shall not be used or disclosed except for the purpose of this proceeding; provided, however, that counsel for a party may authorize access to Confidential Information, solely for the purpose of this proceeding, to those persons who have been designated by counsel as that party's experts in this matter, but only after those persons have executed a nondisclosure agreement in accordance

with paragraph 1(c) below. Any member of the Public Service Commission, or its staff, may have access to any Confidential Information made available pursuant to this Order and shall be bound by the terms of this Order.

- (c) Nondisclosure Agreement. Prior to giving access to Confidential Information, as contemplated in paragraph 1(b) above, to any expert, counsel for the party seeking review of the Confidential Information shall deliver a copy of this Order to such person and, prior to disclosure, such person shall agree in writing to comply with and be bound by this Order. In connection therewith, Confidential Information shall not be disclosed to any person who has not signed a nondisclosure agreement in the form which is attached hereto as Exhibit A. The nondisclosure agreement shall require the person to whom disclosure is to be made to read a copy of this Protective Order and to certify in writing that he or she has reviewed the same and has consented to be bound by its terms. The nondisclosure agreement shall contain the signatory's full name, permanent address and employer, and the name of the party with whom the signatory is associated. Such agreement shall be

delivered to counsel for the providing party and the Commission.

- (d) Availability of Documentation. As to highly sensitive Confidential Information, the party from whom information is requested shall have the right, at its option, to refuse to provide copies of that Confidential Information to counsel, or experts, for other parties. Should a producing party refuse to provide copies of Confidential Information, such Confidential Information shall be made available for inspection and review by counsel or experts for the parties at a mutually agreed upon place and time. Where copies are not provided, counsel and experts reviewing the Confidential Information may make notes regarding the Confidential Information for reference purposes only. Such notes shall not consist of a verbatim, or substantive transcript of the Confidential Information. Experts and counsel for the DPU or CCS shall not remove the notes from the place of inspection until the DPU or CCS, as applicable, has delivered to the producing party an executed letter, in the form attached as Exhibit "B", classifying the notes as Protected Records under Utah Code Ann. § 63-2-304.

2. (a) Challenge to Confidentiality. This Order establishes a procedure for the expeditious handling of information that a party claims is confidential; it shall not be construed as an agreement, or ruling on the confidentiality of any such document.
- (b) In the event that the parties hereto are unable to agree that certain documents, data, information, studies, or other matters constitute trade secret, or confidential commercial, financial or competitive information, the party objecting to the confidentiality claim shall forthwith submit the said matters to the Commission for its review pursuant to this Order. When the Commission rules on the question of whether any documents, data, information, studies, or other matters submitted to them for review and determination are Confidential Information, the Commission will enter an order resolving the issue.
- (c) Any party at any time upon 10 days prior written notice may seek by appropriate pleading to have documents that have been designated as Confidential Information, or which were accepted into the sealed record in accordance with this Order removed from the protective requirements of this Order, or from the sealed record and placed

in the public record. If the confidential, or proprietary nature of this information is challenged, resolution of the issue shall be made by the Commission after proceedings in camera which shall be conducted under circumstances such that only those persons duly authorized hereunder to have access to such confidential matter shall be present. The record of such in camera hearings shall be marked "CONFIDENTIAL--SUBJECT TO PROTECTIVE ORDER IN CASE NO. 98-2035-04." It shall be transcribed only upon agreement by the parties, or order of the Commission, and in that event shall be separately bound, segregated, sealed, and withheld from inspection by any person not bound by the terms of this Order, unless and until released from the restrictions of this Order either through agreement of the parties, or after notice to the parties and hearing, pursuant to an order of the Commission. In the event that the Commission should rule in response to such a pleading that any information should be removed from the protective requirements of this Order, or from the protection of the sealed record, the parties, at the request of the providing party and to enable the providing party to seek a stay, or other relief, shall not disclose such information,

or use it in the public record for 10 business days.

3. (a) Receipt into Evidence. Provision is hereby made for receipt of evidence in this proceeding under seal. Prior to the use of, or substantive reference to any Confidential Information as evidence, the party intending to use such Confidential Information shall provide written notice of that intention to the counsel for the providing party. The party intending to use such Information shall use its best efforts to provide said notice 10 days prior to the use of such Information, but, in any event, shall provide such notice at least three (3) days prior to the use of such Information. The requesting party and the providing party shall make a good faith effort to reach an agreement so that the Information can be used in a manner which will not reveal its confidential nature. If such efforts fail, the providing party shall separately designate which portions, if any, of the documents to be offered, or referenced on the record contain Confidential Information. At least one (1) day prior to the use of the Information, the providing party shall provide the Commission and counsel for the other parties with a written description of the portions

of the documents so designated. The portions of the documents so designated shall be placed in the sealed record. Only one (1) copy of documents designated by the providing party to be placed in the sealed record shall be made and only for that purpose. Otherwise, parties shall make only general references to Confidential Information in these proceedings.

- (b) Seal. While in the custody of the Commission, these materials shall be marked "CONFIDENTIAL-- SUBJECT TO PROTECTIVE ORDER IN CASE NO. 98-2035-04" and, due to their confidential nature, these materials shall not be considered as records received, or retained by, or in the possession of the Commission within the meaning of the open meetings, or government records access and management statutes.
- (c) In Camera Hearing. Any confidential Information which must be orally disclosed to be placed in the sealed record in this proceeding shall be offered in an in camera hearing, attended only by persons authorized to have access to the Confidential Information under this Order. Similarly, cross-examination on, or substantive references to Confidential Information, as well as that portion

of the record containing references thereto, shall be marked and treated as provided herein.

- (d) Appeal. Sealed portions of the record in this proceeding may be forwarded to any court of competent jurisdiction on appeal in accordance with applicable rules and regulations, but under seal as designated herein, for the information and use of the court.
- (e) Return. Unless otherwise ordered, Confidential Information, including transcripts of any depositions to which a claim of confidentiality is made, shall remain under seal, shall continue to be subject to the protective requirements of this Order, and shall be returned to counsel for the providing party within 30 days after final settlement, or conclusion of this matter, including administrative, or judicial review thereof. In order to facilitate their ongoing regulatory responsibility, the Commission, the DPU, and the CCS may retain Confidential Information obtained under this Order subject to the other terms of this Order. At least six (6) days prior to the use of any of the retained Confidential Information in any subsequent case, the state regulatory agency which intends to use the retained Confidential Information shall

provide written notice to counsel for the party providing the information.

4. Use in Pleadings. Where reference to Confidential Information in the sealed record is required in pleadings, cross-examinations, briefs, argument, or motions, it shall be by citation of title, or exhibit number, or by some other nonconfidential description. Any further use of, or substantive references to Confidential Information shall be placed in a separate section of the pleading, or brief and submitted to the Commission under seal. This sealed section shall be served only on counsel of record (one copy each), who have signed an Exhibit "A." All the protections afforded in this order apply to materials prepared and distributed under this paragraph.
5. (a) Use in Decisions and Orders. The Commission will attempt to refer to Confidential Information in only a general, or conclusionary form and will avoid reproduction in any decision of Confidential Information to the greatest possible extent. If it is necessary for a determination in this proceeding to discuss Confidential Information in other than a general, or conclusionary form, it shall be placed in a separate section of the order, or decision, under seal. This sealed section shall be served only on counsel of record

(one copy each) who have signed an Exhibit "A." Counsel for other parties shall receive the cover sheet to the sealed portion and may review the sealed portion on file with the Commission once they have signed an Exhibit "A."

(b) Summary for Record. If deemed necessary by the Commission, the providing party shall prepare a written summary of the Confidential Information referred to in the decision, or order, to be placed on the public record.

6. Segregation of Files. Those parts of any writing, depositions reduced to writing, written examination, interrogatories and answers thereto, or other written references to Confidential Information in the course of discovery, if filed with the Commission, will be sealed by the Commission, segregated in the files of the Commission, and withheld from inspection by any person not bound by the terms of this Order, unless such Confidential Information is released from the restrictions of this Order, either through agreement of the parties, or after notice to the parties and hearing, pursuant to the order of the Commission and/or final order of a court having jurisdiction.
7. Preservation of Confidentiality. All persons who may be entitled to receive, or who are afforded access to any Confidential Information by reason of this Order

shall neither use, nor disclose the Confidential Information for purposes of business, or competition, or any other purpose other than the purposes of preparation for and conduct of this proceeding, and then solely as contemplated herein, and shall take reasonable precautions to keep the Confidential Information secure in accordance with the purposes and intent of this Order.

8. Reservation of Rights. The parties hereto affected by the terms of this Protective Order further retain the right to question, challenge, and object on any legal ground to the admissibility of any and all data, information, studies and other matters furnished under the terms of this Protective Order in response to interrogatories, requests for information, other modes of discovery, or cross-examination.

This Order shall in no way constitute any waiver of the rights of any party herein to contest any assertion, or finding of trade secret, confidentiality, or privilege, and to appeal any such determination of the Commission, or such assertion by a party.

9. The provisions of this order are specifically intended to apply to data, or information supplied by or from any party to this proceeding, and any non-party that

supplies documents pursuant to process issued by this
Commission.

DATED at Salt Lake City, Utah, this ____ day of
_____, 1999.

Stephen F. Mecham, Chairman

Constance B. White, Commissioner

Clark D. Jones, Commissioner

Attest:

Julie Orchard
Commission Secretary

EXHIBIT "A"

I have reviewed the Protective Order approved by the Public Service Commission of Utah on the _____ day of _____, 1999, in Docket No. 98-2035-04, and agree to be bound by the terms and conditions of such Order.

Signature

Name (Type or Print)

Residence Address

Employer or Firm

Business Address

Party

Date

"EXHIBIT B"

[Date]

[Producing Party and Address]

Dear _____:

The [Division of Public Utilities or Committee of Consumer Services] has reviewed certain documents which were provided under the terms of paragraph 1.d. of the Protective Order issued by the Utah Public Service Commission on _____, 1999, in Docket No. 98-2035-04. As part of its review, the [Division of Public Utilities or Committee of Consumer Services] hereby determines that these records, including any handwritten notes, are Protected Records, as defined in Utah Code Ann. § 63-2-103(16) and Utah Code Ann. § 63-2-304, which are subject to protection as specified in the Governmental Records Access and Management Act.

In the event any party other than the producing party makes a request for these records, including any handwritten notes, the [Division of Public Utilities or Committee of Consumer Services] will notify the producing party in accordance with Utah Code Ann. § 63-2-308 before releasing these records.

Sincerely,

[Division of Public Utilities or
Committee of Consumer Services]

By: _____

Title: _____

15767

Steven W. Allred
Salt Lake City Corp. Law Dept.
451 South State, Suite 505
Salt Lake City, Utah 84111
Telephone: (801) 535-7788

RECEIVED

JAN 25 4 49 PM '99

UTAH PUBLIC
SERVICE COMMISSION

Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 94119
Telephone: (801) 963-3271

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM _____

CONSTANCE B. WHITE CBW 1/28

CLARK D. JONES CDJ 1/1

Roger O. Tew, ESQ. (3220)
60 South 600 East, Suite 200
Salt Lake City, Utah 84102
Telephone: (801) 521-3363

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacificCorp Common Stock</p>	<p>DOCKET NO. 98-2035-04</p> <p>PETITION FOR INTERVENTION OF THE UTAH LEAGUE OF CITIES AND TOWNS AND SIMILARILY SITUATED MUNICIPALITIES</p>
--	--

The Utah League of Cities and Towns (ULCT), by and through its attorneys of record, and on behalf of its member entities, respectfully petitions the Public Service Commission of Utah (the "Commission"), pursuant to Utah Code Annotated § 63-46b-9 and Utah Admin. Code R. 746-100-7 to intervene in the above captioned matter. In support of this Petition, ULCT represents the following and as grounds therefor submits to the Commission that:

1. **Identity of Petitioner.** The ULCT is a non-profit and non-partisan association that represents all of Utah's 232 incorporated cities and towns. The ULCT is the principal representative organization of Utah municipal governments to both the federal and state

governments. In addition, the ULCT provides assistance, training, and information to Utah's municipal leaders.

The ULCT was initially organized in 1907 as the Utah Municipal League. The current charter and operation was established in 1937. The ULCT is governed by a 16-member board of elected municipal officials from various geographic areas of the state. Dues from the member communities support the organization.

2. **Interest of Petitioner.** Pursuant to the Utah Constitution, (Utah Const., Article XI §5) Utah municipalities have a constitutional requirement to furnish all public services (including electricity) to their citizens. In the case of electrical power, the municipalities discharge this responsibility by operating their own municipal power systems or through agreements with a private entity such as an investor owned electric utility. In either case, Utah municipalities have a constitutional responsibility and obligation to insure that their citizens receive reasonably priced and reliable electric services.

PacifiCorp is currently providing power to most Utah municipalities pursuant to private agreements with those communities. ULCT member communities and their citizens are dependent upon reliable electrical services. Reliable electric service is necessary so as to allow ULCT members to maintain their economic development programs and all other municipal undertakings. Those communities operating their own electrical power systems are also dependent upon a reliable statewide power distribution system for their operations. Lastly, virtually all Utah cities receive substantial revenues from electric power operations. (Utah Municipal Energy and Use Tax, Utah Code Ann. § § 10-1-301, et. seq.)

ULCT members have a substantial and compelling interest in this proceeding. Intervention is necessary so as to guarantee that ULCT will be able to participate in this

proceeding as ULCT members' interests may require. Utah Code Ann. § 63-46b-9 permits intervention if the petitioner's legal rights or interests are substantially affected by this proceeding. PacifiCorp and Scottish Power plc have requested an order from the Public Service Commission relating to a merger between Scottish Power and PacifiCorp. As a result, this Commission will likely make an inquiry and determination pursuant to Utah Code Ann. §§54-4-1, 54-4-28 and 54-4-31 whether the result of the Agreement and Plan of Merger, which is the genesis of this proceeding, is in the public interest. This Commission, relying upon lessons learned as a result of the Utah Power & Light and PacifiCorp merger in 1987, must review and address any number of issues relating to local control, local responsibility and local reliability. For reasons stated above, these directly impact ULCT's members.

3. **Interest of Justice Not Impaired.** The interests of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing the intervention of ULCT. Intervention will not prejudice any party nor will intervention in this proceeding unduly broaden its nature or scope. Allowing this timely intervention of ULCT will not delay this proceeding.

4. **Notice.** If intervention is granted, copies of all notices and filings should be served on the following:

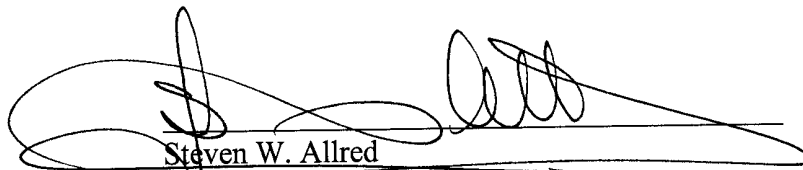
Steven W. Allred
Salt Lake City Corporation Law Department
451 South State, Suite 505
Salt Lake City, Utah 84111
Telephone: (801) 535-7788

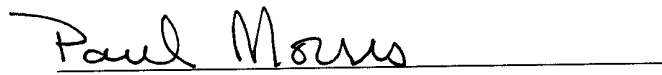
Paul T. Morris
3600 Constitution Blvd.
West Valley City, Utah 84119
Telephone: (801) 963-3271

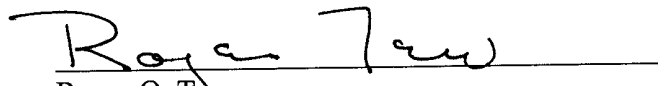
Roger O. Tew, Esq.
Special Counsel for ULCT
60 South 600 East, Suite 200
Salt Lake City, Utah 84102
Telephone: (801) 521-3363

NOW THEREFORE, ULCT respectfully requests that the Commission issue an Order authorizing ULCT to intervene and fully participate in the above captioned proceeding. A proposed form of Order is submitted herewith.

DATED this 25th day of January, 1999.


Steven W. Allred
Special Counsel for the Utah League of Cities and Towns


Paul T. Morris
Special Counsel for the Utah League of Cities and Towns


Roger O. Tew
Special Counsel for the Utah League of Cities and Towns

MAILING CERTIFICATE

I hereby certify that I caused a copy of the foregoing **PETITION FOR INTERVENTION OF THE UTAH LEAGUE OF CITIES AND TOWNS** regarding Docket No. 98-2035-04, to be mailed by first class mail, postage prepaid, this ~~25th~~ day of January, 1999 to the following:

Robert Green
Group Controller
Scottish Power plc
121 SW Morrison, Suite 1800
Portland, Oregon 97204
Phone: (503) 224-9040
Fax: (503) 223-9081
Email: bob.green@scottishpower.plc.uk

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple Street
Salt Lake City, Utah 84133
Phone: (801) 530-7428
Fax: (801) 364-9127
Email: brianburnett@cnmlaw.com

Lawrence H. Reichman
Perkins Cole LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715
Phone: (503) 727-2019
Fax: (503) 727-2222
Email: reicl@perkinscole.com

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah Street

Portland, Oregon 97332
Phone: (503) 813-6065
Fax: (503) 813-6060
Email: anne.eakin@pacificorp.com

D. Douglas Larson
Director, Regulatory Policy
PacifiCorp
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000
Phone: (801) 220-2190
Fax: (801) 229-3116
Email: doug.larson@pacificorp.com

Edward A. Hunter
Stoel Rives LLP
One Utah Center, Suite 1100
201 South Main
Salt Lake City, Utah 84111-4904
Phone: (801) 578-6936
Fax: (801) 578-6999
Email: eahunter@stoel.com



15743

RECEIVED

VAN COTT, BAGLEY, CORNWALL & McCARTHY
Matthew F. McNulty, III, Esq. (3828)
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333

APPROVED BY COMMISSIONERS
STEPHEN F. MECHAM
CONSTANCE B. WHITE
CLARK D. JONES

JAN 22 4 21 PM '99
UTAH PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

<p>In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacificCorp Common Stock</p>	<p>DOCKET NO. 98-2035-04 PETITION FOR INTERVENTION OF UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS</p>
--	--

Utah Associated Municipal Power Systems ("UAMPS"), by and through its attorneys of record, and on behalf of its members, respectfully petitions the Public Service Commission of Utah (the "Commission"), pursuant to Utah Code Annotated § 63-46b-9 and Utah Admin. Code R. 746-100-7 to intervene in the above captioned matter. In support of this Petition, UAMPS represents the following and as grounds therefore submits to the Commission that:

1. **Identity of Petitioner.** UAMPS is a political subdivision of the State of Utah, and is comprised of thirty-one (31) Utah municipalities, two Arizona municipalities, one Idaho municipality, one Utah electric service district, one Utah interlocal agency and one Utah water conservancy district (hereinafter "UAMPS members").¹ UAMPS was established in 1980, pursuant to the applicable provisions of the Interlocal Cooperative Act, Title 11, Chapter 13, Utah Code Annotated (1953), as amended and supplemented from time to time (the "Act").

¹ A list of UAMPS' members is provided as Exhibit "A" to this Petition.

UAMPS' purposes include planning, financing, development, acquisition, construction, improvement, betterment, operation, and maintenance of projects for the generation, transmission, and distribution of electric energy, for the benefit of some or all of its members. UAMPS members, through their very existence, provide "yardstick competition" and "yardstick performance" against which PacifiCorp's rates, service performance and general reliability can be assessed.

2. **Interest of Petitioner.** As providers of electric service in the state of Utah, to citizens and/or customers located within their municipal boundaries and/or service areas, UAMPS members have a substantial and compelling interest in this proceeding. Intervention is necessary for UAMPS to be able to participate as UAMPS members' interests may require.

Utah Code Ann. § 63-46b-9 permits intervention if the petitioner's legal rights or interests are substantially affected by this proceeding. PacifiCorp and Scottish Power have requested an order from the Public Service Commission relating to a merger between Scottish Power and PacifiCorp. As a result, this Commission will likely make an inquiry and determination pursuant to Utah Code Ann. §§54-4-1, 54-4-28 and 54-4-31 whether the result of the Agreement and Plan of Merger, which is the genesis of this proceeding, is in the public interest. This Commission, relying upon lessons learned as a result of the Utah Power & Light and PacifiCorp merger in 1987, must review and address any number of issues relating to local control, local responsibility and local reliability. These issues directly impact all UAMPS members.

PacifiCorp is currently providing electric service to customers located within the municipal boundaries of some UAMPS members. PacifiCorp is additionally providing electric service to customers located in areas scheduled to be, or anticipated to be, annexed into the

municipal boundaries of some UAMPS members. Continued service by PacifiCorp to these types of UAMPS members' customers is not anticipated to continue. In order to serve these types of customers it may be necessary for UAMPS members to condemn and/or purchase the PacifiCorp distribution facilities that service these types of customers. The Commission, with the filing of the PacifiCorp and Scottish Power application herein, is now uniquely positioned to resolve pricing, timing and other related issues via-a-vis PacifiCorp distribution facilities that service these types of customers.

3. **Interest of Justice Not Impaired.** The interests of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing the intervention of UAMPS. UAMPS' intervention will not prejudice any party nor will intervention in this proceeding unduly broaden its nature or scope. Allowing this timely intervention of UAMPS will not delay this proceeding.

4. **Notice.** If intervention is granted, copies of all notices and filings should be served on the following:

Matthew F. McNulty, III
Van Cott, Bagley, Cornwall & McCarthy
Attorneys for UAMPS
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333


Douglas O. Hunter
General Manager
Utah Associated Municipal Power Systems
2825 East Cottonwood Parkway, Suite 200
Salt Lake City, Utah 84121

NOW THEREFORE, UAMPS respectfully requests that the Commission issue an Order authorizing UAMPS to intervene and fully participate in the above captioned proceeding.

A proposed form of Order is submitted herewith.

DATED this 22nd day of January, 1999.

VAN COTT, BAGLEY, CORNWALL & McCARTHY



Matthew F. McNulty, III
Attorneys for Utah Associated Municipal
Power Systems

MAILING CERTIFICATE

I hereby certify that I caused a copy of the foregoing **PETITION FOR INTERVENTION OF UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS** regarding Docket No. 98-2035-04, to be mailed by first class mail, postage prepaid, this 22nd day of January, 1999 to the following:

Robert Green
Group Controller
Scottish Power plc
121 SW Morrison, Suite 1800
Portland, Oregon 97204
Phone: (503) 224-9040
Fax: (503) 223-9081
Email: bob.green@scottishpower.plc.uk

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple Street
Salt Lake City, Utah 84133
Phone: (801) 530-7428
Fax: (801) 364-9127
Email: brianburnett@cnmlaw.com

Lawrence H. Reichman
Perkins Cole LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715
Phone: (503) 727-2019
Fax: (503) 727-2222
Email: reicl@perkinscole.com

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah Street
Portland, Oregon 97332
Phone: (503) 813-6065
Fax: (503) 813-6060
Email: anne.eakin@pacificorp.com

D. Douglas Larson
Director, Regulatory Policy
PacifiCorp
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000
Phone: (801) 220-2190
Fax: (801) 229-3116
Email: doug.larson@pacificorp.com

Edward A. Hunter
Stoel Rives LLP
One Utah Center, Suite 1100
201 South Main
Salt Lake City, Utah 84111-4904
Phone: (801) 578-6936
Fax: (801) 578-6999
Email: eahunter@stoel.com



15742

EXHIBIT A

RECEIVED

JAN 22 4 51 PM '99

UTAH PUBLIC
SERVICE COMMISSION

Beaver
Blanding
Bountiful
Brigham City
Enterprise
Ephraim
Fairview
Fillmore
Fredonia, Arizona
Heber Light & Power
Holden
Hurricane
Hyrum

Idaho Falls, Idaho
Kanab
Kanosh
Kaysville
Lehi
Logan
Meadow
Monroe
Morgan
Mt. Pleasant
Murray
Oak City
Page, Arizona

Paragonah
Parowan
Payson
Price
St. George
Santa Clara
Spring City
Springville
Strawberry Electric
Service District
Washington
Weber Basin Water
Conservancy District

15748

RECEIVED

JAN 22 4 19 PM '99

UTAH PUBLIC SERVICE COMMISSION

Gary A. Dodge, Esq. #AO897
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536
Telephone: 801-532-7840
Facsimile: 801-532-7750
e-mail: gad@pwlaw.com
Attorneys for Petitioners

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM _____

CONSTANCE B. WHITE 1201/26

CLARK D. JONES 1/1

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PacifiCorp and Scottish Power plc) Docket No. 98-2035-04
for an Order Approving the Issuance)
of PacifiCorp Common Stock) PETITION TO INTERVENE
)

Pursuant to Utah Code Ann. § 63-46b-9 and Rule R746-100-7, the following Petitioners
petition for leave to intervene in this proceeding:

- Alliant Techsystems, Inc.
- Hexcel Corporation
- Thiokol Corporation
- Chevron
- S F Phosphates
- E. A. Miller, Inc.
- IHC Hospitals, Inc.
- Geneva Steel

- Western Electrochemical Company
- Utah Electric Deregulation Group

In support of this petition, Petitioners state as follows:

1. Petitioners are large Utah electric consumers who are customers of PacifiCorp or whose rates are tied to PacifiCorp's rate structure, organizations whose members include large Utah electric consumers, or others whose interests may be affected by the approvals requested in this docket.
2. The legal rights and interests of Petitioners may be substantially affected by this proceeding.
3. Petitioners have not fully determined the specific positions they will take or the relief they will seek. Petitioners seek to intervene for purposes of protecting their interests as they may appear, particularly on issues of relevance to large electric consumers.
4. The interests of justice and the orderly and prompt conduct of this proceeding will not be materially impaired by allowing Petitioners to intervene. No other parties will adequately represent the interests of Petitioners.
5. Notices in this proceeding should be sent to the following:

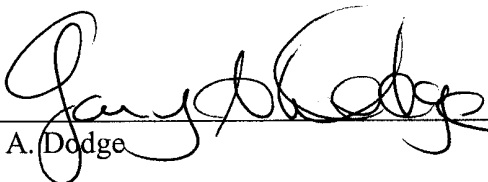
Gary A. Dodge
Parr, Waddoups, Brown, Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536
Telephone: 801.532.7840
Facsimile: 801.532.7750
e-mail: gad@pwlaw.com

Rick Anderson
Energy Strategies, Inc.
39 Market Street, Suite 200
Salt Lake City, UT 84101
Telephone: 801.355.4365
Facsimile: 801.521.9142
e-mail: randerson@energystrat.com

WHEREFORE, Petitioners request leave to intervene in this proceedings to protect their interests as they may appear.

DATED this 22d day of January, 1999.

PARR WADDOUPS BROWN GEE & LOVELESS



Gary A. Dodge

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 22nd day of January, 1999, to the following:

Edward Hunter
John Eriksson
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, UT 84111

Brian W. Burnett
CALLISTER NEBEKER & MCCULLOUGH
10 East South Temple, #800
Salt Lake City, UT 84133

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Douglas C. Tingey
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Daniel Moquin
ASSISTANT ATTORNEY GENERAL
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

F. Robert Reeder
William J. Evans
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
RANDLE, DEAMER, ZARR, ROMRELL &
LEE
139 East South Temple, Suite 330
Salt Lake City, UT 84111

Jani B. Jubbitts

15729

F. Robert Reeder (2710)
William J. Evans (5276)
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
P.O. Box 45898
Salt Lake City, Utah 84145-0898
Telephone: (801) 532-1234

Attorneys for Utah Industrial Energy Consumers

RECEIVED

JAN 21 3 52 PM '99

UTAH PUBLIC
SERVICE COMMISSION

APPROVED BY COMMISSIONERS

STEPHEN F. MECHAM _____

CONSTANCE B. WHITE CBW 1/26

CLARK D. JONES CJ 7/1

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PACIFICORP and SCOTTISH POWER)
PLC for an Order Approving the Issuance of)
PACIFICORP Common Stock)
)
)

DOCKET NO. 98-2035-04

PETITION TO INTERVENE

In accordance with Rule 756-100-6 of the Public Service Commission's Rules of Practice and Procedure and the provisions of Utah Code Ann. § 63-46b-9, Abbott Critical Care, Amoco Oil Company, Fairchild Semiconductor Corporation, Holnam, Inc., Kennecott Utah Copper Corporation, Kimberly-Clark Corporation, Micron Technology, Inc., Praxair, Inc., and Westinghouse/Western Zirconium Division, (hereinafter and throughout the course of this proceeding referred to as "Utah Industrial Energy Consumers" or "UIEC"), hereby move the Commission for leave to intervene in the above-referenced proceeding.

In support of this petition to intervene, the UIEC state as follows:

1. On the Joint Application of Scottish Power PLC and PacifiCorp for an Order Approving the Issuance of PacifiCorp Common Stock, the Public Service Commission has opened a formal docket.

2. The UIEC are a group of large customers who take service from PacifiCorp under rate Schedule 9 or under special contracts.

3. The UIEC have a direct, immediate and substantial interest in this proceeding as customers of PacifiCorp because the rates they pay for electric service and the quality and reliability of the service they enjoy may be affected by the transaction and the Commission's decision thereon. In addition, the movement to competition may be affected by this transaction and the Commission's decision.

4. To the UIEC's knowledge, the interests of the UIEC will not be represented by any other party to this proceeding.

5. If the UIEC is granted intervention, they hereby request that service of all pleadings, notices, etc., be made to the following:

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street, Suite 1800
Salt Lake City, Utah 84145-0898

6. The interests of justice and the orderly and prompt conduct of this proceeding will be enhanced and not be impaired by the UIEC's intervention.

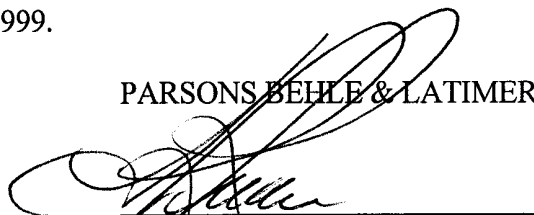
7. The UIEC have not completed their discovery and evaluation of the transaction on rates, service quality or potential competition. Therefore, the UIEC have not yet determined the precise nature of the relief they will seek and request that the

Commission grant them intervention as their interests may appear.

WHEREFORE, the UIEC requests that the Public Service Commission enter an order permitting the UIEC intervene in this docket, and to participate to the full extent allowed by the law and the Commission's rules.

DATED this 21st day of January, 1999.

PARSONS BEHLE & LATIMER



F. Robert Reeder
William J. Evans
Attorneys for UIEC

CERTIFICATE OF SERVICE

I hereby certify that on this 21st day of January, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing **PETITION**

TO INTERVENE to:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300-South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Edward A. Hunter
Stoel Rives Boley Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Brian W. Burnett
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Margie Gillman

15699

Edward A. Hunter
STOEL RIVES LLP
201 South Main, Suite 1100
Salt Lake City, Utah 84111-4904
Telephone: (801) 578-6936
Attorneys for PacifiCorp

RECEIVED

JAN 15 2 05 PM '99

UTAH PUBLIC
SERVICE COMMISSION

REVIEWED BY COMMISSIONERS

STEPHEN F. MECHAM SM

CONSTANCE B. WHITE CBW

CLARK D. JONES _____

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, Utah 84133
Telephone: (801) 530-7428
Attorneys for Scottish Power plc

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION)	
OF PACIFICORP AND SCOTTISH POWER	)	DOCKET NO. 98-2035-04
PLC FOR AN ORDER APPROVING THE)	
ISSUANCE OF PACIFICORP COMMON	)	MOTION FOR ENTRY
STOCK	)	OF PROTECTIVE ORDER

PacifiCorp and Scottish Power (the "Applicants") hereby move the Public Service Commission of Utah (the "Commission") to enter a Protective Order in the form attached hereto. The grounds for this Motion are as follows:

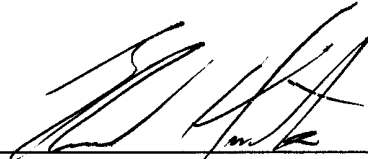
1. The entry of the proposed Protective Order will expedite and facilitate the exchange of information by the parties by affording protection to valuable, confidential, trade secret, and proprietary business information.
2. The proposed Protective Order is fair and equitable to all parties and provides the parties and the Commission with access to information while allowing for the protection of the integrity of confidential information.

3. The proposed Protective Order is in the same form as Protective Orders entered by the Commission in recent cases involving this and other utilities under its jurisdiction.

WHEREFORE, the Applicants request that the Commission enter the Protective Order in the form attached hereto.

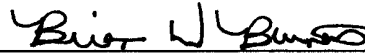
RESPECTFULLY SUBMITTED this 15th day of January, 1998.

By



Edward A. Hunter
STOEL RIVES LLP

By



Brian W. Burnett
CALLISTER NEBEKER & McCULLOUGH

CERTIFICATE OF SERVICE

I hereby certify that I caused the foregoing Motion for Entry of Protective Order to be served upon the following persons by mailing a true and correct copy of the same, postage prepaid, to the following on the 15th day of January, 1999.

Michael Ginsberg
Assistant Attorney General
Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Boulevard, Suite 134
Salt Lake City, UT 84108

Doug Tingey
Assistant Attorney General
Committee of Consumer Service
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Stephen R. Randle
Randle, Deamer, Zarr, Romrell & Lee
P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

Peter J. Mattheis
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, UT 84111

Robert F. Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street
P.O. Box 45898
Salt Lake City, UT 84145-0898

Lee R. Brown
Vice President, Contracts, Human
Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, UT 84116

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, UT 84111-1536

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302



DOCKETED

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of	)	<u>DOCKET NO. 98-2035-04</u>
PacifiCorp and Scottish Power plc for)	
an Order Approving the Issuance of)	
PacifiCorp Common Stock	)	<u>NOTICE OF PREHEARING CONFERENCE</u>

ISSUED: January 13, 1999

By the Commission:

PLEASE TAKE NOTICE that a Prehearing Conference in the above-referenced matter will be held before the Commission on Tuesday, January 26, 1999, at 9:00 a.m., in the Commission Hearing Room No. 426, Heber M. Wells State Office Building, 160 East 300 South, Salt Lake City, Utah.

In compliance with the Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communicative aids and services) during this hearing should notify Julie Orchard, Commission Secretary, at 160 East 300 South, Salt Lake City, Utah, 84111, (801)530-6713, at least three working days prior to the hearing.

DATED at Salt Lake City, Utah, this 13th day of January, 1999.


Julie Orchard
Commission Secretary

DOCKETED

AFFIDAVIT OF MAILING

)
In the Matter of the Application of)
PacifiCorp and Scottish Power plc for an)
Order Approving the Issuance of)
PacifiCorp Common Stock)
_____)

DOCKET NO. 98-2035-04

NOTICE OF PREHEARING
CONFERENCE

County of Salt Lake)
) ss.
State of Utah)

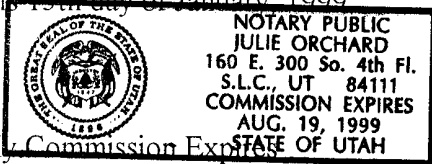
Glen T. Larsen being duly sworn, deposes and says that he is a secretary regularly employed in the office of the Public Service Commission of Utah, whose office is located at 160 East 300 South, Fourth Floor, Heber M. Wells State Office Building, Salt Lake City, Utah.

That there is a United States Post Office at Salt Lake City, and at the place of residence or place of business of the person(s) whose name(s) are set forth below; and between Salt Lake City and residence or places of business, there is a regular communication by mail.

That on the 13th day of January, 1999, affiant served a true copy of the hereto attached NOTICE OF PREHEARING CONFERENCE on the said persons by mailing such copy on said date in a post office in Salt Lake City, Utah, properly enclosed in a sealed envelope with postage prepaid thereon, legibly addressed to the following person(s), at the addresses shown:

* See attached Mailing Lists and "E" Mailing Lists

Subscribed and sworn to before me
this 13th day of January, 1999.



My Commission Expires
August 19, 1999.

Glen T. Larsen
Secretary

Julie Orchard
Notary Public
Residing at Salt Lake City, Utah

THOMAS M ZARR ATTORNEY
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1169

E.A. PRAWITT
UTAH ASSOCIATION OF COUNTIES
5397 SOUTH VINE STREET
SALT LAKE CITY UT 84107

DR. CHARLES E. JOHNSON
THE THREE PARTIES
1338 FOOTHILL BOULEVARD, SUITE 134
SALT LAKE CITY, UTAH 84108

GLEN E. DAVIES
PARSONS, DAVIES, KINGHORN, & PETERS, P.C.
185 SOUTH STATE STREET, SUITE 700
SALT LAKE CITY, UTAH 84111

DANIEL MOQUIN
ASSISTANT ATTORNEY GENERAL
1594 WEST NORTH TEMPLE, SUITE 300
SALT LAKE CITY, UTAH 84116

STEPHEN R. RANDLE
RANDLE, DEAMER, ZARR, ROMRELL, & LEE, P.C.
139 E S TEMPLE, SUITE 330
SALT LAKE CITY UT 84111-1004

CARRIE RICE
MANAGER, STATE REGULATORY GROUP
FRONTIER TELEMAGEMENT, INC.
1221 NICOLLET AVE, SUITE 300
MINNEAPOLIS MN 55403

MOLLI HARPER
COMMNET CELLULAR, INC.
8350 EAST CRESCENT PARKWAY, SUITE 400
ENGLEWOOD CO 80111

PETER J. MATTHEIS
DEAN S. BROCKBANK
BRICKFIELD, BURCHETTE & RITTS, P.C.
1025 THOMAS JEFFERSON STREET, N.W.
800 WEST TOWER
WASHINGTON, D.C. 20007

LEE R. BROWN
VICE-PRESIDENT, CONTRACTS, HUMAN RESOURCES
PUBLIC & GOVERNMENT AFFAIRS
238 NORTH 2200 WEST
SALT LAKE CITY, UTAH 84116

ERIC BLANK
LAND AND WATER FUND OF THE ROCKIES
2260 BASELINE, SUITE 200
BOULDER, CO 80302

Mail Envelope Properties (369D033C.2D6 : 8 : 11628)

Subject: 98-2035-04 Notice of Prehearing Conference Pacificorp/Scottish
Creation Date: Wed, Jan 13, 1999 1:34 PM
From: Public Service Commission
Created By: PSCCAL.PUPSC@state.ut.us

Recipients	Action	Date & Time
inet "AlanA@qstr.com" BC ("AlanA@qstr.com".inet "brianburnett@cnmlaw.com" BC ("brianburnet "ccrosby@sltrib.com" BC ("ccrosby@sltrib.c "cdsjoberg@stoel.com" BC ("cdsjoberg@stoel "CMICHAELIS@BTLP.STATE.UT.US" BC ("CMICHAE "coadmin@grand.state.ut.us" BC ("coadmin@g "eahunter@stoel.com" BC ("eahunter@stoel.c "edwarddm@kutv2.com" BC ("edwarddm@kutv2.c "gad@pwlaw.com" BC ("gad@pwlaw.com".inet) "gbmonson@stoel.com" BC ("gbmonson@stoel.c "gkratz@desnews.com" BC ("gkratz@desnews.c "janhull@trilliumusa.com" BC ("janhull@tri "jim-matheson@leavitt.com" BC ("jim-mathes "jwoody@union-tel.com" BC ("jwoody@union-t "kdyk@energystrat.com" BC ("kdyk@energystr "marie.malone@pacificorp.com" BC ("marie.m "mgillman@pblutah.com" BC ("mgillman@pblut "mmculty@vancott.com" BC ("mmculty@vanco "newsdesk@kutv2.com" BC ("newsdesk@kutv2.c "Phila77808@aol.com" BC ("Phila77808@aol.c "rtuttle@webzone.net" BC ("rtuttle@webzone "steve@sltrib.com" BC ("steve@sltrib.com". "togaard@utw.com" BC ("togaard@utw.com".in	Transferred	01/13 1:34 PM
pacificorp.com anne.eakin (Anne-anne.eakin Eakin-@pacifi doug.larson (Doug-doug.larson Larson-@pac	Transferred	01/13 1:34 PM
pblutah.com bevans (Bill Evans) wevans (William-wevans Evans-@pblutah)	Transferred	01/13 1:34 PM
perkinscoie.com reicl (Lawrence-reicl Reichman-@perkinsco	Transferred	01/13 1:34 PM

pwlaw.com gad (Gary-gad Dodge-@pwlaw.com)	Transferred	01/13 1:34 PM
scottishpower.plc.uk bob.green (Robert-bob.green Green-@scotti	Transferred	01/13 1:34 PM
state.ut.us PUPSC.ASPOSUPT CJONES BC (Clark Jones) GTLARSEN (Glen Larsen) JHARVEY (John Harvey) JLOGAN (James Logan) KANDERS3 (Kristina Anderson) RCOLLINS (Richard Collins) SFMECHAM (Stephen F. Mecham) SMOOPY BC (Sandy Mooy)	Delivered	01/13 1:34 PM
state.ut.us ATMAIN.ATDOMAIN DTINGEY BC (Doug Tingey) LNODA BC (Laurie Noda) MGINSBER BC (Michael Ginsberg)	Delivered	01/13 1:36 PM
state.ut.us BRMAIN.BRCMRC BGARDNER (Barbara Gardner) CMURRAY (Cheryl L. Murray) DHANSON- (Diana Hanson-Steadman) IHENNING (Ingo Henningsen) PBULLOCK (Phil Bullock) RCAMPBEL (Ric Campbell) RCREER (Ralph Creer)	Delivered	01/13 1:34 PM
state.ut.us LELFA.LEDOMAIN WGREER BC (William Greer)	Delivered Opened	01/13 1:34 PM 01/13 1:35 PM
state.ut.us NROERP.NRDOMAIN JGALANIS BC (Jim Galanis)	Delivered	01/13 1:34 PM
Post Office inet	Delivered	Route pacificorp.com pblutah.com

PUPSC.ASPOSUPT	01/13 1:34 PM	perkinscoie.com
ATMAIN.ATDOMAIN	01/13 1:36 PM	pwlaw.com
BRMAIN.BRCMRC	01/13 1:34 PM	scottishpower.plc.uk
LELFA.LEDOMAIN	01/13 1:34 PM	state.ut.us
NROERP.NRDOMAIN	01/13 1:34 PM	state.ut.us

Files	Size	Date & Time
15667.WPD	3641	Wednesday, January 13, 1999 12:53 PM

Options

Auto Delete:	No
Expiration Date:	Fri, Feb 12, 1999
Notify Recipients:	Yes
Priority:	Standard
Reply Requested:	No
Return Notification:	None

Concealed Subject:	No
Security:	Standard

To Be Delivered:	Immediate
Status Tracking:	Delivered & Opened

-15652
15657

APPROVED BY COMMISSIONERS
STEPHEN F. MECHAM Sec 1/12/99
CONSTANCE B. WHITE CBW 1/12/99
CLARK D. JONES cg 1/11/99

RECEIVED

JAN 11 11 09 AM '99
UTAH PUBLIC
SERVICE COMMISSION

Edward Hunter
Stoel Rives LLP
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111
Telephone: 801-578-6936
Facsimile: 801-578-6999
Attorneys for PacifiCorp

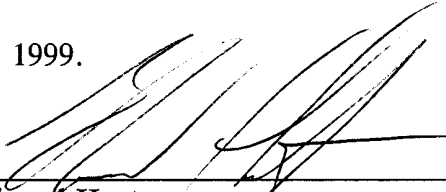
Brian Burnett
10 E. South Temple, Suite 900
Salt Lake City, Utah 84133
Telephone: 801-530-7428
Facsimile: 801-364-9127
Attorneys for Scottish Power

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of :
PacifiCorp and Scottish Power plc for an : Docket No. 98-2035-04
Order Approving the Issuance of PacifiCorp :
Common Stock : NOTICE OF PREHEARING
: CONFERENCE

PLEASE TAKE NOTICE that a Prehearing Conference in the above-referenced matter will be held before the Commission at 9:00 a.m. on Tuesday, January 26, 1999 at the Commission's Hearing Room, Heber M. Wells Building, 160 East 300 South, Salt Lake City, Utah.

Dated this 11th day of January, 1999.


Edward Hunter
STOEL RIVES LLP
Attorneys for PacifiCorp

CERTIFICATE OF SERVICE

I hereby certify that I caused the foregoing Notice of Prehearing Conference to be served upon the following persons by mailing a true and correct copy of the same, postage prepaid, to the following on the 11th day of January, 1999.

Michael Ginsberg ^E
Assistant Attorney General
Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Dr. Charles E. Johnson ^X
The Three Parties
1338 Foothill Boulevard, Suite 134
Salt Lake City, UT 84108

Doug Tingey ^F
Assistant Attorney General
Committee of Consumer Service
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Stephen R. Randle ^{*}
Randle, Deamer, Zarr, Romrell & Lee
P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

Peter J. Mattheis ^X
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Glen E. Davies
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700 ^X
Salt Lake City, UT 84111

Robert F. Reeder
William J. Evans
Parsons Behle & Latimer ^{add}
201 South Main Street ^{e-mail}
P.O. Box 45898
Salt Lake City, UT 84145-0898

Lee R. Brown
Vice President, Contracts, Human
Resources ^X
Public & Government Affairs
238 North 2200 West
Salt Lake City, UT 84116

Daniel Moquin
Assistant Attorney General ^X
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary A. Dodge ^{add}
Parr Waddoups Brown Gee & Loveless ^{E-mail}
185 South State Street, Suite 1300
Salt Lake City, UT 84111-1536

Eric Blank
Land and Water Fund of the Rockies ^X
2260 Baseline, Suite 200
Boulder, CO 80302

Sharon L. Astin

ACTION REQUEST

Date: January 4, 1999

TO: Division of Public Utilities RESPONSE DUE BY March 5, 1999
FROM: Public Service Commission URGENT _____
SUBJECT: PacifiCorp and Scottish Power 98-2035-04
(Company Name, Case Number, etc.)

This is a request for the Division to conduct:

- Review Tariff Compliance
- Analysis of Complaint
- Investigation
- Other

EXPLANATION AND STATEMENT OF ISSUES TO BE ADDRESSED

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock.

15580

Edward A. Hunter
Stoel Rives LLP
One Utah Center, Suite 1100
201 South Main Street
Salt Lake City, UT 84111-4904
(801) 578-6936
Attorneys for PacifiCorp

RECEIVED

DEC 31 2 59 PM '90
UTAH PUBLIC
SERVICE COMMISSION

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, Utah 84133
(801) 530-7428
Attorneys for Scottish Power plc

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of
PacifiCorp and Scottish Power plc for an
Order Approving the Issuance of
PacifiCorp Common Stock

JOINT
APPLICATION

Docket No. _____

PacifiCorp ("PacifiCorp") and Scottish Power plc ("ScottishPower") (jointly, the "Applicants") hereby request an order of the Public Service Commission of Utah ("Commission") approving the issuance of PacifiCorp common stock incidental to the transaction described more fully in the Agreement and Plan of Merger between ScottishPower and PacifiCorp (the "Agreement"), attached as Appendix 1. Applicants also hereby provide notice of this transaction pursuant to the Commission's September 28, 1988 Order in Docket No. 87-035-27.

Pursuant to the Agreement, at the closing of the transaction, an indirect, wholly-owned subsidiary of ScottishPower will merge with and into PacifiCorp, with

PacifiCorp continuing in existence as the surviving corporation. As a consequence, PacifiCorp will become a wholly-owned subsidiary of ScottishPower.

The principal advantages of this transaction, discussed more fully below, are:

- It is simple. The transaction involves a change in PacifiCorp's shareholders and not a consolidation of operating utilities.
- ScottishPower is a strong and capable partner, with significant experience in operating utility businesses.
- ScottishPower will support and enhance PacifiCorp's focus on its core business. Benefits of this renewed focus will be better customer service, reliability, community and employee relations and environmental stewardship.
- The efficiencies to be gained from this transaction will in time lead to customer prices that are lower than they would be without the transaction.

I.

JURISDICTION

This Application is filed pursuant to Utah Code Ann. 54-4-31. Utah Code Ann. 54-4-31 requires Commission approval for the issuance of a security by an electrical corporation.

II.

APPLICANT INFORMATION

A. Persons Authorized to Receive Notice

The exact name and address of Scottish Power's principal business office are as follows:

Scottish Power plc
1 Atlantic Quay
Glasgow
SCOTLAND, G2 8SP

Scottish Power is a public limited company registered in Scotland.

Persons authorized on behalf of Scottish Power to receive notices and communications with respect to this Application are:

Robert Green
Group Controller
Scottish Power plc
121 SW Morrison
Suite 1800
Portland, Oregon 97204
Phone: (503) 224-9040
Fax: (503) 223-9081
Email: bob.green@scottishpower.plc.uk

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, Utah 84133
Phone: (801) 530-7428
Fax: (801) 364-9127
Email: brianburnett@cnmlaw.com

Lawrence H. Reichman
Perkins Coie LLP
1211 SW Fifth Avenue, Suite 1500
Portland, OR 97204-3715
Phone: (503) 727-2019
Fax: (503) 727-2222
Email: reicl@perkinscoie.com

Persons authorized on behalf of PacifiCorp to receive notices and communications with respect to this Application are:

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah Street
Portland, Oregon 97332
Phone: (503) 813-6065
Fax: (503) 813-6060
Email: anne.eakin@pacificorp.com

D. Douglas Larson
Director, Regulatory Policy
PacifiCorp
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000
Phone: (801) 220-2190
Fax: (801) 220-3116
Email: doug.larson@pacificorp.com

Edward A. Hunter
Stoel Rives LLP
One Utah Center, Suite 1100
201 South Main
Salt Lake City, Utah 84111-4904
Phone: (801) 578-6936
Fax: (801) 578-6999
Email: eahunter@stoel.com

B. Description of ScottishPower

ScottishPower was incorporated in Scotland in 1989. ScottishPower is a leading multi-utility business in the United Kingdom with approximately 5 million customers in three distinct geographic areas across Scotland, England and Wales. ScottishPower's activities span electricity generation, transmission, distribution and supply, water and waste water services, gas supply, telecommunications, retailing of electrical appliances and technology and contracting services. ScottishPower and its subsidiaries comprise one of the largest industrial groups in the U.K.

ScottishPower and its predecessors have provided electric service to the public for over 100 years. Prior to 1991, ScottishPower was a U.K. government-owned utility. In June 1991, ScottishPower was privatized by the U.K. government and its common shares were offered to the public. It has grown from a Scottish regional generator, distributor and supplier of electricity into a leading U.K. multi-utility business serving one in five of Britain's homes. This is due in large part to the acquisition in 1995 of

Manweb plc, one of the twelve regional electricity companies created when the electric utility industry in England and Wales was restructured in 1990, and its acquisition in 1996 of Southern Water plc, one of the ten large water and waste water service companies created when the water and waste water industry in England and Wales was privatized in 1989. Both of these acquisitions have allowed ScottishPower to increase its customer base (by 1.3 million customers in the case of Manweb and 1.7 million customers in the case of Southern Water), geographic diversification and product base.

The U.K. electric industry was restructured in March 1990 to introduce competition. The final part of this process, including the residential electricity supply market, began to open to full competition in September 1998, and is scheduled to be complete by June 1999. ScottishPower and Manweb have been among the leaders in the industry in developing the systems required to deliver full market liberalization. As a consequence, they were two of the first four companies ready for the first stage of the opening of the competitive electricity market in September 1998. They were also at the forefront of the gas liberalization process which was fully opened to competition by May 1998. In addition, the group's metering business has been restructured in readiness for the removal of franchise markets and full liberalization of supply.

In addition to Manweb and Southern Water, ScottishPower's businesses include Generation Wholesale, Power Systems, Energy Supply, ScottishTelecom, and other related businesses.

The Generation Wholesale business operates ScottishPower's generating stations and deals in the wholesale trading of electricity and gas. ScottishPower owns coal, hydroelectric and wind generating facilities with a net available capacity of 3,500 megawatts. ScottishPower's engineers have a proven record of innovation, the most recent example being the installation in one unit of a unique gas injection system or "gas reburn" which boosts combustion as well as reduces emissions of oxides of nitrogen. ScottishPower does not own any nuclear generating stations. ScottishPower has combined resources, including purchased power, of approximately 6,400 MW.

ScottishPower's Power Systems business is responsible for the distribution and transmission network in the ScottishPower franchise area and the distribution network in the Manweb franchise area. Power Systems currently operates 62,000 kilometers of underground cables and 50,000 kilometers of overhead lines. Power Systems also provides a complete range of metering services.

The Energy Supply business is responsible for the sales and marketing of electricity, gas and related products to customers within ScottishPower's and Manweb's respective franchise areas and to the competitive market throughout the rest of the U.K. Energy Supply sells electricity to 1.9 million customers in Scotland and manages the associated customer service, billing and income collection.

Manweb is the regional electricity company in northwest England and north Wales. It serves approximately 1.3 million electricity customers.

Southern Water provides water supply services to 2.2 million people, representing some 1 million premises, in its franchise area in the South East of England. This represents some 603 million liters of water per day. The company

carries out wastewater treatment for 4.2 million people, representing some 1.7 million premises, in the franchise territory.

ScottishTelecom, a subsidiary of ScottishPower, provides a wide portfolio of communication services ranging from fixed voice, data and mobile services to call center services, on-line information and Internet access.

ScottishPower also has developed businesses in a number of related areas. ScottishPower's electrical appliance retailing business is the third largest supplier of electrical appliances in the U.K. The business sells electrical products through a chain of 181 stores throughout the U.K. ScottishPower's Contracting Services business specializes in the installation and maintenance of high voltage equipment, residential heating, street lighting, security and fire alarms, and appliance installation and inspection. The Technology business specializes in engineering consulting and science, including design and construction of buildings, plant and components, and the development of sophisticated control systems and monitoring devices.

C. ScottishPower's Financial Strength

ScottishPower has considerable financial strength. Measured by market capitalization of over \$12 billion, it is among the 25 largest investor-owned electric utilities in the world. For its fiscal year ended March 31, 1998, it had assets of approximately \$9 billion, shareholder equity of approximately \$2.75 billion and annual revenues of approximately \$5 billion.¹ ScottishPower maintains a strong financial

¹ These figures assume an exchange rate of 1.6 U.S. dollars per Pound Sterling.

position through significant internal cash flow generation and a conservative balance sheet. ScottishPower financial reports are included in Appendix 2.

D. Background of Key Personnel

The Chairman and current executive board members of ScottishPower consist of the following individuals:

Murray Stuart joined the Board in March 1990 and was appointed Chairman in August 1992. He is a non-executive director of The Royal Bank of Scotland plc and of Willis Corroon Group plc and Chairman of Intermediate Capital Group plc. He was awarded the CBE in 1995 for his services to the Audit Commission, of which he was Deputy Chairman. He is Chairman of the Hammersmith Hospitals NHS Trust and also serves on the Meteorological Committee and on the Private Finance Initiative Panel as the member for Scotland.

Ian Robinson was appointed Chief Executive in 1995. He was previously with Trafalgar House plc where he was Chief Executive of its engineering division and a main Board director. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Institution of Chemical Engineers, and a member of the Senate of the UK Engineering Council. He is a non-executive director of Asda Group plc and also serves as a member of the President's Committee of the Confederation of British Industry. In July 1997 he was appointed Chairman of the Scottish Advisory Task Force on Welfare to Work.

Ian Russell was appointed Finance Director in 1994 and Deputy Chief Executive in 1998. He is a member of the Institute of Chartered Accountants of Scotland, having trained with Thomson McLintock, and has held senior finance positions with Hong Kong

and Shanghai Banking Corporation and Tomkins plc. His role encompasses both the financial direction of the company and its corporate strategy, together with responsibility at Board level for the company's information systems and corporate affairs. He is also Chairman of Southern Water plc and ScottishTelecom. He is a non-executive director of Scottish Investment Trust plc and Scottish Knowledge plc.

Ken Vowles joined ScottishPower in September 1990 and was appointed to the Board in 1994. He is Executive Director Generation and Energy Trading and is responsible in that capacity for the company's Generation Wholesale and Technology businesses, including the Energy Trading Center, and at corporate level for safety and environmental policy. He has over 30 years' experience in the power generation industry, having previously served with the Central Electricity Generating Board and with National Power plc. He is a Fellow of the Institution of Electrical Engineers, a Fellow of the Institution of Mechanical Engineers and a Member of the Institute of Management. He is also President of Scottish Engineering, an independent employers' organization.

Duncan Whyte has been a director since 1990, having previously been appointed Finance Director of the South of Scotland Electricity Board in 1988. In 1993, he became the Chief Operating Officer, responsible for the core electricity businesses; then, in 1995, he was appointed Executive Director Strategic Development, and, in 1996, Executive Director Multi-Utility. In this latter capacity, he is now responsible for the company's multi-utility strategy, including its developing businesses in electrical retailing and contracting, and is chairman of Manweb plc. He also retains overall responsibility at Board level for all regulatory matters. He was appointed as a non-

executive director of Motherwell Bridge Holdings Limited in 1997. He is a Member of the Council of the Institute of Chartered Accountants of Scotland, and was formerly a managing partner in Scotland of Arthur Andersen and Finance Director of Kwik-Fit Holdings plc.

In addition, the following individuals are members of the senior management of ScottishPower:

Alan Richardson joined ScottishPower in 1991 and is Managing Director, Power Systems and the proposed PacifiCorp Chief Executive Officer. He is responsible for the transmission and distribution of electricity to customers in the ScottishPower franchise area and the distribution network in the Manweb franchise area. Mr. Richardson spent a large part of his career with A. Reyrolle and Company and later with the Bushing Company, where he became Director and General Manager. He joined Reyrolle Switchgear as Director and General Manager and in 1990 joined ABB Power before moving on to Scottish Power the following year. In November 1997, Mr. Richardson, a visiting professor at Strathclyde University in Glasgow, was honored for his contribution to the electricity supply industry, receiving a "Lifetime Achievement Award" sponsored by the Transmission & Distribution World magazine. He is a member of the Glasgow Development Authority, which plans and implements major capital improvements in the City of Glasgow.

Robert Green is the Group Controller of ScottishPower. He joined ScottishPower in 1991, just after privatization. He is a qualified accountant with extensive previous experience working in Hong Kong and for companies such as ITT, ADT and Rank. In ScottishPower, he has held a variety of senior financial posts

including finance director of Manweb plc before being appointed as Group Controller in 1996.

Murray Stuart will continue to serve as Chairman of ScottishPower and, following the closing of the transaction, Keith McKennon will be recommended to serve as Deputy Chairman of ScottishPower and Richard O'Brien will serve as President and Chief Operating Officer of PacifiCorp.

Keith McKennon is the Chairman, Chief Executive Officer and President of PacifiCorp. Mr. McKennon has been a director of PacifiCorp since November 1990, and was elected Chairman in 1994. Mr. McKennon became President of Dow Chemical, USA in 1987. He became Executive Vice President of Dow in 1990, and in 1992 retired from Dow to become Chairman and CEO of Dow Corning. He has served as a director of several Fortune 500 companies. He also served as Chair of the National Legal Center for the Public Interest in Washington, D.C. and as a member of the President's Commission on Patent Law Reform during the Bush Administration. Mr. McKennon received the Society of Chemical Industry Gold Medal in 1992.

Richard O'Brien is Executive Vice President and Chief Operating Officer of PacifiCorp. He joined PacifiCorp in 1983, was appointed Vice President of PacifiCorp in 1993 and Chief Financial Officer in 1995. Mr. O'Brien served as Senior Vice President, Treasurer and Chief Financial Officer of NERCO, a former mining and resource development subsidiary of PacifiCorp. He worked at NERCO from 1983 until his appointment to Vice President of Corporate Finance for PacifiCorp in 1993. He is a graduate of the University of Chicago with a bachelor's degree in economics. He also earned a law degree from Lewis and Clark College, Northwestern School of Law, in

Portland, Oregon.

III.

DESCRIPTION OF TRANSACTION

Pursuant to the Agreement, upon the closing of the transaction, an indirect, wholly-owned subsidiary of ScottishPower ("Merger Sub") will merge with and into PacifiCorp, with PacifiCorp continuing in existence as the surviving corporation.

Article II of the Agreement provides for the outstanding common shares of PacifiCorp to be converted into the right to receive, at the option of the holders of such shares, either newly issued ordinary shares of ScottishPower or newly-issued ordinary shares of ScottishPower represented by American Depositary Shares of ScottishPower and evidenced by American Depositary Receipts. This Article describes a mechanism for a cash payment for fractional shares of PacifiCorp. The purchase of fractional shares will be paid by ScottishPower. The transaction contemplates no additional borrowings by ScottishPower.

As described in Article II, as of the closing of the transaction, the outstanding shares of Merger Sub will be canceled and PacifiCorp will issue to an entity indirectly and wholly-owned by ScottishPower an equal number of shares with the same rights, powers and privileges as the canceled Merger Sub common stock.

As a result of this transaction, PacifiCorp will become a wholly-owned subsidiary of ScottishPower.

Unlike the PacifiCorp and Utah Power merger, the transaction does not involve a consolidation of two operating utilities. After the closing of the transaction, PacifiCorp will continue to exist and provide service to Utah customers subject to the jurisdiction of the Commission.

IV.

PUBLIC INTEREST CONSIDERATIONS

The transaction will serve the public interest. The Commission will continue to exercise its regulatory authority over PacifiCorp, thereby ensuring continued protection of the interests of Utah customers. ScottishPower does not have other operations in the U.S.; consequently, this transaction does not present the potential for cost shifting, revenue loss or diminution of energy supplier competition. The Commission's continued regulatory oversight further ensures that there are no significant risks or potential harms to PacifiCorp's customers resulting from the transaction.

ScottishPower has over time developed constructive relations with its regulators and has performed to expectations in the areas of price levels, customer protections, quality of service, safety, and reliability.

It is through the performance of PacifiCorp that the public interest will be advanced. The combination of PacifiCorp and ScottishPower will result in:

- A financially stronger company than PacifiCorp standing alone;
- High-quality customer service;
- Continued commitment to the community;
- A high level of environmental stewardship;
- Maintenance of the Pacific Power/Utah Power identities; and

- A continuing commitment to the welfare of employees.

In time, the efficiencies to be gained from this transaction will lead to customer prices that are lower than they would be without the transaction. Each of these benefits is discussed below.

A. Financial Strength

The transaction will enable PacifiCorp to become part of a large, financially strong corporate group and will permit it to obtain needed capital on favorable terms. Access to the U.S. debt markets will be maintained. ScottishPower American Depository Receipts are already listed on the New York Stock Exchange and ScottishPower will provide access to U.K. and European debt markets.

B. Customer Service

The transaction will bring focus to the target of excellent customer service, since customer service and satisfaction are of paramount importance. The combination of PacifiCorp's and ScottishPower's capabilities in this area will provide benefits to current and future customers, thus enhancing the public interest.

ScottishPower's qualifications and experiences include:

- Extensive world-wide benchmarking exercises to achieve the goal of best-in-class performance;
- Investments in customer service systems and call centers;
- High rankings by industry regulators for quality of service and low levels of customer complaints; and
- Tailored energy packages.

ScottishPower's Standards of Service encompass a variety of areas whose

object is to enhance performance within the business and increase customer satisfaction. The guaranteed standards include performance measurement relating to: restoring power supply because of fault or damage, investigating voltage complaints, providing supply and meter, making and keeping appointments, and responding to customer inquiries about charges and payments.

Both ScottishPower and Manweb have achieved steady and substantial improvements in service as measured by reductions in the area of "guaranteed standards failures" since privatization. In Scotland the total "failures" fell from 2,020 in 1991-92 to 117 during 1997-98; in Manweb the figures were 1,405 and 62, respectively.

ScottishPower and Manweb have each received the U.K. Government's Charter Mark for service excellence in recognition of their customer service record. All service requirements in Scotland are met by a Customer Service Call Center, employing state of the art communications and information technology offering a single telephone contact point and 24 hour support.

An important part of customer service is billing. The initial phase of ScottishPower's multi-product billing system was rolled out in April 1998. ScottishPower is one of the first utilities to offer fully integrated billing, account management, credit management, and customer service systems. ScottishPower now has one of the most efficient metering businesses in the U.K., providing a benchmark against which other organizations measure their performance.

Among the tailored energy options offered to enhance customer satisfaction are ScottishPower's "Green Energy" tariff and energy saving packages. The green energy tariff will be offered initially to ScottishPower's three million existing domestic and small-business customers in the U.K., and will be expanded to the wider public as the U.K. electricity market is opened fully to competition. In this pricing option, customers will be offered the choice to support new renewable energy by paying a small premium on their bill. ScottishPower research has shown that just over half of the customers surveyed would be prepared to support the green energy tariff as a way of making a personal commitment to the environment. The customers' premium will be targeted to the development of new renewable energy products, which ScottishPower will select in conjunction with community groups and subject to independent audit. A number of suitable options have already been identified, ranging from a small hydroelectric generation unit to a new wind farm.

ScottishPower's energy saving services are specially tailored to meet the needs of multiple customer classes. ScottishPower works with customers to reduce their energy use while delivering the same quality of service. Tailored programs for commercial and institutional customers include regional multi-company energy efficiency arrangements, such as the PowerSave program in Merseyside; shared savings schemes; the Private Finance Initiative with public-sector organizations and hospitals; and Combined Heat and Power (CHP) for customer whose operations enable waste heat to be used for heating or process energy. For residential customers, ScottishPower's primary initiative is the Energy Efficiency Standards of

Performance (EESoP) program which encourages energy conservation and reduces emissions.

ScottishPower expects to continue the above efforts and develop service quality standards that will measure the performance of the organization in a variety of key service areas. These ScottishPower experiences will combine with PacifiCorp's existing efforts to achieve a high-level of customer satisfaction.

C. Service To The Community

The value of the transaction to the local community will be manifested in a variety of ways. ScottishPower's publicly-stated values include a commitment to earn the trust and respect of communities in which it operates. ScottishPower's community service programs include support for education and employment initiatives, charities and caring organizations that represent children and young people, people with disabilities, older people, and the disadvantaged. ScottishPower sponsors the performing arts, sports, and recreation.

To increase educational opportunities, ScottishPower formed the "ScottishPower Learning" project in partnership with U.K. trade unions. ScottishPower Learning provides personal development opportunities free of charge for staff and the communities in which ScottishPower operates. To date, ScottishPower Learning has provided over 400 training places for the youth and long-term unemployed in Scotland, and over 800 across the U.K. Through the ScottishPower Learning project, the company has been an active participant in the U.K. Government's Welfare to Work program. ScottishPower's Chief Executive, Ian Robinson, is Chairman of the Scottish Advisory Task Force on this program.

ScottishPower's experience in local development activities ranges from the attraction of outside investors to the encouragement of "buying local." This has resulted in the attraction of a foreign investor to Scotland, rehabilitation of an abandoned Royal Navy dockyard, and a long-term contract with the local coal supply company.

There are many other examples of how ScottishPower "lives its values." In the southern region of the company's Power Systems division, 240 staff members gave over 2,000 hours of service to the community during a single year. ScottishPower is working closely with local groups in Shropshire to recruit volunteer Power Wardens, who become the communication link to the company's emergency team in the event of serious loss of supply in bad weather. ScottishTelecom developed a web site for the Scotland Against Drugs campaign, whose program in Scotland's 2,400 primary schools is being supported by ScottishPower. Company teams are working with emergency services in a nationwide project that seeks to make children more aware of personal safety and to foster good citizenship. The introduction of a Welsh language scheme within ScottishPower's Welsh operations in May 1997 was approved by the Welsh Language Board and is attracting interest from other organizations.

ScottishPower expects to expand these efforts into the U.S. context and combine them with existing PacifiCorp initiatives, where appropriate. Both companies' legacies of service to the community will carry over to the combined organization. Following the closing of the transaction, ScottishPower will add \$5 million to the PacifiCorp Foundation, increasing the total endowment to approximately \$45 million.

D. Commitment to the Environment

ScottishPower will maintain PacifiCorp's existing environmentally friendly efforts, in keeping with ScottishPower's own record of environmental stewardship.

ScottishPower has consistently ranked among the top "green-friendly" companies in the U.K. ScottishPower's environmental record has been recognized in the Financial Times Business in the Environment Survey of FTSE 100 companies, where in 1997 it again secured a position as one of the top five companies for environmental performance and communications in the U.K.

ScottishPower has made an extensive commitment to the development of renewable resources through its investment in wind power facilities in the U.K., where it is one of the largest operators of wind generation.

ScottishPower believes firmly that a sustainable energy strategy must involve a balanced fuel mix, further development of renewable energy, active encouragement of energy efficiency, and adoption of remediation technologies. ScottishPower maintains strict targets for environmental improvements in each area, varying from the recycling of packaging in the retail appliance business to reductions of waste in engineering operations. These challenging targets have been set to reflect the continued move towards sustainable development.

Research will continue to play an important role. One example is the "gas reburn" project at Scottish Power's Longannet power station. This \$45 million initiative was backed by the European Union and was commissioned formally in November 1997. This project in conjunction with low NO_x burners is expected to reduce the production and emission of oxides of nitrogen from these units by 80 percent.

E. Maintenance of PacifiCorp Identity

PacifiCorp will operate in a way that achieves the twin objectives of providing high-quality customer service and fair rates of return to shareholders. To accomplish these objectives, ScottishPower intends to maintain continuity in the operation of PacifiCorp, while emphasizing steps for improvement.

One constant will be the location of the organization. The Pacific Power/Utah Power identities will be maintained. ScottishPower has no other operations in the U.S. and it has no intention to consolidate any of PacifiCorp's existing business operations with any of its own business operations. The U.S. headquarters of ScottishPower will be located in Portland, Oregon and the PacifiCorp headquarters will be maintained there. A strong corporate presence will remain in place in Utah. Maintaining the local presence is a necessary component of ScottishPower's longer-term objective to play an active role in the economic prosperity of the PacifiCorp service territory.

ScottishPower emphasizes its commitment to PacifiCorp's intention to focus on its core regulated operations. Except for the already announced sale of the Centralia generating station, along with the associated facilities, and the California distribution system, ScottishPower does not anticipate any additional sales of the physical assets that currently support the PacifiCorp U.S. regulated utility business.

In addition, ScottishPower intends to operate PacifiCorp in a way that will fulfill the varying needs of all of its customers, both urban and rural. This will be accomplished by increasing the efficiency of the operation of the company consistent with the plan to evolve PacifiCorp into a "best in class" utility, while at the same time increasing customer satisfaction and striving for excellence in customer service. Both

ScottishPower and PacifiCorp have substantial experience with operations distributed over a wide geographic area.

F. Partnership With Employees

ScottishPower considers its employees to be key stakeholders in the company's future success.

ScottishPower's Open Learning facility supports personal development across the group. Established partly to encourage the concept of "life-long learning," it is in its fifth year, providing support for thousands of staff in 46 centers. It offers around 700 programs, ranging from languages to vocational qualifications to degrees. Around 50% of ScottishPower's 15,000 employees and over 1,000 family members have participated. In addition, ScottishPower has been awarded the Eagle Star Training Award in recognition of its commitment to and high levels of staff training.

ScottishPower's experience in employee relations extends to labor unions. The Partnership Council in the company's generation business, composed of 5 senior management members and 10 trade union representatives (2 per trade union), focuses on policy formation and performance monitoring. It also operates to make real-time decisions on behalf of management and employees. This collaborative process has assisted in advancing the goals of both parties.

Safety is of paramount importance to the company, and several initiatives have been introduced throughout the business to encourage best practice. ScottishPower met its annual target of a 25% reduction of lost-time accidents during 1997-98. The company received twelve gold awards from the Royal Society for the Prevention of

Accidents in 1997. ScottishPower is extending the number of Trade Union-appointed safety representatives, 59 of whom were trained this year.

ScottishPower intends to honor all existing labor agreements and work to maintain and expand constructive relationships with labor unions representing PacifiCorp's employees, including safety and training initiatives.

G. Summary of Public Interest Considerations

Overall, the transaction will consolidate the best practices of ScottishPower and PacifiCorp, sharpen the focus on local distribution services, and enable PacifiCorp to provide a higher level of service. In time, the efficiencies to be gained from this transaction will lead to customer prices that are lower than they would be without the transaction.

V.

OTHER INFORMATION

A. Capital Structure

Set forth in Appendix 3 is a description of PacifiCorp's projected capital structure as of December 31, 1998. PacifiCorp will continue to have its own long- and short-term debt, unless there are benefits to be gained from the use of other forms of capital.

As long as it is subject to traditional cost-of-service regulation, PacifiCorp will continue to propose for ratemaking purposes that its capital structure and return on common equity be based upon those of comparable electric utilities.

B. Bond Ratings

No significant adverse effect on PacifiCorp's bond ratings is expected from the transaction. ScottishPower intends to maintain separate debt ratings for PacifiCorp. This transaction has already had a beneficial effect on PacifiCorp's bond ratings. Prior to the announcement of the transaction, PacifiCorp's senior secured debt was rated "A+" by Standard & Poor's, "A2" by Moody's and "A" by Duff & Phelps. As of December 9, 1998 (post announcement), Moody's had changed its ratings outlook from negative to stable, S&P had moved PacifiCorp from CreditWatch-Negative to Positive, while Duff & Phelps had kept it on RatingWatch-Uncertain. Specific PacifiCorp ratings are currently under review by the agencies, and are expected to be updated in the near term.

C. Organization Structure

A list of ScottishPower's principal operating subsidiaries is contained in the ScottishPower Annual Report attached as Appendix 2, at page 62.

PacifiCorp will be retained as a separate corporate entity. A diagram of the organizational structure that is expected to result from the transaction is set forth in Appendix 4.

D. Filing with Other Agencies

Securities and Exchange Commission ("SEC") approval of the transaction is not required. Following the consummation of the transaction, however, ScottishPower will register as a holding company in accordance with Section 5 of the Public Utility Holding Company Act of 1935. ScottishPower would then be regulated to the same extent as other U.S. based registered holding companies with respect to the issuance of

securities, acquisition and disposition of securities and assets, and diversification into businesses related to the utility business and the regulation of affiliate transactions.

PacifiCorp will seek approval of the Federal Energy Regulatory Commission pursuant to Section 203 of the Federal Power Act for the proposed transaction on the basis that it will result in the indirect transfer to ScottishPower of control of the "jurisdictional facilities" of PacifiCorp and its power marketing affiliates.

ScottishPower will file a Form F-4 Registration Statement with the SEC. PacifiCorp will also file a proxy statement for use in its shareholder meeting where approval of the proposed transaction is sought.

ScottishPower and PacifiCorp will both make filings pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act"). The proposed transaction cannot be consummated until the waiting periods prescribed in the HSR Act lapse.

As a non-operating owner of the Trojan nuclear power plant, which is in the later stages of decommissioning, PacifiCorp must notify the Nuclear Regulatory Commission ("NRC") of a change in control of the licensee. PacifiCorp must assure the NRC that all safety-related matters remain under the supervision of U.S. citizens.

PacifiCorp and ScottishPower are currently planning to file in the following state jurisdictions: Idaho, Oregon, Washington, Wyoming and Utah.

E. Asset Dispositions

ScottishPower has no plans to sell, exchange, pledge or otherwise transfer any of PacifiCorp's physical assets which support PacifiCorp's U.S. regulated business,

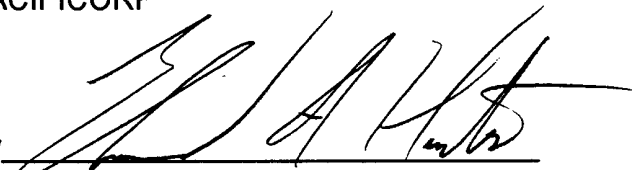
except for the sale of the California distribution system and the potential sale of the Centralia generating station and associated facilities.

WHEREFORE, the Applicants respectfully request that the Commission approve the issuance of PacifiCorp common stock incidental to the transaction described in this Application and the Agreement.

Dated: December 31, 1998

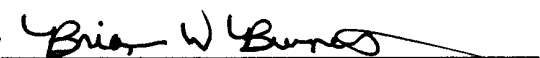
PACIFICORP

By


Edward A. Hunter
Stoel Rives LLP
Attorneys for PacifiCorp

SCOTTISH POWER plc

By


Brian W. Burnett
Callister Nebeker & McCullough
Attorneys for Scottish Power plc

15553

Execution Copy

AGREEMENT AND PLAN OF MERGER

dated as of December 6, 1998

by and among

SCOTTISH POWER PLC,

NA GENERAL PARTNERSHIP,

and

PACIFICORP

December 6, 1998

TABLE OF CONTENTS

This Table of Contents is not part of the Agreement to which it is attached but is inserted for convenience only.

	<u>Page No.</u>
ARTICLE I THE MERGER.....	2
1.01 The Merger.....	2
1.02 Closing.....	2
1.03 Effective Time.....	2
1.04 Governing Instrument.....	2
1.05 Directors and Officers of the Surviving Corporation.....	2
1.06 Effects of the Merger.....	3
1.07 Further Assurances.....	3
ARTICLE II CONVERSION OF SHARES.....	3
2.01 Conversion of Capital Stock.....	3
2.02 Procedure for Election.....	5
2.03 Exchange of Certificates.....	6
2.04 Withholding Rights.....	9
ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY.....	10
3.01 Organization and Qualification.....	10
3.02 Capital Stock.....	11
3.03 Authority Relative to this Agreement.....	12
3.04 Non-Contravention; Approvals and Consents.....	13
3.05 SEC Reports, Financial Statements and Utility Reports.....	14
3.06 Absence of Certain Changes or Events.....	15
3.07 Absence of Undisclosed Liabilities.....	15
3.08 Legal Proceedings.....	16
3.09 Information Supplied.....	16
3.10 Permits; Compliance with Laws and Orders.....	17
3.11 Compliance with Agreements.....	17
3.12 Taxes.....	18
3.13 Employee Benefit Plans; ERISA.....	19
3.14 Labor Matters.....	21
3.15 Environmental Matters.....	22
3.16 Intellectual Property Rights.....	24
3.17 Regulation as a Utility.....	25
3.18 Insurance.....	25
3.19 Vote Required.....	25
3.20 Opinion of Financial Advisor.....	26
3.21 Ownership of Parent Common Stock.....	26

3.22	Article VII of the Company's Articles of Incorporation and Sections 60.825-60.845 of the BCA Not Applicable	26
3.23	Certain Contracts	26
3.24	Year 2000.....	26
3.25	Joint Venture Representations	26
ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PARTNERSHIP.....		27
4.01	Organization and Qualification.....	27
4.02	Capital Stock.....	28
4.03	Authority Relative to this Agreement.....	29
4.04	Non-Contravention; Approvals and Consents	30
4.05	SEC Reports and Financial Statements.....	31
4.06	Absence of Certain Changes or Events.....	32
4.07	Absence of Undisclosed Liabilities	32
4.08	Legal Proceedings.....	32
4.09	Information Supplied	32
4.10	Permits; Compliance with Laws and Orders	33
4.11	Compliance with Agreements.....	34
4.12	Taxes.....	34
4.13	Parent Employee Benefit Plans.....	35
4.14	Labor Matters.....	36
4.15	Environmental Matters.....	37
4.16	Intellectual Property Rights	39
4.17	Vote Required	39
4.18	Opinion of Financial Advisor	40
4.19	Ownership of Company Common Stock	40
4.20	Insurance	40
4.21	Year 2000.....	40
4.22	Joint Venture Representations	40
ARTICLE V COVENANTS.....		41
5.01	Covenants of the Company.....	41
5.02	Covenants of Parent	45
5.03	Joint Executive Committee.....	49
5.04	Tax Matters	49
5.05	Discharge of Liabilities.....	50
5.06	Contracts	50
5.07	No Solicitations.....	50
5.08	Conduct of Business of Merger Sub	51
5.09	Third Party Standstill Agreements.....	52
5.10	Control of Other Party's Business.....	52
ARTICLE VI ADDITIONAL AGREEMENTS.....		52
6.01	Access to Information.....	52
6.02	Preparation of Registration Statement and Proxy Statement.....	53

6.03	Approval of Shareholders	54
6.04	Company Affiliates	55
6.05	Auditors' Letters.....	55
6.06	Stock Exchange Listing; Deposit Agreement	55
6.07	Restructuring of Merger.....	56
6.08	Regulatory and Other Approvals	56
6.09	Employee Benefit Plans	57
6.10	Company Stock Plan.....	57
6.11	Directors' and Officers' Indemnification and Insurance	58
6.12	Parent Governance; Additional Matters.....	59
6.13	Expenses	60
6.14	Brokers or Finders.....	60
6.15	Takeover Statutes.....	60
6.16	Conveyance Taxes	60
6.17	Rate Matters	61
6.18	Tax Matters	61
ARTICLE VII CONDITIONS.....		63
7.01	Conditions to Each Party's Obligation to Effect the Merger.....	63
7.02	Conditions to Obligation of Parent and the Merger Sub to Effect the Merger.....	65
7.03	Conditions to Obligation of the Company to Effect the Merger	66
ARTICLE VIII TERMINATION, AMENDMENT AND WAIVER		67
8.01	Termination.....	67
8.02	Effect of Termination.....	69
8.03	Amendment.....	70
8.04	Waiver.....	71
ARTICLE IX GENERAL PROVISIONS		71
9.01	Non-Survival of Representations, Warranties, Covenants and Agreements	71
9.02	Notices	71
9.03	Entire Agreement; Incorporation of Exhibits	73
9.04	Public Announcements	73
9.05	No Third Party Beneficiary.....	73
9.06	No Assignment; Binding Effect.....	73
9.07	Headings	73
9.08	Invalid Provisions	74
9.09	Governing Law	74
9.10	Submission to Jurisdiction; Waivers.....	74
9.11	Enforcement of Agreement.....	74
9.12	Certain Definitions.....	75
9.13	Counterparts.....	76
9.14	WAIVER OF JURY TRIAL.....	76

EXHIBITS

EXHIBIT A Allotment of Shares

EXHIBIT B Form of Affiliate Agreement

GLOSSARY OF DEFINED TERMS

The following terms, when used in this Agreement, have the meanings ascribed to them in the corresponding Sections of this Agreement listed below:

"1935 Act"	--	Section 3.02(c)
"ADR Depository"	--	Section 2.01(e)
"ADR Holder Proposal"	--	Section 6.03(c)
"ADS Consideration"	--	Section 2.01(c)(i)
"Advisory Board"	--	Section 6.12(b)
"affiliate"	--	Section 9.12 (a)
"Affiliate Agreement"	--	Section 6.04
"Agreement"	--	Preamble
"Alternative Proposal"	--	Section 5.08
"Antitrust Division"	--	Section 6.08
"Articles of Merger"	--	Section 1.03
"BCA"	--	Section 1.01
"beneficially"	--	Section 9.12(b)
"business day"	--	Section 9.12(c)
"Certificates"	--	Section 2.03(b)
"Circular"	--	Section 3.09(b)
"Closing"	--	Section 1.02
"Closing Date"	--	Section 1.02
"Code"	--	Preamble
"Companies Act"	--	Section 4.02(a)
"Company"	--	Preamble
"Company Affiliates"	--	Section 6.04
"Company Budget"	--	Section 5.01(e)
"Company Common Stock"	--	Preamble
"Company Disclosure Letter"	--	Section 3.01(a)
"Company Employee Benefit Plan"	--	Section 3.13(b)(i)
"Company Financial Statements"	--	Section 3.05(a)
"Company Joint Venture"	--	Section 3.01(b)(ii)
"Company Option"	--	Section 2.01(f)
"Company Option Plan"	--	Section 2.01(f)
"Company Permits"	--	Section 3.10
"Company Preferred Stock"	--	Section 3.02(a)
"Company SEC Reports"	--	Section 3.05(a)
"Company Stock Option"	--	Section 6.10(a)
"Company Stockholders' Approval"	--	Section 6.03(b)
"Company Stockholders' Meeting"	--	Section 6.03(b)
"Confidentiality Agreement"	--	Section 6.01
"Constituent Corporations"	--	Section 1.01
"Contracts"	--	Section 3.04(a)
"control," "controlling," "controlled by" and "under common control with"	--	Section 9.12(a)

"Converted Shares"	--	Section 2.01(c)(i)
"DOE"	--	Section 3.05(b)
"Effective Time"	--	Section 1.03
"Election Date"	--	Section 2.02(a)
"Environmental Claims"	--	Section 3.15(g)(i)
"Environmental Laws"	--	Section 3.15(g)(ii)
"Environmental Permits"	--	Section 3.15(b)
"ERISA"	--	Section 3.13(b)(i)
"ERISA Affiliate"	--	Section 3.13(b)(iii)
"Exchange Act"	--	Section 3.04(b)
"Exchange Agent"	--	Section 2.03(a)
"Exchange Fund"	--	Section 2.03(a)
"FERC"	--	Section 3.05(b)
"FSA"	--	Section 3.09(b)
"FTA"	--	Section 7.01(k)
"FTC"	--	Section 6.08
"Governmental or Regulatory Authority"	--	Section 3.04(a)
"group"	--	Section 9.12(f)
"Hazardous Materials"	--	Section 3.15(g)(iii)
"HSR Act"	--	Section 3.04(b)
"Intellectual Property"	--	Section 3.16
"Joint Executive Committee"	--	Section 5.03(a)
"Joint Venture"	--	Section 301(b)(i)
"knowledge"	--	Section 9.13(d)
"laws"	--	Section 3.04(a)
"Lien"	--	Section 3.02(b)
"Listing Particulars"	--	Section 3.09(b)
"LSE"	--	Section 2.03(e)
"material adverse effect"	--	Section 9.12(e)
"Merger"	--	Preamble
"Merger Consideration"	--	Section 2.01(c)(i)
"Merger Ordinary Shares"	--	Preamble
"Merger Sub"	--	Preamble
"Merger Sub Common Stock"	--	Section 2.01
"MMC"	--	Section 7.01(k)
"NYSE"	--	Section 2.03(e)
"OFFER"	--	Section 7.01(l)
"OFT"	--	Section 7.01(k)
"OFWAT"	--	Section 7.01(l)
"Options"	--	Section 3.02(a)
"orders"	--	Section 3.04(a)
"Ordinary Share Consideration"	--	Section 2.01(c)(i)
"Ordinary Share Election"	--	Section 2.02
"Ordinary Share Election Form"	--	Section 2.02
"Parent"	--	Preamble
"Parent ADRs"	--	Preamble

"Parent ADSs"	--	Preamble
"Parent Budget"	--	Section 5.02(e)
"Parent Disclosure Documents"	--	Section 3.09(b)
"Parent Disclosure Letter"	--	Section 4.01(a)
"Parent Employee Benefit Plans"	--	Section 4.13
"Parent Financial Statements"	--	Section 4.05
"Parent Group"	--	Section 5.02(k)
"Parent Joint Venture"	--	Section 3.01(b)(iii)
"Parent Ordinary Shares"	--	Preamble
"Parent Permits"	--	Section 4.10
"Parent SEC Reports"	--	Section 4.05
"Parent Share Schemes"	--	Section 4.02(a)
"Parent Shareholders' Approval"	--	Section 6.03(a)
"Parent Shareholders' Meeting"	--	Section 6.03(a)
"Partnership"	--	Preamble
"Partnership Agreement"	--	Section 4.01(a)
"Partnership Loan Note"	--	Section 2.01(e)
"person"	--	Section 9.12(f)
"Plan"	--	Section 3.12(b)(ii)
"Policies"	--	Section 4.14(b)
"Power Act"	--	Section 3.05(b)
"Proxy Statement"	--	Section 3.09(a)
"qualified stock options"	--	Section 6.10(a)
"Registration Statement"	--	Section 4.09
"Release"	--	Section 3.15(g)(iv)
"Representatives"	--	Section 9.12(g)
"Review Material"	--	Section 6.01
"Sales Price"	--	Section 2.03(e)
"SEC"	--	Section 3.04(b)
"Secretary of State"	--	Section 1.03
"Securities Act"	--	Section 3.04(b)
"SOS"	--	Section 7.01(k)
"Special Share"	--	Section 4.02(a)
"Subsidiary"	--	Section 9.13(h)
"Surviving Corporation"	--	Section 1.01
"Surviving Corporation Common Stock"	--	Section 2.01
"taxes"	--	Section 3.12(g)
"Trading Day"	--	Section 2.03(e)
"UK Code"	--	Section 6.03(a)

This AGREEMENT AND PLAN OF MERGER, dated as of December 6, 1998 (this "Agreement"), is made and entered into by and among SCOTTISH POWER PLC, a public limited company incorporated under the laws of Scotland ("Parent"), NA GENERAL PARTNERSHIP, a Nevada general partnership indirectly wholly owned by Parent (the "Partnership"), and PACIFICORP, an Oregon corporation (the "Company"), and, with respect to Section 2.01 hereof only, Scottish Power NA 1 Limited, a limited liability company incorporated under the laws of Scotland ("UKSub1") and Scottish Power NA 2 Limited, a limited liability company incorporated under the laws of Scotland ("UKSub2").

WHEREAS, the Boards of Directors of Parent and the Company and the partners of the Partnership, have each determined that it is advisable and in the best interests of their respective stockholders and partners, as the case may be, to consummate, and have approved, the business combination transaction provided for herein in which Merger Sub (as defined below) would merge with and into the Company and the Company would become an indirect, wholly-owned subsidiary of Parent (the "Merger") pursuant to the terms of this Agreement, whereby each issued and outstanding share of common stock of the Company (the "Company Common Stock"), other than shares owned directly or indirectly by Parent, the Partnership, Merger Sub or the Company, will be converted into the right to receive either (i) ordinary shares of Parent represented by American Depositary Shares of Parent ("Parent ADSs"), each representing four (4) ordinary shares of 50 pence each of Parent ("Parent Ordinary Shares") and evidenced by American Depositary Receipts ("Parent ADRs"); or (ii) Parent Ordinary Shares (the "Merger Ordinary Shares");

WHEREAS, immediately prior to the Closing Date (as defined in Section 1.02), an Oregon corporation wholly-owned by the Partnership ("Merger Sub") will be formed for the purpose of effectuating the Merger;

WHEREAS, the respective Boards of Directors of Parent and the Company, and the partners of the Partnership, have determined that the Merger is in furtherance of and consistent with their respective long-term business strategies and is fair to and in the best interests of their respective shareholders and stockholders, Parent has approved this Agreement and the Merger, UKSub 1 and UKSub 2 in their capacity as general partners of the Partnership and as parties to Section 2.01 have approved this Agreement and the Merger, and the Partnership has agreed that, immediately following the formation of Merger Sub, it will approve this Agreement and the Merger as the sole stockholder of Merger Sub;

WHEREAS, for federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code"); and

WHEREAS, Parent, the Partnership and the Company desire to make certain representations, warranties and agreements in connection with the Merger and also to prescribe various conditions to the Merger;

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
THE MERGER

1.01 The Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.03), Merger Sub shall be merged with and into the Company in accordance with the Business Corporation Act of the State of Oregon (the "BCA"). At the Effective Time, the separate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation in the Merger (the "Surviving Corporation"). Merger Sub and the Company are sometimes referred to herein as the "Constituent Corporations". As a result of the Merger, the outstanding shares of capital stock of the Constituent Corporations shall be converted and cancelled in the manner provided in Article II.

1.02 Closing. Unless this Agreement shall have been terminated and the transactions herein contemplated shall have been abandoned pursuant to Section 8.01, and subject to the satisfaction or waiver (where applicable) of the conditions set forth in Article VII, the consummation of the Merger (the "Closing") will take place at the offices of Milbank, Tweed, Hadley & McCloy, 1 Chase Manhattan Plaza, New York, New York 10005, at 10:00 a.m., local time, on the fifth business day following satisfaction or waiver (where applicable) of the conditions set forth in Article VII, unless another date, time or place is agreed to in writing by the parties hereto (the "Closing Date"). At the Closing there shall be delivered to Parent, the Partnership, Merger Sub and the Company the certificates and other documents and instruments required to be delivered under Article VII.

1.03 Effective Time. At the Closing, the parties shall cause to be duly prepared and executed by the Company as the Surviving Corporation and Merger Sub articles of merger (the "Articles of Merger") for filing on, or as soon as practicable after, the Closing Date with the Secretary of State of the State of Oregon (the "Secretary of State"), as provided in Section 60.494 of the BCA. The Merger shall become effective at the time of the filing of the Articles of Merger with the Secretary of State (such date and time being referred to herein as the "Effective Time").

1.04 Governing Instrument. At the Effective Time, (i) the Articles of Incorporation of the Company as in effect immediately prior to the Effective Time shall be the Articles of Incorporation of the Surviving Corporation until thereafter amended as provided by law and such Articles of Incorporation, and (ii) the Bylaws of the Company as in effect immediately prior to the Effective Time shall be the Bylaws of the Surviving Corporation until thereafter amended as provided by law, the Articles of Incorporation of the Surviving Corporation and such Bylaws.

1.05 Directors and Officers of the Surviving Corporation. The individuals listed on Schedule I shall, from and after the Effective Time, be the directors and executive officers, respectively, of the Company as the Surviving Corporation until their successors shall have been duly elected or appointed and qualified or until their earlier death, resignation or removal in accordance with the Surviving Corporation's Articles of Incorporation and Bylaws.

1.06 Effects of the Merger. Subject to the foregoing, the effects of the Merger shall be as provided in the applicable provisions of the BCA.

1.07 Further Assurances. Each party hereto will, either prior to or after the Effective Time, execute such further documents, instruments, deeds, bills of sale, assignments and assurances and take such further actions as may reasonably be requested by one or more of the other parties hereto to consummate the Merger, to vest the Surviving Corporation with full title to all assets, properties, privileges, rights, approvals, immunities and franchises of either of the Constituent Corporations or to effect the other purposes of this Agreement.

ARTICLE II CONVERSION OF SHARES

2.01 Conversion of Capital Stock. At the Effective Time, by virtue of the Merger and, with respect to clauses (a)-(c), (f) and (g) hereof, without any action on the part of the holder thereof:

(a) Capital Stock of Merger Sub. Each issued and outstanding share of the common stock of Merger Sub ("Merger Sub Common Stock") outstanding immediately prior to the Effective Time shall be cancelled and the Surviving Corporation shall issue to the Partnership at the Effective Time such number of shares of common stock as is equal to the number of shares of Merger Sub Common Stock, with the same rights, powers and privileges as the Merger Sub Common Stock, and shall constitute the only outstanding shares of common stock of the Surviving Corporation ("Surviving Corporation Common Stock").

(b) Cancellation of Treasury Stock and Stock Owned by Parent and Subsidiaries. All shares of Company Common Stock that are owned by the Company as treasury stock and any shares of Company Common Stock owned by Parent, the Partnership, Merger Sub or any other wholly-owned Subsidiary (as defined in Section 9.12) of Parent shall be canceled and retired and shall cease to exist and no stock of Parent or other consideration shall be delivered in exchange therefor.

(c) Conversion of Company Common Stock. (i) Each issued and outstanding share of Company Common Stock (other than shares to be cancelled in accordance with Section 2.01(b)), shall be converted into the right to receive (A) .58 Parent ADSs (the "ADS Consideration"), or (B) if a properly completed Ordinary Share Election Form (as defined in Section 2.02) shall have been submitted to the Exchange Agent (as defined in Section 2.02) on a timely basis with respect to such share of Company Common Stock, 2.32 fully paid and nonassessable Merger Ordinary Shares (the "Ordinary Share Consideration"; the Ordinary Share Consideration and the ADS Consideration are each sometimes referred to herein as the "Merger Consideration"). All shares of Company Common Stock to be converted into shares of Parent ADSs or Merger Ordinary Shares pursuant to this Section 2.01(c) are hereinafter referred to as "Converted Shares."

(ii) If, prior to the Effective Time, Parent shall pay a dividend in, subdivide, consolidate or issue by capitalization of its reserves, any Parent Ordinary Shares, the Merger

Consideration shall be multiplied by a fraction, the numerator of which shall be the number of Parent Ordinary Shares outstanding immediately after, and the denominator of which shall be the number of such shares outstanding immediately before, the occurrence of such event, and the resulting product shall from and after the date of such event be the Merger Consideration subject to further adjustment in accordance with this sentence.

(iii) All shares of Company Common Stock converted in accordance with paragraph (i) of this Section 2.01(c) shall no longer be outstanding and shall, as part of the consideration for the allotment and issue by Parent referred to in Section 2.01(e) below, automatically be canceled and retired and shall cease to exist, and each holder of a certificate representing any such shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration and any cash in lieu of fractional Parent ADSs or Merger Ordinary Shares (determined in accordance with Section 2.03(e)), upon the surrender of such certificate in accordance with Section 2.03, without interest.

(d) UKSub 1 shall continue to be the owner of a 90% general partnership interest in the Partnership, and UKSub 2 shall continue to be the owner of a 10% general partnership interest in the Partnership.

(e) As consideration for the acquisition by the Partnership of the Surviving Corporation Common Stock in accordance with Section 2.01(a): (i) the Partnership agrees to issue a loan note to Parent in the form and in an amount to be mutually agreed upon by Parent and the Partnership (the "Partnership Loan Note"), (ii) UKSub 1 agrees to allot and issue to Parent fully paid ordinary shares of 1 each and (iii) UKSub 2 agrees to allot and issue to Parent fully paid ordinary shares of 1 each. In consideration of the other steps referred to in this Section 2.01 (including, to the extent set out in column A of Exhibit A attached hereto, the issue of the Partnership Loan Note by the Partnership), Parent shall allot and issue (i) the number of Parent Ordinary Shares represented by Parent ADSs to be issued in the Merger to Parent's United States Depository (the "ADR Depository") on behalf of the holders of Company Common Stock entitled thereto for the purposes of giving effect to the conversion and exchange referred to in this Article II, and (ii) the number of Merger Ordinary Shares to be issued in the Merger. In consideration of the other steps referred to in this Section 2.01, (including, to the extent set out in column B of Exhibit A, the issues of ordinary shares by UKSub 1 and UKSub 2 referred to above), Parent shall allot and issue (i) the number of Parent Ordinary Shares represented by Parent ADSs to be issued in the Merger to the ADR Depository on behalf of the holders of Company Common Stock entitled thereto for the purposes of giving effect to the conversion and exchange referred to in this Article II, and (ii) the number of Merger Ordinary Shares to be issued in the Merger.

(f) Subject to the terms and conditions of the Company's Stock Incentive Plan (the "Company Option Plan") and the stock option agreements executed pursuant thereto, each option to purchase Company Common Stock granted thereunder that is outstanding at the Effective Time (a "Company Option") shall be converted into an option to acquire, on the same terms and conditions as were applicable under the Company Option Plan at the Effective Time, a number of (i) Parent ADSs equal to the ADS Consideration, or (ii) Merger Ordinary Shares equal to the Ordinary Share Consideration, in each case multiplied by the number of shares of

Company Common Stock subject to such option immediately prior to the Effective Time, on the basis described in Section 6.10. The Company as the Surviving Corporation and Parent shall take all action necessary to ensure that Parent has control of the operation of the Company Option Plan and the Company Restricted Stock Plans.

(g) Subject to Section 5.01 (c)(iv)(C), the Company Preferred Stock (as defined below) shall not be affected by the Merger and shall continue to have the same rights and preferences as were in effect prior to consummation of the Merger.

2.02 Procedure for Election. At such time as shall be sufficient to permit the holders of Company Common Stock to exercise their right to make an election pursuant to this Section 2.02, Parent will make available to all holders of Company Common Stock of record a letter of transmittal and election form and other appropriate materials (collectively, the "Ordinary Share Election Form") providing for such holder to elect to receive the Ordinary Share Consideration with respect to all or any portion of such holder's shares of Company Common Stock ("Ordinary Share Election"). As of the Election Date (as hereinafter defined), any share of Company Common Stock with respect to which there shall not have been effected such election by submission to the Exchange Agent (as defined in Section 2.03) of an effective, properly completed Ordinary Share Election Form shall be converted in the Merger into the right to receive the ADS Consideration.

(a) Any election to receive the Ordinary Share Consideration shall have been validly made only if the Exchange Agent shall have received by 5:00 p.m., New York City time, on or prior to the Election Date, an Ordinary Share Election Form properly completed and executed (with the signature or signatures thereon guaranteed if required by the Ordinary Share Election Form) by such holder of shares of Company Common Stock. As used herein, "Election Date" means a date announced by Parent, in a news release delivered to the Dow Jones News Service, as the last day on which an Ordinary Share Election Form will be accepted; provided, however, that such date shall be a business day no earlier than five (5) business days prior to the date on which the Effective Time occurs and shall be at least five (5), and not more than 20, business days following the date of such news release; provided further, that, subsequent to such announcement, Parent shall have the right to change such Election Date to a later date so long as such later date is (i) at least five (5) business days following the date of notice of such change and (ii) not later than the date on which the Effective Time occurs. Parent shall have the right to make reasonable determinations and to establish reasonable procedures (not inconsistent with the terms of this Agreement) in guiding the Exchange Agent in its determination as to the validity of Ordinary Share Election Forms and of any revision, revocation or withdrawal thereof.

(b) Two or more holders of shares of Company Common Stock who are determined to constructively own such shares owned by each other by virtue of Section 318(a) of the Code and who so certify to Parent's reasonable satisfaction, and any single holder of shares of Company Common Stock who holds such shares in two or more different names and who so certifies to Parent's reasonable satisfaction, may submit a joint Ordinary Share Election Form covering the aggregate shares of Company Common Stock owned by all such holders or by such single holder, as the case may be. For all purposes of this Agreement, each such group of

holders which, and each such single holder who, submits a joint Ordinary Share Election Form shall be treated as a single holder of shares of Company Common Stock.

(c) Record holders of shares of Company Common Stock who are nominees only may submit a separate Ordinary Share Election Form for each beneficial owner for whom such record holder is a nominee; provided, however, that, at the request of Parent, such record holder shall certify to the reasonable satisfaction of Parent that such record holder holds such shares as nominee for the beneficial owner thereof. For purposes of this Agreement, each beneficial owner for which an Ordinary Share Election Form is submitted will be treated as a separate holder of shares of Company Common Stock subject, however, to Section 2.02(b).

(d) Any holder of shares of Company Common Stock may at any time prior to 5:00 p.m. New York City time, on the Election Date revoke such holder's election by written notice to the Exchange Agent received at any time prior to 5:00 p.m., New York City time, on the Election Date.

2.03 Exchange of Certificates. (a) Exchange Agent. Promptly following the Effective Time, (i) Parent shall issue to and deposit with the ADR Depository, for the benefit of the holders of shares of Company Common Stock converted into the ADS Consideration in accordance with Section 2.01(c), Parent Ordinary Shares in an amount sufficient to permit the ADR Depository to issue Parent ADRs representing the number of Parent ADSs issuable pursuant to Section 2.01(c) and (ii) Parent shall, for the benefit of the holders of the shares of Company Common Stock converted into Merger Ordinary Shares in the Merger, make available to the Surviving Corporation for deposit with a bank or trust company designated before the Closing Date by Parent and reasonably acceptable to the Company (the "Exchange Agent"), (A) certificates representing the number of duly authorized whole Merger Ordinary Shares issuable in accordance with Section 2.01(c), and (B) an amount of cash equal to the aggregate amount payable in lieu of fractional Parent ADSs and Merger Ordinary Shares in accordance with Section 2.03(e) (such cash, certificates representing Merger Ordinary Shares and Parent ADRs representing Parent ADSs, together with any dividends or distributions with respect thereto being hereinafter referred to as the "Exchange Fund"), to be held for the benefit of and distributed to the holders of Converted Shares in accordance with this Section. The Exchange Agent shall agree to hold such Merger Ordinary Shares and funds for delivery as contemplated by this Section and upon such additional terms as may be agreed upon by the Exchange Agent, the Company and Parent. Parent shall cause the ADR Depository to issue through and upon the instructions of the Exchange Agent, for the benefit of the holders of shares of the Company Common Stock converted into the ADS Consideration in accordance with Section 2.01(c), Parent ADRs representing the number of Parent ADSs issuable pursuant to Section 2.01(c). Neither Parent, Parent's affiliates nor holders of Converted Shares shall be responsible for any stamp duty reserve tax payable in connection with the ADS Consideration. The Exchange Agent shall invest any cash included in the Exchange Fund as directed by the Surviving Corporation on a daily basis. Any interest and other income resulting from such investments shall promptly be paid to the Surviving Corporation.

