PACIFICORP

Transition Plan

PACIFICORP

Transition Plan

April 2000

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Introduction

1. INTRODUCTION

5 YEAR TRANSITION PLAN

This Transition Plan ("the Plan") sets out a road map for PacifiCorp's costs and performance over the next five years. As required by the objectives of the transition planning process, it sets out a consistent program of initiatives designed to move PacifiCorp to a top position in the US utility industry in 2004 and acknowledges the criticality of delivering the Merger Commitments. The Plan also establishes PacifiCorp as a platform for future growth of ScottishPower in the US.

UNCERTAINTIES

This Transition Plan sets out an extensive range of business proposals which will be the firm resolve of PacifiCorp management to implement. With many of the proposals, the decision to proceed rests solely with management to implement at its own discretion, taking into account normal commercial risk considerations. Other proposals require negotiation with labor unions. The Plan, therefore, cannot be considered to be without uncertainty. Rather, the Plan articulates the intentions of PacifiCorp management at a point in time and sets out what PacifiCorp wishes to achieve. How the objectives are achieved is still open for discussion by PacifiCorp's new management line and subject to negotiation with unions.

The operating environment presents some uncertainty. For example, the details of how SB1149 will be implemented in Oregon are still subject to discussion with OPUC staff and other parties with decision-making authority resting with OPUC. The FERC requirement to set up a Regional Transmission Organization ("RTO") will need to be implemented in consultation with other parties and is therefore not exclusively under the control of PacifiCorp management. Changing environmental legislation and increasing pressures from environmental groups are also prevalent. It is unclear how these and other issues will impact some of the proposals set out in the Plan.

Clearly, with the ever-quickening evolution of the structure of the industry in the US and in the states served by PacifiCorp together with the increasing expectations of customers, the operating environment presents considerable uncertainty. Economic and fiscal conditions have the potential to impact the Plan and prospects for full delivery. Further, implementation of the proposals for the later years will depend on the successful implementation of early year initiatives.

PacifiCorp management will keep the entire Transition Plan under continuous review as it will the environment within which the Plan must be implemented. As the environment changes and as the rules within which the Company operates clarify, the impact on the Plan's proposals will be assessed and appropriate actions taken. This may lead to deviations from the current Plan.

SCENARIOS

To recognize the uncertainties inherent in this Plan, a scenario-based approach has been taken in developing each initiative. Three scenarios have been presented.

The levels of individual and business performance indicated by these scenarios will be used for a variety of purposes with different internal and external audiences, including:-

- budget setting;
- future business plan development;
- performance management objectives and targets;
- visioning and motivation; and
- managing investor expectations.

The three scenarios are summarized as follows:-

- **Base.** The Base case represents a demanding set of business plans which will require the firm resolve of management to achieve and conditions in the business environment to be favorable. The financial and operational targets associated with this scenario will form the basis of the budget for next year and, within the context of the performance management system, will define a high level of performance which all competent managers will be expected to achieve.

  PacifiCorp regards this as the minimum acceptable level of business performance achievement required to start to move the business towards "Top 10" industry status.

- **Optimistic.** The Optimistic case is more demanding on the business and its management and represents the levels of achievement possible if management takes a more aggressive approach to business risk. Further, the level of performance implied will require support from PacifiCorp's various stakeholders. It represents significant 'up-side' of outcomes and rewards for these levels of achievement will be greater.

- **Highly Optimistic.** The Highly Optimistic case is intended to be aspirational and will be used as PacifiCorp's "Stretch Goal" to motivate and encourage the best efforts and performance of management and employees. It demonstrates 'what could be' given the best of outcomes and if the Company were to receive active support from its stakeholders. It carries considerable risk of failure but nevertheless would push the business towards the limits of its improvement capability. Achievement of levels of performance indicated by the Highly Optimistic case will require outstanding efforts and rewards for achievement of such performance levels will be commensurate.

As is our normal practice, to excite investors, the Highly Optimistic performance levels will be presented to the City and Wall Street as management's target.

In reality, of course, the actual outcome will be different from any one of these scenarios. Some proposals which were initially perceived to carry significant risk or to be doubtful could be achieved easily. Others which were expected to be implemented easily or without difficulties, could be delayed, only partially implemented or even abandoned.

The scenarios and the associated net cost reductions therefore define a range of feasible outcomes and this Plan presents the outcomes associated with each of the three scenarios.

Transition Planning Process

2. TRANSITION PLANNING PROCESS

INTRODUCTION

ScottishPower has developed and refined an approach to transition planning through its experiences of planning and implementing change programs in the UK. This process has transformed its core businesses in Scotland, Manweb and Southern Water. The same approach has been used to develop PacifiCorp's Transition Plan.

