-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**
	)	**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________________________________
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.

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.

[1] Attachment 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.

2.4 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. <u>Affiliate Transactions</u>
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. <u>Corporate-Organizational Structure Issues</u>
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. <u>Customer Service, Quality of Service, Reliability</u>

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. <u>Operations</u>

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. <u>Impact of the Proposed Merger on Utah</u>

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. <u>Regulatory Cost Issues</u>

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. <u>Merger Conditions</u>

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.).

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.

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