(b) **Exchange Procedures.** As soon as reasonably practicable after the Effective Time, the Surviving Corporation shall cause the Exchange Agent to mail to each holder

of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the "Certificates") whose shares are converted pursuant to this Article II into the right to receive Parent ADSs or Merger Ordinary Shares (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent and shall be in such form and have such other provisions as the Surviving Corporation or Parent may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing Parent ADRs which represent Parent ADSs, and Merger Ordinary Shares and cash in lieu of fractional Parent ADSs or Merger Ordinary Shares. Upon surrender of a Certificate for cancellation to the Exchange Agent, together with such letter of transmittal duly executed and completed in accordance with its terms, the holder of such Certificate shall be entitled to receive in exchange therefor (i) one or more Parent ADRs representing, in the aggregate, that whole number of Parent ADSs and/or a certificate or certificates representing that whole number of Merger Ordinary Shares elected to be received in accordance with Section 2.02, (ii) the amount of dividends or other distributions, if any, with a record date on or after the Effective Time which theretofore became payable with respect to such Parent ADSs and Merger Ordinary Shares, and (iii) the cash amount payable in lieu of fractional Parent ADSs and Merger Ordinary Shares in accordance with Section 2.03(e), in each case which such holder has the right to receive pursuant to the provisions of this Article II, and the Certificate so surrendered shall forthwith be canceled. In no event shall the holder of any Certificate be entitled to receive interest on any funds to be received in the Merger. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, one or more Parent ADRs representing, in the aggregate, that whole number of Parent ADSs and/or a certificate or certificates representing that whole number of Merger Ordinary Shares elected to be received in accordance with Section 2.02, plus the cash amount payable in lieu of fractional Parent ADSs and Merger Ordinary Shares in accordance with Section 2.03(e), may be issued to a transferee if the Certificate representing such Company Common Stock is presented to the Exchange Agent accompanied by all documents required to evidence and effect such transfer and by evidence that any applicable stock transfer taxes have been paid. Until surrendered as contemplated by this Section 2.03(b), each Certificate shall be deemed at any time after the Effective Time for all corporate purposes of Parent, except as limited by Section 2.03(c) below and subject to applicable law, to represent ownership of the whole number of Parent ADSs and/or Merger Ordinary Shares into which the number of shares of Company Common Stock shown thereon have been converted as contemplated by this Article II. Notwithstanding the foregoing, Certificates representing Company Common Stock surrendered for exchange by any person constituting an "affiliate" of the Company for purposes of Section 6.04 shall not be exchanged until Parent has received an Affiliate Agreement (as defined in Section 6.04) as provided in Section 6.04.

(c) Distributions with Respect to Unexchanged Shares. No dividends or other distributions declared, made or paid after the Effective Time with respect to Parent Ordinary Shares with a record date on or after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the Parent ADSs and Merger Ordinary Shares represented thereby and no cash payment in lieu of fractional Parent ADSs and Merger Ordinary Shares shall be paid to any such holder pursuant to Section 2.03(e) until the holder of record of such Certificate shall surrender such Certificate in accordance with this Section. Subject to the

effect of applicable laws, following surrender of any such Certificate, there shall be paid to the record holder of the certificates representing the Parent ADRs which represent Parent ADSs and Merger Ordinary Shares issued in exchange therefor, without interest, (i) at the time of such surrender, the amount of dividends or other distributions, if any, with a record date on or after the Effective Time which theretofore became payable, but which were not paid by reason of the immediately preceding sentence, with respect to such Parent ADSs and Merger Ordinary Shares and (ii) at the appropriate payment date, the amount of dividends or other distributions with a record date on or after the Effective Time but prior to surrender and a payment date subsequent to surrender payable with respect to such Parent ADSs and Merger Ordinary Shares.

(d) No Further Ownership Rights in Company Common Stock. All Parent ADSs and Merger Ordinary Shares issued upon the surrender for exchange of Certificates in accordance with the terms hereof (including any cash paid pursuant to Section 2.03(e)) shall be deemed to have been issued at the Effective Time in full satisfaction of all rights pertaining to the Converted Shares represented thereby, subject, however, to the Surviving Corporation's obligation to pay any dividends which may have been declared by the Company on the shares of Company Common Stock in accordance with the terms of this Agreement and which remained unpaid at the Effective Time. From and after the Effective Time, the stock transfer books of the Company shall be closed and there shall be no further registration of transfers thereon of the shares of Company Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be canceled and exchanged as provided in this Section.

(e) No Fractional Shares. No certificate or scrip representing fractional Parent ADSs or Merger Ordinary Shares will be issued in the Merger upon the surrender for exchange of Certificates, and such fractional Parent ADS or Merger Ordinary Share interests will not entitle the owner thereof to vote or to any rights of a holder of Parent ADSs or Merger Ordinary Shares. In lieu of any such fractional Parent ADS or Merger Ordinary Share, each holder of Certificates who would otherwise have been entitled to a fraction of a Parent ADS or Merger Ordinary Share in exchange for such Certificates pursuant to this Section shall receive from the Exchange Agent, as applicable, (i) a cash payment in lieu of such fractional Parent ADS determined by multiplying (A) the Sales Price (as defined below) of a Parent ADS on the last Trading Day (as defined below) immediately preceding the Closing Date by (B) the fractional Parent ADS interest to which such holder would otherwise be entitled, and/or (ii) a cash payment in lieu of such fractional Merger Ordinary Share determined by multiplying (A) the Sales Price of a Parent Ordinary Share on the last Trading Day immediately preceding the Closing Date by (B) the fractional Merger Ordinary Share interest to which such holder would otherwise be entitled. The term "Sales Price" shall mean, on any Trading Day, with respect to Parent ADSs, the closing sales price of Parent ADSs reported on the New York Stock Exchange, Inc. ("NYSE") Composite Tape on such day and, with respect to Merger Ordinary Shares, the closing middle market quotation of a Parent Ordinary Share as reported in the Daily Official List of the London Stock Exchange ("LSE") for such date. The term "Trading Day" shall mean any day on which securities are traded, with respect to Parent ADSs, on the NYSE, and with respect to Parent Ordinary Shares, on the LSE.

(f) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the stockholders of the Company for one (1) year after the Effective Time shall be delivered to Parent, upon demand, and any holders of Certificates who have not theretofore complied with this Article II shall thereafter look only to Parent (subject to abandoned property, escheat and other similar laws) as general creditors for payment of their claim for Parent ADSs, Merger Ordinary Shares, any cash in lieu of fractional Parent ADSs and Merger Ordinary Shares and any dividends or distributions with respect to Parent ADSs and Merger Ordinary Shares. Neither Parent nor the Surviving Corporation shall be liable to any holder of any Certificate for Parent ADSs or Merger Ordinary Shares (or dividends or distributions with respect to either), or cash payable in respect of fractional Parent ADSs or Merger Ordinary Shares, delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(g) Lost Certificates. If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such Certificate to be lost, stolen or destroyed and, if required by Parent, the posting by such person of a bond in such reasonable amount as Parent may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional Parent ADSs or Merger Ordinary Shares, and unpaid dividends and distributions in respect of or on Parent ADSs or Merger Ordinary Shares deliverable in respect thereof, pursuant to this Agreement.

2.04 Withholding Rights. Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code, or any provision of state, local or foreign tax law, including the tax laws of the United Kingdom. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock in respect of which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent, the Partnership and Merger Sub as follows:

3.01 Organization and Qualification. (a) Each of the Company and its Subsidiaries is duly organized, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of organization and has full corporate or partnership, as the case may be, power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties,

except for such failures to be so organized, existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) or to have such power and authority which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect (as defined in Section 9.12) on the Company and its Subsidiaries taken as a whole. Each of the Company and its Subsidiaries is duly qualified, licensed or admitted to do business and is in good standing (with respect to jurisdictions which recognize the concept of good standing) in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing or admission necessary, except for such failures to be so qualified, licensed or admitted and in good standing (with respect to jurisdictions that recognize the concept of good standing) which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. Section 3.01 of the letter dated the date hereof and delivered to Parent, the Partnership and Merger Sub by the Company concurrently with the execution and delivery of this Agreement (the "Company Disclosure Letter") sets forth (i) the name and jurisdiction of organization of each Subsidiary of the Company and (x) with respect to Subsidiaries that are corporations, (a) such Subsidiary's authorized capital stock, (b) the number of issued and outstanding shares of such Subsidiary's capital stock and (c) the record owners of such Subsidiary's shares and, (y) with respect to Subsidiaries that are partnerships, the names and ownership interests of the partners thereof. The Company has previously delivered to Parent correct and complete copies of the certificate or articles of incorporation and bylaws (or other comparable charter documents) of the Company and its Subsidiaries.

(b) Section 3.01 of the Company Disclosure Letter sets forth a description as of the date hereof, of all Company Joint Ventures, including (i) the name of each such entity and the Company's interest therein, and (ii) a brief description of the principal line or lines of business conducted by each such entity. For purposes of this Agreement:

(i) "Joint Venture" of a person or entity shall mean any corporation or other entity (including partnerships and other business associations) that is not a Subsidiary of such person or entity, in which such person or one or more of its Subsidiaries owns directly or indirectly an equity interest, other than equity interests which are less than 5% of each class of the outstanding voting securities or equity interests of any such entity;

(ii) "Company Joint Venture" shall mean any Joint Venture of the Company or any of its Subsidiaries; and

(iii) "Parent Joint Venture" shall mean any Joint Venture of Parent or any of its Subsidiaries.

(c) Except for interests in the Subsidiaries of the Company, the Company Joint Ventures and as disclosed in the Company SEC Reports (as defined in Section 3.05) filed prior to the date of this Agreement or Section 3.01 of the Company Disclosure Letter, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any material corporation, partnership, limited liability company, joint venture or other business association or

entity (other than non-controlling investments in the ordinary course of business and corporate partnering, development, cooperative marketing and similar undertakings and arrangements entered into in the ordinary course of business).

3.02 Capital Stock. (a) The authorized capital stock of the Company consists of:

(i) 750 million shares of Company Common Stock, of which 297,335,056 shares were issued and outstanding as of November 30, 1998, and

(ii) 126,533 shares of 5% preferred stock, of which 126,533 were issued and outstanding as of November 30, 1998, 3.5 million shares of serial preferred stock, of which 288,499 were issued and outstanding as of November 30, 1998 and of which 2,065 shares were designated the 4.52% Series, 18,060 shares were designated the 7.00% Series, 5,932 shares were designated the 6.00% Series, 42,000 were designated the 5.00% Series, 65,960 were designated the 5.40% Series, 69,890 were designated the 4.72% Series, and 84,592 were designated the 4.56% Series, respectively; and 16 million shares of no par serial preferred stock, of which 2,744,438 were issued and outstanding as of November 30, 1998 and of which 381,220 shares were designated the \$1.28 Series, 420,116 shares were designated the \$1.18 Series, 193,102 shares were designated the \$1.16 Series, 1,000,000 shares were designated the \$7.70 Series, and 750,000 shares were designated the \$7.48 Series, respectively (collectively, the "Company Preferred Stock").

As of November 30, 1998, 28,817,971 shares of Company Common Stock were reserved or held for issuance under the PacifiCorp Stock Incentive Plan, the PacifiCorp Long Term Incentive Plan, the PacifiCorp K-Plus Employee Savings and Stock Ownership Plan and the PacifiCorp Dividend Reinvestment and Stock Purchase Plan. All of the issued and outstanding shares of Company Common Stock are, and all shares reserved for issuance will be, upon issuance in accordance with the terms specified in the instruments or agreements pursuant to which they are issuable, duly authorized, validly issued, fully paid and nonassessable. Except pursuant to this Agreement and except as described in Section 3.02 of the Company Disclosure Letter, on the date hereof there are no outstanding subscriptions, options, warrants, rights (including stock appreciation rights), preemptive rights or other contracts, commitments, understandings or arrangements, including any right of conversion or exchange under any outstanding security, instrument or agreement (together, "Options"), obligating the Company or any of its Subsidiaries to issue or sell any shares of capital stock of the Company or to grant, extend or enter into any Option with respect thereto.

(b) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.02 of the Company Disclosure Letter, all of the outstanding shares of capital stock of each Subsidiary of the Company are duly authorized, validly issued, fully paid and nonassessable and are owned, beneficially and of record, by the Company or a Subsidiary wholly owned, directly or indirectly, by the Company, free and clear of any liens, claims, mortgages, encumbrances, pledges, security interests, equities and charges of any kind (each a "Lien"), other than Liens or failures to so own which are immaterial. Each outstanding share of Company Preferred Stock, other than shares of the \$1.28 Series, \$1.18 Series and \$1.16 Series of

no par serial preferred stock, is entitled to one vote per share, voting together with the holders of Company Common Stock as a single class, on all matters generally submitted to the stockholders of the Company for a vote. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.02 of the Company Disclosure Letter, there are no (i) outstanding Options obligating the Company or any of its Subsidiaries to issue or sell any shares of capital stock of any Subsidiary of the Company or to grant, extend or enter into any such Option or (ii) voting trusts, proxies or other commitments, understandings, restrictions or arrangements in favor of any person other than the Company or a Subsidiary wholly owned, directly or indirectly, by the Company with respect to the voting of or the right to participate in dividends or other earnings on any capital stock of any Subsidiary of the Company.

(c) None of the Subsidiaries of the Company or the Company Joint Ventures is a "public utility company," a "holding company," a "subsidiary company" or an "affiliate" of any public utility company within the meaning of Section 2(a)(5), 2(a)(7), 2(a)(8) or 2(a)(11) of the Public Utility Holding Company Act of 1935, as amended (the "1935 Act"), respectively.

(d) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.02 of the Company Disclosure Letter, there are no outstanding contractual obligations of the Company or any Subsidiary of the Company to repurchase, redeem or otherwise acquire any shares of Company Common Stock or any material capital stock of any Subsidiary of the Company or to provide any material amount of funds to, or make any material investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of the Company or any other person.

3.03 Authority Relative to this Agreement. The Company has full corporate power and authority to enter into this Agreement, and, subject to obtaining the Company Stockholders' Approval (as defined in Section 6.03 (b)), to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of the Company, the Board of Directors of the Company has recommended approval of this Agreement by the stockholders of the Company and directed that this Agreement be submitted to the stockholders of the Company for their consideration, and no other corporate proceedings on the part of the Company or its stockholders are necessary to authorize the execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby, other than obtaining the Company Stockholders' Approval. This Agreement has been duly and validly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

3.04 Non-Contravention; Approvals and Consents. (a) The execution and delivery of this Agreement by the Company do not, and the performance by the Company of its obligations hereunder and the consummation of the transactions contemplated hereby will not,

conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any Lien upon any of the assets or properties of the Company or any of its Subsidiaries or any of the Company Joint Ventures under, any of the terms, conditions or provisions of (i) the certificates or articles of incorporation or bylaws (or other comparable charter documents) of the Company or any of its Subsidiaries, or (ii) subject to the obtaining of the Company Stockholders' Approval and the taking of the actions described in Section 3.04(b), (x) any statute, law, rule, regulation or ordinance (together, "laws"), or any judgment, decree, order, writ, permit or license (together, "orders"), of any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any domestic or foreign state, county, city or other political subdivision (a "Governmental or Regulatory Authority") applicable to the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets or properties, or (y) any note, bond, mortgage, security agreement, indenture, license, franchise, permit, concession, contract, lease or other instrument, obligation or agreement of any kind (together, "Contracts") to which the Company or any of its Subsidiaries or any of the Company Joint Ventures is a party or by which the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets or properties is bound, excluding from the foregoing clauses (x) and (y) conflicts, violations, breaches, defaults, rights of payment and reimbursement, terminations, modifications, accelerations and creations and impositions of Liens which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement.

(b) Except (i) for the filing of a premerger notification report by the Company under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the "HSR Act"), (ii) for the filing of the Proxy Statement (as defined in Section 3.09) and the Registration Statement (as defined in Section 4.09) with the Securities and Exchange Commission (the "SEC") pursuant to the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder (the "Exchange Act"), and the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "Securities Act"), the declaration of the effectiveness of the Registration Statement by the SEC and filings with various state securities authorities that are required in connection with the transactions contemplated by this Agreement, (iii) for the filing of an application under Section 203 and any directly related Section of, or regulation under, the Power Act (as defined in Section 3.05(b)) for the sale or disposition of jurisdictional facilities of the Company; (iv) for the filing of the Articles of Merger and other appropriate merger documents required by the BCA with the Secretary of State and appropriate documents with the relevant authorities of other states in which the Constituent Corporations are qualified to do business; and (v) as disclosed in Section 3.04 of the Company Disclosure Letter, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any Governmental or Regulatory Authority or any Contract to which the Company or any of its Subsidiaries or any of the Company Joint Ventures is a party or by which the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets or properties is bound for the execution and delivery of this Agreement by the Company, the performance by the Company of

its obligations hereunder or the consummation of the transactions contemplated hereby, other than such consents, approvals, actions, filings and notices which the failure to make or obtain, as the case may be, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement.

3.05 SEC Reports, Financial Statements and Utility Reports. (a) The Company delivered to Parent prior to the execution of this Agreement a true and complete copy of each form, report, schedule, registration statement, registration exemption, if applicable, definitive proxy statement and other document (together with all amendments thereof and supplements thereto) filed by the Company or any of its Subsidiaries with the SEC since December 31, 1995 (as such documents have since the time of their filing been amended or supplemented, the "Company SEC Reports"), which are all the documents (other than preliminary materials) that the Company and its Subsidiaries were required to file with the SEC since such date. As of their respective dates, the Company SEC Reports (i) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, if applicable, as the case may be, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case, the notes, if any, thereto) included in the Company SEC Reports (the "Company Financial Statements") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with U.S. generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by Form 10-Q of the SEC) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments (which are not expected to be, individually or in the aggregate, materially adverse to the Company and its Subsidiaries taken as a whole)) the consolidated financial position of the Company and its consolidated subsidiaries as at the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. Except as set forth in Section 3.05 of the Company Disclosure Letter, each Subsidiary of the Company is treated as a consolidated subsidiary of the Company in the Company Financial Statements for all periods covered thereby.

(b) All material filings required to be made by the Company or any of its Subsidiaries since December 31, 1995, under the Federal Power Act (the "Power Act") and applicable state laws and regulations, have been filed with the Federal Energy Regulatory Commission (the "FERC"), the Department of Energy (the "DOE") or any appropriate state public utilities commission (including, without limitation, the state utility regulatory agencies of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming), as the case may be, including all material written forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all material rates, tariffs, franchises, service agreements and related documents, complied, as of their respective dates, in all material respects with all applicable requirements of the appropriate statute and the rules and regulations thereunder.

3.06 Absence of Certain Changes or Events. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.06 of the Company Disclosure Letter, (a) between December 31, 1997 and the date hereof, there has not been any change, event or development having, or that would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole (other than those changes, events or developments occurring as a result of general economic or financial conditions or which are not unique to the Company and its Subsidiaries but also affect other entities who participate or are engaged in the lines of business in which the Company and its Subsidiaries are engaged), and (b) between December 31, 1997 and the date hereof (i) the Company, its Subsidiaries and the Company Joint Ventures have conducted their respective businesses only in the ordinary course substantially consistent with past practice and (ii) neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures has (x) acquired or agreed to acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof for a purchase price (including the amount of any indebtedness assumed in connection therewith) of \$25 million or more in any one transaction or (y) sold, leased or otherwise disposed of any of its assets or properties (or agreed to do so) other than dispositions in the ordinary course of business consistent with past practice or having a net book value of \$25 million or less in any one transaction.

3.07 Absence of Undisclosed Liabilities. Except for matters reflected or reserved against in the balance sheet for the period ended December 31, 1997 included in the Company Financial Statements or as disclosed in the Company SEC Reports filed prior to the date hereof or in Section 3.07 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries had at such date, or has incurred since such date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature that would be required by U.S. generally accepted accounting principles to be reflected on a consolidated balance sheet of the Company and its consolidated subsidiaries (including the notes thereto), except liabilities or obligations (i) which were incurred in the ordinary course of business consistent with past practice or (ii) which are not having, and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.08 Legal Proceedings. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or in Section 3.08 of the Company Disclosure Letter and except for environmental matters which are governed by Section 3.15, (i) there are no actions, suits, arbitrations or proceedings pending or, to the knowledge of the Company, threatened against, nor to the knowledge of the Company are there any Governmental or Regulatory Authority investigations or audits pending or threatened against, the Company or any of its Subsidiaries or any of the Company Joint Ventures or any of their respective assets and properties which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement, and (ii) neither the Company nor any of its Subsidiaries is subject to any order of any Governmental or Regulatory Authority which, individually or in the aggregate, is having or would reasonably be

expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of the Company to consummate the transactions contemplated by this Agreement.

3.09 Information Supplied. (a) The proxy statement relating to the Company Stockholders' Meeting (as defined in Section 6.03(b)), as amended or supplemented from time to time (as so amended and supplemented, the "Proxy Statement"), and any other documents to be filed by the Company with the SEC (including, without limitation, under the 1935 Act) in connection with the Merger and the other transactions contemplated hereby will (in the case of the Proxy Statement and any such other documents filed with the SEC under the Exchange Act or the Securities Act), comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act, respectively, and will not, on the date of its filing or, in the case of the Proxy Statement, at the date it is mailed to stockholders of the Company and at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by the Company with respect to information supplied in writing by or on behalf of Parent, the Partnership or Merger Sub expressly for inclusion therein and information incorporated by reference therein from documents filed by Parent or any of its Subsidiaries with the SEC.

(b) The information supplied or to be supplied by the Company for inclusion in any filing by Parent with the LSE in respect of the Merger (including, without limitation, the Super Class 1 circular to be issued to shareholders of Parent (the "Circular") and the listing particulars under Part IV of the Financial Services Act 1986 of the United Kingdom (the "FSA") relating to Parent Ordinary Shares (the "Listing Particulars") (together with any amendments or supplements thereto, the "Parent Disclosure Documents") will, at all relevant times, include all information relating to the Company, and information which is within the knowledge of each of the directors of the Company (or which it would be reasonable for them to obtain by making enquiries), which, in each case, is required to enable the Parent Disclosure Documents and the parties hereto to comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act (as defined in Section 4.02(a)), the FSA and the rules and regulations made thereunder, and the rules and requirements of the LSE) and all such information contained in such documents will be substantially in accordance with the facts and will not omit anything material likely to affect the import of such information.

(c) Notwithstanding the foregoing provisions of this Section 3.09, no representation or warranty is made by the Company with respect to statements made or incorporated by reference in the Registration Statement, the Proxy Statement or the Parent Disclosure Documents based on information supplied by Parent expressly for inclusion or incorporation by reference therein or based on information which is not incorporated by reference in such documents but should have been disclosed pursuant to Section 4.09.

3.10 Permits; Compliance with Laws and Orders. The Company, its Subsidiaries and the Company Joint Ventures hold all permits, licenses, franchises, variances,

exemptions, orders and approvals of all Governmental and Regulatory Authorities (other than environmental permits which are governed by Section 3.15) necessary for the lawful conduct of their respective businesses (the "Company Permits"), except for failures to hold such Company Permits which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company, its Subsidiaries and the Company Joint Ventures are in compliance with the terms of the Company Permits, except failures so to comply which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.10 of the Company Disclosure Letter, the Company, its Subsidiaries and the Company Joint Ventures are not in violation of or default under any law or order of any Governmental or Regulatory Authority, except for such violations or defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.11 Compliance with Agreements. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.11 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures nor, to the knowledge of the Company, any other party thereto is in breach or violation of, or in default in the performance or observance of any term or provision of, and no event has occurred which, with notice or lapse of time or both, would reasonably be expected to result in a default under, (i) the certificates or articles of incorporation or bylaws (or other comparable charter documents) of the Company or any of its Subsidiaries or (ii) any Contract to which the Company or any of its Subsidiaries or any of the Company Joint Ventures is a party or by which the Company or any of its Subsidiaries, or any of the Company Joint Ventures or any of their respective assets or properties is bound, except in the case of clause (ii) for breaches, violations and defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.12 Taxes. Except as disclosed in the Company SEC Reports filed prior to the date hereof or Section 3.12 of the Company Disclosure Letter:

(a) Each of the Company and its Subsidiaries has filed all material tax returns and reports required to be filed by it, or requests for extensions to file such returns or reports have been timely filed or granted and have not expired, and all tax returns and reports are complete and accurate in all respects, except to the extent that such failures to either file, to have extensions granted that remain in effect or to file returns complete and accurate in all respects, as applicable, would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company and each of its Subsidiaries has paid (or the Company has paid on its behalf) all taxes shown as due on such tax returns and reports. The most recent financial statements contained in the Company SEC Reports reflect an adequate reserve for all taxes payable by the Company and its Subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements, and no deficiencies for any taxes have been proposed, asserted or assessed against the Company or any of its Subsidiaries that are not adequately reserved for, except for inadequately reserved

taxes and inadequately reserved deficiencies that would not reasonably be expected to, individually or in the aggregate, have a material adverse effect on the Company and its Subsidiaries taken as a whole. No requests for waivers of the time to assess any taxes against the Company or any of its Subsidiaries have been granted or are pending, except for requests with respect to such taxes that have been adequately reserved for in the most recent financial statements contained in the Company SEC Reports, or, to the extent not adequately reserved, the assessment of which would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries taken as a whole.

(b) Neither the Company nor any of its Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to prevent the Merger from qualifying as a tax-free reorganization within the meaning of Code Section 368(a).

(c) Neither the Company nor any of its Subsidiaries has filed a consent under Code Section 341(f) concerning collapsible corporations, neither the Company nor any of its Subsidiaries has made any payments, is obligated to make any payment, or is a party to any agreement that under certain circumstances could obligate it to make any payments that will not be deductible under Code Section 280G.

(d) Each of the Company and its Subsidiaries has disclosed on its federal income tax returns all positions taken therein that could give rise to a substantial understatement of United States federal income tax within the meaning of Code Section 6662.

(e) Neither the Company nor any of its Subsidiaries is a party to any tax allocation or sharing agreement. Neither the Company nor any of its Subsidiaries (i) has been a member of an affiliated group filing a consolidated federal income tax return (other than a group the common parent of which was the Company) or (ii) has any material liability for the taxes of any person (other than any of the Company and its Subsidiaries) under United States Treasury Regulation Section 1.1502-6 (or any similar provision or state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(f) As used in this Section 3.12 and in Section 4.12, "taxes" shall include all federal, state, local and foreign income, franchise, gross receipts, property, sales, use, excise, alternative-minimum, estimated and other taxes and duties of any jurisdiction, including obligations for withholding taxes from payments due or made to any other person and any interest, penalties or additions to tax.

3.13 Employee Benefit Plans; ERISA. (a) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.13 of the Company Disclosure Letter or as would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole, (i) all Company Employee Benefit Plans (as defined below) are in compliance with all applicable requirements of law, including without limitation ERISA (as defined below) and the Code, and (ii) neither the Company nor any of its Subsidiaries has any liabilities or obligations with respect to any such Company Employee Benefit Plans, whether accrued, contingent or otherwise, nor to the knowledge of the Company are any such liabilities or obligations expected to be incurred. Except as specifically set forth in

Section 3.13 of the Company Disclosure Letter, the execution of, and performance of the transactions contemplated in, this Agreement will not (either alone or upon the occurrence of any additional or subsequent events) constitute an event under any Company Employee Benefit Plan that will or would reasonably be expected to result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any employee. The only severance agreements or severance policies applicable to the Company or any of its Subsidiaries are the agreements and policies specifically referred to in Section 3.13 of the Company Disclosure Letter.

(b) As used herein:

(i) "Company Employee Benefit Plan" means any Plan (other than any "multiemployer plan," as that term is defined in Section 4001 of ERISA) entered into, established, maintained, sponsored, contributed to or required to be contributed to by the Company or any of its Subsidiaries for the benefit of the current or former employees or directors of the Company or any of its Subsidiaries and existing on the date of this Agreement or at any time subsequent thereto and on or prior to the Effective Time and, in the case of a Plan which is subject to Part 3 of Title I of the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations thereunder ("ERISA"), Section 412 of the Code or Title IV of ERISA, at any time during the five-year period immediately preceding the date of this Agreement; and

(ii) "Plan" means any employment, bonus, incentive compensation, deferred compensation, long term incentive, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, medical, accident, disability, severance, separation, termination, change of control or other benefit plan, agreement, practice, policy, program, scheme or arrangement, whether written or oral, and whether applicable to only one individual or a group of individuals, including, but not limited to any "employee benefit plan" within the meaning of Section 3(3) of ERISA.

(iii) "ERISA Affiliate" means any person, who on or before the Effective Time, is under common control with the Company within the meaning of Section 414 of the Code.

(c) Complete and correct copies of the following documents have been made available to Parent, as of the date of this Agreement: (i) all material Company Employee Benefit Plans and any related trust agreements or related insurance contracts and pro forma option agreements, (ii) the most current summary plan descriptions of each Company Employee Benefit Plan subject to the requirement to give a summary plan description under ERISA, (iii) the most recent Form 5500 and Schedules thereto for each Company Employee Benefit Plan subject to such reporting, (iv) the most recent determination of the Internal Revenue Service with respect to the qualified status of each Company Employee Benefit Plan that is intended to qualify under Section 401(a) of the Code, (v) the most recent accountings with respect to each Company Employee Benefit Plan funded through a trust, (vi) the most recent actuarial report of the

qualified actuary of each Company Employee Benefit Plan with respect to which actuarial valuations are conducted.

(d) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.13 of the Company Disclosure Letter, neither the Company nor any Subsidiary maintains or is obligated to provide benefits under any life, medical or health Plan (other than as an incidental benefit under a Plan qualified under Section 401(a) of the Code) which provides benefits to retirees or other terminated employees other than benefit continuations rights under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(e) Except as set forth in Section 3.13 of the Company Disclosure Letter, each Company Employee Benefit Plan covers only employees who are employed by the Company or a Subsidiary (or former employees or beneficiaries with respect to service with the Company or a Subsidiary), so that the transactions contemplated by this Agreement will require no spin-off of assets and liabilities or other division or transfer of rights with respect to any such plan.

(f) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.13 of the Company Disclosure Letter, neither the Company, any Subsidiary, any ERISA Affiliate nor any other corporation or organization controlled by or under common control with any of the foregoing within the meaning of Section 4001 of ERISA has at any time during the five (5) year period preceding the date hereof contributed to any "multiemployer plan", as that term is defined in Section 4001 of ERISA. With respect to each "multiemployer plan", as defined above, in which the Company, any Subsidiary or any ERISA Affiliate participates or has participated, (i) neither the Company, any Subsidiary nor any ERISA Affiliate has incurred, any material withdrawal liability, (ii) neither the Company, any Subsidiary nor any ERISA Affiliate has received any notice that (A) any such plan is being reorganized in a manner that will result, or would reasonably be expected to result, in material liability, (B) increased contributions of a material amount may be required to avoid a reduction in plan benefits or the imposition of an excise tax, or (C) any such plan is, or would reasonably be expected to become, insolvent, and (iii) to the knowledge of the Company, there are no PBGC (as defined below) proceedings against any such plan.

(g) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or Section 3.13 of the Company Disclosure Letter, no event has occurred, and there exists no condition or set of circumstances in connection with any Company Employee Benefit Plan, under which the Company or any Subsidiary, directly or indirectly (through any indemnification agreement or otherwise), could reasonably be expected to be subject to any risk of material liability under Section 409 of ERISA, Section 502(i) of ERISA, Title IV of ERISA or Section 4975 of the Code.

(h) No transaction contemplated by this Agreement will result in liability to the Pension Benefit Guaranty Corporation ("PBGC") under Section 302(c)(11), 4062, 4063, 4064 or 4069 of ERISA, or otherwise, with respect to the Company, any Subsidiary, Parent or any corporation or organization controlled by or under common control with any of the foregoing within the meaning of Section 4001 of ERISA, and, to the knowledge of the Company,

no event or condition exists or has existed which would reasonably be expected to result in any material liability to the PBGC with respect to Parent, the Company, any Subsidiary or any such corporation or organization. Except as set forth in Section 3.13 of the Company Disclosure Schedule, no "reportable event" within the meaning of Section 4043 of ERISA has occurred with respect to any Company Employee Benefit Plan that is a defined benefit plan under Section 3(35) of ERISA other than "reportable events" as to which the requirement of notice to the PBGC within thirty days has been waived.

(i) Except as set forth in Section 3.13 of the Company Disclosure Schedule, no employer securities, employer real property or other employer property is included in the assets of any Company Employee Benefit Plan.

(j) No stock appreciation rights are outstanding under the Company Stock Incentive Plan or any other plan or arrangement maintained by the Company or any affiliate of the Company.

3.14 Labor Matters. (a) Except as set forth in Section 3.14 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to any collective bargaining agreement or other labor agreement with any union or labor organization. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or in Section 3.14 of the Company Disclosure Letter, there are no disputes pending or, to the knowledge of the Company, threatened between the Company or any of its Subsidiaries or any of the Company Joint Ventures and any trade union or other representatives of its employees, except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole, and, to the knowledge of the Company, except as set forth in Section 3.14 of the Company Disclosure Letter, there are no material organizational efforts presently being made involving any of the now unorganized employees of the Company or any of its Subsidiaries or any of the Company Joint Ventures. Since December 31, 1995, there has been no work stoppage, or strike by employees of the Company or any of its Subsidiaries or any of the Company Joint Ventures except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

(b) To the knowledge of the Company, neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures is in material violation of any labor laws in any country (or political subdivision thereof) in which they transact business except for such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole.

3.15 Environmental Matters. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement or in Section 3.15 of the Company Disclosure Letter and except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole:

(a) (i) Each of the Company, its Subsidiaries and the Company Joint Ventures is in compliance with all applicable Environmental Laws (as hereinafter defined); and

(ii) Neither the Company nor any of its Subsidiaries nor any of the Company Joint Ventures has received any written communication from any person or Governmental or Regulatory Authority that alleges that the Company or any of its Subsidiaries or any of the Company Joint Ventures is not in such compliance with applicable Environmental Laws.

(b) Each of the Company, its Subsidiaries and the Company Joint Ventures has obtained all environmental, health and safety permits and governmental authorizations (collectively, the "Environmental Permits") necessary for the construction of its facilities and the conduct of its operations, as applicable, and all such Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed and is pending agency approval, and the Company, its Subsidiaries and the Company Joint Ventures are in compliance with all terms and conditions of the Environmental Permits.

(c) There is no Environmental Claim (as hereinafter defined) pending

(i) against the Company or any of its Subsidiaries or any of the Company Joint Ventures;

(ii) to the knowledge of the Company, against any person or entity whose liability for any such Environmental Claim the Company or any of its Subsidiaries or any of the Company Joint Ventures has or may have retained or assumed either contractually or by operation of law; or

(iii) against any real or personal property or operations which the Company or any of its Subsidiaries or any of the Company Joint Ventures owns, leases or manages, in whole or in part.

(d) To the knowledge of the Company, there have not been any Releases (as hereinafter defined) of any Hazardous Material (as hereinafter defined) that would be reasonably likely to form the basis of any material Environmental Claim against the Company or any of its Subsidiaries or any of the Company Joint Ventures, or against any person or entity whose liability for any Environmental Claim the Company or any of its Subsidiaries or any of the Company Joint Ventures has or may have been retained or assumed either contractually or by operation of law.

(e) To the knowledge of the Company, with respect to any predecessor of the Company or any of its Subsidiaries, there is no Environmental Claim pending or threatened in writing, and there has been no Release of Hazardous Materials that would be reasonably likely to form the basis of any Environmental Claim.

(f) There are no material facts specific to the Company that have not been disclosed to Parent which the Company reasonably believes are likely to form the basis of a

Environmental Claim against the Company or any of its Subsidiaries or any of the Company Joint Ventures arising from (x) current environmental remediation or mining reclamation costs of the Company, its Subsidiaries and the Company Joint Ventures or such remediation or reclamation costs known to be required in the future, or (y) any other environmental matter affecting the Company or its Subsidiaries or any of the Company Joint Ventures.

(g) As used in this Section 3.15:

(i) "Environmental Claims" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or written notices of noncompliance, liability or violation by any person or entity (including any Governmental or Regulatory Authority) alleging potential liability (including, without limitation, potential responsibility or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from

- (A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Company or any of its Subsidiaries or any of the Company Joint Ventures; or
- (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or
- (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials;

(ii) "Environmental Laws" means all Federal, state and local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials;

(iii) "Hazardous Materials" means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls; and (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (c) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which the Company or any of its Subsidiaries

or any of the Company Joint Ventures operates or any jurisdiction which has received such chemical, material, substance or waste from the Company or its Subsidiaries; and

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

3.16 Intellectual Property Rights. The Company and its Subsidiaries have all right, title and interest in, or a valid and binding license to use, all Intellectual Property (as defined below) individually or in the aggregate material to the conduct of the businesses of the Company and its Subsidiaries taken as a whole. Neither the Company nor any Subsidiary of the Company is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property and, to the knowledge of the Company, such Intellectual Property is not being infringed by any third party, and neither the Company nor any Subsidiary of the Company is infringing any Intellectual Property of any third party, except for such defaults and infringements which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole. For purposes of this Agreement, "Intellectual Property" means patents and patent rights, trademarks and trademark rights, trade names and trade name rights, service marks and service mark rights, service names and service name rights, copyrights and copyright rights and other proprietary intellectual property rights and all pending applications for and registrations of any of the foregoing.

3.17 Regulation as a Utility. (a) The Company is not regulated as a public utility by any state other than the States of California, Idaho, Montana, Oregon, Utah, Washington and Wyoming. Section 3.17 of the Company Disclosure Letter lists each Subsidiary of the Company which is a public utility or is otherwise engaged in the regulated supply (including generation, transmission or distribution) of electricity, natural gas and/or telecommunications. Except as set forth in Section 3.17 of the Company Disclosure Letter, neither the Company nor any "subsidiary company" or "affiliate" of the Company is subject to regulation as a public utility or public service company (or similar designation) by any state in the United States or any foreign country. The Company is not a public utility holding company under the 1935 Act.

(b) As used in this Section 3.17, the terms "subsidiary company" and "affiliate" shall have the respective meanings ascribed to them in the 1935 Act.

3.18 Insurance. Except as set forth in Section 3.18 of the Company Disclosure letter, each of the Company and its Subsidiaries is, and has been continuously since January 1, 1994, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business conducted by the Company and its Subsidiaries during such time period. Except as set forth in Section 3.18 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of the Company or any of its Subsidiaries. The material insurance policies of the Company and each of its Subsidiaries are valid and enforceable policies.

3.19 Vote Required. Assuming the accuracy of the representation and warranty contained in Section 4.19, the affirmative vote of the holders of record of at least (i) a majority of voting power of the outstanding shares of Company Common Stock and Company Preferred Stock voting together and (ii) a majority of the voting power of the Company Preferred Stock voting separately from the Company Common Stock as a single class with respect to the approval of this Agreement are the only votes of the holders of any class or series of the capital stock of the Company or its Subsidiaries required to approve this Agreement and approve the Merger and the other transactions contemplated hereby.

3.20 Opinion of Financial Advisor. The Company has received the opinion of Salomon Smith Barney, dated the date hereof, to the effect that, as of the date hereof, the consideration to be received in the Merger by the stockholders of the Company is fair from a financial point of view to the stockholders of the Company, and a true and complete copy of such opinion has been delivered to Parent prior to the execution of this Agreement.

3.21 Ownership of Parent Common Stock. Neither the Company nor any of its Subsidiaries beneficially owns any Parent Ordinary Shares or Parent ADSs.

3.22 Article VII of the Company's Articles of Incorporation and Sections 60.825-60.845 of the BCA Not Applicable. The Company has taken all necessary actions so that neither the provisions of Article VII of the Company's Articles of Incorporation nor the provisions of Sections 60.825-60.845 of the BCA (i.e., affiliated transactions and fair price provisions) will, before the termination of this Agreement, apply to this Agreement or the Merger or the other transactions contemplated hereby.

3.23 Certain Contracts. Except as set forth in Section 3.23 of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries or Joint Ventures is a party to, or bound by, any Contract containing any provision or covenant prohibiting or materially limiting the ability of the Company or any Company Subsidiary to engage in any business activity or compete with any person.

3.24 Year 2000. The Company and its Subsidiaries have put into effect practices and programs which the Company reasonably believes will enable all material software, hardware and equipment (including microprocessors) that is owned or utilized by the Company or any of its Subsidiaries in the operations of its or their respective business to be capable, by December 31, 1999, of accounting for all calculations using a century and date sensitive algorithm for the year 2000 and the fact that the year 2000 is a leap year and to otherwise continue to function without any material interruption caused by the occurrence of the year 2000.

3.25 Joint Venture Representations. Each representation or warranty made by the Company in this Article III relating to a Company Joint Venture that is neither operated nor managed by the Company or a Subsidiary of the Company shall be deemed to be made only to the Company's knowledge.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PARTNERSHIP

Parent (on behalf of itself and on behalf of Merger Sub) and the Partnership represent and warrant to the Company as follows (which representations and warranties of Parent on behalf of Merger Sub shall only be true and correct as of the Closing Date):

4.01 Organization and Qualification. (a) Each of Parent and its Subsidiaries (other than the Partnership) is a corporation duly incorporated, validly existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) under the laws of its jurisdiction of incorporation and has full corporate power and authority to conduct its business as and to the extent now conducted and to own, use and lease its assets and properties, except for such failures to be so incorporated, existing and in good standing (with respect to jurisdictions which recognize the concept of good standing) or to have such power and authority which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole. The Partnership is a general partnership validly existing under the laws of the State of Nevada. Each of the Partnership and Merger Sub was formed solely for the purpose of engaging in the transactions contemplated by this Agreement (other than, with respect to the Partnership, in connection with the investment of the initial partnership capital pursuant to or in accordance with the Partnership Agreement, dated December 3, 1998, by and between UKSub 1 and UKSub 2 (the "Partnership Agreement")), has engaged in no other business activities and has conducted its operations only as contemplated hereby (or, with respect to the Partnership, as contemplated by the Partnership Agreement). Except as disclosed in Section 4.01 of the Parent Disclosure Letter (as defined below), each of UKSub 1 and UKSub 2 was formed solely for the purpose of engaging in the transactions contemplated by this Agreement, has engaged in no other business activities and has conducted its operations only as contemplated hereby. Each of Parent and its Subsidiaries is duly qualified, licensed or admitted to do business and is in good standing (with respect to jurisdictions which recognize the concept of good standing) in each jurisdiction in which the ownership, use or leasing of its assets and properties, or the conduct or nature of its business, makes such qualification, licensing, admission or good standing necessary, except for such failures to be so qualified, licensed or admitted and in good standing (with respect to jurisdictions which recognize the concept of good standing) which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole. Section 4.01 of the letter dated the date hereof and delivered by Parent and Merger Sub to the Company concurrently with the execution and delivery of this Agreement (the "Parent Disclosure Letter") sets forth (i) the name and jurisdiction of incorporation of each Subsidiary of Parent, (ii) its authorized capital stock, (iii) the number of issued and outstanding shares of its capital stock and (iv) the record owners of such shares. Parent has previously delivered to the Company correct and complete copies of the memorandum and articles of association and bylaws (or other comparable charter documents) of Parent and each of its Subsidiaries, and the Partnership Agreement.

(b) Section 4.01 of the Parent Disclosure Letter sets forth a description as of the date hereof, of all Parent Joint Ventures, including (i) the name of each such party and

Parent's interest therein, and (ii) a brief description of the principal line or lines of business conducted by each such entity.

(c) Except for interests in the Subsidiaries of Parent and as disclosed in Section 4.01 of the Parent Disclosure Letter, Parent does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, (i) any material corporation, partnership, joint venture or other business association or entity (other than non-controlling investments in the ordinary course of business and corporate partnering, development, cooperative marketing and similar undertakings and arrangements entered into in the ordinary course of business) or (ii) any other business association or entity the effect of which is having or could reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole.

4.02 Capital Stock. (a) The authorized share capital of Parent consists solely of (i) 1,700,000,000 Parent Ordinary Shares, of which 1,198,629,102 shares were issued as of November 30, 1998, and (ii) one Special Rights Non-Voting Redeemable Preference Share of £1 (the "Special Share") which was issued as of such date. Since November 30, 1998, except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.02 of the Parent Disclosure Letter, there has been no change in the number of issued Parent Ordinary Shares other than the issuance of Parent Ordinary Shares pursuant to options or rights outstanding as of such date to subscribe or purchase Parent Ordinary Shares, which options or rights are described in Section 4.02 of the Parent Disclosure Letter. All of the issued Parent Ordinary Shares are, and all Merger Ordinary Shares and all Parent Ordinary Shares to be issued to the ADR Depository pursuant to Section 2.01 will be, upon issuance, duly authorized, validly issued and fully paid and voting, and no class of shares is entitled to preemptive rights, except as provided in Section 89 of the Companies Act of 1985 of the United Kingdom (the "Companies Act"). Except pursuant to this Agreement, the Parent employee share schemes listed in Section 4.02 of the Parent Disclosure Letter (the "Parent Share Schemes") and except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.02 of the Parent Disclosure Letter, on the date hereof there are no outstanding Options obligating Parent or any of its Subsidiaries to issue or sell any capital or other shares of Parent or to grant, extend or enter into any Option with respect thereto.

(b) Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.02 of the Parent Disclosure Letter, all of the outstanding shares of each Subsidiary of Parent are duly authorized, validly issued, fully paid and nonassessable and are owned, beneficially and of record, by Parent or a Subsidiary wholly owned, directly or indirectly, by Parent, free and clear of any Liens. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.02 of the Parent Disclosure Letter, there are no (i) outstanding Options obligating Parent or any of its Subsidiaries to issue or sell any shares of any Subsidiary of Parent or to grant, extend or enter into any such Option or (ii) voting trusts, proxies or other commitments, understandings, restrictions or arrangements in favor of any person other than Parent or a Subsidiary wholly owned, directly or indirectly, by Parent with respect to the voting of or the right to participate in dividends or other earnings in respect of any shares of any Subsidiary of Parent.

(c) Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.02 of the Parent Disclosure Letter and except for the right of the holder of the Special Share to require Parent to redeem the Special Share pursuant to the Articles of Association of Parent, there are no outstanding contractual obligations of Parent or any Subsidiary of Parent to repurchase, redeem or otherwise acquire any Parent Ordinary Shares or any shares of any Subsidiary of Parent or to provide funds to, or make any investment (in the form of a loan, capital contribution or otherwise) in, any Subsidiary of Parent or any other person.

(d) As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of Parent having the right to vote on any matters on which shareholders may vote are issued or outstanding.

4.03 Authority Relative to this Agreement. Each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) has full power and authority to enter into this Agreement, and, subject (in the case of this Agreement) to obtaining the Parent Shareholders' Approval (as defined in Section 6.03(a)), to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution, delivery and performance of this Agreement by each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and the consummation by each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) of the transactions contemplated hereby have been duly and validly approved by the Board of Directors of Parent and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and the general partners of the Partnership, and by the Partnership in its capacity as sole stockholder of Merger Sub, the Board of Directors of Parent has passed a resolution declaring the advisability of the Merger and resolving that the Merger and the creation of, and the authorization of the Board of Directors to allot, the Parent Ordinary Shares in connection with the Merger be submitted for consideration by the shareholders of Parent, and no other corporate proceedings on the part of Parent or Merger Sub or their shareholders, or the Partnership or its general partners are necessary to authorize the execution, delivery and performance of this Agreement by Parent, the Partnership or Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and the consummation by Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) of the transactions contemplated hereby, other than obtaining the Parent Shareholders' Approval. This Agreement has been duly and validly executed and delivered by each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) and constitutes a legal, valid and binding obligation of each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) enforceable against each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

4.04 Non-Contravention; Approvals and Consents. The execution and delivery of this Agreement by each of Parent, the Partnership and Merger Sub (and, with respect

to Section 2.01 only, UKSub 1 and UKSub 2) do not, and the performance by each of Parent, the Partnership and Merger Sub (and, with respect to Section 2.01 only, UKSub 1 and UKSub 2) of its obligations hereunder and the consummation of the transactions contemplated hereby will not conflict with, result in a violation or breach of, constitute (with or without notice or lapse of time or both) a default under, result in or give to any person any right of payment or reimbursement, termination, cancellation, modification or acceleration of, or result in the creation or imposition of any Lien upon any of the assets or properties of Parent or any of its Subsidiaries or any of the Parent Joint Ventures under, any of the terms, conditions or provisions of (i) the memorandum or articles of association or bylaws (or other comparable charter documents) of Parent or any of its Subsidiaries or any of the Parent Joint Ventures, (ii) the Partnership Agreement; or (iii) subject to the obtaining of the Parent Shareholders' Approval and the taking of the actions described in paragraph (b) of this Section, (x) any laws or orders of any Governmental or Regulatory Authority applicable to Parent or any of its Subsidiaries or any of the Parent Joint Ventures or any of their respective assets or properties, or (y) any Contracts to which Parent or any of its Subsidiaries or any of the Parent Joint Ventures is a party or by which Parent or any of its Subsidiaries or any of the Parent Joint Ventures or any of their respective assets or properties is bound, excluding from the foregoing clauses (x) and (y) conflicts, violations, breaches, defaults, rights of payment or reimbursement, terminations, modifications, accelerations and creations and impositions of Liens which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole or on the ability of Parent, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement.

(b) Except (i) for the filing of a premerger notification report by Parent under the HSR Act, (ii) for the filing of the Registration Statement with the SEC pursuant to the Securities Act, the declaration of the effectiveness of the Registration Statement by the SEC and filings with various state securities authorities that are required in connection with the transactions contemplated by this Agreement, (iii) for the filing of the Articles of Merger and other appropriate merger documents required by the BCA with the Secretary of State and appropriate documents with the relevant authorities of other states in which the Constituent Corporations are qualified to do business, (iv) for the filings with, notices to, and approvals of, the LSE and NYSE, (v) the filing of a notice pursuant to Section 721 of the Defense Production Act of 1950, or any successor thereto ("Exon-Florio"), (vi) the approval of the FERC pursuant to the Power Act, (vii) the approval of any jurisdictional state regulating agencies, (viii) the giving of indications by the OFT, SOS, OFFER and OFWAT as described in Sections 7.01(k) and (j) and (ix) as disclosed in Section 4.04 of the Parent Disclosure Letter, no consent, approval or action of, filing with or notice to any Governmental or Regulatory Authority or other public or private third party is necessary or required under any of the terms, conditions or provisions of any law or order of any Governmental or Regulatory Authority or any Contract to which Parent or any of its Subsidiaries or any of the Parent Joint Ventures is a party or by which Parent or any of its Subsidiaries or any of the Parent Joint Ventures or any of their respective assets or properties is bound for the execution and delivery of this Agreement by each of Parent, the Partnership and Merger Sub, the performance by each of Parent, the Partnership and Merger Sub of its obligations hereunder or the consummation of the transactions contemplated hereby, other than such consents, approvals, actions, filings and notices which the failure to make or obtain, as the case may be, individually or in the aggregate, would not reasonably be expected to have a

material adverse effect on Parent and its Subsidiaries taken as a whole or on the ability of Parent, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement.

4.05 SEC Reports and Financial Statements. (a) Parent delivered to the Company prior to the execution of this Agreement a true and complete copy of each form, report, schedule, registration statement, definitive proxy statement and other document (together with all amendments thereof and supplements thereto) filed by Parent or any of its Subsidiaries with the SEC since December 31, 1995 (as such documents have since the time of their filing been amended or supplemented, the "Parent SEC Reports"), which are all the documents (other than preliminary materials) that Parent and its Subsidiaries were required to file with the SEC since such date. As of their respective dates, the Parent SEC Reports (i) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, as the case may be, and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case, the notes, if any, thereto) included in the Parent SEC Reports (the "Parent Financial Statements") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with generally accepted accounting principles in the United Kingdom applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments (which are not expected to be, individually or in the aggregate, materially adverse to Parent and its Subsidiaries taken as a whole)) the consolidated financial position of Parent and its consolidated subsidiaries as at the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. Except as set forth in Section 4.05 of the Parent Disclosure Letter, each Subsidiary of Parent is treated as a consolidated subsidiary of Parent in the Parent Financial Statements for all periods covered thereby.

(b) All material filings required to be made by Parent or any of its Subsidiaries since December 31, 1995 in the United Kingdom under the Electricity Act 1989, the Water Industry Act 1991, the Water Resources Act 1991 and the Telecommunications Act 1984 have been filed with OFFER, OFWAT and the Office of Telecommunications Services or any other appropriate Governmental or Regulatory Authority, as the case may be, including all material forms, statements, reports, agreements and all material documents, exhibits, amendments and supplements appertaining thereto, including but not limited to all material rates, tariffs, franchises, service agreements and related documents, complied, as of their respective dates, in all material respects with all applicable requirements of the statute and the rules and regulations thereunder.

4.06 Absence of Certain Changes or Events. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.06 of the Parent Disclosure Letter, (a) since March 31, 1998 there has not been any change, event or development having, or that would reasonably be expected to have, individually or in the aggregate, a material

adverse effect on Parent and its Subsidiaries taken as a whole (other than those changes, events, or developments occurring as a result of general economic or financial conditions or which are not unique to Parent and its Subsidiaries but also affect other entities who participate or are engaged in the lines of business in which Parent and its Subsidiaries are engaged), and (b) between March 31, 1998 and the date hereof (i) Parent, its Subsidiaries and the Parent Joint Ventures have conducted their respective businesses only in the ordinary course substantially consistent with past practice.

4.07 Absence of Undisclosed Liabilities. Except for matters reflected or reserved against in the balance sheet for the period ended March 31, 1998 included in the Parent Financial Statements or as disclosed in Section 4.07 of the Parent Disclosure Letter, neither Parent nor any of its Subsidiaries had at such date, or has incurred since that date, any liabilities or obligations (whether absolute, accrued, contingent, fixed or otherwise, or whether due or to become due) of any nature that would be required by generally accepted accounting principles in the United Kingdom to be reflected on a consolidated balance sheet of Parent and its consolidated subsidiaries (including the notes thereto), except liabilities or obligations (i) which were incurred in the ordinary course of business consistent with past practice or (ii) which have not been, and would not reasonably be expected to be, individually or in the aggregate, materially adverse to Parent and its Subsidiaries taken as a whole.

4.08 Legal Proceedings. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or in Section 4.08 of the Parent Disclosure Letter and except for environmental matters which are governed by Section 4.15, (i) there are no actions, suits, arbitrations or proceedings pending or, to the knowledge of Parent, threatened against, nor to the knowledge of Parent are there any Governmental or Regulatory Authority investigations or audits pending or threatened against, Parent or any of its Subsidiaries or any of the Parent Joint Ventures or any of their respective assets and properties which, individually or in the aggregate, would reasonably be expected to have a material adverse effect on Parent, and its Subsidiaries taken as a whole or on the ability of Parent, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement, and (ii) neither Parent nor any of its Subsidiaries nor any of the Parent Joint Ventures is subject to any order of any Governmental or Regulatory Authority which, individually or in the aggregate, is having or would reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole or on the ability of Parent, the Partnership and Merger Sub to consummate the transactions contemplated by this Agreement.

4.09 Information Supplied. (a) The registration statement on Form F-4 to be filed with the SEC by Parent in connection with the issuance of Parent ADSs in the Merger, as amended or supplemented from time to time (as so amended and supplemented, the "Registration Statement"), and any other documents to be filed by Parent with the SEC or any other Governmental or Regulatory Authority in connection with the Merger and the other transactions contemplated hereby will (in the case of the Registration Statement and any such other documents filed with the SEC under the Securities Act or the Exchange Act) comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act, respectively, and will not, on the date of its filing or, in the case of the Registration Statement, at the time it becomes effective under the Securities Act, or at the date the Proxy Statement is

mailed to stockholders of the Company and at the time of the Company Stockholders' Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by Parent, the Partnership or Merger Sub with respect to information supplied in writing by or on behalf of the Company expressly for inclusion therein and information incorporated by reference therein from documents filed by the Company or any of its Subsidiaries with the SEC.

(b) The Parent Disclosure Documents will, at all relevant times, include all information relating to Parent, and information which is within the knowledge of each of the directors of Parent (or which it would be reasonable for them to obtain by making enquiries), which, in each case, is required to enable the Parent Disclosure Documents and the parties hereto to comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act, the FSA and the rules and regulations made thereunder, and the rules and requirements of the LSE) and all such information contained in such documents will be substantially in accordance with the facts and will not omit anything material likely to affect the import of such information.

(c) Notwithstanding the foregoing provisions of this Section 4.09, no representation or warranty is made by Parent with respect to statements made or incorporated by reference in the Registration Statement, the Proxy Statement, the Listing Particulars or the Circular based on information supplied by the Company expressly for inclusion or incorporation by reference therein or based on information which is not made in or incorporated by reference in such documents but which should have been disclosed pursuant to Section 3.09.

4.10 Permits; Compliance with Laws and Orders. Parent, its Subsidiaries and the Parent Joint Ventures hold all permits, licenses, franchises variances, exemptions, orders and approvals of all Governmental and Regulatory Authorities (other than environmental permits which are governed by Section 4.15) necessary for the lawful conduct of their respective businesses (the "Parent Permits"), except for failures to hold such Parent Permits which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole. Parent, its Subsidiaries and the Parent Joint Ventures are in compliance with the terms of the Parent Permits, except failures so to comply which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement, Parent and its Subsidiaries and the Parent Joint Ventures are not in violation of or default under any law or order of any Governmental or Regulatory Authority, except for such violations or defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole.

4.11 Compliance with Agreements. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or Section 4.11 of the Parent Disclosure Letter, neither Parent nor any of its Subsidiaries nor, to the knowledge of Parent, any other party thereto is in breach or violation of, or in default in the performance or observance of any term or

provision of, and no event has occurred which, with notice or lapse of time or both, would reasonably be expected to result in a default under, (i) the memorandum or articles of association (or other comparable charter documents) of Parent or any of its material Subsidiaries or (ii) any Contract to which Parent or any of its Subsidiaries is a party or by which Parent or any of its Subsidiaries or any of their respective assets or properties is bound, except in the case of clause (ii) for breaches, violations and defaults which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole.

4.12 Taxes. (a) Each of Parent and its Subsidiaries has filed all material tax returns and reports required to be filed by it, or requests for extensions to file such returns or reports have been timely filed or granted and have not expired and all tax returns and reports are complete and accurate in all material respects. Parent and each of its Subsidiaries has paid (or Parent has paid on its behalf) all taxes shown as due on such tax returns and reports. The most recent financial statements contained in the Parent SEC Reports reflect an adequate reserve for all taxes payable by Parent and its Subsidiaries for all taxable periods and portions thereof accrued through the date of such financial statements, and no deficiencies for any taxes have been proposed, asserted or assessed against Parent or any of its Subsidiaries that are not adequately reserved for, except for inadequately reserved taxes and inadequately reserved deficiencies that would not, individually or in the aggregate, have a material adverse effect on Parent and its Subsidiaries taken as a whole. No requests for waivers of the time to assess any taxes against Parent or any of its Subsidiaries have been granted or are pending, except for requests with respect to such taxes that have been adequately reserved for in the most recent financial statements contained in the Parent SEC Reports, or, to the extent not adequately reserved, the assessment of which would not, individually or in the aggregate, have a material adverse effect on Parent and its Subsidiaries taken as a whole.

(b) Neither Parent nor any of its Subsidiaries has taken any action or has any knowledge of any fact or circumstance that is reasonably likely to prevent the Merger from qualifying as a tax-free reorganization within the meaning of Code Section 368(a).

(c) UKSub 1 and UKSub 2 are not public limited corporations.

(d) Parent directly owns the whole of the issued share capital of UKSub 1 and UKSub 2.

(e) UKSub 1 and UKSub 2 directly own all of the equity interests in the Partnership.

(f) Prior to the Closing Date, Parent will make an election pursuant to Section 301.7701-3 of the U.S. Treasury regulations promulgated under the Code to treat UKSub 1 and UKSub 2 as entities disregarded as separate from Parent and will make an election under Section 301.7701-3 of the U.S. Treasury regulations to treat the Partnership as an association taxable as a corporation. Neither Parent nor any of its Subsidiaries has taken any action that (or has failed to take any action if such failure) would reasonably be likely to cause UKSub 1 or UKSub 2 to be characterized as an association taxable as a corporation for U.S. federal income tax purposes.

(g) Parent has satisfied, and until the Closing Date will satisfy, the active trade or business test specified in Section 1.367(a)-3(c)(3) of the U.S. Treasury regulations for a minimum period of three years prior to the Closing Date.

(h) None of Parent, UKSub 1, UKSub 2, the Partnership, nor any other affiliate of Parent has any intention to redeem, acquire, or to cause the Company or any affiliate of the Company to acquire, or to arrange for another person to acquire, any of the ADS Consideration or the Ordinary Share Consideration.

(i) Neither Parent nor any Parent affiliate, directly or indirectly, has paid any expense incurred by the Company, any Company affiliate or any Company stockholder in connection with the transactions contemplated by this Agreement.

(j) Neither Parent nor any Parent affiliate, directly or indirectly, has loaned any funds to any escrow account, trust or other fund established to pay any expenses incurred by the Company, any Company affiliate or any Company stockholder in connection with the transactions contemplated by this Agreement.

(k) Neither Parent nor any Parent affiliate, directly or indirectly, owns any stock issued by the Company unless acquired directly from the Company.

4.13 Parent Employee Benefit Plans. (a) Parent has made available to the Company complete and correct copies, as of the date of this Agreement, of: (i) the current trust deeds and rules of each of the material employee benefit plans to which Parent and its Subsidiaries make or could become liable to make payments for providing retirement, death, disability or life assurance benefits (the "Parent Employee Benefit Plans") (including any draft amendments); (ii) the most recently prepared explanatory booklets and announcements relating to each of the Parent Employee Benefit Plans; (iii) a copy of the actuary's report on the latest actuarial valuation of the Parent Employee Benefit Plans, if applicable; and (iv) the rules of the Parent Share Schemes.

(b) The Parent Employee Benefit Plans are the only material schemes to which Parent and its Subsidiaries make or could become liable to make payments for providing retirement, death, disability or life assurance benefits.

(c) To the extent such exemption is intended by Parent, the Parent Employee Benefit Plans are exempt approved schemes within the meaning of Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988. Except as specifically set forth in Section 4.13 of the Parent Disclosure Letter, members of the Parent Employee Benefit Plans are contracted-out of the State Earnings Related Pension Scheme.

(d) To the knowledge of Parent, there is no amount which is treated by Section 144 of the Pension Schemes Act 1993 or Section 75 of the Pensions Act 1995 as a debt due to the trustees of the Parent Employee Benefit Plans or from Parent or any of its Subsidiaries to the trustees of any other benefit plan except for such debts which would not reasonably be expected to have a material adverse effect on the Parent and its

Subsidiaries taken as a whole. The Parent Employee Benefit Plans have not ceased to admit new members.

(e) Except as set forth in Section 4.13 of the Parent Disclosure Letter and except for disputes which would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole, there is no dispute about the benefits payable under the Parent Employee Benefit Plans and, to the knowledge of Parent, there are no circumstances which might give rise to any such dispute.

(f) To the knowledge of Parent, the actuary's report on the latest actuarial valuation accurately describes the financial position of each Parent Employee Benefit Plan for which an actuarial valuation is required by law at its effective date and in accordance with the assumptions employed for that valuation. Except as set forth in Section 4.13 of the Parent Disclosure Letter, nothing has happened since that date which would, to a material extent, affect the level of funding of any Parent Employee Benefit Plan and, since that date, contributions have been paid to each Parent Employee Benefit Plan at the rate recommended by the actuary. Except as set forth in Section 4.13 of the Parent Disclosure Letter, no assets have been withdrawn by Parent or any of its Subsidiaries from any Parent Employee Benefit Plan (except to pay benefits or by way of reimbursement of expenses) since the effective date of the latest actuarial valuation of that plan.

(g) Except as set forth in Section 4.13 of the Parent Disclosure Letter or as would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole, the Parent Employee Benefit Plans comply with and have been administered in accordance with all applicable laws, regulations and requirements. All amounts due to the Parent Employee Benefit Plans at any time prior to the month in which this Agreement is signed have been paid.

4.14 Labor Matters. (a) Except as set forth in Section 4.14 of the Parent Disclosure Letter, neither Parent nor any of its Subsidiaries is a party to any collective bargaining agreement, recognition agreement, European Works Council or other labor agreement with any union, labor organization or other responsible body. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or in Section 4.14 of the Parent Disclosure Letter, there are no disputes pending or, to the knowledge of Parent, threatened between Parent or any of its Subsidiaries or any of the Parent Joint Ventures and any trade union or other representatives of its employees, except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole, and, to the knowledge of Parent, there are no material organization efforts presently being made involving any of the now unorganized employees of the Parent or any of its Subsidiaries or any of the Parent Joint Ventures. Since December 31, 1995, there has been no work stoppage, strike or other concerted action by employees of Parent or any of its Subsidiaries except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole.

(b) To the knowledge of Parent, neither Parent nor any of its Subsidiaries nor any of the Parent Joint Ventures is in violation of any labor laws in any country (or political subdivision thereof) in which they transact business, except for such violations as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole.

4.15 Environmental Matters. Except as disclosed in the Parent SEC Reports filed prior to the date of this Agreement or in Section 4.15 of the Parent Disclosure Letter and except as would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole:

(a) (i) Each of Parent, its Subsidiaries and the Parent Joint Ventures is in compliance with all applicable Environmental Laws (as hereinafter defined); and

(ii) Neither Parent nor any of its Subsidiaries nor any of the Parent Joint Ventures has received any written communication from any person or Governmental or Regulatory Authority that alleges that Parent or any of its Subsidiaries or Joint Ventures is not in such compliance with applicable Environmental Laws.

(b) Each of Parent, its Subsidiaries and the Parent Joint Ventures has obtained all environmental, health and safety permits and governmental authorizations (collectively, the "Environmental Permits") necessary for the construction of its facilities and the conduct of their operations, as applicable, and all such Environmental Permits are in full force and effect or, where applicable, a renewal application has been timely filed and is pending agency approval, and Parent, its Subsidiaries and the Parent Joint Venture are in compliance with all terms and conditions of the Environmental Permits.

(c) There is no Environmental Claim (as hereinafter defined) pending

(i) against Parent or any of its Subsidiaries or any of the Parent Joint Ventures;

(ii) to the knowledge of Parent, against any person or entity whose liability for any Environmental Claim Parent or any of its Subsidiaries or any of the Parent Joint Ventures has or may have retained or assumed either contractually or by operation of law; or

(iii) against any real or personal property or operations which Parent or any of its Subsidiaries or any of the Parent Joint Ventures owns, leases or manages in whole or in part.

(d) To Parent's knowledge, there have not been any Releases (as hereinafter defined) of any Hazardous Material (as hereinafter defined) that would be reasonably likely to form the basis of any Environmental Claim against Parent or any of its Subsidiaries or any of the Parent Joint Ventures, or against any person or entity whose liability for any Environmental Claim Parent or any of its Subsidiaries or any of the Parent Joint Ventures has or may have retained or assumed either contractually or by operation of law.

(e) As used in this Section 4.15:

(i) "Environmental Claims" means any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, investigations, proceedings or notices of noncompliance, liability or violation (written or oral) by any person or entity (including any Governmental or Regulatory Authority) alleging potential liability (including, without limitation, potential responsibility or liability for enforcement, investigatory costs, cleanup costs, governmental response costs, removal costs, remedial costs, natural resources damages, property damages, personal injuries or penalties) arising out of, based on or resulting from

- (A) the presence, or Release or threatened Release into the environment, of any Hazardous Materials at any location, whether or not owned, operated, leased or managed by the Parent or any of its Subsidiaries or any of the Parent Joint Ventures; or
- (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law; or
- (C) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of any Hazardous Materials;

(ii) "Environmental Laws" means all European Union, national, regional, or local laws, rules and regulations relating to pollution, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or protection of human health as it relates to the environment including, without limitation, laws and regulations relating to Releases or threatened Releases of Hazardous Materials, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials including, without limitation, Part II and paragraphs 161 and 162 of Schedule 22 of the Environment Act 1995 and the Department of the Environment Transport and the Regions Consultation Draft Guidance on Contaminated Land dated October 1998 but not to the extent that any modification thereof introduced in the final form of this guidance imposes materially more onerous or stringent requirements in respect of contaminated land or pollution.

(iii) "Hazardous Materials" means (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is or could become friable, urea formaldehyde foam insulation, and transformers or other equipment that contain dielectric fluid containing polychlorinated biphenyls; and (b) any chemicals, materials or substances which are now defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", or words of similar import, under any Environmental Law; and (c) any other chemical, material, substance or waste, exposure to which is now prohibited, limited or regulated under any Environmental Law in a jurisdiction in which Parent or any of its Subsidiaries or any

of the Parent Joint Ventures operates or any jurisdiction which has received such chemical, material, substance or waste from Parent or its Subsidiaries; and

(iv) "Release" means any release, spill, emission, leaking, injection, deposit, disposal, discharge, dispersal, leaching or migration into the atmosphere, soil, surface water, groundwater or property.

4.16 Intellectual Property Rights. Parent and its Subsidiaries have all right, title and interest in, or a valid and binding license to use, all Intellectual Property individually or in the aggregate material to the conduct of the businesses of Parent and its Subsidiaries taken as a whole. Neither Parent nor any Subsidiary of Parent is in default (or with the giving of notice or lapse of time or both, would be in default) under any license to use such Intellectual Property, to the knowledge of Parent, such Intellectual Property is not being infringed by any third party, and neither Parent nor any Subsidiary of Parent is infringing any Intellectual Property of any third party, except for such defaults and infringements which, individually or in the aggregate, are not having and would not reasonably be expected to have a material adverse effect on Parent and its Subsidiaries taken as a whole.

4.17 Vote Required. The only votes of the holders of any class of shares of Parent required to approve the Merger and the other transactions contemplated hereby (other than any vote which may be required in order to give effect to the conversion of the Company Stock Options in accordance with Section 6.10) are the affirmative vote of a majority of such ordinary shareholders of Parent as (being entitled to do so) are present and vote (or, in the case of a vote taken on a poll, the affirmative vote by shareholders or their proxies representing a majority of the Parent Ordinary Shares in respect of which votes were validly exercised) at the Parent Shareholders Meeting in relation to the approval of the Merger, the creation of, and authorization of the Board of Directors of Parent to allot, the Parent Ordinary Shares in connection with the Merger.

4.18 Opinion of Financial Advisor. Parent has received the opinion of Morgan Stanley Dean Witter Discover Inc., dated the date hereof, to the effect that, as of the date hereof, the consideration to be paid in the Merger by Parent is fair from a financial point of view to Parent, and a true and complete copy of such opinion has been delivered to the Company prior to the execution of this Agreement.

4.19 Ownership of Company Common Stock. Neither Parent nor any of its Subsidiaries or other affiliates beneficially owns any shares of Company Common Stock.

4.20 Insurance. Except as set forth in Section 4.20 of the Parent Disclosure Letter, each of Parent and its Subsidiaries is, and has been continuously since January 1, 1994, insured with financially responsible insurers in such amounts and against such risks and losses as are customary in all material respects for companies conducting the business conducted by Parent and its Subsidiaries during such time period. Except as set forth in Section 4.20 of the Parent Disclosure Letter, neither Parent nor any of its Subsidiaries has received any notice of cancellation or termination with respect to any material insurance policy of Parent or

any of its Subsidiaries. The insurance policies of Parent and each of its Subsidiaries are valid and enforceable policies.

4.21 Year 2000. Parent and its Subsidiaries have put into effect practices and programs which Parent reasonably believes will enable all material software, hardware and equipment (including microprocessors) that are owned or utilized by Parent or any of its Subsidiaries in the operations of its or their respective business to be capable, by December 31, 1999 of accounting for all calculations using a century and date sensitive algorithm for the year 2000, and the fact that the year 2000 is a leap year and to otherwise continue to function without material interruption caused by the occurrence of the year 2000.

4.22 Joint Venture Representations. Each representation and warranty made by Parent in this Article IV relating to a Parent Joint Venture that is neither operated nor managed by Parent or a Subsidiary of Parent shall be deemed to be made only to Parent's knowledge.

ARTICLE V COVENANTS

5.01 Covenants of the Company. At all times from and after the date hereof until the Effective Time, the Company covenants and agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement, or to the extent that Parent shall otherwise previously consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) Ordinary Course. The Company and each of its Subsidiaries shall conduct their businesses only in, and the Company and each of its Subsidiaries shall not take any action except in, the ordinary course substantially consistent with past business practice. Without limiting the generality of the foregoing, the Company and its Subsidiaries shall use all commercially reasonable efforts to preserve intact in all material respects their present business organizations, to maintain in effect all existing material permits, to keep available the services of their key officers and employees, to maintain their assets and properties in good working order and condition, ordinary wear and tear excepted, to maintain insurance on their tangible assets and businesses in substantially the same amounts and against substantially the same risks and losses as are currently in effect, to preserve their relationships with customers and suppliers and others having significant business dealings with them and to comply in all material respects with all laws and orders of all Governmental or Regulatory Authorities applicable to them.

(b) Charter Documents. The Company shall not, nor shall it permit any of its Subsidiaries to, amend or propose to amend its certificate or articles of incorporation or bylaws or its memorandum and articles of association (or other comparable corporate charter documents).

(c) Dividends. The Company shall not, nor shall it permit any of its Subsidiaries to, (i) declare, set aside or pay any dividends on or make other distributions in respect of any of its capital stock or share capital, except:

- (A) that the Company may continue the declaration and payment of regular cash dividends (including increases consistent with past practice) on Company Common Stock and the Company Preferred Stock, with usual record and payment dates for such dividends in accordance with past dividend practice; provided, that no such dividend on the Company Common Stock shall exceed the amount budgeted therefor in the Company Budget (as hereinafter defined), and
- (B) for the declaration and payment of dividends by (x) a wholly-owned Subsidiary solely to its parent corporation, (y) Bridger Coal Company in accordance with past practice and (z) Subsidiaries of regular cash dividends with usual record and payment dates (including increases consistent with past practice) in accordance with past dividend practice, and

(ii) split, combine, reclassify or take similar action with respect to any of its capital stock or share capital or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or comprised in its share capital, (iii) except as disclosed in Section 5.01(c) of the Company Disclosure Letter, adopt a plan of complete or partial liquidation or resolutions providing for or authorizing such liquidation or a dissolution, merger, consolidation, restructuring, recapitalization or other reorganization or (iv) except as disclosed in Section 5.01(c) of the Company Disclosure Letter, directly or indirectly redeem, repurchase or otherwise acquire any shares of its capital stock or comprised in its share capital or any Option with respect thereto except:

- (A) in connection with intercompany purchases of capital stock or share capital,
- (B) for the purpose of funding employee stock ownership or dividend reinvestment, stock purchase plans and other incentive plans disclosed in Section 5.01(d) of the Company Disclosure Letter in accordance with past practice, and
- (C) Prior to the Closing Date, the Company shall redeem all outstanding shares of its \$1.28 Series, \$1.18 Series and \$1.16 Series of no par serial preferred stock.

(d) Share Issuances. The Company shall not, nor shall it permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or comprised in its share capital or any Option with respect thereto (other than (i) the issuance of Company Common Stock upon the exercise of Options issued pursuant to the Company's Stock Incentive Plan outstanding on the date of this Agreement and in accordance with their present terms, (ii) except as specifically set forth under the heading "Long-Term Incentive Awards" on the Schedule of Ongoing Compensation Obligations attached to Section 5.01(d) of the Company Disclosure Letter, the issuance of options or awards pursuant to

the Company's Stock Incentive Plan in accordance with its present terms and only in connection with the hiring of new employees, and the issuance of shares of Company Common Stock upon exercise of such options or awards, (iii) the issuance by a wholly-owned Subsidiary of its capital stock to its parent corporation, or modify or amend any right of any holder of outstanding shares of capital stock or Options with respect thereto) and (iv) shares of Company Preferred Stock with a stated value of up to an aggregate of \$250 million.

(e) Acquisitions. Except as set forth in Section 5.01(e) of the Company Disclosure Letter and other than as provided in the 1999 operating budget of the Company, a copy of which has been disclosed to and discussed with Parent, or any other budget of the Company thereafter approved by Parent, which approval shall not be unreasonably withheld (collectively, the "Company Budget"), the Company shall not, nor shall it permit any of its Subsidiaries to, acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof or otherwise acquire or agree to acquire any assets in excess of \$25 million in any one transaction; provided, that this Section 5.01(e) shall not prohibit any capital expenditures made in accordance with Section 5.01(j).

(f) Dispositions. Other than as set forth in Section 5.01(f) of the Company Disclosure Letter, the Company shall not, nor shall it permit any of its Subsidiaries to, sell, lease, grant any security interest in or otherwise dispose of or encumber any of its assets or properties, other than dispositions in the ordinary course of its business consistent with past practice or having an aggregate net book value of \$25 million or less in any one transaction.

(g) Indebtedness. Other than as expressly provided in the Company Budget, the Company shall not, nor shall it permit any of its Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed, including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial condition of another person or enter into any arrangement having the economic effect of any of the foregoing other than (i) short-term indebtedness in the ordinary course of business consistent with past practice (such as the issuance of commercial paper or the use of existing credit facilities) in an aggregate amount not exceeding \$500 million; (ii) long-term indebtedness not aggregating more than \$200 million and (iii) indebtedness entered into in connection with the refinancing of indebtedness outstanding on the date of this Agreement or incurred in compliance with this Section 5.01(g).

(h) Employee Benefits. Except as set forth on Section 5.01(h) of the Company Disclosure Letter, the Company shall not, nor shall it permit any of its Subsidiaries to, enter into, adopt, amend (except as may be required by applicable law) or terminate any Company Employee Benefit Plan, or increase in any manner the compensation or fringe benefits of any director or executive officer, or, except for normal increases in the ordinary course of business consistent with past practice that, in the aggregate, do not result in a material increase in benefits or compensation expense to the Company and its Subsidiaries taken as a whole, increase in any manner the compensation or fringe benefits of any employee, or pay any benefit not required by any plan or arrangement in effect as of the date hereof and, in no event shall the

Company or its Subsidiaries be permitted to grant to any employee any rights that are not in effect on the date hereof to any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or increase in obligations to fund benefits with respect to that employee resulting from a change in control or change in ownership of the Company or any of its Subsidiaries.

(i) Affiliate Contracts. Except as disclosed in Section 5.01(i) of the Company Disclosure Letter, the Company shall not, nor shall it permit any of its Subsidiaries or, within the exercise of its reasonable commercial efforts, its Joint Ventures to, except as otherwise expressly provided for in this Agreement, enter into any Contract or amend or modify any existing Contract, or engage in any new transaction outside the ordinary course of business consistent with past practice or not on an arm's length basis, with any affiliate of such party or any of its Subsidiaries.

(j) Capital Expenditures. The Company shall not, nor shall it permit any of its Subsidiaries to, make any capital expenditures or commitments other than (i) as required by applicable law, (ii) capital expenditures incurred in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance), and (iii) other capital expenditures in excess of 110% of the aggregate amount provided for such purposes in the Company Budget.

(k) 1935 Act. The Company shall not, nor shall it permit any of its Subsidiaries to, engage in any activities which would cause a change in its status, or that of its Subsidiaries, under the 1935 Act, including any action or inaction that would cause the prior approval of the SEC under the 1935 Act to be required for the consummation of the transactions contemplated hereby.

(l) Regulatory Status. The Company shall not, nor shall it permit any of its Subsidiaries to, agree or consent to any material agreements or modifications of material existing agreements with any Government or Regulatory Authority in respect of the operations of their businesses except where following discussion with the relevant authority such agreements or modifications are imposed upon the Company.

(m) Transmission, Generation. Except as required pursuant to tariffs on file with the FERC as of the date hereof, or as set forth in Section 5.02(m) of the Company Disclosure Letter, the Company shall not, nor shall it permit its Subsidiaries to:

(i) commence construction of any additional generating, transmission or delivery capacity in excess of 500 megawatts, or

(ii) obligate itself to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional generating, transmission or delivery plants or facilities, in an amount in excess of \$25 million in any one transaction, except as set forth in the Company Budget. Any regulatory order potentially imposing any such obligation shall be immediately forwarded to Parent.

(n) Accounting. The Company shall not, nor shall it permit any of its Subsidiaries to, make any material changes in their accounting methods, except as required by law, rule, regulation or applicable generally accepted accounting principles.

(o) Tax Matters. The Company shall not take any action which (or fail to take any action if such failure) would cause the Merger to fail to qualify as a reorganization described in Code Section 368(a).

(p) No Breach. The Company shall not, nor shall it permit any of its Subsidiaries to willfully take or fail to take any action that would or is reasonably likely to result (i) in a material breach of any provision of this Agreement, or (ii) in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(q) No Litigation. The Company shall not, nor shall it permits any of its Subsidiaries to, initiate any material actions, suits, arbitrations or proceedings.

(r) Tax-Exempt Status. The Company shall not, nor shall it permit any of its Subsidiaries to, except as otherwise expressly provided for in this Agreement, take any action that would be reasonably likely to jeopardize the qualification of any material amount of outstanding revenue bonds which qualify on the date hereof under Section 142(a) of the Code as "exempt facility bonds" or as tax-exempt industrial development bonds under Section 103(b)(4) of the Internal Revenue Code of 1954, as amended, prior to the enactment of the Tax Reform Act of 1986.

(s) Advice of Changes. The Company shall confer with Parent on a regular and frequent basis with respect to the Company's business and operations and other matters relevant to the Merger, and shall promptly advise Parent, orally and in writing, of any material change or event, including, without limitation, any complaint, investigation or hearing by any Governmental or Regulatory Authority (or communication indicating the same may be contemplated) or the institution or threat of material litigation; provided that the Company shall not be required to make any disclosure to the extent such disclosure would constitute a violation of any applicable law or regulation.

(t) Notice and Cure. The Company will notify Parent in writing of, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practical after it becomes known to the Company, that causes or will cause any covenant or agreement of the Company under this Agreement to be breached or that renders or will render untrue in any material respect any representation or warranty of the Company contained in this Agreement. The Company also will notify Parent in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practical after it becomes known to the Company, of any representation, warranty, covenant or agreement made by the Company. No notice given pursuant to this paragraph shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining satisfaction of any condition contained herein.

(u) Fulfillment of Conditions. Subject to the terms and conditions of this Agreement, the Company will take or cause to be taken all commercially reasonable steps

necessary or desirable and will proceed diligently and in good faith to satisfy each condition to its obligations contained in this Agreement and to consummate and make effective the transactions contemplated by this Agreement, and the Company will not, nor will it permit any of its Subsidiaries to, take or fail to take any action that would reasonably be expected to result in the nonfulfillment of any such condition.

5.02 Covenants of Parent. At all times from and after the date hereof until the Effective Time, Parent covenants and agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement, or to the extent that the Company shall otherwise previously consent in writing, which consent shall not be unreasonably withheld or delayed):

(a) Ordinary Course. Parent and each of its Subsidiaries shall conduct their businesses only in, and Parent and each of its Subsidiaries shall not take any action except in, the ordinary course consistent with past practice. Without limiting the generality of the foregoing, Parent and its Subsidiaries shall use all commercially reasonable efforts to preserve intact in all material respects their present business organizations and reputation, to maintain in effect all existing permits, to keep available the services of their key officers and employees, to maintain their assets and properties in good working order and condition, ordinary wear and tear excepted, to maintain insurance on their tangible assets and businesses in such amounts and against such risks and losses as are currently in effect, to preserve their relationships with customers and suppliers and others having significant business dealings with them and to comply in all material respects with all laws and orders of all Governmental or Regulatory Authorities applicable to them.

(b) Charter Documents. Parent shall not, nor shall it permit any of its Subsidiaries to, amend or propose to amend its certificate or articles of incorporation or bylaws or its memorandum and articles of association (or other comparable corporate charter documents).

(c) Dividends. Other than as set forth in the Parent Budget (as defined in Section 5.02(e)), Parent shall not, nor shall it permit any of its Subsidiaries to,

(i) declare, set aside or pay any dividends on or make other distributions in respect of any of its capital stock or share capital, except:

- (A) that Parent may continue the declaration and payment of regular cash dividends (including increases consistent with past practice) on Parent Ordinary Shares, with usual record and payment dates for such dividends in accordance with past dividend practice; provided, that no such dividend shall exceed by more than 12% the dividend payable during the prior fiscal year in respect of the comparable time period, and
- (B) for the declaration and payment of dividends by a wholly-owned Subsidiary solely to its parent corporation, and

(ii) other than in connection with the restructuring of the transactions contemplated hereby pursuant to Section 6.07, split, combine, reclassify or take similar action with respect to any of its capital stock or share capital or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or comprised in its share capital, (iii) adopt a plan of complete or partial liquidation or resolutions providing for or authorizing such liquidation or a dissolution, merger, consolidation, restructuring, recapitalization or other reorganization or (iv) other than as described in Section 5.02(c) of the Parent Disclosure Letter, directly or indirectly redeem, repurchase or otherwise acquire any shares of its capital stock or comprised in its share capital or any Option with respect thereto except:

- (A) in connection with intercompany purchases of capital stock or share capital,
- (B) for the purpose of funding employee share ownership, dividend reinvestment, stock purchase and other incentive plans disclosed in Section 5.02 (c) of the Parent Disclosure Letter in accordance with past practice or
- (C) the redemption of the Special Share in accordance with its terms.

(d) Share Issuances. Parent shall not, nor shall it permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock or comprised in its share capital or any Option with respect thereto (other than (i) up to 125 million shares of Parent Ordinary Shares for general corporate purposes, (ii) the issuance of Parent Ordinary Shares or stock appreciation, share awards or similar rights, as the case may be, pursuant to the Parent Share Schemes, in each case outstanding on the date of this Agreement and in accordance with their present terms or pursuant to any share scheme of Parent to be adopted in the ordinary course consistent with past practice, (iii) the issuance of options or awards pursuant to Parent Share Schemes in accordance with their present terms and, except as set forth in Section 5.02(d) of the Parent Disclosure Letter, only in connection with the hiring of new employees, and the issuance of shares of Parent Ordinary Shares upon exercise of such options or awards, and (iv) the issuance by a wholly-owned Subsidiary of its capital stock to its parent corporation, or modify or amend any right of any holder of outstanding shares of capital stock or Options with respect thereto.

(e) Acquisitions. Other than as provided in the 1999 operating budget of Parent, a copy of which has been disclosed to and discussed with the Company, or any subsequently-adopted budget of Parent disclosed to the Company (collectively, the "Parent Budget"), Parent shall not, nor shall it permit any of its Subsidiaries to, acquire (by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner) any business or any corporation, partnership, association or other business organization or division thereof (i) in excess of £750 million or (ii) if such acquisition would have a material adverse affect on Parent and its Subsidiaries taken as a whole, without the prior written consent of the Company.

(f) Dispositions. Other than as provided in the Parent Budget, Parent shall not, nor shall it permit any of its Subsidiaries to, sell, lease, grant any security interest in or otherwise dispose of or encumber any of its assets or properties, other than dispositions in the ordinary course of its business consistent with past practice and having an aggregate value of less than £750 million.

(g) Indebtedness. Parent shall not, nor shall it permit any of its Subsidiaries to, incur or guarantee any indebtedness (including any debt borrowed or guaranteed or otherwise assumed, including, without limitation, the issuance of debt securities or warrants or rights to acquire debt) or enter into any "keep well" or other agreement to maintain any financial condition of another Person or enter into any arrangement having the economic effect of any of the foregoing, other than indebtedness in an aggregate amount not exceeding 110% of the amount of indebtedness provided for in the Parent Budget.

(h) Affiliate Contracts. Parent shall not, nor shall it permit any of its Subsidiaries or, within the exercise of its reasonable commercial efforts, its Joint Ventures to, enter into any Contract or amend or modify any existing Contract, or engage in any new transaction outside the ordinary course of business consistent with past practice or not on an arm's length basis, with any affiliate of such party or any of its Subsidiaries.

(i) Capital Expenditures. Parent shall not, nor shall it permit any of its Subsidiaries to, make any capital expenditures or commitments (except as required by law or regulation) in excess of 110% of the aggregate amount provided for such purposes in the Parent Budget.

(j) 1935 Act. Parent shall not, nor shall it permit any of its Subsidiaries to, engage in any activities which would cause a change in its status, or that of its Subsidiaries, under the 1935 Act, including any action or inaction that would cause the prior approval of the SEC under the 1935 Act to be required for the consummation of the transactions contemplated hereby.

(k) UK Licensing Regime. Parent shall not, nor shall it permit any of its Subsidiaries to, engage in any activities or omit to do anything which would entitle any Governmental or Regulatory Authority to revoke in whole or in material part any material license, authorization or appointment or which would otherwise materially change the status of Parent or any of its Subsidiaries (Parent and its Subsidiaries being referred to as the "Parent Group") thereunder.

(l) Transmission, Generation. Except as set forth in Section 5.02(l) of the Parent Disclosure Letter, Parent shall not, nor shall it permit its Subsidiaries to:

(i) commence construction of any additional generating, transmission or delivery capacity in excess of 500 megawatts, or

(ii) obligate itself to purchase or otherwise acquire, or to sell or otherwise dispose of, or to share, any additional generating, transmission or delivery plants or facilities, in an amount in excess of \$200 million in any one transaction.

(m) Accounting. Parent shall not, nor shall it permit any of its Subsidiaries to, make any changes in their accounting methods, except as required by law, rule, regulation or applicable generally accepted accounting principles.

(n) Tax Matters. Parent shall not, nor shall it permit any of its Subsidiaries to, take any action which (or fail to take any action if such failure) would cause the Merger to fail to qualify as a reorganization described in Section 368(a) of the Code.

(o) No Breach. Parent shall not, nor shall it permit any of its Subsidiaries to, willfully take or fail to take any action that would or is reasonably likely to result (i) in a material breach of any provision of this Agreement, or (ii) in any of its representations and warranties set forth in this Agreement being untrue on and as of the Closing Date.

(p) Advice of Changes. Parent shall confer with the Company on a regular and frequent basis with respect to Parent's business and operations and other matters relevant to the Merger, and shall promptly advise the Company, orally and in writing, of any material change or event, including, without limitation, any complaint, investigation or hearing by any Governmental or Regulatory Authority (or communication indicating the same may be contemplated) or the institution or threat of litigation, having, or which, insofar as can be reasonably foreseen, could have, a material adverse effect on Parent and its Subsidiaries taken as a whole or on the ability of Parent to consummate the transactions contemplated hereby; provided that Parent shall not be required to make any disclosure to the extent such disclosure would constitute a violation of any applicable law or regulation.

(q) Notice and Cure. Parent will notify the Company in writing of, and will use all commercially reasonable efforts to cure before the Closing, any event, transaction or circumstance, as soon as practical after it becomes known to Parent, that causes or will cause any covenant or agreement of Parent under this Agreement to be breached or that renders or will render untrue any representation or warranty of Parent contained in this Agreement. Parent will also notify the Company in writing of, and will use all commercially reasonable efforts to cure, before the Closing, any violation or breach, as soon as practical after it becomes known to Parent, of any representation, warranty, covenant or agreement made by Parent. No notice given pursuant to this paragraph shall have any effect on the representations, warranties, covenants or agreements contained in this Agreement for purposes of determining the satisfaction of any condition contained herein.

(r) Fulfillment of Conditions. Subject to the terms and conditions of this Agreement, Parent will take or cause to be taken all commercially reasonable steps necessary or desirable and proceed diligently and in good faith to satisfy each condition to the Company's obligations contained in this Agreement and to consummate and make effective the transactions contemplated by this Agreement, and Parent will not, nor will it permit any of its Subsidiaries to, take or fail to take any action that would reasonably be expected to result in the nonfulfillment of any such condition.

5.03 Joint Executive Committee. As soon as practicable after the date hereof, Parent and the Company shall establish a joint executive committee (the "Joint Executive

Committee") which shall be comprised of three nominees of Parent (one of whom, in the first instance, shall be Ian Robinson) and three nominees of the Company (one of whom, in the first instance, shall be Keith McKennon). The Joint Executive Committee shall be jointly chaired by Ian Robinson and Keith McKennon and shall have the objective of facilitating and achieving the Merger contemplated in this Agreement, integration planning, strategic development, developing recommendations concerning the future structure and the general operation of the Company after the Effective Time subject to applicable law. The Joint Executive Committee shall meet monthly in the United States or upon such other date or dates, and in such other places, as Parent and the Company may agree from time to time and may be convened by telephone, video conference or similar means.

5.04 Tax Matters. Except as set forth in their respective Disclosure Letters, neither Parent nor the Company shall, nor shall any party permit its Subsidiaries to, make or rescind any material express or deemed election relating to taxes, or change any of its methods of reporting income or deductions for tax purposes from those employed in the preparation of its tax return(s) for the prior taxable year, except as may be required by applicable law or as agreed to by the other party. The Company shall inform Parent regarding the progress of any material claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to taxes and shall consult with Parent before entering into any settlements or compromises with regard to such matters.

5.05 Discharge of Liabilities. Neither Parent nor the Company shall, nor shall any party permit its Subsidiaries to, pay, discharge or satisfy any material claims, liabilities or obligations (absolute accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice (which includes the payment of final and unappealable judgments) or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated by, the most recent consolidated financial statements (or the notes thereto) of such party included in such party's reports filed with the SEC or the Registrar of Corporations in Edinburgh, or incurred in the ordinary course of business consistent with past practice.

5.06 Contracts. Neither Parent nor the Company shall, nor shall any party permit its Subsidiaries or, within the exercise of its reasonable business efforts, its Joint Ventures to, except in the ordinary course of business consistent with past practice, modify, amend, terminate, renew or fail to use reasonable business efforts to renew any material contract or agreement to which such party or any Subsidiary of such party is a party or waive, release or assign any material rights or claims.

5.07 No Solicitations. (a) Except as disclosed in Section 5.07 of the Company Disclosure Letter, prior to the Effective Time, the Company agrees (i) that neither it nor any of its Subsidiaries or other affiliates shall, and it shall use its best efforts to cause their respective Representatives (as defined in Section 9.12) not to, initiate, solicit or encourage, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including, without limitation, any proposal or offer to its stockholders) with respect to a merger, consolidation or other business combination including the Company or any of its Subsidiaries or any acquisition or similar transaction (including, without limitation, a tender or exchange offer)

involving the purchase of (A) all or any significant portion of the assets of the Company and its Subsidiaries taken as a whole, (B) 5% or more of the outstanding shares of Company Common Stock or (C) 5% of the outstanding shares of the capital stock of any Subsidiary of the Company (any such proposal or offer being hereinafter referred to as an "Alternative Proposal"), or engage in any negotiations concerning, or provide any confidential information or data to, or have any discussions with, any person or group relating to an Alternative Proposal (excluding the transactions contemplated by this Agreement), or otherwise facilitate any effort or attempt to make or implement an Alternative Proposal; (ii) that it will immediately cease and cause to be terminated any existing activities, discussions or negotiations with any parties with respect to any of the foregoing, and it will take the necessary steps to inform such parties of its obligations under this Section; and (iii) that it will notify Parent promptly if any such inquiries, proposals or offers are received by, any such information is requested from, or any such negotiations or discussions are sought to be initiated or continued with, it or any of such persons; provided, however, that nothing contained in this Section 5.07(a) shall prohibit the Board of Directors of the Company from (i) furnishing information to (but only pursuant to a confidentiality agreement in customary form and having terms and conditions no less favorable to the Company than the Confidentiality Agreement (as defined in Section 6.01)) or entering into discussions or negotiations with any person or group that makes an unsolicited bona fide Alternative Proposal, if, and only to the extent that, prior to receipt of the Company Stockholders' Approval, (A) the Board of Directors of the Company, based upon the advice of outside counsel, determines in good faith that a failure to perform such action could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law, (B) the Board of Directors has reasonably concluded in good faith (after consultation with its financial advisors) that the person or group making such Alternative Proposal will have adequate sources of financing to consummate such Alternative Proposal, (C) the Board of Directors has reasonably concluded in good faith that such Alternative Proposal is more favorable to the Company's stockholders than the Merger, (D) prior to furnishing such information to, or entering into discussions or negotiations with, such person or group, the Company provides written notice to Parent to the effect that it is furnishing information to, or entering into discussions or negotiations with, such person or group, which notice shall identify such person or group in reasonable detail, and (E) the Company keeps Parent appropriately informed of the status of any such discussions or negotiations; and (ii) to the extent required, complying with Rule 14e-2 promulgated under the Exchange Act with regard to an Alternative Proposal. Nothing in this Section 5.07 shall (x) permit the Company to terminate this Agreement (except as specifically provided in Article VIII), (y) permit the Company to enter into any agreement with respect to an Alternative Proposal for so long as this Agreement remains in effect (it being agreed that for so long as this Agreement remains in effect, the Company shall not enter into any agreement with any person or group that provides for, or in any way facilitates, an Alternative Proposal (other than a confidentiality agreement under the circumstances described above)), or (z) affect any other obligation of the Company under this Agreement.

(b) Parent agrees that (i) neither it nor any of its Subsidiaries or other affiliates shall, and it shall use its best efforts to cause their respective Representatives (as defined in Section 9.12) not to, initiate, solicit or encourage, directly or indirectly, any inquiries or the making of any proposal or offer (including, without limitation, any proposal or offer to its shareholders) with respect to any transaction that would constitute a Change of Control (as defined in Section 8.01(e)), (ii) it will notify the Company promptly if any such inquiries,

proposals or offers are received by Parent and (iii) will keep the Company appropriately informed of the status of any such inquiries, proposals or offers.

5.08 Conduct of Business of Merger Sub. (a) Merger Sub shall not be formed until immediately prior to the Closing Date.

(b) Prior to the Effective Time, Parent shall cause Merger Sub to (i) perform its obligations under this Agreement in accordance with its terms, (ii) not incur directly or indirectly any liabilities or obligations other than those incurred in connection with the Merger, (iii) not engage directly or indirectly in any business or activities of any type or kind and not enter into any agreements or arrangements with any person, or be subject to or bound by any obligation or undertaking, which is not contemplated by this Agreement and (iv) not create, grant or suffer to exist any Lien upon its properties or assets which would attach to any properties or assets of the Surviving Corporation after the Effective Time.

5.09 Third Party Standstill Agreements. During the period from the date of this Agreement through the Effective Time, neither the Company nor any of its Subsidiaries shall terminate, amend, modify or waive any provision of any confidentiality or standstill agreement to which it is a party. During such period, the Company shall enforce, to the fullest extent permitted under applicable law, the provisions of any such agreement, including, but not limited to, by obtaining injunctions to prevent any breaches of such agreements and to enforce specifically the terms and provisions thereof in any court having jurisdiction.

5.10 Control of Other Party's Business. Nothing contained in this Agreement shall give the Company, directly or indirectly, the right to control or direct Parent's operations prior to the Effective Time. Nothing contained in this Agreement shall give Parent, directly or indirectly, the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, each of the Company and the Parent shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

ARTICLE VI ADDITIONAL AGREEMENTS

6.01 Access to Information. Each of the Company and Parent shall, and shall cause each of its Subsidiaries and, so long as consistent with its confidentiality obligations under its Joint Venture agreements, shall use commercially reasonable efforts to cause its Joint Ventures to, throughout the period from the date hereof to the Effective Time, (i) provide the other and its Representatives with full access, upon reasonable prior notice and during normal business hours, to all officers, employees, agents and accountants of the Company and Parent, as the case may be, and its Subsidiaries and Joint Ventures and their respective assets, properties, books and records, but only to the extent that such access does not unreasonably interfere with the business and operations of the Company and Parent, as the case may be, and its Subsidiaries and Joint Ventures, and (ii) furnish promptly to such persons (x) a copy of each report, statement, schedule and other document filed or received by the Company and Parent, as the case may be, or any of its Subsidiaries and Joint Ventures pursuant to the requirements of federal or

state securities laws and each material report, statement, schedule and other document filed with any other Governmental or Regulatory Authority, and (y) all other information and data (including, without limitation, copies of Contracts, Company Employee Benefit Plans, and other books and records) concerning the business and operations of the Company and Parent, as the case may be, and its Subsidiaries and Joint Ventures as such party or any of such other persons reasonably may request. No investigation pursuant to this paragraph or otherwise shall affect any representation or warranty contained in this Agreement or any condition to the obligations of the parties hereto. Any such information or material obtained pursuant to this Section 6.01 that constitutes "Review Material" (as such term is defined in the letter agreement dated as of October 12, 1998 between the Company and Parent (the "Confidentiality Agreement")) shall be governed by the terms of the Confidentiality Agreement.

6.02 Preparation of Registration Statement and Proxy Statement. As soon as practicable after the date of this Agreement, the Company shall, in cooperation with Parent, prepare the Proxy Statement and Parent shall, in cooperation with the Company, prepare the Registration Statement, in which the Proxy Statement will be included as the prospectus. The Company shall, in cooperation with Parent, file the Proxy Statement with the SEC as its preliminary Proxy Statement and Parent shall, in cooperation with the Company, prepare and file with the SEC the Registration Statement in which the Proxy Statement will be included as the prospectus. Parent and the Company shall use commercially reasonable efforts to have the Registration Statement declared effective by the SEC as promptly as practicable after such filing. Parent and the Company shall also take any action (other than qualifying as a foreign corporation or taking any action which would subject it to service of process in any jurisdiction where Parent is not now so qualified or subject) required to be taken under applicable state blue sky or securities laws in connection with the issuance of Parent ADRs or Merger Ordinary Shares in connection with the Merger. If at any time prior to the Effective Time any event shall occur that should be set forth in an amendment of or a supplement to the Registration Statement, Parent shall prepare and file with the SEC such amendment or supplement as soon thereafter as is reasonably practicable. Parent and the Company shall cooperate with each other in the preparation of the Registration Statement and the Proxy Statement and any amendment or supplement thereto, and each shall notify the other of the receipt of any comments of the SEC with respect to the Registration Statement or the Proxy Statement and of any requests by the SEC for any amendment or supplement thereto or for additional information, and shall provide to the other promptly copies of all correspondence between Parent or the Company, as the case may be, or any of its Representatives with respect to the Registration Statement or the Proxy Statement. Parent and the Company shall give the other and its respective counsel the opportunity to review the Registration Statement and the Proxy Statement and all responses to requests for additional information by and replies to comments of the SEC before their being filed with, or sent to, the SEC. Each of the Company and Parent agrees to use commercially reasonable efforts, after consultation with each other, to respond promptly to all such comments of and requests by the SEC and to cause (x) the Registration Statement to be declared effective by the SEC at the earliest practicable time and to be kept effective as long as is necessary to consummate the Merger, and (y) the Proxy Statement to be mailed to the holders of Company Common Stock and Company Preferred Stock entitled to vote at the meeting of the stockholders of the Company at the earliest practicable time.