Transition planning is a systematic and fundamental review of all activities and a critical assessment of opportunity. Specifically, the development and implementation of the PacifiCorp Transition Plan will:-

- transform PacifiCorp into a "Top 10" US investor-owned electric utility in terms of cost and performance;
- deliver Merger Commitments; and
- provide a platform for further growth.

Transition planning, as developed by ScottishPower, requires a complex mix of skills, experiences, knowledge, processes, systems and people. It is therefore unique and is distinguished by three main factors:-

- **Benchmarking.** A high-level directional tool used to ensure that change proposals are qualitatively and quantitatively feasible and based on objective analysis.

- **Program Management.** A systematic approach to the management of a large number of medium and small inter-related projects.

- **Investment.** Investment in people, processes, systems and technology, to ensure that changes proposed are sustainable.

ScottishPower brings to the application of transition planning an overarching management style which is characterized by aggressive goal setting, clear accountability for plan development, a commitment to deliver and a sustained focus.

Background

3. BACKGROUND

PACIFICORP

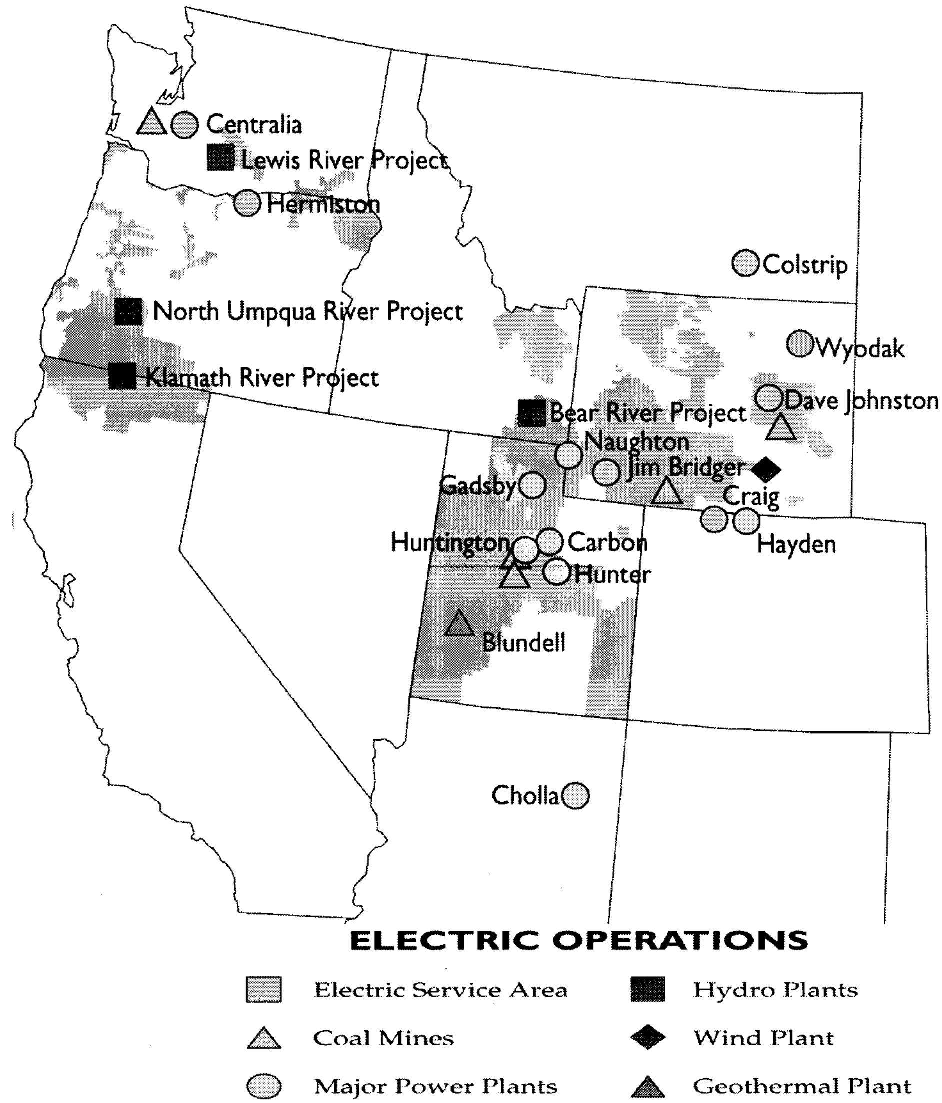
PacifiCorp is a vertically integrated electric utility providing energy services to 1.5m customers in six western states – Utah, Oregon, Wyoming, Washington, Idaho and California (sale pending). Founded in 1910 as Pacific Power & Light Company, the Company merged with Utah Power & Light in 1989, extending its service to Utah and acquiring more customers in Idaho and Wyoming.