6.03 Approval of Shareholders. (a) Parent shall, through its Board of Directors, duly call, give notice of, convene and hold a general meeting of its shareholders (the "Parent Shareholders' Meeting"), for the purpose of voting on the Merger and the creation of and the authorization of the Board of Directors to allot, the Parent Ordinary Shares in the Merger and under the Company Stock Plans after the Merger in accordance with this Agreement (the "Parent Shareholders' Approval"). Unless the Board of Directors of Parent, based upon the advice of outside counsel, determines in good faith that making such recommendation, or failing to amend, modify or withdraw any previously made recommendation, could reasonably be expected to result in a breach of its fiduciary duties to shareholders imposed by law, Parent shall, through its Board of Directors, include in the Circular the recommendation of the Board of Directors of Parent that the shareholders of Parent approve such matters, and shall use its reasonable best efforts to obtain such approval. In connection with the Parent Shareholders' Meeting, subject to applicable law, (i) Parent shall, as soon as practicable after the date of this Agreement and in accordance with the listing rules of the LSE, prepare and submit to the LSE for approval the Circular and the Listing Particulars, and shall use all reasonable efforts to have such documents formally approved by the LSE and shall thereafter publish the Circular and the Listing Particulars and dispatch the Circular to its shareholders in compliance with all legal requirements applicable to the Parent Stockholders Meeting and the listing rules of the LSE and (ii) if necessary, after the Circular has been so dispatched, promptly publish or circulate amended, supplemental or supplemented materials and, if required in connection therewith, resolicit votes. In the event that the Parent Shareholders' Approval is not obtained without the vote having been taken on the date on which the Parent Shareholders' Meeting is initially convened, the Board of Directors of Parent agrees to use its reasonable best efforts to adjourn such Parent Shareholders' Meeting for the purpose of obtaining the Parent Shareholders' Approval and to use commercially reasonable efforts during any such adjournments to obtain the Parent Shareholders' Approval.

(b) The Company shall, through its Board of Directors, duly call, give notice of, convene and hold a meeting of its stockholders (the "Company Stockholders' Meeting") for the purpose of voting on the approval of this Agreement (the "Company Stockholders' Approval") as soon as reasonably practicable after the date hereof. Unless the Board of Directors of the Company, based on the advice of outside counsel, determines in good faith that making such recommendation, or failing to amend, modify or withdraw any previously made recommendation, could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law, the Company shall, through its Board of Directors, include in the Proxy Statement the recommendation of the Board of Directors of the Company that the stockholders of the Company approve this Agreement, and shall use its reasonable best efforts to obtain such approval. The Company shall consult and discuss in good faith with Parent regarding the alternatives available for obtaining the Company Stockholders' Approval. In the event that the Company Stockholders' Approval is not obtained without the vote having been taken on the date on which the Company Stockholders' Meeting is initially convened, the Board of Directors of the Company will use its reasonable best efforts to adjourn such Company Stockholders' Meeting for the purpose of obtaining the Company Stockholders' Approval and to use commercially reasonable efforts during any such adjournments to obtain the Company Stockholders' Approval.

(c) Parent shall, through its Board of Directors, at the Annual General Meeting of Parent next following the date of this Agreement, include for consideration by its shareholders and, subject to its fiduciary duties, recommend the approval of a resolution to approve amendments to the Articles of Association of Parent in order to provide, to the extent reasonably possible, for the holders of Parent ADRs substantially the same rights as holders of Parent Ordinary Shares to receive notice of, attend, speak and vote at general meetings of holders of Parent Ordinary Shares (the "ADR Holder Proposal"). In the event the ADR Holder Proposal is not adopted by Parent's shareholders at such Annual General Meeting, Parent shall, through its Board of Directors, include for consideration by its shareholders and, subject to its fiduciary duties, recommend approval of the ADR Holder Proposal at Parent's Annual General Meeting next following the Effective Time.

6.04 Company Affiliates. At least thirty (30) days prior to the Closing Date the Company shall deliver a letter to Parent identifying all persons who, at the time of the Company Stockholders' Meeting, may, in the Company's reasonable judgment, be deemed to be "affiliates" (as such term is used in Rule 145 under the Securities Act) of the Company ("Company Affiliates"). The Company shall use its best efforts to cause each Company Affiliate to deliver to Parent on or prior to the Closing Date a written agreement substantially in the form and to the effect of Exhibit B hereto (an "Affiliate Agreement"). Parent shall be entitled to place legends as specified in such Affiliate Agreements on the certificates evidencing any Parent ADSs to be received by such Company Affiliates pursuant to the terms of this Agreement, and to issue appropriate stop transfer instructions to the transfer agent for the Parent ADSs, consistent with the terms of such Affiliate Agreements.

6.05 Auditors' Letters. Each of the Company and Parent shall use all reasonable efforts to cause to be delivered to the other party and such other party's Board of Directors a letter of its independent auditors, dated the date on which the Registration Statement shall become effective, and addressed to the other party and such other party's Board of Directors, in form and substance customary for "comfort" letters delivered by independent public accountants in connection with registration statements on Form F-4 and Form S-4.

6.06 Stock Exchange Listing; Deposit Agreement. (a) Parent shall use its commercially reasonable efforts, and the Company shall cooperate in respect thereto, to cause (a) the Parent ADSs to be issued in the Merger and under the Company Stock Plans after the Merger in accordance with this Agreement to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date; and (b) each of (i) the Parent Ordinary Shares to be represented by the Parent ADSs to be issued in the Merger to be admitted to the Official List of the London Stock Exchange and (ii) the Merger Ordinary Shares to be issued in the Merger to be admitted to the Official List of the London Stock Exchange.

(b) Following the execution of this Agreement, Parent shall promptly prepare and shall use its commercially reasonable efforts to have executed, an amendment to the Deposit Agreement, dated as of December 18, 1991, as amended and restated as of September 4, 1997, among Parent, The Bank of New York and the holders of Parent ADRs thereunder and shall take such other action as may reasonably be required, all on terms and conditions reasonably satisfactory to the Company, that will provide holders of Parent ADRs with the right to

(i) participate in rights offerings, (ii) attend Parent shareholder meetings, (iii) speak at Parent shareholder meetings, (iv) call for a poll at Parent shareholder meetings, (v) examine documents made available at Parent shareholder meetings, (vi) instruct the Depository to vote its Parent ADSs in a particular fashion, (vii) generally be counted individually as present and/or voting with respect to resolutions adopted at Parent shareholder meetings, and (viii) decide at Parent shareholder meetings how to vote on particular resolutions, in each case on the same basis as the holders of Parent Ordinary Shares.

6.07 Restructuring of Merger. The parties expressly acknowledge and agree that, although it is their current intention to effect a business combination among themselves in the form contemplated by this Agreement, it may be preferable to effectuate such a business combination by means of an alternative structure in light of the conditions set forth in Sections 7.01(i), 7.02(d) and 7.03(d). Accordingly, if the only conditions to the parties' obligations to consummate the Merger which are not satisfied or waived are receipt of any one or more of those set forth in Sections 7.01(i), 7.02(d) and 7.03(d), and the adoption of an alternative structure (that otherwise substantially preserves for the parties the economic and other material benefits of the Merger) would result in such conditions being satisfied or waived, then the parties shall use their respective reasonable best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Merger that so preserves such benefits; provided that, prior to closing any such restructured transaction, all material third party and Governmental and Regulatory Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary to effect such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Merger, as applied to such alternative business combination, shall have been satisfied or waived. The parties further agree that, under the circumstances described in Schedule II hereto the obligations of the parties will be as set forth in Schedule II.

6.08 Regulatory and Other Approvals. Subject to the terms and conditions of this Agreement and without limiting the provisions of Sections 6.02, 6.03 and 6.06, each of the Company and Parent shall jointly develop a regulatory approval plan and proceed cooperatively and in good faith to, as promptly as practicable, (i) obtain all consents, approvals or actions of, make all filings with and give all notices to Governmental or Regulatory Authorities or any other public or private third parties required of Parent, the Company or any of their Subsidiaries or Joint Ventures to consummate the Merger and the other matters contemplated hereby (including without limitation those set forth on Section 3.04 of the Company Disclosure Letter and Section 4.04 of the Parent Disclosure Letter), and (ii) provide such other information and communications to such Governmental or Regulatory Authorities or other public or private third parties as the other party or such Governmental or Regulatory Authorities or other public or private third parties may reasonably request in connection therewith. In addition to and not in limitation of the foregoing, each of the parties will (w) take promptly all actions necessary to make the filings required of Parent and the Company or their affiliates under the HSR Act and to comply with filing and approval requirements of the FERC and each state Governmental or Regulatory Authority, (x) comply at the earliest practicable date with any request for additional information received by such party or its affiliates from the Federal Trade Commission (the "FTC") or the Antitrust Division of the Department of Justice (the "Antitrust Division") pursuant to the HSR Act, (y) cooperate with the other party in

connection with such party's filings under the HSR Act and in connection with resolving any investigation or other inquiry concerning the Merger or the other matters contemplated by this Agreement commenced by either the FTC or the Antitrust Division or state attorneys general or by the FERC or any State Governmental or Regulatory Authority having jurisdiction with respect to the Merger or another transaction contemplated by this Agreement, and (z) provide to the other promptly copies of all correspondence between such party and the applicable Governmental or Regulatory Authority with respect to any filings referred to in this Section 6.08, and shall give the other party the opportunity to review such filings and all responses to requests for additional information by such Governmental or Regulatory Authority prior to their being filed therewith.

6.09 Employee Benefit Plans. Parent shall use its reasonable best efforts to cause the Company Employee Benefit Plans in effect at the date of this Agreement that have been disclosed to Parent prior to such date to remain in effect until the second anniversary of the Effective Time or, to the extent such Company Employee Benefit Plans are not continued, Parent will maintain until such date benefit plans which are no less favorable, in the aggregate, to the employees covered by such Company Employee Benefit Plans provided, however, that nothing contained herein shall be construed as requiring Parent or the Surviving Corporation to continue any specific plan or as preventing Parent or the Surviving Corporation from (a) establishing and, if necessary, seeking shareholder approval to establish, any other benefit plans in respect of all or any of the employees covered by such Company Employee Benefit Plans or any other employees, or (b) amending such Company Employee Benefit Plans (or any replacement benefit plans therefor) where required by applicable law or where such amendment is with the consent of the affected employees. From and after the Effective Time, Parent shall honor, and shall cause its Subsidiaries to honor, in accordance with its express terms, each existing employment, change of control, severance and termination agreement between the Company or any of its Subsidiaries, and any officer, director or employee of such company, including without limitation all legal and contractual obligations pursuant to outstanding restoration plans, severance plans, bonus deferral plans, vested and accrued benefits and similar employment and benefit arrangements, policies and agreements that have been disclosed to Parent as of the date hereof and other obligations entered into in accordance with Sections 5.01(d) and (h).

6.10 Company Stock Plan. (a) At the Effective Time, each outstanding option to purchase shares of Company Common Stock (a "Company Stock Option") under the Company Option Plan, whether vested or unvested, shall be converted into an option to acquire, on the same terms and conditions as were applicable under such Company Stock Option, except as amended by this Section 6.10, a number of Parent ADSs equal to the product (rounded down to the nearest whole number) of (i) the number of shares of Company Common Stock subject to the option immediately prior to the Effective Time and (ii) the ADS Consideration and the option exercise price per Parent ADS at which such option is exercisable shall be the amount (rounded up to the nearest whole cent) obtained by dividing (iii) the option exercise price per share of Company Common Stock at which such option is exercisable immediately prior to the Effective Time by (iv) the ADS Consideration; provided, however, that, in the case of any Company Stock Option to which Section 421 of the Code applies by reason of its qualification under any of Sections 422-424 of the Code ("qualified stock options"), the option exercise price, the number

of shares which may be acquired pursuant to such option and the terms and conditions of exercise of such option shall be determined in order to comply with Section 424(a) of the Code; provided, further, that, under no circumstances shall the option exercise price per Parent ADS be less than the aggregate par value of the Parent Ordinary Shares represented by a Parent ADS.

(b) As soon as practicable after the Effective Time, Parent shall deliver to the participants in the Company Option Plan appropriate notices setting forth such participants' rights pursuant thereto and the grants pursuant to the Company Option Plan shall continue in effect on the same terms and conditions (subject to the adjustments required by this Section after giving effect to the Merger).

(c) Parent shall take all corporate action necessary to have a sufficient number of shares of Parent ADSs available for delivery under the Company Option Plan as adjusted in accordance with this Section. As soon as practicable after the Effective Time, Parent shall file a registration statement on Form F-8 promulgated by the SEC under the Securities Act (or any successor or other appropriate form) with respect to the Parent ADSs subject to such options and shall use its reasonable best efforts to maintain the effectiveness of such registration statement or registration statements (and maintain the current status of the prospectus or prospectuses contained therein) for so long as such options remain outstanding.

(d) For purposes of Section 2.01(c), Company Common Stock shall include shares of restricted Company Common Stock issued under the Company's Non-Employee Director's Stock Compensation Plan, Stock Incentive Plan and Long Term Incentive Plan (collectively, the "Company Restricted Stock Plans"). The Company shall take all corporate action necessary and obtain all relevant consents to ensure that the consideration received under such Section 2.01(c) upon the conversion of each outstanding share of restricted Company Common Stock will continue to be subject to the same restrictions that such shares were subject to under the Company Restricted Stock Plans and the applicable award agreements thereunder, including, without limitation, any forfeiture restrictions subject to amendment or modification of such plans or award agreements to reflect action of the Board of Directors of the Company taken prior to the date of this Agreement and previously disclosed to Parent.

6.11 Directors' and Officers' Indemnification and Insurance. (a) Except to the extent required by law, until the sixth anniversary of the Effective Time, Parent will not take any action so as to amend, modify or repeal the provisions for indemnification of directors or officers contained in the certificate or articles of incorporation or bylaws (or other comparable charter documents) of the Surviving Corporation and its Subsidiaries (which after the Effective Time shall be substantially identical to those of the Company in effect on the date hereof) in such a manner as would adversely affect the rights of any individual who shall have served as a director or officer of the Company or any of its Subsidiaries prior to the Effective Time to be indemnified by such corporations in respect of their serving in such capacities prior to the Effective Time.

(b) Parent and the Surviving Corporation shall, until the sixth anniversary of the Effective Time, cause to be maintained in effect, to the extent available, the policies of directors' and officers' liability insurance maintained by the Company and its Subsidiaries as of

the date hereof (or policies of at least the same coverage and amounts containing terms that are no less advantageous to the insured parties) with respect to claims arising from facts or events that occurred on or prior to the Effective Time; provided that in no event shall Parent or the Surviving Corporation be obligated to expend in order to maintain or procure insurance coverage pursuant to this paragraph any amount per annum in excess of two hundred percent (200%) of the aggregate premiums payable by the Company and its Subsidiaries in 1998 (on an annualized basis) for such purpose.

6.12 Parent Governance; Additional Matters. (a) Subject to the exercise of fiduciary duties and to the extent permitted by applicable law, Parent's Board of Directors shall take action to cause the full Board of Directors of Parent at the Effective Time to include Keith McKennon, as Deputy Chairman of Parent, and two additional non-executive members of the Company's current Board of Directors to be designated by the Company at least thirty (30) days prior to the Effective Time.

(b) Parent shall, promptly following the Effective Time, cause certain of the non-executive members of the Company's Board of Directors immediately prior to the Effective Time who do not become directors of Parent pursuant to Section 6.12(a) hereof, and who are willing to so serve, to be elected or appointed as members of an advisory board (the "Advisory Board") established by the Company, the function of which shall be to meet no less frequently than semi-annually in order to advise the Company's Board of Directors with respect to general business as well as opportunities and activities in the Company's market area and to maintain and develop customer relationships. The Advisory Board shall be chaired by Ian Robinson, and shall also include Duncan Whyte, Richard O'Brien, and such other representatives from the communities served by the Company (including but not limited to non-executive members of the Company's Board of Directors immediately prior to the Effective Time) as shall be mutually agreed by Ian Robinson and Keith McKennon. The members of the Advisory Board who are willing to so serve initially shall be elected or appointed for a term of two years. Parent agrees to cause the Company to re-elect or re-appoint each of the initial members of the Advisory Board to one successive one-year term following the initial term; provided, however, that Parent shall have no obligation to cause the Company to elect or appoint, or re-elect or re-appoint, and may cause the Company to remove, any member if Parent reasonably determines that such member has a conflict of interest that compromises such member's ability to serve effectively as a member of the Advisory Board or any cause exists that otherwise would allow for removal of such person as a director of the Company if such person were a member of the Company's Board of Directors.

(c) Immediately following the Effective Time, the Company's United States headquarters shall continue to be in Portland, Oregon. In recognition of Parent's commitment to the community of Portland and the State of Oregon, following the Effective Time Parent will contribute to The PacifiCorp Foundation the sum of \$5 million.

6.13 Expenses. Except as set forth in Section 8.02, whether or not the Merger is consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such cost or expense. The Company shall not be obligated for any fees or expenses relating to Parent's obligation to

demonstrate the existence of adequate working capital in connection with the filing of the Listing Particulars. Notwithstanding any provision of this Agreement, in no event shall Parent or any affiliate of Parent pay any expenses of the Company, any Company affiliate or any Company stockholder in connection with the transactions contemplated by this Agreement.

6.14 Brokers or Finders. Each of Parent and the Company represents, as to itself and its affiliates, that, except as set forth on Section 6.14 of the Company Disclosure Letter, no agent, broker, investment banker, financial advisor or other firm or person is or will be entitled to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement except Salomon Smith Barney, whose fees and expenses will be paid by the Company in accordance with the Company's agreement with such firm (a true and complete copy of which has been delivered by the Company to Parent prior to the execution of this Agreement), and Morgan Stanley Dean Witter Discover Inc. whose fees and expenses will be paid by Parent in accordance with Parent's agreement with such firm (a true and complete copy of which has been delivered by Parent to the Company prior to the execution of this Agreement), and each of Parent and the Company shall indemnify and hold the other harmless from and against any and all claims, liabilities or obligations with respect to any other such fee or commission or expenses related thereto asserted by any person on the basis of any act or statement alleged to have been made by such party or its affiliate.

6.15 Takeover Statutes. If any "fair price", "moratorium", "control share acquisition" or other form of antitakeover statute or regulation shall become applicable to the transactions contemplated hereby, the Company and the members of the Board of Directors of the Company shall grant such approvals and take such actions as are reasonably necessary so that the transactions contemplated hereby may be consummated as promptly as practicable on the terms contemplated hereby and thereby and otherwise act to eliminate or minimize the effects of such statute or regulation on the transactions contemplated hereby and thereby.

6.16 Conveyance Taxes. The Company and Parent shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp taxes and duties, any transfer, recording, registration and other fees, and any similar taxes which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be filed on or before the Effective Time. The Company shall pay, without deduction or withholding (except where such deduction or withholding is required by applicable law) from any amount payable to the holders of Company Common Stock, any such taxes which become payable in connection with the transfer of Company Common Stock in exchange for the Ordinary Share Consideration and the ADS Consideration. The Company shall also pay any stamp duty or stamp duty reserve tax arising in connection with the issue of the Parent ADSs and ADRs.

6.17 Rate Matters. During the period commencing on the date hereof and ending on the Effective Date, the Company shall, and shall cause its Subsidiaries to, obtain Parent's approval, not to be unreasonably withheld or delayed, prior to initiating any general rate case and shall consult with Parent prior to making any material changes in its or its Subsidiaries' rates or charges, standards of service or accounting from those in effect on the date hereof and

shall further consult with Parent prior to making any filing (or any amendment thereto), or effecting any agreement, commitment, arrangement or consent, whether written or oral, formal or informal, with respect thereto.

6.18 Tax Matters. Parent agrees that:

(a) Prior to the Closing Date, Parent will make an election pursuant to Section 301.7701-3 of the U.S. Treasury regulations promulgated under the Code to treat UKSub 1 and UKSub 2 as entities disregarded as separate from the Parent and will not change such election during the period beginning on the date such election is effective for U.S. federal income tax purposes and ending on the date that is three years after the Closing Date.

(b) Throughout the period beginning on the date the election described in Section 6.18(a) of this Agreement is effective for U.S. federal income tax purposes and ending on the date that is three years after the Closing Date, Parent: (i) will not make an election under Section 301.7701-3 of the U.S. Treasury regulations to treat UKSub 1 or UKSub 2 as an association taxable as a corporation; (ii) will directly own the whole of the share capital of UKSub 1 and UKSub 2; and (iii) will cause UKSub 1 and UKSub 2 to directly own all of the equity interests in the Partnership.

(c) Throughout the period beginning at the Effective Time and ending on the date that is three years after the Closing Date, the Partnership will directly own all of the Common Stock of the Surviving Corporation, except for contribution to a controlled subsidiary described in Code Section 368(a)(2)(C) and the regulations promulgated thereunder.

(d) Throughout the period beginning at the Effective Time and ending on the date that is three years after the Closing Date, none of Parent, UKSub 1, UKSub 2, the Partnership, nor any other affiliate of Parent will redeem, acquire, convert, exchange, or cause the Company or any affiliate of the Company to acquire, convert or exchange or arrange for another person to acquire, convert or exchange any of the ADS Consideration or the Ordinary Share Consideration, unless Parent has received a written opinion of counsel that such action will not cause those persons who were stockholders of the Company at the time of the Merger to recognize gain or loss for US federal income tax purposes either with respect to the Merger or with respect to a subsequent exchange or conversion;

(e) Neither Parent nor any affiliate of Parent will, directly or indirectly, pay any expense incurred by (i) the Company, (ii) any affiliate of the Company or (iii) any Company stockholder, in each case, in connection with the transactions contemplated by this Agreement.

(f) For a period of three years following the Closing Date, without the receipt of a written opinion of counsel that such action will not affect the tax-free status of the transactions contemplated by this Agreement, neither Parent nor any affiliate of Parent, will, directly or indirectly, (i) make contributions (whether or not in exchange for shares) or loan additional funds to (x) the Company, (y) any affiliate of the Company or (z) any escrow account, trust or other fund established to pay any expenses incurred by the Company, any affiliate of the Company or any Company stockholder in connection with the transactions contemplated by this

Agreement or (ii) permit the Company or any Company affiliate to incur additional indebtedness guaranteed by Parent or any Parent affiliate;

(g) Neither Parent nor any affiliate of Parent will, directly or indirectly reimburse (or otherwise pay) any amounts paid to the holders of \$1.28 Series, \$1.18 Series or \$1.16 Series no par serial preferred stock of the Company in connection with the redemption of their preferred stock prior to the Closing Date.

(h) Neither Parent nor any affiliate of Parent will, directly or indirectly, acquire any Company stock except for the Company stock acquired solely in exchange for the ADS Consideration or the Ordinary Share Consideration unless acquired directly from the Company.

6.19 Dividends. Parent hereby acknowledges its intention, following the Effective Time, to adopt a practice of paying, with respect to Parent's Ordinary Shares and ADSs, quarterly dividends on regular quarterly dividend dates in roughly equal amounts. After the date hereof, each of Parent and the Company shall coordinate with the other with respect to the declaration of dividends in respect of Parent Ordinary Shares and Company Common Stock and the record dates and payment dates with respect thereto prior to the Effective Time, with the intention that the holders of Company Common Stock receive dividends in respect of the Company Common Stock for all periods prior to the Effective Time but do not receive dividends on the ADS Consideration and the Ordinary Share Consideration after the Effective Time in respect of periods prior to the Effective Time.

ARTICLE VII CONDITIONS

7.01 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger is subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

(a) Stockholder Approval. This Agreement shall have been approved by the requisite vote of the stockholders of the Company under the BCA. The shareholders of Parent shall have approved the Merger and the creation of, and authorization of the Board of Directors to allot, the Parent Ordinary Shares in connection with the Merger by the requisite vote under applicable law or under the applicable regulations of any national securities exchange, as the case may be.

(b) Registration Statement; State Securities Laws. The Registration Statement shall have become effective in accordance with the provisions of the Securities Act, and no stop order suspending such effectiveness shall have been issued and remain in effect and no proceeding seeking such an order shall be pending or threatened. Parent shall have received all state securities or "Blue Sky" permits and other authorizations necessary to issue the Parent ADSs pursuant to this Agreement and under the Company Stock Plans after the Merger.

(c) Exchange Listing. The LSE shall have agreed to admit to the Official List (subject to allotment) the new Parent Ordinary Shares to be issued in connection with the Merger and such agreement shall not have been withdrawn and the Parent ADSs issuable to the Company stockholders in the Merger and under the Company Stock Plans after the Merger in accordance with this Agreement shall have been authorized for listing on the NYSE, upon official notice of issuance.

(d) HSR Act. Any waiting period (and any extension thereof) applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

(e) Injunctions or Restraints. No court of competent jurisdiction or other competent Governmental or Regulatory Authority shall have enacted, issued, promulgated, enforced or entered any law or order (whether temporary, preliminary or permanent) which is then in effect and has the effect of making illegal or otherwise restricting, preventing or prohibiting consummation of the Merger or the other transactions contemplated by this Agreement.

(f) Exon-Florio. The review and investigation under Exon-Florio shall have been terminated and the President shall have taken no action authorized thereunder.

(g) Power Act; Atomic Energy Act. The final approval of (i) the FERC and (ii) the Nuclear Regulatory Commission under the Atomic Energy Act, with respect to the Merger and the transactions contemplated by this Agreement shall have been obtained.

(h) H.M. Treasury Consent. Parent shall have received consent from H.M. Treasury pursuant to Section 765 of the U.K. Income and Corporation Taxes Act 1988 in respect of the Merger and any other matter contemplated hereby, or confirmation that no consent is required.

(i) Governmental and Regulatory Consents and Approvals. Other than the filings provided for by Section 1.03 and any filing required in connection with the registration or exemption of Parent under the 1935 Act, all consents, approvals and actions of, filings with and notices to any Governmental or Regulatory Authority (including under the HSR Act and Exon-Florio Act and the approvals by FERC pursuant to the Power Act) required of Parent, the Company or any of their Subsidiaries to consummate the Merger and the other matters contemplated hereby shall have been made or obtained (as the case may be) and become Final Orders (as defined in this Section below), and such Final Orders shall not, individually or in the aggregate, contain terms or conditions that would have, or would reasonably be expected to have, a material adverse effect on the Surviving Corporation and its Subsidiaries, taken as a whole. A "Final Order" means an action by the relevant Governmental or Regulatory Authority that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by applicable law before the transactions contemplated hereby may be consummated has expired, and as to which all conditions to the consummation of such transactions prescribed by applicable law, regulation or order have been satisfied.

(j) Other Consents and Approvals. The consent or approval of each person (other than a Governmental or Regulatory Authority) whose consent or approval is required of

Parent, the Company or any of their Subsidiaries under any Contract in order to consummate the Merger and the other transactions contemplated hereby shall have been obtained, except for those consents and approvals which, if not obtained, would not have, or would not reasonably be expected to have, a material adverse effect on the Company and its Subsidiaries taken as a whole or on the ability of Parent or the Company to consummate the transactions contemplated hereby.

(k) UK Fair Trading Act. Any of:

(i) the Office of Fair Trading (the "OFT") shall have indicated in writing that the Secretary of State for Trade and Industry (the "SOS") in the exercise of his powers under the Fair Trading Act 1973 (the "FTA") does not intend to refer the Merger or any matter relating thereto to the Monopolies and Mergers Commission ("MMC"); or

(ii) in the event of an MMC reference, the MMC shall have concluded that the Merger does not or may not be expected to operate against the public interest; or

(iii) if on a reference the MMC shall have concluded that the Merger does or may be expected to operate against the public interest, the SOS shall have indicated in writing that it is his intention to approve the Merger,

provided that if any indication by the SOS referred to in (i) or (iii) above is subject to undertakings, assurances or any other terms or conditions, such undertakings, assurances, terms or conditions would not have, or would reasonably be expected not to have, individually or in the aggregate, a material adverse effect on the Parent Group taken as a whole.

(l) UK Regulators. Each of the Office of Electricity Regulation ("OFFER") and the Office of Water Services ("OFWAT") shall have indicated:

(i) that it is not its intention to seek any modifications to any conditions of the licenses or appointments held by any member of the Parent Group under any applicable statute, law, regulation, order or determination which would have, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Parent Group taken as a whole; and

(ii) that it will give such consents and/or directions (if any) as are necessary or appropriate with respect to such licenses or appointments in connection with the Merger on terms which would not have, or would reasonably be expected not to have, individually or in the aggregate, a material adverse effect on the Parent Group taken as a whole.

(m) UK Undertakings/Assurances. Neither OFFER nor OFWAT shall have sought undertakings or assurances from any member of the Parent Group which would have, or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on the Parent Group taken as a whole.

7.02 Conditions to Obligation of Parent and the Merger Sub to Effect the Merger. The obligation of Parent and Merger Sub to effect the Merger is further subject to the fulfillment, at or prior to the Closing, of each of the following additional conditions (all or any of which may be waived in whole or in part by Parent and Merger Sub in their sole discretion):

(a) Representations and Warranties. The representations and warranties made by the Company in this Agreement shall be true and correct, in all material respects, taken as a whole, as of the Closing Date as though made on and as of the Closing Date or, in the case of representations and warranties made as of a specified date earlier than the Closing Date, on and as of such earlier date, except as affected by the transactions contemplated by this Agreement, and the Company shall have delivered to Parent a certificate, dated the Closing Date and executed in the name and on behalf of the Company by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(b) Performance of Obligations. The Company shall have performed and complied with, in all material respects, the agreements, covenants and obligations, taken as a whole, which are required by this Agreement to be so performed or complied with by the Company at or prior to the Closing, and the Company shall have delivered to Parent a certificate, dated the Closing Date and executed in the name and on behalf of the Company by its Chairman of the Board, President or any Executive or Senior Vice President, to such effect.

(c) Material Adverse Effect. Since the date of this Agreement, no material adverse effect shall have occurred with respect to the Company and its Subsidiaries taken as a whole and there shall exist no facts or circumstances arising after the date hereof, which in the aggregate would, or insofar as reasonably can be foreseen, could, when taken together with any breaches or violations of any representations, warranties, covenants and agreements of the Company contained herein, have a material adverse effect on the Company and its Subsidiaries taken as a whole. For purposes of this Section 7.02(c), (i) any tax benefits relating directly to the structure of the transactions contemplated by this Agreement as of the date hereof which are not realized by Parent, and (ii) any adverse effects on the Company and its Subsidiaries resulting from general economic or financial conditions, shall not be taken into account in determining whether a material adverse effect has occurred under this Section 7.02(c).

(d) Tax Opinion. Parent and the Partnership shall have received the opinion, based on appropriate representations of the Company and Parent, of Milbank, Tweed, Hadley & McCloy, special counsel to Parent, dated on or about the date on which the Registration Statement (or the last amendment thereto) shall have become effective, which opinion shall have been confirmed in writing on and as of the Closing Date, to the effect that the Merger will constitute a "reorganization" within the meaning of Code Section 368(a) and that no gain or loss will be recognized for US federal income tax purposes by the stockholders of the Company who exchange Company Common Stock for Parent ADSs or Merger Ordinary Shares pursuant to the Merger (except with respect to cash received in lieu of fractional Parent ADSs or Merger Ordinary Shares).

(e) Proceedings. All proceedings to be taken on the part of the Company in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to Parent, and Parent shall have received copies of all such documents and other evidences as Parent may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

7.03 Conditions to Obligation of the Company to Effect the Merger.

The obligation of the Company to effect the Merger is further subject to the fulfillment, at or prior to the Closing, of each of the following additional conditions (all or any of which may be waived in whole or in part by the Company in its sole discretion):

(a) Representations and Warranties. The representations and warranties made by Parent and Merger Sub in this Agreement shall be true and correct, in all material respects, taken as a whole, as of the Closing Date as though made on and as of the Closing Date or, in the case of representations and warranties made as of a specified date earlier than the Closing Date, on and as of such earlier date, except as affected by the transactions contemplated by this Agreement, and Parent and Merger Sub shall each have delivered to the Company a certificate, dated the Closing Date and executed in the name and on behalf of Parent by its Chairman of the Board, President or any Executive or Senior Vice President and in the name and on behalf of Merger Sub by its Chairman of the Board, President or any Vice President, to such effect.

(b) Performance of Obligations. Parent and Merger Sub shall have performed and complied with, in all material respects, each agreement, covenant and obligation required by this Agreement to be so performed or complied with by Parent or Merger Sub at or prior to the Closing, and Parent and Merger Sub shall each have delivered to the Company a certificate, dated the Closing Date and executed in the name and on behalf of Parent by its Chairman of the Board, President or any Executive or Senior Vice President and in the name and on behalf of Merger Sub by its Chairman of the Board, President or any Vice President, to such effect.

(c) Material Adverse Effect. Since the date of this Agreement, no material adverse effect shall have occurred with respect to Parent and its Subsidiaries taken as a whole and there shall exist no facts or circumstances arising after the date hereof which in the aggregate would, or insofar as reasonably can be foreseen, could, when taken together with any breaches or violations of any representations, warranties, covenants and agreements of Parent contained herein, have a material adverse effect on Parent and its Subsidiaries taken as a whole. For purposes of this Section 7.03(c), any adverse effects on Parent and its Subsidiaries resulting from general economic or financial conditions shall not be taken into account in determining whether a material adverse effect has occurred under this Section 7.03(c).

(d) Tax Opinion. The Company shall have received the opinion, based on appropriate representations of the Company and Parent, of Stoel Rives LLP, counsel to the Company, and LeBoeuf, Lamb, Greene & MacRae, LLP, special counsel to the Company, dated on or about the date on which the Registration Statement (or the last amendment thereto) shall have become effective, which opinion shall have been confirmed in writing on and as of the Closing Date to the effect that the Merger will constitute a "reorganization" within the meaning

of Code Section 368(a) and that no gain or loss will be recognized for US federal income tax purposes by the stockholders of the Company who exchange Company Common Stock for Parent ADSs or Merger Ordinary Shares pursuant to the Merger (except with respect to cash received in lieu of fractional Parent ADSs or Merger Ordinary Shares).

(e) Proceedings. All proceedings to be taken on the part of Parent and Merger Sub in connection with the transactions contemplated by this Agreement and all documents incident thereto shall be reasonably satisfactory in form and substance to the Company, and the Company shall have received copies of all such documents and other evidences as the Company may reasonably request in order to establish the consummation of such transactions and the taking of all proceedings in connection therewith.

ARTICLE VIII TERMINATION, AMENDMENT AND WAIVER

8.01 Termination. This Agreement may be terminated, and the transactions contemplated hereby may be abandoned, at any time prior to the Effective Time, whether prior to or after the Company Stockholders' Approval or the Parent Shareholders' Approval:

(a) By mutual written agreement of the parties hereto duly authorized by action taken by or on behalf of their respective Boards of Directors;

(b) By either the Company or Parent upon notification to the non-terminating party by the terminating party:

(i) at any time after the date which is nine (9) months following the date of this Agreement if the Merger shall not have been consummated on or prior to such date and such failure to consummate the Merger is not caused by a breach of this Agreement by the terminating party; provided, however, that if on such date Parent and the Company have not received all of the approvals required in order to satisfy the conditions set forth in Section 7.01(i) but all other conditions to effect the Merger shall be fulfilled or shall be capable of being fulfilled, then, at the option of either Parent or the Company (which shall be exercised by written notice), the term of this Agreement shall be extended until the expiration of such date which is eighteen (18) months after the date of this Agreement;

(ii) if the Company Stockholders' Approval or the Parent Shareholders' Approval shall not be obtained by reason of the failure to obtain the requisite vote upon a vote actually held at a meeting of such stockholders or shareholders, or any adjournment thereof, called therefor;

(iii) if there has been a material breach of any representation, warranty, covenant or agreement on the part of the non-terminating party set forth in this Agreement (determined in all cases as if the terms "material" or "materially" were not included in any such representation or warranty), which breach is not curable or, if

curable, has not been cured within thirty (30) days following receipt by the non-terminating party of notice of such breach from the terminating party which breach, when taken together with any other breaches of representations, warranties, covenants and agreements of the non-terminating party contained in this Agreement, has or would reasonably be expected to have a material adverse effect on the Company and its Subsidiaries taken as a whole; or

(iv) if any court of competent jurisdiction or other competent Governmental or Regulatory Authority shall have issued an order making illegal or otherwise preventing or prohibiting the Merger and such order shall have become final and nonappealable;

(c) By the Company upon five (5) days' prior notice to Parent if (i) the Board of Directors of the Company determines in good faith, that a failure to terminate this Agreement could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law by reason of an unsolicited bona fide Alternative Proposal meeting the requirements of clauses (B) and (C) of Section 5.07 having been made; provided that

(A) The Board of Directors of the Company shall have been advised by outside counsel, that notwithstanding a binding commitment to consummate an agreement of the nature of this Agreement entered into in the proper exercise of its applicable fiduciary duties, and notwithstanding all concessions which may be offered by Parent in negotiations entered into pursuant to clause (B) below, a failure to reconsider such commitment as a result of such Alternative Proposal could reasonably be expected to result in a breach of its fiduciary duties to stockholders imposed by law, and

(B) prior to any such termination, the Company shall, and shall cause its respective financial and legal advisors to, negotiate with Parent to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the transactions contemplated herein on such adjusted terms;

and provided further that the Company's ability to terminate this Agreement pursuant to this clause (i) is conditioned upon the prior payment by the Company to Parent of any amounts owed by it pursuant to Section 8.02(b);

or (ii) the Board of Directors of Parent (or any committee thereof) shall have withdrawn or modified in a manner materially adverse to the Company its approval or recommendation of this Agreement or the Merger; or

(d) By Parent if the Board of Directors of the Company (or any committee thereof) (i) shall have withdrawn or modified in a manner materially adverse to Parent its approval or recommendation of this Agreement or the Merger, (ii) shall fail to reaffirm such approval or recommendation upon Parent's request, (iii) shall have approved, recommended or taken no position with respect to an Alternative Proposal to the stockholders of the Company or (iv) shall resolve to take any of the foregoing actions; or

(e) By the Company if there has been a Change of Control prior to the Effective Time. A "Change of Control" shall occur if any of the following applies: (A) Any "Person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Parent representing 30 percent or more of the combined voting power of Parent's outstanding capital stock; (B) the shareholders of Parent approve a merger or other consolidation of Parent with any other company, other than a merger or consolidation effected to implement a recapitalization of Parent (or similar transaction) in which no Person acquires more than 30 percent of the combined voting power of Parent's then outstanding securities; (C) a tender or exchange offer is made for the ordinary shares of Parent (or securities convertible into ordinary shares of Parent) and such offer results in a portion of those securities being purchased and the offeror after the consummation of the offer is the beneficial owner (as determined pursuant to Section 13(d) of the Exchange Act), directly or indirectly, of securities representing at least 30 percent of the voting power of outstanding securities of Parent; or (D) Parent sells 30 percent or more of its operating assets to a buyer that is not a member of Parent controlled group of corporations.

8.02 Effect of Termination. (a) If this Agreement is validly terminated by either the Company or Parent pursuant to Section 8.01, this Agreement will forthwith become null and void and there will be no liability or obligation on the part of either the Company or Parent (or any of their respective Representatives or affiliates), except (i) that the provisions of Sections 6.13, 6.14 and 6.16, this Section 8.02, and Sections 9.10 and 9.11 will continue to apply following any such termination, (ii) that nothing contained herein shall relieve any party hereto from liability for willful breach of its representations, warranties, covenants or agreements contained in this Agreement and (iii) as provided in paragraphs (b) and (c) below.

(b) In the event that any person or group shall have made an Alternative Proposal and thereafter (i) this Agreement is terminated (x) by the Company pursuant to Section 8.01(c)(i), (y) by Parent pursuant to Section 8.01(b)(iii) or Section 8.01(d) or (z) by either party pursuant to Section 8.01(b)(ii) as a result of the Company Stockholders' Approval not being obtained or (ii) this Agreement is terminated for any other reason (other than by reason of the breach of this Agreement by Parent or pursuant to Section 8.01(b)(ii) as a result of the Parent Shareholders' Approval not being obtained or Section 8.01(c)(ii) or 8.01(e) and, in the case of this clause (ii) only, a definitive agreement with respect to such Alternative Proposal is executed within one year after such termination, then the Company shall pay to Parent, by wire transfer of same day funds, either on the date contemplated in Section 8.01(c) if applicable, or otherwise, within two (2) business days after such amount becomes due, a termination fee of \$250,000,000.

(c) In the event that this Agreement is terminated by the Company following a Change of Control, then Parent shall pay to the Company, by wire transfer of same day funds, within two (2) business days following such termination, a termination fee of \$250,000,000.

(d) In the event that this Agreement is terminated by either party pursuant to Section 8.01(b)(ii) in circumstances in which the termination fee set forth in clause (b) above is not payable, (i) in the case of the Company Stockholders' Approval not being obtained and the Parent Shareholders' Approval having been obtained, the Company shall pay to Parent or (ii) in

the case of the Parent Shareholders' Approval not being obtained and the Company Stockholders' Approval having been obtained, Parent shall pay to the Company, in each case an amount equal to \$10,000,000.

(e) If the Company fails promptly to pay the amount due pursuant to the preceding paragraphs, and in order to obtain such payment, Parent or Merger Sub commences a suit which results in a judgment against the Company for the fee set forth in such paragraph, the Company shall pay to Parent or Merger Sub, as the case may be, its cost and expenses (including reasonable attorneys' fees and expenses) in connection with such suit, together with interest on the amount of the fee at the prime rate of The Chase Manhattan Bank in effect on the date such payment was required to be made.

8.03 Amendment. This Agreement may be amended, supplemented or modified by action taken by or on behalf of the respective Boards of Directors of the parties hereto at any time prior to the Effective Time, whether prior to or after the Company Stockholders' Approval or the Parent Shareholders' Approval shall have been obtained, but after such adoption and approval only to the extent permitted by applicable law. No such amendment, supplement or modification shall be effective unless set forth in a written instrument duly executed by or on behalf of each party hereto.

8.04 Waiver. At any time prior to the Effective Time any party hereto, by action taken by or on behalf of its Board of Directors, may to the extent permitted by applicable law (i) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (ii) waive any inaccuracies in the representations and warranties of the other parties hereto contained herein or in any document delivered pursuant hereto or (iii) waive compliance with any of the covenants, agreements or conditions of the other parties hereto contained herein. No such extension or waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party extending the time of performance or waiving any such inaccuracy or non-compliance. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion.

ARTICLE IX GENERAL PROVISIONS

9.01 Non-Survival of Representations, Warranties, Covenants and Agreements. The representations, warranties, covenants and agreements contained in this Agreement or in any instrument delivered pursuant to this Agreement shall not survive the Merger but shall terminate at the Effective Time, except for the agreements contained in Article I and Article II, in Sections 5.01(o), 5.02(k), 6.09, 6.10, 6.11, 6.12, 6.14, 6.16 and 6.18, this Article IX and the agreements of the "affiliates" of the Company delivered pursuant to Section 6.04, which shall survive the Effective Time.

9.02 Notices. All notices, requests and other communications hereunder must be in writing and will be deemed to have been duly given only if delivered

personally or by facsimile transmission or mailed (first class postage prepaid) to the parties at the following addresses or facsimile numbers:

If to Parent, the Partnership or Merger Sub, to:

Scottish Power plc
1 Atlantic Quay
Glasgow G2 8FP
Facsimile No.: 011-44-141-248-8300
Attn: Company Secretary

with a copy to:

Milbank, Tweed, Hadley & McCloy
1 Chase Manhattan Plaza
New York, N.Y. 10005
Facsimile No.: (212) 530-5219
Attn: M. Douglas Dunn

and to:

Freshfields
65 Fleet Street
London EC4Y 1HS
Facsimile No.: 011-44-171-832-7001
Attn: Simon Marchant

If to the Company, to:

PacifiCorp
700 N.E. Multnomah
Portland, Oregon 97232-4116
Facsimile No.: (503) 813-7250
Attn: Executive Vice President and Chief Operating Officer

with a copy to:

Stoel Rives LLP
900 S.W. Fifth Avenue
Suite 2300
Portland, Oregon 97232
Facsimile No.: (503) 220-2480
Attn: Dexter E. Martin

and to:

LeBoeuf, Lamb, Greene & MacRae, LLP

125 West 55th Street
New York, NY 10019
Facsimile No.: (212) 424-8500
Attn: William S. Lamb

All such notices, requests and other communications will (i) if delivered personally to the address as provided in this Section, be deemed given upon delivery, (ii) if delivered by facsimile transmission to the facsimile number as provided in this Section, be deemed given upon receipt, and (iii) if delivered by mail in the manner described above to the address as provided in this Section, be deemed given upon receipt (in each case regardless of whether such notice, request or other communication is received by any other person to whom a copy of such notice, request or other communication is to be delivered pursuant to this Section). Any party from time to time may change its address, facsimile number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

9.03 Entire Agreement; Incorporation of Exhibits. (a) This Agreement supersedes all prior discussions and agreements among the parties hereto with respect to the subject matter hereof, other than the Confidentiality Agreement, which shall survive the execution and delivery of this Agreement in accordance with its terms, and contains, together with the Confidentiality Agreement, the sole and entire agreement among the parties hereto with respect to the subject matter hereof.

(b) The Company Disclosure Letter, the Parent Disclosure Letter and any Exhibit or Schedule attached to this Agreement and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

9.04 Public Announcements. Except as otherwise required by law or the rules of any applicable securities exchange or national market system or any other Regulatory Authority (including the U.K. Takeover Panel), so long as this Agreement is in effect, Parent and the Company will not, and will not permit any of their respective Subsidiaries or Representatives to, issue or cause the publication of any press release or make any other public announcement with respect to the transactions contemplated by this Agreement without the consent of the other party, which consent shall not be unreasonably withheld. Parent and the Company will cooperate with each other in the development and distribution of all press releases and other public announcements with respect to this Agreement and the transactions contemplated hereby, and will furnish the other with drafts of any such releases and announcements as far in advance as practicable.

9.05 No Third Party Beneficiary. The terms and provisions of this Agreement are intended solely for the benefit of each party hereto and their respective successors or permitted assigns, and except as provided in Sections 6.09, 6.10, 6.11 and 6.12 (which are intended to be for the benefit of the persons entitled to therein, and may be enforced by any of such persons), it is not the intention of the parties to confer third-party beneficiary rights upon any other person.

9.06 No Assignment; Binding Effect. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other parties hereto and any attempt to do so will be void, except that Parent may cause Merger Sub to assign any or all of its rights, interests and obligations hereunder to another direct or indirect wholly-owned Subsidiary of Parent, provided that any such Subsidiary agrees in writing to be bound by all of the terms, conditions and provisions contained herein. This Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and assigns.

9.07 Headings. The headings used in this Agreement have been inserted for convenience of reference only and do not define, modify or limit the provisions hereof.

9.08 Invalid Provisions. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law or order, and if the rights or obligations of any party hereto under this Agreement will not be materially and adversely affected thereby, (i) such provision will be fully severable, (ii) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof, and (iii) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom.

9.09 Governing Law. Except to the extent that the BCA is mandatorily applicable to the Merger and the rights of the stockholders of the Constituent Corporations, this Agreement shall be governed by and construed in accordance with the laws of the State of New York applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

9.10 Submission to Jurisdiction; Waivers. Each of Parent (on behalf of itself and Merger Sub), the Partnership, UKSub 1, UKSub 2 and the Company irrevocably agree that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by another party hereto or its successors or assigns may be brought and determined in the Supreme Court of the State of New York in New York County or in the United States District Court for the Southern District of New York, and each of Parent (on behalf of itself and Merger Sub), the Partnership, and the Company hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the nonexclusive jurisdiction of the aforesaid courts. Any service of process to be made in such action or proceeding may be made by delivery of process in accordance with the notice provisions contained in Section 9.02. Each of Parent, the Partnership, Merger Sub, and the Company hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (a) the defense of sovereign immunity, (b) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 9.10, (c) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of

execution of judgment, execution of judgment or otherwise), and (d) to the fullest extent permitted by applicable law that (i) the suit, action or proceeding in any such court is brought in an inconvenient forum, (ii) the venue of such suit, action or proceeding is improper and (iii) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

9.11 Enforcement of Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement was not performed in accordance with its specified terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in any court of competent jurisdiction, this being in addition to any other remedy to which they are entitled at law or in equity.

9.12 Certain Definitions. As used in this Agreement:

(a) except as used in Sections 2.03(b), 3.02(c), 3.17 and 6.04, the term "affiliate," as applied to any person, shall mean any other person directly or indirectly controlling, controlled by, or under common control with, that person; for purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of that person, whether through the ownership of voting securities, by contract or otherwise;

(b) a person will be deemed to "beneficially" own securities if such person would be the beneficial owner of such securities under Rule 13d-3 under the Exchange Act, including securities which such person has the right to acquire (whether such right is exercisable immediately or only after the passage of time);

(c) the term "business day" means a day other than Saturday, Sunday or any day on which banks located in the State of Oregon or London, England are authorized or obligated to close;

(d) the term "knowledge" or any similar formulation of "knowledge" shall mean, with respect to any party hereto, the actual knowledge after due inquiry of the executive officers of Parent or the Company and its Subsidiaries, respectively, set forth in Section 9.12(d) of the Parent Disclosure Letter or Section 9.12(d) of the Company Disclosure Letter.

(e) any reference to any event, change or effect having a "material adverse effect" on or with respect to an entity (or group of entities taken as a whole) means such event, change or effect is materially adverse to the business, properties, assets, liabilities, financial condition or results of operations of such entity (or of such group of entities taken as a whole);

(f) the term "person" shall include individuals, corporations, partnerships, trusts, other entities and groups (which term shall include a "group" as such term is defined in Section 13(d)(3) of the Exchange Act);

(g) the "Representatives" of any entity means such entity's directors, officers, employees, legal, investment banking and financial advisors, accountants and any other agents and representatives;

(h) except as used in Sections 3.02(d) and 3.17, the term "Subsidiary" means, with respect to any party, any corporation or other organization, whether incorporated or unincorporated, of which more than fifty percent (50%) of either the equity interests in, or the voting control of, such corporation or other organization is, directly or indirectly through Subsidiaries or otherwise, beneficially owned by such party.

9.13 Counterparts. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

9.14 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTION CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

EXHIBIT A

	<u>Column A</u>	<u>Column B</u>
Proportion of Parent Ordinary Shares represented by Parent ADSs	not more than 75%	not less than 25%
Proportion of Merger Ordinary Shares	not more than 75%	not less than 25%

[Form of Affiliate's Agreement]

[Date]

[name]

[address]

Ladies and Gentlemen:

I have been advised that as of the date hereof I may be deemed to be an "affiliate" of PacifiCorp, an Oregon corporation (the "Company"), as that term is defined for purposes of paragraphs (c) and (d) of Rule 145 of the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933, as amended (the "Act"). Neither my entering into this agreement, nor anything contained herein, shall be deemed an admission on my part that I am such an "affiliate".

Pursuant to the terms of the Agreement and Plan of Merger dated as of December 6, 1998 (the "Merger Agreement"), among Scottish Power plc, a public limited company incorporated under the laws of Scotland ("Parent"), NA General Partnership, a Nevada general partnership (the "Partnership"), and the Company providing for the merger of a wholly-owned subsidiary of the Partnership with and into the Company (the "Merger"), and as a result of the Merger, I may receive shares of Parent's American Depositary Shares, each representing four Parent Ordinary Shares (the "Parent Securities"), in exchange for the shares of common stock, without par value, of the Company owned by me at the Effective Time (as defined in the Merger Agreement) of the Merger.

I represent and warrant to Parent that in such event:

A. I shall not make any sale, transfer or other disposition of the Parent Securities in violation of the Act or the Rules and Regulations

B. I have carefully read this letter and the Merger Agreement and discussed its requirements and other applicable limitations upon my ability to sell, transfer or otherwise dispose of Parent Securities, to the extent I felt necessary, with my counsel or counsel for the Company.

C. I have been advised that the issuance of Parent Securities to me pursuant to the Merger has been registered with the Commission under the Act on a Registration Statement on Form F-4. However, I have also been advised that, since at the time the Merger

was submitted for a vote of the stockholders of the Company I may have been deemed to have been an affiliate of the Company and a distribution by me of Parent Securities has not been registered under the Act, the Parent Securities must be held by me indefinitely unless (i) a distribution of Parent Securities by me has been registered under the Act, (ii) a sale of Parent Securities by me is made in conformity with the volume and other limitations of Rule 145 promulgated by the Commission under the Act or (iii) in the opinion of counsel reasonably acceptable to Parent, some other exemption from registration is available with respect to a proposed sale, transfer or other disposition of the Parent Securities by me.

D. I understand that Parent is under no obligation to register the sale, transfer or other disposition of Parent Securities by me or on my behalf or to take any other action necessary in order to make compliance with an exemption from registration available.

E. I also understand that stop transfer instructions will be given to Parent's transfer agents with respect to the Parent Securities and that there will be placed on the certificates for the Parent Securities, or any substitutions therefor, a legend stating in substance:

"The shares represented by this certificate were issued in a transaction to which Rule 145 promulgated under the Securities Act of 1933, as amended, applies. The shares represented by this certificate may only be transferred in accordance with the terms of an agreement dated _____, _____, between the registered holder hereof and _____ (the "Corporation"), a copy of which agreement is on file at the principal offices of the Corporation."

F. I also understand that unless the transfer by me of my Parent Securities has been registered under the Act or is a sale made in conformity with the provisions of Rule 145, Parent reserves the right to put the following legend on the certificates issued to my transferee:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended, and were acquired from a person who received such shares in a transaction to which Rule 145 promulgated under such Act applies. The shares have been acquired by the holder not with a view to, or for resale in connection with, any distribution thereof within the meaning of such Act and may not be sold, pledged or otherwise transferred except in accordance with an exemption from the registration requirements of such Act."

It is understood and agreed that the legends set forth in paragraph E and F above shall be removed by delivery of substitute certificates without such legend if the undersigned shall have delivered to Parent a copy of a letter from the staff of the Commission, or an opinion of counsel reasonably acceptable to Parent to the effect that such legend is not required for purposes of the Act.

Very truly yours,

Name:

Accepted this ____ day of

_____, _____, by:

SCOTTISH POWER plc

By: _____

Name:

Title:

SCHEDULE I

Directors and Executive Officers of the Surviving Corporation

Directors

Ian Robinson – Chairman
Ian M. Russell
Duncan Whyte
Kenneth L. Vowles
Alan V. Richardson
Richard T. O'Brien
Robert Green

Executive Officers

Alan V. Richardson – Chief Executive Officer
Richard T. O'Brien – Chief Operating Officer
Robert Green – Chief Financial Officer

SCHEDULE II

1. The parties agree that in the event Parent in its discretion determines, either by reason of requirements imposed or requests made directly or indirectly by or confirmations not being forthcoming from applicable Governmental and Regulatory Authorities or by reason of mutual agreement of Parent and the Company (which determination shall be made, in any event, not later than January 31, 1999), that Parent reorganize to place a newly established holding company above Parent ("Holdco") with the effect that:

- (a) Holdco would directly own the issued and outstanding shares of Parent and UKSub 1 and UKSub 2 and possibly other subsidiaries presently owned by Parent;
- (b) the ordinary shares of Holdco would be held by the previous holders of Parent ordinary shares and a special rights non-voting redeemable preference share may be issued by Holdco to the holder of the special rights non-voting redeemable preference share in Parent;
- (c) the board of Holdco will be the same as the Board of Parent and, following the Effective Time, will be as contemplated by this Agreement; and
- (d) the Memorandum and Articles of Association of Holdco will be the same as the previous Parent Memorandum and Articles of Association (other than in any respect which does not materially adversely affect the benefits of the Merger for Company stockholders)

(the "Reorganization"), then, the parties agree to effect the Merger as if Holdco had originally been a party hereto in place of Parent.

2. Accordingly, in these circumstances, this Agreement shall be amended so that, with effect from Holdco becoming the holding company of Parent:

- (a) the rights and obligations of Parent shall become the rights and obligations of Holdco;
- (b) the representations and warranties of Parent shall become representations and warranties of Holdco (subject to such changes as may be necessary to reflect or which are consequent upon the Reorganization); and
- (c) in all other respects, this Agreement shall remain the same, save for those changes as may be necessary to reflect, or which are consequent upon, the Reorganization;

but only to the extent that such amendment shall not materially adversely affect the relative rights, obligations, benefits and burdens of Parent/Holdco and the Company or the benefits of the Merger for Company stockholders by virtue of the changes referred to in subparagraphs (b) and (c) above.

3. The parties further agree that:

- (a) any Reorganization and any steps, actions or approvals required, taken or proposed to implement the same shall not give rise to any breach of this Agreement (including the representations and warranties herein), or right to terminate this Agreement (including, but not limited to, under Section 8.01(e) hereof), or to any payment under Section 8.02(c);
- (b) the amendments to this Agreement required to give effect to the Reorganization described above shall not have any effect on the binding nature of this Agreement or the obligations of the parties as described in this Agreement (and Holdco on it becoming a party hereto) to effect and consummate the transactions contemplated hereby.

4. Following any determination as is referred to in paragraph 1 above, the parties further agree to use all reasonable best efforts to ensure that the Reorganization and the Merger are completed.

5. For the avoidance of doubt, it is acknowledged that the fact that the Reorganization may be subject to (i) additional Parent shareholder approvals (including by way of a special resolution and/or by the approval of three fourths in value of the Parent ordinary shareholders present and voting either in person or by proxy at the relevant meeting) and (ii) other consents and approvals by Governmental and Regulatory Authorities and the Courts of Scotland, England and Wales (but not including any conditions, limitations or restrictions imposed by such Governmental and Regulatory Authorities and Courts), shall not be regarded as materially and adversely affecting the relative rights, obligations, benefits and burdens of Parent/Holdco and the Company or the benefits of the Merger for Company stockholders.

6. The provisions of this Schedule II shall apply notwithstanding any other provision of this Agreement.

Annual Report and
Accounts 1997-98

Prepared for
competition



Prepared for competition
 We are committed builders of businesses,
 in electricity and utility-related markets,
 determined to deliver outstanding performance.

Financial Highlights	1	Board of Directors	28	Accounts	38-62
Chairman's Statement	2	Report of the Directors	30	Accounting Policies and Definitions	38
Chairman Murray Stuart's overview of the past year for ScottishPower		Corporate Governance	33	Group Profit and Loss Account	42
Chief Executive's Review	6	Report of the Emoluments and Nominations Committee	35	Notes to the Group Profit and Loss Account	44
Chief Executive Ian Robinson reviews the past year and looks at the strategy for growing the business				Group Cash Flow Statement	46
Financial Review	20			Notes to the Group Cash Flow Statement	47
Finance Director Ian Russell's review of the group's financial performance.				Balance Sheets	48
				Notes to the Balance Sheets	49
				Principal Subsidiary Undertakings and Other Investments	62
				Reports of the Auditors	63
				Five Year Financial Summary	64
				Company Information	65
				Shareholder Information	65

Note

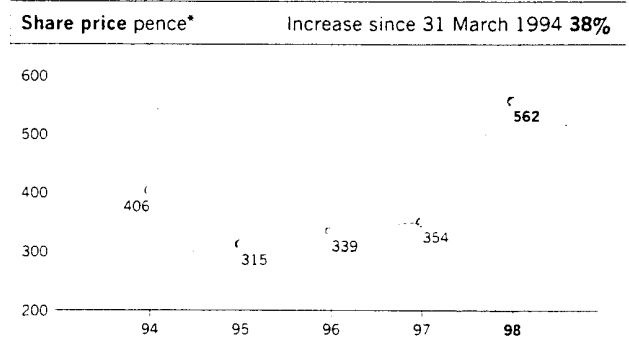
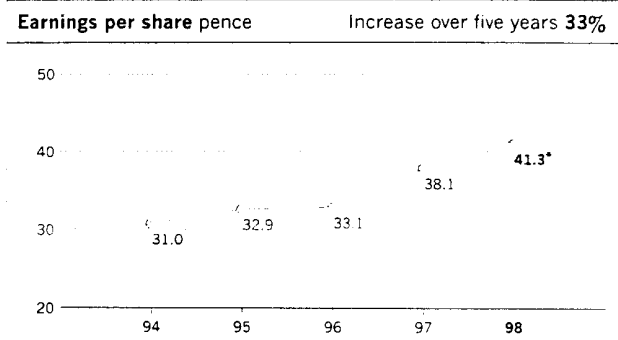
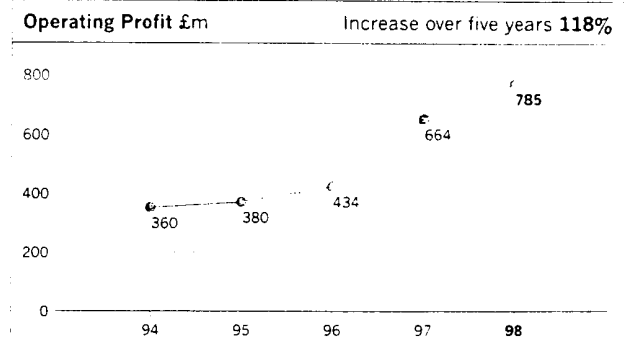
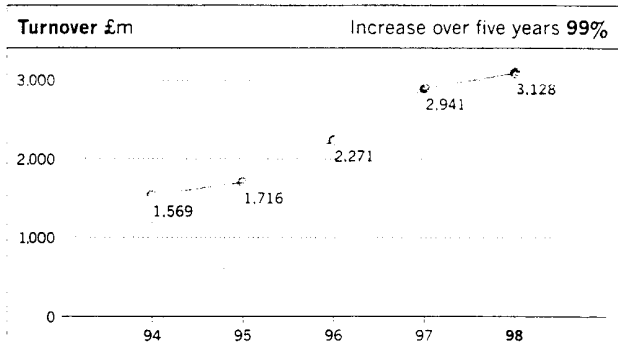
The company is required to prepare and publish separate accounts for its regulated businesses in accordance with its Licences. Copies of the Scottish Power plc, Manweb plc and Southern Water Services Limited regulatory accounts may be obtained on request from the Company Secretary at the company's registered office.

Financial Highlights 1997-98

Another year of very satisfactory operating and financial performance.

	1998 £m	1997 £m
Turnover	3,128	2,941
Operating profit	785	664
Profit before tax	640	558
Free cash flow*	707	573
Earnings per share*	41.28p	38.11p
Dividend per share	20.40p	18.50p

* 1998 figure quoted before windfall tax



* 1998 figure quoted before windfall tax

* Price at 31 March. Share prices prior to 1997 have been adjusted to reflect the rights issue in August 1996

- Good financial performance.
- Delivering efficiency savings and value from acquisitions.
- Growing the business.

Chairman's Statement

Murray Stuart
Chairman



In my statement last year I referred to the challenges created by rapid change affecting the utility sector. In the year ended 31 March 1998 ScottishPower has met these challenges strongly, in each and every part of its wide-ranging business. We have also substantially completed the transition plans designed to deliver value from both Manweb and Southern Water.

We have created one of the largest investor-owned electricity companies in the world, with a market capitalisation of around £6 billion and a customer base of five million homes in the United Kingdom. Across the group there is a wide range of skills. In addition to our energy and water activities, our other businesses – ScottishTelecom, Retail, Contracting Services and Technology – have now grown into significant businesses in comparison with competitors in their own sectors.

The new enlarged scale and scope of our business has been recognised in the

success of our listing during the year on the New York Stock Exchange.

As well as continuing to drive for growth in our UK businesses, we are exploring international opportunities in the electricity sector. We are focusing in particular upon the United States, where we believe the cultural fit and the likely development of UK-style industry restructuring and convergence may offer opportunities to deliver value by applying our core skills. We shall only proceed if we see the opportunity to add substantial value for ScottishPower shareholders.

Financial results

I am pleased to report another very satisfactory year of operating and financial performance, as reported before deducting the provision for windfall tax. Group turnover increased from £2.9 billion to £5.1 billion, an increase of 6.4%. Pretax profits were £640 million, an increase of 14.5% over

the previous year. Earnings per share, before windfall tax, at 41.28p were up 3.17p or 8.3%.

In the year, we further increased our investment to build the business, with capital expenditure totalling £630 million compared with £460 million in the preceding year, a growth of 37%.

Southern Water accounted for £295 million of the overall group investment. This is part of an ongoing £1 billion plus investment programme in the five years to March 2000. In addition, we are continuing to make very significant investments throughout ScottishPower and Manweb, particularly in the Generation, Power Systems and Information Systems businesses. A notable feature of investment in the year was a £58 million investment in growing ScottishTelecom. We expect to continue our major investment programme in the years ahead.

We are recommending a final dividend of 15.6p net per share which, together with the increased interim dividend, will result in a full year payment of 20.4p net per share, an increase of 10%. This increase is in line with our stated aim of growing dividends at 7% to 8% real per annum, until at least the regulatory reviews in the year 2000. This dividend is covered just over two times by earnings before windfall tax.

At the year end, interest cover remained prudent at 5.3 times and our net borrowing was £1.953 million, giving gearing of 114% compared with 118% in the previous year. The borrowings at the year end were calculated after paying £158 million in windfall tax.

Value from acquisitions

We are very pleased with the progress of our programme to deliver value from Southern Water. We set ourselves an ambitious plan to achieve the operational efficiencies and customer service requirements we had in mind at the time of acquisition. I am pleased to say that this has resulted in operating

cost savings of £28 million, some £3 million ahead of plan. We have also completed a disposal programme for the businesses we no longer require in Southern Water. This will realise £90 million, some £20 million ahead of our original target. The sale of surplus property has already reached just under the target of £30 million, with further sales scheduled in the year ahead.

In Manweb operational efficiency and customer service targets have continued to exceed our expectations. Operating cost savings post-acquisition total £98 million, some £6 million ahead of plan. The electricity operations of Manweb and ScottishPower have now been combined into an integrated energy business.

Energy markets

The UK electricity industry leads the world in electricity market liberalisation. The electricity supply market is scheduled to open to full competition in stages beginning in September 1998. This is a complex and demanding challenge for the businesses involved, as it provides energy competition for every home. It is a task which has created very significant pressures for the companies involved and for the regulators. The investments required of the industry have been substantial.

Our strategy as a multi-utility supplier is founded upon cross-selling electricity and gas, and in Scotland telecommunications, to our franchise customers. We are also seeking to grow outside our existing areas of operation both directly and in partnership with others.

The challenges of competition have resulted in the adoption of a common group identity, a substantial increase in our marketing activity and very significant investments in both customer capture and information technology infrastructure.

I am pleased to say that both ScottishPower and Manweb have been among the leaders in the industry in terms of systems development and, as a

consequence, will be two of the first companies ready for the competitive market opening from September 1998 in electricity. We are also in the forefront of gas liberalisation. At the end of March 1998 we had 320,000 domestic gas customers and 15,000 industrial and commercial gas customers.

Water

Southern Water has not only succeeded in reaching our transition targets, it has also devoted great attention to strengthening its customer focus and improving services throughout the year. In terms of water supply we are one of the industry leaders for our low leakage rates and we responded positively to the Government's Water Summit targets.

We continue our major waste water investment programme and have completed, and commenced, large new capital projects during the year to improve bathing water quality along the south coast. There has also been significant upgrading and expansion of our existing systems and further investment to improve the capacity and flexibility of our water supply capability.

Telecommunications

ScottishTelecom has continued to grow rapidly. Our telecommunications network was developed during the year to extend our coverage from Central Scotland to Perth, Dundee and Aberdeen. Network build to cover the Highlands & Islands has also been started. Following the success of our growth in the corporate sector, we have successfully launched a residential service to domestic customers in Central Scotland and extended our mobile telecommunications business. Several focused acquisitions have led to the successful development of call centre and information services. The post year end acquisition of Demon Internet, the UK's largest independent Internet Service Provider, further enhances our comprehensive range of services for our customers.

Windfall tax

As noted previously, the results for the year, after providing £317 million for windfall tax, are significantly affected in their comparison with previous years. Gearing at the year end was 114% compared to 100% prior to the tax. The company will continue to bear the impact of the tax through higher interest costs in the coming years.

As your Board commented in the Interim Report published in November, we do not believe that our Scottish businesses achieved windfall profits on which such a tax was chargeable; however, after taking professional advice, the Board was satisfied that it should provide fully for the tax which was assessed at £317 million for the group as a whole.

Regulation

In the next two years our electricity and water businesses will be subject to major regulatory review. The Government's Green Paper on utility regulation, published in March 1998, put forward proposals for changes in relation to regulation and invited consultation. We are actively participating in this process.

Devolution

Your company continues to contribute actively to the devolution processes in both Scotland and Wales. We are convinced that devolution offers positive opportunities for your company. However, it is critical for the operational future of all businesses in Scotland and Wales that a 'level playing field' – particularly in areas of local planning, environment, regulation and business rates – is maintained across the UK.

Board and senior management changes

During the year it was announced that Mike Kinski, the executive director responsible for Power Distribution and Water Operations would be leaving to become Chief Executive of Stagecoach Holdings plc. Mike has made an

ScottishPower's Impact in the UK

Business Strategies Limited reviewed the 1996-97 activities of the ScottishPower group. Key findings of this report highlighted:

The group supports 1% of the UK economy, 153,000 full time equivalent jobs and contributes £5.6 billion in total annually into the UK economy

In Scotland the company supports 24,000 full time equivalent jobs and £1.2 billion annually into the Scottish economy

In the Manweb area the company supports 7,000 full time equivalent jobs and contributes £389 million annually into the local economy

In the Southern Water* area the company supports 8,500 full time equivalent jobs and contributes £475 million annually into the local economy

* estimates pre-disposal of non-core businesses

Source: 'Impact of ScottishPower' – Business Strategies Limited (December 1997)

effective contribution to our operations during his five years with us. Ian Russell and Duncan Whyte have become Chairman of Southern Water and Manweb respectively. They are supported by two very experienced operational Managing Directors, Ronnie Mercer at Southern Water and Bill Landels at Manweb. Charles Berry has assumed responsibility for Energy Supply.

In April 1998 Mair Barnes joined us as a non-executive director. Mair has a strong commercial background and significant experience in running customer focused businesses, including Vantios plc, the parent company of Dollond & Aitchison where she is Executive Chairman. We look forward to receiving the benefit of her counsel.

Customer service

During the year we have continued to invest in the development of systems which will enable us to deliver further improvements to customer service. We have also continued our focused programmes of training so that our

employees are in a better position to offer enhanced service to customers. Our commitment to putting customers first is comprehensively sustained in each and every part of the business.

We experienced severe weather conditions in parts of our operations last Winter, when hurricane force winds caused extensive damage. This resulted in significant interruption of electricity supplies to customers, particularly in Wales and North West England. We are grateful for our customers' understanding of the difficulties and for the tremendous dedication shown by our staff to restoring service.

Again I would like to thank all our employees and management for their contribution to the success of the group during the year and in their commitment to customers.

Environment

The ever increasing drive towards making energy and water usage more sustainable presents many challenges for the group. Achieving the balance between affordable supplies whilst increasing the level of environmental protection will not be easy. The Government's target of reducing carbon dioxide emissions by 20% and the forthcoming revision of the Sustainable Development Strategy will alter the shape of our industry. ScottishPower is well placed to deliver the kind of solutions that the Government seeks. We are a major player in the renewable energy field and we have a strong track record in achieving energy efficiency in partnership with our customers.

Community involvement

The company continues to be closely involved with the communities we serve, particularly through support and sponsorship in the fields of education, sport and the arts. ScottishPower Learning, a major commitment to education in partnership with the Trade Unions, has now extended its operations in association with the Government's programme of Welfare to

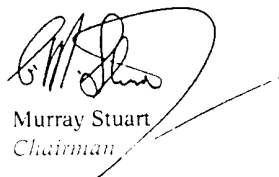
Work. Our Chief Executive, Ian Robinson, is Chairman of the Scottish Advisory Task Force on the Welfare to Work programme.

Outlook

ScottishPower has established itself as a substantial multi-utility group, with a customer base of five million homes across the UK. We are strongly positioned in both operational and financial terms.

In the next year, we will be investing significant capital and revenue in the company to build long-term value for our shareholders.

Looking ahead, we foresee further changes in the utility industry, both at home and abroad, and continued challenges in terms of regulation and competition. The quality of our staff, and our experience to date in dealing with these issues, give us confidence that we will be able to turn these challenges into opportunities.



Murray Stuart
Chairman

Chief Executive's Review

ScottishPower and Manweb will be among the first companies ready for the opening of the domestic electricity supply markets. We are established as a leading competitor to British Gas in domestic gas supply in our three territories.

Ian Robinson
Chief Executive



The utility sector has entered a period of great change, not just here in the UK, but on a global scale. Liberalisation of energy and telecommunications markets provides choice for even the smallest customer. The resulting competition will produce winners and losers.

It is ScottishPower's aim to ensure that it emerges among the winners.

We believe that ScottishPower, already a leading UK utility, and ranked in the world's top 25 electricity companies by market capitalisation, can develop to become one of the world's foremost investor-owned companies in its sector.

To do so will demand an unequivocal commitment to quality, focus on our customers, and an agile management team determined to succeed in the developing market environment. ScottishPower has achieved great progress towards its declared aim of becoming a full multi-utility operator, delivering energy, water and telecommunications

services to a growing customer base. We have succeeded in creating value from the acquisitions of Manweb and Southern Water. Today, ScottishPower supplies one or more of its services to some 20% of UK homes.

The group is on target to achieve 15% of the UK domestic electricity market, 12% of the gas market in our three main operating regions, as well as 10% of the Scottish telecommunications market, all by the year 2000.

Success will be measured not only in winning new customers, but also from the profitability of this new business. Technology, efficiency and customer service will play a major part in that success.

It will also depend on successful investment in our assets and new businesses. Capital investment is running currently at more than £600 million per annum, much of it on renewing and upgrading our infrastructure across the group, with

significant investments being made to build the businesses and grow future earnings.

The Government has delayed the launch of electricity liberalisation until September 1998 to allow the industry to complete preparations for the complex systems required to achieve the free market. However, ScottishPower and Manweb were well advanced ahead of the original date of April, and were the first of 14 existing distributors to test and trial those systems. That is a tribute to the skills and effort of our key staff across the businesses.

The multi-utility strategy will help us grow our business and build greater value from our assets and activities. The company will continue to watch for acquisition opportunities both within the UK and abroad, where we can apply the skills developed in our existing businesses to add shareholder value.

Energy businesses

Energy Supply

A great deal of effort is aimed at improving our understanding of our customers and their needs. Electricity prices have come down in real terms over the last year. In Scotland, domestic customers have seen real price reductions with new electricity tariffs lower than those in 1974. In Manweb domestic tariffs are 6.7% lower in real terms compared with last year.

Customer service continues to be a high priority. Whilst complaints to OFFER in Scotland rose in May last year due to initial difficulties with the new call centre, performance since then has improved and the underlying trend from August 1997 is downwards. Manweb has improved its performance in this area by 38%.

In addition, both ScottishPower and Manweb achieved ISO9002 accreditation for reporting guaranteed standards.

Opportunities offered by energy market liberalisation are key to the group's strategy. The gas market throughout Great Britain was fully liberalised by May 1998, with electricity now scheduled to be completed by June 1999.

In domestic gas supply ScottishPower is established as a leading competitor to British Gas in its three territories. Total domestic customers acquired were 320,000 at 31 March 1998. The company's target is to establish a 12% market share in our three main operating territories by the year 2000.

Call centres for gas customers have been established in Glasgow and Warrington, and their activities are extending to cover competitive electricity supply later this year.

In the business sector, our target is to win large, multi-site customers and small and medium sized enterprises. One typical multi-site deal was with the leisure chain Bass plc, which has agreed to take ScottishPower gas at 2,700 sites nationwide.

'PowerSave' projects, involving shared savings schemes for small and medium sized businesses, were piloted



Ian Robinson with The Rt Hon Gordon Brown MP, Chancellor of the Exchequer, at the inauguration of the multi-utility infrastructure project in Fife.

Energy business facts

Contribution to group operating profit

Power Systems	£249.5m
Generation	£130.8m
Energy Supply	£115.1m
Manweb	£131.3m

Energy business total £526.7m

Group total £785.1m



Energy Supply

Customer base: electricity 3.2 million; gas 320,000 domestic, 15,000 business

Power Systems

Geographic area: ScottishPower and Manweb franchise territories
62,000 km of underground cables
50,000 km of overhead lines

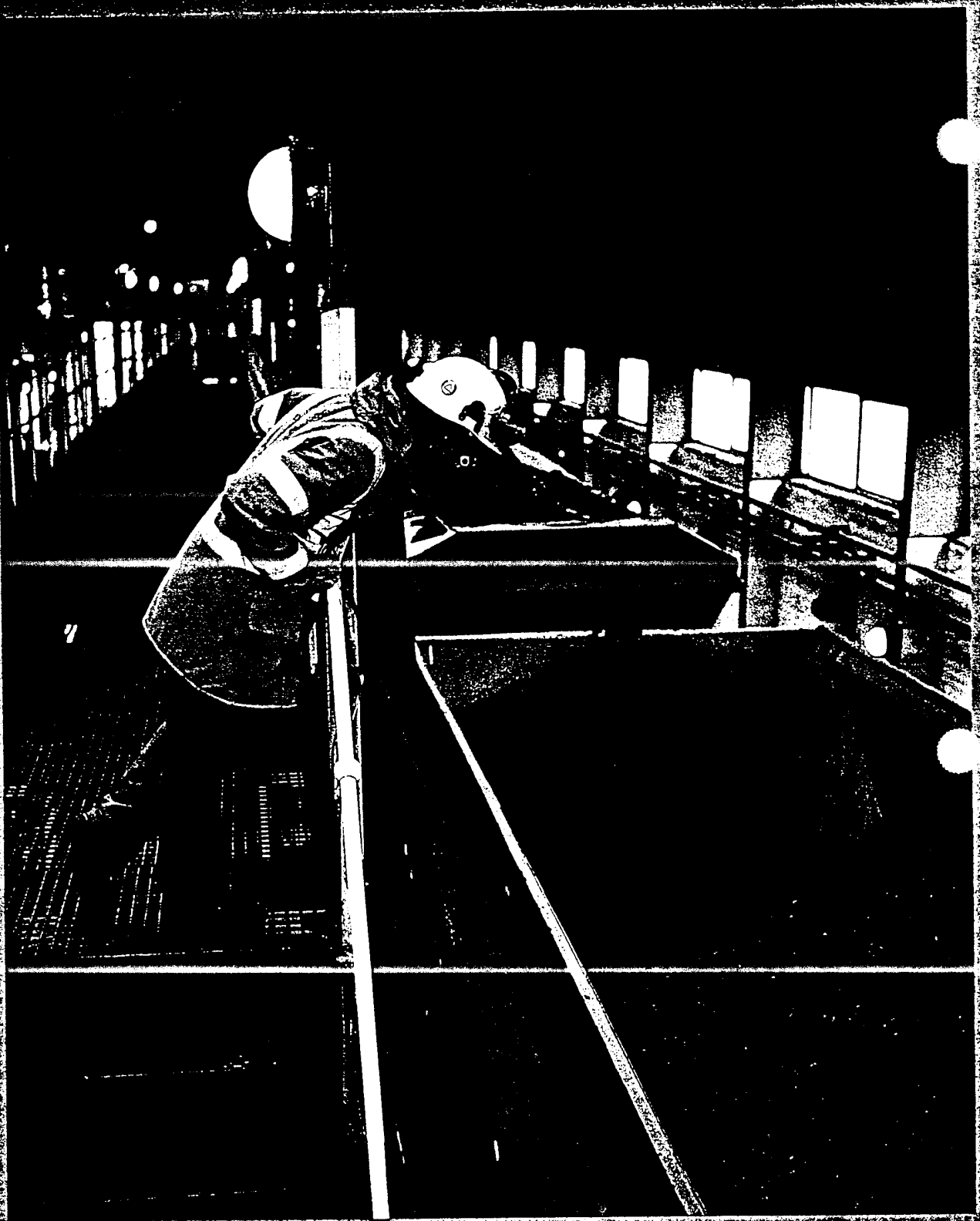
Generation

Owned capacity: 3,570 MW
Available capacity: 6,400 MW

in Merseyside and are now being rolled out to areas across the UK.

As domestic electricity markets open up in Autumn 1998, ScottishPower will adopt both defensive and offensive market strategies to protect sales in its existing marketplaces and to build new business elsewhere. Those companies that will succeed will differentiate themselves by providing innovative products and excellent customer service. The successful launch of the ScottishPower VISA card, the future development of 'lifestyle tariffs' and the introduction of a security scheme, whereby customers identify meter readers with a pre-arranged password, are examples of the many ways in which we are meeting the challenge both in our home territories and elsewhere.

Joint marketing initiatives provide access to new and untapped markets. During the year, affinity agreements were reached with Union Energy, the energy affiliate of the Trade Union Congress (TUC) representing Britain's seven million Trade Union members, and with the National Farmers Unions in Scotland and in England and Wales, offering competitively priced domestic gas and electricity to their 135,000 members.



Main Picture: The coal-burning Longanet power station, 75 miles from London.
Bottom left: Scottish coal arriving at Longanet power station from Longanet Mine.
Bottom right: Fuel tanks, many from Longanet's reservoir, coal-fired.

Power Systems

The group's Power Systems business is responsible for the distribution and transmission network in the ScottishPower franchise area and the distribution network in the Manweb area. Its prime business activities involve the provision of new connections and the development of the networks as well as refurbishment, maintenance and fault repair.

The integration of activities between ScottishPower and Manweb has contributed towards £10 million of greater efficiencies, as well as moving the company closer to the customer. The business accounts for a great deal of the group's overall investment programme, particularly as it prepares for full liberalisation of domestic electricity supply.

Much of this new infrastructure will be crucial to the company's multi-utility ambitions.

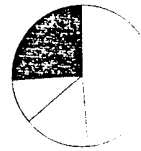
Apart from delivering electricity to its own customers, ScottishPower will also carry electricity and provide metering services for other suppliers in both territories, and significant progress has been made in training staff and completing appropriate new systems for 1998.

The Metering business has been re-structured in readiness for the removal of franchise markets and full liberalisation of supply. From the year 2000 onwards, the business will be open to competition. New terms and conditions were negotiated with staff, and the business achieved ISO9002 accreditation for its data collection system.

Investment projects include greater network automation, the installation of

Energy business facts

Capital expenditure of Energy businesses	
Power Systems	£142.1m
Generation	£43.7m
Energy Supply	£29.6m
Manweb	£74.7m
Energy business total	£290.1m
Group total	£630.1m



remote control and alarm systems at all main substations, and a new work and asset management system to improve inventory control and materials management. A business-wide benchmarking initiative, covering many areas common to ScottishPower and Manweb, reaped further savings in areas such as procurement and working practices.

The business has continued to target major inward investors. In addition, Power Systems succeeded in winning the contract to provide the connections to the LG electronics and semiconductor plants in South Wales. In a joint venture with Rolls Royce, ScottishPower installed a Dynamic Voltage Restorer at the Caledonian Paper Mill in Irvine, Ayrshire. The system protects against supply anomalies which might jeopardise production. The first of its kind to be installed in Europe, it is also the largest in the world.

Supplies were disrupted over Christmas 1997, especially in the Manweb area, where hurricane force winds struck. We recognised the inconvenience that this caused our customers and pooled resources from across the group to minimise the period during which customers had no power.

Generation

ScottishPower benefits from a diverse range of power sources, including our own thermal and renewable generation, as well as nuclear, gas and hydro-electric capacity obtained via long-term contracts. The key aim is to reduce costs and maximise utilisation by increasing sales outside Scotland. The links to England and Northern Ireland are important for this. Final approval from the President of the Board of Trade for the upgrade of the North Yorkshire transmission line, clears the way for the upgrade of the Anglo-Scottish interconnector. In addition, approval for the construction of a link to Northern Ireland has been announced. Construction work on both links will begin as soon as possible. Once the two interconnectors are fully operational our electricity exports from Scotland are forecast to increase by 50%. This increased output will be provided from our existing low cost plant at marginal cost and without any significant new generation investment.

The company has awarded long-term contracts to its major Scottish coal suppliers for over three million tonnes per annum of low-sulphur, deep-mined and opencast coal, commencing on

Southern Water

Since 1997, we have been providing a new level of service to our customers. We have introduced a range of new initiatives to improve our service and reduce our costs. These include:

1 April 1998. These provide a significant reduction in costs which will assist in offsetting the downward pressure on customer prices and are key to extending the working lives of Longannet and Cockenzie stations to 2020 and 2010 respectively.

Our Energy Trading Centre manages the gas and electricity portfolio, enabling successful competition in wholesale markets. Our approach is to optimise an energy portfolio to create value from our generation and supply activities, maximising the benefits from our vertically integrated businesses.

This is a key competitive advantage for ScottishPower, which will be further strengthened by increasing our capability to store gas during periods of low demand. The proposed conversion of Hatfield Moors underground gas reservoir in Yorkshire for storage of approximately 4.1 billion cubic feet of gas, will provide a staging facility between ScottishPower's North Sea supplies and our customers.

New generation projects include a 400 MW Combined Cycle Gas Turbine station at Shoreham Harbour, a 50:50 joint venture with Central & South-West, the US parent company of SEEBOARD. The project has planning consent and is expected to be operational in the year 2000. Financial close on the project will take place in the Summer, when the final details of the financing, estimated at some £200 million, will be confirmed. A 59 MW Combined Heat and Power station at Blackburn, Lancashire, to

supply the SAPPI UK Ltd paper mill, is awaiting planning approval.

Regulatory matters

During 1997-98 the electricity supply price review was successfully concluded with agreement on price protection for the next two years for ScottishPower's and Manweb's domestic customers. ScottishPower also reached agreement on the wholesale price for electricity in Scotland for the next two years. This maintains the linkage with the price for buying energy from the Pool in England and Wales, and restores allowances for system operation and security which were temporarily removed in 1997-98.

The company has also agreed with the regulator a delay of one year in the Scottish Transmission business price review, with transmission revenue for that year being allowed to increase at the rate of inflation.

ScottishPower is confident that the company's track record as an efficient, low cost operator will stand it in good stead in the developing regulatory environment.

Southern Water

Customers at Southern Water are benefiting from a range of new initiatives. Capital investment is averaging more than £5 million a week, reflecting our commitment to improve services to our customers in the one million premises for which we provide water and the 1.7 million premises for which we treat waste water. Improved customer service

was recognised with the award of the Government's Charter Mark.

For the second successive year, Southern Water restricted price increases, resulting in a level 5% below that set by the regulator OFWAT for 1998-99. Our new 'Customer Charter' offers service level standards above those sought by OFWAT.

Southern Water will have delivered over £1 billion worth of investment in the five years to the year 2000. Customers have experienced a sustained improvement in services already.

Around 150 miles of water mains are being replaced or re-lined each year, and long-term planning includes the potential for expansion of reservoir capacity.

Among the UK water operators, the company has one of the lowest levels of water lost through leaks: 12.4% in 1996-97 with the target being to reduce this further to 10% by the year 2000. Last year 27.9 million gallons of water were saved each day – enough to supply two cities the size of Southampton – by plugging leaks.

In May 1997, a £2 million state-of-the-art call centre, which now handles an average of 4,500 calls per day, was established at Worthing, West Sussex.

Waste water treatment

Investment continues to replace and upgrade waste water systems along the south coast. The number of beaches reaching European Union bathing standards has risen from 41% to about 90% since privatisation. In more than 1,500 independent tests during Summer 1997, 70% of bathing water tested 'excellent' and 28% 'good'.

The £42 million underground treatment works at Eastbourne was completed, in addition to works at Pennington in Hampshire and Hythe, Queenborough, Swalecliffe and Morestead in Kent. Improvements are under way at Dover and Folkestone, Hastings and Millbrook. One of Europe's largest storm water tunnels three miles long, was completed under Brighton seafront.

Water facts

Territory

Kent, Sussex, Hampshire, Isle of Wight

Customer base

1.7 million premises

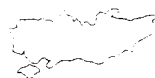
Services

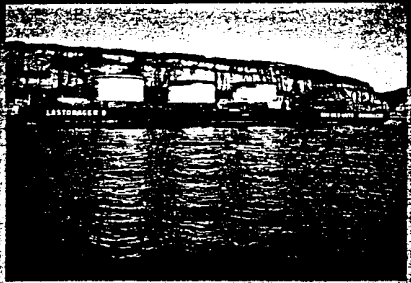
Water supply for 2.2 million people, nearly one million premises.

Waste water treatment for 4.2 million people, 1.7 million premises.

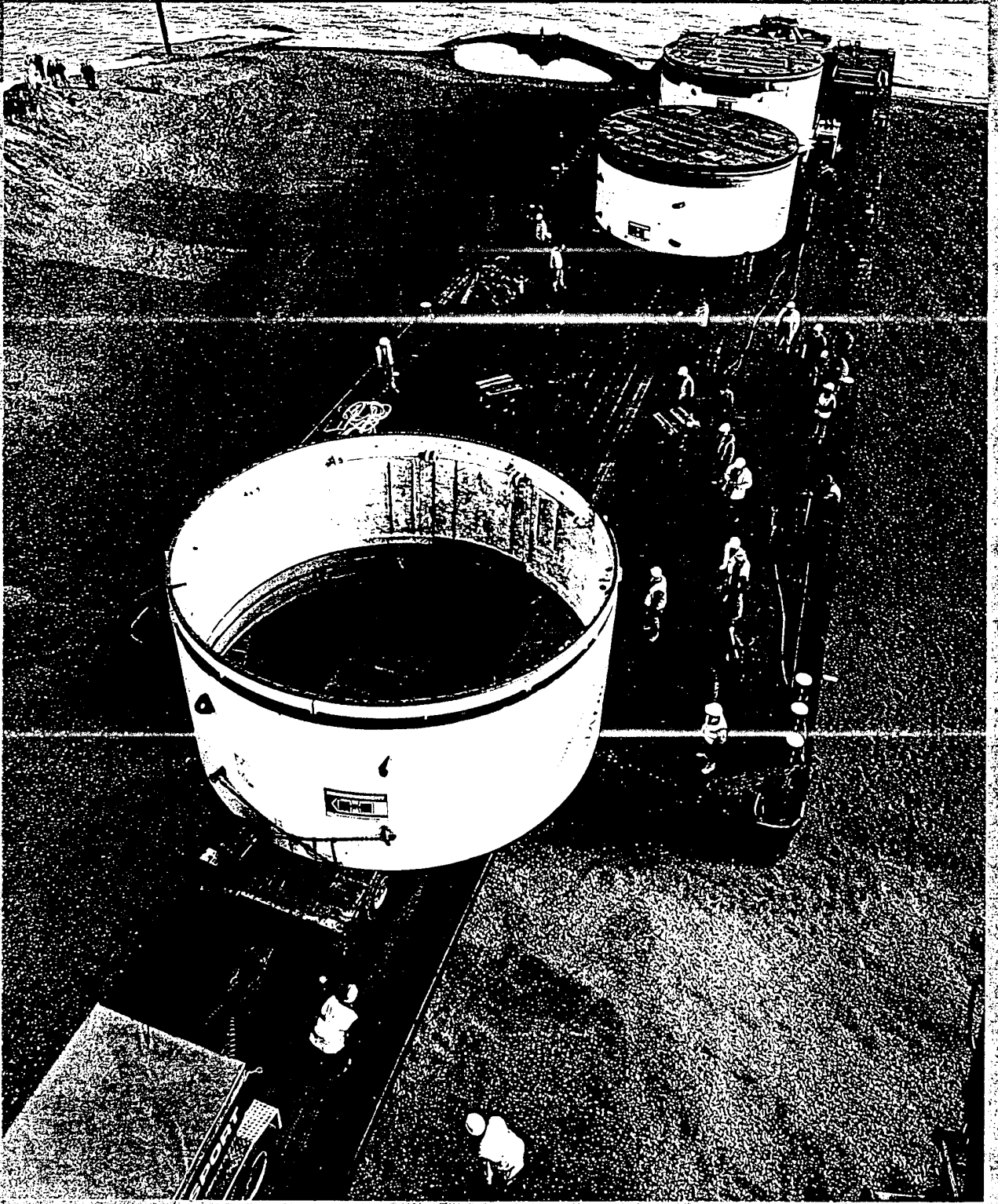
Capital expenditure 1997-98

£295 million





Left: Large gantry tunnelling machine used to drill the mile long underground sewer water tunnel at Hastings arrives in sections at Hastings beach.
Far left: Barge carrying the drill from Germany arrives at Hastings.
Left: Welding the outfall pipe for the new Dover and Folkestone waste water treatment plant.



Telecommunications facts

Customer base

6% of Scottish corporate sector
18,000 residential customers in Scotland
60,000 mobile phone customers

Services offered

Fixed voice and data, mobile services,
call centres, on-line and Internet access,
residential packages, audiotext and
personal numbering

Awards

ScottishPower group

Business Commitment to the Environment
Award 1997

Energy Supply

Best TV Commercial in Scottish
Advertising Awards 1997

Power Systems

UK National Lighting Award 1997,
Scottish Environmental Regeneration
Award 1997, Environment Award for
Engineers 1997

Generation

RoSPA's Safety Professional of the
Year Award

Southern Water

Charter Mark for customer service
excellence

ScottishTelecom

Prestel won Internet Service Provider
of the Year

Contracting Services

British Safety Council National Safety
Award, Royal Mail Gold Award for Cathcart
Mail Room

New projects have been approved for the Isle of Wight, Portsmouth, Havant, Margate and Broadstairs.

Transition plan

Southern Water's activities have been restructured into the core areas of operations, technology and customer services. This has resulted in £28 million of operating cost savings in 1997-98, with a further £9 million forecast in the next year.

ScottishPower has now sold all of Southern Water's enterprise businesses due for disposal, which will realise £90 million, against a target of £70 million. The sale of surplus property has already reached just under the target of £30 million, with further sales scheduled in the year ahead.

Regulation

OFWAT's report for 1996-97 showed the company to be the only major water operator to have average or above average performance across all services. In the Autumn of 1999 the Water Regulatory Review will set prices for the period from April 2000 to 2005. A constructive relationship with OFWAT has been established following Southern Water's takeover by ScottishPower and is underpinned by the delivery of outputs, significant improvements in efficiency and a high quality of customer service.

In March 1998 Southern Water issued a £100 million variable rate bond to help fund capital expenditure and to provide a form of Stock Exchange listing. This had been requested by OFWAT at the time of the acquisition of Southern Water by ScottishPower. The Director General of Water Services has confirmed that the issue of the bond satisfies the undertaking given by ScottishPower and Southern Water at the time of the acquisition.

ScottishTelecom

Our telecommunications business has grown quickly since 1994. Organic growth, coupled with a focused

acquisitions policy, has positioned ScottishTelecom strongly across the breadth of the communication business.

We now provide a wide portfolio of communication services ranging from fixed voice, data and mobile services to call centre services, on-line information and Internet access. We are leading the market with innovative tariff packages for these services.

The business moved into profit during 1997-98, meeting its target of £4 million. This figure is anticipated to increase during the year ahead.

The company has won the contract to service the 'virtual' University of the Highlands & Islands, connecting multiple remote sites, and will significantly develop the network around the Scottish Highlands & Islands at a cost of £35 million. The company is to expand its commercial business into the Manweb territory, beginning in Merseyside, and extending to Manchester and Staffordshire.

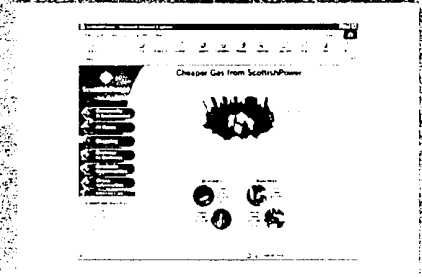
Telecommunications Services

The company has achieved a 6% share of the Scottish corporate sector, and growth is proving exponential. The company is winning a greater share of existing clients' telephony and data business. A campaign among small and medium sized enterprises has won 1,000 customers, each taking an average of five lines. More than 18,000 residential customers have signed up with ScottishTelecom and expansion of the fixed radio access (FRA) network continues in Edinburgh, Aberdeen, Stirling and Falkirk. The company provides packages of fixed and mobile telephony for domestic customers.

The merger with the Scottish interests of Martin Dawes Telecommunications Ltd. under the ScottishTelecom brand in September 1997 was followed by the acquisition in February 1998 of the Vodafone dealer Pinnacle Cellular. We now have some 60,000 mobile phone customers, making ScottishTelecom the largest independent mobile service provider in Scotland.



Main picture: Scottish Telecom is laying fibre optic cables across Kessock Bridge, Inverness as part of the project to significantly develop the network around the Scottish Highlands & Islands.
Bottom left: Dunain Hill transmitter overlooking Inverness.
Bottom right: New customers can sign up for ScottishPower gas via the Internet.



The group has invested heavily in staff training and development of new systems in readiness for the competitive energy market. ScottishPower has raised its profile throughout Britain with 174 electrical retail stores now trading.

The CallCentre Service

The Teledata acquisition in 1996 provided a platform in the call centre sector, and the company intends to grow by acquisition as well as building on existing strengths.

The company designs and manages a variety of services, including telesales, technical help desks, information and enquiry lines.

This is a growing market sector. Many companies, especially in financial services, computer hardware and software, are turning to third party providers like ScottishTelecom to manage call centre services. Our clients include Microsoft, Compaq and the US Embassy.

The Information Service

Scotland On-Line, our joint venture with publisher D.C. Thomson & Co. Ltd, is now established as the largest Scottish-based provider of information services. It should move into profit during the year ahead.

Commercial services include Scottish Golf which will, among other things, allow tourists to book golfing holidays via the World Wide Web.

The post year end acquisition of Demon Internet, the largest independent Internet Service Provider in the UK, for £66 million puts ScottishTelecom into a leading position in the rapidly expanding Internet market.

The acquisition of Megafone UK Ltd further strengthens our position as the UK's largest operator of automated call handling facilities. Other services in this area include the provision of branded services such as WeatherCall, CityCall, RaceCall, MarineCall and the football ClubCall Service.

Retail

The Retail division has opened 18 new superstores, increasing selling space by 132,000 square feet and broadening its presence across the UK.

A new Scottish distribution centre at Mossend in Lanarkshire will improve delivery service, complementing the

existing centre at Castleford in Yorkshire. Our network of 174 stores is being supported by a vastly improved infrastructure. New technology is enabling faster point-of-sale procedures and better management information across the network.

Looking ahead, we are consolidating our position as the UK's third largest electrical retail chain.

Technology

The Technology business provides engineering and technical services to a range of internal and external customers. Internal activities have varied from assisting the creation of ScottishTelecom's FRA system, to gas power station projects and refurbishment of retail stores.

External business has included the transfer of a 20 MW steam turbine from British Steel's former Ravenscraig works to Scunthorpe and the re-design of a pumping scheme for the Royal Docks in London.

Contracting Services

The Contracting Services business has completed the integration of its activities with those of Manweb Contracting. The operation is one of the biggest and most profitable of its kind in the industry, employing over 900 staff.

Key projects include a new sub-station and distribution network at ICI Films Melinex plant (since acquired by DuPont) in Dumfries and several upgrading contracts at British Aerospace, Broughton, plus the illumination of the apron for the so-called 'Beluga' transporter which carries completed Airbus wing-sets to France for assembly. A major lighting refurbishment was also undertaken at Rolls Royce Motors, Crewe.

The business has continued to provide services to local authorities, including various projects for West Dunbartonshire, Dumfries & Galloway, and Borders Councils.

Information Systems

Integrated information systems are vital

to our ambitions to develop as a multi-utility group.

The Information Systems Division is heavily involved in helping the group's other businesses prepare for energy supply liberalisation, especially in the creation of the multi product billing, energy trading and 1998 systems. Asset management systems have also delivered significant savings for the Power Systems business.

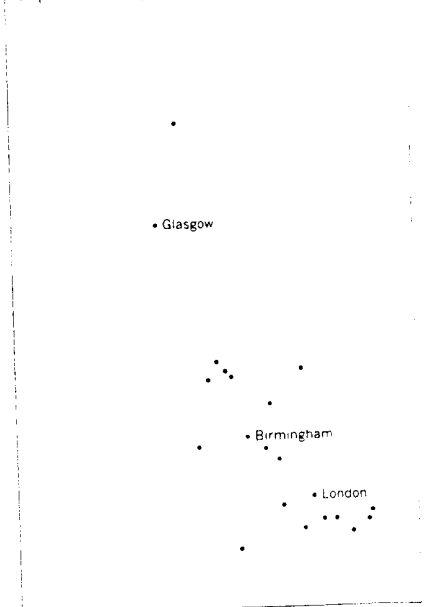
The group has invested £21 million in its IT infrastructure which now delivers 40 times more computing power than that available three years ago.

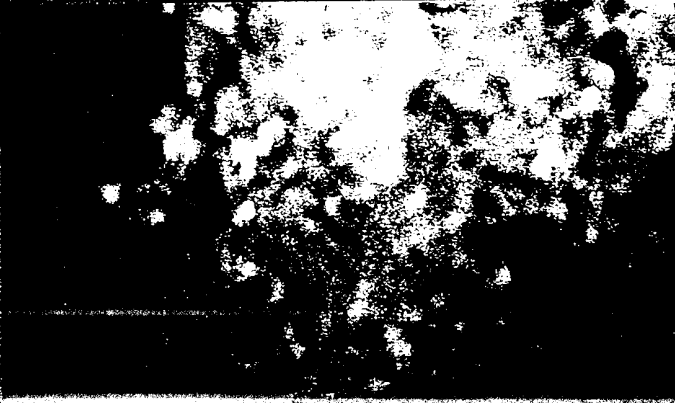
The group has already made substantial progress towards achieving Year 2000 compliance and expects to be ready in good time, ensuring that its systems avoid the pitfalls of the so-called 'millennium bomb' affecting computers and other machinery.

ScottishPower has achieved the IBM 'e-business mark', a fast developing standard for electronic commerce. It will be one of the first UK utilities to offer customers the opportunity to pay power, telephone and water bills via the

ScottishPower Retail

174 outlets, including 18 new superstores opened in 1997-98





Internet. New gas customers can already sign up via the World Wide Web.

Multi-utility

We have extended the range of utility services we offer our customers and have continued to build on the combined strengths of our energy and telecommunications businesses. These factors have enabled us to build a supply business, offering multi-utility services to the domestic market and to take advantage of multi-utility infrastructure projects.

Our infrastructure projects, which bring together our experience in electricity, gas, telecommunications and water, are proving attractive to developers of new industrial and commercial sites throughout the UK.

Gas competition has been achieved throughout Great Britain, and the electricity market should open in tranches from this September. We are already successfully marketing gas in our three operating regions and we will be marketing 'dual fuel' packages to customers from June of this year.

Good progress has been made in the areas which support the delivery of our multi-utility strategy. The initial phase of our multi product billing system which will meet our billing requirements into the next century, was rolled out in April 1998. ScottishPower will be one of the first utilities to offer fully integrated billing, account management, credit management and customer service systems.

A work management system will be implemented from June to allow us to read both electricity and gas meters on a single visit. The Metering business is already providing the Energy Supply business with opening readings for its new domestic gas customers in Scotland. We now have one of the most efficient metering businesses in the UK, with other organisations benchmarking against us.

Another future development will be the 'Virtual Customer Service Centre' which will enable customer service

enquiries to be received and dealt with by any of Energy Supply's three Customer Service Centres at Glasgow, Warrington and Rhostyllen, through an integrated IT and telephony system.

Using the skills acquired in waste water treatment from Southern Water, combined with our extensive asset base in Scotland, we have been chosen as preferred bidder for two planned waste water treatment centres serving most of Glasgow. The centres, which are to be built and operated under the Government's Private Finance Initiative, will de-water and dry the sludge to form granules which we intend to burn with coal at Longannet power station.

Looking towards building business for the future, a 'Smart Home' was created to provide customers with a practical demonstration of energy management and utility transaction services. The 'Smart Home' concept further supports our objective of providing customers with new services which engender loyalty and deliver value.

Employees

If ScottishPower is to achieve its ambitious goals, it will do so as a result of the high quality of its management at every level of activity, and of a workforce which understands the company's aims and perceives the value of participation. Our staff are key stakeholders in ScottishPower's future success.

Our Open Learning facility supports personal development across the group. Established partly to encourage the concept of 'life long learning', it is in its fifth year, providing support for thousands of staff in 46 centres in the group's territories. It offers around 700 programmes, ranging from languages to vocational qualifications to degrees. Around 50% of our 15,000 employees and over 1,000 family members have participated. Other activities range from encouraging participation in The Prince's Trust volunteer projects through external links and secondments, to a business leadership programme developed with the renowned Wharton

School at the University of Pennsylvania.

Nearly 200 senior managers have taken part in 'values' workshops, which develop an understanding of the company's 'values' programme. Over 30 staff have graduated from the group's MBA programme, with a further 56 currently participating in the course.

We take the health of our staff seriously and our occupational health team provide a leading edge service across the group. We encourage staff to use the company's Wellscreen service with its voluntary, confidential health screening facility. To date this service has only been available to ScottishPower and Manweb employees, 40% of whom have taken advantage of this facility. In addition, we have introduced a state-of-the-art fitness centre at Cathcart, Glasgow, with similar centres already in operation or planned in our regions.

Community

ScottishPower's publicly stated values include a commitment to earn the trust and respect of communities in which we operate.

Our programme includes supporting education and employment initiatives, charities and caring organisations representing children and young people, people with disabilities, older people, and the disadvantaged. In addition, we sponsor the performing arts, sport and recreation.

ScottishPower Learning is a separate business and is managed as a joint venture with the Trade Unions to provide personal development opportunities for staff and the communities in which we operate.

Over the past year, ScottishPower Learning has supported over 350 young and adult unemployed people nationwide on a variety of training programmes including areas as diverse as customer service and water leak detection.

Young people aged 16 to 25 have participated in pre-vocational training courses run by ScottishPower Learning

ScottishPower's commitment to the communities it serves spans a broad range of activities, helping both young and old

in partnership with a number of community organisations, including The Prince's Trust.

Through ScottishPower Learning, the company is an active participant in the Government's Welfare to Work programme.

There are many examples of how ScottishPower 'lives its values'. In Power System's Southern Region, 240 staff gave over 2,000 hours of service to the community during the year.

Manweb is working closely with local groups in Shropshire, recruiting volunteer Power Wardens who become the communication link to the company's emergency team in the event of serious loss of supply in bad weather.

ScottishTelecom developed a web site for the Scotland Against Drugs campaign, whose programme in Scotland's 2,400 primary schools is being supported by ScottishPower. Company teams are working with emergency services in a nationwide project, which seeks to make children more aware of personal safety and to foster good citizenship.

The introduction of a Welsh language scheme within Manweb in May 1997 was approved by the Welsh Language Board and is attracting interest from other organisations.

Environment

ScottishPower believes firmly that a sustainable energy strategy must involve a balanced fuel mix, further development of renewable energy, active encouragement of energy efficiency and adoption of clean-up technologies.

Each area of activity has strict targets for environmental improvements, varying from the recycling of packaging in Retail to reductions of waste in engineering operations.

These challenging targets, which are detailed in our 1998 Environment Report, have been set to reflect the continued move towards sustainable development.

The company's energy efficiency programme has contributed to saving several hundreds of thousands of tonnes

of emissions of the 'greenhouse gas', carbon dioxide. An integral part of the company's environmental position, the effort includes campaigns to raise awareness among staff and customers. Research will continue to play an important role. One example is the 'gas reburn' project at Longannet power station in Fife. A £28 million initiative backed by the European Union, it was commissioned formally by The Rt Hon Donald Dewar MP, Secretary of State for Scotland, in November 1997.

Combined Heat and Power schemes, involving the creation of local power supplies to large premises, for example large manufacturing plants with heavy energy needs, represent a decentralising of bulk power and significant energy and cost savings.

ScottishPower believes that 'renewables' such as wind power, small scale hydro plant, farm waste, forest residues and waste combustion provide substantial promise as supplementary power sources.

Southern Water's considerable investment expenditure has important environmental implications, whether in improving waste water treatment, repairing leaks or other infrastructure projects.

A major programme of regional sewage sludge centres is under way, delivering high quality compost for agriculture. Southern Water opened a farm to demonstrate the value of recycling sewage sludge as a soil conditioner and fertiliser.

The company is on target to phase out sea disposal of sludge by the end of 1998, and end landfill and liquid disposal and the production of untreated sludge by the year 2000.

The company's 10th annual 'Pond Week' saw more than 1,200 volunteers clean, restore or create more than 100 ponds. Over the last 10 years 600 ponds have been worked on. Salmon have been found in the River Medway for the first time in more than 100 years, an indication of the improving state of our local waters.

ScottishPower's environmental record was recognised in the Business in the Environment Survey of FTSE 100 companies, where again we secured a position in the top quintile for our environmental performance and communications.

Safety

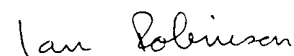
Safety is of paramount importance to the company, and several initiatives have been introduced throughout the business to encourage best practice. We met our annual target of a 25% reduction of lost-time accidents during 1997-98.

The company received 12 gold awards from the Royal Society for the Prevention of Accidents in 1997, as well as the Eagle Star Training Award in recognition of our commitment and high levels of staff training. We are extending the number of Trade Union appointed safety representatives, 59 of whom were trained this year.

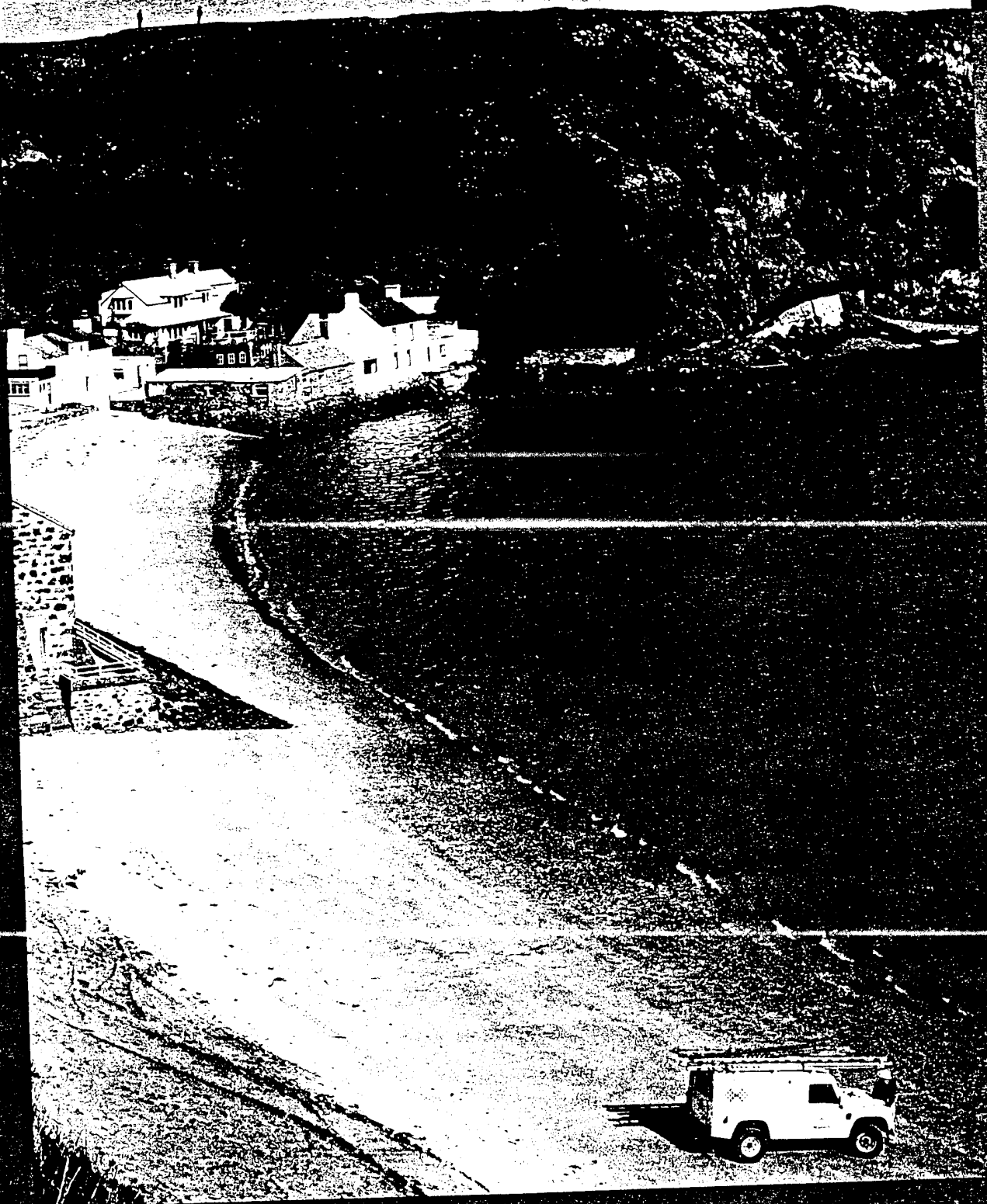
ScottishPower publishes separate reports on the Environment and the Community. These are available on request from the Company Secretary.

The way ahead

ScottishPower is well positioned to become a world-class multi-utility, and we are committed to building value for shareholders. The benefits of our success apply to all our other stakeholders, including customers, employees and the communities we serve. The company has undergone sweeping change since privatisation, and we can look forward with confidence to the challenges ahead.

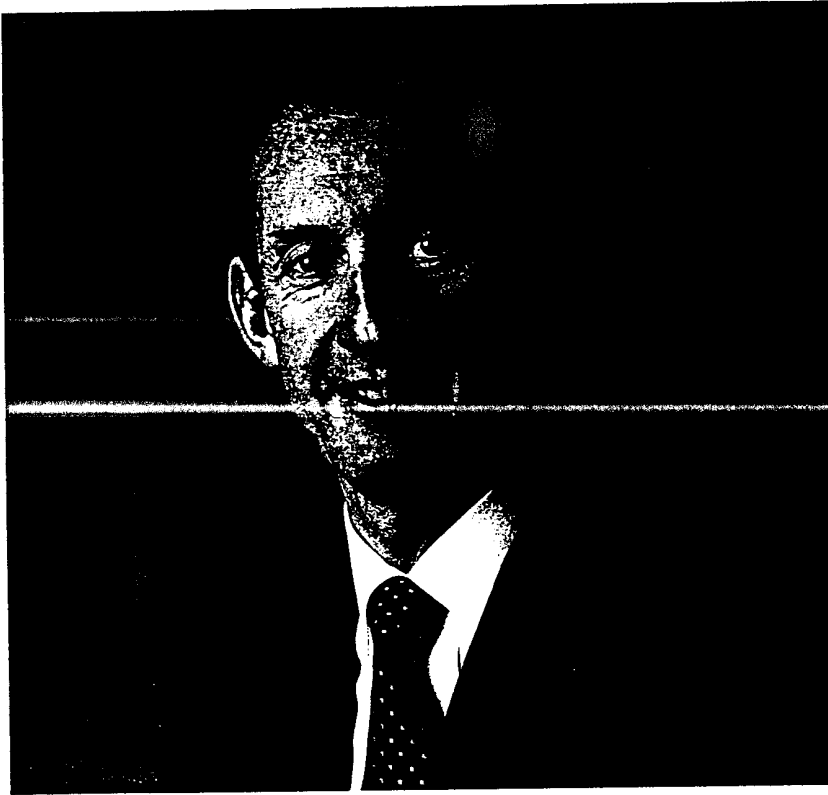


Ian Robinson
Chief Executive



Financial Review

The results demonstrate yet again a satisfactory financial performance for the group. We have achieved good profit and cash growth, before the windfall tax. Interest cover and dividend cover remain prudent.



Ian Russell
Finance Director

Group financial results

Group turnover grew during the year by £187 million to £3.128 billion, an increase of 6.4%. This was due mainly to a full year's revenue from Southern Water and growth in our developing businesses, especially Scottish Telecom where sales more than doubled. Sales in our energy businesses were maintained, despite lower prices to our customers due to tariff reductions, competitive pricing in the second tier market and lower volumes which resulted from the exceptionally mild winter. Offsetting this, gas sales were up by over 200% to £60 million, reflecting our continuing success in gaining new customers in that market.

The rise in overall turnover together with continued strong control over operating costs led to good growth in earnings before interest, tax and depreciation ('EBITDA') up £142 million to £932 million, and higher operating profit of £785 million, up £121 million.

The net interest charge increased by £39 million to £147 million, mainly due to the full year effect of additional borrowings associated with the acquisition of Southern Water in August 1996 and the payment of the first instalment of the windfall tax in December 1997.

Profit before tax grew by 14.5% to £640 million. At £152 million, the ordinary tax charge represented an effective tax rate of 23.7%, down from 24.5% in the previous year. Provision has been made in full for the windfall tax on utilities announced in the July 1997 budget; the liability for the group has been assessed at £317 million.

Earnings per share before the windfall tax amounted to 41.28p, a rise of 8.3% on the equivalent figure last year. The recommended final dividend of 13.60p net per share brought the total dividend per share for the year to 20.40p net, an increase of 10.3%, in line with our stated aim of 7% to 8% real dividend

Financial Highlights	1997-98 £m	1996-97 £m
Turnover	3,128	2,941
Operating profit	785	664
Profit before tax	640	558
Free cash flow*	707	573
Earnings per share*	41.28p	38.11p
Dividend per share	20.40p	18.50p

* 1998 figure quoted before windfall tax

growth per annum, until at least the regulatory reviews in the year 2000, whilst maintaining a prudent level of dividend cover. The dividend cover remained at just over two times before the windfall tax.

Free cash flow for the year before windfall tax was £707 million, an increase of £134 million, reflecting the improved operating performance and good control of working capital. The group invested £630 million in capital projects during the year, £170 million more than in the previous year. This investment was primarily to improve the quality of the infrastructure assets in our electricity and water and waste water services businesses, and to grow our telecommunications business. The figures also reflect a full year of expenditure at Southern Water.

Net debt increased from £1,790 million to £1,953 million, mainly due to payment of the first instalment of the windfall tax of £158 million.

Gearing at 31 March 1998 reduced to 114% compared to 118% a year ago, despite the impact of part of the windfall tax. Excluding the effect of the windfall tax, gearing would have been 100%. Interest cover remained prudent at 5.3 times.

Group turnover

Group turnover of £3,128 million was £187 million higher than 1996-97, an increase of 6.4%. Total energy sales across the group were £2,280 million, the same as in the previous year. Lower sales as a result of the exceptionally mild winter, combined with competitive

pricing in the second tier market and lower prices in the domestic market, were offset by increased sales in the emerging gas markets. Southern Water's contribution to group turnover increased by £136 million, mainly reflecting the inclusion of the first full year's trading. The group's developing businesses increased their turnover by £51 million, the majority of this in ScottishTelecom.

ScottishPower energy sales are shown in Table 1 in four market segments: first tier sales which represent the sale of electricity to customers in the Scottish franchise area; second tier sales by *ScottishPower* to customers outside the Scottish franchise area; wholesale, which is the sale of electricity to other electricity companies and to the Pool in England and Wales; and other energy sales, which include the sale of gas by *ScottishPower* in both the established commercial and industrial market and in the emerging domestic gas market in the UK.

First tier sales were £1,111 million, down £39 million on the previous year. Volumes were reduced (down 3.0% to 19,622 GWh) by the unusually mild winter in 1997-98 and lower sales in the competitive part of this market. In addition, prices were lower due to tariff reductions in the domestic sector and competition in the commercial and industrial sector.

Sales of electricity in the second tier market sector continued to grow with volumes increasing by 54%; turnover was £51 million higher at £153 million, reflecting our success in winning new customers. In addition, the further

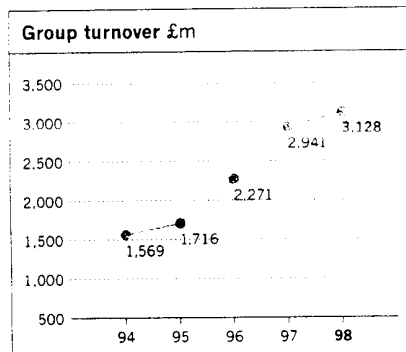


Table 1 Energy external turnover	1997-98 £m	1996-97 £m	Change £m	%
ScottishPower				
First tier electricity	1,111	1,150	(39)	(3)
Second tier electricity	153	102	51	50
Wholesale electricity	199	196	3	2
Other energy sales	163	94	69	73
Manweb	654	738	(84)	(11)
Total	2,280	2,280	-	-

Table 2 Group operating profit		1997-98 £m	1996-97 £m	Change £m
Generation Wholesale	Generation	122.9	132.0	(9.1)
	Wholesale	7.9	14.1	(6.2)
Power Systems	Transmission	80.1	77.3	2.8
	Distribution	169.4	150.7	18.7
Energy Supply	First tier electricity	38.0	39.4	(1.4)
	Second tier electricity	(3.8)	(3.2)	(0.6)
	Other energy sales	(19.1)	(3.8)	(15.3)
Scottish energy businesses		395.4	406.5	(11.1)
Manweb		131.3	135.0	(3.7)
Southern Water		240.7	114.4*	126.3
Developing businesses		17.7	8.0	9.7
Total		785.1	663.9	121.2

* 8 months from date of acquisition and after reorganisation costs of £21.2 million

combination of the ScottishPower and Manweb sales forces led to all new customers contracting with ScottishPower.

Wholesale turnover also increased in the year, up 2% to £199 million where the effect of lower export volumes, down 4% to 5,607 GWh due to system constraints in the first half of the year, was offset by higher agency sales.

Other energy sales increased by £69 million to £163 million, mainly as a result of our success in winning customers in the new domestic gas markets.

Manweb's energy turnover for the year was £654 million, a fall of £84 million or 11% compared to the previous year. Distribution income reduced as a result of the regulatory pricing formula, and the benefits of lower costs were passed on to domestic

and business customers through reduced tariffs. In addition, the combination of the ScottishPower and Manweb sales forces led to all new industrial and commercial customers contracting with ScottishPower.

Southern Water's contribution to group turnover increased by £136 million to £453 million primarily as a result of the full year effect. Turnover in the core business increased to £420 million, an increase of £21 million compared to the equivalent full year in 1996-97, due to higher prices to fund the capital expenditure programme. In the non-core businesses, turnover for the full year fell by £43 million, as expected, due to the business disposals achieved during the year.

The group's developing businesses increased their turnover by £51 million

to £596 million. Most of the increase reflected the continued expansion of ScottishTelecom through further organic growth and acquisitions. External turnover in ScottishTelecom increased by 122% to £82 million and total turnover by 111% to £113 million. The Retail business, despite the poor market conditions during the year, increased its turnover by £7 million to £274 million due to new store openings and increased sales of multimedia; however like-for-like sales fell by 4%.

Group operating costs

The 6.1% increase in cost of sales to £1,851 million compared favourably with the 6.4% increase in turnover, reflecting the continued focus in the group on cost control and improved efficiency. Cost of sales in the energy

businesses increased due to the higher gas and second tier sales volumes, offset by reduced other costs arising from benchmarking and cost initiatives.

Operating costs at Manweb were £24 million less than the previous year, beating our original target by £6 million. In Southern Water on a full year basis, after allowing for higher costs from new environmental obligations and capital schemes, operating costs fell by £28 million, £3 million better than target.

Costs in the developing businesses increased due to business expansion, especially in ScottishTelecom.

Transmission and distribution costs fell by £3 million year on year despite the impact of initial domestic gas customer capture costs in the gas business and the repair costs necessary as a result of the severe winter storms.

Allowing for restructuring costs in the prior year arising on the acquisition of Southern Water, administrative expenses reduced due to savings which offset increases arising through the expansion in our developing businesses, especially telecommunications. As with cost of sales, there is a continued drive on improving cost efficiency across all areas of our business.

Group operating profit

Group operating profit, as shown in Table 2, amounted to £785 million, an increase of 18% compared with 1996-97. Operating profit in the Scottish energy businesses fell by £11 million to £395 million, due mainly to reduced generation profits and customer capture costs in the emerging gas markets. These were offset in part by lower costs and increased profit in Power Systems,

mainly due to lower costs and increased distribution revenues.

The profit in *Generation Wholesale* was £131 million in the year, down £15 million compared with 1996-97. The generation profitability was down £9 million due to reduced volumes, higher depreciation and a greater volume of 'must take' nuclear purchases. In wholesale, profit fell by £6 million reflecting lower export volumes, as a result of system constraints, and reduced margins.

The *Power Systems* business increased profit by £22 million to £250 million. Within this business, transmission increased operating profit by £3 million to £80 million with higher National Grid costs being more than offset by increased exit charges and savings from operating cost initiatives. The distribution profit increased by £19 million as a result of higher distribution revenues and operating cost savings.

In *Energy Supply*, first tier profit fell by £1 million due to reductions in prices and the impact of lower volumes as a result of the mild winter. Losses in the second tier market increased modestly to £4 million due to the competitive pressures in this sector. Actions to stem further second tier losses have been taken and much of the unprofitable business has now been surrendered. In other energy sales, the operating loss of £19 million reflects initial domestic customer gas capture costs of approximately £12 million, principally in the second half of the year.

Operating profit in *Manweb* decreased slightly by £4 million to £131 million. A fall in turnover was offset by a reduction in costs due to the

implementation of the last stage of the acquisition transition plan. Total operating cost savings arising from the acquisition of Manweb now total £98 million compared to cost levels pre-acquisition of £176 million, and ongoing cost savings are £6 million better than the transition plan target.

Southern Water contributed an additional £126 million of operating profit arising mainly from the inclusion of results for a full year and cost savings of £28 million delivered by the acquisition transition plan in 1997-98, £5 million ahead of plan. Year-on-year, Southern Water's operating profit increased by 21% to £241 million from £200 million. All enterprise businesses are now sold and will realise £90 million, £20 million ahead of target. Property disposal proceeds have already reached just under the target of £30 million, with further sales scheduled in the year ahead.

Profits in the *developing businesses* were £18 million for the year, an increase of £3 million after removing the effect of £7 million of gas capture costs included in this segment last year. ScottishTelecom met the previously announced target of £4 million for the year from a break-even position last year. Retail's profit fell from £14 million to £9 million due to the difficult market conditions in this sector throughout 1997-98. The operating profits of the Contracting, Technology and other businesses improved from the prior year.

Interest and taxation

The net interest charge of £147 million was £39 million higher than in 1996-97 due mainly to the full year effect of increased debt following the acquisition

Group operating profit increased to £785 million, an increase of 18% compared with 1996-97. Earnings per share before windfall tax were 41.23p, an increase of 8.5%.

of Southern Water in 1996 and the payment of the first instalment of the windfall tax of £158 million in December 1997. Changes to the group's debt portfolio were made during the year to manage the increasing trend of interest rates and extend the maturity profile of the group's borrowings. As a result, the average interest rate for the group during the year was 8.4%, slightly below that for 1996-97. Interest cover remained prudent at 5.3 times.

Profit before tax grew by 14.5% to £640 million, while the effective tax rate was reduced to 23.7% from 24.5% in the previous year. The decrease was mainly due to the reduction in the corporation tax rate arising from the July 1997 budget and the write back of Advance Corporation Tax, offset in part by the previous Chancellor's decision to reduce capital allowances on long life assets. Provision has been made in full for the windfall tax on utilities announced in the July 1997 budget. The liability for the group has been assessed at £317 million.

Earnings and dividends

The profit after ordinary tax for the year amounted to £488 million, an increase of £66 million or 15.7%. With a weighted average 1,180 million shares in issue and ranking for dividend during the year, earnings per share before windfall tax were 41.28p, an increase of 8.3%.

The recommended final dividend of 13.60p net per share brings the total dividend per share for the year to 20.40p net, an increase of 10.3%. The full year dividend was covered just over two times by earnings excluding the effects of the windfall tax. This increase in dividend is in line with our stated aim of achieving 7% to 8% real dividend growth per annum until at least the regulatory reviews in the year 2000, whilst maintaining a prudent level of dividend cover.

Capital expenditure

The group continued to increase investment in its businesses with net capital expenditure for 1997-98 of

£630 million, an increase of £170 million over 1996-97. This reflected a full year's expenditure in Southern Water and the continued emphasis on development of infrastructure assets and growth in developing businesses.

Capital expenditure in *Generation Wholesale* was £44 million, with investment directed towards efficiency and environmental improvements and development of renewable energy resources. Further expenditure was incurred at Longannet and Cockenzie power stations to extend station lives.

In *Power Systems Scotland*, net capital expenditure for the year amounted to £142 million, an increase of £40 million.

£40 million was spent on modernisation of the distribution network and to improve quality of electricity supply to customers. Net expenditure on expanding the network to meet demand growth and on providing new connections to customers was £32 million. Over £35 million was invested in new systems for improving network management, the opening up of the electricity market to full competition and on enhancing customer service.

In transmission, over £34 million was invested on network modernisation and on expanding the network to support new business opportunities and inward investment in Scotland.

In *Energy Supply*, capital expenditure of £37 million mainly reflects further investment in new systems in preparation for the liberalisation of the electricity market later in 1998.

In *Manweb* net capital expenditure was £75 million. £36 million was spent on modernising the network to improve reliability and quality of electricity supply to customers. Net expenditure on expanding the network to meet demand growth and on providing new connections to customers was £15 million. The balance was invested in enhancing customer service and business systems for the competitive market.

Capital expenditure in *Southern Water*, including infrastructure renewals expenditure, amounted to £295 million. This compared with £212 million in the previous full year, of which £137 million was spent post-acquisition. The amount included £140 million as part of the ongoing programme to ensure compliance with the higher standards set by European Union Directives on the quality of bathing water, urban waste water discharges and sludge disposal. Investment was also undertaken to improve security of supply, increase the availability of water resources and reduce leakage.

In *developing businesses*, ScottishTelecom continued with its business development and during the year spent £58 million in total. Projects included the extension of its fixed radio access network and further development of its fibre optic network.

Cash flow

Net cash inflow from operations increased from £791 million to £987 million. This reflected the group's

improved operating performance together with continued effective control over working capital.

Net interest paid was £45 million higher due to the acquisition of Southern Water in August 1996 and the payment of the first instalment of the windfall tax. This, together with an increase of £17 million in ordinary tax paid, resulted in free cash flow for the group before windfall tax of £707 million, £134 million higher than in 1996-97. From this was funded payment of windfall tax of £158 million and capital expenditure of £566 million, up £185 million on last year.

The disposal of non-core businesses and properties following the acquisition of Southern Water realised £89 million in cash during the year. Dividends paid to shareholders amounted to £226 million, up from £170 million last year.

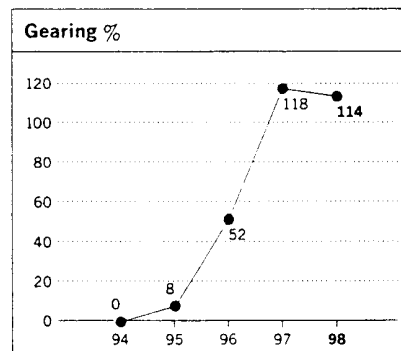
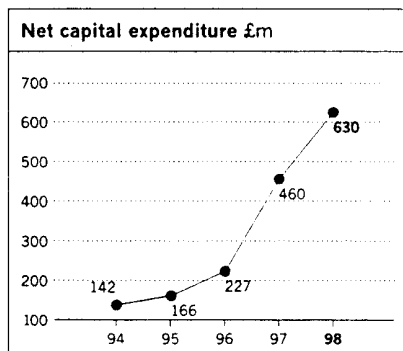
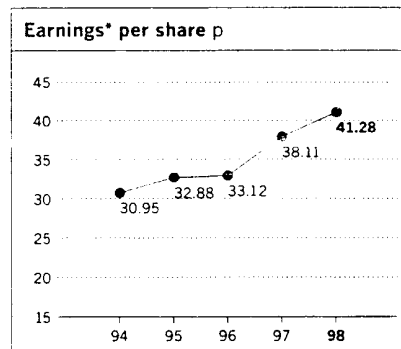
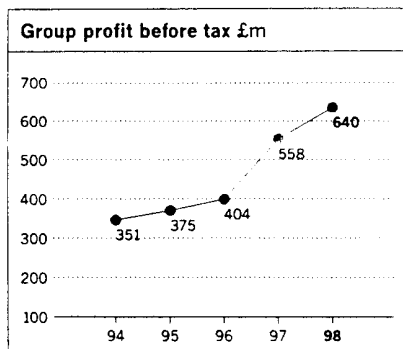
Net debt at 31 March 1998 was £1,953 million, an increase of £162 million compared with a year ago, due mainly to the impact of the first instalment of the windfall tax. Gearing at 31 March 1998 was lower at 114%, down from 118% at 31 March 1997. Without the payment of the windfall tax, gearing would have fallen to 100%.

Treasury

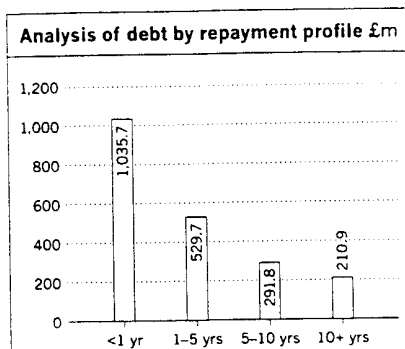
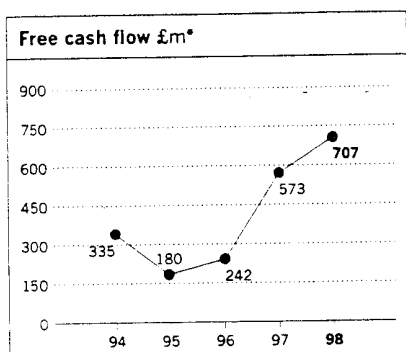
The treasury focus during the year has been on refinancing the group's debt to extend maturities and protect the group's interest charge from adverse interest rate movements.

The group continues to ensure that net borrowings are financed from a range of competitive sources and that committed facilities are available both to cover uncommitted borrowings and to meet the financing needs of the group in the future. The group's credit quality is confirmed by long term credit ratings of Aa2/A+ and short term ratings of P1/A1 from Moody's Investors Service and Standard & Poor's respectively.

A number of changes were made to the group's debt portfolio during the



* 1998 figure quoted before windfall tax



year in order to extend the maturity profile of the group's borrowings. A \$2,000 million Euro-Medium Term Note (EMTN) Programme was set up in November 1997. Under this mechanism a \$300 million five year bond issue was launched in January 1998 providing a fixed rate in sterling of 6.95% and a number of smaller issues totalling £258 million had also been completed by the year end. In addition, two private placements totalling £45 million were arranged and a further £30 million was drawn from the European Investment Bank.

An issue of £100 million variable coupon notes due 2008, at an initial rate of 6.842%, was launched in March 1998. It is the first UK sterling bond of its kind and the Director General of Water Services has confirmed that its issue satisfies the undertaking given by ScottishPower and Southern Water at the time of the acquisition.

In order to manage the risk of exposure to fluctuating interest rates, the group maintains the majority of its debt at fixed rates of interest. This is achieved by a combination of fixed rate debt issues and the conversion of floating rate issues into fixed rate obligations by the use of interest rate swaps, interest rate caps and forward rate agreements. The group's use of such financial instruments relates directly to underlying indebtedness; no speculative or trading transactions are undertaken. The group treasury operates strictly within policies set out by the Board and is subject to regular examination by internal and

external audits. At 31 March 1998, the interest rate on some 81% of debt was fixed and the interest rate on a further 10% of borrowings was capped. As a consequence of these measures, the group's average interest rate reduced during the year to 8.4% at a time when external interest rates increased.

The weighted average period of maturity of year end fixed debt and swaps was seven years, whilst the forward cover on capped debt was for an average period of some four years. Accordingly, changes in floating interest rates will have a limited impact on interest payable by the group for some years ahead.

The group has limited exposure to foreign currencies. Commercial paper and EMTNs issued in currencies other than sterling are fully covered by forward contracts to convert the debt into sterling. Certain limited imports of capital equipment and fuel are denominated in foreign currencies and the sterling cost of these is fixed by means of forward contracts as soon as the company's contractual commitment is known.

Accounting developments

During 1997, the Accounting Standards Board (ASB) issued FRS 10 'Goodwill and Intangible Assets' and this standard will apply to the group's 1998-99 accounts. In addition, the ASB recommendations on 'Interim Reports' will be adopted for the group's September 1998 half-year statement.

Looking further ahead, the ASB has issued a number of exposure drafts and

discussion papers, including the accounting for deferred tax, and the group is an active contributor to this process. The impact of recent or proposed changes to accounting standards is generally to reduce reported earnings. However, these changes do not impact on the fundamental value of the group's business.

Year 2000

A group-wide Year 2000 Programme has been established to manage the effects the 'millennium' issue will have on the group's computer-based systems, equipment, services and products. The programme was established in recognition of the size and complexity of the group's operations and the need to maintain the integrity of its systems at all times, particularly those concerning safety and the provision of essential services to its five million customers. It builds on work carried out in 1995 to replace the group's mainframe-based IT infrastructure which anticipated and addressed many potential IT systems issues.

The group expects to achieve year 2000 compliance in good time and is also obtaining assurances on compliance from all critical suppliers, manufacturers and other utilities and operators with whom the group deals.

Compliance has already been achieved across a number of IT applications and the group is well advanced in the key task of identifying its most critical systems, determining

solutions and preparing contingency plans to ensure it will be 'business as usual'. All critical systems will be addressed as a priority during 1998.

Our current estimate is that the total cost of the Year 2000 Programme will be approximately £30 million.

Many of the solutions the group is adopting have arisen through pooling experience with other utilities and large companies. The group is a leading player, for example, in the UK Y2K Interest Group and on KPMG IMPACT, which is supported by the major names in the generation, energy supply, telecommunications, manufacturing and finance sectors.

Summary

The financial results demonstrate a further year of satisfactory performance for the group, achieving good profit and cash growth before the windfall tax. The underlying tax rate reduced and interest rates incurred fell. Interest and dividend cover remain prudent and our gearing is lower than last year with debt tightly controlled. This is a good set of results maintaining the financial strength of the group to enable it to take full advantage of emerging opportunities.



Ian Russell
Finance Director



Murray Stuart
Chairman



Mair Barnes



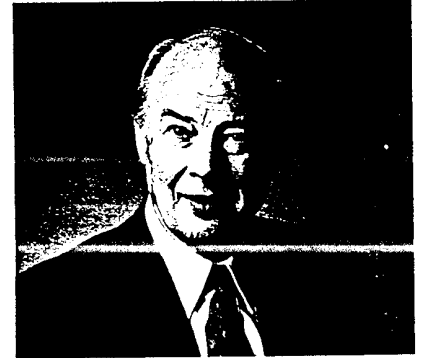
Sir Ronald Garrick
Chairman of Audit Committee



Sir Peter Gregson



Ewen Macpherson
*Chairman of Emoluments and
Nominations Committee*



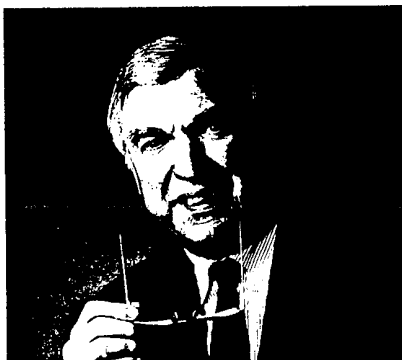
John Parnaby



Ian Robinson
Chief Executive



Ian Russell
Finance Director



Ken Vowles
*Executive Director Generation
and Energy Trading*



Duncan Whyte
Executive Director Multi-Utility

Board of Directors

Non-executive directors

Murray Stuart CBE (64) joined the Board in March 1990 and was appointed Chairman in August 1992. He is a non-executive director of The Royal Bank of Scotland plc, CMG plc and The Royal Scottish National Orchestra Society Limited and Chairman of Intermediate Capital Group plc. He was awarded the CBE in 1995 for his services to the Audit Commission, of which he was latterly Deputy Chairman. He is Chairman of the Hammersmith Hospitals NHS Trust.

Mair Barnes (53) joined the Board in April 1998. She is Executive Chairman of Vantios plc, the parent company of Dollond & Aitchison, the opticians group. She is also a non-executive director of Abbey National plc and George Wimpey plc. She was previously Managing Director of Woolworths plc.

Sir Ronald Garrick CBE (57) joined the Board in February 1992 and is Chairman of the Audit Committee. He is Managing Director and Chief Executive of The Weir Group plc, the Glasgow-based international engineering company, and a non-executive director of Shell UK Limited.

Sir Peter Gregson GCB (61) joined the Board in December 1996. He was previously Permanent Secretary of the Department of Energy from 1985 to 1989 and then Permanent Secretary of the Department of Trade and Industry until his retirement in June 1996. He is a member of the Board of Companions of the Institute of Management.

Ewen Macpherson (56) joined the Board in September 1996 and is Chairman of the Emoluments and Nominations Committee. In July 1997, he retired as Chief Executive of 3i Group plc which he joined in 1970. He is also a non-executive director of Booker plc, Foreign & Colonial Investment Trust plc, The Law

Debenture Corporation plc and M&G Group plc.

John Parnaby CBE (60) joined the Board in September 1994. He retired in October 1997 as Group Director and Director Geared Systems Inc. of Lucas Varsity plc, having previously been Divisional Managing Director. He is a Past President of the Institutions of Electrical and Manufacturing Engineers, a member of the Council of the Royal Academy of Engineering, a member of the Senate of the UK Engineering Council and a member of the Management Committee of the UK Government Integrated Manufacturing Initiative.

Executive directors

Ian Robinson (56) was appointed Chief Executive in March 1995. He was previously with Trafalgar House plc where he was Chief Executive of John Brown and a main Board director. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Institution of Chemical Engineers and a member of the Senate of the UK Engineering Council; he is a non-executive director of Asda Group plc and also serves as a member of the President's Committee of the Confederation of British Industry. In July 1997 he was appointed Chairman of the Scottish Advisory Task Force on Welfare to Work.

Ian Russell (45) was appointed Finance Director in April 1994. He is a member of the Institute of Chartered Accountants of Scotland, having trained with Thomson McLintock, and has held senior finance positions with Hong Kong and Shanghai Banking Corporation and Tomkins plc. His role encompasses both the financial direction of the company and its corporate strategy, together with responsibility at Board level for the company's information systems and corporate affairs; he is also Chairman of Southern Water plc and

ScottishTelecom. He is a non-executive director of Scottish Investment Trust plc and Scottish Knowledge plc.

Ken Vowles (56) joined ScottishPower in September 1990 and was appointed to the Board in September 1994. He is Executive Director Generation and Energy Trading and is responsible in that capacity for the company's Generation Wholesale and Technology businesses, including the Energy Trading Centre, and at corporate level for safety and environmental policy. He has over 30 years' experience of the power generation industry, having previously served with the Central Electricity Generating Board and with National Power plc. He is a Fellow of the Institution of Electrical Engineers, a Fellow of the Institution of Mechanical Engineers and a Member of the Institute of Management.

Duncan Whyte (51) has been a director since March 1990, having previously been appointed Finance Director of South of Scotland Electricity Board in July 1988. In January 1993, he became responsible for the core electricity businesses; then, in November 1995, he was appointed Executive Director Strategic Development and, in August 1996, Executive Director Multi-Utility. In this latter capacity, he is now responsible for the company's multi-utility strategy, including its developing businesses in electrical retailing and contracting; he also retains responsibility at Board level for regulatory matters and is Chairman of Manweb plc. He was appointed as a non-executive director of Motherwell Bridge Holdings Limited in October 1997. He is a member of the Council of the Institute of Chartered Accountants of Scotland, and was formerly a managing partner in Scotland of Arthur Andersen and Finance Director of Kwik-Fit Holdings plc.

Report of the Directors

The directors are pleased to present their ninth Annual Report, together with the audited Accounts for the year ended 31 March 1998.

Results and dividend

The profit of the group for the year amounted to £170.1 million after providing for windfall tax of £317 million, details of which are set out in the Group Profit and Loss Account on page 42.

The directors recommend that a final dividend of 13.6p net per share be paid on 1 October 1998 to those shareholders whose names appear in the register of members on 5 June 1998. Together with the interim dividend of 6.8p net per share, which was paid on 6 March 1998, this makes a total dividend of 20.4p net for the year. These dividends amount in aggregate to £243.3 million and the deficit for the year of £73.2 million has been transferred from reserves.

Activities and review

The principal activities of the ScottishPower group are the generation, transmission, distribution and supply of electricity and the supply of water and waste water services. The group is also involved in wider utility businesses which include gas supply, telecommunications and electrical retailing as well as technology and contracting services.

Research and development

ScottishPower supports research into and development of the generation, transmission, distribution and supply of electricity and continually seeks more innovative and cost effective methods of carrying out its water and waste water activities. It also continues to contribute on an industry-wide basis towards the cost of research into electricity utilisation, distribution developments and water purification and waste water treatment.

Environmental policy

ScottishPower will publish its third Environment Report in July 1998.

Throughout its operations ScottishPower will meet, or better, relevant legislative and regulatory environmental requirements and codes of practice. Details of the company's approach to the environment are contained on page 18. Copies of the Environment Report are available on request from the Company Secretary.

Board of Directors

The names and details of the directors of the company are shown on pages 28 and 29.

Mair Barnes joined the Board on 1 April 1998. Baroness Jay of Paddington resigned and Nick Kuenssberg retired as non-executive directors on 13 May and 23 July 1997 respectively. Michael Kinski resigned from the Board on 7 April 1998.

In accordance with the Articles of Association of the company, Mair Barnes retires from office at the Annual General Meeting and, being eligible, offers herself for election. Sir Ronald Garrick, John Parnaby and Ian Robinson retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

Ian Robinson has a service contract terminable by the company upon two years' notice.

Directors' interests

Details of the directors' remuneration and service contracts are set out in the Report of the Emoluments and Nominations Committee on pages 35 to 37 and in Note 32 to the Accounts on pages 59 to 61.

Other than as disclosed therein, none of the directors had a material interest in any contract of significance with the company and its subsidiaries during or at the end of the financial year.

The directors' interests, all beneficial, in the ordinary shares of the company, including interests in options under the company's Executive and Sharesave Schemes and awards under the Long Term Incentive Plan, are shown on page 31.

Directors' and Officers' Liability Insurance

The company maintains liability insurance for the directors and officers of the company and its subsidiaries.

Share capital and options

As a result of the exercise of options under the employee Sharesave and Executive Share Option Schemes, a total of 5,456,315 ordinary shares of 50p each were issued during the year. The company also established a Qualifying Employee Share Ownership Trust and, on 13 March 1998, 13,930,075 ordinary shares were issued to the trustee (ScottishPower Share Scheme Trustees Limited) to hold in trust; these shares will be transferred on exercise to the holders of options granted under the Sharesave Scheme between 30 June 1993 and 20 June 1996. Accordingly, the number of ordinary shares in issue was 1,196,752,324 as at 31 March 1998.

During the year, options were granted to 5,133 employees under the ScottishPower Sharesave Scheme. No options were granted under the Executive Share Option Scheme, which was replaced in 1996 by the introduction of the Long Term Incentive Plan. Awards in respect of 729,854 shares were made under the Plan during the year, and these awards are subject to the achievement of specified performance criteria. Details are contained in Note 32 to the Accounts on pages 59 to 61.

Between 31 March 1998 and 6 May 1998, being the latest practicable date prior to publication of this report, a further 1,215,017 ordinary shares have been issued as a result of the exercise of options under the Sharesave Schemes.

At the Annual General Meeting of the company last year, shareholders granted authority to the directors to purchase up to 117,869,831 ordinary shares. The directors have not exercised this authority.

Directors' interests in shares	Ordinary Shares		Share Options (Executive)		Share Options (Sharesave)		* Long Term Incentive Plan	
	as at 31.3.98	1.4.97	as at 31.3.98	1.4.97	as at 31.3.98	1.4.97	as at 31.3.98	1.4.97
Murray Stuart	15,000	11,390	-	-	-	-	-	-
Sir Ronald Garrick	2,204	2,204	-	-	-	-	-	-
Sir Peter Gregson	870	837	-	-	-	-	-	-
Ewen Macpherson	5,000	5,000	-	-	-	-	-	-
John Parnaby	6,536	6,382	-	-	-	-	-	-
Ian Robinson	17,412	16,612	286,457†	286,457	6,581	6,581	105,379	51,533
Michael Kinski (resigned 7 April 1998)	3,125	3,125	-	31,855	5,972	5,972	70,655	36,809
Ian Russell	15,612	6,612	-	156,781	6,300	6,300	75,573	38,650
Ken Vowles	117,327	113,553	-	50,349	3,933	7,728	55,299	27,607
Duncan Whyte	28,612	24,045	-	44,865	2,223	6,018	68,196	35,889

As at 6 May 1998, being for this purpose the latest practicable date prior to publication of this report, there was no change in the interests of the directors then in office. Also as at this date and as at 1 April 1998, being the date of her appointment to the Board, Mair Barnes had no interests in the shares of the company.

* These shares represent, in each case, the maximum number of shares which the directors may receive, dependent on the satisfaction of performance criteria as approved by shareholders in connection with the Long Term Incentive Plan.

† The option for 286,457 shares held by Mr Robinson was exercised on 15 May 1998; Mr Robinson retains an interest in 40,000 of the shares allotted to him on exercise, thereby increasing his interest in ScottishPower shares as at that date from 17,412 to 57,412 shares. Details of all options held and exercised by directors, and details of awards made to directors under the Long Term Incentive Plan, are set out in Note 32 to the Accounts on pages 59 to 61.

Substantial shareholding

As at 6 May 1998, the company had been notified that Prudential Portfolio Managers UK Limited held 91,923,625 ordinary shares representing 7.67% of the issued share capital.

Employees

In order to achieve the objective of 'Working Together to Build Businesses' the group has corporate values under the following headings:

- well-earned customer loyalty
- enhanced shareholder value
- positive working environment
- trust of communities
- teamwork and leadership

The group has continued to strengthen awareness and practical application of its corporate values among staff and management. Within the businesses many initiatives have also been taken with the theme of 'Living the Values'.

Equal opportunity

It is the group's policy to promote equality of opportunity in recruitment, employment continuity, training and career development. The policy is designed to ensure that equal opportunity in these areas extends as far as practicable to people with disabilities. The group operates a career break scheme and is an active member of the Employer's Forum on Disability. ScottishPower hosted the first Employer's Forum Regional Briefing in Scotland on 16 April 1997 attended by representatives of companies throughout Scotland. The group is also a member of the Equal Opportunities Equality Exchange and the Women's Engineering Society which pursues the aim of promoting the study and practice of engineering among women. Equal opportunities training is an integral part of the overall equal opportunities strategy and specific courses have been developed and implemented in 1997-98.

Employee consultation and negotiation

The group has employee consultation and communication arrangements to encourage the involvement and interest of employees in the group and to develop an awareness of its business plans and objectives. These include local joint bodies, designed to provide regular discussions between management and staff representatives, and local annual conferences. The group's executive and managing directors and the recognised Trade Unions meet informally twice each year to discuss aspects of the business.

Divisional bargaining arrangements have been established to facilitate the development of terms and conditions of employment tailored to the diverse needs of the businesses and, through this, to provide employees with a greater involvement in local employment matters.

Health and safety

The group's safety strategy is based on a system of corporate determination of strategy, policy and standards with devolved responsibility for implementation and active leadership from the highest levels.

The group continues to manage its operations throughout the organisation to the highest health and safety standards in the interest of staff, customers and members of the public.

The group has a well established occupational health service and lifestyle health care programme, the provision of which is managed to the same degree and standards as the other core businesses. The employees therefore benefit from some of the best occupational health facilities in the United Kingdom.

Charitable and political donations

During the financial year donations made by ScottishPower and its subsidiaries for charitable purposes totalled £299,766. There were no contributions for political purposes.

Creditor payment policy and practice

The group's current policy and practice concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code. Copies are available upon request from the Company Secretary. For other suppliers, the group's policy and practice is to settle terms of payment when agreeing the terms of the transaction, to include the terms in contracts and to pay in accordance with its contractual and legal obligations. The group's 'creditor days' at 31 March 1998 were 34 days.

Auditors

Coopers & Lybrand have expressed their willingness to continue in office and a resolution to reappoint Coopers & Lybrand as the company's auditors will be proposed at the Annual General Meeting.

Annual General Meeting

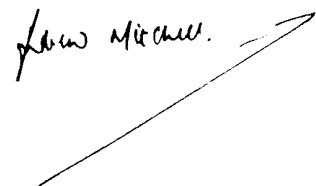
The Annual General Meeting will be held at the Edinburgh Festival Theatre, 13/29 Nicolson Street, Edinburgh, on Wednesday 22 July 1998 at 11.00 a.m. Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Meeting.

One of the proposals to be considered at this year's Annual General Meeting is the amendment of the Memorandum of Association and the adoption of new Articles of Association. The proposed amendment to the Memorandum of Association is with respect to the statement of the company's objects to allow them to reflect more clearly the wider utility businesses. The existing Articles were adopted on 29 May 1991. In view of the entry of the company's shares into CREST, the electronic settlement system for shares in the UK, the directors consider it appropriate to make amendments to the Articles to ensure that they are consistent with the Uncertificated Securities Regulations 1995. The directors have also taken this opportunity to propose certain

additional changes to the Articles to reflect current market practice and to bring the Articles into line with the requirements of the revised London Stock Exchange Listing Rules. Given the number of proposed changes to the Articles, the directors have considered that it would be administratively easier to adopt new Articles, based on the existing Articles, rather than to amend the existing ones.

Details of the more important differences between the existing and proposed form of Memorandum and Articles are set out in the Notice of Meeting, including the Explanatory Notes. Copies of the existing Memorandum and Articles and the proposed form of the Memorandum and Articles, highlighted to show the differences from their current form, are available for inspection during normal business hours on each day (other Saturdays, Sundays and public holidays) until 22 July 1998 at both the company's registered office in Glasgow and at the offices of the company's solicitors, Freshfields, at 65 Fleet Street, London EC4Y 1HS.

By Order of the Board



Andrew Mitchell
Secretary

6 May 1998

The company has complied throughout the financial year with all the applicable provisions of the Cadbury Committee's Code of Best Practice.

Board of Directors

There is a well established division of authority and responsibility at the most senior level within the company through the separation of the roles of the Chairman and Chief Executive.

There are currently four executive and six non-executive directors (including a non-executive Chairman) on the Board.

The non-executive directors are from varied business and other backgrounds. Their experience allows them to exercise independent judgement on the Board and their views carry substantial weight in Board decisions. They contribute to the company's strategy and policy formulation, in addition to monitoring its performance and its executive management. The non-executive directors are appointed for a specific term and reappointment is not automatic. Each non-executive director's position is reviewed prior to the expiry of his or her term of office.

The Board meets on a regular monthly basis and has a schedule of matters concerning key aspects of the company's activities which are reserved to the Board for decision. The Board exercises full control over strategy, investment and capital expenditure. In addition, individual executive directors have specific responsibilities for such matters as health, safety, environment and regulation. All directors have access to the Company Secretary who is responsible for ensuring that all Board procedures are observed. Any directors wishing to do so, in furtherance of his or her duties, may take independent professional advice at the company's expense.

Board Committees

The Board has several standing committees: namely, the Audit Committee and Emoluments and

Nominations Committee, whose membership is comprised of non-executive directors only, as noted on page 65, and the Chief Executive's Committee and Finance Committee. The purpose and functions of these committees are described below.

Audit Committee

The Audit Committee has a remit to review the company's accounting policies, internal control and financial reporting and makes recommendations on these matters to the Board for decision. It also considers the appointment and fees of the external auditors.

Emoluments and Nominations Committee

The Emoluments and Nominations Committee has a remit to determine the remuneration policy of the ScottishPower group, including the remuneration arrangements for executive directors and other senior executives and the operation of the company's bonus and incentive schemes. It is also responsible for reviewing the company's succession plans and makes recommendations to the Board on the appointment of directors. The Report of the Emoluments and Nominations Committee is set out on pages 35 to 37.

Chief Executive's Committee

The Chief Executive's Committee comprises the Chief Executive and other executive directors, together with the managing directors of the company's Power Systems, Energy Supply, Manweb and Information Systems businesses, the Chief Executive of ScottishTelecom and the Director of Corporate Affairs, Legal Director and Company Secretary. Operational control and implementation of group strategy and policy are responsibilities delegated by the Board to the Chief Executive who is supported by the Committee in the discharge of these functions. The Committee's terms of reference also

include monitoring of the performance of the company's businesses against business plans agreed by the Board. Major issues and decisions are reported monthly to the Board.

Finance Committee

The Finance Committee comprises any two directors, one of whom shall be the Finance Director (or, in his absence, the Chief Executive). It is established for the purpose of dealing with certain treasury matters under authority delegated by the Board. The limit of its authority is in respect of borrowings and other obligations not exceeding £100 million.

Internal financial control

The Board of Directors is responsible for the group's system of internal financial control and for monitoring its effectiveness. It must be recognised that any such system can provide only reasonable and not absolute assurance of the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The key features of the control system which has been established, and which is designed to ensure effective internal financial control, are described below.

Control environment

The company is committed to ensuring that a proper control environment is maintained. There is a commitment to competence and integrity, and the communication of ethical values and control consciousness to managers and employees. Human Resources policies underpin that commitment by a focus on enhancing job skills and promoting high standards of probity among staff. In addition, the appropriate organisational structure has been developed within which to control the businesses and to delegate authority and accountability having regard to acceptable levels of risk. Business managing directors report regularly on operating performance to the relevant

executive director with line responsibility, and the performance of each business is reviewed monthly by the Chief Executive's Committee.

Risk assessment and control procedures

The company's strategy is to follow a prudent risk policy, effectively managing exposures where appropriate.

The Board has undertaken a specific exercise to review and assess its key risks at a group level and to ensure that it is receiving appropriate information to monitor the management of those risks. The Board has required each of the businesses to complete a similar exercise to define key risks, controls and monitoring procedures utilising a well defined and consistent methodology. It is a key requirement of the procedures that a written certificate is provided annually by the managing director and finance manager of each business confirming that they have reviewed the effectiveness of the system of internal financial controls during the year. Periodic detailed review by the Finance Director of the accounting records of each business reinforces a focused approach to control throughout the group's finance functions.

Audit of controls

Operation of the group's control and monitoring procedures is reviewed and tested by the group's internal audit function under the supervision of the Head of Internal Audit, reporting directly to the Finance Director and with access to the Chairman of the Audit Committee. Internal audit reports and recommendations on the group's procedures are reviewed regularly by the Audit Committee. As part of their external audit responsibilities, the external auditors also provide reports to the Audit Committee on the operation of the group's internal financial control procedures.

The directors confirm that they have reviewed the effectiveness of the system

of internal financial controls utilising the procedures set out above.

Directors' responsibility for the financial statements

The directors are required by law to prepare financial statements for each financial year and to present them annually to the company's members at the Annual General Meeting. The financial statements of which the form and content is prescribed by the Companies Act 1985 and applicable accounting standards, must give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the group's profit or loss for the period.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1998. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for maintaining proper accounting records and sufficient internal controls to safeguard the assets of the company and the group and to prevent and detect fraud or any other irregularities.

Going concern

The directors confirm that the company remains a going concern on the basis of adequate cash flow forecasts.

Auditors' responsibilities

The company's registered auditors, Coopers & Lybrand, are responsible for forming an independent opinion on the financial statements of the group presented by the directors and for reporting their opinion to the shareholders. The report of the Auditors to the members of Scottish Power plc is set out on page 63. The auditors are also required to report to the shareholders if the following

requirements are not met:

- that the group has maintained proper accounting records
- that the financial statements are in agreement with the accounting records
- that the contents of the Directors' Report are consistent with the financial statements
- that directors' emoluments and other transactions with directors are properly disclosed in the financial statements
- that they have obtained all information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

In addition, as recommended by the Cadbury Committee and required by the London Stock Exchange, the auditors have considered the directors' statement of compliance in relation to those points of the Code which can be objectively verified. Their report on corporate governance matters is set out on page 63.

Report of the Emoluments and Nominations Committee

Emoluments and Nominations Committee

The Emoluments and Nominations Committee (the Committee) is responsible for determining the remuneration policy for the ScottishPower group, including the remuneration arrangements for executive directors and other senior executives. It is also responsible for making recommendations to the Board on the appointment of directors.

The Committee consists solely of non-executive directors. Its members, who have no personal financial interest other than as shareholders in the matters considered by the Committee, are Ewen Macpherson (Chairman), Sir Ronald Garrick, Sir Peter Gregson and John Parnaby. Mair Barnes joined the Committee in April 1998.

The Committee is advised internally and is also provided with independent advice from external remuneration consultants in order to assist in determining and developing its policies.

Committee members are paid a fee and expenses, but do not receive any other remuneration from the company. Details of the remuneration of all non-executive directors are set out in Note 32 to the Accounts on pages 59 to 61.

The Committee's policy and disclosures on directors and senior management remuneration are set out below. Throughout the period, the company has complied with Section A of the Best Practice Provisions annexed to the London Stock Exchange Listing Rules.

The Committee notes that, following the Hampel Report, there is currently a process of consultation being undertaken by the London Stock Exchange with a view to proposed amendments to the Listing Rules. The Committee will take account of any amendments to the Rules in its future work.

Executive remuneration policy

The aim of ScottishPower's remuneration policy is to ensure that the rewards for executives and directors

attract and retain executives of high quality, who are incentivised to achieve performance which exceeds that of competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of the shareholders.

The Committee believes that to attract and retain key executives of high calibre, the remuneration package it offers must be market competitive. The remuneration strategy is to adopt a market median positioning on all senior management remuneration packages and to provide packages above the market median only where supported by demonstrably superior personal performance. This positioning is established by advice received from an independent evaluation of job size and an analysis of the market situation by independent remuneration consultants against a comparator group of selected utilities and the FTSE 100 companies.

The Committee takes a balanced view of remuneration, considering each element relative to the market and, in the past, has realigned elements of the package to reflect market conditions or changes in market practice. In the last three years, annual bonus arrangements have been further strengthened so that targets reflect shareholder value and focus on improvements to business performance. In July 1996 shareholders approved the introduction of a long term incentive plan, which replaced future grants of executive share options.

In determining its remuneration policy, the Committee has given full consideration to the Code of Best Practice recommended by the Greenbury Committee and Section B of the Best Practice Provisions annexed to the London Stock Exchange Listing Rules.

In considering the comparator companies the consultants have included a number of other utilities but have not restricted their study solely to other utilities.

In setting remuneration levels, the Committee commissioned an independent evaluation of the roles of

the executive directors and also the next levels of management within the company. The Committee has also continued to take independent advice from three remuneration consultants on market level remuneration based on comparison with companies of similar size and complexity.

In line with its objective of building a multi-utility business, ScottishPower has recruited a number of executives with key business skills, and hence a reward structure broadly equivalent to other large UK listed companies is necessary.

Base salary

The Committee sets the base salary for each executive director by reference to individual performance through a formal appraisal system and external market data, based on the Hay job evaluation system and reflecting similar roles in other comparable companies. In evaluating the roles, Hay takes into account its view of the environment in which the company is operating.

Annual performance related bonus

Executive directors and senior management participate in the company's performance related pay schemes. The schemes provide a maximum total payment of 40% of salary for executive directors and managing directors of the company's energy businesses, 30% of salary for other directors and 20% of salary for senior managers, and focus on corporate and business performance. All payments under the schemes are non-pensionable and non-contractual and are subject to the specific approval of the Committee.

The bonus structure is reviewed annually to ensure that it reflects the priorities of the business. The 1998 review of annual bonus arrangements confirmed that these forms of arrangement are widespread within the UK, and the amounts receivable at the 'on target' and maximum levels of performance are broadly in line with the FTSE 100 comparator group.

The scheme for executive directors provides a bonus of a maximum of 40% of salary, with up to a maximum of 25% of base salary determined by the company's performance. Measurement is by reference to a matrix of performance against targets of earnings per share and return on capital employed to reflect shareholder value. The balance of the bonus, of a maximum of 15% of base salary, is linked to each executive's achievement of key strategic objectives, both short term and long term. Objectives are set annually and performance against these is reviewed on a six monthly basis.

Directors do not participate in the Inland Revenue approved Profit Related Pay Scheme which was introduced in April 1995.

Share option schemes

The company operates an executive share option scheme which applies to executive directors and certain senior managers. The last grant of executive share options to executive directors was in May 1995. Existing options remain exercisable. Future grants under this scheme have been replaced by the company's long term incentive plan.

The company also operates a savings-related share option scheme, which is open to all permanent employees. Under this scheme options are granted over ScottishPower shares at a discount of 20% to the prevailing market price at the time of grant to eligible employees who agree to save up to £250 per month over a period of three or five years.

Long Term Incentive Plan

The company operates a long term incentive plan for executive directors and other senior managers, which was approved by shareholders at the company's Annual General Meeting in July 1996. The plan links the rewards closely between management and shareholders and focuses on long term corporate performance.

Under the plan, awards to acquire shares in ScottishPower at nil or

nominal cost are made to the plan participants up to a maximum value equal to 60% of base salary. The award will vest only if the Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in certain OFFER published Customer Service Standards are achieved over a period of three financial years commencing with the financial year preceding the date an award is made. All awards granted under the plan following the acquisition of Southern Water include reference to the OFWAT Customer Service Standards. Assuming that such targets have been achieved, the number of shares that can be acquired on vesting of the award will be dependent upon how the company ranks, in terms of its total shareholder return performance over a three year performance period, in comparison to the constituent companies of the FTSE 100 Index and the Electricity and Water sectors. Half of each award will be measured against the FTSE 100 companies and half against the Electricity and Water companies. A percentage of each half of the award will vest depending upon the company's ranking within the relevant comparator group as follows:-

- 100% if the company ranks in the top decile
- 90% if the company ranks in the second decile
- 80% if the company ranks in the third decile
- 60% if the company ranks in the fourth decile
- 40% if the company ranks in the fifth decile
- nil if the company ranks in the sixth decile or lower.

Once the company's total shareholder return performance has been measured over the three year performance period following the grant of the award, the award must be held for a further year before it may be exercised. The plan participant may acquire the shares in respect of the

percentage of the award which has vested at any time after the fourth year up to the seventh year after the grant of the award.

Pension

The executive directors, and other senior management of the company, are provided with pension benefits through the company's main pension scheme, and an executive top up pension plan which provides a maximum pension of two-thirds of final salary on retirement at age 63, reduced where service to age 63 is less than 20 years. Pensionable salary is base salary in the 12 months prior to leaving the company.

Individuals who joined the company on or after 1 June 1989 are subject to the Inland Revenue earnings cap introduced by the Finance Act 1989. Entitlement above the cap cannot be provided through the company's approved pension schemes.

Arrangements on an unapproved basis have been made to provide benefits for executives affected by the legislation. The total liability in respect of executives and senior employees arising in relation to unapproved benefits accrued for service for the year to 31 March 1998 is £432,676.

The normal retirement age is 63, apart from the Chief Executive who has a planned retirement age of 60 by special agreement at the time he joined the company.

The trustee body of the Executive Top Up Plan is chaired by the Chairman of the company.

The Committee has reported pension expense in accordance with the requirements of the London Stock Exchange. Pension costs detailed in the accounts are calculated as the cost of providing benefits accrued in the 1997-98 year.

Service contracts

All executive directors have service contracts terminable by the company on two years' notice and by the individuals on up to twelve months' notice. Against the need to retain and motivate directors in a competitive environment, the Committee believes that it remains appropriate for the main Board executive directors to continue to be on two year rolling contracts.

None of the executive directors' service contracts provides for pre-determined amounts of compensation in the event of early termination. The Committee's policy on early termination is to emphasise the duty to mitigate to the fullest extent practicable.

Senior managers within the company have notice periods ranging from six months to one year.

External non-executive appointments

The company encourages its directors to become non-executive directors of other companies, provided that these are not with competing companies and are not likely to lead to any conflicts of interest, and do not require extensive commitments of time which would prejudice their roles within ScottishPower. This serves to add to their personal and professional experience and knowledge to the benefit of ScottishPower. Any fees derived from such appointments may be retained by the executives.

Benefits

Executive directors are eligible for a range of benefits on which they are assessed for tax and which include the provision of a company car, fuel, private medical and permanent health insurance. Senior executives depending upon grade are eligible for certain of these benefits.

As with salary, the level of benefits is reviewed annually through surveys from independent consultants. Practice varies as to the composition of these items among the comparator group and the company's benefits are broadly in line

with the practice of the group.

The company provides all levels of staff, including directors and certain pensioners, with a discount on merchandise sold by its Retail business.

Remuneration policy for non-executive directors

The remuneration of non-executive directors is determined by the Board and consists of fees for their service in connection with the Board and Board Committees. Additional fees are also payable for chairing Board Committees. The non-executive directors do not have service contracts, are not members of the company's pension scheme and do not participate in any bonus, share option or other profit or long term incentive schemes.

The company provides life assurance cover, up to a limit of £500,000, on the life of the Chairman.

Full details of the remuneration of the directors are contained in Note 32 to the Accounts on pages 59 to 61.

Accounting Policies and Definitions

Business segment definitions

The business segments of the group are defined as follows:

Generation Wholesale

The generation of electricity from the company's own power stations, the purchase of external supplies of energy for sale to other business segments of the company and the sale of electricity to other public electricity suppliers and to the Pool in England and Wales.

Power Systems

The transmission and distribution businesses in Scotland and, specifically, the transportation of units of electricity from the power stations through the transmission and distribution networks to customers in Scotland and to customers in England and Wales through the Anglo-Scottish Interconnector.

Energy Supply

The sale of energy to customers, together with related billing and collection activities for customers contracted to Scottish Power plc.

Manweb

The distribution and supply businesses operating in Merseyside and North Wales and, specifically, the purchase, distribution and sale of electricity to customers, together with related billing and collection activities within that licensed area.

Southern Water

The provision of water and waste water services in the South East of England, together with related billing and collection activities.

Developing businesses and ancillary services

The retailing and servicing of domestic electrical goods and home entertainment appliances, the supply of telecommunication services, the provision of electrical contracting, consultancy and corporate services and the company's other subsidiary and associated undertakings.

In the segmental analyses on pages 44 and 49, all material activities are derived from continuing operations in the United Kingdom.

Revenue cost definitions

Cost of sales

The cost of sales for the group, excluding Southern Water, reflect the direct costs of the generation and purchase of electricity, retail trading, telecommunication services, electrical contracting, consultancy services and the purchase of natural gas. For Southern Water, cost of sales represents the cost of extracting water from underground and raw water surface reservoirs and of its treatment and supply to customers and the subsequent collection of waste water and its treatment and disposal.

Transmission and distribution costs

The cost of transmitting units of electricity from the power stations through the transmission and distribution networks to customers. It includes the costs of metering, billing and debt collection. This heading is considered more appropriate to the electricity industry than the standard Companies Act heading of distribution costs.

Administrative expenses

The indirect costs of businesses, the costs of centralised services and rates.

Other definitions

Company

Scottish Power plc.

Group

Scottish Power plc and its consolidated subsidiaries.

Associated undertakings

Entities in which the company holds a long term participating interest and exercises significant influence.

Joint ventures

Entities in which the company holds a long term interest and shares control with another company external to the group.

Subsidiary undertakings

Entities in which the company holds a long term controlling interest.

Accounting Policies

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the UK and, subject to the treatment of water infrastructure grants and contributions described below, comply with the requirements of the Companies Act 1985.

Basis of consolidation

The group accounts include the accounts of the company and its principal subsidiary undertakings together with the group's share of results and net assets of associated undertakings and joint ventures. For commercial reasons certain subsidiaries have different year ends. The consolidation includes the accounts of these subsidiaries, as adjusted for material transactions in the periods between their year ends and 31 March 1998.

Turnover

Turnover comprises the sales value of energy, goods, water, waste water and other services supplied to customers during the year and excludes Value Added Tax and intra-group sales. Income from the sale of energy and measured water is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end.

Under/over recovery of regulated income

Under the licences issued to Scottish Power plc and Manweb plc which

permit them to operate as public electricity companies, price control formulae determine the regulated allowable maximum unit revenues of the transmission, distribution and supply businesses, as appropriate. If actual revenue for the year exceeds the regulated allowable maximum, the excess is deducted from turnover and included in creditors. Where there is an under recovery compared with the regulated allowable maximum no anticipation of any potential future recovery is made.

Research and development

Expenditure on research and development is charged to the profit and loss account as it is incurred.

Interest

Interest on the funding attributable to major capital projects is capitalised gross of tax relief during the period of construction and written off as part of the total cost over the operational life of the asset. All other interest payable and receivable is reflected in the profit and loss account as it arises.

Financial instruments

Debt instruments

All borrowings are stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond.

Interest rate swaps

Interest rate swap agreements are used to manage interest rate exposures and are accounted for under the hedge accounting method. In order to qualify for hedge accounting, the company's notional amount of interest rate swaps and caps must be less than or equal to existing variable rate debt. Amounts payable or receivable in respect of these agreements are recognised as adjustments to interest expense over the period of the contracts. The cash flows from interest rate swaps and gains and

losses arising on terminations of interest rate swaps are recognised as returns on investments and servicing of finance. Where associated debt is not retired in conjunction with the termination of an interest swap, gains and losses are deferred and are amortised to interest expense over the remaining life of the associated debt to the extent that such debt remains outstanding.

Interest rate caps

Interest rate caps are used to limit interest rate exposures. The premiums on these contracts are disclosed as interest expense and are amortised over the period of the contracts.

Forward contracts

The company enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. Unrealised gains and losses on contracts are not accounted for until the maturity of the contract. The cash flows from forward purchase contracts are classified in a manner consistent with the underlying nature of the hedged transaction.

Contracts for Differences (CfDs)

The company uses CfDs to minimise exposure to Pool price variations. The cost or the income attributable to CfDs is recorded in the accounting records when settlement is made. Where delivery under the CfD has taken place prior to the period end, adjustments are made to account for the known variances between the contract strike price and the Pool price on the date of delivery.

Premiums and discounts

Premiums and discounts arising on the early repayment of borrowings are written off to the profit and loss account as incurred.

Goodwill

Purchased goodwill represents the excess of the fair value of the purchase

consideration over the fair value of the net assets acquired. Goodwill arising from the purchase of trading entities in accounting periods ended on, or prior to, 31 March 1998 has been written off against reserves on acquisition in accordance with the current group accounting policy. Goodwill written off to reserves, being all goodwill previously eliminated, has been offset against merger reserve to reduce the merger reserve to zero and thereafter has been offset against the profit and loss reserve.

Tangible fixed assets

Accounting for non-water infrastructure assets

Tangible fixed assets are stated at cost and are depreciated on the straight line method over their estimated operational lives. Tangible fixed assets include capitalised employee costs in respect of work performed solely or principally for the purpose of construction of fixed assets. Certain hydro civil assets, which have infinite lives, and land are not depreciated. Depreciation is, in general, first charged in the year following that in which the expenditure was incurred.

The main depreciation periods used by the company are as set out below:

	Years
Coal and oil-fired generating stations	35-40
Hydro plant and machinery	20-40
Other buildings	40
Transmission and distribution plant	30-40
Towers, lines and underground cables	40-60
Vehicles, miscellaneous equipment and fittings	3-15

Infrastructure accounting

Water infrastructure assets, being mains and sewers, reservoirs, dams, sludge pipelines and sea outfalls are not depreciated because the network of systems is required to be maintained in perpetuity and therefore has no finite

economic life. Infrastructure renewals, being the expenditure on maintaining the operating capability of the network, is charged as an operating cost based on the long run average charge implied by an asset management plan agreed with the water industry regulator as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling programme of reviews of the condition of the infrastructure assets. The required renewals and the related costs are determined from these engineering estimates using indexed historical cost data. The allocation of costs to each period is also determined from the rolling programme of reviews of the condition of the infrastructure assets. Actual costs incurred are charged against the related provision account.

Leased assets

As lessee

Assets leased to the group companies under finance leases are capitalised and depreciated in line with the group depreciation policy. The interest element of the finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account as incurred.

As lessor

Rentals receivable under finance leases are allocated to accounting periods to give a constant periodic rate of return on the net cash investment in the lease in each period. The amounts due from lessees under finance leases are recorded in the balance sheet as a debtor at the amount of the net investment in the lease after making provisions for bad and doubtful rentals receivable.

Property clawback

A debenture has been issued to the Secretary of State for Scotland which entitles HM Government to a

proportion of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing or treated as accruing to ScottishPower as a result of the disposal or deemed disposal after 31 March 1991 of certain property held at 31 March 1990. These arrangements last until 31 March 2001.

In the case of Manweb, if properties are disposed of, or are deemed to have been disposed of prior to 1 April 2000, a part of the gain over the value at 31 March 1990 (as adjusted for inflation and taxation) will become payable to HM Government.

In the case of both companies, a liability for clawback in respect of property disposals is recognised only when an actual or a deemed disposal occurs.

Investments

Investments in subsidiary and associated undertakings and joint ventures are stated in the balance sheet of the parent company at cost, or nominal value of shares issued as consideration where applicable, less provision for any permanent diminution in value. The consolidated profit and loss account includes the group's share of the profits less losses and taxation of associated undertakings and joint ventures. The group balance sheet includes the investment in associated undertakings and joint ventures at the group's share of their net assets. Other fixed asset investments are carried at cost less provision for permanent diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the year end liabilities and monetary assets denominated in foreign currencies are translated at the rate of exchange ruling

at the balance sheet date or, where applicable, at the contracted rate. Any gain or loss arising on the restatement of such balances is taken to the profit and loss account.

Taxation

The charge for ordinary taxation is based on the profits for the year and takes into account deferred taxation, using the liability method, in respect of timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and the depreciation of fixed assets.

Pensions

Revaluations of the Pension Schemes are normally conducted by independent actuaries every three years. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the Pension Schemes is included as an asset or liability in the balance sheet.

Grants and contributions

Capital grants and customer contributions in respect of additions to non-water infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets. The treatment of grants and contributions relating to water infrastructure assets differs, since these assets are not depreciated and therefore no basis exists on which to recognise grants and contributions as deferred income. Accordingly, grants and contributions relating to water infrastructure asset additions are deducted from the cost of water

infrastructure assets. This treatment is in accordance with Statement of Standard Accounting Practice (SSAP) 4 and the effect on the value of tangible fixed assets is disclosed in Note 15. This is not in accordance with the Companies Act 1985 which requires assets to be stated at their purchase price or production cost. The departure from the requirements of the Act is, in the opinion of the directors, necessary to give a true and fair view, since water infrastructure assets are not depreciated.

Own shares held under trust

Shares in the company purchased for the Long Term Incentive Plan are held under trust and are recorded within investments in the balance sheet at cost. The cost of awards made by the trust under the Long Term Incentive Plan, being the difference between the fair value of the shares and the option price at the date of grant, is taken to the profit and loss account on a straight line basis over the period in which performance is measured. The amount recorded in the balance sheet for shares in the company purchased for employee sharesave schemes represents the amounts receivable from option holders on exercise of the options.

Group Profit and Loss Account

for the year ended 31 March 1998

	Notes	1998 £m	1997
Turnover: group and share of joint ventures and associates		3,134.1	2,947.7
Less: share of joint ventures turnover		(3.8)	(4.6)
Less: share of associates turnover		(2.1)	(2.1)
Group turnover from continuing operations	1	3,128.2	2,940.7
Cost of sales		(1,850.7)	(1,743.5)
Gross profit from continuing operations		1,277.5	1,197.2
Transmission and distribution costs		(219.1)	(222.8)
Administrative expenses		(303.0)	(331.1)
Other operating income		29.7	20.6
Operating profit from continuing operations	1,2	785.1	663.9
Income from interests in joint ventures		1.6	1.8
Income from interests in associated undertakings		0.3	0.9
Profit on ordinary activities before interest		787.0	666.6
Net interest charge			
– Group		(147.1)	(107.5)
– Joint ventures		(0.2)	(0.5)
– Associates		(0.1)	(0.2)
	4	(147.4)	(108.2)
Profit on ordinary activities before taxation		639.6	558.4
Ordinary taxation			
– Group		(151.5)	(135.7)
– Joint ventures		(0.4)	(0.7)
– Associates		0.3	(0.4)
	5	(151.6)	(136.8)
Profit after ordinary taxation		488.0	421.6
Exceptional taxation – windfall tax	6	(317.0)	
Profit after taxation		171.0	42
Minority interests	26	(0.9)	(0.5)
Profit for the financial year		170.1	421.1
Dividends	8	(243.3)	(218.1)
(Loss)/profit retained	25	(73.2)	203.0
Earnings per ordinary share	7	14.41p	38.11p
Adjusting item – windfall tax		26.87p	–
Earnings per ordinary share before windfall tax	7	41.28p	38.11p
Dividend per ordinary share	8	20.40p	18.50p

The Accounting Policies and Definitions on pages 38 to 41, together with the Notes on pages 44 to 45, 47 and 49 to 62 form part of these Accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 1998

	Note	1998 £m	1997 £m
Profit for the financial year		170.1	421.1
Surplus on revaluation of assets	15	229.0	-
Total recognised gains and losses		399.1	421.1

Note of Historical Cost Profits and Losses

for the year ended 31 March 1998

	Note	1998 £m	1997 £m
Profit on ordinary activities before taxation		639.6	558.4
Difference between historical cost depreciation charge and actual depreciation charge for the period calculated on the revalued amount of fixed assets	15	1.7	-
Historical cost profit on ordinary activities before taxation		641.3	558.4
Historical cost (loss)/profit retained for the period after taxation, minority interests and dividends		(71.5)	203.0

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 March 1998

	1998 £m	1997 £m
Profit for the financial year	170.1	421.1
Dividends	(243.3)	(218.1)
(Loss)/profit retained	(73.2)	203.0
Share capital issued (net of costs)	45.5	633.2
Shares to be issued	-	13.4
Revaluation of fixed assets	229.0	-
Goodwill written off	(16.2)	(534.6)
Net movement in shareholders' funds	185.1	315.0
Opening shareholders' funds	1,522.7	1,207.7
Closing shareholders' funds	1,707.8	1,522.7

The Accounting Policies and Definitions on pages 38 to 41, together with the Notes on pages 44 to 45, 47 and 49 to 62 form part of these Accounts.

Notes to the Group Profit and Loss Account

for the year ended 31 March 1998

1 Segmental business information

(a) Turnover by business segment

Note	Total turnover		Inter-segment turnover		External tu-	
	1998 £m	1997 £m	1998 £m	1997 £m	1998 £m	1997 £m
	1,014.3	974.4	764.8	744.4	249.5	230.0
Generation Wholesale	443.0	429.2	391.1	386.8	51.9	42.4
Power Systems	1,336.2	1,270.4	11.5	0.9	1,324.7	1,269.5
Energy Supply	667.8	759.3	13.9	4.2	653.9	755.1
Manweb	(i)	316.7	0.4	0.5	452.6	316.2
Southern Water	524.0	412.9	128.4	85.4	395.6	327.5
Developing businesses and ancillary services						
Total					3,128.2	2,940.7

(b) Operating profit by business segment

	1998 £m	1997 £m
Generation Wholesale	130.8	146.1
Power Systems	249.5	228.0
Energy Supply	15.1	32.4
Manweb	131.3	135.0
Southern Water	(i)	240.7
Developing businesses and ancillary services	17.7	8.0
Sub total	785.1	685.1
Southern Water reorganisation costs	-	(21.2)
Total	785.1	663.9

(i) The 1997 figures for Southern Water cover the post-acquisition period from 6 August 1996 to 31 March 1997.

2 Operating profit

Operating profit is stated after charging/(crediting):

Note	1998 £m	1997 £m
	165.6	145.5
Depreciation	(20.6)	(22.5)
Release of customer contributions/grants	5.4	5.6
Research and development	2.6	2.6
Hire of plant and equipment - operating leases	25.0	6
Hire of other assets - operating leases		
Auditors' remuneration for audit of	0.6	0.6
- group	0.3	0.3
- company	(i)	1.2
Auditors' remuneration for non-audit services to the company and its UK subsidiary undertakings		

(i) Non-audit services consist mainly of regulatory advice, consulting resources and sundry returns for regulatory purposes.

3 Employee information

(a) Employee costs

	1998 £m	1997 £m
Wages and salaries	304.6	277.1
Social security costs	24.0	22.7
Pension costs	18.1	24.7
Total employee costs	346.7	324.5
Less: charged as capital expenditure	(67.8)	(48.0)
Charged to the profit and loss account	278.9	276.5

(b) Employee numbers

The year end and average numbers of employees (full time and part time) employed by the group, including executive directors, were:

	At 31 March		Annual average	
	1998	1997	1998	1997
Generation Wholesale	1,020	1,054	1,068	1,094
Power Systems	2,736	2,684	2,757	2,831
Energy Supply	1,139	797	982	810
Manweb	2,248	2,830	2,330	2,975
Southern Water	2,406	3,618	2,856	4,006
Developing businesses and ancillary services	5,550	4,035	5,086	3,587
	15,099	15,018	15,079	15,303
The number of full time equivalent staff was:	14,306	14,401	14,356	14,657

4 Net interest charge

(a) Analysis of net interest charge	1998 £m	1997 £m
Interest on overdrafts, bonds and other borrowings:		
Repayable wholly within five years	41.6	65.4
Not wholly repayable within five years	33.8	12.6
Repaid during the year	84.7	33.0
	160.1	111.0
On finance leases	0.4	0.5
Total interest payable	160.5	111.5
Interest receivable	(3.1)	(3.3)
Capitalised interest	(10.0)	-
Net interest charge	147.4	108.2
Interest cover (times)	5.3	6.2

Interest cover is calculated by dividing profit on ordinary activities before interest by the net interest charge.

(b) Analysis of total interest payable	1998 £m	1997 £m
Bank loans and overdrafts	45.0	65.5
Government borrowings	16.3	16.3
Loan notes	1.6	2.7
Commercial paper	73.3	24.3
Medium term notes/private placements	4.5	-
Euro-bonds	19.4	2.2
Finance leases	0.4	0.5
	160.5	111.5

5 Ordinary taxation

Reconciliation of tax charge to standard rate of UK Corporation Tax	1998 £m	1997 £m
Tax on profit before tax at standard rate of 31% (1997 33%)	198.2	184.2
Timing differences between taxable and accounting profit:		
- accelerated capital allowances	(35.8)	(49.7)
- other timing differences	1.1	4.5
Permanent differences	27.0	9.5
Advance corporation tax written back	(38.9)	(11.7)
Ordinary taxation charged to profit and loss account	151.6	136.8
Effective tax rate	23.7%	24.5%

The effective tax rate is calculated by dividing ordinary taxation by profit on ordinary activities before taxation.

6 Exceptional taxation – windfall tax

Exceptional taxation relates to the group's estimated share of the windfall tax according to the formula contained within the Finance (No. 2) Act 1997. The first of two equal instalments was paid on 1 December 1997 with the second instalment due on 1 December 1998.

7 Earnings per ordinary share

(a) Earnings per ordinary share have been calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue and ranking for dividend during the period, based on the following information.

	1998	1997
Profit for the financial year (£ million)	170.1	421.1
Weighted average share capital (number of shares, million)	1,180.1	1,104.9

(b) Fully diluted earnings per ordinary share based on options outstanding have not been provided as the effect of dilution would not be material.

(c) The calculation of earnings per ordinary share, on a basis which excludes the windfall tax, is as follows:

	1998 £m	1997 £m
Profit for the financial year	170.1	421.1
Adjusting item – windfall tax	317.0	-
Profit for the financial year before windfall tax	487.1	421.1
Earnings per ordinary share before windfall tax	41.28p	38.11p

8 Dividend per ordinary share

	1998 pence per ordinary share	1997 pence per ordinary share	1998 £m	1997 £m
Interim dividend paid	6.80	6.17	80.4	72.6
Proposed final dividend	13.60	12.33	162.9	145.5
Total dividend	20.40	18.50	243.3	218.1

Group Cash Flow Statement

for the year ended 31 March 1998

	Notes	1998 £m	1997 £m
Cash inflow from continuing operating activities	10	987.3	791.2
Dividends received from associates and joint ventures		0.9	-
Returns on investments and servicing of finance	9	(146.7)	(101.1)
Ordinary taxation		(134.5)	(117.4)
Free cash flow before windfall tax		707.0	572.7
Exceptional taxation – windfall tax	6	(157.8)	-
Free cash flow		549.2	572.7
Capital expenditure and financial investment	9	(565.9)	(381.4)
Cash flow before acquisitions and disposals		(16.7)	191.3
Acquisitions and disposals	9	67.9	(1,234.6)
Equity dividends paid		(226.0)	(170.0)
Cash outflow before use of liquid resources and financing		(174.8)	(1,213.3)
Management of liquid resources	9,13	(17.5)	(21.0)
Financing			
Issue of ordinary share capital (net of expenses)	9	8.9	238.0
Increase in debt	9,13	252.6	1,048.6
		261.5	1,286.6
Increase in cash in year	13	69.2	52.3

Free cash flow represents cash flow from operations after adjusting for returns on investments and servicing of finance and taxation.

Reconciliation of Net Cash Flow to Movement in Net Debt

	1998 £m	1997 £m
Increase in cash in year	69.2	52.3
Cash inflow from increase in debt	(252.6)	(1,048.6)
Cash outflow from movement in liquid resources	17.5	21.0
Change in net debt resulting from cash flows	(165.9)	(975.3)
Net debt acquired	(0.1)	(168.6)
Net debt disposed	6.7	-
Loan notes issued	(3.0)	(14.3)
Movement in net debt in year	(162.3)	(1,158.2)
Net debt at end of previous year	(1,790.3)	(632.1)
Net debt at end of year	(1,952.6)	(1,790.3)

The Accounting Policies and Definitions on pages 38 to 41, together with the Notes on pages 44 to 45, 47 and 49 to 62 form part of these Accounts.

Notes to the Group Cash Flow Statement

for the year ended 31 March 1998

9 Analysis of cash flows

	1998 £m	1997 £m
(a) Returns on investments and servicing of finance		
Interest received	2.7	3.3
Interest paid	(149.0)	(103.9)
Interest element of finance lease rental payments	(0.4)	(0.5)
Net cash outflow for returns on investments and servicing of finance	(146.7)	(101.1)
(b) Capital expenditure and financial investment		
Purchase of tangible fixed assets	(635.3)	(435.4)
Deferred income received	55.4	44.7
Sale of tangible fixed assets	26.4	13.9
Purchase of fixed asset investments	(12.4)	(4.6)
Net cash outflow for capital expenditure and financial investment	(565.9)	(381.4)
(c) Acquisitions and disposals		
Purchase of subsidiary undertakings	(0.4)	(1,234.6)
Sale of subsidiary businesses	68.3	-
Net cash inflow/(outflow) from acquisitions and disposals	67.9	(1,234.6)
(d) Management of liquid resources		
Cash outflow in relation to short term deposits and other short term investments	(17.5)	(21.0)
Net cash outflow for management of liquid resources	(17.5)	(21.0)
(e) Financing		
Issue of ordinary share capital	8.9	263.0
Expenses paid in connection with share issue	-	(25.0)
	8.9	238.0
Debt due within one year:		
- net (repayment)/drawdown of uncommitted facilities	(81.8)	252.9
- net commercial paper (redeemed)/issued	(31.0)	700.5
- net medium term notes issued/private placements	62.5	-
- redemption of loan notes	(39.4)	(0.4)
- European Investment Bank loan	1.3	8.7
Debt due after one year:		
- net drawdown of uncommitted facilities	-	3.8
- net repayment of committed facilities	(200.6)	(100.0)
- net medium term notes issued/private placements	240.9	-
- European Investment Bank loan	20.0	(11.6)
- 5.875% euro-US dollar bond issue	182.9	-
- Variable coupon bond issue	99.6	-
- 8.375% euro-sterling bond issue	0.2	196.6
Capital element of finance lease rental payments	(2.0)	(1.9)
Increase in Debt	252.6	1,048.6
Net cash inflow from financing	261.5	1,286.6

13 Analysis of net debt

	At 1 April 1997 £m	Cash flow £m	Acquisitions (excl. cash & overdrafts) £m	Disposals (excl. cash & overdrafts) £m	Other non-cash changes £m	At 31 March 1998 £m
Cash at bank	2.5	56.3	-	-	-	58.8
Overdrafts	(22.2)	12.9	-	-	-	(9.3)
		69.2				
Debt due after 1 year	(689.4)	(343.0)	-	-	-	(1,032.4)
Debt due within 1 year	(1,111.7)	88.4	(0.1)	-	(3.0)	(1,026.4)
Finance leases	(8.7)	2.0	-	6.7	-	-
		(252.6)				
Other deposits	39.2	17.5	-	-	-	56.7
Total	(1,790.3)	(165.9)	(0.1)	6.7	(3.0)	(1,952.6)

'Other non-cash changes' to net debt represents loan notes issued as part of the consideration for Pinnacle Cellular Limited.

10 Reconciliation of operating profit to cash inflow from continuing operating activities

	1998 £m	1997 £m
Operating profit	785.1	663.9
Acquisition reorganisation accruals and provisions	-	15.2
Depreciation charge	165.6	145.5
Profit on sale of tangible fixed assets and disposal of businesses	(21.7)	(2.4)
Release of deferred income	(20.6)	(22.5)
Movement in provisions for liabilities and charges	(7.5)	(17.1)
Increase in stocks	(32.0)	(31.1)
Decrease in debtors	76.5	38.7
Increase in creditors	41.9	1.0
Cash inflow from continuing operating activities	987.3	791.2

The acquisition reorganisation accruals and provisions for 1997 relate to the cost of implementing the post-acquisition plans for Southern Water.

11 Effect of acquisitions and disposals on cash flows

	1998 £m	1997 £m
Cash flow from operating activities	10.0	140.3
Returns on investment and servicing of finance	(0.7)	(5.6)
Taxation	-	(18.0)
Capital expenditure and financial investment	(5.3)	(93.2)
Management of liquid resources	-	49.0
Financing	2.1	(2.8)
Increase in cash	6.1	69.7

12 Analysis of cash flows in respect of acquisitions and disposals

	1998 £m	1997 £m
Cash consideration including (disposal)/acquisition expenses	(70.2)	1,290.8
Cash at bank and in hand disposed/(acquired)	1.9	(58.6)
Bank overdrafts acquired	-	2.4
	(68.3)	1,234.6

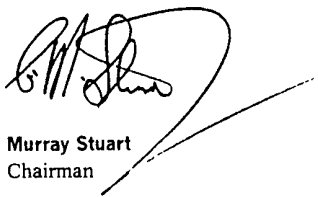
The analysis of cash flows from disposals in 1998 relates to the cash flows during the period for the Southern Water non-core businesses that were sold during the year. The cash flows from the acquisitions in 1998 were not material to the group.

Balance Sheets

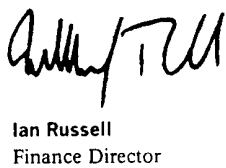
as at 31 March 1998

	Notes	Group 1998 £m	Group 1997 £m	Company 1998 £m	Company 1997 £m
Fixed assets					
Tangible assets	15	4,718.5	4,052.1	1,755.1	1,577.8
Investments					
- Investments in joint ventures:					
Share of gross assets		23.8	13.4		
Share of gross liabilities		(8.0)	(7.4)		
		15.8	6.0	13.6	4.4
- Investments in associates		7.4	7.9	-	-
- Other investments		44.1	3.8	1,731.2	1,506.6
	16	67.3	17.7	1,744.8	1,511.0
		4,785.8	4,069.8	3,499.9	3,088.8
Current assets					
Stocks	17	144.2	113.7	128.9	101.0
Debtors	18	531.3	622.8	1,811.1	1,500.7
Short term bank and other deposits		115.5	41.7	48.6	1.1
		791.0	778.2	1,988.6	1,602.8
Creditors: amounts falling due within one year					
Loans and other borrowings	19	(1,035.7)	(1,137.1)	(1,031.1)	(1,118.6)
Other creditors	20	(1,396.3)	(1,112.0)	(1,455.5)	(983.5)
		(2,432.0)	(2,249.1)	(2,486.6)	(2,102.1)
Net current liabilities		(1,641.0)	(1,470.9)	(498.0)	(499.3)
Total assets less current liabilities		3,144.8	2,598.9	3,001.9	2,589.5
Creditors: amounts falling due after more than one year					
Loans and other borrowings	19	(1,032.4)	(694.9)	(932.8)	(542.4)
Provisions for liabilities and charges	22	(38.1)	(45.6)	(10.4)	(17.6)
Deferred income	23	(364.6)	(335.3)	(179.9)	(177.7)
	14	1,709.7	1,523.1	1,878.8	1,857.5
Net assets					
Called up share capital	24,25	598.4	588.7	598.4	588.7
Share premium	25	388.7	305.7	388.7	305.7
Merger reserve	25	-	-	8.2	13.4
Revaluation reserve	25	227.3	-	-	-
Profit and loss account	25	493.4	628.3	883.5	949.7
Equity shareholders' funds	25	1,707.8	1,522.7	1,878.8	1,857.5
Minority interest	26	1.9	0.4	-	-
Capital employed		1,709.7	1,523.1	1,878.8	1,857.5

Approved by the Board on 6 May 1998 and signed on its behalf by



Murray Stuart
Chairman



Ian Russell
Finance Director

The Accounting Policies and Definitions on pages 38 to 41, together with the Notes on pages 44 to 45, 47 and 49 to 62 form part of these Accounts.

Notes to the Balance Sheets

as at 31 March 1998

14 Segmental business information

Net assets/(liabilities) by business segment

	Notes	1998 £m	1997 £m
Generation Wholesale		361.2	323.2
Power Systems		1,136.4	1,030.2
Energy Supply		45.2	41.7
Manweb		607.3	520.4
Southern Water		1,222.4	1,224.2
Developing businesses and ancillary services	(a)	220.4	246.6
Sub total		3,592.9	3,386.3
Unallocated net liabilities	(b)	(1,883.2)	(1,863.2)
Total		1,709.7	1,523.1

(a) The net assets of the Retail business, included within developing businesses and ancillary services, excluding short term bank and other deposits of £19.7 million (1997 £9.7 million), are £35.6 million (1997 £120.9 million).

(b) Unallocated net liabilities include net debt, dividends payable and tax liabilities.

15 Fixed assets

(a) Tangible assets – group

	Note	Land and buildings £m	Water infra-structure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost or valuation:						
At 1 April 1997		785.3	689.8	3,236.6	420.5	5,132.2
Additions		73.5	99.0	335.4	176.8	684.7
Acquisitions		0.4	–	1.2	0.2	1.8
Revaluation	(i)	9.4	34.4	108.2	–	152.0
Grants and contributions		–	(5.5)	–	–	(5.5)
Disposals		(21.1)	–	(36.7)	(86.8)	(144.6)
At 31 March 1998		847.5	817.7	3,644.7	510.7	5,820.6
Depreciation:						
At 1 April 1997		139.7	–	867.6	72.8	1,080.1
Charge for the year		14.9	–	88.6	62.1	165.6
Revaluation	(i)	–	–	(77.0)	–	(77.0)
Disposals		(2.0)	–	(21.9)	(42.7)	(66.6)
At 31 March 1998		152.6	–	857.3	92.2	1,102.1
Net book value:						
At 31 March 1998		694.9	817.7	2,787.4	418.5	4,718.5
At 31 March 1997		645.6	689.8	2,369.0	347.7	4,052.1
Historic cost analysis						
					1998 £m	1997 £m
Cost					5,668.6	5,132.2
Depreciation based on cost					(1,177.4)	(1,080.1)
Net book value based on cost					4,491.2	4,052.1

(b) Tangible assets – company

	Land and buildings £m	Water infra-structure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 April 1997	279.9	–	2,114.1	198.3	2,592.3
Additions	9.1	–	138.8	111.2	259.1
Disposals	(0.7)	–	(3.9)	(1.7)	(6.3)
At 31 March 1998	288.3	–	2,249.0	307.8	2,845.1
Depreciation:					
At 1 April 1997	130.5	–	816.5	67.5	1,014.5
Charge for the year	1.4	–	44.0	34.4	79.8
Disposals	(0.2)	–	(2.8)	(1.3)	(4.3)
At 31 March 1998	131.7	–	857.7	100.6	1,090.0
Net book value:					
At 31 March 1998	156.6	–	1,391.3	207.2	1,755.1
At 31 March 1997	149.4	–	1,297.6	130.8	1,577.8

15 Fixed assets continued

Included in the cost or valuation of fixed assets above are:

	Note	Group		Comp.	
		1998 £m	1997 £m	1998 £m	1997 £m
Major assets in the course of construction		277.3	185.1	12.9	-
Grants and contributions in respect of water infrastructure assets		(8.0)	(2.5)	-	-
Capitalised interest		18.0	8.0	8.0	8.0
Assets not subject to depreciation	(ii)	889.5	710.3	29.2	7.3

The net book value of tangible fixed assets held under finance leases at 31 March 1998 was £nil (1997 £15.0 million). The charge for depreciation against these assets during the previous year was £2.4 million.

(i) At their respective dates of acquisition, the Manweb distribution assets and the Southern Water operational assets were recorded in the consolidated balance sheet of Scottish Power plc at their estimated recoverable amounts. These amounts were assessed by discounting estimated future cash flows using an appropriate discount rate and allowing for uncertainties in relation to regulatory, market and other risk factors. The directors are of the opinion that these uncertainties are diminished significantly following the imposition of the windfall tax (see Note 6). In view of the relative significance and isolated nature of this change, the directors believe that a revaluation of the Manweb distribution and Southern Water operational assets is appropriate as at 30 September 1997 to better reflect their value as part of the group's asset base. This revaluation was carried out at 30 September 1997 by the directors and was determined by assessing discounted estimated future cash flows. This has resulted in an uplift in asset value of £229.0 million, and the creation of a revaluation reserve of an equivalent amount (see Note 25).

(ii) Assets not subject to depreciation are land, water infrastructure and certain hydro civil assets. Land and buildings held by the group and company are predominantly freehold. The exceptions are a number of retail premises and other operational sites which are held under lease.

16 Fixed asset investments

	Subsidiary undertakings		Joint ventures		Associated undertakings		Own shares held under trust £m	Other investments £m	Total £m
	Shares £m	Loans £m	Shares £m	Loans £m	Shares £m	Loans £m			
Group	(a)								
Cost or valuation:									
At 1 April 1997	-	-	1.6	4.4	6.0	1.9	2.2	1.6	17.7
Additions	-	-	-	9.9	0.7	-	39.4	0.9	50.9
Acquisitions	-	-	-	-	-	-	-	-	-
Share of retained profit	-	-	1.0	-	0.5	-	-	-	1.5
Disposals and other	-	-	(0.4)	(0.7)	(0.5)	(1.2)	-	-	(2.8)
At 31 March 1998	-	-	2.2	13.6	6.7	0.7	41.6	2.5	67.3
Company									
Cost or nominal value:									
At 1 April 1997	1,504.4	-	-	4.4	-	-	2.2	-	1,511.0
Additions	-	176.2	-	9.9	-	-	39.4	0.5	226.0
Acquisitions	8.5	-	-	-	-	-	-	-	8.5
Disposals	-	-	-	(0.7)	-	-	-	-	(0.7)
At 31 March 1998	1,512.9	176.2	-	13.6	-	-	41.6	0.5	1,744.8

The principal subsidiary undertakings, joint ventures and associated undertakings are listed on page 62.

On 1 May 1998 the group acquired 100% share capital of Demon Internet Limited for £66 million.

(a) Shares in the company held under trust during the year are as follows:

	Notes	Dividends waived	Shares held at 1 April 1997 (000s)	Shares acquired during year (000s)	Shares transferred during year (000s)	Shares held at 31 March 1998 (000s)	Market value at 31 March 1998 (£m)
Long Term Incentive Plan	(i)	no	678	716	-	1,394	7.8
ScottishPower Sharesave Scheme	(ii)	yes	-	16,457	(2,539)	13,918	78.3
			678	17,173	(2,539)	15,312	86.1

(i) Shares of the company are held under trust as part of the Long Term Incentive Plan for executive directors and other senior managers (see Report of the Emoluments and Nominations Committee on pages 35 to 37 for details of the plan).

(ii) Shares of the company are held in a Qualifying Employee Share Ownership Trust as part of the ScottishPower Sharesave Scheme. Holders of options granted under the scheme between 30 June 1993 and 20 June 1996 will be awarded shares by the trust following the completion of savings contracts and upon exercise of the options. Details of options granted under the scheme are disclosed in Note 31.

17 Stocks

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Raw materials and consumables	50.1	41.1	41.5	33.6
Gas stocks	48.3	36.2	48.3	36.2
Work in progress	7.3	5.6	3.1	1.5
Finished goods and goods for resale	38.5	30.8	36.0	29.7
	144.2	113.7	128.9	101.0

Gas stocks represent gas delivered to third parties under sale and repurchase agreements to match gas usage requirements arising mainly from generation and existing gas purchase obligations. Under the provisions of Financial Reporting Standard No. 5, the cost of gas delivered to third parties is shown as gas and amounts payable to third parties totalling £29.4 million (1997 £25.7 million) are included in accrued expenses in Note 20.

18 Debtors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
(a) Amounts falling due within one year:				
Trade debtors	255.5	428.9	127.3	265.7
Amounts owed by subsidiary undertakings	-	-	428.6	218.3
Prepayments and accrued income	159.3	104.9	102.3	67.8
Other debtors	68.9	48.6	33.0	26.3
	483.7	582.4	691.2	578.1
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	1,079.2	886.2
Amounts receivable under finance leases	3.0	3.6	-	-
Advance corporation tax recoverable on proposed dividend	40.7	36.4	40.7	36.4
Other debtors	3.9	0.4	-	-
	531.3	622.8	1,811.1	1,500.7

Amounts receivable under finance leases relate to ScottishPower Leasing Limited, one of the company's subsidiaries (see page 62). The total cost of assets acquired by ScottishPower Leasing Limited for letting under leases is £3.7 million (1997 £4.0 million). Total amounts receivable during the year under finance leases were £0.4 million (1997 £0.4 million).

19 Loans and other borrowings

(a) Analysis by instrument

	Notes	Weighted average interest rate		Group		Company	
		1998	1997	1998 £m	1997 £m	1998 £m	1997 £m
Bank overdraft		-	-	9.3	22.2	8.4	15.7
Uncommitted bank loan		7.0%	6.2%	211.7	293.4	211.1	293.3
Committed bank loan	(i)	7.1%	6.5%	-	200.6	-	200.0
Commercial paper	(ii)	6.9%	6.3%	728.3	759.3	728.3	759.3
Medium term notes/private placements	(iii)	7.6%	-	303.4	-	303.4	-
Loan notes	(iv)	6.2%	5.9%	17.7	54.1	14.6	54.1
European Investment Bank loan	(v)	10.0%	10.0%	176.4	155.1	176.4	-
Lease finance		-	-	-	8.7	-	-
11.457% sterling bond 2001 (held by HM Treasury)		11.5%	11.5%	142.0	142.0	142.0	142.0
5.875% euro-US dollar bond 2003		6.9%	-	182.9	-	182.9	-
Variable coupon bond 2008		6.8%	-	99.6	-	-	-
8.375% euro-sterling bond 2017		8.4%	8.4%	196.8	196.6	196.8	196.6
				2,068.1	1,832.0	1,963.9	1,661.0

With the exception of finance leases, all borrowings are unsecured.

(i) Committed bank loan

As at 31 March 1998 there were no amounts drawn (1997 £200 million) under a £2.6 billion (1997 £2.6 billion) revolving credit facility in place until 2001.

(ii) Commercial paper

The company has an established US\$2.0 billion (1997 US\$1.5 billion) euro-commercial paper programme. Paper is issued in a range of currencies and swapped back into sterling. Amounts borrowed under commercial paper are repayable in less than one year.