The Company's biggest single market is Salt Lake City, Utah. Most of its customers, however, are in smaller towns and rural areas spread across 117,000 square miles.

PacifiCorp has a diverse customer base, evenly split across residential, commercial and industrial sectors. Its service area is one of the faster-growing and economically healthy regions of the US. The Company has played a role in this growth.

Headquartered in Portland, Oregon, PacifiCorp also has a significant corporate presence in Salt Lake City. The Company, in total, has approximately 8,000 employees in its US operations.

PacifiCorp relies primarily on coal-fired generation. It owns and mines most of the coal it needs through mine-mouth operations. This minimizes fuel transportation costs and provides significant market leverage when dealing with alternative coal suppliers and transportation companies.



PacifiCorp owns or has interests in 14 coal-fired generating plants, located primarily in Utah and Wyoming. PacifiCorp also owns three major hydroelectric systems. Contract peaking and other resources, including wholesale purchases and renewable energy sources, complete the Company's resource mix. Total capacity is 13,427 MW. Total firm peak load is 12,301 MW, and on-system firm peak load is 7,909 MW (1998).

The Company's transmission system is one of the most extensive in the US, spanning some 15,000 miles with nearly 150 points of interconnection. It is one of the leading bulk wholesale power providers among western US investor-owned utilities. PacifiCorp's retail customers are served through a distribution system that includes some 54,000 miles of line.

OPERATING ENVIRONMENT

Competition in Oregon

Senate Bill 1149, ("SB1149") provides for customer choice in Oregon for customers of PacifiCorp and Portland General Electric. Among the provisions are, by October 2001:-

- direct access must be provided for industrial and commercial customers;
- a "portfolio" of options, including a green power rate, a market rate, and a cost-of-service rate must be provided to residential customers; and
- investor-owned utilities are required to unbundle costs of electricity services into power generation, transmission, distribution and retail services.

Rates may include transition charges or credits that "reasonably balance the interests of retail consumers and utility investors." A "Public Purpose" charge of 3% of total revenues from the sale of electricity services to retail electricity customers is to be collected and allocated for conservation, renewable resource development, and low-income weatherization. The OPUC is charged with establishing rules for a variety of outstanding issues, mostly by January 1, 2001. Consumer-owned utilities are not under the jurisdiction of the OPUC and may voluntarily provide direct access for customers. If so, they are also subject to the public purpose charge, but the utility has responsibility for determining how the money is to be utilized.

Regional Transmission Organizations ("RTOs")

FERC has produced a Notice of Proposed Rulemaking ("NOPR") which requires the formation of RTOs by December 15, 2001. The intention is to encourage competition in generation while allowing acceptable rates of return on transmission assets.

FERC's direct authority is not clear. Ultimately, FERC can force the formation RTOs, however its preference is to negotiate with utilities. Alliances are being formed throughout the US to consider the appropriate way forward.

The NOPR is not prescriptive although it states that an RTO must have four characteristics:-

- independence;
- scope and regional configuration;
- operational authority; and
- short-term reliability.

Competitive Generation

PacifiCorp's generating assets are based in the competitive Western System Coordinating Council ("WSCC") market, which has had real time spot and bilateral markets since the 1950s. The introduction of marketers in 1995 resulted in the creation of forward markets and futures trading. The introduction of the California Pool in 1998 completed the picture of generation competition in the WSCC.

In addition to the California Pool there are four market points where standard products are traded. These are Palo Verde, California-Oregon Border ("COB"), Mid-Columbia ("Mid-C") and Four Corners. Trades are carried out in the daily, balance of month and forward markets, primarily through brokers. PacifiCorp's counterparts in these trades are a mixture of utilities and power marketers. Call and put options can also be purchased to help offset the price risk taken on by the retail load serving utilities.

Environmental Obligations

Federal, state and local regulations as well as international directives designed to restore, protect and enhance the environment have a potential impact on PacifiCorp's business. In some cases they present risks for the future that may increase the costs of future operations. Air quality issues top the Company's list of environmental risks. In addition to air quality issues, other important environmental issues for PacifiCorp include re-licensing of hydroelectric facilities, avian issues on transmission and distribution facilities, hazardous waste, energy conservation, and renewable energy development.