(iii) Medium term notes/private placements

The company has an established US\$2.0 billion euro-medium term note programme. Paper is issued in a range of currencies and swapped back into sterling. As at 31 March 1998, maturities range from one to ten years. During the year, the group entered into two private placements with Japanese lenders. The loans are denominated in Japanese Yen and have been swapped back into sterling. The loans are for periods of up to ten years.

(iv) Loan notes

All loan notes are redeemable at the holders discretion. Ultimate maturity dates range from 1999 to 2006.

(v) European Investment Bank loan

This loan incorporates agreements with various interest rates and maturity dates. The maturity dates of these arrangements range from 2006 to 2011. During the year this loan was restructured to include Scottish Power plc as a co-borrower.

(b) Maturity analysis

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Repayments fall due as follows:				
Within one year, or on demand	1,035.7	1,137.1	1,031.1	1,118.6
After more than one year	1,032.4	694.9	932.8	542.4
	2,068.1	1,832.0	1,963.9	1,661.0
Repayments due after more than one year are split as follows:				
Between one and two years	89.5	13.3	89.5	-
Between two and three years	165.8	13.7	165.8	-
Between three and four years	31.4	153.9	31.4	142.0
Between four and five years	243.0	214.3	242.9	200.0
More than five years	502.7	299.7	403.2	200.4
	1,032.4	694.9	932.8	542.4

19 Loans and other borrowings continued**(c) Interest rate analysis**

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed/ capped at 31 March		Weighted a period for which interest rate is fixed/capped	
	1998 £m	1997 £m	1998 %	1997 %	1998 Years	1997 Years
Fixed rate borrowings	1,668.6	1,384.6	8.2	8.6	7	8
Capped rate borrowings	200.0	200.0	7.0	7.0	4	5
Floating rate borrowings	199.5	247.4				
	2,068.1	1,832.0				

All amounts in the analysis above are payable in sterling and take into account the effect of interest rate swaps and caps and currency swaps.

Based on the floating rate net debt of £199.5 million at 31 March 1998 (1997 £247.4 million), a 1% change in interest rates would result in a £2.0 million change in profit before tax for the year (1997 £2.4 million change).

(d) Financial instruments and risk management**(i) Overview**

The main financial risks faced by the group are exchange rate risk, interest rate risk and Pool price risk. The Board has reviewed and agreed policies for managing each of these risks as summarised below. The use of all classes of financial instruments to manage these risks has been approved by the Board. Corporate treasury, which is authorised to conduct the day-to-day treasury activities of the group, reports at least annually to the Board and is subject to examination by internal audit. The energy trading group, which is authorised to carry out activities to manage the group's Pool price risk, reports monthly to a risk committee which is comprised of two executive directors and an external consultant. The energy trading group also reports at least annually to the Board and is subject to examination by internal audit.

(ii) Treasury strategy

The group uses a variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations. The group borrows in the major global markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest basis.

This can be done at lowest cost by raising floating rate debt and converting the interest rate obligations to fixed rates, via an interest rate swap and/or cap. The conversion is generally made to fixed rate sterling. This is done where the debt is raised in other than sterling by combining the interest rate swap with a foreign exchange forward contract. Under an interest rate swap, the group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk. Gains and losses on both the medium term debt and the associated swaps are deferred and included in the interest cost of the debt for the relevant period.

All transactions are undertaken to manage the risks arising from underlying activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit risk in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of the exposure to any one party. The group does not believe that it is exposed to any material concentrations of credit risk.

(iii) Energy trading strategy

Almost all electricity generated in England and Wales must be sold to the Pool, and electricity suppliers must likewise buy electricity from the Pool for resale to their customers. The Pool was established at the time of privatisation in England and Wales for bulk electricity trading between generators and suppliers. ScottishPower participates in the Pool by exporting/importing electricity to/from England and Wales via the Interconnector. The Pool is operated under a Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in Great Britain are party.

The group has procedures in place to minimise exposure to Pool price variations, that is, the possibility that a change in Pool prices will reduce the proceeds of electricity sold to the Pool or increase the cost of electricity purchased from the Pool. These procedures involve ScottishPower and its subsidiary Manweb entering into contracts for differences (CFDs). In general, the terms of CFDs are such that contracts are settled monthly (or more frequently) in arrears by reference to actual half hourly Pool prices.

These CFDs involve a degree of credit risk. This is the risk that the counterparty to the CFD defaults on settlement. The group controls credit risk arising from holding the CFDs through credit approvals, limits and monitoring procedures.

(iv) Principal financial instruments used by the group**Interest rate swaps**

Interest rate swaps are used solely to convert floating rate borrowings to fixed rates to reduce the financial risk to the group from potential future increases in interest rates.

Interest rate caps

Interest rate caps are used solely to limit the group exposure to possible future increases in interest rates.

Forward contracts

The group generally hedges foreign exchange transaction exposures up to one year forward. Hedges are put in place using forward contracts at the time that the forecast exposure becomes reasonably certain. Gains and losses resulting from changes in exchange rates on contracts designated as hedges of forecast foreign exchange transactions are deferred and included in the measurement of the related foreign currency transaction in the period they occur.

Commercial paper is issued in several different foreign currencies. For contracts are taken out solely to convert the debt to sterling to eliminate financial risk to the group of currency movements. As at the year end, the group had outstanding forward foreign exchange contracts, the majority of which were for periods of three months or less, denominated in US Dollars, Canadian Dollars, French Francs, Dutch Guilders, Ecus and Italian Lira.

Contracts for differences (CFDs)

A CFD is a contract between two parties (e.g. a generator and a public electricity supplier) that requires each party to either make or receive monthly payments over a specific term based on the difference between an agreed price (i.e. the bilaterally determined strike price) and a price that varies with a specified commodity index (i.e. the Pool), applied to an agreed quantity (i.e. number of kW). The average duration for these contracts is approximately one year. The group's use of such derivative instruments relates directly to the underlying purchase and sale of electricity to and from the Pool.

The group has developed a methodology to estimate the internal value (i.e. the group's best estimate of fair value) of the CFDs outstanding at the balance sheet date based upon assumptions of a number of complex factors, in particular the anticipated long term level of Pool prices, total Pool demand, plant availability, plant operating costs, bidding behaviour of generators and appropriate market discount rates. The group has determined that the fair value amount of CFDs, being the difference between the strike price of the contract and the estimated Pool price for the relevant half hourly periods, outstanding at the year end is not material to the group's financial statements.

The gross value of outstanding CFDs as at 31 March 1998 was £781.2 million (1997 £343.7 million).

19 Loans and other borrowings continued

(e) Current value of financial instruments

	At 31 March 1998			At 31 March 1997		
	Book amount £m	Gross contract amount £m	Current value £m	Book amount £m	Gross contract amount £m	Current value £m
Short term debt and current portion of long term debt	1,035.7	1,035.7	1,035.7	1,137.1	1,137.1	1,137.1
Long term debt	1,032.4	1,036.8	1,114.5	694.9	698.3	731.2
Total debt	2,068.1	2,072.5	2,150.2	1,832.0	1,835.4	1,868.3
Interest rate swaps	-	925.0	51.7	-	875.0	5.3
Interest rate caps	(4.7)	200.0	(3.0)	(8.7)	200.0	(10.8)
Forward rate agreements	-	706.6	-	-	297.4	-
Total financial instruments	2,063.4	3,904.1	2,198.9	1,823.3	3,207.8	1,862.8

The assumptions used to estimate current fair values of financial instruments are summarised below:

- (i) For cash and short term deposits and short term borrowings (uncommitted borrowing, commercial paper, loan notes and short term drawings under the £2.6 billion revolving credit facility), the book value amounts approximate to fair value because of their short maturities.
- (ii) The fair value of long term sterling bond 2001 and the European Investment Bank loans have been calculated by estimating the premium payable on redemption of these borrowings using market rates adjusted to reflect the redemption adjustments allowed under each agreement.
- (iii) The fair value of the euro-sterling bond 2017 has been estimated on the basis of quoted market prices.
- (iv) The fair values of the sterling interest rate swaps and sterling interest rate caps have been estimated by calculating the present value of estimated future cash flows, using market discount rates in effect at the balance sheet date.
- (v) The above analysis of total debt incorporates the sterling equivalent of all loans sourced in foreign currencies. The value of forward rate agreements used to hedge the underlying currency loans approximates to £706.6 million as at 31 March 1998 (1997 £297.4 million).

20 Other creditors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Amounts falling due within one year:				
Trade creditors	204.6	165.7	122.7	89.9
Amounts owed to subsidiary undertakings	-	-	689.7	354.0
Corporation tax	164.1	148.7	74.2	72.1
Windfall tax	159.2	-	47.4	-
Advance corporation tax	60.8	54.6	60.8	54.5
Other taxes and social security	7.3	19.9	12.4	22.9
Payments received on account	32.7	47.9	3.2	17.8
Capital creditors and accruals	183.8	144.4	62.6	34.7
Other creditors	65.7	74.3	27.9	23.7
Accrued expenses	355.2	311.0	191.7	168.4
Proposed dividend	162.9	145.5	162.9	145.5
	1,396.3	1,112.0	1,455.5	983.5

21 Deferred taxation

No provision for deferred taxation is considered necessary at 31 March 1998, since future taxation depreciation is expected to exceed accounting depreciation and therefore no deferred taxation liabilities are expected to crystallise in the foreseeable future. Total potential deferred liabilities computed at the future rate of corporation tax of 30% (1997 33%) are as follows:

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Accelerated capital allowances	609.4	632.3	303.5	316.2
Other timing differences	(35.8)	(47.8)	(7.3)	(16.0)
Advance corporation tax	(12.9)	(51.9)	-	-
	560.7	532.6	296.2	300.2

22 Provisions for liabilities and charges

	Balance at 1 April 1997 £m	Charged to the profit and loss account £m	Utilised during year £m	Bal. 31 March 1998 £m
Group				
Power station repairs and maintenance	9.2	-	(2.6)	6.6
Employment claims	5.4	(3.0)	(2.4)	-
Reorganisation and restructuring	4.2	(0.6)	(2.5)	1.1
Pensions	13.5	2.1	-	15.6
Environmental	3.4	-	-	3.4
Other	9.9	2.4	(0.9)	11.4
	45.6	0.9	(8.4)	38.1
Company				
Power station repairs and maintenance	9.2	-	(2.6)	6.6
Employment claims	5.4	(3.0)	(2.4)	-
Other	3.0	0.8	-	3.8
	17.6	(2.2)	(5.0)	10.4

23 Deferred income

	Balance at 1 April 1997 £m	Receivable during year £m	Released to profit and loss account £m	Balance at 31 March 1998 £m
Grants and customer contributions:				
- Group	335.3	49.9	(20.6)	364.6
- Company	172.0	20.0	(12.1)	179.9

Deferred income excludes grants and contributions received in respect of water infrastructure assets.

24 Share capital

	Note	1998 £m	1997 £m
Authorised:			
1,700,000,000 (1997 1,700,000,000) ordinary shares of 50p each		850.0	0
One Special Share of £1	(a)	-	-
		850.0	850.0
Allotted, called up and fully paid:			
1,196,752,324 (1997 1,177,365,936) ordinary shares of 50p each		598.4	588.7
One Special Share of £1	(a)	-	-
		598.4	588.7

(a) Special Share

The 'Special Share', which can be held only by one of the Secretaries of State or any other person acting on behalf of HM Government, does not carry rights to vote at the general or separate meetings but entitles the holder to attend and speak at such meetings. Written consent of the Special Shareholder is required before certain provisions of the company's Articles of Association or certain rights attaching to the Special Share are varied. This share shall confer no rights to participate in the capital or profits of the company, except that in a winding up the Special Shareholder shall be entitled to repayment in priority to the other shareholders. The Special Share is redeemable at par at any time by the Special Shareholder after consultation with the company.

25 Analysis of movements in shareholders' funds

	Notes	Number of Shares 000s	Share capital £m	Share premium £m	Merger reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Group								
Balance at 31 March 1997 (as published)		1,177,366	588.7	305.7	(419.4)	-	1,047.7	1,522.7
Prior period reclassification	(a)	-	-	-	419.4	-	(419.4)	-
Balance at 31 March 1997 (as restated)		1,177,366	588.7	305.7	-	-	628.3	1,522.7
Retained loss for the year		-	-	-	-	-	(73.2)	(73.2)
Share capital issued								
- Employee sharesave scheme	(b)	18,687	9.3	81.1	(5.2)	-	(42.0)	43.2
- Executive share option scheme		699	0.4	1.9	-	-	-	2.3
Revaluation of fixed assets (see Note 15)		-	-	-	-	229.0	-	229.0
Revaluation surplus realised		-	-	-	-	(1.7)	1.7	-
Goodwill written off	(a)	-	-	-	5.2	-	(21.4)	(16.2)
Balance at 31 March 1998		1,196,752	598.4	388.7	-	227.3	493.4	1,707.8
Company								
Balance at 1 April 1997		1,177,366	588.7	305.7	13.4	-	949.7	1,857.5
Retained loss for the year	(c)	-	-	-	-	-	(24.2)	(24.2)
Share capital issued								
- Employee sharesave scheme	(b)	18,687	9.3	81.1	(5.2)	-	(42.0)	43.2
- Executive share option scheme		699	0.4	1.9	-	-	-	2.3
Balance at 31 March 1998		1,196,752	598.4	388.7	8.2	-	883.5	1,878.8

(a) Goodwill written off

On 1 September 1997, the company entered into an agreement with Martin Dawes Telecommunications Limited (MDT) whereby each company acquired 50% of the share capital of Scottish Telecommunications (Services) Limited (STS). On the same day, STS acquired both the share capital of Woodend Group Limited and the Scottish mobile telephone business of MDT. The business of Woodend, being the mobile telephone operations of ScottishPower, was then transferred up to STS. Goodwill written off during the period relates to these transactions and the acquisitions of Telephone International Media Limited on 1 August 1997, Pinnacle Cellular Limited on 25 February 1998 and Lancastrian Holdings Limited on 31 March 1998. In each case, the entire share capital was acquired. The cumulative amount of goodwill written off to reserves at 31 March 1998, and the reserves to which they have been written off, are shown in the table below. In accordance with the requirement of FRS 10 not to show eliminated goodwill as a debit balance on a separate goodwill write-off reserve, the comparatives for 1997 have been restated such that goodwill is eliminated against merger reserve to reduce the merger reserve to zero and thereafter has been offset against the profit and loss reserve.

	1998 £m	As restated 1997 £m	As published 1997 £m
Cumulative goodwill written off			
Merger reserve	574.2	579.4	998.8
Profit and loss account	462.5	441.1	21.7
Total	1,036.7	1,020.5	1,020.5

(b) Share capital issued

The movement on the merger reserve reflects the reduction in shares to be issued following the acquisition of Southern Water plc in August 1996. It represented the cost to ScottishPower of transferring existing options over Southern Water plc shares to the Scottish Power plc Share Option Scheme. As these options are exercised, the merger reserve is reduced for the attributable cost of the option.

The movement on the profit and loss account represents the difference between the exercise price of options granted under the employee sharesave scheme and the market value of the company's shares immediately prior to the company issuing shares to a Qualifying Employee Share Ownership Trust in respect of these options.

(c) Profit and loss account of the company

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit and loss account was approved by the Board on 6 May 1998. The profit for the financial year per the accounts of the company was £219.1 million (1997 £300.5 million).

26 Minority interests

	1998 £m	1997 £m
Equity minority interests:		
Balance at 1 April	0.4	(0.8)
Additions	0.6	0.7
Profit and loss account	0.9	0.5
Balance at 31 March	1.9	0.4

27 Pensions

Pension fund	Scheme type	Funded or unfunded	Pension charge for the year		Prepay as at 31	
			1998 £m	1997 £m	1998 £m	1997 £m
ScottishPower	Defined benefit	funded	6.5	13.6	11.9	18.4
Manweb	Defined benefit	funded	5.8	6.0	-	-
Southern Water	Defined benefit	funded	5.8	5.1	-	-

Pension fund	Latest full actuarial valuation	Valuation carried out by	Value of assets based on valuation £m	Valuation method adopted	Principal actuarial assumptions			Value of fund assets/ accrued benefits
					Average investment rate of return	Average salary increases	Average pension increases	
ScottishPower	31 December 1994	William M Mercer	1,025.7	projected unit	9.0%	7.0%	5.0%	111%
Manweb	31 March 1995	Bacon & Woodrow	412.3	projected unit	9.0%	7.0%	5.0%	100%
Southern Water	31 March 1995	Watson Wyatt	148.3	projected unit	8.5%	6.5%	5.0%	102%

(a) Effect of the Finance (No. 2) Act 1997

The Chancellor has abolished the payment of tax credits for pension schemes on dividends paid on or after 2 July 1997. The impact of this change will be incorporated within the remaining actuarial valuations which are currently being undertaken and will be spread over the expected remaining service lives of the members of the schemes. The directors have sought advice from the actuaries regarding the likely impact of the removal of the ACT credit and are of the opinion that the impact will not be material.

(b) ScottishPower

The company operates a funded pension scheme providing defined benefits based on final pensionable salary for eligible employees of the company. The assets of the Scheme are held separately from those of the company in a separate trustee administered fund. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary. The prepayment included in the balance sheet represents the accumulated excess of the actual contributions paid to the Scheme over the pension accounting charge. During the year a valuation review of the Scheme was carried out by William M Mercer as part of the preparation for the full actuarial valuation as at 31 December 1997. The outcome of the review resulted in the accounting rate used for the calculation of the 1997-98 pension charge (shown in the table above) reducing from 10.6% of pensionable salaries to 4.8% of pensionable salaries. The Trustees of the Scheme are due to finalise approval of the full valuation at their meeting in June 1998, the results of which are consistent with the valuation review. The full valuation takes account of a full review of the long term actuarial assumptions following the abolition of ACT credits in July 1997. The revised assumptions assume a reduced long term rate of price inflation of 4.5% per annum, resulting in revised assumptions of an average investment rate of return of 8.5% per annum, average salary increases of 6.5% per annum and average pension increases of 4.5% per annum.

(c) Manweb

Most of the Manweb employees are entitled to join the Electricity Supply Pension Scheme which provides pension and other related benefits based on final pensionable pay to employees throughout the Electricity Supply Industry in England and Wales. The assets are held in a separate trustee administered fund. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary.

(d) Southern Water

The Southern Water group operates a number of pension schemes. The scheme details above relate to the principal defined benefit scheme which covers the majority of the Southern Water employees. The assets are held in a separate trustee administered fund. Southern Water's other schemes are not material to the group. The pension charge for the year is based on the advice of the scheme's independent qualified actuary. The 1997 comparative relates only to the post-acquisition period. The full year charge was £7.6 million.

28 Contingent liabilities

(a) The group has contingent liabilities under performance bonds and actual and potential claims, none of which, in the opinion of the directors, is material to the group.

(b) The company has guaranteed the overdraft of one subsidiary undertaking up to an amount of £0.5 million (1997 one subsidiary undertaking for £0.5 million).

(c) The company has guaranteed Manweb's liabilities to the Pool in England and Wales. At 31 March 1998 these liabilities were £37.4 million (1997 £30.3 million).

29 Financial commitments

(a) Group analysis of annual commitments under operating leases	1998	1997
	£m	£m
Leases of land and buildings		
Expiring within one year	0.5	0.1
Expiring between two and five years inclusive	1.3	0.8
Expiring in over five years	16.2	12.5
	18.0	14.4
Other operating leases		
Expiring within one year	4.5	6.2
Expiring between two and five years inclusive	7.8	3.9
Expiring in over five years	0.6	0.3
	12.9	10.4
(b) Group analysis of annual commitments under finance leases		
	1998	1997
	£m	£m
Expiring within one year	-	3.2
Expiring between two and five years inclusive	-	5.4
Expiring in over five years	-	0.1
	-	8.7

As at 31 March 1998, no finance lease commitments existed for the group and company (1997 no finance lease commitments for the company).

29 Financial commitments continued

(c) Capital commitments

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Contracted but not provided	262.0	394.4	70.3	49.5

(d) Other contractual commitments

Under contractual commitments the group has rights and obligations in relation to the undernoted contracts. The annual value of the purchases and income arising from these contracts is provided below.

	Notes	Commit- ment entered into	Commit- ment expires	Purchases/sales in year under group commitments	
				1998 £m	1997 £m
The purchase of electricity from Scottish Nuclear Limited		1990	2005	365.8	373.2
The purchase of electricity from Scottish Hydro-Electric plc	(i)	1990	see below	100.5	120.5
The supply of electricity to Scottish Hydro-Electric plc		1990	2004	16.8	15.7
Revenue from the operation of the company's transmission system and access by Scottish Hydro-Electric plc to the Anglo-Scottish Interconnector		1990	no fixed date of expiry	26.1	24.7
Purchase of coal from the Scottish Coal Company Limited	(ii)	1998	see below	76.9	75.5
Purchase of gas from various fields in the North Sea		1994	2010	81.8	50.4

(i) There are two agreements relating to the purchase of electricity from Scottish Hydro-Electric plc. These expire in 2012 and 2039.

(ii) A contract will be signed with Scottish Coal Company Limited on 10 May 1998 to secure supplies of coal from deep mines for 1.67 million tonnes per annum for 6 years from 1 April 1998 and from opencast mines for 0.75 million tonnes per annum for 5 years from 1 April 1998.

30 Related party transactions

In accordance with FRS 8, the following disclosure relates to related party transactions during the year.

Related party transactions and balances with joint ventures and associated undertakings

(a) Trading transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Sales/(purchases) to/(from) other group companies during the year		Amounts due from/(to) other group companies as at 31 March	
		1998	1997	1998	1997
		£m	£m	£m	£m
Sales by related parties					
Scotland On-Line Limited	50% owned subsidiary	0.2	0.1	-	0.1
ScottishPower Telecommunications (Services) Limited	50% owned subsidiary	0.9	-	0.2	-
Purchases by related parties					
Scotland On-Line Limited	50% owned subsidiary	(0.3)	(0.1)	(0.3)	(0.1)
Scottish Electricity Settlements Limited	50% owned joint venture	(1.3)	(1.2)	(0.3)	(0.7)
ScottishPower Telecommunications (Services) Limited	50% owned subsidiary	(0.2)	-	(0.1)	-

Southern Water non-core businesses

The group made purchases of £18 million on normal trading terms from the Southern Water non-core businesses subsequent to their disposal.

(b) Funding transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Interest receivable/ (payable) from/(to) other group companies during the year		Amounts due from/(to) other group companies as at 31 March	
		1998	1997	1998	1997
		£m	£m	£m	£m
Scottish Electricity Settlements Limited	50% owned joint venture	(0.6)	(0.1)	(11.8)	(1.7)
Scotland On-Line Limited	50% owned subsidiary	-	-	(0.2)	-
ScottishPower Telecommunications (Services) Limited	50% owned subsidiary	-	-	(0.3)	-
CeltPower Limited	50% owned subsidiary	-	-	(2.0)	(2.7)
Wind Resources Limited	45% owned associated undertaking	-	-	(0.7)	(1.1)

(c) Other related party transactions

ScottishPower Telecommunications (Services) Limited 50% owned subsidiary

The group's 50% interest in ScottishPower Telecommunications (Services) Limited (STS) arose through the transactions detailed in Note 25(a).

31 Employee Share Schemes

The group has three types of share scheme for employees. Options have been granted and awards made to eligible employees to subscribe for ordinary share Scottish Power plc in accordance with the rules of each scheme. The ScottishPower and Southern Water Schemes are savings related and under normal circumstances share options are exercisable on completion of a three, five or seven year save-as-you-earn contract as appropriate. The Executive Share Option Scheme applied to executive directors and certain senior managers. However, this Scheme has been replaced with the Long Term Incentive Plan and, although it will not affect options already granted, this plan supersedes executive share options. Awards granted under the Long Term Incentive Plan will vest only if the Emoluments and Nominations Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the group and improvements in customer service standards are achieved over a period of three financial years commencing with the financial year preceding the date an award is made.

(a) Summary of movements in share options in ScottishPower shares

	ScottishPower Sharesave Scheme (number of shares 000s)	Southern Water Sharesave Scheme (number of shares 000s)	Executive Share Option Scheme (number of shares 000s)	Total (number of shares 000s)
Outstanding at 1 April 1997	17,514	6,692	1,553	25,759
Granted	5,268	-	-	5,268
Exercised	(2,813)	(1,956)	(699)	(5,468)
Lapsed	(974)	(487)	-	(1,461)
Outstanding at 31 March 1998	18,995	4,249	854	24,098

(b) Analysis of share options outstanding at 31 March 1998

	Date of grant	Number of participants	Number of shares (000s)	Option price (pence)	Normal exercisable date
ScottishPower Sharesave Scheme	06.10.92	13	40	197.6	6 months to June 1998
	30.06.93	694	958	248.4	6 months to March 1999
	22.06.94	1,078	1,365	273.8	6 months to March 2000
	20.06.95	1,002	1,215	262.1	6 months to March 2001
	20.06.96	5,388	10,348	263.1	6 months to March 2000 or 2002
	20.06.97	4,971	5,069	307.0	6 months to March 2001 or 2003
Southern Water Sharesave Scheme	16.01.91	83	434	70.4	6 months to September 1998
	03.02.92	69	286	74.0	6 months to September 1999
	26.01.93	340	965	111.0	6 months to September 1998 or 2000
	25.01.94	332	545	154.9	6 months to September 1999 or 2001
	25.01.95	454	1,137	136.1	6 months to September 2000 or 2002
	25.01.96	503	882	160.2	6 months to September 2001 or 2003
Executive Share Option Scheme	18.12.91	8	128	227.4	1994-2001
	25.06.92	14	23	237.7	1995-2002
	01.07.93	4	60	310.0	1996-2003
	17.12.93	48	70	454.8	1996-2003
	27.05.94	15	56	354.0	1997-2004
	18.11.94	5	34	352.1	1997-2004
	12.05.95	24	395	335.0	1998-2005
	10.11.95	3	88	357.5	1998-2005

All options are exercisable over Scottish Power plc shares. Where reference is made to Southern Water, this is to identify the Sharesave Scheme under which the options over Scottish Power plc shares have been granted. The exercise prices of options granted prior to the rights issue on 30 August 1996 were adjusted to reflect the bonus element inherent in the rights issue.

For the Southern Water Sharesave Scheme, the date of grant refers to the date the original Southern Water share options were granted. These options were exchanged for options over ScottishPower shares following acquisition in 1996.

32 Directors' emoluments and interests

(a) Policy

The Emoluments and Nominations Committee is responsible for determining the remuneration policy for the ScottishPower group. The aim of ScottishPower's remuneration policy is to ensure that the rewards for executives and directors attract and retain executives of high quality who are incentivised to achieve performance which exceeds that of competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of the shareholders.

(b) Total emoluments

The following table provides a breakdown of the total emoluments of the Chairman and all directors in office during the year ended 31 March 1998. Full details of the remuneration policy of the ScottishPower group are contained in the Report of the Emoluments and Nominations Committee on pages 35 to 37.

	Basic Salary £	Bonuses £	Benefits in kind £	Total 1998 £	Total 1997 £
Chairman and executive directors					
C M Stuart	180,000	-	14,294	194,294	154,665
I Robinson	350,000	119,875	17,470	487,345	397,256
M J Kinski (resigned 7 April 1998)	237,500	90,000	7,970	335,470	267,716
I M Russell	245,833	83,100	27,145	356,078	333,706
K L Vowles	180,000	61,650	11,851	253,501	210,576
D Whyte	215,000	73,638	17,338	305,976	279,169
Non-executive directors (fees and expenses)					
Sir Ronald Garrick	30,000	-	1,889	31,889	25,449
Sir Peter Gregson	22,500	-	2,460	24,960	7,999
Baroness Jay of Paddington (resigned 13 May 1997)	2,661	-	836	3,497	13,038
N C D Kuenssberg (retired 23 July 1997)	10,000	-	-	10,000	25,540
E C S Macpherson	28,333	-	1,689	30,022	13,421
J Parnaby	22,500	-	4,145	26,645	23,825
J A Scott (retired 24 July 1996)	-	-	-	-	7,028
	1,524,327	428,263	107,087	2,059,677	1,759,388
Other emoluments – executive directors					
Relocation expenses	-	-	-	14,358	6,368
Pension contributions	-	-	-	128,892	130,752
Total	1,524,327	428,263	107,087	2,202,927	1,896,508

The emoluments of the highest paid director (Mr Robinson) excluding pension contributions were £487,345 (1997 £397,256). Pension contributions made by the company under approved pension arrangements for Mr Robinson amounted to £nil (1997 £10,138). Mr Robinson also has an entitlement under the unapproved pension benefits described further in note c(iii) below. The total of the liabilities for the 14 executives and senior employees arising in relation to unapproved benefits for service for the year to 31 March 1998 is £432,676 (31 March 1997 £305,952)

(c) Directors' pension benefits

An overview of pension benefits provided to all executive directors is set out in the Report of the Emoluments and Nominations Committee on pages 35 to 37. Details of pension benefits earned by the executive directors are shown below:

Defined benefits pension scheme

	Transferred in benefits £	Additional pension earned in the year £	Accrued entitlement £	Transfer value of increases after indexation (net of Directors' contribution) £
Chairman and executive directors				
C M Stuart	-	-	-	-
I Robinson	97,650	7,851	141,348	114,606
M J Kinski	29,011	3,564	50,639	35,671
I M Russell	6,748	2,076	23,553	19,994
K L Vowles	79,685	3,278	99,289	39,457
D Whyte	60,416	2,433	95,456	44,030

(i) The accrued entitlement of the highest paid director (Mr Robinson) was £141,348 (1997 £101,762).

(ii) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. Members of the scheme have the option to pay additional voluntary contributions: neither the contributions nor the resulting benefits are included in the above table.

(iii) Executives who joined the company on or after 1 June 1989 are subject to the earnings cap introduced in the Finance Act 1989. Pension entitlements which cannot be provided through the company's approved schemes due to the earnings cap are provided through unapproved pension arrangements. Full details are included in the Report of the Emoluments and Nominations Committee. The pension benefits disclosed above include approved and unapproved pension arrangements.

(iv) The increase in additional pension earned in the year excludes any increase for inflation.

(v) The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

(vi) Transferred in benefits represent pension rights accrued in respect of previous employments.

32 Directors' emoluments and interests continued

(d) Directors' interests in share options

Executive director	At 1 April 1997	Granted	Exercised	At 31 March 1998	Option exercise price (pence)	Date exercised	Market price at date of exercise (pence)	Date from which exercisable	Expiry date
Maximum contingent awards under Long Term Incentive Plan									
I Robinson	51,533	-	-	51,533	nil			09.08.2000	08.08.2003
	-	53,846	-	53,846	nil			16.05.2001	15.05.2004
	51,533	53,846	-	105,379					
M J Kinski (resigned 7 April 1998) (see footnote)	36,809	-	-	36,809	nil				
	-	33,846	-	33,846	nil				
	36,809	33,846	-	70,655					
I M Russell	38,650	-	-	38,650	nil			09.08.2000	08.08.2003
	-	36,923	-	36,923	nil			16.05.2001	15.05.2004
	38,650	36,923	-	75,573					
K L Vowles	27,607	-	-	27,607	nil			09.08.2000	08.08.2003
	-	27,692	-	27,692	nil			16.05.2001	15.05.2004
	27,607	27,692	-	55,299					
D Whyte	35,889	-	-	35,889	nil			09.08.2000	08.08.2003
	-	32,307	-	32,307	nil			16.05.2001	15.05.2004
	35,889	32,307	-	68,196					
Executive Share Option Scheme									
I Robinson (see footnote)	286,457	-	-	286,457	335.0			12.05.1998	11.05.2005
M J Kinski (resigned 7 April 1998)	14,822	-	(14,822)	-	354.0	24.11.1997	483.0		
	17,033	-	(17,033)	-	352.1	24.11.1997	483.0		
	31,855	-	(31,855)	-					
I M Russell	139,748	-	(139,748)	-	354.0	12.01.1998	515.5		
	17,033	-	(17,033)	-	352.1	12.01.1998	515.5		
	156,781	-	(156,781)	-					
K L Vowles	2,505	-	(2,505)	-	454.8	09.12.1997	508.0		
	3,274	-	(3,274)	-	354.0	09.12.1997	508.0		
	44,570	-	(44,570)	-	352.1	09.12.1997	508.0		
	50,349	-	(50,349)	-					
D Whyte	6,593	-	(6,593)	-	454.8	10.12.1997	506.0		
	9,316	-	(9,316)	-	354.0	24.11.1997	483.0		
	28,956	-	(28,956)	-	352.1	24.11.1997	483.0		
	44,865	-	(44,865)	-					
Sharesave Scheme									
I Robinson	6,581	-	-	6,581	262.1			01.09.2000	28.02.2001
M J Kinski (resigned 7 April 1998) (see footnote)	4,861	-	-	4,861	248.4			01.09.1999	28.02.1999
	1,111	-	-	1,111	263.1*			01.09.1999	29.02.2000
	5,972	-	-	5,972					
I M Russell	6,300	-	-	6,300	273.8			01.09.1999	29.02.2000
K L Vowles	3,795	-	(3,795)	-	197.6	01.12.1997	478.7		
	3,933	-	-	3,933	263.1			01.09.2001	28.02.2002
	7,728	-	(3,795)	3,933					
D Whyte	3,795	-	(3,795)	-	197.6	01.12.1997	478.7		
	2,223	-	-	2,223	263.1*			01.09.1999	29.02.2000
	6,018	-	(3,795)	2,223					

* Denotes options granted under a three year scheme.

Footnote

The option for 286,457 shares held by Mr Robinson was exercised on 15 May 1998, the relevant market price at the date of exercise being 542p per share. Following the resignation of Mr Kinski from the Board, the awards and options granted to him under the Long Term Incentive Plan and the Sharesave Scheme have lapsed.

Awards made to directors under the Long Term Incentive Plan on 7 May 1998 were as follows: I Robinson 41,916; I M Russell 31,706; K L Vowles 22,570; and D Whyte 25,257.

32 Directors' emoluments and interests continued

Notes

(i) The market price of the shares at 31 March 1998 was 562.5p and the range during 1997-98 was 352.0p to 582.0p

(ii) The Long Term Incentive Plan supersedes the Executive Share Option Scheme, and annual awards to acquire shares in ScottishPower at nil or nominal cost are made to the plan participants up to a maximum value equal to 60% of base salary. The award will vest only if the Emoluments and Nominations Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in certain OFFER published Customer Service Standards and OFWAT published levels of service (in the case of awards granted in 1997) are achieved over a period of three financial years commencing with the financial year preceding the date an award is made. Assuming that such targets have been achieved, the number of shares that can be acquired will be dependent upon how the company ranks in terms of its total shareholder return performance over a three year period, in comparison to the constituent companies of the FTSE 100 Index and the electricity and water sectors. A percentage of each half of the award will vest depending upon the company's ranking within each of the relevant comparator groups. The plan participant may acquire the shares in respect of the percentage of the award which has vested at any time after the fourth year up to the seventh year after the grant of the award. No dividends accrue to participants prior to vesting.

(iii) The option price of executive share options is based on the middle-market share price on the day immediately preceding the date of grant. For Sharesave options, the option price is calculated in the same way at the date of invitation and discounted by 20% in accordance with the Inland Revenue rules for such schemes.

(iv) The options initially granted to each executive director under the Executive Share Option Scheme were based on a multiple of four times salary in respect of the Chief Executive, Mr Robinson, and three times in respect of the other executive directors, which is in accordance with the limits set out in current guidelines. Subsequent grants of options were made to reflect increases in directors' basic salary levels, following periodic review by the Emoluments and Nominations Committee of the performance of the company and the executive directors individually. Executive options are normally exercisable in a manner which does not attract an income tax liability provided that exercise occurs between three and ten years after the date of grant and at least three years have elapsed from the date of the last 'tax relieved' exercise. Total gains made on exercise of directors' share options during the year were £424,097(1997 £16,979).

(v) The number of options granted to a director under the Sharesave Scheme is calculated by reference to the total amount which the director agrees to save for a period of three or five years under an Inland Revenue approved savings contract, subject to a current maximum of £250 per month. Options under the Sharesave Scheme are, subject to a few exceptions, exercisable within a period of six months from the date of completion of the savings contract.

33 Summary of differences between UK and US Generally Accepted Accounting Principles ("GAAP")

The consolidated financial statements of the group are prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. The effect of the US GAAP adjustments to profit for the financial year and equity shareholders' funds are set out in the tables below:

(a) Reconciliation of profit for the financial year to US GAAP:

	1998 £m	1997 £m
Profit for the financial year under UK GAAP	170.1	421.1
US GAAP adjustments:		
Amortisation of goodwill	(29.8)	(23.7)
Deferred tax	(28.1)	(55.2)
Pensions	22.7	16.0
Depreciation on revaluation uplift	1.7	-
	136.6	358.2
Deferred tax effect of US GAAP adjustments:		
Pensions	(6.8)	(5.3)
Profit for the financial year under US GAAP	129.8	352.9
Earnings per share under US GAAP	11.00p	31.66p
Earnings per share before windfall tax under US GAAP	37.86p	31.66p

(b) Effect on equity shareholders' funds of differences between UK GAAP and US GAAP:

	1998 £m	1997 £m
Equity shareholders' funds under UK GAAP	1,707.8	1,522.7
US GAAP adjustments for:		
Goodwill	1,036.7	1,020.5
Business combinations	163.1	152.3
Amortisation of goodwill	(62.1)	(32.3)
ESOP shares held in trust	(36.6)	-
Pensions	99.2	76.5
Dividends	162.9	145.5
Revaluation of fixed assets	(229.0)	-
Depreciation on revaluation uplift	1.7	-
Deferred tax:		
Effect of US GAAP adjustments	(30.4)	(12.8)
Effect of differences in methodology	(560.7)	(532.6)
Equity shareholders' funds under US GAAP	2,252.6	2,339.8

Principal Subsidiary Undertakings and Other Investments

Subsidiary undertakings	Class of share capital	Proportion of shares held	A
Caledonian Gas Limited	Ordinary shares £1	100%	Gas retailing
CRE Energy Limited*	Ordinary shares £1	100%	Wind-powered electricity generation
Domestic Appliance Insurance Limited* (Isle of Man)	Ordinary shares £1	100%	Insurance
Genscot Limited*	Ordinary shares £1	100%	Holding of investments
Lancastrian Holdings Limited* (1)	Ordinary shares £1	100%	Premium rate service company
Manweb Energy Consultants Limited*	Ordinary shares £1	100%	Electrical contracting
Manweb Gas Limited*	Ordinary shares £1	100%	Gas retailing
Manweb Generation Holdings Limited*	Ordinary shares £1	100%	Holding company
Manweb Generation (Winnington) Limited*	Ordinary shares £1	100%	Holding company
Manweb plc*	Ordinary shares 50p	100%	Regional electricity company
Pinnacle Cellular Limited*	Ordinary shares £1	100%	Specialist communication retailer
Scotland On-Line Limited*	Ordinary shares £1	50%	Internet service provider
ScottishPower Insurance Limited* (Isle of Man)	Ordinary shares £1	100%	Insurance
ScottishPower Investments Limited (2)	Ordinary shares £1	100%	Holding of investments
ScottishPower Leasing Limited*	Ordinary shares £1	100%	Leasing company
ScottishPower Telecommunications Limited*	Ordinary shares £1	100%	Telecommunications
ScottishPower Telecommunications (Services) Limited	Ordinary shares £1	50%	Mobile telecommunications
Southern Water plc	Ordinary shares £1	100%	holding company
Southern Water Services Finance plc	Ordinary shares £1	100%	Finance company
Southern Water Services Limited*	Ordinary shares £1	100%	Water supply and waste water services
Teledata (Holdings) Limited	Ordinary shares £1	100%	Telecommunications
Telephone International Media Limited	Ordinary shares £1	100%	Telecommunications
Telephone Information Services Limited	Ordinary shares £1	100%	Telecommunications
Fixed asset investments			
Joint ventures			
CeltPower Limited	Ordinary shares £1	50%	Wind-powered electricity gene.
Scottish Electricity Settlements Limited	Ordinary shares £1	50%	Scottish electricity settlements
South Coast Power Limited	Ordinary shares £1	50%	Electricity generation
Associated undertakings			
Coastal Wastewater Consultants Limited*	Ordinary shares £1	50%	Marine treatment, engineering design and consultancy
Wind Resources Limited*	Ordinary shares £1	45%	Wind-powered electricity generation
Other investments			
Folkestone & Dover Water Services Limited*	Ordinary shares £1	25%	Water supply
	Preference shares £1	22%	
	Deferred shares £1	12%	

Notes

* The investments in these companies are indirect holdings.

(1) The year end of Lancastrian Holdings Limited is 31 December.

(2) The year end of ScottishPower Investments Limited is 28 February

All companies are incorporated in the United Kingdom, unless otherwise stated.

Report of the Auditors

to the members of Scottish Power plc

We have audited the financial statements on pages 38 to 62.

Respective responsibilities of directors and auditors

As described on page 34, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the Accounting Policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 March 1998 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Chartered Accountants and Registered Auditors

Glasgow

6 May 1998

Report of the Auditors

to Scottish Power plc on Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 33 and 34 concerning the company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the group's system of internal financial control or its corporate governance procedures nor on the ability of the group and company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 33 and 34 and going concern on page 34, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on pages 33 and 34 appropriately reflect the company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand

Chartered Accountants

Glasgow

6 May 1998

Five Year Financial Summary

	Years ended 31 March				
	1998 £m	1997 £m	1996 £m	1995 £m	
Results					
Turnover	3,128	2,941	2,271	1,716	1,569
Earnings before interest, tax & depreciation	932	790	515	430	413
Profit before taxation	640	558	404	375	351
Profit after ordinary taxation	488	422	295	274	258
Windfall tax	(317)	-	-	-	-
Profit for financial year	170	421	296	274	258
Dividends	(243)	(218)	(146)	(112)	(101)
Free cash flow*	707	573	242	180	335
Capital expenditure (net)	630	460	227	166	142
Net debt	1,953	1,790	632	86	4
Net Assets	1,710	1,523	1,207	1,106	942
Ratios and statistics					
Gearing	114%	118%	52%	8%	0%
Earnings per ordinary share*	41.28p	38.11p	33.12p	32.88p	30.95p
Dividend per ordinary share	20.40p	18.50p	15.50p	13.65p	12.40p
Return on equity*	27.2%	27.7%	24.5%	24.8%	27.4%
Interest cover	5.3x	6.2x	14.4x	61.5x	41.8x
Employees					
Number of employees (full time equivalent) at 31 March					
- Scottish Energy businesses	4,748	4,916	5,215	5,595	5,922
- Manweb	2,151	2,757	2,979	-	-
- Southern Water	2,364	3,526	-	-	-
- Developing businesses	5,043	3,202	2,579	2,445	2,058
	<u>14,306</u>	<u>14,401</u>	<u>10,773</u>	<u>8,040</u>	<u>7,980</u>
US GAAP information					
Profit for the financial year under US GAAP	£130m	£353m	£271m	-	-
Earnings per ordinary share per US GAAP*	37.86p	31.66p	30.14p	-	-
Equity Shareholders' funds per US GAAP	£2,253m	£2,340m	£1,510m	-	-

* 1998 figures are quoted excluding the effects of the windfall tax liability of £317 million and the windfall tax payment of £158 million.

Company Information

Non-executive directors

Murray Stuart *Chairman*
Mair Barnes
Sir Ronald Garrick
Sir Peter Gregson
Ewen Macpherson
John Parnaby

Executive directors

Ian Robinson *Chief Executive*
Ian Russell *Finance Director*
Ken Vowles *Executive Director Generation and Energy Trading*
Duncan Whyte *Executive Director Multi-Utility*

Secretary and Registered Office

Andrew Mitchell
1 Atlantic Quay
Glasgow G2 8SP

Members of the Audit Committee

Sir Ronald Garrick *Chairman*
Sir Peter Gregson (*with effect from 20 March 1998*)
Ewen Macpherson
Murray Stuart

Members of the Emoluments and Nominations Committee

Ewen Macpherson *Chairman*
Mair Barnes (*with effect from 24 April 1998*)
Sir Ronald Garrick
Sir Peter Gregson
John Parnaby

Shareholder Information

The year ahead

June 1998	Shares 'ex-dividend'
June 1998	Last date for registering transfers to receive the final dividend
22 July 1998	Annual General Meeting
1 October 1998	Final dividend payable
November 1998	Announcement of interim results for 1998-99
December 1998	Shares 'ex-dividend'
December 1998	Last date for registering transfers to receive the interim dividend
March 1999	Interim dividend payable
May 1999	Preliminary announcement of final results for 1998-99

Annual General Meeting

The Annual General Meeting will be held at the Edinburgh Festival Theatre, 13/29 Nicolson Street, Edinburgh, on Wednesday 22 July 1998 at 11.00 a.m. **Details of the resolutions to be proposed at the Annual General Meeting are contained in the Notice of Meeting.**

Interim Report

The company, as permitted by the London Stock Exchange, publishes its Interim Report in one national newspaper. In 1998, it is expected that the Interim Report will be published in The Daily Telegraph. Press releases and up-to-date information on the company can also be found on the ScottishPower web page (www.scottishpower.plc.uk).

Copies of the Interim Report may be obtained, free of charge, on request from the Company Secretary at the company's registered office.

Share registration enquiries

The Registrar
Bank of Scotland
Apex House
9 Haddington Place
Edinburgh EH7 4AL
Tel: 0870 6015366
Fax: 0131 243 5047

Shareholder services

ScottishPower, by arrangement with Bank of Scotland and Barclays Stockbrokers Limited, offers the following services for the private investor:

Share consolidation and PEPs

Share consolidation is a facility which allows a number of holdings, and especially family holdings, to be consolidated into one holding. This service is provided free of charge.

Personal equity plans (PEPs) are suitable for those private investors who may wish to shelter their ScottishPower shares from Income and Capital Gains Taxes. A Corporate PEP service is offered, comprising the ScottishPower General PEP and ScottishPower Single Company PEP.

Further details of these services, and copies of the ScottishPower PEP brochure, may be obtained from Bank of Scotland on Freephone 0500 143543.

Share dealing

ScottishPower shares may be bought or sold at competitive rates by post or telephone. For further details, please contact Barclays Stockbrokers on 0345 777400.

Analysis of shareholders

Range of holdings	No. of shareholders	No. of shares
1-100	17,485	758,936
101-200	248,618	41,499,746
201-600	195,256	59,200,580
601-1,000	39,547	30,305,551
1,001-5,000	46,686	83,062,760
5,001-100,000	3,791	59,266,944
100,001 and above	711	922,657,807



Registered office
1 Atlantic Quay
Glasgow G2 8SP
www.scottishpower.plc.uk



ScottishPower

NEWS RELEASE

1998 - 99 INTERIM RESULTS "INVESTING FOR GROWTH" 1 APRIL - 30 SEPTEMBER 1998

- Turnover up 5.4% to £1,444 million
- Profit before tax up £2 million to £247 million
- Earnings per share up 1.3% to 16.05p
- Dividend per share up 10.3% to 7.50p
- Leading position in competitive electricity and gas markets
- Continued focus on cost efficiency
- Investing to grow the business

Murray Stuart, Chairman of ScottishPower, said:

"We have achieved strong operational progress in each of our major businesses in the first six months of the year, with financial performance meeting our expectations.

Most notably, our energy business established itself at the forefront of competition in the domestic electricity market. The substantial investment made over the past two years in systems, customer service and billing arrangements, all came together to ensure that both ScottishPower and Manweb were two of only four electricity companies ready to meet the launch date. We have made a good start in the new competitive world and have already won some 475,000 domestic gas customers and over 60,000 domestic electricity customers. We believe that as competition extends across the UK we will continue to be a strong and effective player in this market place.

Investment in ScottishTelecom has seen the business continue to grow strongly, with turnover almost double that of the first half of the previous year. The business has expanded and developed further into new areas of the market place.

Improvements in cost efficiency and customer service, particularly in Power Systems and Southern Water, have continued. This is particularly important given the forthcoming regulatory reviews for these businesses. We are evaluating the impact of the recent OFWAT consultation paper - Prospects for Prices. We will be presenting a strong case to the regulator, including the case for price stability over the next price control period.

Group profit before tax was up £2 million to £247 million, with operating profit growth offset by costs for building the gas supply and electricity customer base. Earnings per share were 16.05p and the net dividend per share was increased by 10.3% to 7.50p. Capital expenditure totalled £317 million, an increase of £45 million, reflecting our investment in infrastructure in Southern Water and Power Systems and in the growth of our energy and telecoms businesses.

Looking ahead we believe the investments which we are currently making to build our asset base and to grow our market share in our energy, water and telecommunications businesses will deliver significant value for shareholders."

4 November 1998

For further information:

Ian Robinson	Chief Executive	0171 628 5646
Ian Russell	Deputy Chief Executive and Finance Director	0171 628 5646
Sue Clark	Director of Corporate Affairs	0171 628 5646
Andrew Grant	Brunswick	0171 404 5959

Corporate Office 1 Atlantic Quay Glasgow G2 8SP Telephone (0141) 248 8200 Fax (0141) 248 4579

Chairman's Statement

We are pleased to report that the first six months of the year of our financial results are in line with our expectations of the year with international operations meeting our expectations.

	First half 1998/99 £m	First half 1997/98 £m	Full year 1997/98 £m
Turnover	1,444	1,370	3,128
Operating profit	324	317	785
Profit before tax	247	245	640
Earnings per share*	16.05p	15.85p	41.28p
Dividend per share	7.50p	6.80p	20.40p

*1997/98 figures quoted before dividend tax

Overview

In the first six months of the year, we have achieved strong operational progress across each of our major businesses. The group's financial performance was in line with our expectations, particularly taking into account the impact of the price controls on our regulated businesses and the initial cost of capturing customers in our energy businesses. These were offset by continued cost efficiencies and volume growth.

The primary focus in our energy businesses has been the opening of competition in the domestic electricity market, which took place in mid September. ScottishPower and Manweb are at the forefront of this initiative and were two of only four electricity companies ready to meet the launch date. We believe that the group will gain significant competitive advantage from being in a strong position as electricity competition rolls out across the UK. We have already demonstrated considerable success, winning over 60,000 new domestic electricity customers and some 475,000 domestic gas customers, positioning us as one of the leading new entrants in the market. We are continuing to gain over 12,000 new customers each week.

ScottishTelecom has continued to grow rapidly, expanding its operations in Scotland and more recently in the Manweb territory. The acquisition of Europe's largest independent Internet Service Provider, Demon Internet, has positioned ScottishTelecom as a leader in this sector and will make a significant contribution to earnings in 1999-2000, the first full year after acquisition.

A key challenge in the year ahead is preparation for the new price controls, effective from April 2000, in our transmission, distribution and water businesses. We believe that our proven record of improving efficiency and customer service while reducing prices to customers will be important. We are evaluating the impact of the recent OFWAT consultation paper - *Prospects for Prices*. We will be presenting a strong case to the regulator, including the case for price stability over the next price control period.

While we see opportunities to continue to grow our business in the UK, we are exploring opportunities for international investment, particularly in the US energy sector. We believe ScottishPower's experience in the UK since privatisation is particularly relevant given the changes now emerging in the US utility market. However we shall only proceed if we see the opportunity to add significant value for ScottishPower shareholders.

Financial report

Group turnover for the half-year increased by £74 million, or 5.4%, to £1,444 million, due principally to the growth in ScottishTelecom and a significant increase in gas sales.

Turnover in the energy businesses increased by £24 million, some 2.5%. In electricity, higher volumes, including increased interconnector volumes to England and Wales, were offset by further price reductions. Sales of gas increased by £29 million to £42 million due to growth in the number of gas customers.

Chairman's Statement continued

Southern Water reported sales of £221 million, £21 million lower than last year. Turnover in the core business increased by £8 million, up 4%, reflecting new connections and higher prices to fund the capital expenditure programme. This increase was offset by a £29 million decrease in turnover due to the disposal of the Southern Water non-core businesses.

ScottishTelecom produced total sales in the first half of £99 million, almost double the same period last year, with £21 million attributable to Demon Internet, purchased on 1 May of this year, and increases in all other areas. In particular, the mobile business grew by £12 million due to organic growth and the acquisition, in February 1998, of Pinnacle Cellular.

There were increases in turnover in our other businesses, being Retail, Contracting Services and Technology.

Gross profit has increased consistent with turnover, and margins have improved. The increases in transmission and distribution costs, and administration expenses reflect this business growth, particularly in ScottishTelecom.

Operating profit for the group rose by £17 million to £324 million, principally due to increased profits from Power Systems and Southern Water. This growth in operating profit is after absorbing an additional £15 million of costs, compared to the previous half year, for capturing new customers, developing the ScottishPower brand and depreciation of new systems required to operate in the competitive market.

The reduction of £18 million in Generation Wholesale operating profit reflected the final step in the formula put in place at privatisation, the Great Britain Yardstick (GBY), to bring generation prices for the franchise market into line with the average generation purchase costs of the England and Wales RECs. The effect of this was largely a benefit to our

Energy Supply business and the reduction was partially offset by increased profit from higher volumes in the Scottish first tier market and lower operating costs.

Operating profit for Power Systems was £116 million, up £9 million on the first half of last year, due to increased revenues and continuing cost efficiencies.

In Energy Supply operating profit was £14 million. First tier operating profit was £6 million higher, due to the reduced generation costs referred to above, offset in part by lower prices to customers and additional electricity customer capture and retention costs. Operating profit from second tier sales improved by £8 million as a result of increased volumes and exiting from loss-making contracts. The loss from gas and other energy sales increased by £5 million to £13 million, due to additional customer acquisition costs and increased costs to service this growing business. Nevertheless the expected payback period on these acquisition costs remains some eighteen months.

In Manweb, operating profit increased marginally, to £68 million, with cost saving initiatives in both the Distribution and Supply businesses, arising from the further integration of Manweb and ScottishPower activities, together with reductions in electricity purchase costs. These benefits were largely offset by reduced supply income as a result of regulatory price reductions to customers.

Southern Water reported an operating profit of £132 million for the half year, £10 million higher than the equivalent period last year, reflecting increased tariffs and continued cost savings through the implementation of the plan put in place at the time of acquisition.

ScottishTelecom showed improved performance on the first half of the prior year with operating profit up by over £1 million, including a first time

contribution from Demon Internet. As anticipated, the costs of the continued network rollout, and customer capture, offset some of the benefit from growth in other areas.

In our other businesses, Retail experienced difficult trading conditions in the first half of the year. We were disappointed in the trading performance, down from the prior year, which was boosted by increased activity associated with building society windfall gains. The Contracting Services and Technology businesses continued to perform satisfactorily.

Net interest for the half-year was £77 million, an increase of £5 million, reflecting the growth in debt associated with a higher level of capital investment and the payment, in December 1997, of the first instalment of the windfall tax. Profit before tax increased by £2 million to £247 million, while the tax charge of £57 million represented an effective tax rate of 23.0%, down from 23.7% in the previous year. Earnings per share amounted to 16.05p, 1.3% ahead of last year, and our interim dividend will be 7.50p net per share, an increase of 10.3%. The increase in dividend is in line with our stated aim of achieving 7% to 8% real dividend growth per annum until at least the regulatory reviews in the year 2000, whilst maintaining a prudent level of dividend cover.

Free cash flow for the period was £328 million, down £25 million from the same period last year due mainly to working capital increases associated with business growth. Capital investment spend in the first six months was £288 million, up from £256 million in the previous first half, due to higher investment spend particularly in Southern Water, with major wastewater treatment schemes being progressed at Dover & Folkestone, Hastings, Portsmouth & Havant and the Isle of Wight, and in Scottish Telecom, with additional expansion of the network in the Scottish Highlands & Islands and the Manweb territory. Expenditure on

acquisitions represented mainly the purchase of Demon Internet for £66 million. Our continued focus on improving cash flow has resulted in gearing of 110% at 30 September 1998 compared to 114% at 31 March 1998, and 108% at 30 September 1997, despite the increased levels of investment across the group and payment of the first instalment of the windfall tax. Interest cover was a prudent 4.2 times in the six months to September 1998.

Business report

Substantial progress has been made during the first half of the year across each of our major businesses, with strong operational performance. Undoubtedly the most significant event was the extension of the competitive electricity market to domestic customers in mid September.

Energy Supply

Competition in domestic energy supply has become a reality, with the gas market now fully competitive and electricity supply opening progressively in the period to June 1999. ScottishPower has established a strong position in both of these markets and expects to be a leading player. In electricity our focus will be on optimising profitability, we have therefore lowered our target UK market share from 15% to 13% compared with our current market share of 11%. However in domestic gas supply we have raised our target market share for our franchise areas from 12% to 14% by the year 2000. Nationally our target is to win 1.3 million customers, representing a 7% share of the UK domestic gas supply market by the year 2000.

ScottishPower has developed a strong dual fuel product offering, being the first company to offer a single bill and point of contact for both gas and electricity. Early in 1999 the company will be launching a UK-wide branding initiative to market electricity and gas under the name ScottishPower.

Competition for domestic electricity supply was introduced to a first phase of 750,000 customers throughout the UK on 14 September 1998. ScottishPower and Manweb were two of only four electricity companies to be ready on schedule. This reflects the substantial investment that the company has made in the systems and training necessary to succeed in the new competitive electricity market. At the end of September ScottishPower had secured over 60,000 new domestic electricity customers with minimal losses in the existing franchise areas.

Substantial progress has been made in the domestic gas supply market, which was fully opened to competition in May 1998. At the end of September we had some 475,000 domestic gas supply customers and we are on target to achieve 800,000 gas customers by March 1999. We are currently signing up over 12,000 customers each week, with the focus on building a high quality customer base.

Energy Supply continues to drive hard to improve the levels of service offered to our customers. Customer complaints to OFFER are down by over 60% on the same period last year and OFGAS complaints are one of the lowest amongst the new entrants to the gas supply market.

Generation Wholesale

The success of the Energy Supply business is underwritten by the availability of competitively priced electricity and gas.

In the Generation business a new initiative, developed in partnership with staff and Trade Unions, has been launched to secure further cost efficiencies. Through targeted outsourcing and rationalisation of support functions, operating costs are planned to be reduced substantially by March 2000. This will ensure that the electricity produced from ScottishPower's own generation plant continues to be amongst the lowest cost in the UK.

To secure competitive advantage in gas supply the company has built a portfolio of gas contracts from a number of sources and has plans to maximise the potential to 'profile' gas to match the needs of customers by optimising the synergies between the generation and gas supply businesses. Projects to develop gas stores at Hatfield Moors and Humby Grove are being progressed.

The company has been exploring CCGT and CHP opportunities in England and Wales. Construction of the 400MW CCGT at Shoreham has commenced and commercial operation is planned for November 2000.

Construction work to upgrade the capacity of the Anglo-Scottish transmission link is scheduled to commence in March 1999. The link is expected to achieve an operating capability of 2200MW in summer 2001. We are working with the National Grid Company to maximise the capability of the Anglo-Scottish link in the interim period. The interconnector supply agreement for the link to Northern Ireland is presently with OFREG for final approval under Northern Ireland Electricity's economic purchasing obligation and a decision is imminent. Approval will enable contracts to be placed, with a target completion of December 2001. Once the two interconnectors are fully operational our electricity sales from Scotland are expected to increase by approximately 50%. This increased output will be generated from our existing low cost plant.

Power Systems

In Power Systems the focus continues to be one of driving costs down, while continuing to provide high quality service. Having successfully integrated the Manweb distribution activities, the business continues to deliver cost savings through initiatives such as best practice transfer, improved contractor management, and incentivisation. Additionally a re-structuring has been

implemented, reducing regional operations from seven regions to six, an initiative which will deliver additional annual savings.

This year is an important one for Power Systems, with OFFER undertaking a periodic review of the price controlled revenues of the transmission business and the distribution businesses in Manweb and Scotland. The new price controls are scheduled to take effect from April 2000. Significant preparation has already taken place enabling Power Systems to present business performance with clarity. We believe our businesses will be comparatively well placed for the price reviews given the material cost reductions, improved customer service and reduction in prices that we have achieved.

Discussions are also ongoing with the Government and the regulator following the consultation paper on the separation of the distribution and supply businesses. We welcome the Government's proposal to split the distribution and supply licences whilst retaining the principle of common ownership. Clearly an important factor to be taken into consideration will be the costs associated with the creation of separate legal entities, and the implications for prices. In Scotland we recognise there are areas to be addressed over the next few years with Scottish Trading arrangements, against a background of the onerous Nuclear Energy Agreement. We are working with the regulator and the Government to address these while ensuring that the customer benefits from integrated management of the Scottish wires network are maintained.

Southern Water

In Southern Water we continue to meet the targets for operating cost reductions and manpower efficiencies set out at the time of acquisition. In addition to the £31 million total reduction in operating costs delivered to March 1998, we remain on target to achieve a further £9 million reduction in this financial year.

A further review of Southern Water's operations is under way and the opportunity to make additional efficiency and manpower savings by 2003-4 has been identified. These will be achieved through the rationalisation of the county structure, property and support services. Wherever possible synergy benefits will be sought by combining activities, such as metering, across the ScottishPower group.

We are on course to deliver a substantial capital expenditure programme for this financial year. Major schemes being progressed include wastewater treatment works at Dover & Folkestone, Hastings, Portsmouth & Havant and the Isle of Wight. We were disappointed not to gain planning permission for a primary treatment scheme at Portobello, Sussex, however, every effort is being made to progress this project with the appropriate local authority. Since March 1995 we have completed over eighty projects relating to the upgrading of sewer overflows which have contributed to an exceptionally good year of bathing water results, with 97% exceeding European Union standards.

To comply with the Urban Waste Water Treatment Directive, agreement has been reached with OFWAT to undertake secondary treatment at certain wastewater treatment plants. The capital expenditure associated with these schemes is to be recovered via tariffs in the next price control period, commencing in the year 2000.

Water resources are now back in line with the long term average, which is a marked improvement when compared to the same point in each of the last three years. The water levels in our major reservoirs in particular, are significantly better than last year. In addition Southern Water has taken a leading role in formulating a South East of England water resources strategy for bulk supply sharing with other local water companies. In a recently published OFWAT report, Southern Water was shown to be the UK water

and wastewater company with the lowest level of leakage in the year 1997-98

Operational and customer service performance reached best ever levels last year with an improvement across a range of OFWAT measures for water, wastewater and customer service standards. We have set ourselves even more demanding targets for this year and, after the first six months, we are on course to meet these

We are looking at further opportunities to grow revenues from Southern Water. We already have over 100,000 gas customers in the Southern Water region and will be providing dual fuel once the electricity market in the region is open to competition

A new price control for all water companies will come into effect on 1 April 2000. The review process is well under way and the regulator has already set out details of the basis of the review in his recent consultation paper - *Prospects for Prices*. We are evaluating the impact of the proposals and will be presenting a strong case to the regulator, including the case for price stability over the next price control period.

ScottishTelecom

ScottishTelecom continues to achieve significant revenue growth in all areas of its business. Network traffic is increasing steadily with some 3 million call minutes per day carried in the month of September, an increase of some 60% compared to the average call minutes per day in March 1998. Investment to expand the network in the Scottish Highlands & Islands and the Manweb territory is ongoing

ScottishTelecom currently has a 6% share of the Scottish corporate market and has already secured its first major customer in the North West of England, a consortium of universities. Success in mobile service provision has continued and the business now has over 90,000 subscribers, making it

the largest independent service provider in Scotland. In the residential area we have secured 20,000 customers. Where we provide services through fixed radio access technology, a 6% penetration level has been achieved.

ScottishTelecom's Information Services business is the UK market leader in premium rate services, with call minutes now totalling 77 million per annum. On 1 May ScottishTelecom acquired Europe's largest independent Internet Service Provider, Demon Internet, for £66 million. The company's Scotland On-Line and Prestel operations combined with Demon now have customer numbers in excess of 250,000. Substantial revenue growth will come from carrying the Demon telecoms traffic. Some £14 million is being invested in a network switch and supporting infrastructure to facilitate this, and we expect the switch to be operational in February 1999. In the first full year after acquisition, 1999-2000, Demon is expected to make a significant contribution to earnings, while further potential for growth exists through developing electronic commerce and other services.

ScottishTelecom Call Centre Services has continued to grow, and now has six call centres in Scotland, England and Amsterdam. Clients include Sony, Microsoft, Compaq and Halifax.

ScottishTelecom has a clear focus and vision to develop organically and through niche acquisitions. We remain on track to achieve our target of 10% of the Scottish market by the year 2000, while network expansion and growth in information services and call centres will continue to develop the business across the UK.

Other Businesses

Despite intense competition in the electrical retail market, our Retail business has maintained UK market share in both brown and white goods. The Retail business is a channel to market the group's multi-utility services

and to promote awareness of the ScottishPower brand throughout the UK.

Our other businesses, Technology and Contracting Services, are continuing to grow and are a key differentiator for the group, in terms of winning new business customers.

Year 2000

We are well advanced in our programme to mitigate the effect of the year 2000 issue. We expect to have substantially all of our business critical systems Y2K ready by the current year end. The company is working pro-actively with suppliers to ensure they are Y2K ready, and is actively engaged in identifying and resolving issues which may exist.

In addition ScottishPower is participating in a number of industry-wide initiatives, such as the Y2K Utilities Forum, which provides a platform for planning co-ordinated testing and contingency preparations. As well as reassessing all of our existing contingency and emergency plans for a potential year 2000 impact, we are adopting a Millennium Operating Regime approach. This will ensure co-ordination of all our business operations over the new year period with a view to minimising year 2000 failures and maximising our ability to respond to events should they occur.

Summary

We have achieved strong operational progress in each of our major businesses in the first six months of the year, with financial performance meeting our expectations.

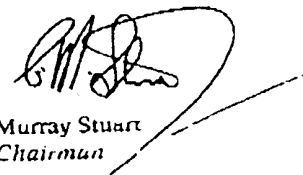
Most notably, our energy business established itself at the forefront of competition in the domestic electricity market. The substantial investment made over the past two years in systems, customer service and billing arrangements, all came together to ensure that both ScottishPower and Manweb were two of only four electricity companies ready to meet

the launch date. We have made a good start in the new competitive world and have already won some 475,000 domestic gas customers and over 60,000 domestic electricity customers. We believe that as competition extends across the UK we will continue to be a strong and effective player in this market place.

Investment in ScottishTelecom has seen the business continue to grow strongly, with turnover almost double that of the first half of the previous year. The business has expanded and developed further into new areas of the market place.

Improvements in cost efficiency and customer service, particularly in Power Systems and Southern Water, have continued. This is particularly important given the forthcoming regulatory reviews for these businesses. We are evaluating the impact of the recent OFWAT consultation paper - Prospect for Prices. We will be presenting a strong case to the regulator, including a case for price stability over the next price control period.

Looking ahead we believe the investments which we are currently making to build our asset base and to grow our market share in our energy, water and telecommunications businesses will deliver significant value for shareholders.



Murray Stuart
Chairman

4 November 1998

Group Profit and Loss Account

for the six months ended 30 September 1998

	Notes	First half 1998-99 £m	First half 1997-98 Restated* £m	Full year 1997-98 £m
Turnover: group and share of joint ventures and associates		1,446.7	1,371.8	3,134.1
Less: share of turnover in joint ventures		(1.8)	(1.4)	(3.8)
Less: share of turnover in associates		(1.0)	(0.8)	(2.1)
Group turnover from continuing operations	2	1,443.9	1,369.6	3,128.2
Cost of sales		(830.3)	(798.8)	(1,850.7)
Gross profit from continuing operations		613.6	570.8	1,277.5
Transmission and distribution costs		(122.0)	(113.2)	(219.1)
Administrative expenses		(183.0)	(157.5)	(303.0)
Other operating income		15.8	16.8	29.7
Operating profit from continuing operations	2	324.4	316.9	785.1
Share of operating profit in joint ventures		0.3	0.1	1.6
Share of operating (loss)/profit in associates		(0.1)	0.4	0.3
Profit on ordinary activities before interest		324.6	317.4	787.0
Net interest charge		(77.3)	(72.3)	(147.1)
- Group		-	(0.1)	(0.2)
- Joint ventures		-	-	(0.1)
- Associates		(77.3)	(72.4)	(147.4)
Profit on ordinary activities before taxation		247.3	245.0	639.6
Ordinary taxation		(56.8)	(58.0)	(151.5)
- Group		(0.1)	-	(0.4)
- Joint ventures		-	(0.1)	0.3
- Associates		(56.9)	(58.1)	(151.6)
Profit after ordinary taxation	3	190.4	186.9	488.0
Exceptional taxation - windfall tax	4	-	(317.0)	(317.0)
Profit/(loss) after taxation		190.4	(130.1)	171.0
Minority interests		(0.3)	-	(0.9)
Profit/(loss) for the period		190.1	(130.1)	170.1
Dividends		(89.9)	(80.4)	(243.3)
Profit/(loss) retained		100.2	(210.5)	(73.2)
Earnings per ordinary share	5	16.05p	(11.04)p	14.41p
Adjusting item - windfall tax		-	26.89p	26.87p
Earnings per ordinary share before windfall tax	5	16.05p	15.85p	41.28p
Diluted earnings per ordinary share		-	(10.93)p	14.27p
Adjusting item - windfall tax		-	26.64p	26.60p
Diluted earnings per ordinary share before windfall tax	5	15.87p	15.71p	40.87p
Dividends per ordinary share	6	7.50p	6.80p	20.40p

*The prior period adjustment described in Notes 1(c) and 2(b) has been made to comply with the recommendations of the Accounting Standards Board's Statement on Interim Reports and affects only the Accounts for the six months ended 30 September 1997. There is no impact on the Accounts for the full year ended 31 March 1998.

The Notes on pages 12 to 15 form part of these Accounts

Statement of Total Recognised Gains and Losses

for the six months ended 30 September 1998

	First half 1998-99	First half 1997-98 Restated	Full year 1997-98
	£m	£m	£m
Profit/(loss) for the period	190.1	(130.1)	170.1
Surplus on revaluation of assets	-	229.0	229.0
Total recognised gains and losses for the period	190.1	98.9	399.1

Note of Historical Cost Profits and Losses

for the six months ended 30 September 1998

	First half 1998-99	First half 1997-98 Restated	Full year 1997-98
	£m	£m	£m
Profit on ordinary activities before taxation	247.3	245.0	639.6
Difference between historical cost depreciation charge and actual depreciation charge for the period calculated on the revalued amount of fixed assets	1.7	-	1.7
Historical cost profit on ordinary activities before taxation	249.0	245.0	641.3
Historical cost profit/(loss) retained for the period after taxation, minority interests and dividends	101.9	(210.5)	(71.5)

Reconciliation of Movements in Shareholders' Funds

for the six months ended 30 September 1998

	First half 1998-99	First half 1997-98 Restated	Full year 1997-98
	£m	£m	£m
Profit/(loss) for the period	190.1	(130.1)	170.1
Dividends	(89.9)	(80.4)	(243.3)
Profit/(loss) retained	100.2	(210.5)	(73.2)
Share capital issued (net of costs)	2.7	2.0	45.5
Revaluation of fixed assets	-	229.0	229.0
Goodwill written off	-	(2.9)	(16.2)
Net movement in shareholders' funds	102.9	176	185.1
Opening shareholders' funds	1,707.8	1,522.7	1,522.7
Closing shareholders' funds	1,810.7	1,540.3	1,707.8

The Notes on pages 12 to 15 form part of these Accounts.

Group Cash Flow Statement

for the six months ended 30 September 1998

	Notes	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m
Cash inflow from continuing operating activities	8	399.8	422.7	987.3
Dividends received from associates and joint ventures		-	-	0.9
Returns on investments and servicing of finance		(62.0)	(52.0)	(146.7)
Ordinary taxation		(10.2)	(17.5)	(134.5)
Free cash flow before windfall tax		327.6	353.2	707.0
Exceptional taxation - windfall tax	4	-	-	(157.8)
Free cash flow		327.6	353.2	549.2
Capital expenditure and financial investment		(288.4)	(255.5)	(565.9)
Cash flow before acquisitions and disposals		39.2	97.7	(16.7)
Acquisitions and disposals		(77.4)	20.5	67.9
Equity dividends paid		-	-	(226.0)
Cash (outflow)/inflow before use of liquid resources and financing		(38.2)	118.2	(174.8)
Management of liquid resources	9	0.8	(23.1)	(17.5)
Financing				
Issue of ordinary share capital (net of expenses)		2.7	2.0	8.9
Increase in debt	9	152.9	46.2	252.6
		155.6	48.2	261.5
Increase in cash in period	9	118.2	143.3	69.2

Free cash flow represents cash flow from continuing operating activities after adjusting for dividends received from associates and joint ventures, returns on investments and servicing of finance and taxation.

Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m
Increase in cash in period		118.2	143.3	69.2
Cash inflow from increase in debt		(152.9)	(46.2)	(252.6)
Cash (inflow)/outflow from movement in liquid resources		(0.8)	23.1	17.5
Change in net debt resulting from cash flows		(35.5)	120.2	(165.9)
Net debt acquired		(2.7)	-	(0.1)
Net debt disposed		-	-	6.7
Loan notes issued		-	-	(3.0)
Movement in net debt in period		(38.2)	120.2	(162.3)
Net debt at end of previous period		(1,952.6)	(1,790.3)	(1,790.3)
Net debt at end of period	9	(1,990.8)	(1,670.1)	(1,952.6)

The Notes on pages 12 to 15 form part of these Accounts


Group Balance Sheet

as at 30 September 1998


	30 September 1998	30 September 1997 Restated	31 March 1998
Notes:	£m	£m	£m
Fixed assets	5,099.4	4,491.7	4,785.8
Current assets	137.3	129.7	144.2
Stocks	498.3	523.5	531.3
Debtors	235.0	210.1	115.5
Short term bank and other deposits	870.6	863.3	791.0
Creditors: amounts falling due within one year	(509.0)	(1,392.6)	(1,035.7)
Loans and other borrowings	(1,515.9)	(1,390.4)	(1,396.3)
Other creditors	(2,024.9)	(2,783.0)	(2,432.0)
Net current liabilities	(1,154.3)	(1,919.7)	(1,641.0)
Total assets less current liabilities	3,945.1	2,572.0	3,144.8
Creditors: amounts falling due after more than one year	(1,716.8)	(487.6)	(1,032.4)
Loans and other borrowings	-	(158.5)	-
Other creditors	(37.2)	(35.3)	(38.1)
Provisions for liabilities and charges	(378.2)	(349.6)	(364.6)
Deferred income	2	1,541.0	1,709.7
Net assets	1,812.9	1,541.0	1,709.7
Called up share capital	599.3	589.6	598.4
Share premium	393.4	310.3	388.7
Revaluation reserve	225.6	229.0	227.3
Profit and loss account	592.4	411.4	493.4
Equity shareholders' funds	1,810.7	1,540.3	1,707.8
Minority interests	2.2	0.7	1.9
Capital employed	1,812.9	1,541.0	1,709.7

The Notes on pages 12 to 15 form part of these Accounts

Approved by the Board on 4 November 1998 and signed on its behalf by



Murray Stuart
Chairman



Ian Russell
Deputy Chief Executive and Finance Director

Notes to the Accounts

for the six months ended 30 September 1998

asis of preparation

These interim Accounts have been prepared on the basis of accounting policies consistent with those set out in the Directors' Report and Accounts for the year ended 31 March 1998, with the exception that, in accordance with Financial Reporting Standard 10, goodwill arising on acquisitions since 1 April 1998 is capitalised and amortised through the profit and loss account over its useful economic life. Previously all acquired goodwill was written off directly to reserves.

(b) The interim Accounts are unaudited but have been formally reviewed by the auditors and their report to the company is set out on page 16.

The information shown for the year ended 31 March 1998 does not constitute statutory Accounts within the meaning of Section 240 of the Companies Act 1985 and has been extracted from the full Accounts for the year ended 31 March 1998 filed with the Registrar of Companies. The report of the auditors on these Accounts was unqualified and did not contain a statement under either Section 237 (2) or Section 237 (3) of the Companies Act 1985.

(c) To comply with the recommendations of the Accounting Standards Board's Statement on Interim Reports, comparative figures have been restated to eliminate seasonal adjustments in relation to accounting for the cost of electricity sales. This Statement recommends that revenues and costs, wherever possible, should be recognised on a discrete basis for the purposes of the interim Accounts and not treated as a component of the full year's results, as was previously the policy adopted. The adjustments relate to the interim figures only and do not affect the full year results.

The effect on the comparative figures for the half year ended 30 September 1997 is as follows:

	Cost of sales £m	Ordinary taxation £m	Loss retained £m	Net assets £m
As previously reported	(803.5)	(56.9)	(214.0)	1,537.5
Effect of implementing new accounting policy	4.7	(1.2)	3.5	3.5
As restated	(798.8)	(58.1)	(210.5)	1,541.0

Cost of sales for the first half of the current year is reduced by £3.7 million, ordinary taxation increased by £0.8 million and the profit retained therefore increased by £2.7 million following the change in accounting policy. The adjustments are more fully described in Note 2(b).

2 Segmental information

In the segmental analysis shown below, all material activities are derived from continuing operations in the United Kingdom.

(a) Turnover by business segment

Notes	Total turnover			Inter segment turnover			External turnover		
	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m
Generation Wholesale	366.9	396.2	1,014.3	283.1	320.8	764.8	83.8	75.4	249.5
Power Systems	213.5	203.8	443.0	186.6	179.0	391.1	26.9	24.8	51.9
Energy Supply	607.3	572.0	1,336.2	8.9	8.9	11.5	598.4	563.1	1,324.7
Manweb	270.6	300.9	667.8	7.1	15.3	13.9	263.5	285.6	653.9
Southern Water	220.6	241.5	453.0	-	-	0.4	220.6	241.5	452.6
Scottish Telecom	(ii) 98.5	50.1	113.3	14.0	10.6	31.2	84.5	39.5	82.1
Other	(ii) 286.5	188.2	410.7	120.3	48.5	97.2	166.2	139.7	313.5
Total							1,443.9	1,369.6	3,128.2

(b) Operating profit/(loss) and net assets/(liabilities) by business segment

Notes	Operating profit/(loss)			Net assets/(liabilities)		
	First half 1998-99 £m	First half 1997-98 restated £m	Full year 1997-98 £m	30 Sept 1998 £m	30 Sept 1997 Restated £m	31 March 1998 £m
Generation Wholesale	(i) (9.3)	8.7	130.8	331.9	361.8	361.2
Power Systems	115.5	106.8	249.5	1,176.1	1,082.5	1,136.4
Energy Supply	14.4	5.7	15.1	27.3	(8.3)	45.2
Manweb	(i) 68.3	67.8	131.3	556.7	564.1	607.3
Southern Water	131.7	122.4	240.7	1,459.7	1,471.7	1,222.4
Scottish Telecom	(ii) 0.2	(1.1)	4.7	260.5	132.7	151.0
Other	(ii) 3.6	6.6	13.0	66.2	105.3	69.4
Sub-total	324.4	316.9	785.1	3,878.4	3,709.8	3,592.9
Unallocated net liabilities	(iii) -	-	-	(2,065.5)	(2,168.8)	(1,883.2)
Total	324.4	316.9	785.1	1,812.9	1,541.0	1,709.7

(i) The segmental analysis above has been prepared in accordance with the Accounting Standards Board's Statement on Interim Reports as explained in Note 1(c).

The segments affected by the prior period adjustment are Generation Wholesale and Manweb, with cost of sales being restated in each. For Generation Wholesale the effect was a decrease of £12.6 million in first half 1997-98 operating profit (first half 1997-98 as published: £21.3 million) and in net assets (first half 1997-98 as published: £374.4 million). For Manweb the effect was an increase in first half 1997-98 operating profit of £17.3 million (first half 1997-98 as published: £50.5 million) and in net assets (first half 1997-98 as published: £546.8 million). The effect on unallocated net liabilities was an increase of £1.2 million (first half 1997-98 as published: £2,167.6 million).

The effect of the change in accounting policy in the first half of the current year is to reduce operating profit in Generation Wholesale by £14.1 million and to increase operating profit in Manweb by £17.6 million.

(ii) The Scottish Telecom business segment and the Other business segment were previously combined as the Developing businesses and ancillary services segment.

(iii) Unallocated net liabilities include net debt, dividends payable and tax liabilities.

3 Ordinary taxation

The ordinary charge for taxation reflects the anticipated effective rate for the year ending 31 March 1999 of 23.0% (1997-98 full year 23.7%) on the profit before taxation.

4 Exceptional taxation - windfall tax

Exceptional taxation in 1997-98 related to the group's estimated share of the windfall tax according to the formula contained within the Finance (No.2) Act 1997. The first of two equal instalments was paid on 1 December 1997 with the second instalment due on 1 December 1998.

5 Earnings per ordinary share

(a) Earnings per ordinary share have been calculated in accordance with FRS 19 'Earnings per share' for all periods by dividing the profit/(loss) for the period by the weighted average number of ordinary shares in issue during the period, based on the following information

	First half 1998-99	First half 1997-98 Restated	Full year 1997-98
Profit/(loss) for the period (£ million)	190.1	(130.1)	170.1
Basic weighted average share capital (number of shares, million)	1,184.6	1,178.8	1,180.1
Diluted weighted average share capital (number of shares, million)	1,197.5	1,189.8	1,191.9

The difference between the basic and the diluted weighted average share capital is wholly attributable to outstanding share options.

(b) The calculation of earnings per ordinary share, on a basis which excludes the windfall tax, is based on the following adjusted earnings

	First half 1998-99 £m	First half 1997-98 Restated £m	Full year 1997-98 £m
Profit/(loss) for the period	190.1	(130.1)	170.1
Adjusting items - windfall tax	-	317.0	317.0
Adjusted earnings	190.1	186.9	487.1

6 Dividend per ordinary share

The interim dividend of 7.50p (net) per ordinary share (1997-98 half year 6.80p and full year 20.40p) is payable on 8 March 1999 to shareholders on the register at 4 December 1998.

7 Provisions for liabilities and charges

	30 Sept 1998 £m	30 Sept 1997 £m	31 March 1998 £m
Opening balance	38.1	45.6	4.1
Charged to the profit and loss account	1.3	4.8	-
Utilised during the period	(2.2)	(15.1)	(8.7)
Closing balance	37.2	35.3	38.1
Reorganisation and restructuring, including pensions	16.4	16.1	16.7
Environmental and health	9.2	10.9	10.0
Other	11.6	8.3	11.4
Total	37.2	35.3	38.1

8 Reconciliation of operating profit to net cash inflow from continuing operating activities

	First half 1998-99 £m	First half 1997-98 Restated £m	Full year 1997-98 £m
Operating profit	324.4	316.9	785.1
Depreciation and amortisation	105.5	86.0	165.6
Profit on sale of tangible fixed assets and disposal of businesses	(7.0)	(6.5)	(21.7)
Release of deferred income	(6.8)	(8.3)	(20.6)
Movements in provisions for liabilities and charges	(0.9)	(10.3)	(7.5)
Decrease/(increase) in stocks	7.0	(16.8)	(32.0)
Decrease/(increase) in debtors	62.0	111.6	76.5
(Decrease)/increase in creditors	(84.4)	(49.9)	41.9
Net cash inflow from continuing operating activities	399.8	422.7	987.3

Notes to the Accounts continued

9 Analysis of net debt

	At 1 April 1998	Cash flow	Acquisitions (incl cash & overdrafts)	At 30 Sept 1998
	£m	£m	£m	£m
Cash at bank	58.8	120.3	-	179.1
Overdrafts	(9.3)	(2.1)	-	(11.4)
		118.2		
Debt due after 1 year	(1,032.4)	(684.3)	(0.1)	(1,716.8)
Debt due within 1 year	(1,026.4)	530.1	-	(496.3)
Finance leases	-	1.3	(2.6)	(1.3)
		(152.9)		
Other deposits	56.7	(0.8)	-	55.9
Total	(1,952.6)	(35.5)	(2.7)	(1,990.8)

10 Southern Water Services Limited - Interim results for the six months ended 30 September 1998

This note is included to comply with assurances given to OFWAT at the time of the acquisition of Southern Water plc to supply financial information for Southern Water Services Limited, the regulated business.

Summarised Profit and Loss Account

	Notes (i)	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m
Company turnover from continuing operations		220.0	212.5	420.4
Profit on ordinary activities before interest		129.1	115.1	223.0
Net interest payable		(23.5)	(20.0)	(40.1)
Profit on ordinary activities before taxation		99.6	95.1	182.9
Ordinary taxation		(21.4)	(17.3)	(33.2)
Profit after ordinary taxation		78.2	77.8	149.7
Exceptional taxation - windfall tax	(ii)	-	(76.4)	(76.4)
Profit after taxation		78.2	1.4	73.3
Dividends		-	-	(43.4)
Profit retained		78.2	1.4	29.9
Earnings per share (£ per ordinary share)	(iii)	1,396.4	25.0	1,308.9
Dividends per share (£ per ordinary share)		-	-	775.4

Summarised Balance Sheet

	30 Sept 1998 £m	30 Sept 1997 £m	31 March 1998 £m
Fixed assets	1,686.7	1,438.3	1,574.7
Net current liabilities	(260.0)	(235.2)	(141.8)
Creditors' amounts falling due after more than one year	(577.5)	(423.4)	(662.6)
Loans and other borrowings	-	(38.2)	-
Other creditors	(3.3)	(3.7)	(3.3)
Provisions for liabilities and charges	(31.7)	(30.3)	(31.0)
Deferred income	814.2	707.5	736.0
Net assets	0.1	0.1	0.1
Share capital	814.1	707.4	735.9
Share premium account and reserves	814.2	707.5	736.0
Capital employed			

Summarised Cash Flow Statement

	First half 1998-99 £m	First half 1997-98 £m	Full year 1997-98 £m
Cash inflow from operating activities	114.8	129.6	258.2
Net dividends and interest	(48.2)	(47.3)	(86.6)
Ordinary taxation	0.7	0.2	-
Free cash flow before windfall tax	67.3	82.5	171.6
Exceptional taxation - windfall tax	-	-	(38.2)
Capital expenditure	(139.3)	(93.8)	(217.2)
Other items	(2.7)	(4.0)	(11.2)
Decrease in cash in period	(74.7)	(15.3)	(95.0)

(i) Disclosure of information

The summarised profit and loss account and balance sheet for Southern Water Services Limited have been prepared on the same basis as those for Scottish Power plc interim Accounts as disclosed in Note 1.

0 Southern Water Services Limited – Interim results for the six months ended 30 September 1998 continued

(u) Exceptional taxation – windfall tax
Exceptional taxation in 1997-98 related to the company's estimated share of windfall tax according to the formula contained within the Finance (No 2) Act 1997. The first of two equal instalments was paid on 1 December 1997 with the second instalment due on 1 December 1998.

(w) Earnings per ordinary share
Earnings per ordinary share have been calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue during the period, based on the following information:

	First half 1998-99	First half 1997/98	Full year 1997/98
Profit for the period (£ million)	78.2	1.4	73.3
Weighted average share capital (number of shares: million)	0.056	0.056	0.056

11 Summary of differences between UK and US Generally Accepted Accounting Principles ('GAAP')

The consolidated Accounts of the group are prepared in accordance with UK GAAP which differs in certain significant respects from US GAAP. The effect of the US GAAP adjustments to profit/(loss) for the financial period and equity shareholders' funds are set out in the tables below.

(a) Reconciliation of profit/(loss) for the financial period to US GAAP:

	First half 1998-99	First half 1997/98 Restated	Full year 1997/98
	£m	£m	£m
Profit/(loss) for the financial period under UK GAAP	190.1	(130.1)	170.1
US GAAP adjustments	(15.0)	(14.7)	(29.8)
Amortisation of goodwill	(15.1)	5.6	(29.1)
Deferred tax	8.2	10.7	22.7
Pensions	1.7	-	1.7
Depreciation on revaluation uplift	169.9	(128.5)	136.6
Deferred tax effect of US GAAP adjustments:	(2.5)	(3.5)	(6.8)
Pensions	167.4	(132.0)	129.8
Profit/(loss) for the financial period under US GAAP	14.13p	(11.20)p	11.00p
Earnings per share under US GAAP	14.13p	15.69p	37.86p
Earnings per share before windfall tax under US GAAP	13.98p	(11.09)p	10.89p
Diluted earnings per share under US GAAP	13.98p	15.55p	37.49p
Diluted earnings per share before windfall tax under US GAAP			

(b) Effect on equity shareholders' funds of differences between UK GAAP and US GAAP:

	First half 1998-99	First half 1997/98 Restated	Full year 1997/98
	£m	£m	£m
Equity shareholders' funds under UK GAAP	1,810.7	1,540.3	1,707.8
US GAAP adjustments for:	1,036.7	1,023.4	1,036.7
Goodwill	163.1	163.1	163.1
Business combinations	(77.1)	(47.0)	(62.1)
Amortisation of goodwill	(34.2)	-	(36.6)
ESOP shares held in trust	107.4	87.2	99.2
Pensions	89.9	80.4	162.9
Dividends	(229.0)	(229.0)	(229.0)
Revaluation of fixed assets	3.4	-	1.7
Depreciation on revaluation uplift			
Deferred tax:	(32.9)	(27.1)	(30.4)
Effect of US GAAP adjustments	(575.8)	(527.0)	(560.7)
Effect of differences in methodology	2,262.2	2,064.3	2,252.6
Equity shareholders' funds under US GAAP			

Review Report by the Auditors

to Scottish Power plc

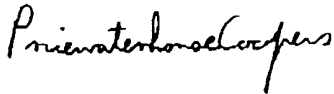
have reviewed the interim financial information for the six months ended 30 September 1998 set out on pages 8 to 15 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review. Our review was carried out having regard to the Bulletin 'Review of Interim Financial Information', issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of group management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and verification of assets and liabilities, and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Scottish Power plc in its Accounts for the year ended 31 March 1998, other than the change in accounting policy referred to in Note 1(a),

and

- we are not aware of any material modifications that should be made to the interim financial information as presented



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Glasgow

4 November 1998

Operating Statistics

		First half 1998-99	First half 1997-98	Full year 1997-98
Electricity sales – ScottishPower				
First tier supply				
Domestic	£m GWh	226 3,193	223 3,087	544 7,974
Commercial	£m GWh	136 2,450	140 2,332	298 5,134
Industrial	£m GWh	103 2,721	109 2,780	227 5,688
Other	£m GWh	17 320	16 306	42 752
Total	£m GWh	482 8,684	488 8,505	1,111 19,548
Distribution	GWh	9,851	9,507	21,712
Electricity sales – Manweb				
First tier supply				
Domestic	£m GWh	156 2,089	160 2,035	380 4,916
Commercial	£m GWh	65 1,085	69 1,114	151 2,394
Industrial	£m GWh	11 202	26 632	55 1,122
Other	£m GWh	9 151	9 160	23 395
Total	£m GWh	241 3,527	264 3,941	609 8,827
Distribution	GWh	8,106	8,708	18,522
Other electricity sales				
Second tier – group	£m GWh	80 2,195	66 2,016	155 4,164
Wholesale sales	£m GWh	73 3,258	57 2,516	199 6,716
Total	£m GWh	153 5,453	123 4,532	354 10,880
Gas sales				
Domestic	£m Therms(m)	22 49	4 9	26 68
Business	£m Therms(m)	20 78	9 43	34 144
Total	£m Therms(m)	42 127	13 52	60 212
Fuel and electricity purchases – ScottishPower				
Nuclear contract	£m GWh	180 6,722	162 6,117	366 13,619
Purchases from SHE under contract	£m GWh	47 1,642	51 2,193	109 4,656
Own generation	£m GWh	65 4,505	59 3,625	152 10,377
Other*	£m GWh	67 2,264	72 2,073	132 4,141
Total	£m GWh	359 15,133	344 14,008	759 32,793
*Includes Pool purchases for second tier customers				
Fuel and electricity purchases – Manweb				
Electricity purchases	£m GWh	110 3,967	151 4,360	379 9,92

Operating Statistics continued

	First half 1998-99	First half 1997-98 Revised	Full year 1997-98
	£m	£m	£m
Total turnover			
Generation Wholesale	366.9	396.2	1,014.3
Power Systems	64.3	61.8	129.6
Transmission	149.2	142.0	313.4
Distribution			
Energy Supply	485.9	492.8	1,112.4
First tier electricity	78.9	65.7	162.3
Second tier electricity	42.5	13.5	61.5
Gas and other energy sales			
Manweb	270.6	300.9	667.8
Southern Water	220.6	241.5	453.0
ScottishTelecom	98.5	50.1	113.3
Other	286.5	188.2	410.7
Total turnover	2,063.9	1,952.7	4,438.3
Less: total internal turnover	(620.0)	(583.1)	(1,310.1)
Total external turnover	1,443.9	1,369.6	3,128.2
Operating profit			
Generation Wholesale	(9.3)	8.7	130.8
Power Systems	41.1	40.2	80.1
Transmission	74.4	66.6	169.4
Distribution			
Energy Supply	21.0	15.2	38.0
First tier electricity	6.1	(2.1)	(3.8)
Second tier electricity	(12.7)	(7.4)	(19.1)
Gas and other energy sales			
Manweb	68.3	67.8	131.3
Southern Water	131.7	122.4	240.7
ScottishTelecom	0.2	(1.1)	4.7
Other	3.6	6.6	13.0
Total	324.4	316.9	785.1

Shareholder Information

The year ahead

30 November 1998	Shares go 'ex-dividend'
4 December 1998	Last date for registering transfers to receive the interim dividend
8 March 1999	Interim dividend payable
31 March 1999	End of financial year
May 1999	Preliminary announcement of final results for 1998-99
June 1999	Annual Report published
July 1999	Annual General Meeting
October 1999	Final dividend payable
November 1999	Announcement of half year results for six months ending 30 September 1999

Share registration enquiries

The Registrar
Bank of Scotland
Apea House
9 Haddington Place
Edinburgh
EH7 4AL
Tel 0870 6015366
Fax 0131 245 0047

Shareholder services

ScottishPower, by arrangement with Bank of Scotland and Barclays Stockbrokers Limited, offers the following services for the private investor

Share consolidation and PEPs

Share consolidation is a facility which allows a number of holdings, and especially family holdings, to be consolidated into one holding. This service is provided free of charge.

Personal equity plans (PEPs) are suitable for those private investors who may wish to shelter their ScottishPower shares from Income and Capital Gains Taxes. A Corporate PEP service will be offered until 5 April 1999, comprising the ScottishPower General PEP and ScottishPower Single Company PEP, and will be replaced by the Individual Savings Account (ISA) in the next tax year.

Further details of these services, and copies of the ScottishPower PEP brochure, may be obtained from Bank of Scotland on Freephone 0500 143543.

Share dealing

ScottishPower shares may be bought or sold at competitive rates by post or telephone. For further details, please contact Barclays Stockbrokers on 0345 777400.

**Form 20-F
1998**

**Prepared for
competition**

20-F

We are committed builders of businesses, in electricity and utility-related markets, determined to deliver outstanding performance.

Group Overview

Generation Wholesale

Generates electricity from the group's own power stations, and conducts bulk trading of electricity and gas including the sale of electricity to other electricity companies and the wholesale market in England and Wales.

Power Systems

Manages the transmission and distribution systems which transport electricity from the power station to the customer in ScottishPower's franchise area. The business also operates the group's metering function.

Energy Supply

Sells electricity to 1.9 million customers in the company's Scottish franchise area in Central and Southern Scotland and manages the associated customer service, billing and income collection. The business also supplies electricity and gas to customers in the competitive market throughout Great Britain.

Manweb

Sells and distributes electricity to 1.3 million customers in the Manweb franchise area, which covers North West England and North Wales. Manweb's distribution business is managed as part of the Power Systems business and Manweb's supply activities are managed as part of the Energy Supply business.

Southern Water

Provides water to one million premises and waste water services to 1.7 million premises mainly in Kent, Sussex, Hampshire and the Isle of Wight.

ScottishTelecom

Owens and operates a digital fiber optic network in Scotland, through which it provides business and residential services. In addition, it offers lifestyle support packages such as Internet access and mobile telephone services.

Electricity Retailing

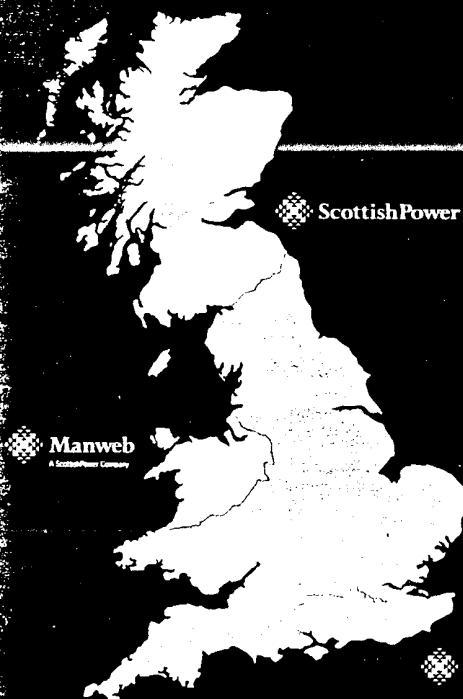
Operates 174 shops and superstores throughout Great Britain, selling electrical products. The electrical retailing business one of the largest suppliers of electrical appliances in the U.K. with shops from Inverness to Southampton.

Contracting Services

Conducts the installation and maintenance of all types of electrical plant. Provides project and facilities management services.

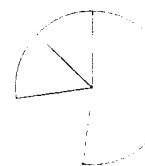
Technology

Provides engineering and scientific consultancy services to the ScottishPower group and external customers.



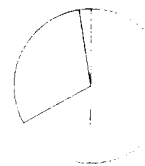
Turnover by business segment 1997-98

	£m
ScottishPower Energy Businesses	1,626.1
Manweb	653.9
Southern Water (post acquisition)	452.6
Developing businesses	395.6
Group total	£3,128.2m



Contribution to group operating profit 1997-98

	£m
ScottishPower Energy Businesses	395.4
Manweb	131.3
Southern Water (post acquisition)	240.7
Developing Businesses	17.7
Group total	£785.1m



SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g)
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

SCOTTISH POWER plc

(Exact name of Registrant as specified in its charter)

SCOTLAND

(Jurisdiction of incorporation or organization)

1 Atlantic Quay, Glasgow G2 8SP, Scotland
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Ordinary shares of 50p each ("Ordinary Shares")	New York Stock Exchange*
American Depositary Shares ("ADSs") each of which represents 4 Ordinary Shares	New York Stock Exchange

* Not for trading but only in connection with the registration of ADSs pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares of 50p each 1,196,752,324 shares (as of March 31, 1998)

Special rights non-voting redeemable preference
share of £1 1 share (as of March 31, 1998)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18



TABLE OF CONTENTS

	Page
Introduction	1
Exchange Rates	1
Glossary	2
PART I	
ITEM 1. DESCRIPTION OF BUSINESS	5
Introduction	5
Industry Background	5
Business Strategy	5
Segmental Business Information	6
Energy Business	7
Structure of the Electricity Industry in the United Kingdom	7
Generation Wholesale	10
Power Systems	14
Energy Supply	16
Water Business - Southern Water	19
Developing Businesses	23
Regulation of the Electricity Industry	24
Regulation of the Water Industry	31
Environmental Regulation	35
Research & Development	38
Employees	39
 ITEM 2. DESCRIPTION OF PROPERTY	 39
ITEM 3. LEGAL PROCEEDINGS	41
ITEM 4. CONTROL OF REGISTRANT	42
ITEM 5. NATURE OF TRADING MARKET	42
ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS	43
ITEM 7. TAXATION	43
ITEM 8. SELECTED FINANCIAL DATA	47
ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	50
Introduction	50
Recent Developments	51
Effect of Price Controls	52
Outlook	53
Results of Operations	54
Liquidity and Capital Resources	65
Year 2000	69
U.K. GAAP to U.S. GAAP Reconciliation	69

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	70
ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT	75
ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS	76
ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES	77
ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS	78
PART II	
ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED – not applicable	79
PART III	
ITEM 15. DEFAULTS UPON SENIOR SECURITIES	79
ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES	79
PART IV	
ITEM 17. FINANCIAL STATEMENTS - not applicable	79
ITEM 18. FINANCIAL STATEMENTS	80
ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS	80
Signatures	82
Consolidated Financial Statements of Scottish Power plc for fiscal 1998	F-1

INTRODUCTION

In this report, except as otherwise specified, "ScottishPower" or the "company" refers to Scottish Power plc (hereinafter also sometimes referred to as the "registrant"), and the "group" refers to ScottishPower and its subsidiaries and associates and any of their respective predecessors in business. ScottishPower was incorporated under the Companies Act on April 1, 1989 as a public limited company under the name South of Scotland Electricity plc and changed its name to Scottish Power plc on August 1, 1989.

References to fiscal years are to 12 month periods commencing in each case on April 1 of the prior year and ending on March 31 of the year indicated. References to years not specified as being fiscal years are to calendar years.

ScottishPower's Registered Office is located at 1 Atlantic Quay, Glasgow, G2 8SP, Scotland, and its telephone number is 011 44 141 248 8200.

EXCHANGE RATES

The group publishes its consolidated financial statements in pounds sterling. In this report, references to "pounds sterling", "£", "pence" or "p" are to United Kingdom currency and references to "U.S. dollars", "U.S.\$" or "\$" are to United States currency. Solely for the convenience of the reader, this report contains translations of certain pounds sterling amounts into U.S. dollars at specified rates, or, if not so specified, at the noon buying rate in New York City for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate") on March 31, 1998 of £1.00 = \$1.68. On July 21, 1998, the Noon Buying Rate was \$1.64 to £1.00. No representation is made that the pound sterling amounts have been, could have been or could be converted into U.S. dollars at the rates indicated or at any other rates.

The following table sets forth, for the fiscal year indicated, certain information concerning the Noon Buying Rate in New York City for pounds sterling and U.S. dollars per £1.00.

<u>Fiscal Year</u> <u>Ended</u> <u>March 31</u>	<u>High</u>	<u>Low</u>	<u>Average</u> ¹	<u>Year-end</u>
1994	\$1.59	\$1.46	\$1.50	\$1.49
1995	\$1.64	\$1.46	\$1.57	\$1.62
1996	\$1.62	\$1.50	\$1.57	\$1.53
1997	\$1.71	\$1.49	\$1.60	\$1.64
1998	\$1.69	\$1.61	\$1.65	\$1.68

¹ The average of the Noon Buying Rates on the last day of each month during the relevant period.

GLOSSARY

Appointment	instrument of Appointment from the Secretary of State for the Environment as a water and waste water undertaker under the Water Act of 1989
associated undertakings	investments in companies where the group's interest exceeds 20% of voting share capital but does not exceed 50% and control lies outside the group.
British Energy	British Energy plc, a public limited company formed from the merger of Nuclear Electric plc and Scottish Nuclear Limited
company	Scottish Power plc
DGES	Director General of Electricity Supply
DGWS	Director General of Water Services
EA	Environment Agency
effluent	sewage outflow
Electricity Act	Electricity Act 1989
EPA	Environmental Protection Act 1990
ESI	Electricity Supply Industry in Great Britain, comprising the activities of electricity generation, transmission, distribution and supply
EU	European Union
GBY	the Great Britain Yardstick which is defined as the average generation purchase cost per unit of the England and Wales RECs, and is used to cap the allowed generation purchase costs of ScottishPower's supply business.
gearing	leverage (net debt divided by shareholders' equity expressed as a percentage)
gigawatt (GW); gigawatt-hour (GWh)	a gigawatt is a unit of power equivalent to one million kilowatts; one gigawatt hour represents one hour of electricity consumption at a constant rate of 1GW
Government Charter Mark	government award in recognition of excellence in public service
Great Britain	England, Wales and Scotland
group	Scottish Power plc and its consolidated subsidiaries
Guaranteed Standards	standards of performance agreed between the company and OFFER in relation to transmission, distribution and supply
HM Government	Her Majesty's Government of the United Kingdom

HM Government's Green Paper	consultation document detailing proposals for future regulation of the electricity, gas, water and telecommunications industries. Sets out the results of the review announced by the President of the Board of Trade, Rt. Hon Margaret Beckett MP, in June 1997
Hydro-Electric	Scottish Hydro-Electric plc
Interconnector	Interconnector between the Scottish transmission systems and the national grid in England and Wales
IPC	the system of Integration Pollution Control introduced by the EPA
kilowatt (kW); kilowatt-hour (kWh)	a kilowatt is a unit of power, representing the rate at which energy is used or produced (i.e. the product of voltage and current); one kilowatt hour represents one hour of electricity consumption at a constant rate of 1kW
Labour Party	a political party that currently forms the Government of the United Kingdom of Great Britain and Northern Ireland
LCPD	Large Combustion Plant Directive - European Council Directive 88/609 on the limitation of emissions of certain pollutants into the air from large combustion plants
megawatt (MW)	one megawatt equals 1,000 kW
MMC	Monopolies and Mergers Commission
NGC	The National Grid Company plc
NO _x	oxides of nitrogen
NRA	National Rivers Authority
NEA	Nuclear Energy Agreement among Scottish Nuclear, Hydro-Electric and ScottishPower dated June 1, 1990 and any amendments thereto with respect to the entitlement and must take obligation of ScottishPower and Hydro-Electric to Scottish Nuclear's nuclear generating capacity. The Nuclear Energy Agreement terminates on April 1, 2005
OFFER	Office of Electricity Regulation
OFWAT	Office of Water Services
PES license	license under the Electricity Act to supply electricity as a "public electricity supplier" or "PES" to any premises within an authorized area
Pool	the wholesale electricity trading market in England and Wales, the rules and procedures of which are contained in a pooling and settlement agreement entered into by parties selling electricity through the Pool in England and Wales
principal subsidiary undertakings	consolidated trading subsidiaries of Scottish Power plc
REC	one of twelve regional electricity companies in England and Wales

RPI	Retail Price Index measures the average change from month to month in the prices of goods and services bought by most consumers in the U.K. The index is compiled using a large and representative selection of more than 600 separate goods and services
Scottish Coal	Scottish Coal Company Limited
ScottishPower	Scottish Power plc
Scottish Nuclear	Scottish Nuclear plc, a subsidiary of British Energy
SEPA	Scottish Environment Protection Agency
sewage	waste water effluent
sewerage	waste water infrastructure assets
Southern Water Services	Southern Water Services Limited, a WaSC and wholly-owned subsidiary of Southern Water
SO ₂	sulphur dioxide
terawatt (TW); terawatt-hour (TWh)	1000 million kilowatts of power; one terawatt hour represents one hour of electricity consumption at a constant rate of 1TW
metric tonnes	1 metric tonne is equivalent to: 1.102 short tons or 0.9842 long tons
turnover	sales value of energy, goods, water, waste water and other services supplied to customers (excluding value added tax and intragroup sales)
U.K.	United Kingdom of England, Wales, Scotland and Northern Ireland
UNECE	United Nations Economic Commission for Europe
WA 1989	Water Act 1989
WIA 1991	Water Industry Act 1991
WaSC	Water and Sewerage Company
Water Quality Regulations 1989	water supply water quality regulations which have been amended by the Water Service Companies amendment to regulation of 1989 and 1991
Windfall Levy	A levy introduced by the Government in the Budget of July 2, 1997
WWTW	Waste Water Treatment Works

ITEM 1. DESCRIPTION OF BUSINESS

Introduction

The group is a leading multi-utility business in the U.K. with approximately 5 million customers in three distinct geographic territories across England, Wales and Scotland. The map located on the inside front cover of this report indicates the location of the group's principal businesses. The group's activities span electricity generation, transmission, distribution and supply, water and waste water services, gas supply, telecommunications, retailing of electrical appliances and technology and contracting services. ScottishPower and its subsidiaries comprise one of the largest industrial groups in the U.K., positioned around the middle of the FTSE 100 index, with an annual turnover in fiscal 1998 of over £3.1 billion.

Industry Background

The U.K. electricity industry has undergone a period of rapid and dramatic change in the past decade. The sector has been restructured and its major players privatized and floated to the public by the U.K. government. Regulation is focused on encouraging cost reduction and productivity gains while increasing competition, and consolidation has brought further gains for shareholders and customers alike.

Today, supported by an open and dynamic economy, the U.K. is again on the verge of another major change: full competition in the retail supply of electricity and gas services. The gas market throughout Great Britain was fully opened to competition by May 1998. The Government has delayed the launch of the electricity market opening until September 1998 to allow the industry to complete preparations for the complex systems needed to achieve a free market. The electricity market will open progressively with full competition scheduled to be in place by June 1999. Steadily increased competition leading up to the full opening of the energy markets has spurred multi-utility convergence in the U.K. in a realignment affecting all segments of the utility industry.

Business Strategy

The ScottishPower group is committed to enhancing shareholder value through building businesses in electricity and utility related markets. The group's business strategy is based on management's belief that the successful utility companies of the future will be those that offer their customers a range of high quality, competitively priced utility services.

The group has grown from a regional generator, distributor and supplier of electricity to a growing U.K. multi-utility business serving 1 in 5 of Britain's homes. This is due in large part to (i) the acquisition in 1995 of Manweb plc ("Manweb"), one of the twelve regional electricity companies created when the electricity utility industry in England and Wales was restructured in 1990, and (ii) the acquisition in 1996 of Southern Water plc ("Southern Water"), one of the ten water and waste water service companies created when the water and waste water industry in England and Wales was privatized in 1989. These acquisitions have allowed the group to expand both its customer base (by 1.3 million customers in the case of Manweb and 1.7 million customers in the case of Southern Water) as well as its geographic and product base by expanding into the electricity distribution and supply business in northwest England and Wales and into the water and waste water business in southern England. The group has further leveraged its utility skills and assets in its expansion into the gas supply and telecommunications businesses. In domestic gas supply, ScottishPower is already established as a leading competitor to British Gas, with a total of 320,000 domestic customers at the end of fiscal 1998.

Improving the efficiency of the group's businesses through a program of cost reductions is a key part of the strategy. In the Scottish energy businesses, the cost base has been reduced by more than £100 million since 1991 through a process of benchmarking operations against other major companies around the world, both within and outside the utility sector. ScottishPower management has delivered substantial cost savings from both Manweb and Southern Water, totaling £126 million to date. Management believes

that further cost savings from the Scottish energy businesses, Manweb and Southern Water are achievable after fiscal 1998.

The group intends to build its business primarily by exploiting the opportunity, and managing the challenge, of the deregulation of the electricity and gas supply markets (which are scheduled to be complete in 1999) and the telecommunications sector. The aim of the group's energy supply business will be to defend its existing base in the ScottishPower and Manweb areas, while exploiting the opportunity to expand its electricity supply market outside of these regional boundaries, particularly into Southern Water's area, and to continue to increase its share of the gas supply market primarily in its three franchise areas.

In addition, the company intends to utilize its excess capacity of efficient, coal-fired plant to continue to increase its share of the U.K. electricity generation market by exploiting expansion of the capacity of the Interconnector to the England and Wales market and the construction of an Interconnector between Scotland and Northern Ireland.

In telecommunications, the company has built a successful business, using its existing fiber optic communications infrastructure. During fiscal 1998 the company secured 6% of the Scottish corporate sector and launched a residential service to domestic customers in Scotland. In addition, ScottishTelecom is the largest independent mobile service provider in Scotland and provides a range of 'value added' services, including call center services and Internet services through the acquisition of Demon Internet Limited in April 1998.

Since privatization of the U.K. electricity industry in 1990-91, the group has experienced tightening regulation. Revised price controls governing the group's electricity supply activities took effect from April 1, 1998 with a potential further review from April 1, 2000. Reviews of the price controls governing the group's transmission activities, distribution activities and water business are underway and new price controls will take effect from April 1, 2000. In addition, wide-ranging changes to the framework of regulatory and industry structure are under discussion as a result of the HM Government's Green Paper issued in 1998 and proposals by OFFER. Management believes that by operating efficient customer focused businesses regulatory risks are minimized.

Through organic growth and acquisitions, ScottishPower has laid the foundations for its U.K. business, creating a broadly based utility group that is strongly placed to add value for shareholders and customers. The company's aim is to deliver 7% to 8% real dividend growth per annum until at least the regulatory reviews in the year 2000, while maintaining a prudent level of dividend cover. This aim assumes the continuance of the current business and regulatory environment.

As well as continuing to drive for growth in its U.K. businesses, the group is exploring international opportunities in the electricity sector. The focus is in particular upon the United States, where management believes the cultural fit and the likely development of U.K.-style industry restructuring and convergence may offer opportunities to deliver value by applying the group's core skills. The group shall only proceed if it sees the opportunity to add substantial value for ScottishPower shareholders

Segmental Business Information

An analysis of the group's turnover and operating profit by major business segment for the last three fiscal years is provided in the tables on the following page. All material activities were derived from continuing operations in the United Kingdom. This information is extracted from the consolidated financial statements of the group which have been audited by Coopers & Lybrand, Chartered Accountants and Registered Auditors. This segmental business information should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements and their accompanying

notes located on pages F-1 through F-38, and in particular the definition of the group's business segments on pages F-5 and F-6.

Turnover by business segment

	Total turnover			Inter-segment turnover			External turnover		
	1998 £m	1997 £m	1996 £m	1998 £m	1997 £m	1996 £m	1998 £m	1997 £m	1996 £m
Generation Wholesale	1,014.3	974.4	1,034.1	764.8	744.4	828.6	249.5	230.0	205.5
Power Systems	443.0	429.2	408.9	391.1	386.8	372.5	51.9	42.4	36.4
Energy Supply	1,336.2	1,270.4	1,317.6	11.5	0.9	-	1,324.7	1,269.5	1,317.6
Manweb	667.8	759.3	439.4	13.9	4.2	-	653.9	755.1	439.4
Southern Water	453.0	316.7	-	0.4	0.5	-	452.6	316.2	-
Developing businesses and ancillary services	524.0	412.9	334.2	128.4	85.4	61.6	395.6	327.5	272.6
Total							<u>3,128.2</u>	<u>2,940.7</u>	<u>2,271.5</u>

Operating profit by business segment

	Operating profit		
	1998 £m	1997 £m	1996 £m
Generation Wholesale	130.8	146.1	150.4
Power Systems	249.5	228.0	214.8
Energy Supply	15.1	32.4	21.9
Manweb	131.3	135.0	80.4
Southern Water	240.7	135.6	-
Developing businesses and ancillary services	17.7	8.0	9.5
Sub total	<u>785.1</u>	<u>685.1</u>	<u>477.0</u>
Reorganization costs	-	(21.2)	(42.7)
Total	<u>785.1</u>	<u>663.9</u>	<u>434.3</u>

Energy Business

Structure of the Electricity Industry in the United Kingdom

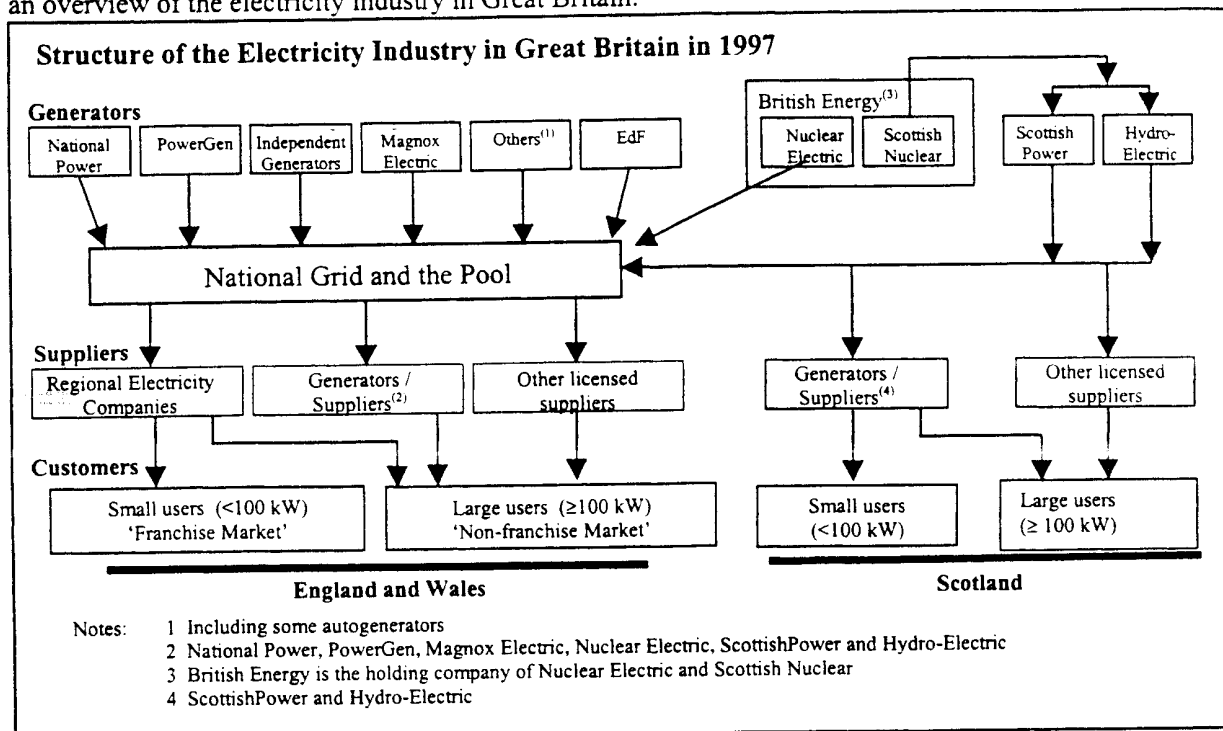
The U.K. electricity industry, which was restructured in March 1990 to introduce competition into the generation and supply of electricity, consists of the following activities:

- Generation: the production of electricity at power stations
- Transmission: the bulk transfer of electricity across a high voltage transmission system
- Distribution: the transfer of electricity from the high voltage transmission system and its delivery, across local low voltage distribution systems, to customers
- Supply: the bulk purchase of electricity by suppliers and its sale to customers, with the associated customer service activities including sales and marketing, billing and income collection

The U.K. has three distinct geographical systems: Scotland, England & Wales and Northern Ireland, each with a different commercial framework. The Scottish and English systems are interconnected, and planning permission for a link between Scotland and Northern Ireland has been

announced by HM Government; construction of the link is subject to final agreement between the parties involved.

In each of Scotland and England & Wales, the electricity industry is regulated under the Electricity Act 1989 (the "Electricity Act") by the Secretary of State for Scotland or the Secretary of State for Trade and Industry, as applicable (collectively, the "Secretary of State"), and the Director of Electricity Supply (the "DGES"). See "Regulation of the Electricity Industry". The chart below provides an overview of the electricity industry in Great Britain.



Source: Electricity Association - Electricity Industry Review, January 1998

Industry Structure in Scotland

The electricity industry in Scotland is principally comprised of two vertically integrated companies, ScottishPower and Hydro-Electric, each generating, transmitting, distributing and supplying electricity within their respective franchise areas. A third, Scottish Nuclear, a subsidiary of British Energy, is primarily a generator selling all the electricity it generates at its two nuclear power stations in Scotland to Scottish Power and Hydro-Electric under the Nuclear Energy Agreement (the "NEA").

Generation ScottishPower and Hydro-Electric generate electricity from their own portfolio of power stations, in addition the companies are obliged, under the NEA, to purchase the entire output from Scottish Nuclear. A number of further contractual relationships exist between the two companies which involve the sharing of coal-fired, dual oil and gas-fired and conventional hydro generating capacity by allocating part of the capacity of certain generating stations operated by one company to the other company. See "Generation Wholesale - Generating Capacity and Output" for further discussion of these contractual arrangements. Currently, there exists a surplus of generating capacity in Scotland which enables the companies to sell electricity to England and Wales through the Interconnector. The quantity of these sales is set to increase as the current transmission constraints are lifted.

Transmission The transmission systems of ScottishPower and Hydro-Electric are each made up of a network comprised of overhead lines, underground cables and associated equipment operating at either 275kV or 132kV and, in the case of ScottishPower, 400kV. This network connects the generating stations and distribution entry points operating at, or below, 33kV. ScottishPower's transmission system

is connected to the national grid in England and Wales by the Interconnector. Both companies have access to this link which enables the companies to export and import electricity from England and Wales. The available capacity of the Interconnector at any time depends on a number of variable factors, (e.g. the secure thermal rating of the Interconnector circuits and the pattern of scheduled generation on either side of the border). In fiscal 1998, the average level of exports on the Interconnector was 1.265MW.

Distribution The distribution systems are each made up of a network of overhead lines and underground cables operating at either 33kV, 11kV, 415 volts or 230 volts. The distribution voltages and equipment used are determined by end users' requirements and their location and by the relative economics of transferring electricity at different voltages. To ensure competition in the supply business, the companies are required to provide open access to their transmission and distribution networks on a non-discriminatory basis.

Supply The supply businesses involve the purchase of electricity from the companies' own generating stations or from other sources and its sale to the companies' customers. The supply business also services customers and carries out the billing and collection of customer accounts.

Industry Structure in England and Wales

In England and Wales, electricity is produced by generators, the largest of which are National Power plc, PowerGen plc and Nuclear Electric plc, a subsidiary of British Energy, and the Energy Group plc. Electricity is transmitted through the national grid transmission system by NGC and distributed by the 12 RECs (one of which is Manweb) in their respective franchise, or authorized, areas. Most customers are currently supplied with electricity by their local REC, although there are other suppliers holding second tier supply licenses, including other generators and RECs, who can compete to supply larger customers.

Generation Virtually all electricity generated in England and Wales is sold by generators and bought by suppliers through the Pool. The Pool was established at the time of privatization for bulk trading of electricity in England and Wales between generators and suppliers. All licensed generators and suppliers must become signatories to the Pooling and Settlement Agreement governing the constitution and operation of the Pool and the calculation of payments due to and from generators and suppliers. The Pool also provides centralized settlement of accounts and clearing. As discussed above, ScottishPower and Hydro-Electric can participate in the Pool by exporting electricity to or importing electricity from England and Wales via the Interconnector.

Prices for wholesale electricity sales are set by the Pool daily for each half hour of the following day based on the bids of the generators and a complex set of calculations matching supply and demand and taking account of system stability, security and other costs. A computerized system (the settlement system) is used to calculate prices and to process metered, operational and other data and to carry out the other procedures necessary to calculate the payments due under the Pool trading arrangements. Because Pool prices tend to be volatile and difficult to predict, generators and suppliers often enter into bilateral arrangements, such as contracts for differences, to provide a degree of protection against such fluctuations.

In October 1997, HM Government requested the DGES carry out a review into wholesale electricity trading arrangements in England and Wales to advise on whether, and if so what, changes should be made. Under the terms of reference of the review, the new trading arrangements being considered would be required to be transparent, efficient and risk reducing while meeting customers needs, promoting competition and avoiding discrimination. The implications of the new arrangements will be considered on trading within and outside the Pool, trading arrangements in Scotland, the development of the contracts market and interactions between electricity and gas. The DGES is due to submit a report to HM Government in July 1998.

Transmission NGC owns and operates the high voltage 275kV and 400kV electricity transmission system in England and Wales also known as the national grid. NGC has a statutory duty to operate a non-discriminatory policy both in the day-to-day administration of the system, and in the provision of access to the transmission network.

Distribution The distribution businesses of the RECs operate and maintain the assets which carry power from grid supply points to individual customers within their authorized areas. This involves a network of overhead lines, underground cables, switches and transformers operating at voltages ranging from 132kV down to 230 volts in residential premises. To ensure competition in the supply business, the RECs are required to provide open access to their distribution networks on a non-discriminatory basis.

Supply The supply business covers the bulk purchase of electricity through the Pool and the selling on to customers. RECs can supply customers within their authorized areas and holders of second tier licenses can supply any customer with a peak demand of 100kW or more. Second tier licenses are held by all the RECs, National Power plc, PowerGen plc, Nuclear Electric, ScottishPower, Hydro-Electric and some new suppliers.

Competitive Framework

Competition in supply has been progressively introduced in Scotland and in England and Wales. ScottishPower and Hydro-Electric in Scotland, and the RECs in England and Wales, are subject to competition from second tier suppliers for the supply of electricity to larger customers (100kW or more) in their respective franchise areas. Under the current licensing regime, all remaining electricity customers in Great Britain, including residential customers, are scheduled to be able to choose their electricity supplier phased over a period commencing in September 1998.

Generation Wholesale

The group's Generation Wholesale business ("Generation Wholesale") operates ScottishPower's generating stations and deals in the wholesale trading of electricity and gas. The business objective is to create competitive advantage for ScottishPower by optimizing the energy chain.

Generation Portfolio

ScottishPower's owned generation capacity comprises coal, gas, hydro and wind power and has available more than 3,500MW after taking into account the impact of contractual obligations to supply Hydro-Electric with a proportion of its coal-fired capacity. In addition to its own capacity, ScottishPower also has access to nuclear energy, from Scottish Nuclear, and gas-fired, oil-fired and hydro power from Hydro-Electric under contracts established in connection with the restructuring of the U.K. electricity industry in 1990. These resources combine to give ScottishPower a flexible fuel portfolio and result in total available capacity of some 6,400MW. ScottishPower's available capacity in Scotland is significantly greater than the demand it is required to meet. Additional information concerning the group's generating capacity, either owned or available under contract, is set out on the following two pages.

Station Performance

Generation Wholesale's goal is to achieve best practice in terms of generation performance and costs, at the same time maintaining the flexibility to optimize energy trading.

Generation Wholesale has undertaken extensive benchmarking of all its activities against an international peer group and undertaken programs to implement its findings. However, it is the intention of the business to drive costs down further through continued reductions in fixed costs and manpower plus improved engineering efficiencies. The group has a detailed engineering strategy to upgrade its existing coal stations. Furthermore, management believes that, as a result of its ongoing maintenance

program, ScottishPower's portfolio of power stations is in a condition to support current and expected generation output.

**Table 1: Sources of Owned Generating Capacity and Output
as at March 31, 1998**

	Number of Generating Sets and/or Installed <u>Capacity</u> MW	Net Output <u>Capacity</u> MW	Maximum Capacity <u>Available</u> MW
Coal:			
Longannet	4 x 600	2,304	
Cockenzie	4 x 300	<u>1,152</u>	2,880 ¹
		<u>3,456</u>	
Methil	2 x 30	57	57
Kincardine ²	2 x 200	Nil	Nil
Oil:			
Inverkip ³	3 x 676	Nil	Nil
Gas Turbine:			
Knapton	1 x 42	42	42
Pumped Storage:			
Cruachan	4 x 100	400	400
Conventional Hydro:			
Galloway Scheme	109	106	106
Lanark Scheme	16	16	16
Windfarms:			
Barnesmore	25 x 0.6	15	15
Hagshaw Hill	26 x 0.6	16	16
P & L Windfarm ⁴	103 x 0.3	31	16
Rigged Hill	10 x 0.5	5	5
Corkey	10 x 0.5	5	5
Elliot's Hill	10 x 0.5	5	5
Coal Clough ⁵	24 x 0.4	10	4
Carland Cross ⁵	15 x 0.4	6	3
		<u>4,170</u>	<u>3,570</u>

¹ Hydro-Electric is entitled to a supply of electricity from part of the capacity of ScottishPower's coal-fired generating stations at Longannet and Cockenzie.

² The IPC consent for Kincardine expired at the end of March 1997, and the station is now considered to be unavailable for generation.

³ The installed capacity at Inverkip is currently on long term preservation and is unavailable for generation.

⁴ The P&L Windfarm is owned by CeltPower Limited, with ScottishPower and Tomen Power Corporation (U.K.) Limited each having a 50% ownership interest.

⁵ The windfarms at Coal Clough and Carland Cross are owned by joint ventures among Manweb, SWEB and Renewable Energy Systems, with Manweb having 45% ownership interest.

In addition to the above, the division owns Strathkelvin House, Kirkintilloch which is the grid control center.

**Table 2: Sources of Generating Capacity and Output Available Under Contract
as at March 31, 1998**

	Number of Generating Sets and/or Installed <u>Capacity</u> MW	Net Output <u>Capacity</u> MW	Maximum Capacity <u>Available</u> MW
Nuclear:			
Torness ¹	2 x 660	1,260	944
Hunterston B ¹	2 x 660	1,220	<u>914</u>
Total Nuclear			<u><u>1,858</u></u>
Dual Oil and Gas Fired:			
Peterhead ²	2 x 660	1,284	882
Gas Turbine:			
Peterhead ³	2 x 120	232	116
Conventional Hydro:			
Hydro-Electric ⁴			200
Coal Adjustment ²			(200)
TOTAL		<u><u>3,996</u></u>	<u><u>2,856</u></u>
			<i>Dropping to 2,816 after the end of the Miller plateau (see text below)</i>

¹ The NEA entitles ScottishPower and Hydro-Electric to 74.9% and 25.1%, respectively, of the electricity generated from Scottish Nuclear's Hunterston B and Torness nuclear generating stations. Except in limited circumstances, the NEA obliges ScottishPower and Hydro-Electric to pay for all the electricity declared by Scottish Nuclear to be available from such nuclear stations, whether or not they take such electricity.

² ScottishPower is entitled to 50% of the net output capacity of Hydro-Electric's Peterhead station (or such lesser part of that capacity as Hydro-Electric declares to be available to ScottishPower on any day). During the period when gas is being supplied at field plateau levels to the station from the Miller gas field, ScottishPower's share of the capacity for burning Miller Gas increases to 70%, but ScottishPower is required to make up to an additional 200MW of capacity from the coal-fired power stations at Longannet and Cogenzie available to Hydro-Electric. Miller Gas came off plateau at the end of April 1998. Consequently, Scottish Power's share of Peterhead reverts to 50% and the obligation in respect of the additional 200MW ceases.

³ The gas turbines installed at Peterhead are primarily for use during an outage on one of the main units at the station to enable the consumption of the gas delivered from the Miller gas field. The use of the gas turbines at other times is subject to agreement with Hydro-Electric.

⁴ The Hydro Agreement entitles ScottishPower to 400GWh of electricity from Hydro-Electric's conventional hydro generating capacity during each contract year (although this amount may be reduced during periods of unusually low rainfall or unusually low run-off) and requires ScottishPower to pay for that amount of electricity, irrespective of how much electricity it actually takes.

Fuel Strategy and Sourcing

ScottishPower's fuel purchasing strategy is based upon the objective of achieving competitive fuel prices while balancing the need for security and flexibility of supply. The major components of the fuel portfolio are coal, gas and oil.

Coal ScottishPower currently purchases almost all of its coal from Scottish suppliers, with the principal supplier being the Scottish Coal Company Limited. Under a six year deal which commenced on April 1, 1998, ScottishPower will take 1.67 million tonnes per annum of low sulphur coal from Scottish Coal's Longannet Deep Mine Complex, adjacent to the Longannet Power Station.

Following competitive tendering, a further 1.7 million tonnes of Scottish opencast coal will be supplied yearly by Scottish Coal and other Scottish suppliers under long term contracts of between three and five years, also commencing on April 1, 1998.

These purchase commitments secure the major part of ScottishPower's coal requirements from local sources at competitive prices. The balance of requirements will be sourced through the exercise of options under the long term contracts and/or short term competitive tenders, depending on market conditions.

Gas ScottishPower purchases gas to meet the needs of the group's generation and supply businesses. Balancing and trading of gas is the responsibility of the wholesale trading team. See "Wholesale Trading" below.

The group's gas purchasing strategy is founded upon a combination of long, medium and short-term contracts. In accordance with this strategy, ScottishPower has agreed contracts direct with gas producers for the supply of gas on a non-interruptible basis. In 1994, it entered into three long term contracts (3, 10 and 15 years, respectively) for supply from major gas fields, the latter two remain operative. In addition, ScottishPower is party to agreements which require Hydro-Electric to purchase and accept delivery of gas from the Miller gas fields at Peterhead power station. These agreements continue in force to December 2005. It should be noted that ScottishPower is looking at potential opportunities which might be available for it to participate in the Peterhead repowering project which will upgrade the station to combined cycle gas turbine status.

Oil From time to time, ScottishPower purchases heavy fuel oil on the international spot market when favorable prices are available. Heavy fuel oil is therefore an opportunity purchase rather than a firm fuel source.

Energy Trading Centre

ScottishPower's Energy Trading Center is responsible for the economic scheduling of generating plant to meet total system demand including imports from, and exports to, adjacent systems. As an external member of the Electricity Pool of England and Wales since 1990, ScottishPower has traded principally as an exporter (generator), in that energy market.

The Energy Trading Center was established by ScottishPower to secure competitive advantage for the group in energy markets through being an informed trader optimizing its position across both the gas and electricity value chain and continuously evaluating and managing trading risk exposure. The risks identified in Energy Trading generally relate to the high level of price volatility arising in the Pool market in England and Wales and the group's overall exposure as a net generator (seller) or net supplier (purchaser) of energy which can (and does) vary over time. Such net exposure can be managed through the writing of appropriate contracts for differences with willing parties such as other generators, suppliers or intermediaries.

The Energy Trading Center is also responsible for purchasing, balancing and trading of gas such that the volumes projected as required for the group's supply and generation businesses are obtained in the most economic way for the company as a whole. Trading in gas is restricted to ensuring that the portfolio remains in balance.

Generation Sales

Generation sales totalled 28,798GWh in fiscal 1998. Approximately 21,794GWh were attributable to ScottishPower's energy business, with the remaining 7,004GWh either being sold to other suppliers or exported via the Interconnector to the Pool in England and Wales.

The average utilization of ScottishPower's two largest coal-fired stations, Longannet and Cockerzie, in fiscal 1998 was approximately 49% and 22%, respectively. It is expected that this utilization will increase as the capacity of the Interconnector is progressively expanded enabling ScottishPower to sell greater quantities of electricity into the Pool.

The Pool in England and Wales

ScottishPower also has the ability to sell electricity to, or purchase electricity from, the Pool in England and Wales via the Interconnector which is shared by Hydro-Electric under formal agreement. See "Structure of the Electricity Industry in the United Kingdom—Industry Structure in England and Wales" for a general discussion of the Pool. The current maximum capacity of the Interconnector is 1,950MW with an average in fiscal 1998 of 1,265MW. In order to fully utilize generation assets located in Scotland, proposals have been made to increase this maximum capacity of the Interconnector to 2,200MW. Planning approval has now been granted by HM Government for the reinforcement necessary in England and Wales to give full effect to the upgrade. Pursuant to the agreement with Hydro-Electric, ScottishPower has the right to use 75% of the additional capacity of the Interconnector. As ScottishPower produces electricity at a cost that is below the price at which the Pool purchases electricity, ScottishPower is able to take advantage of the prices at which electricity is purchased and sold by the Pool.

Trading with Northern Ireland Electricity

HM Government has announced planning approvals for the construction of a link between Scotland and Northern Ireland which would have a nominal capacity of 250MW. An associated electricity supply agreement would involve an annual export of 1,250GWh or more by ScottishPower at prices linked to England and Wales Pool prices. The construction of this link will only go ahead if agreement between ScottishPower and Northern Ireland Electricity is achieved.

The capital cost to ScottishPower of both the England and Wales interconnector upgrade and the construction of the link between Scotland and Northern Ireland are not considered material. Costs incurred will be recouped, by the company, though 'use of system' charges on both projects.

Power Systems

The group's Power Systems business ("Power Systems") is responsible for the distribution and transmission network in the ScottishPower franchise area and the distribution network in the Manweb franchise area. The integration of business activities within Manweb and ScottishPower has been successfully completed. Performance improvement and cost reduction initiatives continue to be pursued in order to maintain competitive advantage during the current regulatory reviews.

Power Systems currently operates £2 billion of assets including 62,000 kilometers of underground cables and 50,000 kilometers of overhead line. The prime business activities of Power Systems involve the provision of new connections and the development of the transmission system as well as its refurbishment, maintenance and fault repair. In the ScottishPower and Manweb franchise areas, Power Systems also provides a complete range of metering services.

Table 3 below sets forth key information with respect to the group's transmission and distribution services in fiscal 1998.

	<u>ScottishPower</u>	<u>Manweb</u>	<u>Total</u>
Franchise area	22,950 km ²	12,200 km ²	35,150 km ²
Number of franchise customers	1.85m	1.37m	3.22m
Number of employees	2,974	1,347	4,321
System maximum demand	4,172MW	3,070MW	7,242MW
Primary substations	441	597	1,038
Secondary substations	39,429	40,813	80,242
Ground mounted	16,003	9,627	25,630
Pole mounted	23,426	31,186	54,612
Transmission network (km)			
Underground	236	213	449
Overhead	3,847	1,299	5,146
Distribution network (km)			
Underground	39,644	23,378	63,022
Overhead	24,300	20,233	44,533

ScottishPower and Manweb each hold a PES license allowing each company to undertake electricity distribution activities within its authorized area. The income derived from the distribution business is dependent on changes in the demand for electricity by customers in the franchise area. Demand for electricity is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by customers, weather conditions and energy efficiency measures. The following tables set out, by customer type, the levels of electricity distributed in GWh over ScottishPower and Manweb's distribution systems during the five most recent fiscal years.

Table 4 - Total Units Distributed in ScottishPower's Franchise Area (GWh)

<u>Fiscal Year</u>	<u>Residential</u>	<u>%</u>	<u>Commercial</u>	<u>%</u>	<u>Industrial</u>	<u>%</u>	<u>Other</u>	<u>%</u>	<u>Total</u>
1994	8,323	39.9%	5,243	25.1%	6,549	31.4%	750	3.6%	20,865
1995	8,023	38.6%	5,495	26.4%	6,524	31.4%	736	3.6%	20,778
1996	8,076	38.1%	5,558	26.3%	6,765	31.9%	782	3.7%	21,181
1997	8,194	37.8%	5,758	26.6%	6,983	32.2%	751	3.4%	21,686
1998	8,048	37.1%	5,809	26.8%	7,103	32.7%	752	3.4%	21,712

Table 5 - Total Units Distributed in Manweb's Franchise Area (GWh)

<u>Fiscal Year</u>	<u>Residential</u>	<u>%</u>	<u>Commercial</u>	<u>%</u>	<u>Industrial</u>	<u>%</u>	<u>Other</u>	<u>%</u>	<u>Total</u>
1994	4,902	27.2%	3,305	18.3%	9,417	52.2%	403	2.3%	18,027
1995	4,825	26.1%	3,331	18.0%	9,921	53.7%	408	2.2%	18,485
1996	4,889	26.4%	3,520	19.0%	9,689	52.3%	421	2.3%	18,519
1997	4,930	26.8%	3,594	19.5%	9,476	51.4%	417	2.3%	18,417
1998	4,916	26.5%	3,640	19.7%	9,536	51.5%	430	2.3%	18,522

¹ reduction in residential units in both ScottishPower and Manweb territories is mainly due to the exceptionally mild Winter of 19.

The group is committed to providing its customers with an electricity supply which is safe and reliable. Both ScottishPower and Manweb are fully compliant with the EU standards for safe and reliable electricity set forth in the European Standard EN50169 entitled "Voltage Characteristics of Electricity Supplied by Public Distribution Systems".

In 1995, the Office of Electricity Regulation ("OFFER") made the provision of customer connections to the electrical network competitive. This change, together with similar actions by the Office of Gas Supply and the Office of Telecommunications, has provided an opportunity for the group to provide multi-utility connections, a development which provides benefits both to the group and to customers. The group has now developed fully integrated, cost effective packages, providing solutions for inward investors and property developers. Thus, the group has unrivalled expertise in delivering multi-utility projects ranging from large scale industrial sites to multi-unit commercial and housing developments.

Energy Supply

The group's Energy Supply business ("Energy Supply") is responsible for the sales and marketing of electricity, gas and related products to customers within ScottishPower's and Manweb's respective franchise areas and to the competitive market throughout the rest of Great Britain. Energy Supply's strategy is to maximize long term profitability and value, through defending existing electricity markets and building share in gas and energy related products. In addition the group will continue to meet the electricity supply and service obligations of Scottish Power and Manweb under their respective PES licenses. The tables below set forth the relative proportion of units of electricity supplied by Scotti¹

Power and Manweb to their residential, commercial and industrial customers over the five most recent fiscal years.

Table 6- Total Units Supplied By Scottish Power (GWh)¹

<u>Fiscal Year</u>	<u>Residential</u>	<u>%</u>	<u>Commercial</u>	<u>%</u>	<u>Industrial</u>	<u>%</u>	<u>Other</u>	<u>%</u>	<u>Total</u>
1994	8,323	39.3%	5,273	24.9%	6,734	31.8%	835	4.0%	21,165
1995	8,023	37.7%	5,672	26.6%	6,718	31.6%	877	4.0%	21,290
1996	8,076	36.8%	5,691	25.9%	7,053	32.1%	1,132	5.2%	21,952
1997	8,194	35.8%	6,610	28.9%	7,200	31.4%	890	3.9%	22,894
1998	7,975	33.4%	6,919	28.9%	8,245	34.5%	761	3.2%	23,900

Table 7- Total Units Supplied By Manweb (GWh)²

<u>Fiscal Year</u>	<u>Residential</u>	<u>%</u>	<u>Commercial</u>	<u>%</u>	<u>Industrial</u>	<u>%</u>	<u>Other</u>	<u>%</u>	<u>Total</u>
1994	4,902	37.5%	3,223	24.7%	4,524	34.7%	406	3.1%	13,055
1995	4,825	42.1%	3,020	26.4%	3,201	28.0%	403	3.5%	11,449
1996	4,889	46.8%	2,997	28.7%	2,142	20.5%	412	4.0%	10,440
1997	4,930	50.3%	2,908	29.7%	1,552	15.8%	408	4.2%	9,798
1998	4,916	55.1%	2,435	27.3%	1,133	12.7%	433	4.9%	8,917

¹ Covers both first tier (franchise and non-franchise) markets in ScottishPower's service territory and second tier sales outside ScottishPower's service territory.

² The reduction in Manweb figures in 1997 and 1998 is attributable to the continuing combination of the ScottishPower and Manweb sales force which led to further second tier customers contracting with ScottishPower.

Electricity Franchise Markets

The group's franchise market consists of electricity customers within ScottishPower's and Manweb's respective franchise areas with demand of less than 100kW. The two companies are required by their respective PES licenses to supply these customers until the electricity supply market is fully open to competition and the franchise terminates. This will be phased in from September 1998.

After September 1998, the strategic focus for Energy Supply will be to seek to continue to service and supply its existing electricity base in the ScottishPower and Manweb franchise areas, while exploiting the opportunity to expand its customer base outside of these regional boundaries, particularly in Southern Water's area, and beyond in conjunction with marketing partnerships.

Non-Franchise Electricity Markets

Currently, the group operates in the non-franchise electricity market in Great Britain which consists of customers with premises with a maximum demand greater than 100kW.

ScottishPower Area There are some 5,000 large business customers in the current non-franchise electricity market in the ScottishPower area. Since the introduction of competition, ScottishPower has

faced increasing competition in the business electricity supply market. However, ScottishPower has been able to retain over 79% of its large business customers compared to an average retention rate of 36% among the RECs (% by volume).

Manweb Area The non-franchise market in the Manweb area is highly competitive, as it comprises some of the largest industrial electricity users in the country. At the end of March 1998, the group had a 28% share of the competitive market. Since the acquisition of Manweb by ScottishPower, the group has focused on identifying and attracting customers who will provide long term value to ScottishPower.

In non-franchise areas, outside ScottishPower and Manweb areas, the group currently supplies over 2,700GWh.

Energy Services The group is continuing to develop a presence in the growing energy services marketplace focusing mainly on larger businesses, the provision and management of energy generating plant on the customer's premises, energy efficiency measures and combined heat and power applications.

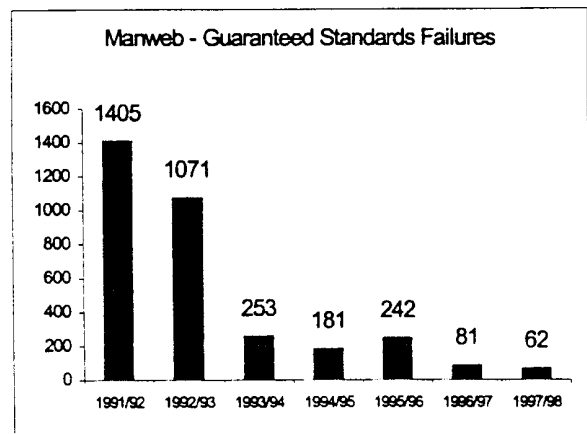
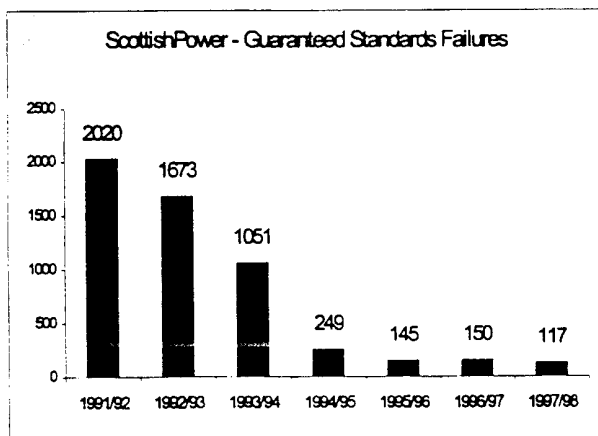
Gas Markets

The group has a growing gas supply business, which exploits the synergies with the generation business and allows value to be created by profiling gas between supply and generation. The domestic gas supply market has been open to full competition (i.e., to premises with consumption under 2,500 therms per annum) since late May 1998. The group has now established itself as one of the leading challengers to Centrica plc (British Gas Trading) in this market, having already acquired a total of 320,000 domestic customers at the end of fiscal 1998, approximately 1.6% of the total U.K. gas supply market.

In the business market the group has continued to grow, supplying gas representing approximately 225 million therms per annum to around 15,000 sites across Great Britain.

Customer Service

ScottishPower has taken steps to improve all aspects of its customer service in preparation for competition. The business's customer service standards have been maintained at the high level set last year, with over 99.99% of all services provided currently matching or exceeding regulatory standards. The performance of ScottishPower and Manweb in the area of Guaranteed Standards failures over the last 7 years as reported to OFFER is shown below.



ScottishPower and Manweb have received the Government's Charter Mark for service excellence in recognition of their customer service record. All service requirements in Scotland are met by a Customer Service Call Center employing state of the art communications and information technology offering a single telephone contact point and 24-hour support.

The group has focused its activities in Manweb's authorized area on improving customer service through the provision of two regional call centers, a business call center and a single telephone contact point. In addition, the group has established a gas call center in Warrington servicing domestic and small business customers.

ScottishPower is preparing for competition by reducing operating costs and improving customer service. Underlying operating costs within the group's Scottish franchise market have declined by an average of 7% per annum over the last three years. The group has achieved these reductions by consolidating customer service operations from nine regional offices into one Customer Service Call Center; introducing new customer systems to streamline processes and remove unnecessary manual effort; introducing more flexible working practices which enabled services to be expanded at minimum cost. These initiatives have enabled the group to match its resources to work profile more efficiently and to remove "back office" costs. In addition, following the Manweb acquisition in 1995, the group has continued to exploit opportunities for synergy savings in common or shared supply functions.

The phasing in of the group's multi-product billing system called Multi-Service Project ("MSP"), which will meet billing requirements into the next century, will be completed during fiscal 1999. MSP is a fully integrated billing, account management and customer service system designed to support the new generation of utility products and services that will serve the open marketplace beyond 1998. The project represents a significant investment and management believes it will enable the group to gain a distinct competitive advantage over competitors in the U.K.

Water Business – Southern Water

Structure of the Water Industry in the United Kingdom

Prior to privatization of the water industry, the provision of water supply and waste water services in England and Wales was split between twenty-nine statutory water companies, each incorporated by separate Acts of Parliament which could only supply water, and ten water authorities established under the Water Act 1973 which could provide both water and sewerage services. Pursuant to the Water Act 1989 (the "WA 1989"), the functions of each water authority relating to water supply (except in areas where those functions were carried out through statutory water companies) and the provision of waste water services were transferred on September 1, 1989 to a Water and Sewerage Company (a "WaSC"). Each WaSC, including Southern Water Services, is a wholly-owned subsidiary of a public limited company listed on the London Stock Exchange. At privatization, certain of the water authorities' other functions, including pollution control, water resource management, fisheries, flood protection and alleviation and land drainage were transferred to the National Rivers Authority (the "NRA"). See "Environmental Regulation—Water" for further discussion.

The Water Industry Act 1991 ("WIA 1991") provides that each company engaged in water supply or waste water services must be licensed by the Secretary of State for the Environment or by the Director General of Water Services (the "DGWS"), in accordance with a general authorization given by the Secretary of State for the Environment. See "Regulation of the Water Industry".

Southern Water was acquired by ScottishPower on August 6, 1996. At the time of its acquisition, Southern Water consisted of an appointed WaSC (Southern Water Services), and a diverse portfolio of 20 other businesses.

Region

The region in which Southern Water operates occupies an area of approximately 10,450 square kilometers in the counties of Kent, East and West Sussex, Hampshire and the Isle of Wight, and small parts of Wiltshire, Berkshire and Surrey. The region's coastline stretches from Swanscombe on the Thames Estuary to just beyond the Solent at Barton on Sea, including the Isle of Wight. The region has an estimated population of 4.3 million. Around half of the resident population of the region live in urban areas spread along the coastline and around major estuaries. Approximately one fifth live in predominantly inland urban areas and the remainder inhabit predominantly rural areas. The portion of the region to which Southern Water supplies water covers a total area of some 4,450 square kilometers, contains approximately 1.0 million premises and has a resident population of some 2.2 million people. Local water companies supply the rest of the region's water requirements. Southern Water provides waste water services to virtually all of the region, collecting sewage from around 1.7 million premises.

Water Supply Business

Southern Water supplies on average 603 million liters of water per day which is distributed through 13,200 kilometers of water main. The 107 Water Treatment Works treat water from 133 water sources in the region with 70% of water supplied coming from underground sources. Water is pumped through the water mains by 416 pumping stations. Southern Water is also responsible for the operation and maintenance of four impounding reservoirs which have a total storage capacity of 42,444 million liters.

Water put into supply exhibits a pronounced seasonal variation between Summer and Winter. Typically the peak seven day demand in the Summer is up to 40% higher than the annual average and stems from increased residential usage and the influx of tourists to resort towns along the south coast and on the Isle of Wight.

The bulk of Southern Water's aquifer sources are located in chalk, with a small number of abstractions being made from sandstone aquifers. The quality of groundwater abstracted from chalk aquifers is usually good and only requires disinfection by chlorination. Water abstracted from some sandstone aquifers receives treatment in addition to disinfection to remove excess concentrations of iron and manganese. A small proportion of water put into supply requires blending with water from other sources in order to reduce the nitrate concentration so as to comply with the nitrate standard in the Water Quality Regulations.

Southern Water's 13,200 kilometers of water main contain some 2.2 million joints. In order to minimize the loss of water through leakage, a leakage control initiative has been in operation since privatization which has reduced water loss by 140 million liters per day. Since privatization Southern Water has one of the best records with respect to water supply leakage among the WaSCs. Losses through leaks in its distribution system stand at 11.5% compared to 26% just before the time of privatization, with a target to achieve 10% by the year 2000.

Southern Water monitors water quality through a program in which samples which are analyzed regularly for both microbiological and chemical parameters. Currently 99.8% of water sampled passes the EU performance criteria and consistently high performance has been shown in this area.

Waste Water Business

Southern Water has 392 Waste Water Treatment Works ("WWTWs") which treat effluent pumped through 22,000 kilometers of sewer by 2,149 pumping stations. WWTWs provide various treatment types as follows: primary, enhanced primary, secondary activated sludge, secondary biological, tertiary activated and tertiary biological. In addition, as part of the treatment process to meet current bathing water standards, Southern Water has 19 long sea outfalls around the coastline of its region.

Under the 1991 Water Resources Act, WWTWs are granted consent by the Environment Agency (the "EA") to discharge sewage effluent to controlled waters. The conditions attached to each consent can cover quality, quantity and operational parameters as laid down in the "Standard Clauses" of the Discharge Consents Manual issued by the EA. The basis of the EA's policy is to maintain and improve water quality and the aquatic environment.

In addition to the residential population, the businesses in Southern Water's region discharge industrial effluent having the equivalent strength of an additional population of about 460,000.

The disposal of sludge produced by WWTWs is strictly controlled. Disposal to landfill is becoming restricted due to the lack of available local sites. In addition, all sludge disposed in this way is subject to a Landfill Tax. Disposal at sea is currently allowed pursuant to licenses issued by the Ministry of Agriculture Fisheries and Food, but disposal by this method must cease by December 1998. After that date, it is intended that the majority of the sludge produced at Southern Water's WWTWs will be further processed to produce a soil conditioner which can be recycled and sold to the agricultural industry and that any remaining amount will be incinerated. The recycling of treated sludge to agricultural land is controlled by an EU directive while incineration is controlled by licenses issued by the EA. The sludge produced by Southern Water's WWTWs amounts to 80,000 tonnes of dry solids per year.

In the 1998 bathing season, under the EU Bathing Water Directive, the EA is testing 77 beaches in the Southern Water Region. Under the directive, the EA takes at least 20 samples during the bathing water season (May 1 to September 30) at each identified bathing beach and compliance is assessed on the basis of tests for bacteria. Additional tests are carried out for 19 physicochemical parameters in addition to the bacterial test and on two occasions during each season the bathing water is tested for the presence or absence of enteroviruses. Results are published and posted by district councils on the beaches concerned. In the 1997 bathing season, only 8 beaches out of 75 failed the compliance tests. Capital schemes are in progress to reduce the likelihood of these failures in future years.

Table 8 below sets forth key information with respect to the Southern Water's activities in fiscal 1998.

	<u>Southern Water</u>
Franchise area (km ²)	10,450
Water supply services	1 million premises 2.2 million people
Water supply	603 million liters per day
Water main (km)	13,200
Reservoir storage capacity	42,444 million liters
Waste Water Treatment Works	392
Waste water treatment services	1.7 million premises 4.2 million people
Waste water treated	1,300 million liters per day
Capital expenditure fiscal 1998	£295 million

Business Objectives

The strategic emphasis of Southern Water up to the time of the acquisition was based largely on growing unregulated earnings via its enterprise business portfolio. Despite this emphasis profit generated in these enterprise businesses had been disappointing. Meanwhile, customer service performance in the core business was acceptable and Southern Water remained above the industry average in several key measure. such as quality compliance and leakage however, little attempt had been made to reduce costs.

Following the acquisition, a new business strategy has been developed based on maximizing value for ScottishPower shareholders. Under this new strategy, the group is seeking to radically remodel Southern Water into one of the U.K.'s most efficient water and waste water companies. This has involved shifting the focus firmly back to the core business where the group's key utilities skills of asset management, customer service and regulatory management are being exploited to deliver enhanced value. Non-strategic businesses have been sold and business processes have been substantially simplified by absorbing certain key activities from the enterprise businesses back into an expanded core business. At the same time, head office functions have been rationalized, with group functions being transferred to Scotland. Overall, Scottish Power is on course to meet its target to improve the profitability of Southern Water by £52 million per annum having cut operating costs in fiscal 1998 by £28 million. ScottishPower has now sold all of Southern Water's enterprise businesses due for disposal, which will realise £90 million against a target of £70 million. The sale of surplus property has already reached just under the target of £30 million, with further sales scheduled in the year ahead.

The business strategy is also aimed at building a proactive and co-operative relationship with the Office of Water Supply ("OFWAT"), including the development of an output driven capital program which delivers all of the obligations included in fiscal 1996 to fiscal 2000 price determination period at a reduced cost from the agreed funding level granted by OFWAT. The delivery of obligations at lower cost than assumed in the price determination will generate efficiencies that will initially add shareholder value and ultimately result in a more cost-efficient service to customers.

In addition, further growth will come from exploiting multi-utility sales opportunities in the area a evidenced by ScottishPower's participation in the gas trials in Kent and Sussex, a large part of Southern Water territory, where ScottishPower gained 8% of the gas market at 31 March 1998. Furthermore, through the application of Southern Water's core skills in water and waste water facilities, ScottishPower is a strong contender for private finance initiative waste water projects in Scotland.

Investment Program

In common with other WaSCs, Southern Water is faced with a substantial investment program for the period for 1995 to 2000, estimated to be of some £1.4 billion. This program is largely driven by the EU Bathing Water Directive, the Urban Waste Water Treatment Directive, a sludge strategy to deal with cessation of dumping at sea by 1998 and the expectation of more stringent environmental constraints relating to sludge disposal on land.

The program is dominated by the construction of 24 new WWTWs as required by the EU Directives. In addition, there are required regulations set by OFWAT, the Drinking Water Inspectorate and the EA to maintain and improve the security and quality of service provided. These outputs include projects to address:

- above and below ground asset maintenance;
- water resources and security of water supply;
- reduced leakage and improved water pressure rates;
- drinking water quality;
- removal of flooding risk; and
- avoidance of storm overflows on combined sewers.

Southern Water was granted implicit funding in the price determination via an allowed annual rate of return on the OFWAT estimate of investment of £1.4 billion. Southern Water's investment program has therefore essentially been "funded" upfront. A key aspect of the group's business strategy is to seek to deliver all of the required regulatory outputs of the capital program as efficiently as possible.

Developing Businesses

ScottishTelecom

ScottishPower Telecommunications Limited ("ScottishTelecom"), a subsidiary of ScottishPower, provides competitive communication services. Organic growth, coupled with a focused acquisitions policy, has positioned ScottishTelecom strongly across the breadth of the communication business since its launch in 1994.

ScottishTelecom now provides a wide portfolio of communication services ranging from fixed voice, data and mobile services to call center services, on-line information and Internet access and is leading the market in the U.K. with innovative tariff packages for these services.

The business moved into profit during fiscal 1998, meeting its target of £4 million. This figure is expected to increase during the year ahead.

ScottishTelecom's current share of the overall Scottish telecommunications market is 4%. The company has achieved a 6% share of the Scottish corporate sector, and growth is proving exponential. More than 18,000 residential customers have signed up with ScottishTelecom in Scotland.

The merger with the Scottish interests of Martin Dawes Telecommunications Limited under the ScottishTelecom brand in September 1997 was followed by the acquisition in February 1998 of Pinnacle Cellular making ScottishTelecom the largest independent mobile service provider in Scotland. The post year end acquisition of Demon Internet Limited, the largest independent Internet Service Provider in the U.K., puts ScottishTelecom into a leading position in the rapidly expanding Internet market.

Electrical Retailing

ScottishPower's electrical retailing business sells electrical products through a chain of 174 shops throughout Great Britain. In addition to retail sales, the group's electrical retailing business provides servicing and repair facilities and delivery and connection facilities.

ScottishPower's electrical retailing business is the third largest supplier of electrical appliances in the U.K. It now has 5.4% of the U.K. 'white goods' market and 3.3% of the U.K. 'brown goods' market. Electrical white goods (including cookers, washing machines, refrigerators and small residential appliances) account for 60% of total appliance sales. Brown goods (including televisions, stereo equipment, computers and camcorders) account for approximately 40% of appliance sales.

The business has continued to gain market share through incrementally increasing the number of new stores and organic growth from existing stores. During fiscal 1998 it opened 18 new superstores, increasing selling space by 132,000 square feet.

Contracting Services

The group's Contracting Services business specializes in niche markets, including the installation and maintenance of high voltage equipment, residential heating (electrical and gas installations), street lighting, security and fire alarms, residential telephone connections, appliance and installation inspection

and pre-planned maintenance, as well as instrumentation, mechanical and project management along with property and facilities management.

The business, with a turnover of some £70 million, is believed to be one of the largest and most profitable of its kind in the U.K. The future strategy of the Contracting Services business is to pursue further growth from selective specialist markets.

Technology

The group's Technology business combines a number of groups which specialize in different areas of engineering consultancy and science, including mechanical, electrical, civil engineering and environmental sciences. The range of work undertaken by the business is expansive and includes most categories of engineering consultancy from design and construction of buildings, plant and components, to the development of sophisticated control systems and monitoring devices.

In addition to supporting ScottishPower's operational activities, the Technology business is closely involved in ScottishPower's capital investment program in its power stations, in the design and project management of new generation schemes such as combined cycle gas turbine plant and wind farms. The business also plays an important role in the refurbishment of the group's electrical retailing stores and the development of the telecommunications infrastructure.

Information Systems

The Information Systems Division is heavily involved in helping the group's other businesses prepare for energy supply liberalisation. The group has invested £21 million in its IT infrastructure which now delivers 40 times more computing power than that available three years ago.

The group has already made substantial progress towards achieving Year 2000 compliance. In addition, it has achieved the IBM 'e-business mark', a fast developing standard for electronic commerce. The group will be one of the first U.K. utilities to offer customers the opportunity to pay power, telephone and water bills via the Internet.

Regulation of the Electricity Industry

Introduction

The U.K. electricity industry is regulated under the provisions of the Electricity Act. The Electricity Act provided for the basis of the restructuring of the electricity supply industry ("ESI") in England and Wales and in Scotland in 1990, including the introduction of price regulation for transmission and distribution and competition in supply and generation.

Regulation of the ESI

The Electricity Act provides for the appointment of the DGES by the Secretary of State for Trade and Industry. The DGES holds office for renewable periods of 5 years and is the head of OFFER and its staff of administrators, economists and accountants. The current DGES, Professor Stephen Littlechild, was initially appointed on August 1, 1989 and was re-appointed for a further 5 year term on August 1, 1994.

Professor Littlechild has announced that he will step down, at HM Government's request, as early as Autumn 1998 when the term of office of the current Director General of Gas Supply expires. HM Government has advertised for a single Director General of Electricity and Gas Supply as a step towards full merger of electricity and gas regulation.

Under the Electricity Act, the Secretary of State and the DGES are required to exercise their respective functions in the manner best calculated to achieve various objectives including securing that all reasonable demands for electricity are satisfied; securing that license holders are able to finance the carrying on of the activities for which they are authorized by their licenses; and promoting competition in the generation and supply of electricity. Subject to these duties, the Secretary of State and the DGES have a number of other duties, including protecting the interests of consumers of electricity.

The DGES exercises, concurrently with the Director General of Fair Trading, certain functions relating to monopoly situations in the generation, transmission, distribution or supply of electricity under the Fair Trading Act 1973 and certain functions relating to anti-competitive conduct under the Competition Act 1980. Under the proposed new U.K. competition legislation (Competition Bill), the DGES will continue to exercise functions concurrently with the Director General of Fair Trading.

The Licensing Regime

The Electricity Act prohibits the generation, transmission or supply of electricity to any premises unless authorized by a license or exemption. Licenses are granted for generation, transmission, public electricity supply by a PES and private supply to specified premises.

Under the electricity regime, England and Wales is divided into 12 PES franchise areas, and Scotland into two additional PES franchise areas, for the purposes of electricity supply and distribution.

Each of the 14 PES licenses permits its holder to supply electricity to any premises within its authorized franchise area (first-tier license). Only the holders of PES licenses may supply electricity to single premises within their franchise areas with a relevant demand at or below the franchise limit. Until March 30, 1994, the franchise limit was 1MW, and from March 31, 1994 until the market starts to open progressively from September 1998 the franchise limit is 100kW.

Electricity suppliers which are not the PES license holder for that franchise area are known as second-tier suppliers and have second-tier supply licenses (second-tier license). The holder of a second-tier license may supply electricity to premises with a relevant demand above the franchise limit, or to premises with a relevant demand below the franchise limit with the consent of the Secretary of State.

Each PES licensee distributes electricity for second-tier suppliers whose customers are within that PES licensee's authorized area, as well as for its own supply business. Charges for distribution are made to the PES licensee's own supply businesses or to second-tier suppliers as appropriate. Each PES license prohibits discrimination between its own supply business and other users of its distribution system.

Beginning in September, 1998, all customers will be able to contract for supplies from any second-tier supplier, or to take supplies from the local PES licensee as at present.

Each PES licensee is required, among other duties, to develop and maintain an efficient, coordinated and economical system of electricity and supply and to offer terms for connection to, and use of its distribution system on a non-discriminatory basis; in particular, a PES licensee may not discriminate in favor of its own first- or second-tier supply businesses.

Each PES license requires the PES licensee to plan and develop its distribution system to a standard not less than that previously applicable within the nationalized electricity supply industry and to report annually to the DGES giving details of the performance of the licensee in maintaining distribution security and availability and quality of service during the previous financial year.

Modification of Licenses

The DGES is responsible for monitoring compliance with the conditions of licenses and, where necessary, enforcing them through procedures laid down in the Electricity Act. License conditions may be modified, either in accordance with the terms of the relevant licenses or in accordance with the procedures laid down in the Electricity Act. Subject to a power of veto by the Secretary of State, the DGES may modify electricity license conditions with the consent of the licensee. Before making the modifications, the DGES must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections which the DGES must consider.

In the absence of consent, the only means by which the DGES can secure a modification is following a modification reference to the MMC. A modification reference requires the MMC to investigate and report on whether matters specified in the reference operate, or may be expected to operate, against the public interest and, if so, whether the adverse public interest effect of those factors could be remedied or prevented by modification of the conditions of the license. In determining whether any particular matter operates, or may be expected to operate, against the public interest, the MMC is to have regard to the matters in relation to which duties are imposed on the Secretary of State and the DGES. If there is an adverse finding, the MMC's report will state whether any adverse effects on the public interest could be remedied or prevented by modification of the license conditions. If the MMC so concludes, the DGES must then make such modifications to the license as appear to him requisite for the purpose of remedying or preventing the adverse effects specified in the report, after giving due notice and consideration to any representations and objections. The Secretary of State has the power to veto any modification reference.

ScottishPower's acquisition of Manweb in 1995 and Southern Water in 1996 involved ScottishPower giving assurances to the Secretary of State to modify Manweb's PES license and ScottishPower's Combined License (and Southern Water Services' Water Appointment). These modifications are discussed in more detail below. See "Principal Conditions of ScottishPower's Combined License and Manweb's PES License" and "Principal Conditions of Southern Water Services' Appointment".

Term and Revocation of Licenses

ScottishPower's Combined License continues until terminated by not less than 25 years' notice given by the Secretary of State on or after March 31, 2000. Manweb's PES License also continues until terminated by not less than 25 years' notice given by the Secretary of State on or after March 31, 2000.

ScottishPower's and Manweb's second-tier licenses in relation to second-tier supply in England and Wales continue until terminated by not less than 25 years' notice given by the Secretary of State on or after November 19, 2000, and April 1, 2001 respectively. ScottishPower's second-tier license in relation to Hydro-Electric's authorized supply area continues until terminated by not less than 25 years' notice given by the Secretary of State on or after March 31, 2000. Manweb's second-tier license in relation to Scotland continues until terminated by not less than 25 years' notice given by the Secretary of State on or after July 1, 2004.

Licenses under the Electricity Act may be revoked in certain circumstances specified in the licenses, such as the insolvency of the licensee or the licensee's failure to comply with an enforcement order made by the DGES. In addition, the Secretary of State may revoke each of ScottishPower's generation, transmission and PES licenses if ScottishPower ceases to carry on the activities authorized by the respective license.

Principal Conditions of ScottishPower's Combined License and Manweb's PES License

ScottishPower's Combined License and Manweb's PES License require ScottishPower and Manweb respectively to prepare and publish separate accounts, including on a current cost accounting basis, for each of ScottishPower's generation, transmission, distribution and supply businesses and Manweb's distribution, supply and generation businesses.

It is a further license requirement that none of ScottishPower's nor Manweb's businesses gives any cross-subsidy to, or receives any cross-subsidy from, any of ScottishPower's or Manweb's other businesses, whether regulated by the license or not. In addition, the supply and second tier businesses supplying customers in the above 100kW market cannot give or receive cross-subsidies from the franchise business.

A number of Combined License and PES License conditions require ScottishPower and Manweb respectively to be party to certain agreements or codes which affect their operational activities, for example, the Grid Code, which includes provisions governing the technical aspects of connections to, and the operation of, the transmission systems. Each PES licensee must also draw up, implement and comply with a Distribution Code, which interacts with the Grid Code and specifies technical requirements for connection to, and the operation and use of, its distribution system, and Codes of Practice on customer relations, which require the approval of the DGES. There are also Electricity Supply Regulations and certain performance standards determined by the DGES which must be complied with.

Price Controls

The primary objective of the regulation of the U.K. electricity industry is the promotion of competition wherever possible while ensuring that demand can be met and companies are able to finance their regulated activities. A key part of this objective is the promotion of competition. However, it is recognized that the development of competitive markets is not appropriate in some areas (such as in the transmission and distribution of electricity) and that in other areas it will take time to develop (as in the supply of electricity). In these areas regulatory controls are deemed necessary to protect customers in a monopoly market (by limiting customer bills, using a formula based on inflation) and to encourage efficiency.

ScottishPower and Manweb's businesses are subject to a number of price controls which take the form of a maximum price which can be charged (price cap). This price cap restricts the average amount charged for a bundle of services to movements in the U.K.'s retail price index (RPI). Since 1995 regulation has tended to restrict price increases to customers to levels below the increase in the retail price index through a formula expressed as RPI -X.

The rationale behind the use of the RPI- X formula is that companies are motivated, during the period of the price control, to maximize efficiencies knowing that they can retain any element of overperformance for their shareholders. The price caps are expressed in terms of an RPI minus X constraint on charges, where RPI represents the annual percentage change in the U.K.'s retail price index, and X may be any number determined by the DGES. The X factor is used to reflect expected efficiency gains and investment requirements. For example, where RPI is running at 3% and X is 2%, a company would be able to increase the average charge for a bundle of services by 1%. In addition to this, there is also scope for a cost pass-through, or Y factor, to be incorporated to allow significant cost items, such as real estate taxes (rates) which are outside the control of management, to be passed through directly to customers in final prices. Since the controls are forward looking and are based on forecasts (e.g., projected electricity sales volumes), correction factors may also be required to adjust tariffs in subsequent years to account for any forecasting errors.

The DGES from time to time reviews the price cap formulae applicable to the transmission, distribution and supply businesses to ensure that reasonable demands for electricity are satisfied, that license holders are able to finance the carrying on of their licensed activities (including the ability to raise capital at reasonable rates), that competition is promoted in the area of energy supply and that the interests of consumers of electricity are protected (the primary objective of regulation as outlined above).

ScottishPower and Manweb normally participate in reviews of price caps applicable to them by submitting to OFFER their view of what reasonable efficiency gains and future investment requirements should be built into the determination of the X factor.

As with any modification to license conditions, the DGES must undertake a consultation exercise, inviting comments from PES licensees and third parties, before modifying licenses to incorporate new price controls. As described above under "—The Licensing Regime - Modification of Licenses", license conditions may be modified, either with the consent of the licensee or, in the absence of consent, following a modification reference to the MMC. The MMC is an independent body whose statutory duty is to determine whether the matters specified in a reference to it operate or may be expected to operate, against the public interest, and if so whether the adverse public interest effect of those factors could be remedied or prevented by modification of the conditions of the license. The MMC must have regard to the matters in relating to which duties are imposed on the Secretary of State and the DGES, but will also take evidence from the electricity companies and third parties before reaching its conclusion. If the MMC concludes that adverse effects on the public interest could be remedied or prevented by modification of the license conditions, the DGES must then make such modifications to the license as to appear to him to be requisite to remedy or prevent the adverse effects identified.

Through participation in, and the submission of evidence to, these price control reviews and, where necessary, through the MMC modification process described above, companies have the opportunity to comment on and seek to influence the final outcome of any price control review.

ScottishPower Transmission Price Control

The permitted maximum average charge per unit transmitted calculated under the transmission formula, multiplied by a pre-determined number of units transmitted, both for home consumption and for export, determines the maximum transmission revenue that ScottishPower is permitted to earn in any financial year from these services.

In September 1993, the DGES announced a revised transmission price control for ScottishPower, to take effect from April 1, 1994 and to run for five years. The new control left the X factor unchanged at RPI minus 1. The major changes to the initial control were: the inclusion of Interconnector revenue from the link with NGC within the definition of regulated revenue; the use of a predetermined forecast of units transmitted (including units transmitted onto another transmission system) rather than actual numbers transmitted; and the replacement of forecasts of inflation with actual historic values.

In Spring 1998 ScottishPower agreed with the DGES a delay of one year in the ScottishPower transmission price review with the new price control taking effect from April 1, 2000. For the interim year, fiscal 2000, transmission revenue will be allowed to increase at the rate of inflation.

Distribution Price Control

The maximum distribution revenue is calculated from a formula that is based on customer numbers as well as units distributed. The current value of X for ScottishPower's distribution price control is 2 and will continue at this level until March 31, 2000. Following a reopening by the DGES in March 1995 of the five year price control set in August 1994 (and due to take effect on April 1, 1995), the DGES re-set the current value of X for Manweb at eleven (as a one-off price reduction for the year from 1 April, 1996). The value of X changed to 3 from April 1, 1997 and is set to continue at this level until March 31, 2000.

Supply Price Control

From privatization until March 31, 1998, charges made by each of ScottishPower's transmission and ScottishPower's and Manweb's distribution businesses against their supply businesses, which have been allocated to ScottishPower's and Manweb's franchise customers in accordance with their Combined and PES Licenses respectively, have been passed through to those customers.

Over this period the amount which ScottishPower could charge its franchise customers in respect of electricity purchased by its supply business, either from its own generation business or from other sources, for resale to its franchise customers has been controlled. Until March 31, 1994, the maximum allowed charge per unit in respect of electricity purchase costs was equal to the previous year's charge adjusted by RPI. From April 1, 1994 to March 31, 1998, the allowable charge has moved progressively to one based on the yardstick average of the electricity purchase costs of public electricity suppliers in England and Wales. The cost of Manweb's purchases of electricity from the Pool for its franchise customers has been passed through to those customers.

The supply charge restriction condition also included a term covering other costs, such as billing, which have been controlled by an RPI minus X formula, and a correction factor which has taken into account in each year the amount of any over or undercharging in the previous year.

The value of X for ScottishPower's supply price control from April 1, 1995 to March 31, 1998 was set at 2. The value of X for Manweb's supply price control from April 1, 1994 to March 31, 1998 was also set at 2.

For a two-year period from April 1, 1998, the supply price control will operate as maximum price restraints on major tariffs for ScottishPower and Manweb's domestic and small business customers. The nature and extent of possible restraints from April 1, 2000, will be reviewed in the light of experience and prospects at the same time as the distribution price controls are reviewed. In November 1997 ScottishPower agreed with the DGES the level of the wholesale price for electricity in Scotland for the two year period from April 1 1998, maintaining the linkage with the price for buying energy from the Pool in England and Wales.

Modifications to ScottishPower's Combined License and Manweb's PES License

As a condition for regulatory clearance of ScottishPower's acquisition of Manweb, Manweb's PES license was modified by consent. Those modifications were designed to address the fact that, as a result of the acquisition, Manweb became a subsidiary company of ScottishPower. Modifications have been made in every case where a PES licensee has become a subsidiary company. Broadly, Manweb's modifications are designed to ring-fence Manweb's regulated businesses (distribution, supply and second-tier supply) from its non-regulated businesses and from ScottishPower's other businesses, to impose certain information reporting requirements on Manweb and ScottishPower to assist the DGES in his ability to carry out his regulatory functions and to address the fact that ScottishPower and Manweb each operate in the ESI.

Specifically, ScottishPower gave assurances to the Secretary of State that, if its acquisition of Manweb was successful, it would ensure that:

- so long as Manweb's electricity supply remained subject to price regulation, electricity purchase contracts and similar arrangements are not entered into between ScottishPower and Manweb which would form part of Manweb's allowed electricity purchase costs;
- sufficient financial and management resources and other facilities are available to enable Manweb to carry out its statutory and license obligations;
- the DGES is provided with such information from ScottishPower or any of its subsidiaries as he requires in relation to the exercise of his regulatory functions;
- ScottishPower co-operates with the DGES in ensuring appropriate financial separation and financial independence for Manweb;

- ScottishPower makes clear, or ensures, where appropriate, that Manweb makes clear to all customers within Manweb's authorized supply area whether they are being supplied under Manweb's PES license or under ScottishPower's second-tier supply license;
- confidential information relating to individual sites and customers is not disclosed between ScottishPower and Manweb;
- Manweb use its best endeavors to sell its holding in NGC on its flotation; and
- Manweb agrees to appropriate license modifications.

The agreed license modifications came into effect on February 23, 1996.

As a condition for regulatory clearance of ScottishPower's acquisition of Southern Water, ScottishPower gave assurances to the Secretary of State that it would not operate any new business which is not regulated under the Electricity Act and whose annual turnover accounts for more than 5% of ScottishPower's aggregate annual turnover excluding all subsidiaries, other than as a subsidiary company; ensure that ScottishPower had sufficient management and financial resources to fulfil its obligations to enable the introduction of competition in supply for all customers in its authorized area; and agree to appropriate modifications to Southern Water's license. These are discussed in more detail below - see "Modification to Southern Water Services' Appointment".

Future Regulation

In March 1998 HM Government published a Green Paper on Utility Regulation setting out proposals for modernizing the framework for utility regulation. The main proposals set out in the paper are:

- regulators should be free to continue to use the RPI - X form of regulation but should make greater use of Error Correction Mechanisms for sharing benefits promptly between consumers and shareholders.
- the Electricity Act should be amended to require distribution businesses to be licensed separately from supply businesses.
- the utility regulators should have a new single primary duty to protect the interests of consumers, wherever possible and appropriate through promoting effective competition.
- electricity and gas regulation should be merged as soon as possible and a single energy regulator should be appointed.
- the regulators, in conjunction with the utility companies, should prepare a detailed five year social action plan.
- the regulators should carry out a study of the regulatory issues associated with multi-utilities.

The consultation process on these proposals is underway.

In May 1998 the DGES issued a consultation paper on the need for separation of PES distribution and supply activities, the means by which separation could best be achieved, the additional separation of transmission activities in Scotland and options for legislative reform to change the responsibilities and rights of suppliers, distributors and customers. The consultation process on these proposals is underway.

Regulation of the Water Industry

Introduction

The U.K. Water Industry is principally regulated under the provisions of WIA 1991 and the Water Resources Act 1991. WIA 1991 consolidates enactments relating to the supply of water and the provision of waste water services, including WA 1989 and other enactments. WA 1989 provided for the privatization process itself and set up the post-privatization structure and regulation of the industry.

WIA 1991

WA 1989 provided for the appointment by the Secretary of State for the Environment of an industry regulator, the DGWS. The DGWS holds office for renewable periods of 5 years and is the head of OFWAT and its staff of administrators, economists and accountants. The current DGWS, Ian Byatt, was appointed as the first DGWS on August 1, 1989 and was subsequently re-appointed for a five-year term to run from June 30, 1996 to the end of June, 2000.

The EA regulates discharges by water companies into rivers and abstraction of water from rivers and ground water; and the Drinking Water Inspectorate regulates the quality of drinking water in accordance with EU standards.

Under WIA 1991, the DGWS and the Secretary of State for the Environment must exercise or perform their duties in the manner best calculated to secure that the functions of a water undertaker and of a sewerage undertaker are properly carried out as respects every area of England and Wales; and to ensure that companies holding Appointments are able (in particular, by securing reasonable returns on their capital) to finance the proper carrying out of their functions.

These powers and duties are also to be exercised in a manner best calculated to ensure that the interests of the customer in relation to the fixing and the recovery of charges are protected, and in particular to ensure that the interests of customers and potential customers in rural areas are so protected; that no undue preference is shown; and that there is no undue discrimination in the fixing of those charges.

The DGWS and the Secretary of State for the Environment are also under a duty to ensure that the interests of customers are protected as respects benefits that could be secured for them by applying a share of the proceeds of any disposals of a WaSC's land in future reviews.

The DGWS exercises, concurrently with the Director General of Fair Trading, certain functions relating to monopoly situations in the supply of water or the provision of waste water services under the Fair Trading Act 1973, and certain functions relating to anti-competitive conduct in connection with the supply of water or securing a supply of water or with the provision of, or securing of, waste water services under the Competition Act 1980. Under the proposed new U.K. competition legislation (Competition Bill), the DGES will continue to exercise functions concurrently with the Director General of Fair Trading.

Duties of Water Undertakers

Under WIA 1991, each water undertaker is under a general duty to develop and maintain an efficient and economical system of water supply within its license area. It must also ensure that all such arrangements have been made for providing supplies of water to premises in its license area, for making such supplies available to people who demand them and for maintaining, improving and extending its mains and other pipes, as are necessary to enable it to meet its water supply obligations.

Duties of Sewerage Undertakers

Under WIA 1991, each sewerage undertaker is under a general duty to provide, improve and extend such a system of public sewers and to cleanse and maintain those sewers to ensure that its sewerage region is effectively drained. Sewerage undertakers are required to make provision for the emptying of sewers and whatever further arrangements are necessary from time to time for effectively dealing with the contents of sewers. In addition, discharges from sewage treatment works must be consented to by the EA; and sewerage undertakers are responsible under WIA 1991 for regulating discharges of industrial effluent into sewers. Contamination of controlled waters by non-complying effluent being discharged by a treatment works may involve the sewerage undertaker in liability, including clean-up costs.

The Licensing Regime

Following privatization of the U.K. water industry in 1989, each of the water and sewerage undertakers, while maintaining its effective monopoly supply, became regulated through an instrument of appointment (an "Appointment"). The Appointment confirms the appointment of the water or sewerage undertaker as supplier in its own area and provides for the monitoring of its performance by the DGWS and the Secretary of State for the Environment.

Modification of Licenses

The DGWS is responsible for monitoring compliance with the conditions of Appointments and, where necessary, enforcing them through procedures laid down in WIA 1991. Conditions of the Appointment may be modified, either in accordance with the terms of the relevant licenses or in accordance with the procedures laid down in WIA 1991. Subject to a power of veto by the Secretary of State, the DGWS may modify the conditions in the Appointment with the consent of the licensee. Before making the modifications, the DGWS must publish the proposed modifications as part of a consultation process, giving third parties the opportunity to make representations and objections which the DGWS must consider.

In the absence of consent, the only means by which the DGWS can secure a modification is following a modification reference to the MMC. A modification reference requires the MMC to investigate and report on whether matters specified in the reference operate, or may be expected to operate, against the public interest and, if so, whether the adverse public interest effect of those factors could be remedied or prevented by modification of the conditions of the license. In determining whether any particular matter operates, or may be expected to operate, against the public interest, the MMC is to have regard to the matters in relation to which duties are imposed on the Secretary of State for the Environment and the DGWS. If there is an adverse finding, the MMC's report will state whether any adverse effects on the public interest could be remedied or prevented by modification of the license conditions. If the MMC so concludes, the DGWS must then make such modifications to the license as appear to him requisite for the purpose of remedying or preventing the adverse effects specified in the report, after giving due notice and consideration to any representations and objections.

Southern Water Services' Appointment was modified as a result of assurances given by ScottishPower as a condition to receiving regulatory clearance for its acquisition of Southern Water plc in 1996. These are discussed in more detail below, see "Principal Conditions of Southern Water Services' Appointment".

Term and Revocation of Licenses

Southern Water Services' Appointment continues until terminated by not less than 10 years' notice given to Southern Water Services by the Secretary of State for the Environment, expiring not earlier than 25 years after September 1, 1989, the transfer date. Appointments may also be revoked or transferred to another company in certain circumstances specified in WIA 1991 or in the Appointments, such as the appointee failing to comply with an enforcement order made by the Secretary of State for the Environment or the DGWS, or the appointee being unable to pay its debts.

Principal Conditions of Southern Water Services' Appointment

The principal regulatory provisions which apply to the regulated activities of Southern Water Services are set out in WIA 1991 and regulations and orders made under it. Other business activities of the Southern Water, such as waste management and other environmental services, engineering services and systems technology services fall outside the direct scope of regulation under WIA 1991. Southern Water Services is an appointed WaSC and holds an Appointment regulated under WIA 1991 to supply water and sewerage services within its authorized area, which regulates its appointed activities. Southern Water Services' Appointment requires Southern Water Services to prepare and publish separate accounts, including on a current cost accounting basis showing separately its appointed business from all other businesses and activities.

It is a further Appointment requirement that the regulated business neither gives to, nor receives from, any other business or activity of Southern Water Services, any cross-subsidy, whether those businesses are regulated by the Appointment or not. In January 1997, OFWAT published proposals for consultation to improve the WaSCs trading practices, which places greater emphasis on market testing and competitive letting of contracts; requires companies to report on indirect transactions with associates and requires auditors to take a greater role in reporting on company compliance with the guidelines.

Price Controls

Southern Water Services' business is subject to price controls. The DGWS intends to review Southern Water Services' price controls every five years. The license requires a ten-year price control with optional five-year reviews but the Director General has announced his intention to alter this to automatic five-year reviews. He also has the power to make an interim determination to adjust price limits between the five yearly periodic reviews.

Water Supply and the Provision of Sewerage Services

Southern Water Services' income from its water supply and provision of sewerage services is controlled by an RPI plus K formula which limits the increases in standard charges made by Southern Water Services. Under the most recent price control review, K was set at 4 until April 1, 2000 and then 3 until April 1, 2005. However, as part of ScottishPower's offer for Southern Water plc, ScottishPower offered that the average price increases in the three charging years commencing April 1, 1997, would be lower than the allowed charging limits. This offer was subject to a license condition modification which came into effect on September 28, 1996, under which Southern Water Services' average prices were one percent lower than they would otherwise have been in April 1997 and will be three percent lower for two years from April 1998.

On October, 15 1996, the DGWS announced that he intends to review the price limits for the water and sewerage companies in England and Wales in 1999, and that the new price limits will take effect from April 1, 2000.

In March 1998 Southern Water issued a £100 million variable rate bond to help fund capital expenditure and to provide a form of Stock Exchange listing promised by ScottishPower to OFWAT. The

bond is designed to reflect the financial position of Southern Water to compensate OFWAT for the loss of comparative information following its takeover by ScottishPower in 1996. It is the first U.K. sterling bond of its kind and the DGWS subsequently confirmed that its issue satisfies the undertaking given by ScottishPower and Southern Water at the time of the acquisition.

The DGWS published a consultation paper on June 26, 1997 inviting comments on more detailed proposals for the conduct of the 1999 review. Inter alia, the DGWS has proposed a one-off downward adjustment in prices within the RPI-X regime, by which he aims to produce demonstrably earlier benefits for customers than the current system which transfers the outperformance to customers over the ten years of the price limits.

Infrastructure Charges

In addition, the amount of any infrastructure charge (the amount that Southern Water Services can charge for each service when new properties are connected for a residential supply of water or for sewerage services) was set for fiscal 1996 and is permitted to rise in line with inflation in subsequent charging years.

Modifications to Southern Water Services' Appointment

Southern Water Services' Appointment was also modified following assurances given by ScottishPower as a condition to regulatory clearance of its acquisition of Southern Water plc to address regulatory concerns arising out of the merger. In particular, modifications were made to Southern Water Services' Appointment to effectively contain Southern Water Services' regulated businesses (the provision of water supply and sewerage services) and to impose certain information reporting requirements on Southern Water Services and ScottishPower.

In addition, the Appointment was modified so that Southern Water Services must at all times conduct the businesses regulated by its Appointment as if such businesses were substantially Southern Water Services' sole business and Southern Water Services were a separate public listed company. In particular, Southern Water Services must ensure that its board of directors is independent of ScottishPower, that its directors must disclose to Southern Water Services and to the DGWS any conflicts with their duties as directors of Southern Water Services; and that its directors must have regard exclusively to the interests of Southern Water Services as a WaSC in the event of a potential conflict with the interests of other group companies.

Future Regulation

In May 1997, it was reported that the Secretary of State for the Environment announced a review by the Department of the Environment to examine ways in which environmentally damaging abstractions can be equitably curtailed. The review will also include arrangements for revoking licenses in areas where pumping causes significant environmental damage. The consultation paper was published on June 19, 1998 and is open for comment until September 17, 1998. The Environment Minister also announced that OFWAT will be setting mandatory targets to reduce leaks from water supplies, which would be reviewed annually. Failure to meet the targets would carry penalties and could lead to water companies being put into the hands of an administrator from OFWAT.

Environmental Regulation

The group's businesses are subject to numerous regulatory requirements with respect to the protection of the environment, including environmental laws which regulate the construction, operation and decommissioning of power stations, pursuant to legislation implementing environmental directives adopted by the EU and protocols agreed under the auspices of international bodies such as the United Nations Economic Commission for Europe ("UNECE").

Electricity Generation, Transmission and Supply

The Electricity Act obligates the Secretary of State to take into account the effect of electricity generation, transmission and supply activities upon the physical environment in approving applications for the construction of generating facilities and the location of overhead power lines. This Act requires the group to take into account the conservation of natural features of beauty and other items of particular interest, when it formulates proposals for development in connection with certain of its activities. The group is required, in terms of the Environmental Impact Assessment Regulations, to carry out an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities. The group also prepares formal statements on the 'Preservation of Amenity and Fisheries' in line with the requirements of the Act.

Possible adverse health effects of electric and magnetic fields ("EMFs") from various sources, including transmission and distribution lines, have been the subject of a number of studies and increasing public discussion. The scientific research is currently inconclusive as to whether EMFs can cause adverse health effects. This uncertainty has been reinforced by a number of recent studies and as a result a number of claims which were being brought against other companies within the electricity business in the U.K. alleging personal injuries caused by EMFs have been dropped.

The Environmental Protection Act of 1990 (the "EPA") requires that potentially polluting activities such as the operation of combustion processes (which includes power plant) requires prior authorization. These authorizations dictate the control technologies and techniques to be used to ensure that environmental harm is prevented or minimised. The Act also provides for the licensing of waste management and imposes certain obligations and duties on companies which produce, handle and dispose of waste. Waste generated as a result of the group's electricity activities is managed to ensure compliance with legislation and waste minimization is undertaken where possible.

Environmental Regulation of Generation Activities

The EPA is the primary U.K. statute governing the environmental regulation of power stations. It introduced a system of Integrated Pollution Control ("IPC") in April 1991 for large scale industrial processes, including power stations. Under the EPA, the authority for enforcing IPC with respect to emissions to atmosphere in England and Wales is the Environment Agency ("EA"), previously Her Majesty's Inspectorate of Pollution ("HMIP"), and in Scotland is the Scottish Environment Protection Agency ("SEPA"), previously Her Majesty's Industrial Pollution Inspectorate ("HMPI"). Transfer of control from HMIP and HMPI to EA and SEPA came into force on April 1, 1996 and was established by the Environment Act of 1995 (the "1995 Act"). The EU Directive on Integrated Pollution Prevention and Control, on which the U.K. Government has recently concluded a consultation exercise on implementation, will be implemented via modifications to the IPC regime.

The United Nations Framework Convention on Climate Change sets forth standards regarding emissions of greenhouse gases, the most significant of which is carbon dioxide (CO₂). Agreement on a Protocol under this convention was reached in Kyoto in December 1997. This Protocol, when ratified, calls for mandatory target reductions of "a basket" of six greenhouse gases, most significantly CO₂, in the commitment period 2008-2012. The Protocol also provides for Joint Implementation ("JI") between signatories, a Clean Development Mechanism by which signatories may gain credit for actions in certain non-signatory countries and a provision which would allow for trading of emissions. The U.K. target contained in the Protocol is -8%, but this may be modified in terms of a JI agreement by the EU. The U.K. has set a domestic target of -20% and will consult on its implementation in the Summer of 1998. The UNECE protocols regarding sulphur dioxide (SO₂) and oxides of nitrogen (NO_x) are currently implemented in the EU by means of the Air Framework Directive and Large Combustion Plants Directive (the "LCPD"). Emissions limits for existing and new plants will be introduced via the LCPD, the Air Framework Directive and in future, the EU Directive on Integrated Pollution Prevention and Control.

The principal emissions from fossil fuelled electricity generation are SO₂, NO_x, CO₂ and particulate matter, such as dust, with the main waste being ash, namely pulverized fuel ash and furnace bottom ash. The primary focus of current environmental legislation is to reduce emissions of SO₂, NO_x and particulates, the first two of which contribute to acid rain. A number of other power station emissions and discharges are subject to environmental regulation.

Through the EPA, the Government has implemented a national program, the National Plan, (as amended from time to time, including in 1994 to reflect the LCPD), to reduce SO₂ and NO_x emissions from power stations in Scotland. ScottishPower and Hydro-Electric have entered into an agreement providing for the sharing of limits in emissions of SO₂ and NO_x from existing generating stations in Scotland set out in the National Plan to meet the targets of the LCPD. It also provides for the sharing of station-specific limits on emissions of SO₂ and NO_x imposed by SEPA at the Peterhead, Longannet and Cockenzie generating stations where capacity is shared between ScottishPower and Hydro-Electric. Reductions of CO₂, SO₂ and NO_x per unit of electricity generated have been achieved as a result of the group's investments in environmental upgrades, such as low NO_x burners and gas reburn, to existing power stations and in new power stations, together with increases in the proportion of the group's output generated by more efficient coal-fired power stations. ScottishPower's emissions of SO₂ and NO_x have been below the limits set by the National Plan for these emissions each year since its publication.

Each of ScottishPower's power stations is required to have IPC authorization. Under IPC, each power station has a single authorization which regulates emissions of certain pollutants and seeks to minimize pollution of the environment. Each IPC authorization requires that a power station uses the Best Available Techniques Not Entailing Excessive Cost ("BATNEEC") to prevent the emissions described above or, to the extent this is not practicable, to minimize and render harmless any such emissions. Each authorization also contains an improvement program. ScottishPower's IPC authorizations do not have an expiry date, but SEPA is required to review the conditions contained within it at least once every four years and may impose new conditions to prevent or reduce emissions of pollutants, subject to the application of BATNEEC.

The IPC authorizations granted in 1993 in respect of ScottishPower's existing power stations limit the levels of atmospheric emissions of SO₂ and NO_x from each station. A number of minor variations have taken place with a full four year IPC review now underway with SEPA. The review commenced in April 1997 and has continued into 1998. The final outcome is awaited. The group is confident that it will be able to achieve the environmental improvements required by potential future limits arising from this review without materially constraining operational and commercial flexibility. In particular, gas reburn technology offers greater potential to reduce emissions than other technology in use elsewhere in the U.K. Furthermore, planning consent has been gained for flue gas desulphurization at Longannet, which will be installed when emissions levels require its implementation.

Water

Since April 1, 1996, the EA has been responsible in England and Wales for the control of water pollution and the maintenance and improvement of the quality of controlled waters, including the regulation of discharges to those waters; for conserving, redistributing and augmenting water resources and for securing the proper use of such resources for land drainage and flood defense. Previously, this was the responsibility of the NRA in England and Wales. In Scotland, SEPA has largely replaced the River Purification Boards to fulfil these responsibilities.

Within its general water resource management role, the EA has a duty to operate the system under the Water Resources Act 1991, whereby water undertakers and other abstractors must have a license authorizing each of their abstractions and other impoundments. It also has a duty to enter into water resource management arrangements with water undertakers to secure the proper management and operation of waters, reservoirs and other works vested in the undertakers. The EA may, and shall if so directed, consider the setting of minimum acceptable flows in rivers and make recommendations to the Secretary of State accordingly.

Under the Water Resources Act 1991 and the Control of Pollution Act (COPA) 1974, the EA may require persons to take precautions against pollution, may prohibit or restrict certain activities likely to cause pollution in areas designated by the Secretary of State, and may impose a requirement for a consent to discharge matter from a drain or sewer. When reviewing existing consents and issuing new ones, the EA has said that it will seek to set conditions at the level required to at least maintain and, where appropriate, improve the quality of the receiving waters.

Under the EPA, the EA is responsible for maintaining registers containing details of applications for discharge consents, consents granted and the results of samples of effluent and receiving waters. The registers are open to public inspection.

European Legislation

The activities of the WaSCs are affected by the requirements of EU directives including the Drinking Water Directive, the Bathing Waters Directive and the Urban Waste Water Treatment Directive. EU directives are binding on the Government, not on the Water Service Companies, as to the result to be achieved within a specified period. It is the responsibility of European Member States, including the U.K., to bring into force appropriate national environmental legislation, such as the Urban Waste Water Treatment Regulations to implement these EU directives.

New requirements will be binding on the Water Service Companies only when they are translated into the law of England and Wales. Any expenditure incurred by a Water Service group necessitated by new legislation applying to them in their capacity as water or sewerage undertakers, or by any change in consents as a result of any changes to existing EU directives, or adoption of future EU directives, would be eligible for consideration for a specific K Adjustment.

The Water Resources Act and the Urban Waste Water Treatment Regulations are the main U.K. statutes governing drinking water quality, receiving water quality and waste water discharges. This legislation implements the Drinking Water Directive, the Bathing Waters Directive, and the Urban Waste Water Treatment Directive and requires improvements in drinking water quality and in the treatment of waste water discharges. In fiscal 1998, Southern Water spent approximately £179 million to comply with the relevant statutes. Fines received by Southern Water in fiscal 1998 for violating water quality standards and the terms of applicable discharge consents were immaterial to the results of operations in Southern Water.

Southern Water, like other WaSCs in the U.K., must have a license from the EA authorizing each of its abstractions and certain impoundments. For additional obligations of Southern Water affecting the environment, see the sections of this document entitled "Water Business — Southern Water" and "Regulation of the Water Industry".

In addition to its other obligations affecting the environment, Southern Water may be required by the EA to take precautions against pollution, may be prohibited or restricted by the EA from certain activities likely to cause pollution in areas designated by the Secretary of State, and may be required by the EA to obtain a consent to discharge matter (other than sewage or trade effluent) from a drain or sewer. Further, in the course of its activities, the EA may carry out anti-pollution works and may recover the cost of such works from the person responsible for the pollution.

General

While the nature of developments in environmental regulation and control cannot be predicted, the group anticipates that the direction of future changes will be towards tightening controls. In view of the age and history of many sites owned by the group, the group may incur liability in respect of sites which are found to be contaminated, together with increased costs of managing or cleaning up such sites. Site values could be affected and potential liability and clean-up costs may make disposal of potentially contaminated sites more difficult. The 1995 Act requires the polluter (or if the polluter cannot be found or has legally transferred its responsibilities by disclosure, the owner or occupant) of contaminated land to clean up any contamination which causes, or is likely to cause, significant harm to the environment or any pollution of controlled waters, so that environmental compliance is consistent with the intended use of the site. Although there have been prolonged consultations, the U.K. Government has yet to bring forward finalized regulations to implement the appropriate sections of the Act. Other proposals which may impose strict liability for environmental damage are also under consideration by the EU. ScottishPower does not believe that any liability which it may have under the 1995 Act or proposed EU directives will have a materially adverse impact on its operations.

The group believes that it has taken and continues to take measures to comply with applicable laws and regulations for the protection of the environment, and that the risk of sanctions arising from the violation of such laws and regulations does not pose a material threat to the group.

The environmental management systems which the group has in place are designed to ensure compliance with legislation and with group policy. They are subject to formal environmental audit and regular performance reporting to the Board of Directors. ScottishPower publishes an annual Corporate Environment Report. In addition, for all power stations, ScottishPower publishes details on environmental performance in an annual Environment Update, and Southern Water publishes a Conservation Access and Recreation Report in respect of its activities.

During fiscal 1998, approximately £174 million has been spent on projects designed to improve the group's environmental performance including combined heat and power installations (some £3.8m,) power station combustion improvements (£1.2m) and on maintaining and enhancing bathing water quality at Southern Water (£166.6m).

Research & Development

The group supports research into development of the generation, transmission, distribution and supply of electricity and continually seeks more innovative and cost effective methods of carrying out its water and waste water activities. It also continues to contribute, on an industry-wide basis, towards the cost of research into electricity utilization, distribution developments and water purification and waste water treatment. In fiscal years 1996, 1997 and 1998 the group's expenditure on research and development was £3.4 million, £5.6 million and £5.4 million, respectively.

Employees

The group had 14,306 full-time equivalent employees as of March 31, 1998. A breakdown of the number of full-time equivalent employees employed in the group's main businesses over the last five years is illustrated in the following table.

Business	1998	1997	1996	1995	1994
Scottish energy businesses	5,265	4,916	5,215	5,595	5,922
Manweb	2,151	2,757	2,979	-	-
Southern Water	2,364	3,526	-	-	-
Developing businesses	<u>4,526</u>	<u>3,202</u>	<u>2,579</u>	<u>2,445</u>	<u>2,058</u>
Group total	<u>14,306</u>	<u>14,401</u>	<u>10,773</u>	<u>8,040</u>	<u>7,980</u>

Approximately 51% of group employees are union members and 79% are covered by collective bargaining arrangements. There are a number of different collective agreements now in place throughout the group reflecting differing market conditions in which the group's businesses operate. Management believes its overall relations with its employees are good.

In the energy businesses, there has been ongoing integration of Scottish and Manweb operations, with an overall reduction of 3% in staff numbers during fiscal 1998. The group continues to benchmark for further efficiencies and reduced costs which will include ongoing reduction in manpower numbers.

Within Southern Water, manpower reductions of 42% have occurred since the acquisition in August 1996. These have resulted from disposals of peripheral businesses and outsourcing of activities as well as operating improvements and technological advancements.

The manpower figure in the group's developing businesses has increased by 41% since March 31, 1997. This has resulted from organic expansion as well as acquisition of smaller businesses, particularly within the telecommunications and electrical retailing sectors.

ITEM 2. DESCRIPTION OF PROPERTY

The group's properties consist of generating stations, transmission and distribution facilities, water supply and waste water treatment facilities, telecommunication facilities, retail facilities and certain non-operational properties in which the group holds freehold or leasehold interests. The group believes that substantially all of its facilities are in a condition adequate for their purpose and utilization according to the individual nature and requirements of relevant operations. The group has a continuing program of improvements and maintenance of properties when considered appropriate to meet the needs of the individual operations. In connection with any of the group's properties that are held under lease, the group believes that it will be able to negotiate lease renewals on satisfactory terms or relocate the relevant facilities without such relocation having a material adverse impact on the group or its operations.

Generation Facilities

The group owns eight power stations in Scotland, six of which are operational with a total net output capacity of 4,035MW, and one in England. The group also owns three windfarms in Northern Ireland and one in Scotland and one in the Republic of Ireland. In addition, the company has joint venture interests in three windfarms, two of which are in England and one in Wales. All generation plant is owned by the group, with the exception of the Methil power station, which is held on a ground lease which expires in 2012 and the windfarms which are generally held on ground leases of at least 25 years duration. Further

details regarding the generating capacity of ScottishPower's power stations and windfarms as of March 31, 1998 are contained under "Item 1. Description of Business—Energy Business—Generation Wholesale".

Transmission and Distribution Facilities

As of March 31, 1998, the group's transmission facilities included approximately 4,000 circuitkms of overhead lines and 240 circuit kms of underground cable operated at 400kV, 275kV and 132kV. In addition, as of March 31, 1998, the group's distribution facilities included approximately 24,000 circuitkms of overhead lines and 40,000 circuit kms of underground cable operated at 33kV, 11kV, and 0.4/0.23kV in Scotland and approximately 20,000km of overhead lines and 23,000km of underground cable operating at 132kV, 25kV, 11kV, 6.6kV, 6.3kV, and 0.4/0.23kV in England and Wales. The group holds either permanent rights or wayleaves (easements) which entitles it to run these lines and cables through private land where necessary. Wayleaves are usually terminable by either the landowner or the group upon six or twelve months notice. The group has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner. The group owns the land for in excess of 95% of the transmission substation sites. Approximately 64% of the distribution substation sites are owned by the group with the remainder being secured by wayleave lease or local agreement. Approximately 13% of the leases securing substation sites expire within five years.

Water Supply and Waste Water Treatment Facilities

Southern Water has freehold and leasehold interest covering a total of approximately 10,000 acres of land. Of such land, an aggregate of approximately 9,800 acres are specialized properties, consisting chiefly of the storage reservoirs, water and waste water treatment works and pumping stations listed below. Approximately 95% of the above-ground water supply and waste water assets are on land in Southern Water's freehold ownership including the assets listed below, with the remainder being located on land subject to long-leasehold.

Storage Reservoirs

<u>Description</u>	<u>Location</u>	<u>Capacity (ML)</u>	<u>Approximate acreage</u>
Bowl Water	Kent	31,400	1,200
Darwell	Sussex	4,590	913
Powdermill	Sussex	831	1,171
Weir Wood	Sussex	5,623	403

Water Treatment Works

<u>Description</u>	<u>Location</u>	<u>Output (ML per day)</u>	<u>Approximate acreage</u>
Beauport	Sussex	27	less than 10
Burham	Kent	48.8	61
Eastling	Kent	48	less than 10
Easton	Hampshire	27.3	25
Hardham	Sussex	75	less than 10
Otterbourne	Hampshire	102.68	367
Sutton	Kent	44	less than 10
Testwood	Hampshire	90	152
Twyford	Hampshire	23	183
Weir Wood	Sussex	21.8	70
Wingham	Kent	20	0

Waste Water Treatment Works

<u>Description</u>	<u>Location</u>	<u>Equivalent Population Served</u>	<u>Approximate acreage</u>
Ashford	Kent	110,123	90
Aylesford	Kent	124,282	40
Brighton Portabello	Sussex	268,522	less than 10
Budds Farm	Hampshire	175,205	52
Canterbury	Kent	109,943	22
Chickenhall Eastleigh	Hampshire	103,034	25
Eastbourne	Sussex	122,592	less than 10
Eastney	Hampshire	242,005	less than 10
Millbrook	Hampshire	139,916	26
Motney Hill	Kent	276,000	200
Peel Common	Hampshire	245,320	77
Worthing East	Sussex	137,718	15

Telecommunication Facilities

As of March 31, 1998, ScottishTelecom operated a network comprising approximately 2,100km of optical fiber cable. Installation of the fiber is subject to wayleaves under the Public Telecommunications License held by ScottishTelecom. The majority of ScottishTelecom's telecommunication network switching and transmission equipment is located in four main operational sites each of which are owned by the group. Additional telecommunication network equipment is housed in equipment rooms under the control of the group.

Retail Facilities

As of March 31, 1998, the group operated 174 retail outlets, 27 of which are owned by the group and 147 are leased. The outlets are located both on the main street of major metropolitan areas and in out of town superstores. The group also leases 2 large retail distribution depots at Castleford in England consisting of approximately 8,000 square meters and at a new facility of approximately 12,581 square meters at Mossend near Glasgow. The properties are generally held on leases of 20 to 25 years.

Non Operational Facilities

In addition to the properties described above, as of March 31, 1998, the group utilized a number of non-operational properties comprised primarily of offices, depots, warehouses and workshops. Approximately 50% of these properties are owned by the group with the remainder being leased. The most significant of these non-operational properties are Cathcart Business Park, Glasgow (which is the main office for the electricity businesses in Scotland), the corporate office located at Atlantic Quay, Glasgow, the Manweb head office at Manweb House, Chester Business Park and the Southern Water head office at Worthing.

ITEM 3. LEGAL PROCEEDINGS

ScottishPower is not aware of any material pending legal proceedings, other than ordinary routine litigation incidental to the business of the group, to which ScottishPower or any of its subsidiaries is a party, or of which any of their property is the subject, or any such proceedings known to be contemplated by any governmental authority.