Key Transition Team Findings

4. KEY TRANSITION TEAM FINDINGS

CORPORATE CULTURE

The successful introduction of sustainable change into an organization requires that consideration be given to its current cultural characteristics. Understanding PacifiCorp's current culture is the first step in recommending and prioritizing change. Measuring and identifying PacifiCorp's culture has been an integral and critical part of transition.

Culture is loosely defined as:-

"How work needs to be accomplished in order for PacifiCorp to be successful in its business environment."

The Transition Team commissioned William M Mercer ("Mercer") to undertake a focused piece of research:-

- to identify the "culture norms" appropriate to the "New" PacifiCorp;
- to define and understand PacifiCorp's current corporate culture; and
- to assist in the development of a plan to start to modify PacifiCorp's culture.

The research revealed several issues of direct relevance to implementation of the Transition Plan and the management of PacifiCorp in the future, for example:-

- unclear goals, poor vertical communications and lack of leadership visibility;
- lack of accountability and few consequences for poor decisions or failure to deliver targets; and
- "silo" behavior between different parts of the business and poor teamwork.

CULTURE RESEARCH FINDINGS

The research revealed five 'culture norms' - a set of behaviors - all of which should be encouraged to enable PacifiCorp to start to achieve high levels of performance across all its activities and at all levels. Mercer identified "Results - Driven" and "Leading Change" as the norms requiring particular focus.

1. **Results – Driven.** *We are highly achievement driven with clear targets, accountabilities and consequences.*

2. **Valued And Committed Workforce.** *We provide a positive working environment which inspires employees to fulfil their potential and maximizes their contribution.*

3. **Leading Change.** *We provide strong positive leadership in a business environment that will experience constant change for the next several years.*

4. **Efficiency.** *We emphasize cost efficient operations, and continually challenge our work practices to become more and more effective.*

5. **Customer Service.** *We define and achieve customer service standards within each of our markets, and we respond rapidly and take ownership of customer needs.*

PACIFICORP'S CURRENT CULTURE

Mercer undertook a gap analysis to indicate where PacifiCorp's current culture was positioned with respect to the desired "culture norms". Their evaluation is indicated on the chart.

TRANSITION TEAM FINDINGS

The Transition Teams, in the course of their examination of PacifiCorp's businesses, identified many strengths and weaknesses of the existing organization and operations. As might be expected, different parts of the organization displayed different strengths and weaknesses based on local company history and circumstances. Nevertheless, there were a number of common themes which emerged, mostly confirming the results of the independent culture research.

These are presented in a highly summarized form below:-

Strengths	Weaknesses
• **Workforce:** – there is a strong desire to provide good customer service; – there is a high degree of public and personal safety awareness; – employees are technically competent; – field crews have a broad range of skills; and – there is a high degree of employee support for change. • **Management:** – there are good management controls – in parts; and – local operations are in command of local issues • **Systems:** – the businesses have some good system/software support	• **Organization:** – organization is typically hierarchical; – some Head Office activities are geographically dispersed and hence less effective than desired; and – Pacific Power and Utah Power are still seen and operated as separate entities with duplicate functions in Portland & Salt Lake City. • **Leadership:** – there is a lack of clear direction, strategy and business focus; and – goal setting, reporting and management control is limited. • **Accountabilities:** – lack of clear accountabilities is causing confusion; – there is a lack of focus in job responsibilities; and – responsibility for customer management is split. • **Management:** – contractor management less effective than desirable; and – there is a tendency to "manage by committee". • **Workforce:** – there is a lack of emphasis on commercial and financial awareness; – productivity rates are average; – some skilled employees perform low level activities; – turnover rate is high in parts; – manpower is not optimally matched to workload; and – overtime is running higher than would be expected.

CONCLUSIONS

Bringing together the findings from the culture research and the detailed examination of the Company's operations conducted by the Transition Team, the following overall conclusions have been drawn:-

- PacifiCorp is an average to better-than-average performer in terms of non-production costs and shows considerable room for improvement when compared to the top performing utility companies;
- PacifiCorp is a low-cost producer of electricity and owns, or operates, some of the lowest cost coal plants in the US Nevertheless there is scope for improvement;
- the cost of PacifiCorp's Head Office is average although relatively high when compared to top performing US utilities;
- levels of manpower productivity, although not untypical for the industry, are capable of being improved. The Transition Team believes that improvement is possible whilst also improving levels of customer service;
- PacifiCorp has a recent history of unfocused executive leadership. Employee morale has been low following recent poor financial performance, and failed corporate development ventures and there has been a lack of trust in senior leadership;
- there is a lack of determined follow-through of business plans;
- employees have a strong desire to provide a high level of service to customers, but need improved processes, systems and communications to unlock their full potential;
- a 'silo' mentality, poor communications between business units, an ongoing Utah Power/Pacific Power tension and no obvious team approach to business have led to overlap and some lack of accountability;
- PacifiCorp has been under-earning in most of its jurisdictions – sometimes significantly;
- PacifiCorp is a fundamentally sound business operating in a relatively high growth region with changing legislative environments and:-

- a willing and capable workforce;
- a management team who will respond positively to firm leadership; and
- a potential for business performance improvement.