ITEM 4. CONTROL OF REGISTRANT

- (a) As far as is known to ScottishPower, ScottishPower is not directly or indirectly owned or controlled by another corporation or by any foreign government.
- (b) (i) As of March 31, 1998, no person known to ScottishPower owned more than ten per cent of any class of the group's voting securities.
- (ii) As of March 31, 1998, the total amount of voting securities owned by directors and executive officers of ScottishPower as a group was:

<u>Title of Class</u>	<u>Identity of Group</u>	<u>Amount Owned</u>	<u>Percentage of Class</u>
Ordinary Shares	directors and executive officers (17 persons)	220,853	0.018

In addition, as of March 31, 1998, the directors and executive officers of ScottishPower, as a group, held options to purchase 974,289 Ordinary Shares, all of which options were issued pursuant to ScottishPower's Long Term Incentive Plan, ScottishPower's Executive Share Option Scheme or ScottishPower's Sharesave Scheme. See "Item 12. Options to Purchase Securities From Registrant or Subsidiaries" and Note 32 to the Consolidated Financial Statements of the group.

- (c) ScottishPower does not know of any arrangements the operation of which might result in a change in control of the group.

ITEM 5. NATURE OF TRADING MARKET

The principal trading market for the Ordinary Shares of ScottishPower is the London Stock Exchange. In addition, American Depositary Shares ("ADSs") (each of which represents four Ordinary Shares) have been issued by The Bank of New York, as depositary (the "Depositary"), for the company's ADSs and are traded on the New York Stock Exchange following listing on September 8, 1997.

The table below sets forth, for the calendar quarters of the fiscal years indicated, the highest and lowest middle-market quotations for the Ordinary Shares (as derived from the Daily Official List of the London Stock Exchange) and the highest and lowest prices for the ADSs. To obtain the ADS prices for fiscal year 1997 and fiscal year 1998 through to September 5, the reported high and low prices for the Ordinary Shares expressed as pence per Ordinary Share have been translated into U.S. dollars per ADS (each of which represent four Ordinary Shares) by multiplying the pence per Ordinary Share amount by four and converting that amount at the Noon Buying Rate (divided by 100 and rounded to the second decimal place) on the dates of such respective high and low prices. The ADS prices for fiscal year 1998 from September 8 are the highest and lowest prices quoted on the New York Stock Exchange.

	<u>Ordinary Shares¹</u>		<u>American Depositary Shares²</u>	
	<u>High (p)</u>	<u>Low (p)</u>	<u>High (\$)</u>	<u>Low (\$)</u>
Fiscal 1997				
First	400.50	304.00	24.19	18.73
Second	326.50	300.50	20.24	18.63
Third	352.00	304.00	24.08	19.34
Fourth	376.00	333.50	24.52	21.61

	Ordinary Shares ¹		American Depositary Shares ²	
	High (p)	Low (p)	High (\$)	Low (\$)
Fiscal 1998				
First	397.00	352.00	25.97	23.18
Second	479.50	397.00	30.98	26.21
Third	540.00	420.00	35.28	28.22
Fourth	582.00	485.00	38.74	32.41

¹ The past performance of the Ordinary Shares is not necessarily indicative of future performance.

² Calculated using a ratio of four Ordinary Shares to one ADS, the ratio which took effect on the listing of the ADSs on the New York Stock Exchange on September 8, 1997. Until that time, each ADS represented ten Ordinary Shares.

On March 31, 1998, there were 418 registered holders of 115,340 Ordinary Shares with addresses in the United States and five registered holders of 1,132,785 ADSs (equivalent to 4,531,140 Ordinary Shares). The combined holdings of these shareholders constituted 0.38% of the total number of Ordinary Shares outstanding as of March 31, 1998. As certain of the Ordinary Shares and ADSs are held by brokers and other nominees, these numbers may not be representative of the actual number of beneficial owners in the United States or the number of Ordinary Shares or ADSs beneficially held by U.S. persons.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

- (a) There are currently no U.K. laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange capital restrictions, or that affect the remittance of dividends or other payments to non-U.K. resident holders of the company's securities except as otherwise set forth in "Item 7. Taxation" below.
- (b) There are no limitations imposed by U.K. law or the company's Memorandum and Articles of Association that restrict the right of non-U.K. resident or non-U.K. citizen owners to hold or vote the Ordinary Shares other than the restrictions described in "Item 14. Description of Securities to Be Registered - Description of Ordinary Shares - Restrictions on Voting" and " - Limitations on Holding" in ScottishPower's registration statement on Form 20-F (file no.1-14676) filed with the U.S. Securities and Exchange Commission in September 1997 and incorporated herein by reference. However, non-U.K. shareholders are not entitled to receive notices from the company, including notices of general meetings, unless they have given the company an address in the U.K. to which such notices may be sent.

ITEM 7. TAXATION

The following summary of U.K. and U.S. federal income tax consequences is set forth with respect to U.S. tax considerations in reliance upon the advice of Milbank, Tweed, Hadley & McCloy, special U.S. counsel to the company, and with respect to U.K. tax considerations in reliance upon the advice of the company's internal taxation adviser. The taxation discussion set forth below is intended only as a summary of the principal U.S. federal income tax and U.K. tax consequences to investors who hold the ADSs or Ordinary Shares as capital assets and does not purport to be a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposition of ADSs or Ordinary Shares. The summary does

not discuss special tax rules that may be applicable to certain classes of investors, including banks, insurance companies, tax exempt entities, dealers, investors with a functional currency other than the U.S. dollar, persons who hold the ADSs as part of a hedge, straddle, conversion or integration transaction, or holders of 10% or more of the voting stock of the company. The company believes, and the discussion therefore assumes, that it is not a passive foreign investment company for United States federal income tax purpose. Investors are advised to consult their tax advisors with respect to the tax consequences of their holdings, including the consequences under applicable state and local law. The statements of U.K. and U.S. tax laws and practices set out below are based on the laws in force and as interpreted by the relevant taxation authorities as of the date of this report. The statements are subject to any changes occurring after that date in U.K. or U.S. law or practice, in the interpretation thereof by the relevant taxation authorities, or in any double taxation convention between the United States and the United Kingdom.

If the obligations contemplated by the Deposit Agreement are performed in accordance with its terms, a beneficial owner of ADSs will be treated as the owner of the underlying Ordinary Shares for the purposes of the current convention between the United States and the United Kingdom for the avoidance of double taxation with respect to taxes on income and capital gains (the "Income Tax Convention") and for the purposes of the U.S. Internal Revenue Code of 1986, as amended (the "Code").

For the purposes of this summary, the term "U.S Holder" means a beneficial owner of the ADSs that is a United States citizen or resident, a domestic corporation or partnership, a trust subject to the control of a U.S. person and the primary supervision of a U.S. court, or an estate the income of which is subject to United States federal income tax regardless of its source.

For the purposes of this summary, the term "Eligible U.S Holder" means a U.S. holder that is a resident of the United States for the purposes of the Income Tax Convention and that satisfies the following conditions:

- (i) is not also resident in the United Kingdom for U.K. tax purposes;
- (ii) is not a corporation which, alone or together with one or more associated corporations, controls, directly or indirectly, 10% or more of the voting stock of the company;
- (iii) whose holding of the ADSs is not effectively connected with a permanent establishment in the United Kingdom through which such holder carries on a business or with a fixed base in the United Kingdom from which such holder performs independent personal services, and;
- (iv) under certain circumstances, is not a company 25% or more of the capital of which is owned, directly or indirectly, by persons that are neither individual residents of, nor nationals of, the United States.

Taxation of Dividends

Individuals and companies who are resident in the United Kingdom and who receive the dividend on the Ordinary Shares are entitled to a tax credit (the "associated U.K. tax credit"). The rate of the associated U.K. tax credit for dividends is 25% of the dividend (i.e. the equivalent of 20% of the sum of the dividend and the associated tax credit).

Under the Income Tax Convention and under current U.K. law, an Eligible U.S. Holder will be entitled to receive, in addition to the dividend paid, an amount equal to the associated U.K. tax credit, subject to a U.K. withholding tax equal to 15% of the sum of the dividend and the associated U.K. tax credit. For example, a dividend of £80 would result in an associated U.K. tax credit of £20, which would entitle an Eligible U.S. Holder to an additional payment of £5 (an amount equal to the associated U.K. tax credit of £20 less the U.K. withholding tax of £15), giving a total net receipt after U.K. taxes but before U.S. taxes of £85.

For United States federal income tax purposes, dividends and amounts paid in respect of the associated U.K. tax credit (including any related U.K. withholding tax) will be includable in the gross income of a U.S. holder as ordinary income when the dividends are received by the Depository. U.S. Holders will not be eligible for the dividends-received deduction otherwise allowed to corporations. Dividends generally will be foreign source income. The amount includable in income in respect of dividends paid in pounds sterling will be the U.S. dollar value of the payment based on the exchange rate in effect on the day of receipt by the Depository, regardless of whether the payment is in fact converted into U.S. dollars. Pounds sterling received by U.S. Holders will have a tax basis equal to their U.S. dollar value at the time of distribution. Gain or loss, if any, realized on a subsequent disposition of the pounds sterling will be ordinary income or loss. Subject to certain limitations, the 15% U.K. withholding tax will be treated as a foreign income tax eligible for credit against such U.S. Holder's United States federal income tax liability.

Under arrangements agreed with the U.K. Inland Revenue, an Eligible U.S. Holder will generally receive payment of the associated U.K. tax credit to which such Eligible U.S. Holder is entitled, net of the applicable U.K. withholding tax, at the same time as and together with the payment of the associated dividend as long as the registered holder completes the declaration on the reverse of the dividend cheque confirming the Eligible U.S. Holder's entitlement to the associated U.K. tax credit and presents the cheque for payment within three months from the date of issue of the cheque or, in the case of ADSs held through the Depository Trust Company ("DTC"), as long as a declaration as to the conditions entitling the Eligible U.S. Holder to the associated U.K. tax credit is completed by the broker-dealer or bank member of DTC which holds the ADSs on behalf of the Eligible U.S. Holder. These procedures can be terminated or altered without notice by the U.K. Inland Revenue.

A U.S. Holder who does not meet these requirements must make an individual claim for a refund of the associated U.K. tax credit, net of U.K. withholding tax, in the manner and at the times described in U.S. Internal Revenue Procedure 80-18, 1980-1 C.B. 623, and U.S. Internal Revenue Procedure 81-58, 1981-2 C.B. 678. Claims for refund must be made within six years of the U.K. year of assessment (generally, the 12 month period ending April 5 in each year) in which the related dividend was payable. The first claim by a U.S. Holder of an ADS for a refund under these procedures is made by sending the appropriate U.K. form in duplicate to the Director of the Internal Revenue Service Centre with which the Eligible U.S. Holder's last Federal income tax return was filed. Forms may be obtained from the Internal Revenue Service, Assistant Commissioner (International), 950 L'Enfant Plaza South, S.W., Washington D.C. 20024. A refund claim is not considered made until the U.K. tax authorities receive the appropriate form from the Internal Revenue Service, so forms should be sent to the Internal Revenue Service well before the end of the applicable limitation period. Any claim for refund of the associated U.K. tax credit by a U.S. holder after the first claim should be filed directly with the Financial Intermediaries and Claims Office, St John's House, Merton Road, Bootle, Merseyside L69 9BB, England.

If the U.S. Holder is a U.S. partnership, trust or estate, the associated U.K. tax credit will be available only to the extent that the income derived by such partnership, trust or estate is subject to United States federal income tax as the income of a resident either in its hands or in the hands of its partners or beneficiaries, as the case may be.

Whether holders of ADSs who reside in countries other than the United States are entitled to a tax credit in respect of dividends on ADSs depends in general upon the provisions of conventions or agreements, if any, as may exist between such countries and the United Kingdom.

Beginning April 6, 1999, the rate of the associated U.K. tax credits for dividends will be $\frac{1}{9}$ of the dividend (i.e. the equivalent of 10% of the sum of the dividend and the associated tax credit). As a result, from that date, Eligible U.S. Holders generally will no longer receive additional payments in respect of associated U.K. tax credits.

Instead, payments to Eligible U.S. Holders will be reduced by the excess of the U.K. withholding tax over the associated U.K. tax credit. For example, a dividend of £80 would result in an associated tax credit of

£8.89. The total of £88.89 would be subject to U.K. withholding tax of £13.33, so that the Eligible U.S. Holder would ultimately receive a dividend of £75.56. As before, subject to certain limitations, the 15% U.K. withholding tax (£13.33) will be treated as a foreign income tax eligible for credit against such U.S. Holder's United States federal income tax liability.

Taxation of capital gains

For United States federal income tax purposes, U.S. Holders generally will recognize capital gain or loss on the sale or other disposition of ADSs held by the U.S. Holder or by the Depository. U.S. Holders will not recognize gain or loss on deposits or withdrawals of Ordinary Shares in exchange for ADSs. Gain recognized by a U.S. Holder generally will be treated as United States source income. Loss may be treated as foreign source loss by reference to the source of dividends paid with respect to the Ordinary Shares.

A U.S. Holder who is not resident or ordinarily resident for U.K. tax purposes in the United Kingdom will not be liable for U.K. tax on capital gains recognized on the sale or other disposition of ADSs, unless the ADS holder carries on a trade, profession or vocation in the United Kingdom through a branch or agency and the ADSs are or have been used, held or acquired for the purposes of such trade, profession or vocation or such branch or agency.

U.S. citizens resident or ordinarily resident in the United Kingdom, U.S. corporations resident in the United Kingdom by reason of their business being managed or controlled in the United Kingdom and U.S. citizens who or U.S. corporations which, are trading or carrying on a trade, profession or vocation in the United Kingdom through a branch or agency and who or which have used, held or acquired the ADSs for the purposes of such trade, profession or vocation or such branch or agency may be liable for both U.K. and U.S. tax in respect of a gain on the disposal of the ADSs. Such holders may not be entitled to a tax credit against their United States federal income tax liability for the amount of U.K. capital gains tax or U.K. corporation tax on chargeable gains, as the case may be, paid in respect of such gain unless the holder appropriately can apply the credit against tax due on income from foreign sources.

United States Information Reporting and Backup Withholding

Dividends paid in respect of the Ordinary Shares and proceeds from the sale or disposition of the ADSs or Ordinary Shares may be subject to United States information reporting requirements and a 31% United States backup withholding tax if the holder does not provide a correct taxpayer identification number or otherwise establish an exemption. The holder may credit amounts withheld against its United States federal income tax liability and claim a refund for amounts withheld in excess of its tax liability. The requirements for establishing an exemption from information reporting and backup withholding will change with respect to payments made after December 1999.

U.K. Inheritance tax

An individual who is domiciled in the United States for the purposes of the convention between the United States and the United Kingdom for the avoidance of double taxation with respect to estate and gift taxes (the "Estate Tax Convention") and who is not a national of the United Kingdom for the purposes of the Estate Tax Convention generally will not be subject to U.K. inheritance tax in respect of the ADSs on the individual's death or on a gift of the ADSs during the individual's lifetime, unless the ADSs are part of the business property of a permanent establishment of the individual in the United Kingdom or pertain to a fixed base in the United Kingdom of an individual who performs independent personal services. Special rules apply to ADSs held in trust. In the exceptional case where the shares are subject both to U.K. inheritance tax and to U.S. federal gift or estate tax, the Estate Tax Convention generally provides for the tax paid in the United Kingdom to be credited against tax paid in the United States.

U.K. stamp duty and stamp duty reserve tax

No U.K. stamp duty will be payable on the acquisition or transfer of ADSs provided that the instrument of transfer is executed outside the United Kingdom and subsequently remains at all times outside the United Kingdom. An agreement to transfer ADSs in the form of ADRs settled within or reported through any system approved under U.K. Treasury Regulations will give rise to a liability to stamp duty reserve tax at the rate of 0.5%. Transfers between non-residents not settled or reported through any system approved under U.K. Treasury regulations are exempt from stamp duty reserve tax.

An agreement to purchase Ordinary Shares, as opposed to ADSs, will normally give rise to a charge to U.K. stamp duty or stamp duty reserve tax at the rate of 0.5% of the price. Stamp duty reserve tax is generally the liability of the purchaser and is usually paid by the purchaser. Where such Ordinary Shares are later transferred to the Depository's nominee, further stamp duty or stamp duty reserve tax will normally be payable at the rate of £1.50 per £100 (or part thereof) of the value of the Ordinary Shares at the time of the transfer. However, where Ordinary Shares being acquired are transferred directly to the Depository's nominee, the only charge will generally be the higher charge of £1.50 per £100 (or part of the price payable for the Ordinary Shares so acquired) and the stamp duty reserve tax generally will not apply.

A transfer of Ordinary Shares by the Depository or its nominee to the relative ADS holder when the ADS holder is not transferring beneficial ownership will give rise to U.K. stamp duty at the rate of 50p per transfer.

ITEM 8. SELECTED FINANCIAL DATA

The selected financial data set out below are extracted or derived from the consolidated financial statements of the group which have been audited by Coopers & Lybrand, Chartered Accountants and registered auditors. This selected financial data should be read in conjunction with, and is qualified in its entirety by reference to, such consolidated financial statements and their accompanying notes located on pages F-1 through F-38.

ScottishPower prepares the consolidated financial statements of the group in accordance with accounting principles generally accepted in the U.K. ("U.K. GAAP"), which differs in certain significant respects from accounting principles generally accepted in the United States ("U.S. GAAP"). A description of the significant differences between U.K. GAAP and U.S. GAAP applicable to ScottishPower and a reconciliation of profit after taxation (or net income) and equity shareholders' funds (or shareholders' equity) under U.K. GAAP to those under U.S. GAAP are set out in Note 33 to the consolidated financial statements of the group.

	Notes	Fiscal years					
		1998 ¹ \$m	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Profit and Loss Account							
Information:							
Turnover	5	5,255	3,128	2,941	2,271	1,716	1,569
Operating profit	5	1,319	785	664	434	380	360
Profit before taxation		1,075	640	558	404	375	351
Ordinary taxation		(255)	(152)	(137)	(109)	(101)	(93)
Windfall tax		(533)	(317)	-	-	-	-
Profit after taxation		287	171	421	295	274	258
Dividends		(408)	(243)	(218)	(146)	(112)	(101)
Earnings per ordinary share	4	\$0.6935	41.28p	38.11p	33.12p	32.88p	30.95p
Earnings per ADS	2,4	\$2.77	£1.65	£1.52	£1.32	£1.32	£1.24
Dividend per ordinary share, net	3	\$0.3427	20.40p	18.50p	15.50p	13.65p	12.40p
Dividend per ADS, net	2, 3	\$1.38	£0.82	£0.74	£0.62	£0.55	£0.50
Balance sheet information:							
Tangible fixed assets		8,040	4,786	4,070	2,221	1,378	1,250
Total assets		9,369	5,577	4,848	2,861	1,844	1,679
Long term liabilities		2,411	1,435	1,076	785	313	300
Equity shareholders' funds		2,869	1,708	1,523	1,208	1,106	942
U.S. GAAP information:							
Turnover	5	5,255	3,128	2,941	2,271	1,716	1,569
Profit after taxation		218.1	129.8	353.4	271.1	-	-
Basic earnings per share	4	\$0.6360	37.86p	31.94p	30.39p	-	-
Basic earnings per ADS	2,4	\$2.5368	£1.51	£1.28	£1.22	-	-
Diluted earnings per share	4	\$0.6303	37.52p	31.66p	30.14p	-	-
Diluted earnings per ADS	2,4	\$2.5200	£1.50	£1.27	£1.21	-	-
Total assets		11,001	6,548	6,065	3,480	-	-
Equity shareholders' funds		3,785	2,253	2,340	1,510	-	-

(1) Translated, solely for the convenience of the reader, at \$1.68 to £1.00, the Noon Buying Rate in effect on March 31, 1998.

(2) Calculated based on a ratio of four Ordinary Shares for one ADS.

(3) Dividends per share and per ADS exclude any associated U.K. tax credit available to certain holders of Ordinary Shares and ADS. See "Item 7. Taxation—Taxation of Dividends".

(4) Earnings per share/ADS have been stated before the windfall tax applied in fiscal 1998. Shown below are the 1998 ratios after windfall tax:

U.K. GAAP information

Basic earnings per share	\$0.2421	14.41p
Basic earnings per ADS	\$0.9744	58.00p

U.S. GAAP information

Basic earnings per share	\$0.1848	11.00p
Basic earnings per ADS	\$0.7392	44.00p
Diluted earnings per share	\$0.1831	10.90p
Diluted earnings per ADS	\$0.7325	43.60p

(5) In fiscal 1996, the results included turnover of £439.4 million and operating profit of £37.7 million (net of reorganization costs of £42.7 million explained below) in respect of Manweb for the period of the y

following its acquisition on October 6, 1995. In September 1994, the Accounting Standards Board issued Financial Reporting Standard No.7 on fair values in acquisition accounting. To comply with that reporting standard, reorganization and integration costs must be charged against post acquisition profits, and must not be reflected in the acquisition balance sheet. Accordingly, in line with the company's announcement in January 1996, the severance and reorganization costs of £42.7 million associated with the acquisition of Manweb were charged against profits in the second half of fiscal 1996. Of the total £42.7 million, £28.2 million represents accruals for severance costs (including directors severance costs) and £14.5 million represents reorganization costs in areas such as contracting and retail. In fiscal 1997, the results include turnover of £316.2 million and operating profit of £114.4 million (net of reorganization costs of £21.2 million) in respect of Southern Water, for the period of the year following its acquisition on August 6, 1996.

Dividends

An interim dividend in respect of each fiscal year is normally declared by ScottishPower in November for payment in the following March. The final dividend in respect of each fiscal year is normally recommended by directors in May and paid in October, following approval by ScottishPower's shareholders. A final dividend in respect of fiscal 1998 of 13.60p per Ordinary Share will be paid on October 1, 1998, making a total dividend of 20.40p for fiscal 1998. The total dividend payable per ADS for fiscal 1998 was approximately \$1.37 based on the Noon Buying Rate in effect on March 31, 1998. The following table sets out the dividends paid on Ordinary Shares and ADSs in respect of the past three fiscal years, excluding any associated U.K. tax credit in respect of such dividends.

		Fiscal				
	Note	1998	1997	1996	1995	1994
		(p)	(p)	(p)	(p)	(p)
Pence per Ordinary Share:	1					
Interim		6.80	6.17	5.17	4.55	4.13
Final		<u>13.60</u>	<u>12.33</u>	<u>10.33</u>	<u>9.10</u>	<u>8.27</u>
Total		<u>20.40</u>	<u>18.50</u>	<u>15.50</u>	<u>13.65</u>	<u>12.40</u>
Pence per ADS	2					
Interim		27.20	24.68	20.68	18.20	16.52
Final		<u>54.40</u>	<u>49.32</u>	<u>41.32</u>	<u>36.40</u>	<u>33.08</u>
Total		<u>81.60</u>	<u>74.00</u>	<u>62.00</u>	<u>54.60</u>	<u>49.60</u>
U.S. dollars per ADS	2, 3					
Interim		\$0.46	\$0.40	\$0.34	\$0.30	\$0.27
Final		<u>\$0.91</u>	<u>\$0.81</u>	<u>\$0.68</u>	<u>\$0.60</u>	<u>\$0.54</u>
Total		<u>\$1.37</u>	<u>\$1.21</u>	<u>\$1.02</u>	<u>\$0.90</u>	<u>\$0.81</u>

- (1) Dividends per share and per ADS exclude any associated U.K. tax credit available to certain holders of Ordinary Shares and ADSs. See "Item 7. Taxation—Taxation of Dividends". Dividends paid by the Depository in respect of ADSs are paid in U.S. dollars based on a market rate of exchange that differs from the Noon Buying Rate.
- (2) Calculated based on a ratio of four Ordinary Shares for one ADS.
- (3) Dividends have been translated from pounds sterling into U.S. dollars, solely for the convenience of the reader, at \$1.68 to £1.00, the Noon Buying Rate in effect on March 31, 1998. As dividends paid by ScottishPower are in pounds sterling, exchange rate fluctuations will affect the U.S. dollar amounts received by holders of ADSs on conversion by the Depository of such cash dividends. See "—Exchange Rates" below.

Future dividends will be dependent upon the group's earnings, financial condition and other factors. Interim and final dividends paid in the past are not necessarily indicative of future interim and final

dividends, or the future relationships between them. A person resident in the U.K. for tax purposes who receives a dividend from ScottishPower is generally entitled to a tax credit, currently at a rate of 20% of the net dividend (the "associated U.K. tax credit"). For further information, see "Item 7. Taxation-Taxation of Dividends".

Exchange Rates

Cash dividends are paid by ScottishPower in pounds sterling. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of the ADSs on conversion by the Depositary of such cash dividends paid. In addition, fluctuations in the exchange rate between pounds sterling and U.S. dollars will affect the U.S. equivalent of the quoted pound sterling price of Ordinary Shares on the London Stock Exchange, and as a result, will likely affect the market price of ADSs in the United States.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis is based on the consolidated financial statements of the group prepared in accordance with U.K. GAAP and should be read in conjunction with the Consolidated Financial Statements of the group and Notes thereto included in Item 19 of this report.

Introduction

ScottishPower has established itself as a leading U.K. multi-utility. This has been achieved through a continued focus on cost efficiency in order to maximize the potential of the group's electricity operations. In addition, the strategy has been to profitably expand existing businesses, establish new businesses such as ScottishTelecom, and to create further shareholder value via focused acquisitions of other utility businesses. This strategy resulted in the acquisition of the English regional electricity company, Manweb, in fiscal 1996 and of Southern Water, a water supply and waste water treatment company located in the south of England in fiscal 1997.

ScottishPower has succeeded in creating value from the acquisitions of Manweb and Southern Water. The transition plan for Manweb is now complete with operating cost savings totalling £98 million, some £6 million ahead of plan. Southern Water has delivered ahead of ScottishPower's pre-acquisition expectations with operating cost savings of £28 million, some £3 million ahead of plan.

In fiscal 1998, Manweb contributed £131 million and, in its first full year after acquisition, Southern Water contributed £241 million to group operating profit. Overall, management believes that further cost savings of the order of 5% per annum are achievable from the Scottish energy businesses and Manweb. Southern Water is forecast to save £9 million in fiscal 1999.

The U.K. electricity supply market is scheduled to open to full competition in stages from September 1998. ScottishPower and Manweb have been among the industry leaders in terms of the development of the systems required for the competitive market. As a consequence, they will be among the first companies ready for the competitive market when it opens in September 1998. The gas market throughout Great Britain was fully opened to competition by May 1998.

ScottishPower's strategy, in the competitive market, is to retain electricity customers in its franchise areas and grow its customer base throughout the U.K. focusing initially on the Southern Water area and affinity partnerships. The group is in a strong position to achieve its target of 15% of the U.K. domestic electricity market and 12% of the U.K. regional gas market by the year 2000. At the end of fiscal 1998 it had 320,000 domestic gas customers and 15,000 industrial and commercial gas customers in the U.K.

ScottishPower has continued to make significant capital investments to build its businesses and grow future earnings with total net capital expenditure of £1,317 million over the three year period to March 31, 1998. Substantial investment has taken place on the electricity transmission and distribution networks, in the developing businesses (principally ScottishTelecom) and in Southern Water. In Southern Water's case this is part of an ongoing £1 billion plus investment program in the five years to fiscal 2000.

The Finance Bill announced in July 1997 detailed HM Government's intention to levy a windfall tax on certain utility companies, which included, within the group, ScottishPower, Manweb and Southern Water. Provision has been made in full in fiscal 1998 for the total liability of the group which has been assessed at £317 million. The first of two equal instalments was paid on December 1, 1997 with the second instalment due on December 1, 1998.

These developments have contributed to an increase in profit before tax of 58% over the last two years with profits of £639.6 million in fiscal 1998, up from £404.8 million in fiscal 1996. This growth is reflected in earnings per share before windfall tax of 41.28p in fiscal 1998, up from 33.12p in fiscal 1996. The results for fiscal 1998 are significantly affected in their comparison with previous years due to the provision of £317 million for windfall tax and the company will continue to bear the impact of the tax through higher interest costs in the coming years.

As well as continuing to drive for growth in its U.K. businesses, the group is exploring international opportunities in the electricity sector. The focus is in particular upon the United States, where management believes the cultural fit and the likely development of U.K.-style industry restructuring and convergence may offer opportunities to deliver value by applying our core skills. The group will only proceed if it sees the opportunity to add substantial value for ScottishPower shareholders.

Recent Developments

ScottishPower has achieved its stated aim to sell the Southern Water subsidiaries it considered non-essential to the Southern Water core water and waste water business, realising £90 million on an original £70 million target. Property disposal proceeds have already reached just under the target of £30 million, with further sales in the year ahead.

The rapid growth of the telecommunications sector presents significant opportunities for ScottishTelecom. The group's existing network in Central and Northeast Scotland is being extended to the Highlands and Islands. ScottishTelecom acquisitions in fiscal 1998 and the post year-end acquisition of Demon Internet Limited, have positioned ScottishTelecom as the largest independent mobile service provider in Scotland and in a leading position in the U.K. Internet market.

Subsequent to a referendum of the people of Scotland and Wales in September 1997, the Government has introduced legislation which will allow for devolved legislative assemblies. ScottishPower is actively contributing to the devolution process and is convinced that it offers positive opportunities. However, it is critical that a "level playing field", particularly in the areas of local planning, environment, regulation and business rates, is maintained across the U.K.

Planning approvals have been announced by HM Government for the construction of a link between Scotland and Northern Ireland, with a maximum capacity of 250MW; the construction of this link will only go ahead if agreement between ScottishPower and Northern Ireland Electricity is achieved. In addition, planning approval has been announced for the reinforcement necessary in England and Wales to upgrade the interconnector link between Scotland and England to 2,200MW. This will have the effect of increasing sales from 5.5TWh to some 9.25TWh. Construction work will begin on both links as soon as possible. The capital cost to ScottishPower of both the England and Wales interconnector upgrade and the construction of the link between Scotland and Northern Ireland are not considered material. Costs incurred will be recouped, by the company, though 'use of system' charges on both projects.

In June 1998 HM Government published its Energy Review, which was designed to prolong the life of the coal industry in the U.K. through encouraging coal-fired generators to divest further plant and withholding approval to construct new gas-fired generation. Management's initial view is that HM Government's proposals are broadly neutral to ScottishPower.

The DTI and OFFER review of electricity trading arrangements has resulted in draft proposals for a wholesale reform of the pool in England and Wales, which could significantly shift the nature of competition between suppliers and generators. The proposals for a bilateral market and a balancing pool are similar to the existing arrangements in Scotland.

In May 1998 the DGES issued a consultation paper on the need for separation of PES distribution and supply activities, the means by which separation could best be achieved, the additional separation of transmission activities in Scotland and options for legislative reform to change the responsibilities and rights of suppliers, distributors and customers. The consultation process on these proposals is underway.

Reviews of the price controls governing the group's electricity supply activities took effect from April 1, 1998 with a further review from April 1, 2000. Reviews of the price controls governing the group's transmission activities and distribution activities and for the water business will take effect from April 1, 2000.

In May 1997, ScottishPower reached agreement with the DGES for the modification of its License to bring it into line with that of Hydro-Electric in respect of the GBY component of the supply price control for franchise customers. The effect of this agreement was that ScottishPower retained some £10 million of revenue in fiscal 1998 which it otherwise would have had to return to customers through price cuts. HM Government's Green Paper on utility regulation, published in March 1998, put forward proposals for changes in relation to regulation and invited consultation. The timing of any potential legislation arising from this has not been announced. Until then the group will be actively involved in the consultation process.

ScottishPower is confident that the company's track record as an efficient, low cost operator will stand it in good stead in the developing regulatory environment. In addition, management believes that by operating efficient customer focused businesses, regulatory risks are minimised.

Effect of Price Controls

The natural monopoly businesses of the group which are currently subject to RPI - X price controls in the electricity businesses and RPI+K for Southern Water Services had an aggregate turnover of £1,100.2 million in fiscal 1998, or approximately 35% of total group turnover of £3,128.2 million. However, these businesses had a combined operating profit of £567.9 million in fiscal 1998, or some 72% of the group's total operating profit of £785.1 million. The breakdown of turnover and operating profit among the natural monopoly businesses of the group is shown in the table below:

Business	Fiscal 1998	Fiscal 1998
	Turnover £m	Operating Profit £m
ScottishPower Transmission	129.6	80.1
ScottishPower Distribution	313.4	169.4
Manweb Distribution	236.8	95.4
Southern Water Services	420.4	223.0

As an example of the effect of an RPI - X price control, the current transmission price control applicable to ScottishPower was set at RPI - 1 to take effect from April 1, 1994 and to run for 5 years. Had this control been set at RPI - 2 for the same period, then the allowed revenue for fiscal 1998 would have been

4% lower than the value of £129.6 million above, because of the cumulative effect of the control. All other things being equal, this would have resulted in a reduction of operating profit of some £5.2 million. A similar effect would occur with the other price controls dependent on when the control had been set. For a 5 year control a tightening of X or K by 1 percentage point would result in average annual allowed revenue over the 5 year period being reduced by 2.5%, which would be around £28 million in total for the four regulated businesses above.

Each price control is subject to a separate price review undertaken by the applicable regulator and the setting of a new price control requires the license to be amended. If ScottishPower, or any of its subsidiaries, does not agree with the new price control then it is up to the company to seek a referral to the MMC. Under such a reference the MMC would be required to investigate and report on whether the revenues generated under the control would be sufficient for ScottishPower to finance its activities covered by the control.

While it is only in these natural monopoly businesses that price controls (RPI - X and RPI + K) will continue for the foreseeable future, a supply price restraint will continue for a period of two years from April 1, 1998. This is an interim measure and the form of constraint is one setting maximum tariff levels for the two years. The nature and extent of possible restraints from April 1, 2000 will be reviewed in light of the experience and prospects at the same time as the distribution price controls are reviewed.

Outlook

The next few years will continue to present rapid change in the utilities sector offering both opportunities and challenges. ScottishPower's strategy as a multi-utility supplier is founded upon cross-selling electricity and gas, and in Scotland, telecommunications, to its franchise customers. The group is also seeking to grow outside its existing areas of operation both directly and in partnership with others. Both Manweb and ScottishPower are among leaders in the industry in terms of systems development. As a consequence they will be two of the first companies ready for the competitive electricity market which will open progressively from September 1998. The gas market throughout Great Britain was fully opened to competition by May 1998. The group is already successfully marketing gas in its three territories.

As well as continuing to drive for growth in its U.K. businesses, the group is exploring international opportunities in the electricity sector. The focus is in particular upon the United States, where management believes the cultural fit and the likely development of U.K.-style industry restructuring and convergence may offer opportunities to deliver value by applying the group's core skills. The group shall only proceed if it sees the opportunity to add substantial value for ScottishPower shareholders.

A portion of the group's revenues are capped under pricing formulae imposed by the relevant regulators. The results of future reviews of these pricing formulae are expected to become effective in fiscal 2001 for the distribution and supply businesses of ScottishPower and Manweb, the transmission business of ScottishPower and for Southern Water Services.

In the first quarter of fiscal 1999 the trading outcome of the group's operations have been in line with expectations.

Looking forward, management foresees further changes in the utility industry, both at home and abroad, and continued challenges in terms of regulation and competition. The quality of staff, and their experience to date in dealing with these issues, give management confidence that ScottishPower will be able to turn these challenges into opportunities creating real benefits for customers and shareholders.

Results of Operations

The results for the last three fiscal years are set out below. This data should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 19 of this report.

Results for Fiscal 1998 Compared With Fiscal 1997

Group Financial Results

	Group Financial Results			
	1998	1997	Change	
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>%</u>
Turnover	3,128.2	2,940.7	187.5	6.4
Operating profit	785.1	663.9	121.2	18.3
Profit before tax	639.6	558.4	81.2	14.5
Free cash flow	707.0	572.7	134.3	23.5
Earnings per share				
before windfall tax	41.28p	38.11p	3.17	8.3
Dividend per share	20.40p	18.50p	1.90	10.3

Group turnover of £3,128 million in fiscal 1998 was £187 million higher than in fiscal 1997, an increase of 6.4%. This was due mainly to a full year's revenue from Southern Water and growth in our developing businesses, especially ScottishTelecom where sales more than doubled. Sales in our energy businesses were maintained, despite lower prices to our customers due to tariff reductions, competitive pricing outside ScottishPower's franchise area and lower volumes which resulted from the exceptionally mild Winter. Offsetting this, gas sales were up by over 200% to £60 million, reflecting our continuing success in gaining new customers in that market. Total domestic gas customers acquired at March 31, 1998 were 320,000.

The rise in overall turnover together with continued strong control over operating costs led to good growth in earnings before interest, tax and depreciation, up £142 million to £932 million, and higher operating profit of £785 million, up £121 million.

The net interest charge increased by £39 million to £147 million, mainly due to the full year effect of additional borrowings associated with the acquisition of Southern Water in August 1996 and the payment of the first instalment of the windfall tax in December 1997.

Profit before tax grew by 14.5% to £640 million. At £152 million, the ordinary tax charge represented an effective tax rate of 23.7%, down from 24.5% in the previous year. Provision has been made in full for the windfall tax on utilities announced in the July 1997 budget; the liability for the group has been assessed at £317 million.

Earnings per share before the windfall tax amounted to 41.28p, an increase of 8.3% compared to fiscal 1997. The recommended final dividend of 13.60p net per share brought the total dividend per share for fiscal 1998 to 20.40p net, an increase of 10.3% compared to fiscal 1997. This is in line with ScottishPower's stated aim of 7% to 8% real dividend growth per annum, until at least the regulatory reviews in the year 2000, while maintaining a prudent level of dividend cover. The dividend cover remained at just over two times earnings before the windfall tax.

Free cash flow for the year before windfall tax was £707 million (as defined on page F-12), an increase of £134 million compared to fiscal 1997, reflecting the improved operating performance and good control of working capital. The group invested £630 million in capital projects during the year, £170 million more than in the previous year. This investment was primarily to improve the quality of the infrastructure

assets in the group's electricity and water and waste water services businesses, and to grow the group's telecommunications business. The figures also reflect a full year of expenditure at Southern Water.

Net debt increased from £1,790 million to £1,953 million, mainly due to payment of the first instalment of the windfall tax of £158 million.

Gearing at March 31, 1998 reduced to 114% compared to 118% a year ago, despite the impact of part of the windfall tax. Excluding the effect of the windfall tax, gearing would have been 100%. Interest cover remained prudent at 5.3 times.

Group Turnover

Turnover by business segment

	Total turnover			Inter-segment turnover			External turnover		
	1998 £m	1997 £m	Change £m	1998 £m	1997 £m	Change £m	1998 £m	1997 £m	Change £m
Energy business									
Generation Wholesale	1,014.3	974.4	39.9	764.8	744.4	20.4	249.5	230.0	19.5
Power Systems	443.0	429.2	13.8	391.1	386.8	4.3	51.9	42.4	9.5
Energy Supply	1,336.2	1,270.4	65.8	11.5	0.9	10.6	1,324.7	1,269.5	55.2
Manweb	662.5	738.4	(75.9)	8.6	-	8.6	653.9	738.4	(84.5)
Energy Total	3,456.0	3,412.4	43.6	1,176.0	1,132.1	43.9	2,280.0	2,280.3	(0.3)
Non-energy business									
Manweb	5.3	20.9	(15.6)	5.3	4.2	1.1	-	16.7	(16.7)
Southern Water	453.0	316.7	136.3	0.4	0.5	(0.1)	452.6	316.2	136.4
Developing Businesses	524.0	412.9	111.1	128.4	85.4	43.0	395.6	327.5	68.1
Total							3,128.2	2,940.7	187.5

External energy turnover

	1998				1997			
	Generation Wholesale £m	Power Systems £m	Energy Supply £m	Total £m	Generation Wholesale £m	Power Systems £m	Energy Supply £m	Total £m
First tier	-	-	1,111.0	1,111.0	-	-	1,150.3	1,150.3
Second tier	-	-	152.4	152.4	-	-	101.8	101.8
Wholesale	199.4	-	-	199.4	195.6	-	-	195.6
Other energy sales	50.1	51.9	61.3	163.3	34.4	42.4	17.4	94.2
ScottishPower sub total	249.5	51.9	1,324.7	1,626.1	230.0	42.4	1,269.5	1,541.9
Manweb				653.9				738.4
Total				2,280.0				2,280.3

Group turnover of £3,128 million was £187 million higher than fiscal 1997, an increase of 6.4%. Total energy sales across the group were £2,280 million, the same as in the previous year. Lower sales as a result of the exceptionally mild Winter, combined with competitive pricing in the second tier market and

lower prices in the domestic market, were offset by increased sales in the emerging gas markets. Southern Water's contribution to group turnover increased by £136 million, mainly reflecting the inclusion of the first full year's trading. The group's developing businesses increased their turnover by £51 million, the majority of this in ScottishTelecom.

ScottishPower energy sales are divided into four market segments: first tier sales which represent the sale of electricity to customers in the Scottish franchise area; second tier sales by ScottishPower to customers outside the Scottish franchise area; wholesale, which is the sale of electricity to other electricity companies and to the Pool in England and Wales; and other energy sales which include the sale of gas by ScottishPower in both the established commercial and industrial market and in the emerging domestic gas market in the U.K.

In the **first tier** market, sales were £1,111 million, down £39 million on the previous year. Volumes were reduced (down 3.0% to 19,622 GWh) by the unusually mild Winter in fiscal 1998 and lower sales in the competitive part of this market. In addition, prices were lower due to tariff reductions in the domestic sector and competition in the commercial and industrial sector.

In contrast, **second tier** volumes continued to grow with volumes increasing by 54%; turnover was £51 million higher at £153 million, reflecting our success in winning new customers. In addition, the further combination of the ScottishPower and Manweb sales forces led to all new customers contracting with ScottishPower.

Wholesale electricity sales also increased in the year, up 2% to £199 million, where the effect of lower export volumes, down 4% to 5,607 GWh due to system constraints in the first half of the year, was offset by higher agency sales.

Other energy sales increased by £69 million to £163 million in fiscal 1998, mainly as a result of the group's success in winning customers in the new domestic gas markets.

Manweb's energy turnover for fiscal 1998 was £654 million, a fall of £84 million or 11% compared to the previous year. Distribution income reduced as a result of the regulatory pricing formula and the benefits of lower costs were passed on to domestic and business customers through reduced tariffs. In addition, the continued combination of the ScottishPower and Manweb sales forces led to further new industrial and commercial customers contracting with ScottishPower.

Southern Water's contribution to group turnover increased by £136 million to £453 million primarily as a result of the full year effect. Turnover in the core business increased to £420 million, an increase of £21 million compared to the equivalent full year in fiscal 1997, due to higher prices to fund the capital expenditure program. In the non-core businesses, turnover for the full year fell by £43 million, as expected, due to the business disposals achieved during the year.

Turnover in the **developing businesses** increased by £51 million in fiscal 1998 to £396 million. Most of the increase reflected the continued expansion of ScottishTelecom through further organic growth and acquisitions. External turnover in ScottishTelecom increased by 122% to £82 million and total turnover by 111% to £113 million. The Retail business, despite the poor market conditions experienced during the year, increased its turnover by £7 million to £274 million due to new store openings and increased sales of multimedia; however like-for-like sales fell by 4%.

Group Operating Costs

The 6.1% increase in cost of sales to £1,851 million in fiscal 1998 compared favorably with the 6.4% increase in turnover, reflecting the continued focus in the group on cost control and improved efficiency. Cost of sales in the energy businesses increased due to the higher gas and second tier sales volumes, offset by reduced other costs arising from benchmarking and cost initiatives.

Operating costs at Manweb were £24 million less than the previous year, beating the original target by £6 million. In Southern Water on a full year basis, after allowing for higher costs from new environmental obligations and capital schemes, operating costs fell by £28 million, £3 million better than target. These operating cost reductions have been achieved principally as a result of synergies following acquisition and through the sale of non-core Southern Water businesses.

Costs in the developing businesses increased due to business expansion, especially in Scottish Telecom which acquired a number of subsidiaries during the fiscal year.

Transmission and distribution costs fell by £3 million year-on-year despite the impact of initial domestic gas customer capture costs in the gas business and the repair costs necessary as a result of the severe Winter storms.

Allowing for restructuring costs in the prior year arising on the acquisition of Southern Water, administrative expenses reduced due to savings which offset increases arising through the expansion in the developing businesses, especially telecommunications. As with cost of sales, there is a continued drive on improving cost efficiency across all areas of the group.

Group Operating Profit

Group operating profit by business segment

	1998 <u>£m</u>	1997 <u>£m</u>	Change <u>£m</u>
Generation Wholesale			
Generation	122.9	132.0	(9.1)
Wholesale	7.9	14.1	(6.2)
Power Systems			
Transmission	80.1	77.3	2.8
Distribution	169.4	150.7	18.7
Energy Supply			
First tier electricity	38.0	39.4	(1.4)
Second Tier electricity	(3.8)	(3.2)	(0.6)
Other energy sales	(19.1)	(3.8)	(15.3)
Scottish Energy Businesses	395.4	406.5	(11.1)
Manweb	131.3	135.0	(3.7)
Southern Water	240.7	114.4 ¹	126.3
Developing Businesses	17.7	8.0	9.7
Total	<u>785.1</u>	<u>663.9</u>	<u>121.2</u>

¹ Eight months from date of acquisition and after reorganization costs of £21.2 million.

Group operating profit was £785 million in fiscal 1998, an increase of 18% compared to fiscal 1997. Operating profit in the **Scottish Energy businesses** fell by £11 million to £395 million, due mainly to reduced generation profits and customer capture costs in the emerging gas markets. These were offset in part by lower costs and increased profit in Power Systems, mainly due to lower costs and increased distribution revenues.

The profit in **Generation Wholesale** was £131 million in fiscal 1998, down £15 million on fiscal 1997. The generation profitability was down £9 million due to reduced volumes, higher depreciation and a greater volume of 'must take' nuclear purchases. In wholesale, profit fell by £6 million reflecting lower export volumes, as a result of system constraints, and reduced margins.

The **Power Systems** business increased profit by £22 million to £250 million. Within this business, transmission increased operating profit by £3 million to £80 million with higher National Grid costs being more than offset by increased exit charges and savings from operating cost initiatives. The distribution profit increased by £19 million as a result of higher distribution revenues and operating cost savings.

In **Energy Supply**, first tier profit fell by £1 million due to reductions in prices and the impact of lower volumes as a result of the mild Winter. Losses in the second tier market increased modestly to £4m due to the competitive pressures in this sector. Actions to stem further second tier losses have been taken and much of the unprofitable business has now been surrendered. In other energy sales, the operating loss of £19 million reflects initial domestic customer gas capture costs of approximately £12 million, principally in the second half of the year.

Operating profit in **Manweb** decreased slightly by £4 million to £131 million. A fall in turnover was offset by a reduction in costs due to the implementation of the last stage of the acquisition transition plan. Total operating cost savings arising from the acquisition of Manweb now total £98 million compared to cost levels pre-acquisition of £176 million, and ongoing cost savings are £6 million better than the transition plan target.

Southern Water contributed an additional £126 million of operating profit arising mainly from the inclusion of results for a full year and cost savings of £28 million delivered by the acquisition transition plan in fiscal 1998, £3 million ahead of plan. Year-on-year, Southern Water's operating profit increased by 21% to £241 million from £200 million. All enterprise businesses are now sold and will realise £90 million, £20 million ahead of target. Property disposal proceeds have already reached just under the target of £30 million, with further sales scheduled in the year ahead.

Profits in the **developing businesses** were £18 million for the year, an increase of £3 million after removing the effect of £7 million of gas capture costs included in this segment last year. ScottishTelecom met the previously announced target of £4 million for the year from a break-even position last year. Retail's profit fell from £14 million to £9 million due to the difficult market conditions in this sector throughout fiscal 1998. The operating profits of the Contracting, Technology and other businesses improved from the prior year.

Interest

The net interest charge of £147 million was £39 million higher than in fiscal 1997 due mainly to the full year effect of increased debt following the acquisition of Southern Water in 1996 and the payment of the first instalment of the windfall tax of £158 million in December 1997. Changes to the group's debt portfolio were made during the year to manage the increasing trend of interest rates and extend the maturity profile of the group's borrowings. As a result, the average interest rate for the group during the year was 8.4%, slightly below that for fiscal 1997. Interest cover remained prudent at 5.3 times.

Taxation

Profit before tax grew by 14.5% to £640 million, while the effective tax rate was reduced to 23.7% from 24.5% in the previous year. The decrease was mainly due to the reduction in the corporation tax rate arising from the July 1997 budget and the write back of Advance Corporation Tax, offset in part by the previous Chancellor's decision to reduce capital allowances on long life assets. Provision has been made in full for the windfall tax on utilities announced in the July 1997 budget. The liability for the group has been assessed at £317 million.

Earnings and Dividends

The profit after ordinary tax for fiscal 1998 amounted to £488 million, an increase of £66 million or 15.7%. With a weighted average 1,180 million shares in issue and ranking for dividend during the year, earnings per share before windfall tax were 41.28p, an increase of 8.3%.

The recommended final dividend of 13.60p net per share brings the total dividend per share for the year to 20.40p net, an increase of 10.3%. The full year dividend was covered just over two times by earnings excluding the effects of the windfall tax. This increase in dividend is in line with our stated aim of achieving 7% to 8% real dividend growth per annum until at least the regulatory reviews in the year 2000, while maintaining a prudent level of dividend cover.

Results for Fiscal 1997 Compared With Fiscal 1996

Acquisition of Southern Water and Manweb

The most significant financial event for the group during fiscal 1997 was the acquisition of Southern Water on August 6, 1996. The total consideration was £1,716.5 million, funded £397.9 million (23%) by the issue of new equity, £1,305.2 million (76%) from new borrowings and existing cash resources and the remaining £13.4 million representing a deferred, contingent consideration. This increase in the level of borrowing, offset by strong cash flow throughout the group, resulted in ScottishPower's gearing at March 31, 1997 being lower than forecast at 117.5%, with interest cover for fiscal 1997 at above 6 times.

In fiscal 1997, the first full year since its acquisition, Manweb produced an operating profit of £135.0 million which was significantly in excess of the post-acquisition contribution of £37.7 million (after reorganization costs) in fiscal 1996.

Group Financial Results

Group Financial Results

	1997	1996	Change	
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>%</u>
Turnover	2,940.7	2,271.5	669.2	29.5
Operating profit	663.9	434.3	229.6	52.9
Profit before tax	558.4	404.8	153.6	37.9
Free cash flow	572.7	242.0	330.7	136.7
Earnings per share	38.11p	33.12p	4.99p	15.1
Dividend per share	18.50p	15.50p	3.00p	19.4

Group turnover of £2,940.7 million in fiscal 1997 was £669.2 million higher than in fiscal 1996, reflecting growth in the Scottish-based businesses, the first full year of revenues from Manweb and the inclusion of post acquisition turnover from Southern Water. The rise in overall sales and tight control of costs led to an operating profit of £663.9 million, an increase of £229.6 million, or 52.9% compared to the previous year. Operating profit in the Scottish energy businesses rose by £19.4 million. Manweb made an increased contribution to operating profit of £97.3 million, while Southern Water made a first time contribution of £114.4 million, both of these were after reorganization costs.

The net interest charge increased by £77.4 million in fiscal 1997 to £107.5 million mainly due to the additional borrowings associated with the acquisitions of Manweb and Southern Water, offset in part by additional cash flows arising from working capital control and a lower average cost of debt.

Profit before tax grew by 37.9% to £558.4 million. The lower effective tax rate, down from 27.0% to 24.5% due to the acquisition of Southern Water, resulted in profit after tax increasing by 42.7% to £421.6 million in fiscal 1997. With a weighted average 1,104.9 million shares in issue during fiscal 1997, earnings per share were 38.1p, an increase of 15.1% compared to fiscal 1996.

The recommended final dividend of 12.33p per share brought the total dividend per share for fiscal 1997 to 18.50p, an increase of 19.4% compared to fiscal 1996. The dividend remained covered 2.1 times by earnings. This increase in dividend exceeds ScottishPower's stated aim of achieving sustainable 7% to 8% real growth per annum, while continuing to maintain a prudent level of dividend cover. Free cash flow for the year was £572.7 million, an increase of £330.7 million compared to fiscal 1996 due partly to the higher level of profitability and also the improved management of working capital.

Group Turnover

Turnover by business segment

	Total turnover			Inter-segment turnover			External turnover		
	1997 £m	1996 £m	Change £m	1997 £m	1996 £m	Change £m	1997 £m	1996 £m	Change £m
Energy business									
Generation Wholesale	974.4	1,034.1	(59.7)	744.4	828.6	(84.2)	230.0	205.5	24.5
Power Systems	429.2	408.9	20.3	386.8	372.5	14.3	42.4	36.4	6.0
Energy Supply	1,270.4	1,317.6	(47.2)	0.9	-	0.9	1,269.5	1,317.6	(48.1)
Manweb	<u>738.4</u>	<u>429.4</u>	<u>309.0</u>	-	-	-	<u>738.4</u>	<u>429.4</u>	<u>309.0</u>
Energy Total	<u>3,412.4</u>	<u>3,190.0</u>	<u>222.4</u>	<u>1,132.1</u>	<u>1,201.1</u>	<u>(69.0)</u>	<u>2,280.3</u>	<u>1,988.9</u>	<u>291.4</u>
Non-energy business									
Manweb	20.9	10.0	10.9	4.2	-	4.2	16.7	10.0	6.7
Southern Water	316.7	-	316.7	0.5	-	0.5	316.2	-	316.2
Developing Businesses	<u>412.9</u>	<u>334.2</u>	<u>78.7</u>	<u>85.4</u>	<u>61.6</u>	<u>23.8</u>	<u>327.5</u>	<u>272.6</u>	<u>54.9</u>
Total							<u>2,940.7</u>	<u>2,271.5</u>	<u>669.2</u>

External energy turnover

	1997				1996			
	Generation Wholesale	Power Systems	Energy Supply	Total	Generation Wholesale	Power Systems	Energy Supply	Total
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
First tier	-	-	1,150.3	1,150.3	-	-	1,223.7	1,223.7
Second tier	-	-	101.8	101.8	-	-	66.1	66.1
Wholesale	195.6	-	-	195.6	178.4	-	-	178.4
Other energy sales	<u>34.4</u>	<u>42.4</u>	<u>17.4</u>	<u>94.2</u>	<u>27.1</u>	<u>36.4</u>	<u>27.8</u>	<u>91.3</u>
ScottishPower sub total	<u>230.0</u>	<u>42.4</u>	<u>1,269.5</u>	1,541.9	<u>205.5</u>	<u>36.4</u>	<u>1,317.6</u>	1,559.5
Manweb				<u>738.4</u>				<u>429.4</u>
Total				<u>2,280.3</u>				<u>1,988.9</u>

Total energy sales, consisting of energy sales by ScottishPower and Manweb, increased by £291.4 million in fiscal 1997 mainly as a result of the inclusion of the first full year of Manweb.

In the **first tier** market, the domestic sector saw unit sales growing by 0.7% in fiscal 1997 and prices reducing in real terms, reflecting the benefit to customers of lower generation costs. As expected, both prices and sales volumes to industrial and commercial customers showed some decline, due to competitive pressures. As a result overall first tier turnover fell to £1,150.3 million in fiscal 1997, a decrease of 6.0% over fiscal 1996.

In contrast, **second tier** volumes showed a substantial increase for the third year running, up by 73%. Turnover was £35.7 million higher at £101.8 million which reflected the success of ScottishPower in winning new customers. In part this arose from the combination of the ScottishPower and Manweb sales forces which led to all new customers contracting with ScottishPower.

Wholesale electricity sales increased by 731 GWh to 6,650 GWh in fiscal 1997 as a result of higher sales to other suppliers and increased exports. The average capacity of the interconnector reached 1,300 MW, up from 1,270 MW in fiscal 1996, with sales to England and Wales growing by 292 GWh to 5,822 GWh. As a consequence, wholesale turnover increased by £17.2 million to £195.6 million in fiscal 1997.

Other energy sales grew by 3.2% to £94.2 million in fiscal 1997. This increase resulted from a growth in third party use of system charges which was partially offset by a reduction in commercial gas sales, reflecting lower market prices and volumes.

Manweb energy turnover for fiscal 1997 was £738.4 million. After adjusting for the £60.9 million customer rebate paid in fiscal 1996, which resulted from the flotation of NGC, turnover fell by 6.1% or £48.3 million in fiscal 1997. This reduction was partially attributable to a fall in franchise revenue, due to the pass through to customers of lower electricity purchase costs, and lower competitive sales in Manweb arising from the combination of the ScottishPower and Manweb sales forces as mentioned above.

Southern Water's turnover for the full year to March 31, 1997 was £474.5 million, an increase of 11.7% or £49.8 million on the previous year. Of this increase, £27.5 million related to the retained core businesses and the balance arose largely from the acquisition of the vehicle leasing company VCHL by Southern Water prior to its acquisition by the group. In the period after the acquisition by ScottishPower, Southern Water's turnover was £316.2 million.

Turnover in the **developing businesses** increased by £54.9 million in fiscal 1997 to £327.5 million. The strong growth in the group's Retail business continued, with sales up by more than 11%, compared to fiscal 1996, to £267.7 million, reflecting not only the 10 stores opened during fiscal 1997 but also improved performance in the group's existing stores. ScottishTelecom also reported a significant rise in external turnover, up £31.2 million to £37.0 million. This was attributable to an increased number of customers in ScottishTelecom, the first year of results from Teledata and the post acquisition contribution from the Woodend group, which was acquired in August 1996.

Group Operating Costs

Costs of sales increased by £368.5 million in fiscal 1997 compared to £1,743.5 million in fiscal 1996, mainly due to the full year effect of Manweb, the inclusion of the post-acquisition results of Southern Water and increased sales volumes in the developing businesses. ScottishPower energy businesses' cost of sales decreased by £20.9 million which included lower nuclear contract costs arising from the change of price to the market rate in England and Wales following the privatization of British Energy. ScottishPower's generation costs increased due to higher fuel costs offset by reduced station costs resulting from the group's benchmarking program. Increased cost of sales in the second tier market reflected increased volumes offset by lower Pool prices.

The focus on operational efficiency has resulted in operating cost reductions across all of the group's energy businesses. Transmission and distribution costs, excluding Manweb, were £2.6 million lower in fiscal 1997 compared to fiscal 1996 despite increased depreciation charges of £4.3 million arising mainly from investment in the transmission and distribution networks. Administrative expenses in the ScottishPower energy businesses fell by £14.5 million in fiscal 1997 compared to fiscal 1996. In Manweb, operating costs were £61.0 million lower in fiscal 1997 than in fiscal 1995, the last full year prior to acquisition, and were some £4.0 million lower than the group's original target. In Southern Water, higher costs associated with commissioning new capital schemes were offset by operating cost savings implemented under the transition plan, which achieved cost savings £1.0 million ahead of target.

Group Operating Profit

Group operating profit by business segment

	1997 £m	1996 £m	Change £m
Generation Wholesale			
Generation	132.0	130.3	1.7
Wholesale	14.1	20.1	(6.0)
Power Systems			
Transmission	77.3	66.5	10.8
Distribution	150.7	148.3	2.4
Energy Supply			
First tier electricity	39.4	31.4	8.0
Second Tier electricity	(3.2)	(4.4)	1.2
Other energy sales	(3.8)	(5.1)	1.3
Scottish Energy Businesses	406.5	387.1	19.4
Manweb	135.0	37.7 ¹	97.3
Southern Water	114.4 ¹	-	114.4
Developing Businesses	8.0	9.5	(1.5)
Total	<u>663.9</u>	<u>434.3</u>	<u>229.6</u>

¹ After reorganization costs

Group operating profit was £663.9 million in fiscal 1997, an increase of 52.9% compared to fiscal 1996. Operating profit in the **Scottish Energy businesses** increased by £19.4 million reflecting increased use of system charges and the continued drive for cost efficiencies. **Manweb** contributed an additional £97.3 million arising principally from the inclusion of results for a full year, and cost savings delivered by the acquisition transition plan in fiscal 1997. Year on year, Manweb's operating profit increased by 6.6% from £126.6 million to £135.0 million. **Southern Water** contributed £114.4 million, after reorganization costs of £21.2 million, in the period following its acquisition in August 1996. For the full year Southern Water's operating profit was 17.2% higher, reaching £200.0 million versus £170.6 million in the previous year. The **developing businesses** increased profits by £4.7 million after allowing for the initial costs of gas trials and other new business initiatives.

The profit of **Generation Wholesale** decreased by £4.3 million in fiscal 1997, mainly due to lower wholesale electricity margins offset in part by reduced costs and increased volumes. The profitability of the generation component grew by £1.7 million to £132.0 million due to higher sales volumes, up 2% to 29,024 GWh compared to fiscal 1996, and reduced operating costs. The profitability of the wholesale component fell by £6.0 million due to reduced margins although this was offset in part by the increased volume of sales to England and Wales.

In **Power Systems**, overall profit increased by £13.2 million. Transmission operating profit was £10.8 million higher due to increased revenues from the use of the high voltage network and greater interconnector availability. Allowing for restructuring costs and additional depreciation arising from capital investment, costs were reduced by £4.0 million in real terms. Distribution profit increased by £2.4 million, primarily as a result of higher distribution charges and an increase in volumes, up 503 GWh to 21,686 GWh. Real cost savings of £4.0 million were offset by increased depreciation, restructuring costs and storm damage arising from severe weather in December 1996.

In **Energy Supply**, first tier profit grew by £8.0 million to £39.4 million, mainly due to further cost efficiencies, including the centralization of the customer call centers in Summer 1996, and the release of provisions following the conclusion of a number of employment claims. These benefits were in part offset by the effects of further competition. Losses of £3.2 million in the fiercely contested second tier electricity supply market were £1.2 million lower as a result of tighter cost control, while the operating loss in the commercial gas market was reduced by £1.3 million to £3.8 million. While both these markets remain very competitive, the group's aim is to contain losses.

Operating profit for **Manweb** was £135.0 million, an increase of £8.4 million compared to the full year of fiscal 1996. The distribution business contributed £113.9 million and supply £21.1 million. The increased profit reflected cost savings, ahead of target, arising from ScottishPower management, offset in part by price reductions.

For the full fiscal year **Southern Water's** operating profit increased by £29.4 million to £200.0 million, primarily as a result of higher turnover in the water and waste water services business. Higher costs associated with the commissioning of new capital schemes were offset by operating cost savings already implemented under the transition plan. In the period after acquisition by ScottishPower, Southern Water's operating profit totalled £135.6 million before reorganization costs of £21.2 million.

In fiscal 1997, acquisition reorganization costs of £21.2 million were charged to Southern Water's post acquisition results. These costs principally represented the group's plans to reduce manpower numbers to 2,400. As at March 31, 1997 the actual manpower level was 3,618, lower than the target set following acquisition.

Operating profit in the **developing businesses** grew by £4.7 million to £14.2 million before initial costs of new business opportunities, predominantly the Southern gas trials. This reflected increased performance in all businesses with Retail, up from £12.4 million to £14.1 million. ScottishTelecom improved its performance with increased call volumes and an expanded range of value added services. This led to the business breaking even in fiscal 1997 as forecast.

Interest

The net interest charge of £107.5 million was £77.4 million higher than in fiscal 1996. The impact of the interest rate derivatives was to increase the net interest charge by £16.1 million in fiscal 1997 and £1.6 million in fiscal 1996. The increase reflected the additional borrowings associated with the acquisitions of Manweb in 1995 and Southern Water in 1996. The effect on interest of the growth in borrowings was offset both by additional cash flows arising from improved management of working capital and a lower average cost of debt as new borrowings and interest rate swaps were arranged to take advantage of declining interest rates. At the same time, the average period for which interest costs were fixed was extended from four to eight years, while interest cover remained prudent at above six times.

Taxation

Profit before tax for fiscal 1997 grew by 37.9% to £558.4 million, while the effective tax rate fell to 24.5% of pretax profit compared to 27.0% in fiscal 1996. For the group as a whole, the difference between the statutory corporation tax rate of 33% and the group's effective tax rate continued to be accounted for almost exclusively by the relatively high level of capital expenditure which gave rise to tax allowances in excess of the accounting depreciation charge for the year. The changes which were enacted in the Finance Act 1997 to reduce the tax allowances available for capital expenditure on plant and machinery with a life of more than 25 years have had minimal effect on the tax charge for fiscal 1997 but are expected to result in higher effective tax rates in future years.

Earnings and Dividends

The profit after tax for fiscal 1997 amounted to £421.6 million, an increase of £126.1 million. With a weighted average 1,104.9 million shares in issue during fiscal 1997, earnings per share were 38.11p, an increase of 15.1%. This reflected the continuing strong performance of the Scottish energy businesses and further growth in the developing businesses. Earnings per share also grew as a result of the acquisitions of Manweb and Southern Water, both of which were earnings enhancing in fiscal 1997.

The recommended final dividend of 12.33p per share brought the total dividend per share for the year to 18.50p, an increase of 19.4%. The dividend remained covered 2.1 times by earnings. This increase in dividend exceeds the group's stated aim of achieving sustainable 7% to 8% real dividend growth per annum, whilst continuing to maintain a prudent level of dividend cover.

Liquidity and Capital Resources

	Capital Expenditure		Net Capital Expenditure*	
	1998	1997	1997	1996
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Generation Wholesale	43.7	77.2	77.2	31.1
Power Systems	142.1	102.8	102.8	96.6
Manweb	74.7	75.1	75.1	34.7
Southern Water	257.6	118.9	118.9	-
Scottish Telecom	58.2	48.8	48.8	37.0
Other	53.8	36.9	36.9	28.0
Total	<u>630.1</u>	<u>459.7</u>	<u>459.7</u>	<u>227.4</u>

* After deducting customer contributions.

The group continued to increase investment in its businesses with net capital expenditure for fiscal 1998 of £630 million, an increase of £170 million over fiscal 1997. This reflected a full year's expenditure in Southern Water and the continued emphasis on development of infrastructure assets and growth in developing businesses.

In **Generation Wholesale**, capital expenditure was £44 million for fiscal 1998, down from £77 million in fiscal 1997, with investment directed towards efficiency and environmental improvements and development of renewable energy resources. Further expenditure was incurred at Longannet and Cockenzie power stations to extend station lives.

In **Power Systems** Scotland net capital expenditure for fiscal 1998 amounted to £142 million, an increase of £40 million over fiscal 1997. £40 million was spent on modernisation of the distribution network and to improve quality of the electricity supply to customers. Net expenditure on expanding the network to meet demand growth and on providing new connections to customers was £32 million. Over £35 million was invested in new systems for improving network management, the opening up of the electricity market to full competition and on enhancing customer service.

In transmission, over £34 million was invested on network modernisation and on expanding the network to support new business opportunities and inward investment in Scotland.

In **Energy Supply**, capital expenditure of £37 million for fiscal 1998 mainly reflects further investment in new systems in preparation for the liberalisation of the electricity market later in 1998.

In **Manweb**, net capital expenditure for fiscal 1998 was £75 million. £36 million was spent on modernising the network to improve reliability and quality of electricity supply to customers. Net expenditure on expanding the network to meet demand growth and on providing new connections to customers was £15 million. The balance was invested in enhancing customer service and business systems for the competitive market.

Capital expenditure in **Southern Water**, including infrastructure renewals expenditure, amounted to £295 million in fiscal 1998. This compared with £212 million in the previous fiscal year, of which £137 million was spent post-acquisition. The amount included £140 million as part of the ongoing program to ensure compliance with the higher standards set by European Union Directives on the quality of bathing water, urban waste water discharges and sludge disposal. Investment was also undertaken to improve security of supply, increase the availability of water resources and reduce leakage.

In **developing businesses**, ScottishTelecom continued with its business development and during fiscal 1998 spent £58 million in total. Projects included the extension of its fixed radio access network and further development of its fiber optic network.

Cash flow

Net cash inflow from operations increased from £791 million in fiscal 1997 to £987 million in fiscal 1998. This reflected the group's improved operating performance together with continued effective control over working capital.

Net interest paid was £45 million higher due to the acquisition of Southern Water in August 1996 and the payment of the first instalment of the windfall tax. This, together with an increase in ordinary tax paid of £17 million, resulted in free cash flow for the group before windfall tax of £707 million, £134 million higher than in fiscal 1997. From this was funded payment of windfall tax of £158 million and capital expenditure of £566 million, up £185 million on last year.

The disposal of non-core businesses and properties following the acquisition of Southern Water realised £89 million in cash during the year. Dividends paid to shareholders amounted to £226 million, up from £170 million in fiscal 1997.

Net debt at March 31, 1998 was £1,953 million, an increase of £162 million compared with a year ago, due mainly to the impact of the first instalment of the windfall tax. Gearing at March 31, 1998 was lower at 114%, down from 118% at March 31, 1997. Without the payment of the windfall tax, gearing would have fallen to 100%.

In fiscal 1997, the free cash flow of £572.7 million enabled the group to fund capital expenditure of £381.4 million and still be cash positive before acquisitions. Cash invested in acquisitions was £1,234.6 million while dividends paid to shareholders increased by £46.9 million. As a result, net cash outflow before financing was £1,213.3 million in fiscal 1997.

In fiscal 1997, after allowing for receipts from shares issued of £238 million (mainly in relation to the acquisition of Southern Water), an increase in debt of £1,049 million and an increase in liquid resources of £21 million, cash inflow for the year was £52 million. With net debt acquired of £169 million and loan notes issued of £14 million, net debt at March 31, 1997 was £1,790 million. This gave a lower than forecast gearing level of 118%, up from 52% at March 31, 1996. Without the acquisition of Southern Water gearing would have fallen to 39% demonstrating the group's underlying strong cash flow in the year.

Treasury

Financing

The treasury focus during the year has been on refinancing the group's debt to extend maturities and protect the group's interest charge from adverse interest rate movements.

The group continues to ensure that net borrowings are financed from a range of competitive sources and that committed facilities are available both to cover uncommitted borrowings and to meet the financing needs of the group in the future. The group's credit quality is confirmed by long term credit ratings of Aa2/A+ and short term ratings of P1/A1 from Moody's Investors Service and Standard & Poor's respectively.

A number of changes were made to the group's debt portfolio during the year in order to extend the maturity profile of the group's borrowings. A \$2,000 million Euro-Medium Term Note ('EMTN') Program was set up in November 1997. Under this mechanism, a \$300 million five year bond issue was launched in January 1998 providing a fixed rate of sterling at 6.95% and a number of smaller issues totalling £258 million had also been completed by the year end. In addition, two private placements totalling £45 million were arranged and a further £30 million was drawn from the European Investment Bank.

An issue of £100 million variable coupon notes due 2008, at an initial rate of 6.842%, was launched in March 1998. It is the first U.K. sterling bond of its kind and the Director General of Water Services has confirmed that its issue satisfies the undertaking given by ScottishPower and Southern Water at the time of the acquisition.

In order to manage the risk of exposure to fluctuating interest rates, the group maintains the majority of its debt at fixed rates of interest. This is achieved by a combination of fixed rate debt issues and the conversion of floating rate issues into fixed rate obligations by the use of interest rate swaps, interest rate caps and forward rate agreements. The group's use of such financial instruments relates directly to underlying indebtedness; no speculative or trading transactions are undertaken. The group treasury operates strictly within policies set out by the Board and is subject to regular examination by internal and external audit. At March 31, 1998, the interest rate on some 81% of debt was fixed and the interest rate on a further 10% of borrowings was capped. As a consequence of these measures, the group's average interest rate reduced during fiscal 1998 from 8.7% to 8.4% at a time when external interest rates increased.

Risk Management

The principal market risks faced by the group in relation to the treasury function are the financial risks of interest rate fluctuation, exchange rate movements and Pool price variations. As part of the internal control framework of the group, the Board formally reviews the exposure to these risks and administers guidelines to ensure that the effect to the results of the group is minimized. These guidelines and the adherence thereto is subject to examinations by internal and external audit. The management of each of these risks is discussed below.

The weighted average period of maturity of fiscal year-end fixed debt and swaps was seven years, while the forward cover on capped debt was for an average period of some four years. Accordingly, changes in floating interest rates will have a limited impact on interest payable by the group for some years ahead.

The group has limited exposure to foreign currencies. Commercial paper and EMTNs issued in currencies other than sterling are fully covered by forward contracts to convert the debt into sterling. Certain limited imports of capital equipment and fuel are denominated in foreign currencies and the sterling cost of these is fixed by means of forward contracts as soon as the company's contractual commitment is known.

All necessary steps will be taken to ensure that all debt denominated in currencies that form an integral part of the Euro will be converted in adherence with standard market practice and protocol.

The group's businesses are very much domestic in nature therefore, it is anticipated that Economic and Monetary Union (EMU) will have a minimal impact. With the exception of a windfarm in Ireland on certain aspects of Demon Internet, 100% of the ScottishPower group's sales are in pounds sterling. The same is true of purchases which are nearly all sourced in the U.K.

The group has procedures in place to minimize exposure to Pool price variations, being the possibility that a change in Pool prices will reduce the proceeds of electricity sold to the Pool or increase the cost of electricity purchased from the Pool. These involve ScottishPower and its subsidiary Manweb entering into Contracts for differences (CfDs). CfDs are contracts which fix the price of electricity for an agreed quantity and duration by reference to an agreed strike price. The group's use of such derivative instruments relate directly to the underlying purchase and sale of electricity to and from the Pool.

In ScottishPower, the risk management efforts of the energy businesses are focused on electricity supply and generation, which are exposed to Pool price volatility.

On the supply side, the group sells predominantly fixed price contracts to customers and buys output from the Pool to meet the demand of these customers. Since the price of electricity purchased from the Pool can be volatile, the group is exposed to risk arising from differences between the fixed price at which it sells electricity and the fluctuating prices at which it purchases electricity, unless it can effectively hedge such exposure.

The group's generation business is also exposed to fluctuations in Pool price. It sells electricity through the Pool, via the Interconnector. Sales of electricity to other suppliers in Scotland are also made at a price related to the Pool price. In addition, the generation business purchases electricity from Scottish Nuclear under the terms of the Nuclear Energy Agreement, at a Pool-related price.

The group's exposure to Pool price risk is managed by its Energy Trading Centre. The role of the Energy Trading Centre is to monitor the group's overall energy price exposure and hedge this risk where appropriate. In the electricity market the primary hedging tool is CfDs.

The Energy Trading Centre manages CfDs by reference to its own internal forecasts of customer demand, volume available for Pool trading and Pool prices and bases its choices on the interpretation of these forecasts and market intelligence.

Bilateral contracts are then entered into with RECs, generators and other large electricity consumers to mitigate Pool price risk. These contracts are typically settled monthly for cash, based on the actual variance of Pool prices to the agreed CfD strike price. Therefore, these contracts do not involve actual delivery of the underlying commodity. These CfDs involve a degree of credit risk. This is the risk that the counterparty to the CfD defaults on settlement. The group controls credit risk arising from holding the CfDs through credit approvals, limits and monitoring procedures.

The operation of the Energy Trading Centre is carried out under strict guidelines which are agreed and monitored by the Risk Management Committee, whose membership includes the Executive Finance Director and the Executive Director, Generation. In addition, the operation of the Energy Trading Centre is monitored by both internal and external audit.

The group's ability to manage both its purchase price risk and its sales price risk depends, in part, on the continuing availability of properly priced risk management mechanisms such as CfDs. However, because

the CfD market in electricity is very illiquid, no assurance can be given that an adequate, transparent market for such products will in fact be available.

Year 2000

A group-wide Year 2000 Program has been established to manage the effects the 'millennium' issue will have on the group's computer-based systems, equipment, services and products. The program was established in recognition of the size and complexity of the group's operations and the need to maintain the integrity of its systems at all times, particularly those concerning safety and the provision of essential services to its five million customers. It builds on work carried out in 1995 to replace the group's mainframe-based IT infrastructure which anticipated and addressed many potential IT systems issues.

The group expects to achieve Year 2000 compliance in good time and is also obtaining assurances on compliance from all critical suppliers, manufacturers and other utilities and operators with whom the group deals.

Compliance has already been achieved across a number of IT applications and the group is well advanced in the key task of identifying its most critical systems, determining solutions and preparing contingency plans to ensure it will be 'business as usual'. All critical systems will be addressed as a priority during 1998.

Our current estimate is that the total cost of the Year 2000 Program will be approximately £30 million.

Many of the solutions the group is adopting have arisen through pooling experience with other utilities and large companies. The group is a leading player, for example, in the U.K. Y2K Interest Group and on KPMG IMPACT, which is supported by the major names in the generation, energy supply, telecommunications, manufacturing and finance sectors.

U.K. GAAP to U.S. GAAP Reconciliation

Under U.S. GAAP, profit after ordinary and windfall taxation for fiscal 1998 and fiscal 1997 was £129.8 million and £352.9 million, respectively, compared with £170.1 million and £421.1 million under U.K. GAAP. Equity shareholders' funds under U.S. GAAP at the end of fiscal 1998 and fiscal 1997 were £2,252.6 million and £2,339.8 million compared with £1,707.8 million and £1,522.7 million under U.K. GAAP. Differences result principally from the differing accounting treatment of pension costs, goodwill, deferred taxation and the recognition of dividend payments. For details of these differences, see Note 33 to the Consolidated Financial Statements of the group.

Cautionary Statement for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995 (not applicable to initial public offerings).

Certain matters discussed in this Form 20-F are "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and any rules, regulations or releases of the Securities and Exchange Commission with respect thereto (the "PLSRA"). The safe harbor provided by the PLSRA does not apply to initial public offerings. Forward-looking statements in this Form 20-F include, but are not limited to, statements in: Item 1. Description of Business under the captions "Business Strategy" relating to (i) management's belief that the successful utility companies of the future will be those that offer their customers a range of high quality, competitively priced utility services, (ii) cost savings after fiscal 1998 from the Scottish energy businesses, Southern Water and Manweb and (iii) the company's aim to deliver 7% to 8% real dividend growth per annum until at least the regulatory reviews in the year 2000, while maintaining a prudent level of dividend cover; "Developing Businesses—ScottishTelecom" with respect to the expected increase in the profitability of the ScottishTelecom

business and the expected growth in the ScottishTelecom share of the Scottish telecommunications market; "Environmental Regulation of Generation Activities" with respect to the group's ability to achieve the environmental improvements required by potential future limits arising from the pending IPC review without materially constraining operational and commercial flexibility; statements in Item 2. Description of Property with respect to the group's belief that it will be able to negotiate lease renewal on satisfactory terms or relocate relevant facilities without such relocation having a materially adverse impact on the group or its operations; statements in Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations under the captions "Introduction" with respect to (i) management's belief that further cost savings of the order of 5% per annum are achievable from the Scottish energy businesses and Manweb, (ii) that Southern Water is forecast to save £9 million in fiscal 1999, (iii) that ScottishPower and Manweb will be among the first companies ready for the competitive market when it opens in September 1998, (iv) that the group is in a strong position to achieve its target of 15% of the U.K. domestic electricity market and 12% of the regional gas market by the year 2000; "Outlook" with respect to management's confidence in ScottishPower's ability to turn regulatory and competitive challenges into opportunities creating real benefits for customers and shareholders; and "Year 2000" with respect to the group's expectation to achieve Year 2000 compliance in good time at an estimated total cost of approximately £30 million; and statements contained in Item 9A.

ScottishPower wishes to caution readers, and others to whom forward-looking statements are addressed, that any such forward-looking statements are not guarantees of future performance and that actual results may differ materially from estimates in the forward-looking statements. In addition to the important factors described elsewhere in this Form 20-F, the following important factors, among others, could affect the group's actual future results and could cause such results to differ materially from estimates expressed in any forward-looking statements made by, or on behalf of the group:

- the level of competition within ScottishPower's and Manweb's franchise electricity supply markets, including without limitation competition from other RECs and generators, the level of competition in the Pool, the level of competition in ScottishTelecom's market and the overall demand for services.
- any regulatory changes (including changes in environmental regulations) that may increase the operating costs of the company, may require the company to make unforeseen capital expenditures or may prevent the regulated businesses of the group from achieving acceptable returns.
- potential activity by the group in the international electricity sector.
- the availability of acceptable quality coal at favourable prices.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Rate Sensitive Instruments and Risk Management

The following discussion about the group's risk management activities includes "forward looking" statements that involve risk and uncertainties. Actual results could differ materially from those projected in the forward looking statements.

The following tables summarize the financial instruments, derivative instruments and derivative commodity instruments held by the group at March 31, 1998, which are sensitive to changes in interest rates, foreign exchange rates and commodity prices. The group uses interest rate swaps, forward foreign exchange contracts and other derivative instruments to manage the primary market exposures associated with th

underlying assets, liabilities and committed transactions. The group uses these instruments to reduce risk by essentially creating offsetting market exposures. The instruments held by the group are not leveraged and are not held for financial trading purposes.

Financial Instruments and Risk Management

Overview

The main financial risks faced by the group are interest rate risk, exchange rate risk and Pool price risk. The Board has reviewed and agreed policies for managing each of these risks as summarized below. The use of all classes of financial instruments to manage these risks has been approved by the Board. The Treasury department, which is authorized to conduct the day-to-day treasury activities of the group, reports at least annually to the Board and is subject to regular examination by internal audit. The energy trading group, which is authorized to carry out activities to manage the group's Pool price risk reports monthly to a risk committee which is comprised of two executive directors and an external consultant. The energy trading group also reports at least annually to the Board and is subject to examination by internal audit.

(a) Interest rate risk management

The group accesses funding opportunities in the major global markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate, to convert all obligations and payments into fixed or floating rate Sterling.

In order to manage the risk of exposure to fluctuating interest rates, the group maintains the majority of its debt at fixed rates of interest. This is achieved by a combination of fixed rate debt issues and the conversion of floating rate debt issues into fixed rate obligations by the use of interest rate swaps, interest rate caps and forward rate agreements. The overall policy framework with regards to the fixed/floating debt mix has been approved by the Board. At March 31, 1998, 80.6% (1997: 75.6%) of debt was either issued at fixed rates or converted to fixed rates using swaps.

All transactions are undertaken to manage the risks arising from underlying activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit risk in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of the exposure to any one party. The group does not believe that it is exposed to any material concentrations of credit risk.

The following table indicates the type of swaps used, their duration, and their respective interest rates. Average variable rates are based on rates that are implied by the yield curve at March 31, 1998. These may change significantly, affecting future cash flows.

Interest rate derivatives and liabilities								
Maturity date for debt and notional amounts outstanding for swaps/caps								
Interest rate derivatives	1999	2000	2001	2002	2003	Thereafter	Total	Fair Value
	£m	£m	£m	£m	£m	£m	£m	£m
Interest rate swaps - pay fixed/receive variable								
Notional amount	75.0	-	200.0	100.0	75.0	475.0	925.0	51.7
Average rate (%)	7.5%	-	7.9%	7.4%	8.1%	7.9%	7.8%	-
Caps (purchased)								
Notional amount	-	-	-	100.0	-	100.0	200.0	(3.0)
Average strike rate (%)	-	-	-	7.0%	-	7.0%	7.0%	-

The fair values of the sterling interest rate swaps and caps have been estimated by calculating the present value of estimated future cash flows, using market discount rates in effect at the balance sheet date. The

group has entered into certain swap transactions with contractual maturities exceeding those of the underlying debt being hedged, in anticipation of obtaining additional floating rate funding when the debt matures. Payments on derivative instruments are recognized on an accruals basis, with no provisions made for any unrealized gains or losses on such transactions in respect of future accounting periods. Such gains or losses will be recognized over the period of the respective underlying derivative contracts.

Total Liabilities (I)+(II)	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m	Thereafter £m	Total £m	Fair Value £m
Uncommitted bank loan	217.2	-	-	-	-	3.8	221.0	221.0
Commercial paper	728.3	-	-	-	-	-	728.3	728.3
Medium term notes/private placements	62.5	78.5	12.0	17.0	44.6	88.8	303.4	303.4
Loan notes	17.7	-	-	-	-	-	17.7	17.7
European Investment Bank loan	10.0	11.0	11.8	14.4	15.5	113.7	176.4	200.2
Bonds-various	-	-	142.0	-	182.9	296.4	621.3	679.6
	<u>1,035.7</u>	<u>89.5</u>	<u>165.8</u>	<u>31.4</u>	<u>243.0</u>	<u>502.7</u>	<u>2,068.1</u>	<u>2,150.2</u>
(I) Variable debt - Libor based								
Uncommitted bank loan	216.6	-	-	-	-	-	216.6	216.6
Commercial paper	728.3	-	-	-	-	-	728.3	728.3
Medium term notes/private placements	52.5	72.4	12.0	17.0	44.6	63.8	262.3	262.3
Loan notes	17.7	-	-	-	-	-	17.7	17.7
Variable coupon bond 2008	-	-	-	-	-	99.6	99.6	101.2
	<u>1,015.1</u>	<u>72.4</u>	<u>12.0</u>	<u>17.0</u>	<u>44.6</u>	<u>163.4</u>	<u>1,324.5</u>	<u>1,326.1</u>
(II) Fixed debt								
Uncommitted bank loan	0.6	-	-	-	-	3.8	4.4	4.4
Commercial paper	-	-	-	-	-	-	-	-
Medium term notes/private placements	10.0	6.1	-	-	-	25.0	41.1	41.1
Loan notes	-	-	-	-	-	-	-	-
European Investment Bank loan	10.0	11.0	11.8	14.4	15.5	113.7	176.4	200.2
Bonds-various	-	-	142.0	-	182.9	196.8	521.7	578.4
	<u>20.6</u>	<u>17.1</u>	<u>153.8</u>	<u>14.4</u>	<u>198.4</u>	<u>339.3</u>	<u>743.6</u>	<u>824.1</u>
Average rate (%)	6.9%	8.9%	11.4%	9.8%	7.2%	8.3%	8.7%	

The assumptions used to estimate current fair values of loans and other borrowings are summarized below:

- (1) For cash and short term deposits and short term borrowings (uncommitted borrowing, commercial paper, loan notes and short term drawings under the £2.6 billion revolving credit facility), the book value amounts approximate to fair value because of their short term maturities.
- (2) The fair value of the long term sterling bond 2001 (£158.4 million) and the European Investment Bank loan have been calculated by estimating the premium payable on redemption of these borrowings using market rates adjusted to reflect the redemption adjustments allowed under each agreement.
- (3) The fair value of the euro-sterling bond 2017, the variable coupon bond 2008 and the euro-US dollar bond 2003, have been estimated on the basis of quoted market prices.

(b) Foreign exchange risk management

Foreign exchange exposure arises almost exclusively from funding operations of the group and, to a very limited extent, trading and sourcing. The Treasury department undertakes to hedge all foreign denominated debt into sterling using counterparties that have very high credit quality. All contractually committed trading and sourcing transactions are hedged.

The primary funding exposures are both short term, for example, commercial paper, and long term for example, bond issues, in nature. The short term funding exposures are managed by the use of forward contracts and the long term exposures by the means of long term foreign currency swaps. This entails the counterparty agreeing to provide the necessary foreign currency amounts as and when required by the group to meet its ongoing debt obligations.

The table below summarises the maturity profile of the foreign currency denominated borrowings and the currency of issue. The information is presented in pounds sterling equivalents, the reporting currency of the group.

Foreign exchange	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m	Thereafter £m	Total £m
<i>Maturity analysis</i>							
Commercial paper	343.0	-	-	-	-	-	343.0
Medium term notes/private placements	4.7	78.5	-	16.9	21.7	58.9	180.7
5.875% euro-U.S. Dollar bond 2003	-	-	-	-	182.9	-	182.9
	<u>347.7</u>	<u>78.5</u>	<u>-</u>	<u>16.9</u>	<u>204.6</u>	<u>58.9</u>	<u>706.6</u>
<i>Currency analysis</i>							
U.S. Dollars	177.2	6.1	-	-	182.9	-	366.2
Swiss Francs	49.3	62.7	-	-	5.0	4.1	121.1
Deutsche Marks	110.6	-	-	-	16.7	-	127.3
Swedish Kroner	-	-	-	-	-	9.8	9.8
Japanese Yen	4.7	9.7	-	16.9	-	45.0	76.3
ECU's	2.5	-	-	-	-	-	2.5
Italian Lira	3.4	-	-	-	-	-	3.4
	<u>347.7</u>	<u>78.5</u>	<u>-</u>	<u>16.9</u>	<u>204.6</u>	<u>58.9</u>	<u>706.6</u>

Due to the short term nature of foreign currency commercial paper issues and to the fact that all foreign currency medium term notes are converted into Sterling exposures, no differences arise between the fair value and the book value, except for the 5.875% euro-U.S. Dollar bond 2003, the fair value of which is estimated at £186.6 million on the basis of quoted market prices.

(c) Commodity price risk management

Almost all electricity generated in England and Wales must be sold to the Pool, and electricity suppliers must likewise buy electricity from the Pool for resale to their customers. The Pool was established at the time of privatization in England and Wales for bulk electricity trading between generators and suppliers. ScottishPower participates in the Pool by exporting/importing electricity to/from England and Wales via the Interconnector. The Pool is operated under a Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in Great Britain are party.

The group has procedures in place to minimize exposure to Pool price variations, that is, the possibility that a change in Pool prices will reduce the proceeds of electricity sold to the Pool or increase the cost of electricity purchased from the Pool. These procedures involve ScottishPower and its subsidiary Manweb entering into contracts for differences (CfDs).

A CfD is a contract between two parties (e.g. a generator and a public electricity supplier) that requires each party to either make or receive monthly payments over a specific term based on the difference between an agreed price (i.e. the bilaterally determined strike price) and a price that varies with a specified commodity index (i.e. the Pool), applied to an agreed quantity (i.e. the number of kW). In general, the terms of CfDs are such that contracts are settled monthly (or more frequently) in arrears by reference to actual half-hourly Pool prices. The group's use of such derivative instruments relates directly to the underlying purchase and sale of electricity to and from the Pool.

These CfDs involve a degree of credit risk. This is the risk that the counterparty to the CfD defaults on settlement. The group controls credit risk arising from holding the CfDs through credit approvals, limits and monitoring procedures.

Contracts for differences Maturity profile	1999 £m	2000 £m	2001 £m	2002 £m	2003 £m	Thereafter £m	Total £m	Fair Value £m
Notional amount	490.5	290.7	-	-	-	-	781.2	4.7

The group has developed a methodology to estimate the internal value (i.e. the group's best estimate of fair value) of the CfDs outstanding at the balance sheet date based upon assumptions of a number of complex factors, in particular the anticipated long term level of Pool prices, total Pool demand, plant availability, plant operating costs, bidding behaviour of generators and appropriate market discount rates. The group has determined the fair value amount of CfDs as being the difference between the strike price of the contract and the estimated Pool price for the relevant half hourly periods.

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

The business of ScottishPower is managed by the Board of Directors. ScottishPower's Articles of Association provide that at every Annual General Meeting of ScottishPower one third (or the number nearest to but not exceeding one third) of the directors shall retire from office. The directors to retire in each year are the directors who have been longest in office since their appointment or re-appointment. A retiring director is eligible for re-appointment. The directors may, at any time, appoint any person to be a director. Any person so appointed will hold office until the next Annual General Meeting and shall then be eligible for election. The directors may appoint one or more of their number to the office of managing director or to any other executive office for such period and on such terms as the directors think fit. The executive directors have two year rolling employment contracts with ScottishPower. The executive officers have contracts that are terminable by the company on the serving of one year's notice.

The non-executive directors, the executive directors and the executive officers of ScottishPower are as follows:

<u>Name</u>	<u>Title</u>	<u>Age</u>	<u>Date appointed to Board</u>
Non-Executive Directors:			
Murray Stuart	Chairman	64	March 30, 1990
Mair Barnes*	Director	53	April 1, 1998
Sir Ronald Garrick	Director	57	February 26, 1992
Sir Peter Gregson	Director	61	December 13, 1996
Ewen Macpherson	Director	56	September 1, 1996
John Parnaby	Director	60	September 30, 1994
Executive Directors:			
Ian Robinson	Chief Executive	55	March 1, 1995
Michael Kinski*	Chief Executive Power Distribution and Water Operations	45	December 1, 1992
Ian Russell	Finance Director	45	April 5, 1994
Ken Vowles	Executive Director Generation and Energy Trading	56	September 30, 1994
Duncan Whyte	Executive Director Multi-Utility	51	March 27, 1990

* Mair Barnes was appointed as a non-executive director on April 1, 1998, and Michael Kinski resigned as a director on April 7, 1998. Mair Barnes has no shareholding in the company and her remuneration has not been included in disclosure as at March 31, 1998.

<u>Name</u>	<u>Title</u>	<u>Age</u>	<u>Date appointed to current post</u>
Executive Officers:			
Charles Berry ¹	Chief Executive Manweb	45	July 23, 1996
Sue Clark	Director Corporate Affairs	33	January 1, 1996
David Jones	Managing Director Information Systems	54	June 19, 1995
Bill Landels ¹	Managing Director Energy Supply	55	June 26, 1995
Rod Matthews	Chief Executive Scottish Telecom	54	December 20, 1993
Andrew Mitchell	Secretary	46	July 1, 1993
Alan Richardson	Managing Director Power Systems	51	June 25, 1995
James Stanley ²	Group Legal Director	43	March 1, 1996

¹ On April 1, 1998, Charles Berry was appointed Managing Director Energy Supply and Bill Landels was appointed Managing Director Manweb.

² On April 1, 1998 James Stanley was appointed to the Chief Executive's Committee. His salary and shareholdings have not been included in disclosure as at March 31, 1998.

The non-executive directors and executive directors were appointed to the Board of Directors on the dates shown above. The executive officers were appointed to the positions shown on the dates above.

There are no arrangements or understandings between any director or executive officer and any other person pursuant to which such director or executive officer was selected to serve. There are no family relationships between any of the directors or executive officers of ScottishPower.

Members of the Audit Committee	Members of the Emoluments and Nominations Commit
Sir Ronald Garrick, Chairman	Ewen Macpherson, Chairman
Sir Peter Gregson (with effect from March 20, 1998)	Mair Barnes (with effect from April 24, 1998)
Ewen Macpherson	Sir Ronald Garrick
Murray Stuart	Sir Peter Gregson
	John Parnaby

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS

See Note 32 to the Consolidated Financial Statements of the group for fiscal 1998 for specific information regarding individual director's emoluments and interests. The figures given below include executive officers and therefore do not correspond to figures shown in Note 32.

- (a) During fiscal 1998, the aggregate amount of compensation paid by the group to all directors and executive officers of ScottishPower, as a group, was £3,114,821.
- (b) During fiscal 1998, the aggregate amount set aside or accrued by the group to provide pension, retirement or similar benefits for directors and executive officers of ScottishPower pursuant to any existing plan provided or contributed to by the group was £770,271.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

1. See Note 32 for specific information with respect to individual director's options. The figures given in 2(c) below include information relating to executive officers and therefore do not correspond to figures in Note 32.
2. (a) The company replaced its Executive Share Option Scheme with a Long Term Incentive Plan, which was approved by shareholders at the company's Annual General Meeting in July 1996. Under the Long Term Incentive Plan, the following awards to acquire shares in ScottishPower at zero cost were made to plan participants up to a maximum value equal to 60% of base salary:

<u>Date of Grant of Award</u>	<u>Date when Award expires</u>	<u>Number of Shares under Award</u>
August 9, 1996	August 8, 2003	664,440
May 16, 1997	May 15, 2004	719,547
May 7, 1998	May 6, 2005	526,512

Awards will vest only if the Emoluments and Nominations Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in certain OFFER published Customer Service Standards and OFWAT published levels of service (in the case of awards granted in 1997) are achieved over a period of three financial years commencing with the financial year preceding the date an award is made.

Assuming that such targets have been achieved, the number of shares that can be acquired will depend upon how the company ranks in terms of its total shareholder return performance over a three year period, in comparison to the constituent companies of the FTSE 100 Index and the electricity and water sectors.

- (b) The following table sets forth certain information with respect to options to purchase Ordinary Shares which were outstanding as of March 31, 1998.

<u>Date of Grant</u>	<u>Date when Option Expires</u>	<u>Option Price</u>	<u>Number of Ordinary Shares under Option</u>
<u>Executive Share Option Scheme</u>			
December 18, 1991	December 17, 2001	227.4p	128,303
June 25, 1992	June 24, 2002	237.7p	22,554
July 1, 1993	June 30, 2003	310.0p	59,641
December 17, 1993	December 16, 2003	454.8p	69,694
May 27, 1994	May 26, 2004	354.0p	55,760
November 18, 1994	November 17, 2004	352.1p	34,336
May 12, 1995	May 11, 2005	335.0p	394,883
November 10, 1995	November 9, 2005	357.5p	88,076

<u>Date of Grant</u>	<u>Date when Option Expires</u>	<u>Option Price</u>	<u>Number of Ordinary Shares under Option</u>
<u>ScottishPower Sharesave Scheme</u>			
October 6, 1992	May 31, 1998	197.6p	39,466
June 30, 1993	February 28, 1999	248.4p	957,466
June 22, 1994	February 29, 2000	273.8p	1,365,155
June 20, 1995	February 28, 2001	262.1p	1,215,124
June 20, 1996	February 29, 2000	263.1p	2,178,013
June 20, 1996	February 28, 2002	263.1p	8,169,865
June 20, 1997	February 28, 2001	307.0p	1,715,499
June 20, 1997	February 28, 2003	307.0p	3,353,044

Following the acquisition of Southern Water, participants in the Southern Water Sharesave Scheme were offered the opportunity to exchange existing options over Southern Water shares on the basis of 3.3514 ScottishPower shares under replacement options for every one Southern Water share under option. Consequently, the number of shares under options and the option prices were adjusted on this basis for participants exchanging options.

<u>Date of Grant</u>	<u>Date when Option Expires</u>	<u>Option Price</u>	<u>Number of Ordinary Shares under Option</u>
<u>Southern Water Sharesave Scheme</u>			
January 16, 1991	September 30, 1998	70.43p	433,834
February 3, 1992	April 1, 1999	74.00p	286,125
January 26, 1993	April 1, 1998	111.00p	724,432
January 26, 1993	April 1, 2000	111.00p	241,013
January 25, 1994	April 1, 1999	154.87p	418,917
January 25, 1994	April 1, 2001	154.87p	126,371
January 25, 1995	March 20, 2000	136.07p	970,779
January 25, 1995	March 20, 2002	136.07p	166,400
January 26, 1996	March 20, 2001	160.24p	762,934
January 26, 1996	March 20, 2003	160.24p	119,154

- (c) As of March 31, 1998 the total number of Ordinary Shares issuable or transferable upon exercise of all options held by the directors and executive officers of the registrant, as a group, was 974,289.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

- (a) There have been no material transactions during the group's three most recent fiscal years, nor are there presently proposed to be any material transactions to which ScottishPower or any of its subsidiaries was or is a party and in which any director or executive officer, or 10% shareholder, or any relative or spouse thereof or any relative

such a spouse, who had the same home as such person or who is a director or executive officer of any parent or subsidiary of ScottishPower has or is to have a direct or indirect material interest.

- (b) During the group's three most recent fiscal years there has been no, and at present there is no, outstanding indebtedness to ScottishPower or any of its subsidiaries owed or owing by any director or executive officer of the group or any associate thereof.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

- (a) There has been no material default in the payment of principal, interest, a sinking or purchase fund installment, or any other material default not cured within 30 days, with respect to any indebtedness of the company or any of its significant subsidiaries exceeding 5 percent of the total assets of the company and its consolidated subsidiaries.
- (b) There has been no material delinquency (including a material arrearage in the payment of dividends) not cured within 30 days with respect to any class of preferred stock of the company which is registered or which ranks prior to any class of registered securities or with respect to any class of preferred stock of any significant subsidiary of the company.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

- (a) The constituent instruments defining the rights of the holders of any class of registered securities have not been materially modified.
- (b) No rights evidenced by any class of registered securities have been materially limited or qualified by the issuance or modification of any other class of securities.
- (c) There are no assets securing any class of registered securities of the company.
- (d) There are no trustees or paying agents for any registered securities of the company.

PART IV

ITEM 17. FINANCIAL STATEMENTS AND EXHIBITS

Not applicable

ITEM 18. FINANCIAL STATEMENTS AND EXHIBITS

The Consolidated Financial Statements of the group are included herein on pages F-1 through F-38.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

	<u>Page</u>
Consolidated Financial Statements of the Group for Fiscal 1998 ¹	
Accounting policies and definitions	F-1
Group profit and loss account	F-7
Statement of total recognized gains and losses	F-8
Note of historical cost profit and losses	F-8
Reconciliation of movement in shareholders' funds	F-8
Notes to the group profit and loss account	F-8
Group cash flow statement	F-12
Notes to the group cash flow statement	F-13
Balance sheets	F-16
Notes to the balance sheets	F-17
Principal subsidiary undertakings and investments	F-28
Director's responsibilities for the preparation of the financial statements	F-39
Report of the Independent Accountants	F-39

¹ The following financial statements and schedules, together with the report of Coopers & Lybrand, have been reconciled to generally accepted accounting principles in the United States and are filed as part of this report statement.

The attached financial statements include certain U.K. accounting terminology which may not be familiar to a U.S. reader. The following glossary is provided to assist in interpreting these financial statements.

<u>U.K. Term</u>	<u>U.S. Term</u>
Turnover.....	Sales
Profit before taxation.....	Income before taxes
Profit after taxation.....	Net income
Earnings per share.....	Net income per share
Stocks.....	Inventories
Tangible fixed assets.....	Property, plant and equipment
Gearing.....	Leverage

(b) Exhibits

- 1a. Revised Memorandum and Articles of Association of Scottish Power plc
- 1b. Revised Scottish Power plc – Generation, Transmission and Public Electricity Supply License Document dated March 28, 1990, as amended and modified.
- 1c. Revised Public Electricity Supply License for Manweb plc, including amendments and modifications thereto.
- 1d. Item 14. "Description of Securities to be Registered – Description of Ordinary Shares – Restrictions on Voting" and – "Limitations on Holding". (Incorporated by reference from the registrars

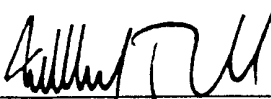
registration statement on Form 20-F, file no. 1-14676, filed with the U.S. Securities and Exchange Commission in September 1997)

The registrant agrees to furnish to the Securities and Exchange Commission, upon request, a copy of any instrument which defines the rights of holders of long-term debt of ScottishPower and its consolidated subsidiaries.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCOTTISH POWER PLC

By: 

Ian Simon MacGregor Russell

Finance Director

Date: July 22, 1998

**CONSOLIDATED FINANCIAL STATEMENTS OF SCOTTISH POWER PLC
FOR THE YEAR ENDED 31 MARCH, 1998**

Accounting policies and definitions

Basis of accounting

The Accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards in the U.K. and, subject to the treatment of water infrastructure grants and contributions described below, comply with the requirements of the Companies Act 1985.

In preparing these Accounts, certain reclassifications and changes in presentation have been made to the accounts previously presented in ScottishPower's published U.K. Annual Report and Accounts, with the exception of the consolidated cash flow statements, in order to comply with accounting presentation and disclosure requirements applicable in the United States. A reconciliation to U.S. GAAP is set out in Note 33.

Basis of consolidation

The group accounts include the accounts of the company and its principal subsidiary undertakings together with the group's share of results and net assets of associated undertakings and joint ventures. For commercial reasons certain subsidiaries have different year ends. The consolidation includes the accounts of these subsidiaries, as adjusted for material transactions in the periods between their year ends and March 31, 1998.

Use of estimates

The preparation of accounts in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of accounts and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates.

Turnover

Turnover comprises the sales value of energy, goods, water, waste water and other services supplied to customers during the year and excludes Value Added Tax and intra-group sales. Income from the sale of energy and measured water is the value of units supplied during the year and includes an estimate of the value of units supplied to customers between the date of their last meter reading and the year end.

Under/over recovery of regulated income

Under the licences issued to Scottish Power plc and Manweb plc which permit them to operate as public electricity companies, price control formulae determine the regulated allowable maximum unit revenues of the transmission, distribution and supply businesses, as appropriate. If actual revenue for the year exceeds the regulated allowable maximum, the excess is deducted from turnover and included in creditors. Where there is an under recovery compared with the regulated allowable maximum no anticipation of any potential future recovery is made.