REMEDIES

The Transition Team took account of these findings in making its proposals for change. The proposed changes are comprehensive, wide ranging and designed to address the specific findings of the Teams. Broadly, the proposals fall into several categories:-

- organizational structure changes;
- personnel changes;
- management of work;
- organization of work;
- geographical redistribution of work;
- use of systems; and
- culture change.

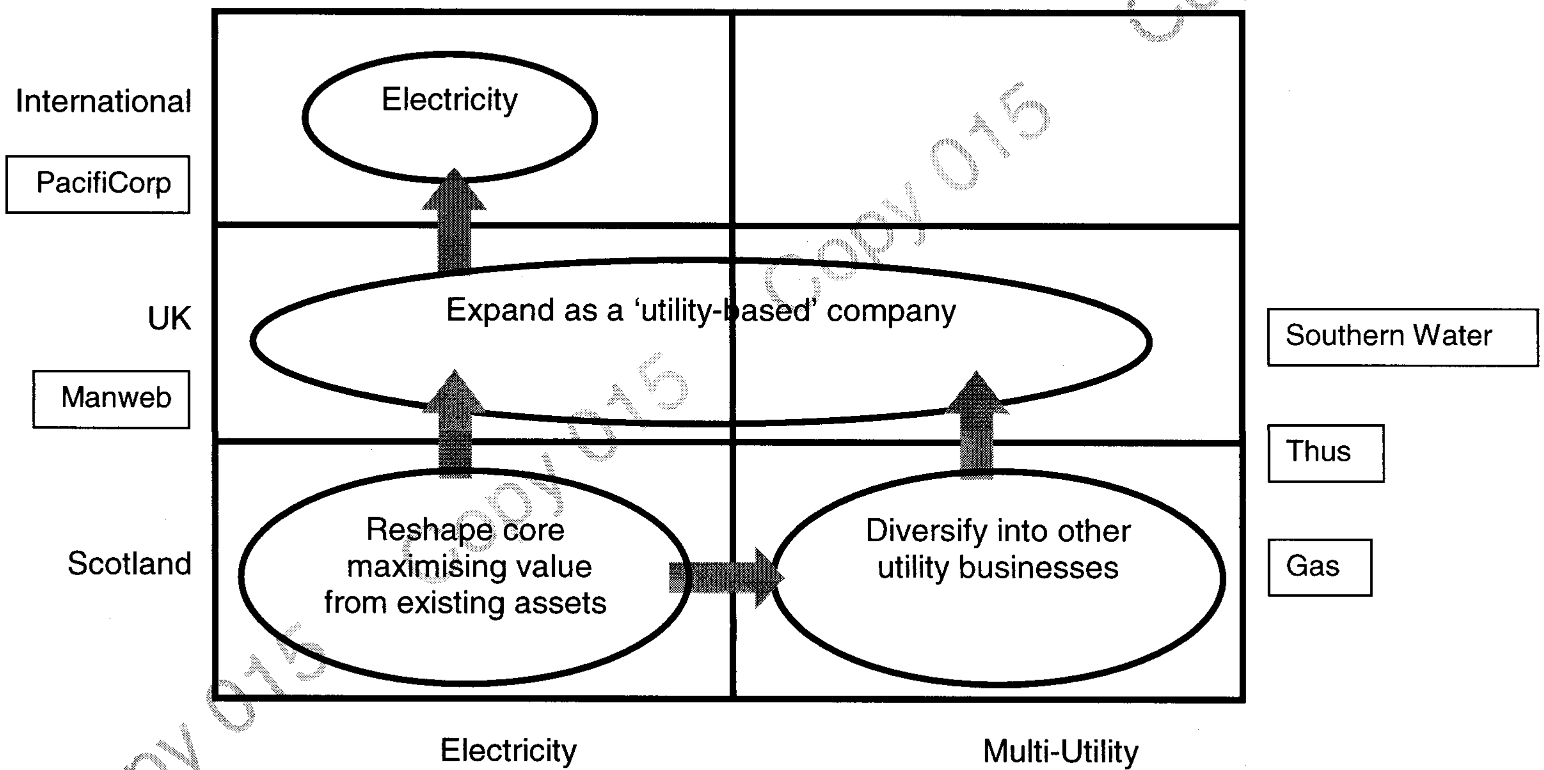
Details are included in the workstream plans in the following pages.