Research and development

Expenditure on research and development is charged to the profit and loss account as it is incurred.

Interest

Interest on the funding attributable to major capital projects is capitalized gross of tax relief during the period of construction and written off as part of the total cost over the operational life of the asset. All other interest payable and receivable is reflected in the profit and loss account as it arises.

Financial instruments

Debt instruments

All borrowings are stated at the fair value of consideration received after deduction of issue costs. The issue costs and interest payable on bonds are charged to the profit and loss account at a constant rate over the life of the bond.

Interest rate swaps

Interest rate swap agreements are used to manage interest rate exposures and are accounted for under the hedge accounting method. In order to qualify for hedge accounting, the company's notional amount of interest rate swaps and caps must be less than or equal to existing variable rate debt. Amounts payable or receivable in respect of these agreements are recognized as adjustments to interest expense over the period of the contracts. The cash flows from interest rate swaps and gains and losses arising on terminations of interest rate swaps are recognized as returns on investments and servicing of finance. Where associated debt is not retired in conjunction with the termination of an interest swap, gains and losses are deferred and are amortized to interest expense over the remaining life of the associated debt to the extent that such debt remains outstanding.

Interest rate caps

Interest rate caps are used to limit interest rate exposures. The premiums on these contracts disclosed as interest expense and are amortized over the period of the contracts.

Forward contracts

The company enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. Unrealized gains and losses on contracts are not accounted for until the maturity of the contract. The cash flows from forward purchase contracts are classified in a manner consistent with the underlying nature of the hedged transaction.

Contracts for Differences ('CfDs')

The company uses CfDs to minimize exposure to Pool price variations. The cost or the income attributable to CfDs is recorded in the accounting records when settlement is made. Where delivery under the CfD has taken place prior to the period end, adjustments are made to account for the known variances between the contract strike price and the Pool price on the date of delivery.

Premiums and discounts

Premiums and discounts arising on the early repayment of borrowings are written off to the profit and loss account as incurred.

Goodwill

Purchased goodwill represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill arising from the purchase of trading entities in accounting periods

ended on, or prior to, March 31, 1998 has been written off against reserves on acquisition in accordance with the current group accounting policy. Goodwill written off to reserves, being all goodwill previously eliminated, has been offset against merger reserve to reduce the merger reserve to zero and thereafter has been offset against the profit and loss reserve.

Tangible fixed assets

Accounting for non-water infrastructure assets

Tangible fixed assets are stated at cost and are depreciated on the straight-line method over their estimated operational lives. Tangible fixed assets include capitalized employee costs in respect of work performed solely or principally for the purpose of construction of fixed assets. Certain hydro civil assets, which have infinite lives, and land are not depreciated. Depreciation is, in general, first charged in the year following that in which the expenditure was incurred.

The main depreciation periods used by the company are as set out below:

	Years
Coal and oil-fired generating stations	35-40
Hydro plant and machinery	20-40
Other buildings	40
Transmission and distribution plant	30-40
Towers, lines and underground cables	40-60
Vehicles, miscellaneous equipment and fittings	3-15

Infrastructure accounting

Water infrastructure assets, being mains and sewers, reservoirs, dams, sludge pipelines and sea outfalls are not depreciated because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life. Infrastructure renewals, being the expenditure on maintaining the operating capability of the network, is charged as an operating cost based on the long run average charge implied by an asset management plan agreed with the water industry regulator as part of the price regulation process. The asset management plan is developed from historical experience combined with a rolling program of reviews of the condition of the infrastructure assets. The required renewals and the related costs are determined from these engineering estimates using indexed historical cost data. The allocation of costs to each period is also determined from the rolling program of reviews of the condition of the infrastructure assets. Actual costs incurred are charged against the related provision account.

Leased assets

As lessee

Assets leased to the group companies under finance leases are capitalized and depreciated in line with the group depreciation policy. The interest element of the finance lease repayments is charged to the profit and loss account in proportion to the balance of the capital repayments outstanding. Rentals payable under operating leases are charged to the profit and loss account as incurred.

As lessor

Rentals receivable under finance leases are allocated to accounting periods to give a constant periodic rate of return on the net cash investment in the lease in each period. The amounts due from lessees under finance leases are recorded in the balance sheet as a debtor at the amount of the net investment in the lease after making provisions for bad and doubtful rentals receivable.

Property clawback

A debenture has been issued to the Secretary of State for Scotland which entitles HM Government to a proportion of any property gain (above certain thresholds and after deducting an amount representing corporation tax thereon) accruing or treated as accruing to ScottishPower as a result of the disposal or deemed disposal after March 31, 1991 of certain property held at March 31, 1990. These arrangements last until March 31, 2001.

In the case of Manweb, if properties are disposed of, or are deemed to have been disposed of prior to April 1, 2000, a part of the gain over the value at March 31, 1990 (as adjusted for inflation and taxation) will become payable to HM Government.

In the case of both companies, a liability for clawback in respect of property disposals is recognized only when an actual or a deemed disposal occurs.

Investments

Investments in subsidiary and associated undertakings and joint ventures are stated in the balance sheet of the parent company at cost, or nominal value of shares issued as consideration where applicable, less provision for any permanent diminution in value. The consolidated profit and loss account includes the group's share of the profits less losses and taxation of associated undertakings and joint ventures. The group balance sheet includes the investment in associated undertakings and joint ventures at the group's share of their net assets. Other fixed asset investments are carried at cost less provision for permanent diminution in value.

Stocks

Stocks are valued at the lower of cost or net realizable value.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. At the year end, liabilities and monetary assets denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date or, where applicable, at the contracted rate. Any gain or loss arising on the restatement of such balances is taken to the profit and loss account.

Taxation

The charge for ordinary taxation is based on the profits for the year and takes into account deferred taxation, using the liability method, in respect of timing differences to the extent that it is probable that a liability will crystallize in the foreseeable future. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and the depreciation of fixed assets.

Pensions

Revaluations of the Pension Schemes are normally conducted by independent actuaries every three years. The regular cost of providing pensions and related benefits and any variations from regular cost arising from the actuarial valuations are charged to the profit and loss account over the expected remaining service lives of current employees following consultations with the actuary. Any difference between the charge to the profit and loss account and the actual contributions paid to the Pension Schemes is included as an asset or liability in the balance sheet.

Grants and contributions

Capital grants and customer contributions in respect of additions to non-water infrastructure fixed assets are treated as deferred income and released to the profit and loss account over the estimated operational lives of the related assets. The treatment of grants and contributions relating to water infrastructure assets differs, since these assets are not depreciated and therefore no basis exists on which to recognize grants and contributions as deferred income. Accordingly, grants and contributions relating to water infrastructure asset additions are deducted from the cost of water infrastructure assets. This treatment is in accordance with Statement of Standard Accounting Practice (SSAP) 4 and the effect on the value of tangible fixed assets is disclosed in note 15. This is not in accordance with the Companies Act 1985 which requires assets to be stated at their purchase price or production cost. The departure from the requirements of the Act is, in the opinion of the directors, necessary to give a true and fair view, since water infrastructure assets are not depreciated.

Own shares held under trust

Shares in the company purchased for the Long Term Incentive Plan are held under trust and are recorded within investments in the balance sheet at cost. The cost of awards made by the trust under the Long Term Incentive Plan, being the difference between the fair value of the shares and the option price at the date of grant, is taken to the profit and loss account on a straight line basis over the period in which performance is measured. The amount recorded in the balance sheet for shares in the company purchased for employee sharesave schemes represents the amounts receivable from option holders on exercise of the options.

Business segment definitions

The business segments of the group are defined as follows:

Generation Wholesale

The generation of electricity from the company's own power stations, the purchase of external supplies of energy for sale to other business segments of the company and the sale of electricity to other public electricity suppliers and to the Pool in England and Wales.

Power Systems

The transmission and distribution businesses in Scotland and, specifically, the transportation of units of electricity from the power stations through the transmission and distribution networks to customers in Scotland and to customers in England and Wales through the Anglo-Scottish Interconnector.

Energy Supply

The sale of energy to customers, together with related billing and collection activities for customers contracted to Scottish Power plc.

Manweb

The distribution and supply businesses operating in Merseyside and North Wales and, specifically, the purchase, distribution and sale of electricity to customers, together with related billing and collection activities within that licensed area.

Southern Water

The provision of water and waste water services in the South East of England, together with related billing and collection activities.

Developing businesses and ancillary services

The retailing and servicing of domestic electrical goods and home entertainment appliances, the supply of telecommunication services, the provision of electrical contracting, consultancy and corporate services and the company's other subsidiary and associated undertakings.

In the segmental analysis on pages F-9 and F-17, all material activities are derived from continuing operations in the U.K.

Revenue cost definitions

Cost of sales

The cost of sales for the group, excluding Southern Water, reflect the direct costs of the generation and purchase of electricity, retail trading, telecommunication services, electrical contracting, consultancy services and the purchase of natural gas. For Southern Water, cost of sales represents the cost of extracting water from underground and raw water surface reservoirs and of its treatment and supply to customers and the subsequent collection of waste water and its treatment and disposal.

Transmission and distribution costs

The cost of transmitting units of electricity from the power stations through the transmission and distribution networks to customers. It includes the costs of metering, billing and debt collection. This heading is considered more appropriate to the electricity industry than the standard Companies Act heading of distribution costs.

Administrative expenses

The indirect costs of businesses, the costs of centralized services and rates.

Other definitions

Company

Scottish Power plc.

Group

Scottish Power plc and its consolidated subsidiaries.

Associated undertakings

Entities in which the company holds a long term participating interest and exercises significant influence.

Joint ventures

Entities in which the company holds a long term interest and shares control with another company external to the group.

Subsidiary undertakings

Entities in which the company holds a long term controlling interest.

Group Profit and Loss Account

for the year ended 31 March 1998

	Notes	1998 £m	1997 £m	1996 £m
Turnover: group and share of joint ventures and associates		3,134.1	2,947.4	2,276.9
Less: share of joint ventures turnover		(3.8)	(4.6)	(3.4)
Less: share of associates turnover		(2.1)	(2.1)	(2.0)
Group turnover from continuing operations	1	3,128.2	2,940.7	2,271.5
Cost of sales		(1,850.7)	(1,743.5)	(1,375.0)
Gross profit from continuing operations		1,277.5	1,197.2	896.5
Transmission and distribution costs		(219.1)	(222.8)	(203.2)
Administrative expenses		(303.0)	(331.1)	(269.9)
Other operating income		29.7	20.6	10.9
Operating profit from continuing operations	1,2	785.1	663.9	434.3
Income from interests in joint ventures		1.6	1.8	0.6
Income from interests in associated undertakings		0.3	0.9	1.0
Profit on ordinary activities before interest		787.0	666.6	435.9
Net interest charge		(147.1)	(107.5)	(30.1)
- Group		(0.2)	(0.5)	(0.7)
- Joint ventures		(0.1)	(0.2)	(0.3)
- Associates	4	(147.4)	(108.2)	(31.1)
Profit on ordinary activities before taxation		639.6	558.4	404.8
Ordinary taxation		(151.5)	(135.7)	(108.9)
- Group		(0.4)	(0.7)	-
- Joint ventures		0.3	(0.4)	(0.4)
- Associates	5	(151.6)	(136.8)	(109.3)
Profit after ordinary taxation		488.0	421.6	295.5
Exceptional taxation - windfall tax	6	(317.0)	-	-
Profit after taxation		171.0	421.6	295.5
Minority interests	26	(0.9)	(0.5)	0.9
Profit for the financial year		170.1	421.1	296.4
Dividends	8	(243.3)	(218.1)	(146.1)
(Loss)/profit retained	25	(73.2)	203.0	150.3
Earnings per ordinary share	7	14.41p	38.11p	33.12p
Adjusting item - windfall tax		26.87p	-	-
Earnings per ordinary share before windfall tax	7	41.28p	38.11p	33.12p
Dividend per ordinary share	8	20.40p	18.50p	15.50p

The Accounting Policies and Definitions on pages F-1 to F-6, together with the Notes on pages F-9 to F-11, F-13 to F-15 and F-17 to F-38 form part of these Accounts.

Statement of Total Recognised Gains and Losses

for the year ended 31 March 1998

	Note	1998 £m	1997 £m	1996 £m
Profit for the financial year		170.1	421.1	296.4
Surplus on revaluation of assets	15	229.0	-	-
Total recognised gains and losses		399.1	421.1	296.4

Note of Historical Cost Profits and Losses

for the year ended 31 March 1998

	Note	1998 £m	1997 £m	1996 £m
Profit on ordinary activities before taxation		639.6	558.4	404.8
Difference between historical cost depreciation charge and actual depreciation charge for the period calculated on the revalued amount of fixed assets	15	1.7	-	-
Historical cost profit on ordinary activities before taxation		641.3	558.4	404.8
Historical cost (loss)/profit retained for the period after taxation, minority interests and dividends		(71.5)	203.0	150.3

Reconciliation of Movements in Shareholders' Funds

for the year ended 31 March 1998

	1998 £m	1997 £m	1996 £m
Profit for the financial year	170.1	421.1	296.4
Dividends	(243.3)	(218.1)	(146.1)
(Loss)/profit retained	(73.2)	203.0	150.3
Share capital issued (net of costs)	45.5	633.2	415.7
Shares to be issued	-	13.4	-
Revaluation of fixed assets	229.0	-	-
Goodwill written off	(16.2)	(534.6)	(464.2)
Net movement in shareholders' funds	185.1	315.0	101.8
Opening shareholders' funds	1,522.7	1,207.7	1,105.9
Closing shareholders' funds	1,707.8	1,522.7	1,207.7

The Accounting Policies and Definitions on pages F-1 to F-6, together with the Notes on pages F-9 to F-11, F-13 to F-15 and F-17 to F-38 form part of these Accounts.

Notes to the Group Profit and Loss Account

for the year ended 31 March 1998

1 Segmental business information

(a) Turnover by business segment

Note	Total turnover			Inter-segment turnover			External turnover			
	1998 £m	1997 £m	1996 £m	1998 £m	1997 £m	1996 £m	1998 £m	1997 £m	1996 £m	
Generation Wholesale	1,014.3	974.4	1,034.1	764.8	744.4	828.6	249.5	230.0	205.5	
Power Systems	443.0	429.2	408.9	391.1	386.8	372.5	51.9	42.4	36.4	
Energy Supply	1,336.2	1,270.4	1,317.6	11.5	0.9	-	1,324.7	1,269.5	1,317.6	
Manweb	667.8	759.3	439.4	13.9	4.2	-	653.9	755.1	439.4	
Southern Water	(i) 453.0	316.7	-	0.4	0.5	-	452.6	316.2	-	
Developing businesses and ancillary services		524.0	412.9	334.2	128.4	85.4	61.6	395.6	327.5	272.6
Total							3,128.2	2,940.7	2,271.5	

(b) Operating profit by business segment

	1998 £m	1997 £m	1996 £m
Generation Wholesale	130.8	146.1	150.4
Power Systems	249.5	228.0	214.8
Energy Supply	15.1	32.4	21.9
Manweb	131.3	135.0	80.4
Manweb	240.7	135.6	-
Southern Water	(i)		
Developing businesses and ancillary services	17.7	8.0	9.5
Sub total	785.1	685.1	477.0
Reorganisation costs	-	(21.2)	(42.7)
Total	785.1	663.9	434.3

(c) Depreciation by business segment

	1998 £m	1997 £m	1996 £m
Generation Wholesale	19.8	14.5	16.1
Power Systems	44.0	43.5	38.9
Energy Supply	3.7	2.0	1.6
Manweb	37.1	36.6	18.7
Manweb	40.7	32.4	-
Southern Water	(i)		
Developing businesses and ancillary services	20.3	16.5	11.5
Total	165.6	145.5	86.8

(i) The 1997 figures for Southern Water cover the post acquisition period from 6 August 1996 to 31 March 1997.

(ii) The accounting policies of business segments are the same as those described in the Accounting Policies and Definitions on pages F-1 to F-6.

2 Operating profit

Operating profit is stated after charging/(crediting):	Note	1998 £m	1997 £m	1996 £m
Depreciation		165.6	145.5	86.8
Release of customer contributions/grants		(20.6)	(22.5)	(6.7)
Research and development		5.4	5.6	3.4
Hire of plant and equipment - operating leases		2.6	2.6	3.5
Hire of other assets - operating leases		25.0	20.6	19.6
Auditors' remuneration for audit of		0.6	0.6	0.4
- group		0.3	0.3	0.2
- company		0.3	0.3	0.2
Auditors' remuneration for non-audit services to the company and its UK subsidiary undertakings	(i)	1.2	1.4	0.7

(i) Non-audit services consist mainly of regulatory advice, consulting resources and sundry returns for regulatory purposes.

Notes to the Group Profit and Loss Account continued

3 Employee information

(a) Employee costs	1998 £m	1997 £m	1996 £m
Wages and salaries	304.6	277.1	190.8
Social security costs	24.0	22.7	15.4
Pension costs	18.1	24.7	26.3
Total employee costs	346.7	324.5	232.5
Less: charged as capital expenditure	(67.8)	(48.0)	(46.1)
Charged to the profit and loss account	278.9	276.5	186.4

(b) Employee numbers

The year end and average numbers of employees (full time and part time) employed by the group, including executive directors, were:

	At 31 March			Annual average		
	1998	1997	1996	1998	1997	1996
Generation Wholesale	1,020	1,054	1,162	1,068	1,094	1,199
Power Systems	2,736	2,684	2,867	2,757	2,831	3,108
Energy Supply	1,139	797	845	982	810	871
Manweb	2,248	2,830	3,061	2,330	2,975	3,245
Southern Water	2,406	3,618	-	2,856	4,006	-
Developing businesses and ancillary services	5,550	4,035	3,424	5,086	3,587	3,462
	15,099	15,018	11,359	15,079	15,303	11,885
The number of full time equivalent staff was:	14,306	14,401	10,773	14,356	14,657	11,344

4 Net interest charge

(a) Analysis of net interest charge

	1998 £m	1997 £m	1996 £m
Interest on overdrafts, bonds and other borrowings:			
Repayable wholly within five years	41.6	65.4	-
Not wholly repayable within five years	33.8	12.6	-
Repaid during the year	84.7	33.0	0.3
	160.1	111.0	34.6
On finance leases	0.4	0.5	-
Total interest payable	160.5	111.5	34.6
Interest receivable	(3.1)	(3.3)	(4.5)
Capitalised interest	(10.0)	-	-
Net interest charge	147.4	108.2	30.1
Interest cover (times)	5.3	6.2	14.4

Interest cover is calculated by dividing profit on ordinary activities before interest by the net interest charge.

(b) Analysis of total interest payable

	1998 £m	1997 £m	1996 £m
Bank loans and overdrafts	45.0	65.5	17.4
Government borrowings	16.3	16.3	16.3
Loan notes	1.6	2.7	0.9
Commercial paper	73.3	24.3	-
Medium term notes/private placements	4.5	-	-
Euro-bonds	19.4	2.2	-
Finance leases	0.4	0.5	-
	160.5	111.5	34.6

5 Ordinary taxation

Reconciliation of tax charge to standard rate of UK Corporation Tax	1998 £m	1997 £m	1996 £m
Tax on profit before tax at standard rate of 31% (1997 33%, 1996 33%)	198.2	184.2	133.7
Timing differences between taxable and accounting profit:			
- accelerated capital allowances	(35.8)	(49.7)	(22.3)
- other timing differences	1.1	4.5	(4.5)
Permanent differences	27.0	9.5	2.4
Advance corporation tax written back	(38.9)	(11.7)	-
Ordinary taxation charged to profit and loss account	151.6	136.8	109.3
Effective tax rate	23.7%	24.5%	27.0%

The effective tax rate is calculated by dividing ordinary taxation by profit on ordinary activities before taxation.

6 Exceptional taxation - windfall tax

Exceptional taxation relates to the group's estimated share of the windfall tax according to the formula contained within the Finance (No 2) Act 1997. The first of two equal instalments was paid on 1 December 1997 with the second instalment due on 1 December 1998.

7 Earnings per ordinary share

(a) Earnings per ordinary share have been calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue and ranking for dividend during the period, based on the following information.

	1998	1997	1996
Profit for the financial year (£ million)	170.1	421.1	296.4
Weighted average share capital (number of shares, million)	1,180.1	1,104.9	894.9

(b) Fully diluted earnings per ordinary share based on options outstanding have not been provided as the effect of dilution would not be material.

(c) The calculation of earnings per ordinary share, on a basis which excludes the windfall tax, is as follows:

	1998 £m	1997 £m	1996 £m
Profit for the financial year	170.1	421.1	296.4
Adjusting item - windfall tax	317.0	-	-
Profit for the financial year before windfall tax	487.1	421.1	296.4
Earnings per ordinary share before windfall tax	41.28p	38.11p	33.12p

8 Dividend per ordinary share

	1998 pence per ordinary share	1997 pence per ordinary share	1996 pence per ordinary share	1998 £m	1997 £m	1996 £m
Interim dividend paid	6.80	6.17	5.17	80.4	72.6	48.6
Proposed final dividend	13.60	12.33	10.33	162.9	145.5	97.5
Total dividend	20.40	18.50	15.50	243.3	218.1	146.1

Group Cash Flow Statement

for the year ended 31 March 1998

	Notes	1998 £m	1997 £m	1996 £m
Cash inflow from continuing operating activities	10	987.3	791.2	408.7
Dividends received from associates and joint ventures		0.9	-	0.8
Returns on investments and servicing of finance	9	(146.7)	(101.1)	(18.2)
Ordinary taxation		(134.5)	(117.4)	(149.3)
Free cash flow before windfall tax		707.0	572.7	242.0
Exceptional taxation - windfall tax	6	(157.8)	-	-
Free cash flow		549.2	572.7	242.0
Capital expenditure and financial investment	9	(565.9)	(381.4)	12.6
Cash flow before acquisitions and disposals		(16.7)	191.3	254.6
Acquisitions and disposals	9	67.9	(1,234.6)	(780.2)
Equity dividends paid		(226.0)	(170.0)	(123.1)
Cash outflow before use of liquid resources and financing		(174.8)	(1,213.3)	(648.7)
Management of liquid resources	9,13	(17.5)	(21.0)	87.2
Financing				
Issue of ordinary share capital (net of expenses)	9	8.9	238.0	143.7
Increase in debt	9,13	252.6	1,048.6	395.5
		261.5	1,286.6	539.2
Increase/(decrease) in cash in year	13	69.2	52.3	(22.3)

Free cash flow represents cash flow from operations after adjusting for returns on investments and servicing of finance and taxation.

Reconciliation of Net Cash Flow to Movement in Net Debt

	1998 £m	1997 £m	1996 £m
Increase/(decrease) in cash in year	69.2	52.3	(22.3)
Cash inflow from increase in debt	(252.6)	(1,048.6)	(395.5)
Cash outflow/(inflow) from movement in liquid resources	17.5	21.0	(87.2)
Change in net debt resulting from cashflows	(165.9)	(975.3)	(505.0)
Net debt acquired	(0.1)	(168.6)	(0.6)
Net debt disposed	6.7	-	-
Loan notes issued	(3.0)	(14.3)	(40.2)
Movement in net debt in year	(162.3)	(1,158.2)	(545.8)
Net debt at end of previous year	(1,790.3)	(632.1)	(86.3)
Net debt at end of year	(1,952.6)	(1,790.3)	(632.1)

The Accounting Policies and Definitions on pages F-1 to F-6, together with the Notes on pages F-9 to F-11, F-13 to F-15 and F-17 to F-38 form part of these Accounts.

Notes to the Group Cash Flow Statement

for the year ended 31 March 1998

9 Analysis of cash flows

	1998 £m	1997 £m	1996 £m
(a) Returns on investments and servicing of finance			
Interest received	2.7	3.3	5.8
Interest paid	(149.0)	(103.9)	(24.0)
Interest element of finance lease rental payments	(0.4)	(0.5)	-
Net cash outflow for returns on investments and servicing of finance	(146.7)	(101.1)	(18.2)
(b) Capital expenditure and financial investment			
Purchase of tangible fixed assets	(635.3)	(435.4)	(233.3)
Deferred income received	55.4	44.7	35.0
Sale of listed investments	-	-	207.7
Sale of tangible fixed assets	26.4	13.9	4.9
Acquisition of retail outlets and stock	-	-	(1.1)
Purchase of fixed asset investments	(12.4)	(4.6)	(0.6)
Net cash (outflow)/inflow for capital expenditure and financial investment	(565.9)	(381.4)	12.6
(c) Acquisitions and disposals			
Purchase of subsidiary undertakings	(0.4)	(1,234.6)	(780.2)
Sale of subsidiary businesses	68.3	-	-
Net cash inflow/(outflow) from acquisitions and disposals	67.9	(1,234.6)	(780.2)
(d) Management of liquid resources*			
Sale of commercial paper	-	-	101.6
Cash outflow in relation to short term deposits and other short term investments	(17.5)	(21.0)	(14.4)
Net cash (outflow)/inflow for management of liquid resources	(17.5)	(21.0)	87.2
(e) Financing			
Issue of ordinary share capital	8.9	263.0	156.9
Expenses paid in connection with share issue	-	(25.0)	(13.2)
	8.9	238.0	143.7
Debt due within one year:			
- net (repayment)/drawdown of uncommitted facilities	(81.8)	252.9	36.7
- net commercial paper (redeemed)/issued	(31.0)	700.5	58.8
- net medium term notes issued/private placements	62.5	-	-
- redemption of loan notes	(39.4)	(0.4)	-
- European Investment Bank loan	1.3	8.7	-
- issue of Grid exchangeable bonds	-	-	2.3
- redemption of Grid exchangeable bonds	-	-	(2.3)
Debt due after one year:			
- net drawdown of uncommitted facilities	-	3.8	-
- net (repayment)/drawdown of committed facilities	(200.6)	(100.0)	300.0
- net medium term notes issued/private placements	240.9	-	-
- European Investment Bank loan	20.0	(11.6)	-
- 5.875% euro-US dollar bond issue	182.9	-	-
- Variable coupon bond issue	99.6	-	-
- 8.375% euro-sterling bond issue	0.2	196.6	-
Capital element of finance lease rental payments	(2.0)	(1.9)	-
Increase in debt	252.6	1,048.6	395.5
Net cash inflow from financing	261.5	1,286.6	539.2

* liquid resources include term deposits of less than one year, commercial paper and other short term investments.

Notes to the Group Cash Flow Statement continued

10 Reconciliation of operating profit to cash inflow from continuing operating activities

	1998	1997	1996
	£m	£m	£m
Operating profit	785.1	663.9	434.3
Acquisition reorganisation accruals and provisions	-	15.2	36.2
Depreciation charge	165.6	145.5	86.8
Profit on sale of tangible fixed assets and disposal of businesses	(21.7)	(2.4)	(0.1)
Release of deferred income	(20.6)	(22.5)	(6.7)
Movement in provisions for liabilities and charges	(7.5)	(17.1)	(21.4)
Increase in stocks	(32.0)	(31.1)	(0.3)
Decrease/(increase) in debtors	76.5	38.7	(118.0)
Increase/(decrease) in creditors	41.9	1.0	(2.1)
Cash inflow from continuing operating activities	987.3	791.2	408.7

The acquisition reorganisation accruals and provisions for 1997 and 1996 relate to the cost of implementing the post-acquisition plans for Southern Water and Manweb respectively.

11 Effect of acquisitions and disposals on cash flows

	1998	1997	1996
	£m	£m	£m
Cash flow from operating activities	10.0	140.3	(81.5)
Returns on investment and servicing of finance	(0.7)	(5.6)	(1.7)
Taxation	-	(18.0)	(28.3)
Capital expenditure and financial investment	(5.3)	(93.2)	209.3
Management of liquid resources	-	49.0	-
Financing	2.1	(2.8)	(86.7)
Increase in cash	6.1	69.7	11.1

12 Analysis of cash flows in respect of acquisitions and disposals

	1998	1997	1996
	£m	£m	£m
Cash consideration including (disposal)/acquisition expenses	(70.2)	1,290.8	776.3
Cash at bank and in hand disposed/(acquired)	1.9	(58.6)	(16.8)
Bank overdrafts acquired	-	2.4	20.7
	(68.3)	1,234.6	780.2

The analysis of cash flows from disposals in 1998 relates to the cash flows during the period for the Southern Water non-core businesses that were sold during the year. The cash flows from the acquisitions in 1998 were not material to the group. There were no disposals in 1997. The analysis of cash flows on acquisitions in 1997 relate to the post-acquisition cash flows of Southern Water (1996 Manweb).

13 Analysis of net debt

1997-98 analysis	At 1 April 1997 £m	Cash flow £m	Acquisitions (excl. cash & overdrafts)	Disposals (excl. cash & overdrafts)	Other non-cash changes	At 31 March 1998 £m
Cash at bank	2.5	56.3	-	-	-	58.8
Overdrafts	(22.2)	12.9	-	-	-	(9.3)
		69.2				
Debt due after 1 year	(689.4)	(343.0)	-	-	-	(1,032.4)
Debt due within 1 year	(1,111.7)	88.4	(0.1)	-	(3.0)	(1,026.4)
Finance leases	(8.7)	2.0	-	6.7	-	-
		(252.6)				
Other deposits	39.2	17.5	-	-	-	56.7
Total	(1,790.3)	(165.9)	(0.1)	6.7	(3.0)	(1,952.6)

'Other non-cash changes' to net debt represents loan notes issued as part of the consideration for Pinnacle Cellular Limited.

1996-97 analysis	At 1 April 1996 £m	Cash flow £m	Acquisitions (excl. cash & overdrafts)	Disposals (excl. cash & overdrafts)	Other non-cash changes	At 31 March 1997 £m
Cash at bank	2.1	0.4	-	-	-	2.5
Overdrafts	(74.1)	51.9	-	-	-	(22.2)
		52.3				
Debt due after 1 year	(442.6)	(88.8)	(158.0)	-	-	(689.4)
Debt due within 1 year	(135.7)	(961.7)	0.0	-	(14.3)	(1,111.7)
Finance leases	0.0	1.9	(10.6)	-	-	(8.7)
		(1,048.6)				
Other deposits	18.2	21.0	-	-	-	39.2
Total	(632.1)	(975.3)	(168.6)	-	(14.3)	(1,790.3)

'Other non-cash changes' to net debt represents loan notes issued as part of the consideration for Southern Water and Woodend Group Limited.

Balance Sheets

as at 31 March 1998

	Notes	Group		Company	
		1998 £m	1997 £m	1998 £m	1997 £m
Fixed assets					
Tangible assets	15	4,718.5	4,052.1	1,755.1	1,577.8
Investments					
- Investments in joint ventures:					
Share of gross assets		23.8	13.4		
Share of gross liabilities		(8.0)	(7.4)		
		15.8	6.0	13.6	4.4
- Investments in associates		7.4	7.9	-	-
- Other investments		44.1	3.8	1,731.2	1,506.6
	16	67.3	17.7	1,744.8	1,511.0
		4,785.8	4,069.8	3,499.9	3,088.8
Current assets					
Stocks	17	144.2	113.7	128.9	101.0
Debtors	18	531.3	622.8	1,811.1	1,500.7
Short term bank and other deposits		115.5	41.7	48.6	1.1
		791.0	778.2	1,988.6	1,602.8
Creditors: amounts falling due within one year					
Loans and other borrowings	19	(1,035.7)	(1,137.1)	(1,031.1)	(1,118.6)
Other creditors	20	(1,396.3)	(1,112.0)	(1,455.5)	(983.5)
		(2,432.0)	(2,249.1)	(2,486.6)	(2,102.1)
Net current liabilities		(1,641.0)	(1,470.9)	(498.0)	(499.3)
Total assets less current liabilities		3,144.8	2,598.9	3,001.9	2,589.5
Creditors: amounts falling due after more than one year					
Loans and other borrowings	19	(1,032.4)	(694.9)	(932.8)	(542.4)
Provisions for liabilities and charges	22	(38.1)	(45.6)	(10.4)	(17.6)
Deferred income	23	(364.6)	(335.3)	(179.9)	(172.0)
Net assets	14	1,709.7	1,523.1	1,878.8	1,857.5
Called up share capital	24,25	598.4	588.7	598.4	588.7
Share premium	25	388.7	305.7	388.7	305.7
Merger reserve	25	-	-	8.2	13.4
Revaluation reserve	25	227.3	-	-	-
Profit and loss account	25	493.4	628.3	883.5	949.7
Equity shareholders' funds	25	1,707.8	1,522.7	1,876.6	1,857.5
Minority interest	26	1.9	0.4	-	-
Capital employed		1,709.7	1,523.1	1,878.8	1,857.5

The Accounting Policies and Definitions on pages F-1 to F-6, together with the Notes on pages F-9 to F-11, F-13 to F-15 and F-17 to F-38 form part of these Accounts.

Notes to the Balance Sheets

as at 31 March 1998

14 Segmental business information

(a) Net assets/(liabilities) by business segment

	Notes	1998 £m	1997 £m
Generation Wholesale		361.2	323.2
Power Systems		1,136.4	1,030.2
Energy Supply		45.2	41.7
Manweb		607.3	520.4
Southern Water		1,222.4	1,224.2
Developing businesses and ancillary services	(i)	220.4	246.6
Sub total		3,592.9	3,386.3
Unallocated net liabilities	(ii)	(1,883.2)	(1,863.2)
Total		1,709.7	1,523.1

(i) The net assets of the Retail business, included within developing businesses and ancillary services, excluding short term bank and other deposits of £19.7 million (1997 £9.7 million), are £35.6 million (1997 £120.9 million).

(ii) Unallocated net liabilities include net debt, dividends payable and tax liabilities.

(b) Capital expenditure by business segment

	1998 £m	1997 £m
Generation Wholesale	43.8	80.3
Power Systems	163.2	122.2
Energy Supply	21.1	7.3
Manweb	108.9	86.9
Southern Water	265.5	122.8
Developing businesses and ancillary services	82.2	79.6
Total	684.7	499.1

(c) Total assets by business segment

	1998 £m	1997 £m
Generation Wholesale	564.0	416.2
Power Systems	1,395.3	1,198.8
Energy Supply	267.1	214.5
Manweb	1,003.1	875.3
Southern Water	2,013.2	1,697.4
Developing businesses and ancillary services	334.1	445.8
Total	5,576.8	4,848.0

Notes to the Balance Sheets continued

15 Fixed assets

(a) Tangible assets - group					
Note	Land and buildings £m	Water infrastructure assets £m	Plant and machinery £m	Vehicles and equipment £m	
Cost or valuation:					
At 1 April 1997	785.3	689.8	3,236.6	420.5	5,132.2
Additions	73.5	99.0	335.4	176.8	684.7
Acquisitions	0.4	-	1.2	0.2	1.8
Revaluation (i)	9.4	34.4	108.2	-	152.0
Grants and contributions	-	(5.5)	-	-	(5.5)
Disposals	(21.1)	-	(36.7)	(86.8)	(144.6)
At 31 March 1998	847.5	817.7	3,644.7	510.7	5,820.6
Depreciation:					
At 1 April 1997	139.7	-	867.6	72.8	1,080.1
Charge for the year	14.9	-	88.6	62.1	165.6
Revaluation (i)	-	-	(77.0)	-	(77.0)
Disposals	(2.0)	-	(21.9)	(42.7)	(66.6)
At 31 March 1998	152.6	-	857.3	92.2	1,102.1
Net book value:					
At 31 March 1998	694.9	817.7	2,787.4	418.5	4,718.5
At 31 March 1997	645.6	689.8	2,369.0	347.7	4,052.1
Historic cost analysis				1998	1997
				£m	£m
Cost				5,668.6	5,132.2
Depreciation based on cost				(1,177.4)	(1,080.1)
Net book value based on cost				4,491.2	4,052.1
(b) Tangible assets - company					
	Land and buildings £m	Water infrastructure assets £m	Plant and machinery £m	Vehicles and equipment £m	Total £m
Cost:					
At 1 April 1997	279.9	-	2,114.1	198.3	2,592.3
Additions	9.1	-	138.8	111.2	359.1
Disposals	(0.7)	-	(3.9)	(1.7)	(6.3)
At 31 March 1998	288.3	-	2,249.0	307.8	2,845.1
Depreciation:					
At 1 April 1997	130.5	-	816.5	67.5	1,014.5
Charge for the year	1.4	-	44.0	34.4	79.8
Disposals	(0.2)	-	(2.8)	(1.3)	(4.3)
At 31 March 1998	131.7	-	857.7	100.6	1,090.0
Net book value:					
At 31 March 1998	156.6	-	1,391.3	207.2	1,755.1
At 31 March 1997	149.4	-	1,297.6	130.8	1,577.8
Included in the cost or valuation of fixed assets above are:					
	Note	Group		Company	
		1998	1997	1998	1997
		£m	£m	£m	£m
Major assets in the course of construction		277.3	185.1	12.9	-
Grants and contributions in respect of water infrastructure assets		(8.0)	(2.5)	-	-
Capitalised interest		18.0	8.0	8.0	8.0
Assets not subject to depreciation	(ii)	889.5	710.3	29.2	7.3

(i) At their respective dates of acquisition, the Manweb distribution assets and the Southern Water operational assets were recorded in the consolidated balance sheet of Scottish Power plc at their estimated recoverable amounts. These amounts were assessed by discounting estimated future cash flows using an appropriate discount rate and allowing for uncertainties in relation to regulatory, market and other risk factors. The directors are of the opinion that these uncertainties are diminished significantly following the imposition of the windfall tax (see Note 6). In view of the relative significance and isolated nature of this change, the directors believe that a revaluation of the Manweb distribution and Southern Water operational assets is appropriate as at 30 September 1997 to better reflect their value as part of the group's asset base. This revaluation was carried out at 30 September 1997 by the directors and was determined by assessing discounted estimated future cash flows. This has resulted in an uplift in asset value of £229.0 million, and the creation of a revaluation reserve of an equivalent amount (see Note 25).

(ii) Assets not subject to depreciation are land, water infrastructure and certain hydro civil assets. Land and buildings held by the group and company are predominantly freehold. The exceptions are a number of retail premises and other operational sites which are held under lease.

(iii) The net book value of tangible fixed assets held under finance leases at 31 March 1998 was £nil (1997 £15.0 million). The charge for depreciation against these assets during the previous year was £2.4 million.

(iv) The historical cost of fully depreciated tangible fixed assets still in use was £234.6 million (1997 £208.7 million).

16 Fixed asset investments

	Subsidiary undertakings		Joint ventures		Associated undertakings		Own shares held under trust	Other investments	Total
	Shares £m	Loans £m	Shares £m	Loans £m	Shares £m	Loans £m	£m	£m	
Group	(a)								
Cost or valuation:									
At 1 April 1997	-	-	1.6	4.4	6.0	1.9	2.2	1.6	17.7
Additions	-	-	-	9.9	0.7	-	39.4	0.9	50.9
Acquisitions	-	-	-	-	-	-	-	-	-
Share of retained profit	-	-	1.0	-	0.5	-	-	-	1.5
Disposals and other	-	-	(0.4)	(0.7)	(0.5)	(1.2)	-	-	(2.8)
At 31 March 1998	-	-	2.2	13.6	6.7	0.7	41.6	2.5	67.3
Company									
Cost or nominal value:									
At 1 April 1997	1,504.4	-	-	4.4	-	-	2.2	-	1,511.0
Additions	-	176.2	-	9.9	-	-	39.4	0.5	226.0
Acquisitions	8.5	-	-	-	-	-	-	-	8.5
Disposals	-	-	-	(0.7)	-	-	-	-	(0.7)
At 31 March 1998	1,512.9	176.2	-	13.6	-	-	41.6	0.5	1,744.8

The principal subsidiary undertakings, joint ventures and associated undertakings are listed on page F-38. On 1 May 1998 the group acquired 100% share capital of Demon Internet Limited for £66 million.

(a) Shares in the company held under trust during the year are as follows:

	Notes	Dividends waived	Shares held at 1 April 1997 (000s)	Shares acquired during year (000s)	Shares transferred during year (000s)	Shares held at 31 March 1998 (000s)	Market value at 31 March 1998 (£m)
Long Term Incentive Plan	(i)	no	678	716	-	1,394	7.8
ScottishPower Sharesave Scheme	(ii)	yes	-	16,457	(2,539)	13,918	78.3
			678	17,173	(2,539)	15,312	86.1

(i) Shares of the company are held under Trust as part of the Long Term Incentive Plan for executive directors and other senior managers see Note 32 for details of the plan).

(ii) Shares of the company are held in a Qualifying Employee Share Ownership Trust as part of the ScottishPower Sharesave Scheme. Holders of options under the scheme between 30 June 1993 and 20 June 1996 will be awarded shares by the trust following the completion of savings contracts and upon exercise of the options. Details of options granted under this scheme are disclosed in Note 31.

17 Stocks

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Raw materials and consumables	50.1	41.1	41.5	33.6
Gas stocks	48.3	36.2	48.3	36.2
Work in progress	7.3	5.6	3.1	1.5
Finished goods and goods for resale	38.5	30.8	36.0	29.7
	144.2	113.7	128.9	101.0

Gas stocks represent gas delivered to third parties under sale and repurchase agreements to match gas usage requirements arising mainly from generation, with existing gas purchase obligations. Under the provisions of Financial Reporting Standard No. 5, the cost of gas delivered to third parties is shown as gas stocks and amounts payable to third parties totalling £29.4 million (1997 £25.7 million) are included in accrued expenses in note 20.

Notes to the Balance Sheets continued

18 Debtors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
(a) Amounts falling due within one year:				
Trade debtors	255.5	428.9	127.3	265.7
Amounts owed by subsidiary undertakings	-	-	428.6	218.3
Prepayments and accrued income	159.3	104.9	102.3	67.8
Other debtors	68.9	48.6	33.0	26.3
	483.7	582.4	691.2	578.1
(b) Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	1,079.2	886.2
Amounts receivable under finance leases	3.0	3.6	-	-
Advance corporation tax recoverable on proposed dividend	40.7	36.4	40.7	36.4
Other debtors	3.9	0.4	-	-
	531.3	622.8	1,811.1	1,500.7

Amounts receivable under finance leases relate to ScottishPower Leasing Limited, one of the company's subsidiaries (see page F-38). The total cost of assets acquired by ScottishPower Leasing Limited for letting under leases is £3.7 million (1997 £4.0 million). Total amounts receivable during the year under finance leases were £0.4 million (1997 £0.4 million).

19 Loans and other borrowings

(a) Analysis by instrument	Notes	Weighted average interest rate		Group		Company	
		1998	1997	1998	1997	1998	1997
		£m	£m	£m	£m	£m	£m
Bank overdraft		-	-	9.3	22.2	8.4	15.7
Uncommitted bank loan		7.0%	6.2%	211.7	293.4	211.1	293.3
Committed bank loan	(i)	7.1%	6.5%	-	200.6	-	200.0
Commercial paper	(ii)	6.9%	6.3%	728.3	759.3	728.3	759.3
Medium term notes/private placements	(iii)	7.6%	-	303.4	-	303.4	-
Loan notes	(iv)	6.2%	5.9%	17.7	54.1	14.6	5
European Investment Bank loan	(v)	10.0%	10.0%	176.4	155.1	176.4	-
Lease finance		-	-	-	8.7	-	-
11.457% sterling bond 2001 (held by HM Treasury)		11.5%	11.5%	142.0	142.0	142.0	142.0
5.875% euro-US dollar bond 2003		6.9%	-	182.9	-	182.9	-
Variable coupon bond 2008		6.8%	-	99.6	-	-	-
8.375% euro-sterling bond 2017		8.4%	8.4%	196.8	196.6	196.8	196.6
				2,068.1	1,832.0	1,963.9	1,661.0

With the exception of finance leases, all borrowings are unsecured.

(i) Committed bank loan

As at 31 March 1998 there were no amounts drawn (1997 £200 million) under £2.0 billion (1997 £2.0 billion) revolving credit facility in place until 2001.

(ii) Commercial paper

The company has an established U.S.\$ 2.0 billion (1997 U.S.\$ 1.5 billion) euro-commercial paper program. Paper is issued in a range of currencies and swapped back into sterling. Amounts borrowed under commercial paper are repayable in less than one year.

(iii) Medium term notes/private placements

The company has an established U.S.\$ 2.0 billion euro-medium term note program. Paper is issued in a range of currencies and swapped back into sterling. As at 31 March 1998, maturities range from one to ten years. During the year, the group entered into two private placements with Japanese lenders. The loans are denominated in Japanese Yen and have been swapped back into sterling. The loans are for periods of up to ten years.

(iv) Loan notes

All loan notes are redeemable at the holders discretion. Ultimate maturity dates range from 1999 to 2006.

(v) European Investment Bank loan

This loan incorporates agreements with various interest rates and maturity dates. The maturity dates of these arrangements range from 2006 to 2011. During the year this loan was restructured to include Scottish Power plc as a co-borrower.

(b) Maturity analysis

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Repayments fall due as follows:				
Within one year, or on demand	1,035.7	1,137.1	1,031.1	1,118.6
After more than one year	1,032.4	694.9	932.8	542.4
	2,068.1	1,832.0	1,963.9	1,661.0
Repayments due after more than one year are split as follows:				
2000	89.5	13.3	89.5	-
2001	165.8	13.7	165.8	-
2002	31.4	153.9	31.4	142.0
2003	243.0	214.3	242.9	200.0
thereafter	502.7	299.7	403.2	200.4
	1,032.4	694.9	932.8	542.4

(c) Interest rate analysis

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed/ capped at 31 March		Weighted average period for which interest rate is fixed/capped	
	1998 £m	1997 £m	1998 %	1997 %	1998 Years	1997 Years
Fixed rate borrowings	1,668.6	1,384.6	8.2	8.6	7	8
Capped rate borrowings	200.0	200.0	7.0	7.0	4	5
Floating rate borrowings	199.5	247.4				
	2,068.1	1,832.0				

All amounts in the analysis above are payable in sterling and take into account the effect of interest rate swaps and caps and currency swaps.

Based on the floating rate net debt of £199.5 million at 31 March 1998 (1997 £247.4 million), a 1% change in interest rates would result in a £2.0 million change in profit before tax for the year (1997 £2.4 million change).

(d) Financial instruments and risk management**(i) Overview**

The main financial risks faced by the group are exchange rate risk, interest rate risk and Pool price risk. The Board has reviewed and agreed policies for managing each of these risks as summarised below. The use of all classes of financial instruments to manage these risks has been approved by the Board Corporate Treasury, which is authorised to conduct the day-to-day treasury activities of the group, reports at least annually to the Board and is subject to examination by internal audit. The energy trading group, which is authorised to carry out activities to manage the group's Pool price risk, reports monthly to a risk committee which is comprised of two executive directors and an external consultant. The energy trading group also reports at least annually to the Board and is subject to examination by internal audit.

(ii) Treasury strategy

The group uses a variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations. The group borrows in the major global markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest basis.

This can be done at lowest cost by raising floating rate debt and converting the interest rate obligations to fixed rates, via an interest rate swap and/or cap. The conversion is generally made to fixed rate sterling. This is done where the debt is raised in other than sterling by combining the interest rate swap with a foreign exchange forward contract. Under an interest rate swap, the group agrees with another party to exchange at specific intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principle amount. The notional principle of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk. Gains and losses on both the medium term debt and the associated swaps are deferred and included in the interest cost of the debt for the relevant period.

All transactions are undertaken to manage the risks arising from underlying activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit risk in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of the exposure to any one party. The group does not believe that it is exposed to any material concentrations of credit risk.

(iii) Energy trading strategy

Almost all electricity generated in England and Wales must be sold to the Pool, and electricity suppliers must likewise buy electricity from the Pool for resale to their customers. The Pool was established at the time of privatisation in England and Wales for bulk electricity trading between generators and suppliers. ScottishPower participates in the Pool by exporting / importing electricity to / from England and Wales via the interconnector. The Pool is operated under a Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in Great Britain are party.

Notes to the Balance Sheets continued

19 Loans and other borrowings continued

(iii) Energy trading strategy continued

The group has procedures in place to minimise exposure to Pool price variations, that is, the possibility that a change in Pool prices will reduce proceeds of electricity sold to the Pool or increase the cost of electricity purchased from the Pool. These procedures involve ScottishPower and subsidiary Manweb entering into contracts for differences (CfDs). In general, the terms of CfDs are such that contracts are settled monthly (or frequently) in arrears by reference to actual half-hourly Pool prices.

These CfDs involve a degree of credit risk. This is the risk that the counterparty to the CfD defaults on settlement. The group controls credit risk arising from holding the CfDs through credit approvals, limits and monitoring procedures.

(iv) Principal financial instruments used by the group

Interest rate swaps

Interest rate swaps are used solely to convert floating rate borrowings to fixed rates to reduce the financial risk to the group from potential future increases in interest rates.

Interest rate caps

Interest rate caps are used solely to limit the group exposure to possible future increases in interest rates.

Forward contracts

The group generally hedges foreign exchange transaction exposures up to one year forward. Hedges are put in place using forward contracts at the time that the forecast exposure becomes reasonably certain. Gains and losses resulting from changes in exchange rates on contracts designated as hedges of forecast foreign exchange transactions are deferred and included in the measurement of the related foreign currency transaction in the period they occur.

Commercial paper is issued in several different foreign currencies. Forward contracts are taken out solely to convert the debt to sterling to eliminate the financial risk to the group of currency movements. As at the year end, the group had outstanding forward foreign exchange contracts, the majority of which were for periods of three months or less, denominated in U.S. Dollars, Canadian Dollars, French Francs, Dutch Guilders, ecu's and Italian Lira.

Contracts for differences (CfDs)

A CfD is a contract between two parties (e.g. a generator and a public electricity supplier) that requires each party to either make or receive monthly payments over a specific term based on the difference between an agreed price (i.e. the bilaterally determined strike price) and a price that varies with a specified commodity index (i.e. the Pool), applied to an agreed quantity (i.e. number of kW). The average duration for these contracts is approximately one year. The group's use of such derivative instruments relates directly to the underlying purchase and sale of electricity to and from the Pool.

The group has developed a methodology to estimate the internal value (i.e. the group's best estimate of fair value) of the CfDs outstanding at the balance sheet date based upon assumptions of a number of complex factors, in particular the anticipated long term level of Pool prices, total Pool demand, plant availability, plant operating costs, bidding behaviour of generators and appropriate market discount rates. The group has determined that the fair value amount of CfDs, being the difference between the strike price of the contract and the estimated Pool price for the relevant half hourly periods, outstanding at the year end is not material to the group's financial statements.

The gross value of outstanding CfDs as at 31 March 1998 was £781.2 million (1997 £343.7 million).

(e) Current value of financial instruments

	At 31 March 1998			At 31 March 1997		
	Book amount £m	Gross contract amount £m	Current value £m	Book amount £m	Gross contract amount £m	Current value £m
Short term debt and current portion of long term	1,035.7	1,035.7	1,035.7	1,137.1	1,137.1	1,137.1
Long term debt	1,032.4	1,036.8	1,114.5	694.9	698.3	731.2
Total debt	2,068.1	2,072.5	2,150.2	1,832.0	1,835.4	1,868.3
Interest rate swaps	-	925.0	51.7	-	875.0	5.3
Interest rate caps	(4.7)	200.0	(3.0)	(8.7)	200.0	(10.8)
Forward rate agreements	-	706.6	-	-	297.4	-
Total financial instruments	2,063.4	3,904.1	2,198.9	1,823.3	3,207.8	1,862.8

The assumptions used to estimate current fair values of financial instruments are summarised below:

(i) For cash and short term deposits and short term borrowings (uncommitted borrowing, commercial paper, loan notes and short term drawings under the £2.6 billion revolving credit facility) the book value amounts approximate to fair value because of their short maturities.

(ii) The fair value of long term sterling bond 2001 and the European Investment Bank loans have been calculated by estimating the premium payable on redemption of these borrowings using market rates adjusted to reflect the redemption adjustments allowed under each agreement.

(iii) The fair value of the euro-sterling bond 2017 has been estimated on the basis of quoted market prices.

(iv) The fair values of the sterling interest rate swaps and sterling interest rate caps have been estimated by calculating the present value of estimated future cash flows, using market discount rates in effect at the balance sheet date.

(v) The above analysis of total debt incorporates the sterling equivalent of all loans sourced in foreign currencies. The value of forward rate agreement used to hedge the underlying currency loans approximates to £706.6 million as at 31 March 1998 (1997 £297.4 million).

20 Other creditors

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Amounts falling due within one year:				
Trade creditors	204.6	165.7	122.7	89.9
Amounts owed to subsidiary undertakings	-	-	689.7	354.0
Corporation tax	164.1	148.7	74.2	72.1
Windfall tax	159.2	-	47.4	-
Advance corporation tax	60.8	54.6	60.8	54.5
Other taxes and social security	7.3	19.9	12.4	22.9
Payments received on account	32.7	47.9	3.2	17.8
Capital creditors and accruals	183.8	144.4	62.6	34.7
Other creditors	65.7	74.3	27.9	23.7
Accrued expenses	355.2	311.0	191.7	168.4
Proposed dividend	162.9	145.5	162.9	145.5
	1,396.3	1,112.0	1,455.5	983.5

21 Deferred taxation

No provision for deferred taxation is considered necessary at 31 March 1998, since future taxation depreciation is expected to exceed accounting depreciation and therefore no deferred taxation liabilities are expected to crystallise in the foreseeable future. Total potential deferred liabilities computed at the future rate of corporation tax of 30% (1997 33%) are as follows:

	Group		Company	
	1998 £m	1997 £m	1998 £m	1997 £m
Accelerated capital allowances	609.4	632.3	303.5	316.2
Other timing differences	(35.8)	(47.8)	(7.3)	(16.0)
Advance corporation tax	(12.9)	(51.9)	-	-
	560.7	532.6	296.2	300.2

Notes to the Balance Sheets continued

22 Provisions for liabilities and charges

	Balance at 1 April 1997 £m	Charged to the profit and loss account £m	Utilised during year £m	Balance 31 M 1998 £m
Group				
Power station repairs and maintenance	9.2	-	(2.6)	6.6
Employment claims	5.4	(3.0)	(2.4)	-
Reorganisation and restructuring	4.2	(0.6)	(2.5)	1.1
Pensions	13.5	2.1	-	15.6
Environmental	3.4	-	-	3.4
Other	9.9	2.4	(0.9)	11.4
	45.6	0.9	(8.4)	38.1
Company				
Power station repairs and maintenance	9.2	-	(2.6)	6.6
Employment claims	5.4	(3.0)	(2.4)	-
Other	3.0	0.8	-	3.8
	17.6	(2.2)	(5.0)	10.4

23 Deferred income

	Balance at 1 April 1997 £m	Receivable during year £m	Released to profit and loss account £m	Balance at 31 March 1998 £m
Grants and customer contributions:				
- Group	335.3	49.9	(20.6)	364.6
- Company	172.0	20.0	(12.1)	179.9

Deferred income excludes grants and contributions received in respect of water infrastructure assets.

24 Share capital

	Note	1998 £m	1997 £m
Authorised:			
1,700,000,000 (1997 1,700,000,000) ordinary shares of 50p each		850.0	850.0
One Special Share of £1	(a)	-	-
		850.0	850.0
Allotted, called up and fully paid:			
1,196,752,324 (1997 1,177,365,936) ordinary shares of 50p each		598.4	588.7
One Special Share of £1	(a)	-	-
		598.4	588.7

(a) Special Share

The "Special Share", which can be held only by one of the Secretaries of State or any other person acting on behalf of HM Government, does not carry rights to vote at the general or separate meetings but entitles the holder to attend and speak at such meetings. Written consent of the Special Shareholder is required before certain provisions of the company's Articles of Association or certain rights attaching to the Special Share are varied. This share shall confer no rights to participate in the capital or profits of the company, except that in a winding up, the Special Shareholder shall be entitled to repayment in priority to other shareholders. The Special Share is redeemable at par at any time by the Special Shareholder after consultation with the company.

25 Analysis of movements in shareholders' funds

Notes	Number of shares 000's	Share capital £m	Share premium £m	Merger reserve £m	Revaluation reserve £m	Profit and loss account £m	Total £m
Group							
	816,843	408.4	3.1	-	-	694.4	1,105.9
Balance at 1 April 1995						150.3	150.3
Retained profit for the year							
Share capital issued							
- As part of funding for an acquisition	75,994	38.0	0.0	234.0	-	-	272.0
- Placed with underwriters	43,395	21.7	127.2	-	-	-	148.9
- Employee sharesave scheme	4,211	2.1	1.2	-	-	-	3.3
- Executive share option scheme	1,983	1.0	3.7	-	-	-	4.7
Share issue expenses			(13.2)				(13.2)
Goodwill written off				(464.2)			(464.2)
Balance at 1 April 1996	942,426	471.2	122.0	(230.2)	-	844.7	1,207.7
Retained profit for the year						203.0	203.0
Share capital issued							
- As part of funding for an acquisition	126,387	63.2	-	332.0	-	-	395.2
- Rights issue for an acquisition	95,961	48.0	191.9	-	-	-	239.9
- Employee sharesave scheme	12,473	6.2	16.6	-	-	-	22.8
- Executive share option scheme	119	0.1	0.2	-	-	-	0.3
Shares to be issued				13.4	-	-	13.4
Share issue expenses			(25.0)				(25.0)
Goodwill written off				(534.6)			(534.6)
Balance at 31 March 1997 (as published)	1,177,366	588.7	305.7	(419.4)	-	1,047.7	1,522.7
Prior period reclassification (a)				419.4		(419.4)	
Balance at 31 March 1997 (as restated)	1,177,366	588.7	305.7	-	-	628.3	1,522.7
Retained loss for the year						(73.2)	(73.2)
Share capital issued							
- Employee sharesave scheme (b)	18,687	9.3	81.1	(5.2)	-	(42.0)	43.2
- Executive share option scheme	699	0.4	1.9	-	-	-	2.3
Revaluation of fixed assets (see Note 15)					229.0	-	229.0
Revaluation surplus realised					(1.7)	1.7	
Goodwill written off (a)				5.2		(21.4)	(16.2)
Balance at 31 March 1998	1,196,752	598.4	388.7	-	227.3	493.4	1,707.8
Company							
Balance at 1 April 1997	1,177,366	588.7	305.7	13.4	-	949.7	1,857.5
Retained loss for the year (c)						(24.2)	(24.2)
Share capital issued							
- Employee sharesave scheme (b)	18,687	9.3	81.1	(5.2)	-	(42.0)	43.2
- Executive share option scheme	699	0.4	1.9	-	-	-	2.3
Balance at 31 March 1998	1,196,752	598.4	388.7	8.2	-	883.5	1,878.8

(a) Goodwill written off

On 1 September 1997, the company entered into an agreement with Martin Dawes Telecommunications Limited (MDT) whereby each company acquired 50% of the share capital of Scottish Telecommunications (Services) Limited (STS). On the same day, STS acquired both the share capital of Woodend Group Limited and the Scottish mobile telephone business of MDT. The business of Woodend, being the mobile telephone operations of ScottishPower, was then transferred up to STS. Goodwill written off during the period relates to these transactions and the acquisitions of Telephone International Media Limited on 1 August 1997, Pinnacle Cellular Limited on 25 February 1998 and Lancastrian Holdings Limited on 31 March 1998. In each case, the entire share capital was acquired. The cumulative amount of goodwill written off to reserves at 31 March 1998, and the reserves to which they have been written off, are shown in the table below. In accordance with the requirement of FRS 10 not to show eliminated goodwill as a debit balance on a separate goodwill write-off reserve, the comparatives for 1997 have been restated such that goodwill is eliminated against merger reserve to reduce the merger reserve to zero and thereafter has been offset against the profit and loss reserve.

	1998 £m	As restated 1997 £m	As published 1997 £m
Cumulative goodwill written off			
Merger reserve	574.2	579.4	998.8
Profit and loss account	462.5	441.1	21.7
Total	1,036.7	1,020.5	1,020.5

(b) Share capital issued

The movement on the merger reserve reflects the reduction in shares to be issued following the acquisition of Southern Water plc in August 1996. It represented the cost to ScottishPower of transferring existing options over Southern Water plc shares to the Scottish Power plc Share Option Scheme. As these options are exercised, the merger reserve is reduced for the attributable cost of the option.

The movement on the profit and loss account represents the difference between the exercise price of options granted under the employee sharesave scheme and the market value of the company's shares immediately prior to the company issuing shares to a Qualifying Employee Share Ownership Trust in respect of these options.

(c) Profit and loss account of the company

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit and loss account was approved by the Board on 6 May 1998. The profit for the financial year per the accounts of the company was £219.1 million (1997 £300.5 million).

Notes to the Balance Sheets continued

26 Minority interests

	1998 £m	1997 £m
Equity minority interests:		
Balance at 1 April	0.4	(0)
Additions	0.6	0.7
Profit and loss account	0.9	0.5
Balance at 31 March	1.9	0.4

27 Pensions

Pension fund	Scheme type	funded or unfunded	Pension charge for the year		Prepayment as at 31 March	
			1998 £m	1997 £m	1998 £m	1997 £m
ScottishPower	Defined benefit	funded	6.5	13.6	11.9	18.4
Manweb	Defined benefit	funded	5.8	6.0	-	-
Southern Water	Defined benefit	funded	5.8	5.1	-	-

Pension fund	Latest full actuarial valuation	Valuation carried out by	Value of assets based on valuation	Valuation method adopted	Principal actuarial assumptions			Value of fund assets/ accrued benefits
					Average investment rate of return %	Average salary increases %	Average pension increases %	
ScottishPower	31 December 1994	William M Mercer	1025.7	projected unit	9.0%	7.0%	5.0%	111%
Manweb	31 March 1995	Bacon & Woodrow	412.3	projected unit	9.0%	7.0%	5.0%	100%
Southern Water	31 March 1995	Watson Wyatt	148.3	projected unit	8.5%	6.5%	5.0%	102%

(a) Effect of the Finance (No. 2) Act 1997

The Chancellor has abolished the payment of tax credits for pension schemes on dividends paid on or after 2 July 1997. The impact of this change will be incorporated within the remaining actuarial valuations which are currently being undertaken and will be spread over the expected remaining service lives of the members of the schemes. The directors have sought advice from the actuaries regarding the likely impact of the removal of the ACT credit and are of the opinion that the impact will not be material.

(b) ScottishPower

The company operates a funded pension scheme providing defined benefits based on final pensionable salary for eligible employees of the company. The assets of the Scheme are held separately from those of the company in a separate trustee administered fund. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary. The prepayment included in the balance sheet represents the accumulated excess of the actual contributions paid to the Scheme over the pension accounting charge. During the year a valuation review of the Scheme was carried out by William M Mercer as part of the preparation for the full actuarial valuation as at 31 December 1997. The outcome of the review resulted in the accounting rate used for the calculation of the 1997-98 pension charge (shown in the table above) reducing from 10.6% of pensionable salaries to 4.8% of pensionable salaries. The Trustees of the Scheme are due to finalise approval of the full valuation at their meeting in June 1998, the results of which are consistent with the valuation review. The full valuation takes account of a full review of the long term actuarial assumptions following the abolition of ACT credits in July 1997. The revised assumptions assume a reduced long term rate of price inflation of 4.5% per annum, resulting in revised assumptions of an average investment rate of return of 8.5% per annum, average salary increases of 6.5% per annum and average pension increases of 4.5% per annum.

(c) Manweb

Most of the Manweb employees are entitled to join the Electricity Supply Pension Scheme which provides pension and other related benefits based on final pensionable pay to employees throughout the Electricity Supply Industry in England and Wales. The assets are held in a separate trustee administered fund. The pension charge for the year is based on the advice of the Scheme's independent qualified actuary.

(d) Southern Water

The Southern Water group operates a number of pension schemes. The scheme details above relate to the principal defined benefit scheme which covers the majority of the Southern Water employees. The assets are held in a separate trustee administered fund. Southern Water's other schemes are not material to the group. The pension charge for the year is based on the advice of the scheme's independent qualified actuary. The 1997 comparative relates only to the post-acquisition period. The full year charge was £7.6 million.

28 Contingent liabilities

(a) The group has contingent liabilities under performance bonds and actual and potential claims, none of which, in the opinion of the directors, is material to the group.

(b) The company has guaranteed the overdraft of one subsidiary undertaking up to an amount of £0.5 million (1997 one subsidiary undertaking for million).

(c) The company has guaranteed Manweb's liabilities to the Pool in England and Wales. At 31 March 1998 these liabilities were £37.4 million (1997 £30.3 million).

29 Financial commitments

(a) Group analysis of annual commitments under operating leases		
	1998	1997
	£m	£m
Leases of land and buildings		
Expiring during year ending 31 March:		
1999	0.5	0.1
2000	0.4	0.3
2001	0.6	0.3
2002	0.1	0.1
2003	0.2	0.1
thereafter	16.2	13.5
	18.0	14.4
Other operating leases		
Expiring during year ending 31 March:		
1999	4.5	6.2
2000	2.4	2.0
2001	3.7	1.2
2002	0.9	0.5
2003	0.8	0.2
thereafter	0.6	0.3
	12.9	10.4

(b) Group analysis of annual commitments under finance leases		
	1998	1997
	£m	£m
Expiring during year ending 31 March:		
1999	-	3.2
2000	-	2.7
2001	-	2.1
2002	-	0.5
2003	-	0.1
thereafter	-	0.1
	-	8.7

As at 31 March 1998, no finance lease commitments existed for the group and company (1997 no finance lease commitments for the company)

(c) Capital commitments	Group		Company	
	1998	1997	1998	1997
	£m	£m	£m	£m
Contracted but not provided	262.0	394.4	70.3	49.5

Notes to the Balance Sheets continued

29 Financial commitments continued

(d) Other contractual commitments

Under contractual commitments the group has rights and obligations in relation to the undernoted contracts. The annual value of the purchases and income arising from these contracts is provided below.

	Notes	Commitment entered into	Commitment expires	Purchases/sales in year under group commitments	
				1998 £m	1997 £m
The purchase of electricity from Scottish Nuclear Limited		1990	2005	365.8	373.2
The purchase of electricity from Scottish Hydro-Electric plc	(i)	1990	see below	100.5	120.5
The supply of electricity to Scottish Hydro-Electric plc		1990	2004	16.8	15.7
Revenue from the operation of the company's transmission system and access by Scottish Hydro-Electric plc to the Anglo-Scottish Interconnector		1990	no fixed date of expiry	26.1	24.7
Purchase of coal from the Scottish Coal Company Limited	(ii)	1998	see below	76.9	75.5
Purchase of gas from various fields in the North Sea		1994	2010	81.8	50.4

(i) There are two agreements relating to the purchase of electricity from Scottish Hydro-Electric plc. These expire in 2012 and 2039.

(ii) A contract was signed with Scottish Coal Company Limited on 10 May 1998 to secure supplies of coal from deep mines for 1.67 million tonnes per annum for 6 years from 1 April 1998 and from opencast mines for 0.75 million tonnes per annum for 5 years from 1 April 1998.

30 Related party transactions

In accordance with FRS 8, the following disclosure relates to related party transactions during the year.

Related party transactions and balances with joint ventures and associated undertakings

(a) Trading transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Sales/(purchases) to/(from) other group companies during the year		Amounts due from/(to) other group companies as at 31 March	
		1998 £m	1997 £m	1998 £m	1997 £m
Sales by related parties					
Scotland On-Line Limited	50% owned subsidiary	0.2	0.1	-	-
ScottishPower Telecommunications (Services) Limited	50% owned subsidiary	0.9	-	0.2	-
Purchases by related parties					
Scotland On-Line Limited	50% owned subsidiary	(0.3)	(0.1)	(0.3)	(0.1)
Scottish Electricity Settlements Limited	50% owned joint venture	(1.3)	(1.2)	(0.3)	(0.7)
ScottishPower Telecommunications (Services) Limited	50% owned subsidiary	(0.2)	-	(0.1)	-

Southern Water non-core businesses

The group made purchases of £18 million on normal trading terms from the Southern Water non-core businesses subsequent to their disposal.

(b) Funding transactions and balances arising in the normal course of business

Related party	Related party relationship to group	Interest receivable/(payable) from/(to) other group companies during the year		Amounts due from/(to) other group companies as at 31 March	
		1998 £m	1997 £m	1998 £m	1997 £m
Scottish Electricity Settlements Limited	50% owned joint venture	(0.6)	(0.1)	(11.8)	(1.7)
Scotland On-Line Limited	50% owned subsidiary	-	-	(0.2)	-
ScottishPower Telecommunications (Services) Limited	50% owned subsidiary	-	-	(0.3)	-
CeltPower Limited	50% owned subsidiary	-	-	(2.0)	(2.7)
Wind Resources Limited	45% owned associated undertaking	-	-	(0.7)	(1.1)

(c) Other related party transactions

ScottishPower Telecommunications (Services) Limited 50% owned joint venture.

The group's 50% interest in ScottishPower Telecommunications (Services) Limited (STS) arose through the transactions detailed in Note 25(a).

31 **Employee Share Schemes**

The group has three types of share option schemes for employees. Options have been granted and awards made to eligible employees to subscribe for ordinary shares in Scottish Power plc in accordance with the rules of each scheme. The ScottishPower and Southern Water Schemes are savings related and under normal circumstances share options are exercisable on completion of a three, five or seven year save-as-you-earn contract as appropriate. The Executive Share Option Scheme applied to executive directors and certain senior managers. However, this Scheme has been replaced with the Long Term Incentive Plan and, although it will not affect options already granted, this plan supersedes executive share options. Awards granted under the Long Term Incentive Plan will invest only if the Emoluments and Nominations Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the group and improvements in service standards are achieved over a period of three financial years commencing with the financial year preceding the date an award is made.

(a) Summary of movements in share options in ScottishPower shares

	ScottishPower Sharesave Scheme (number of shares '000s)	Weighted average exercise price (pence)	Manweb Sharesave Scheme (number of shares '000s)	Weighted average exercise price (pence)	Southern Water Sharesave Scheme (number of shares '000s)	Weighted average exercise price (pence)	Executive Share Option Scheme (number of shares '000s)	Weighted average exercise price (pence)	Total (number of shares '000s)
Outstanding at 1 April 1995	18,131	198.0	-	-	-	-	3,272	273.2	21,403
Granted	1,476	268.0	4,034	61.0	-	-	528	346.8	6,038
Exercised	(613)	184.9	(3,598)	61.1	-	-	(1,983)	239.8	(6,194)
Lapsed	(757)	217.8	-	-	-	-	(114)	363.0	(871)
Outstanding at 1 April 1996	18,237	203.3	436	60.8	-	-	1,703	328.9	20,376
Granted	11,187	263.1	-	-	7,885	108.3	-	-	19,072
Exercised	(10,993)	175.2	(436)	60.8	(1,044)	54.0	(119)	246.7	(12,592)
Lapsed	(917)	234.8	-	-	(149)	94.0	(31)	350.1	(1,097)
Outstanding at 1 April 1997	17,514	252.8	-	-	6,692	117.1	1,553	326.4	25,759
Granted	5,268	307.0	-	-	-	-	-	-	5,268
Exercised	(2,813)	202.6	-	-	(1,956)	87.2	(699)	323.3	(5,468)
Lapsed	(974)	264.9	-	-	(487)	151.7	-	-	(1,461)
Outstanding at 31 March 1998	18,995	274.6	-	-	4,249	126.9	854	328.6	24,098

(b) Analysis of share options outstanding at 31 March 1998

	Date of grant	Number of participants	Number of shares (000s)	Option price (pence)	Normal exercisable date
ScottishPower Sharesave Scheme	06.10.92	13	40	197.6	6 months to June 1998
	30.06.93	694	958	248.4	6 months to March 1999
	22.06.94	1,078	1,365	273.8	6 months to March 2000
	20.06.95	1,002	1,215	262.1	6 months to March 2001
	20.06.96	5,388	10,348	263.1	6 months to March 2000 or 2002
	20.06.97	4,971	5,069	307.0	6 months to March 2001 or 2003
Southern Water Sharesave Scheme	16.01.91	83	434	70.4	6 months to September 1998
	03.02.92	69	286	74.0	6 months to September 1999
	26.01.93	340	965	111.0	6 months to September 1998 or 2000
	25.01.94	332	545	154.9	6 months to September 1999 or 2001
	25.01.95	454	1,137	136.1	6 months to September 2000 or 2002
	25.01.96	503	882	160.2	6 months to September 2001 or 2003
Executive Share Option Scheme	18.12.91	8	128	227.4	1994-2001
	25.06.92	14	23	237.7	1995-2002
	01.07.93	4	60	310.0	1996-2003
	17.12.93	48	70	454.8	1996-2003
	27.05.94	15	56	354.0	1997-2004
	18.11.94	5	34	352.1	1997-2004
	12.05.95	24	395	335.0	1998-2005
10.11.95	3	88	357.5	1998-2005	

All options are exercisable over Scottish Power plc shares. Where reference is made to Southern Water, this is to identify the Sharesave Schemes under which the options over Scottish Power plc shares have been granted. The exercise prices of options granted prior to the rights issue on 30 August 1996 were adjusted to reflect the bonus element inherent in the rights issue.

For the Southern Water Sharesave Scheme, the date of grant refers to the date the original Southern Water share options were granted. These options were exchanged for options over ScottishPower shares following acquisition in 1996.

Notes to the Balance Sheets continued
32 Directors' emoluments and interests

(a) Policy

The Emoluments and Nominations Committee is responsible for determining the remuneration policy for the ScottishPower group. The ScottishPower's remuneration policy is to ensure that the rewards for executives and directors attract and retain executives of high quality incentivised to achieve performance which exceeds that of competitors. Furthermore, the objective is to ensure that incentive schemes are in line with best practice and promote the interests of the shareholders.

(b) Total emoluments

The following table provides a breakdown of the total emoluments of the Chairman and all directors in office during the year ended 31 March 1998.

	Basic Salary £	Bonuses £	Benefits in kind £	Total 1998 £	Total 1997 £
Chairman and executive directors					
C M Stuart	180,000	-	14,294	194,294	154,665
I Robinson	350,000	119,875	17,470	487,345	397,256
M J Kinski (resigned 7 April 1998)	237,500	90,000	7,970	335,470	267,716
I M Russell	245,833	83,100	27,145	356,078	333,706
K L Vowles	180,000	61,650	11,851	253,501	210,576
D Whyte	215,000	73,638	17,338	305,976	279,169
Non-executive directors (fees and expenses)					
Sir Ronald Garrick	30,000	-	1,889	31,889	25,449
Sir Peter Gregson	22,500	-	2,460	24,960	7,999
Baroness Jay of Paddington (resigned 13 May 1997)	2,661	-	836	3,497	13,038
N C D Kuenssberg (retired 23 July 1997)	10,000	-	-	10,000	25,540
E C S Macpherson	28,333	-	1,689	30,022	13,421
J Parnaby	22,500	-	4,145	26,645	23,825
J A Scott (retired 24 July 1996)	-	-	-	-	7,028
	1,524,327	428,263	107,087	2,059,677	1,759,388
Other emoluments - executive directors					
Relocation expenses	-	-	-	14,358	6,368
Pension contributions	-	-	-	128,892	130,752
Total	1,524,327	428,263	107,087	2,202,927	1,896,508

(i) The emoluments of the highest paid director (Mr Robinson) excluding pension contributions were £487,345 (1997 £397,256). Pension contributions made by the company under approved pension arrangements for Mr Robinson amounted to £nil (1997 £10,138). Mr Robinson also has entitlement to the unapproved pension benefits described further in note c(iii) below. The total of the liabilities for the 14 executives and senior employees arising in relation to unapproved benefits for service for the year to 31 March 1998 is £432,676 (31 March 1997 £305,952).

(c) Directors' pension benefits

Details of pension benefits earned by the executive directors are shown below:

Defined benefits pension scheme	Transferred in benefits £	Additional pension earned in the year £	Accrued entitlement £	Transfer value of increases after indexation (net of Directors' contribution) £
Chairman & executive directors				
C M Stuart	-	-	-	-
I Robinson	97,650	7,831	141,348	114,606
M J Kinski	29,011	3,564	50,639	35,671
I M Russell	6,748	2,076	23,553	19,994
K L Vowles	79,685	3,278	99,289	39,457
D Whyte	60,416	2,433	95,456	44,030

(i) The accrued entitlement of the highest paid director (Mr Robinson) was £141,348 (£101,762).

(ii) The pension entitlement shown is that which would be paid annually on retirement based on service to the end of the year. Members of the scheme have the option to pay additional voluntary contributions; neither the contributions nor the resulting benefits are included in the above table.

(iii) Executives who joined the company on or after 1 June 1989 are subject to the earnings cap introduced in the Finance Act 1989. Pension entitlement which cannot be provided through the company's approved schemes due to the earnings cap are provided through unapproved pension arrangements. The pension benefits disclosed above include approved and unapproved pension arrangements.

(iv) The increase in additional pension earned in the year excludes any increase for inflation.

(v) The transfer value has been calculated on the basis of actuarial advice in accordance with actuarial Guidance Note GN11, less directors contributions.

(vi) Transferred in benefits represent pension rights accrued in respect of previous employments.

(d) Directors' interests in share options

Executive director	At 1 April 1997	Granted	Exercised	At 31 March 1998	Option exercise price (pence)	Date exercised	Market price at date of exercise (pence)	Date from which exercisable	Expiry date
Maximum contingent awards under Long Term Incentive Plan									
I Robinson	51,533	-	-	51,533	nil			09.08.2000	08.08.2003
	-	53,846	-	53,846	nil			16.05.2001	15.05.2004
	51,533	53,846	-	105,379					
M J Kinski (resigned 7 April 1998) (see footnote)	36,809	-	-	36,809	nil			-	-
	-	33,846	-	33,846	nil			-	-
	36,809	33,846	-	70,655					
I M Russell	38,650	-	-	38,650	nil			09.08.2000	08.08.2003
	-	36,923	-	36,923	nil			16.05.2001	15.05.2004
	38,650	36,923	-	75,573					
K L Vowles	27,607	-	-	27,607	nil			09.08.2000	08.08.2003
	-	27,692	-	27,692	nil			16.05.2001	15.05.2004
	27,607	27,692	-	55,299					
D Whyte	35,889	-	-	35,889	nil			09.08.2000	08.08.2003
	-	32,307	-	32,307	nil			16.05.2001	15.05.2004
	35,889	32,307	-	68,196					
Executive Share Option Scheme									
I Robinson (see footnote)	286,457	-	-	286,457	335.0			12.05.1998	11.05.2005
M J Kinski (resigned 7 April 1998) (see footnote)	14,822	-	(14,822)	-	354.0	24.11.1997	483.0	-	-
	17,033	-	(17,033)	-	352.1	24.11.1997	483.0	-	-
	31,855	-	(31,855)	-					
I M Russell	139,748	-	(139,748)	-	354.0	12.01.1998	515.5	-	-
	17,033	-	(17,033)	-	352.1	12.01.1998	515.5	-	-
	156,781	-	(156,781)	-					
K L Vowles	2,505	-	(2,505)	-	454.8	09.12.1997	508.0	-	-
	3,274	-	(3,274)	-	354.0	09.12.1997	508.0	-	-
	44,570	-	(44,570)	-	352.1	09.12.1997	508.0	-	-
	50,349	-	(50,349)	-					
D Whyte	6,593	-	(6,593)	-	454.8	10.12.1997	506.0	-	-
	9,316	-	(9,316)	-	354.0	24.11.1997	483.0	-	-
	28,956	-	(28,956)	-	352.1	24.11.1997	483.0	-	-
	44,865	-	(44,865)	-					

Notes to the Balance Sheets continued

32 Directors' emoluments and interests continued

(e) Sharesave Scheme

Executive director	At 1 April 1997	Granted	Exercised	At 31 March 1998	Option exercise price (pence)	Date exercised	Market price at date of exercise (pence)	Date from which exercisable	Expiry date
I Robinson	6,581	-	-	6,581	262.1			01.09.2000	28.02.2001
M J Kinski (resigned 7 April 1998) (see footnote)	4,861	-	-	4,861	248.4			01.09.1998	28.02.1999
	1,111	-	-	1,111	263.1			01.09.1999	29.02.2000
	5,972	-	-	5,972					
I M Russell	6,300	-	-	6,300	273.8			01.09.1999	29.02.2000
K L Vowles	3,795	-	(3,795)	-	197.6	01.12.1997	478.7	-	-
	3,933	-	-	3,933	263.1			01.09.2001	28.02.2002
	7,728	-	(3,795)	3,933					
D Whyte	3,795	-	(3,795)	-	197.6	01.12.1997	478.7	-	-
	2,223	-	-	2,223	263.1			01.09.1999	29.02.2000
	6,018	-	(3,795)	2,223					

* Denotes options granted under a three year scheme.

Footnote

The option for 286,457 shares held by Mr Robinson was exercised on 15 May 1998, the relevant market price at the date of exercise being 542p per share.

Following the resignation of Mr Kinski from the Board, the awards and options granted to him under the Long Term Incentive Plan and the Sharesave Scheme have lapsed.

Awards made to directors under the Long Term Incentive Plan on 7 May 1998 were as follows: I Robinson 41,916; I M Russell 31,706; K L Vowles 22,570; and D Whyte 25,257.

Notes

- (i) The market price of the shares at 31 March 1998 was 562.5p and the range during 1997-98 was 352.0p to 582.0p.
- (ii) The Long Term Incentive Plan supersedes the Executive Share Option Scheme, and annual awards to acquire shares in ScottishPower nil or nominal cost are made to the plan participants up to a maximum value equal to 60% of base salary. The award will vest only if Emoluments and Nominations Committee is satisfied that certain performance measures related to the sustained underlying financial performance of the company and improvements in certain OFFER published Customer Service Standards and OFWAT published levels of service (in the case of awards granted in 1997) are achieved over a period of three financial years commencing with the financial year preceding the date an award is made. Assuming that such targets have been achieved, the number of shares that can be acquired will be dependent upon how the company ranks in terms of its total shareholder return performance over a three year period, in comparison to the constituent companies of the FTSE 100 Index and the electricity and water sectors. A percentage of each half of the award will vest depending upon the company's ranking within each of the relevant comparator groups. The plan participant may acquire the shares in respect of the percentage of the award which has vested at any time after the fourth year up to the seventh year after the grant of the award. No dividends accrue to participants prior to vesting.
- (iii) The option price of executive share options is based on the middle-market share price on the day immediately preceding the date of grant. For Sharesave options, the option price is calculated in the same way at the date of invitation and discounted by 20% in accordance with the Inland Revenue rules for such schemes.
- (iv) The options initially granted to each executive director under the Executive Share Option Scheme were based on a multiple of four times salary in respect of Chief Executive, Mr Robinson, and three times in respect of the other executive directors, which is in accordance with the limits set out in current guidelines. Subsequent grants of options were made to reflect increases in directors' basic salary levels, following periodic review by the Emoluments and Nominations Committee of the performance of the company and the executive directors individually. Executive options are normally exercisable in a manner which does not attract income tax liability provided that exercise occurs between three and ten years after the date of grant and at least three years have elapsed from the date of the last 'tax relieved' exercise. Total gains made on exercise of directors' share options during the year were £424,097 (1997 £16,979).
- (v) The number of options granted to a director under the Sharesave Scheme is calculated by reference to the total amount which the director agrees to save for a period of three or five years under an Inland Revenue approved savings contract, subject to a current maximum of £250 per month. Options under the Sharesave Scheme are, subject to a few exceptions, exercisable within a period of six months from the date of completion of the savings contract.

33 Summary of Differences between U.K. and U.S. Generally Accepted Accounting Principles ("GAAP")

The consolidated financial statements of the group are prepared in accordance with U.K. GAAP which differs in certain significant respects from U.S. GAAP. The effect of the U.S. GAAP adjustments to profit for the financial year and equity shareholders' funds are set out in the tables below.

(a) Reconciliation of profit for the financial year to U.S. GAAP:

	Notes	1998 £m	1997 £m	1996 £m
Profit for the financial year under U.K. GAAP		170.1	421.1	296.4
U.S. GAAP adjustments:				
Amortisation of goodwill	(i)	(29.8)	(23.7)	(7.5)
Deferred tax	(ii)	(28.1)	(55.2)	(32.0)
Pensions	(iii)	22.7	16.0	22.6
Depreciation on revaluation uplift	(iv)	1.7	-	-
		136.6	358.2	279.5
Deferred tax effect of U.S. GAAP adjustments:				
Pensions		(6.8)	(5.3)	(7.5)
Profit for the financial year under U.S. GAAP		129.8	352.9	272.0
Earnings per share under U.S. GAAP				
Basic	(vii)	11.00p	31.94p	30.39p
Diluted	(vii)	10.90p	31.66p	30.14p
Earnings per share before windfall tax under U.S. GAAP				
Basic	(vii)	37.86p	31.94p	30.39p
Diluted	(vii)	37.52p	31.66p	30.14p

(b) Effect on equity shareholders' funds of differences between U.K. GAAP and U.S. GAAP:

		1998 £m	1997 £m
Equity shareholders' funds under U.K. GAAP		1,707.8	1,522.7
U.S. GAAP adjustments for:			
Goodwill	(i)	1,036.7	1,020.5
Business combinations	(i)	163.1	152.3
Amortisation of goodwill	(i)	(62.1)	(32.3)
ESOP shares held in trust	(viii)	(36.6)	-
Pensions	(iii)	99.2	76.5
Dividends	(v)	162.9	145.5
Revaluation of fixed assets	(iv)	(229.0)	-
Depreciation on revaluation uplift	(iv)	1.7	-
Deferred tax:			
Effect of U.S. GAAP adjustments		(30.4)	(12.8)
Effect of differences in methodology		(560.7)	(532.6)
Equity shareholders' funds under U.S. GAAP		2,252.6	2,339.8

(i) Goodwill and business combinations

Goodwill

Under U.K. GAAP, goodwill arising from the purchase of trading entities up to 31 March 1998 has been written off directly to reserves; in the case of ScottishPower against the merger reserve. Under U.S. GAAP, goodwill arising from the purchase of trading entities should be held as an intangible asset in the balance sheet and amortised over its expected useful life, estimated to be 40 years. In addition, its carrying value will be reviewed annually for permanent diminution in value.

Business combinations

Under U.K. GAAP, provisions for deferred taxation were not recorded in the balance sheets of the purchased entities as it was not probable that a tax liability would become payable or a tax asset would crystallise in the foreseeable future. Under U.S. GAAP, the full provision for deferred taxes at the date of acquisition is recorded as a liability in the balance sheet of the purchased entities at the date of acquisition.

(ii) Deferred taxation

U.K. GAAP requires provision for deferred taxation only to the extent that it is probable that a liability will become payable or an asset will crystallise in the foreseeable future and then at the known rates of tax. U.S. GAAP requires full provision for deferred taxes to be made using future enacted rates.

Notes to the Balance Sheets continued

33 Summary of Differences between U.K. and U.S. Generally Accepted Accounting Principles ("GAAP") continued

(iii) Pension costs

Under U.K. GAAP, pension costs represent the expected cost of providing pension benefits and are required to be charged to the profit and account so as to spread the cost over the expected average remaining service lives of the employees. Under U.S. GAAP, the annual pension comprises the estimated cost of benefits accruing in the period adjusted for any deficit or surplus arising at the time Statement Number 87 of the U.S. Financial Accounting Standards Board (SFAS 87) "Employers' Accounting for Pensions" was adopted. The charge is further adjusted to reflect the cost of benefit improvements and any surplus/deficits which emerge as a result of the actuarial assumptions made not being borne out in practice. For U.S. GAAP purposes, only those surpluses/deficits falling outside a ten percent fluctuation "corridor" are being amortised.

(iv) Revaluation of fixed assets

The revaluation of Manweb distribution assets and Southern Water operational assets is not permitted under U.S. GAAP. Accordingly, the reconciliation restates fixed assets to historical cost and the depreciation charge has been adjusted.

(v) Ordinary dividends

Under U.K. GAAP, final ordinary dividends and the related U.K. advance corporation tax (ACT) are recognised in the financial year in respect of which they are recommended by the Board of Directors for approval by shareholders. ACT is accounted for by the creation of a corresponding asset and liability and, as such, has no impact on net assets or shareholder's equity. Under U.S. GAAP, such dividends and tax are not recognised until the dividends are formally declared by the Board of Directors.

(vi) Merger reserve

Under U.K. GAAP, when an acquisition qualifies for merger relief, the share premium on the shares allotted as part of the purchase consideration is taken to a separate 'Merger Reserve' account rather than the share premium account. Under U.S. GAAP this is not allowable for purchases accounted for under acquisition accounting and the Merger Reserve would be treated as additional paid in capital.

(vii) Earnings per ordinary share

(a) Basic earnings per ordinary share have been calculated by dividing the profit for the period under U.S. GAAP by the weighted average number of ordinary shares in issue and ranking for dividend during the period, based on the information shown in the table below.

(b) Diluted earnings per ordinary share have been calculated assuming that share options outstanding at the year end have been exercised and utilised to reacquire shares in the company.

	1998	1997	1996
Profit for the financial year (£ million) under U.S. GAAP	129.8	352.9	272.0
Weighted average share capital (number of shares, millions)	1,180.1	1,104.9	894.9
Share options (number of shares, millions)	10.9	9.6	7.4
Diluted weighted average share capital (number of shares, millions)	1,191.0	1,114.5	902.3

(c) The calculation of earnings per ordinary share, on a basis which excludes the windfall tax, is as follows:

	1998 £m	1997 £m	1996 £m
Profit for the financial year	129.8	352.9	272.0
Adjusting item - windfall tax	317.0	-	-
Profit for the financial year before windfall tax	446.8	352.9	272.0
Basic earnings per ordinary share before windfall tax	37.86p	31.94p	30.39p
Diluted earnings per ordinary share before windfall tax	37.52p	31.66p	30.14p

(viii) ESOP shares held in trust

Under U.K. GAAP, shares held by the ESOP are recorded as fixed asset investments at cost less amounts written off. Under U.S. GAAP, shares held in trust are recorded at cost in the balance sheet as a deduction from shareholders funds. No dividends have been paid on the shares held by the ESOP and future dividends have been waived. The shares held by the ESOP have not been included in the calculation of any earnings per share ratios quoted in these accounts.

Consolidated Statement of Cash Flows

The consolidated statement of cash flows prepared in accordance with FRS 1 (Revised) presents substantially the same information as that required under U.S. GAAP. Under U.S. GAAP, however, there are certain differences from U.K. GAAP with regard to the classification of items within the cash flow statement and with regard to the definition of cash and cash equivalents.

Under U.K. GAAP, cash flows are presented separately for operating activities, returns on investments and servicing of finance, taxation capital expenditure and financial investment, acquisition and disposals, equity dividends paid, management of liquid resources, and financing. Under U.S. GAAP, only three categories of cash flow activity are reported; operating activities, investing activities and financing activities. Cash flows from taxation and returns on investment and servicing of finance would be included as operating activities under U.S. GAAP. Equity dividends paid would be included within financing activities under U.S. GAAP.

Under U.S. GAAP, cash and cash equivalents are not offset by bank overdrafts repayable within twenty four hours from the date of the advance, as is the case under U.K. GAAP and instead such bank overdrafts are classified within financing activities.

The consolidated cash flow statement prepared in conformity with U.K. GAAP is set out on page F-12. In this statement an additional measure, free cash flow, is included which is not an accepted measure under U.S. GAAP. This measure represents cash flow from operations after adjusting for returns on investments and servicing of finance and taxation. U.K. investors regard free cash flow as the cash available to management annually to be allocated among a number of options including capital expenditure, payment of dividends and the financing of acquisitions.

Set out below is a consolidated statement of cash flows under U.S. GAAP

	1998	1997	1996
	£m	£m	£m
Cash inflow from continuing operating activities	987.3	791.2	408.7
Dividends received from associates and joint ventures	0.9	-	-
Returns on investments and servicing of finance	(146.7)	(101.1)	(17.4)
Ordinary taxation	(134.5)	(117.4)	(149.3)
Exceptional taxation - windfall tax	(157.8)	-	-
Net cash provided by operating activities	549.2	572.7	242.0
Capital expenditure and financial investment	(565.9)	(381.4)	12.6
Acquisitions and disposals	67.9	(1,234.6)	(780.2)
Net cash used in investing activities	(498.0)	(1,616.0)	(767.6)
Financing	261.5	1,286.6	539.2
Movement in bank overdrafts	(12.9)	(51.9)	19.8
Equity dividends paid	(226.0)	(170.0)	(123.1)
Net cash provided by financing activities	22.6	1,064.7	435.9
Net increase/(decrease) in cash and cash equivalents	73.8	21.4	(89.7)
Cash and cash equivalents at beginning of financial year	41.7	20.3	110.0
Cash and cash equivalents at end of financial year	115.5	41.7	20.3
Significant non-cash investing or financing activities			
	1998	1997	1996
	£m	£m	£m
On acquisition of subsidiaries:			
Shares allotted as part of purchase consideration	-	397.9	271.9
Loan notes	3.0	10.3	40.2
Grid exchangeable bonds	-	-	20.8

Notes to the Balance Sheets continued

Additional information required under U.S. GAAP

(a) Group profit and loss account

For the purposes of U.S. GAAP, transmission and distribution costs would be included in cost of sales, and gross profit from continuing operations be calculated after deducting these expenses.

(b) Infrastructure accounting

The group's accounting policy in respect of Southern Water's infrastructure assets and related maintenance and renewals expenditure, as set out and explained in the accounting policies, is not generally accepted under U.S. GAAP which requires historical cost depreciation accounting for these assets. The difference between the infrastructure renewals charge and depreciation accounting under U.S. GAAP is not material to profit and equity shareholders' funds.

(c) Share option schemes

Under U.S. GAAP, the group applies Accounting Principle Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees, and related interpretations in accounting for its plans. Accordingly, compensation expense has been recognised for its variable plan (i.e. long term incentive plan). The group adopted the disclosure-only option under SFAS123, Accounting for Stock-Based Compensation, as of 31 March 1998. If the accounting provisions of the statement had been adopted as of the beginning of the fiscal year 1998, the effect on 1998 net earnings would have been immaterial.

(d) Deferred taxation

U.K. GAAP requires provision for deferred taxation only when it is expected that a liability will become payable or an asset will crystallise in the foreseeable future and then at the known future rates of tax. U.S. GAAP requires full provision for deferred taxes to be made using enacted future tax rates.

The components of the estimated net deferred tax liability that would be recognised under U.S. GAAP are as follows:

	Group	
	1998 £m	1997 £m
Deferred taxation liabilities		
Excess of book value over taxation value of fixed assets	609.4	632.3
Other temporary differences	36.1	21.5
	645.5	653.8
Deferred taxation assets		
Other temporary differences	(54.4)	(108.4)
Net deferred tax liability	591.1	
Analysed as follows:		
Current	(31.2)	(63.5)
Non-current	622.3	608.9
	591.1	545.4

(e) Pensions

The pension cost determined under SFAS 87 requirements for the three years ended 31 March 1998 was calculated using the following assumptions for ScottishPower, Manweb and Southern Water pension funds.

	1998 %	1997 %	1996 %
Discount rate	8	8	9
Rate of future salary increases	7	7	7
Rate of expected return on plan assets	9	9	9
Rate of expected pension increase	5	5	5

The components of the Scheme's pension cost under SFAS 87 are as follows:

	1998 £m	1997 £m	1996 £m
Cost of benefits earned during the period	42.7	38.8	22.4
Interest cost on projected benefit obligation	144.6	132.8	95.4
Actual return on assets	(378.9)	(189.4)	(226.8)
Net amortisation and deferral	196.2	26.5	112.7
Pension cost for the year under U.S. GAAP	4.6	8.7	3.7

The information required to be disclosed in accordance with SFAS 87 concerning the funded status at 31 March is as follows:

	1998 £m	1997 £m
Actuarial present values of accumulated benefit obligations (all benefits vested)	(1,663.2)	(1,645.0)
Projected benefit obligations	(1,882.4)	(1,847.6)
Plan assets at fair value	2,372.1	2,045.1
Assets in excess of projected benefit obligations	489.7	197.5
Reconciliation of funds' status:		
Unrecognised net gain at date of initial application of SFAS 87	(5.0)	(5.8)
Unrecognised net experience gain	(396.3)	(114.6)
Employer contributions - 1 January to 31 March	3.0	4.3
Prepaid pension cost under U.S. GAAP	91.4	81.4

Recent U.S. accounting pronouncements

Reporting Comprehensive Income

FAS 130: Statement of Financial Accounting Standards 130, Reporting Comprehensive Income, has been issued by the FASB and is effective for fiscal periods beginning after December 15, 1997, with earlier application permitted. This standard establishes requirements for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. Management believe that the statement of total recognised gains and losses (page F-8) disclosed under U.K. GAAP will result in material compliance with this standard.

Segments of an Enterprise and Related Information

FAS 131: Statement of Financial Accounting Standards 131, Disclosures about Segments of an Enterprise and Related Information has been issued and is effective for fiscal periods beginning after December 15, 1997. This standard specifies revised guidelines for determining an entity's operating segments and the type and level of financial information to be disclosed. Management is currently assessing the impact of this standard on existing segments as disclosed in Note 1 and Note 14 to the financial statements.

Pension and Post Retirement Benefits

FAS 132 : Statement of Financial Accounting Standards 132, Employers' Disclosures about Pensions and Other Post Retirement Benefits has been issued and is effective for fiscal periods beginning after December 15, 1997 with earlier application permitted. This standard revises employers' disclosures about pension and other post retirement benefit plans and requires additional information on benefit obligations and fair values of plan assets. Management is currently reviewing the standard to assess the form and content of additional disclosures required.

Accounting for Derivative Instruments and Hedging Activities

FAS 133: Statement of Financial Accounting Standards 133, Accounting for Derivative Instruments and Hedging Activities has been issued and is effective for fiscal periods beginning after June 15, 1999 with earlier application permitted. This standard establishes accounting and reporting standards for derivative instruments and for hedging activities. Management is currently reviewing the standard to assess the form and content of additional disclosures required.

Summary financial information

Set out below is summary financial information on the group which has been extracted from ScottishPower's audited consolidated financial statements.

	Year ended 31 March 1998 £m	Year ended 31 March 1997 £m
Balance sheet data		
Total assets	5,576.8	4,848.0
Current assets	791.0	778.2
Non-current assets	4,785.8	4,069.8
Current liabilities	(2,432.0)	(2,249.1)
Shareholders' equity - Common stock, par value 50p per share	598.4	588.7

Principal Subsidiary Undertakings and Other Investments

Subsidiary undertakings	Class of share capital	Proportion of shares held	Activity
Caledonian Gas Limited	Ordinary shares £1	100%	Gas retail
CRE Energy Limited*	Ordinary shares £1	100%	Wind-powered electricity generation
Domestic Appliance Insurance Limited* (Isle of Man)	Ordinary shares £1	100%	Insurance
Genscot Limited*	Ordinary shares £1	100%	Holding of investments
Lancastrian Holdings Limited* (1)	Ordinary shares £1	100%	Premium rate service company
Manweb Energy Consultants Limited*	Ordinary shares £1	100%	Electrical contracting
Manweb Gas Limited*	Ordinary shares £1	100%	Gas retailing
Manweb Generation Holdings Limited*	Ordinary shares £1	100%	Holding company
Manweb Generation (Winnington) Limited*	Ordinary shares £1	100%	Holding company
Manweb plc*	Ordinary shares 50p	100%	Regional electricity company
Pinnacle Cellular Limited*	Ordinary shares £1	100%	Specialist communication retailer
Scotland On-Line Limited*	Ordinary shares £1	50%	Internet service provider
ScottishPower Insurance Limited* (Isle of Man)	Ordinary shares £1	100%	Insurance
ScottishPower Investments Limited (2)	Ordinary shares £1	100%	Holding of investments
ScottishPower Leasing Limited*	Ordinary shares £1	100%	Leasing company
ScottishPower Telecommunications Limited*	Ordinary shares £1	100%	Telecommunications
ScottishPower Telecommunications (Services) Limited	Ordinary shares £1	50%	Mobile telecommunications
Southern Water plc	Ordinary shares £1	100%	Holding company
Southern Water Services Finance plc	Ordinary shares £1	100%	Finance Company
Southern Water Services Limited*	Ordinary shares £1	100%	Water supply and wastewater services
Teledata (Holdings) Limited	Ordinary shares £1	100%	Telecommunications
Telephone International Media Limited	Ordinary shares £1	100%	Telecommunications
Telephone Information Services Limited	Ordinary shares £1	100%	Telecommunications
Fixed asset investments			
Joint ventures			
CeltPower Limited	Ordinary shares £1	50%	Wind-powered electricity generation
Scottish Electricity Settlements Limited	Ordinary shares £1	50%	Scottish electricity settlements
South Coast Power Limited	Ordinary shares £1	50%	Electricity generation
Associated undertakings			
Coastal Wastewater Consultants Limited*	Ordinary shares £1	50%	Marine treatment, engineering design and consultancy
Wind Resources Limited*	Ordinary shares £1	45%	Wind-powered electricity generation
Other investments			
Folkestone & Dover Water Services Limited*	Ordinary shares £1	25%	Water supply
	Preference share £1	22%	
	Deferred shares £1	12%	

Notes

* The investments in these companies are indirect holdings.

(1) The year end of Lancastrian Holdings Limited is 31 December.

(2) The year end of ScottishPower Investments Limited is 28 February.

All companies are incorporated in the United Kingdom, unless otherwise stated.

Directors' Responsibilities for the Preparation of the Financial Statements

The directors are required to prepare financial statements for each fiscal year which present fairly, in all material aspects, the consolidated financial position of the group at the fiscal year end and the consolidated results of operations and cash flows of the group for that period.

The directors are also required to consider whether, in preparing the financial statements for the fiscal years shown on pages F-1 to F-38, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. They also consider whether all accounting principles which they consider to be applicable have been followed and ascertain whether it is appropriate for the financial statements to be prepared on the going concern basis.

The directors are responsible for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the U.K. Companies Act 1985. They are also responsible for taking such steps that are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Report of the Independent Accountants

To the board of directors and members of Scottish Power plc

We have audited the consolidated balance sheets of Scottish Power plc as at 31 March 1998 and 31 March 1997 and the related consolidated statements of income, cash flows and changes in shareholders' funds for the years ended 31 March 1998, 31 March 1997 and 31 March 1996. These financial statements are the responsibility of the company's directors, as set out above. Our responsibility is to express an opinion on these financial statements based on our audits.

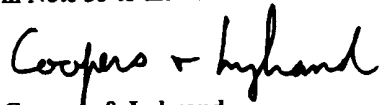
Basis of opinion

We conducted our audits in accordance with generally accepted auditing standards in the United Kingdom which are substantially the same as those in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Opinion

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Scottish Power plc as at 31 March 1998 and 31 March 1997 and the results of its operations and cash flows for the years ended 31 March 1998, 31 March 1997 and 31 March 1996 in conformity with accounting principles generally accepted in the United Kingdom.

Accounting principles generally accepted in the United Kingdom vary in certain significant respects from accounting principles generally accepted in the United States. Application of generally accepted accounting principles in the United States would have affected the determination of profit for the financial year and shareholders' funds as at and for the years ending 31 March 1998 and 31 March 1997 to the extent summarised in Note 33 to the financial statements.



Coopers & Lybrand

Chartered Accountants and Registered Auditors
Glasgow

July 22, 1998

15585

Appendix 3

PacifiCorp Capital Structure

	<u>Projected 12/31/98 Amount in 000's</u>	<u>Percent</u>
Long-term debt (include Current Maturities)	\$4,879,533	52.0%
Preferred Stock	581,773	6.2%
Common Equity	<u>3,918,551</u>	41.8%
Total Capitalization	9,379,857	100.0%

Appendix 4

Diagram of post-transaction organizational structure