Vision and Strategy

5. VISION AND STRATEGY

SCOTTISHPOWER CORPORATE DEVELOPMENT

ScottishPower's development since its privatization in 1991 has been guided by its strategy as represented on the now familiar grid. It has been characterized by a purposeful yet careful series of steps ensuring at each stage that shareholder value is released and that capability is consolidated and leveraged for future corporate development. All other stakeholders have likewise benefited from this development.



In addition to a continuous focus on its core business in Scotland, and the development of gas and telecoms businesses, ScottishPower has acquired Manweb and Southern Water, and has most recently merged with PacifiCorp.

SCOTTISHPOWER'S VISION AND VALUES

ScottishPower has reconfirmed its vision for 2005 as:-

- an internationally acknowledged leader in utility and related services;
- in world "Top 10" of utilities and related companies;
- serving customer base of 10m with multiple products; and
- recognized for its record of value creating growth and innovation.

This vision is qualified by the ScottishPower values which guide its style of doing business and bring a necessary balance to its approach to doing business:-

- **Well-Earned Customer Loyalty.** We shall deliver quality and value for money services which meet and influence our customers' needs.
- **Enhanced Shareholder Value.** We shall create shareholder value by building businesses and continuously seeking opportunities to gain advantage over competitors.
- **Positive Working Environment.** We shall seek to provide a positive working environment which inspires employees to fulfil their potential and maximize their contribution.
- **Trust Of Communities.** We shall maintain the respect and trust of all communities through recognizing and responding to the needs of both the local and wider environment.
- **Teamwork And Leadership.** The ScottishPower group will be led by a management team who:-
  - have a passion to deliver;
  - are ambitious, honest, frank and ethical;
  - share a common sense of direction;
  - manage change and have the courage to confront difficult issues and situations;
  - are able to take, and encourage others to take, considered and acceptable risks; and
  - never forget that people do it all.

SCOTTISHPOWER IN THE US WEST

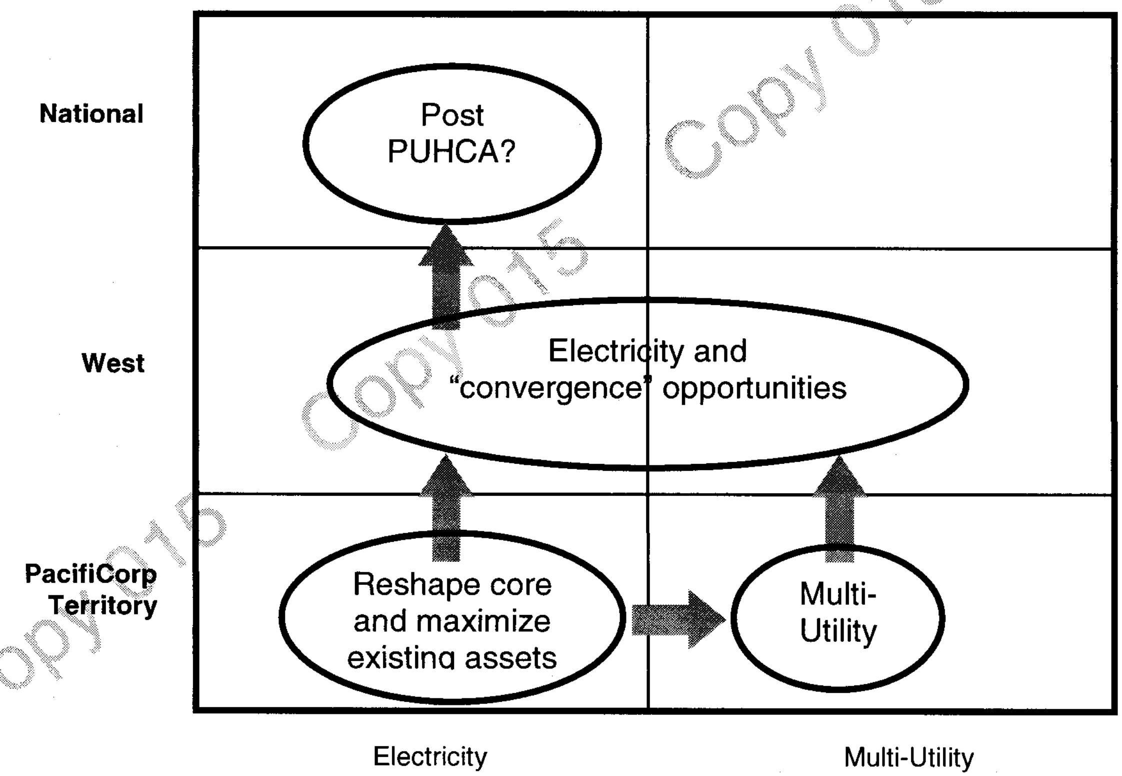
Through the merger with PacifiCorp, ScottishPower now has a significant presence in the US electricity market. ScottishPower intends to develop further in the US and its strategy for achieving this is represented in the following grid.

Clearly, the strategy is a familiar one and replicates the approach employed with such success in the UK throughout the 1990s.

ScottishPower's 2005 vision for its operation in the US is:-

- a leading energy company in the west;
- a regional leader and positioned nationally;
- providing electric, gas and related products;
- serves a customer base of 5m.

The approach will again be characterized by a series of purposeful but careful steps ensuring that shareholder value is released at each stage while providing benefit for all stakeholders.



PACIFICORP'S VISION AND STRATEGY

PacifiCorp's vision is aligned with ScottishPower's, and supports its accomplishment in the US:-

**"We will be a "Top 10" US utility,
known for our focus
outstanding performance
and unprecedented service."**

We have identified the key success factors which are critical to the realization of our vision:-

- outstanding financial performance;
- outstanding operational performance;
- unprecedented customer service;
- exceptional customer and community loyalty; and
- industry leading innovation.

The realization of the vision is PacifiCorp's key contribution to supporting ScottishPower's US strategy. The Transition Plan sets out how the core business is to be reshaped and how utilization of its existing assets is to be maximized.

This will be PacifiCorp's over-riding focus for the immediate future.

FUTURE PERCEPTIONS

The executive team fully expects that, as this vision for PacifiCorp comes true, perceptions about the Company will evolve dramatically.

The time will come soon when ....

Our name is respected throughout the industry.

"PacifiCorp is a superbly run company."

Employees have their pride back.

"We're part of a great team."

Customers bring their business to us.

"They're the best at listening to me and delivering what they promise."

Shareholders gladly buy and hold our stock.

"This is how a utility stock should perform".

Regulators and elected officials perceive us as highly competent and responsive.

"They're the ones we want in our town, our state."

We're on investment analysts' lists again.

"This is the one I recommend to all my clients."

Company choices and actions are validated.

"We really did what we said we'd do."

The ScottishPower group is delighted we're on the team.

"PacifiCorp is the flagship of our fleet."

Benefits of the Transition Plan

6. BENEFITS OF THE TRANSITION PLAN

The Transition Team was chartered to conduct a review of PacifiCorp's operations with a particular emphasis on reducing costs while at the same time improving customer service and network performance. It is important to describe the benefits conferred by the Plan on all stakeholders.

MERGER COMMITMENTS

Merger Commitments were made during the ScottishPower/PacifiCorp merger approval process. There were 215 actual commitments made via the stipulations and subsequent orders, covering all the states in which the merger was approved.

The Merger Commitments cover a wide range of issues including the following areas:-

- rate provision, corporate cost allocation, affiliate transactions;
- corporate structure, financial provisions, merger costs;
- transactions, compliance, general reporting/accountability;
- Customer Service Guarantees and Network Performance Standards;
- environment, low income, training, education and community involvement;
- quality standards; and
- transition planning.

One of the guiding principles in developing the Transition Plan was to ensure that the merger commitments were honored. The costs associated with delivering the Merger Commitments are in excess of $200m over a five year period.

To ensure delivery of the Merger Commitments, a Merger Commitments Compliance Manual ("MCCM") has been compiled which records each Merger Commitment and tracks their progress, ensuring that all of the Merger Commitments are met in full within the time-scales agreed with each of the state commissions. Specifically, the MCCM aims to ensure the visibility of the Merger Commitments within the Company ensuring that all those involved in the delivery of the Merger Commitments are aware of what they are responsible for delivering and when. It also provides a clear audit trail for regulatory purposes and will demonstrate PacifiCorp's determination in ensuring that all commitments are delivered. Wherever possible, the Merger Commitments will be delivered from line roles within the existing businesses, not from separate project groups.

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PACIFICORP

Executive Summary

April 2000

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EXECUTIVE SUMMARY

This Transition Plan defines the road map to transform PacifiCorp into a leading US electric utility. The Plan has been developed using ScottishPower's proven capability in Transition Planning coupled with PacifiCorp's knowledge and experience. It marks a significant and exciting beginning to what will be a productive relationship between ScottishPower and PacifiCorp and benefits all stakeholders.

The Plan, which is based on over 200 different initiatives developed by joint ScottishPower and PacifiCorp teams over five months, seeks to radically transform PacifiCorp through the implementation of best practices, technology investment, superior management and effective leadership.

All Transition Plan savings have been measured off PacifiCorp's 2000 Budget estimates which most closely reflect the current cost base and structure.

The goal of the Plan is to reduce PacifiCorp's current operating cost base by between $115m and $230m over the next five years and capital expenditure by between $75m and $90m over the same period. The number of positions which will be eliminated as a result of the proposals will be between 1,000 and 1,600 over five years. Severance costs to achieve this level of downsizing will be up to $200m and PacifiCorp will seek to obtain appropriate regulatory treatment of these costs.

The levels of performance achievement will be enabled through significant investment over the period of the Plan.

- An additional investment of $30m in IT to support improvements in customer service systems;
- New expenditure of $50m on training and development;
- Investments of $70m in new technologies to improve performance of plant and network assets; and
- The creation of over 150 new, mostly professional, positions to fulfil new operational duties and to support human resource development and community & economic development.

These investments in people, technology and systems, with process redesign and culture change, will increase the competence and capability of employees and will deliver improved levels of customer service and network performance.

N.B. For the purposes presentations to the financial community, who do not have access to the 2000 Budget estimates, the cost reductions will be measured off PacifiCorp's 1998 published accounts. Therefore, for analysts' presentations the stated goal of the Plan will be to reduce PacifiCorp's 1998 operating cost base by between $185m and $300m by 2004 and capital expenditure by between $235m and $250m over the same period.

The prospect of business change and cost reduction of this magnitude is not without risk.

To recognize the significant uncertainties inherent in this Plan, a scenario-based approach has been taken to express the range of possible outcomes. Three scenarios are presented:-

- **Base.** The Base case represents a demanding set of business plans which will require the firm resolve of management to achieve and conditions in the business environment to be favorable. The financial and operational targets associated with this scenario will form the basis of the budget for next year and, within the context of the performance management system, will define a high level of performance which all competent managers will be expected to achieve;

- **Optimistic.** The Optimistic case is more demanding on the business and its management and represents the levels of achievement possible if management takes a more aggressive approach to business risk. Further, the level of performance implied will require support from PacifiCorp's various stakeholders. It represents significant 'up-side' of outcomes and rewards for these levels of achievement will be greater; and

- **Highly Optimistic.** The Highly Optimistic case is intended to be aspirational and will be used as PacifiCorp's Stretch Goal to motivate and encourage the best efforts and performance of management and employees. It demonstrates 'what could be' given the best of outcomes and if the Company were to receive active support from its stakeholders. It carries considerable risk of failure (without damage to business or customers) but nevertheless would push the business towards the limits of its improvement capability. Achievement of levels of performance indicated by the Highly Optimistic case will require outstanding efforts and rewards for achievement of such performance levels will be commensurate.

TRANSITION PLAN SAVINGS

Outlined below are breakdowns of the savings that the Plan will achieve under each scenario from current operating expenditure levels:-

	Base Case		Optimistic		Highly Optimistic - PacifiCorp Stretch Goal	
Plan	**Savings ($m)**	**Reduction %**	**Savings ($m)**	**Reduction %**	**Savings ($m)**	**Reduction %**
Corporate Services	30	23	40	31	47	36
Distribution	38	19	47	23	57	28
Production	10	4	20	9	36	15
Customer Services	25	28	30	33	41	45
Information Systems	3	8	5	13	8	18
Fuel	10	2	33	8	43	10
Total	**116**	**10**	**175**	**15**	**231**	**20**

EXTERNAL PRESENTATIONS

In the Highly Optimistic scenario, underlying adjusted non-production costs per customer will fall from $352 (1998 FERC) to around $200 in 2004/5, thus validating our publicly-stated PacifiCorp stretch goal of a "Top 10" industry position by this measure.

Non-Production O&M cost/customer

1998 Ranking		1998	2004
1		$173	
5		$186	
10		$228	
30		$270	
50		$292	
75	PacifiCorp	$352§	$200*

* Transition Plan Estimate
§ Excludes significant one-off costs

Source: FERC Form 1 1998 (non-production costs exclude bad debt and customer information expenses)

Using the more recognizable baseline of the 1998 published accounts, industry analysts will be able to identify the potential to reduce the controllable cost base of PacifiCorp by between $400m and $525m by 2004/5.

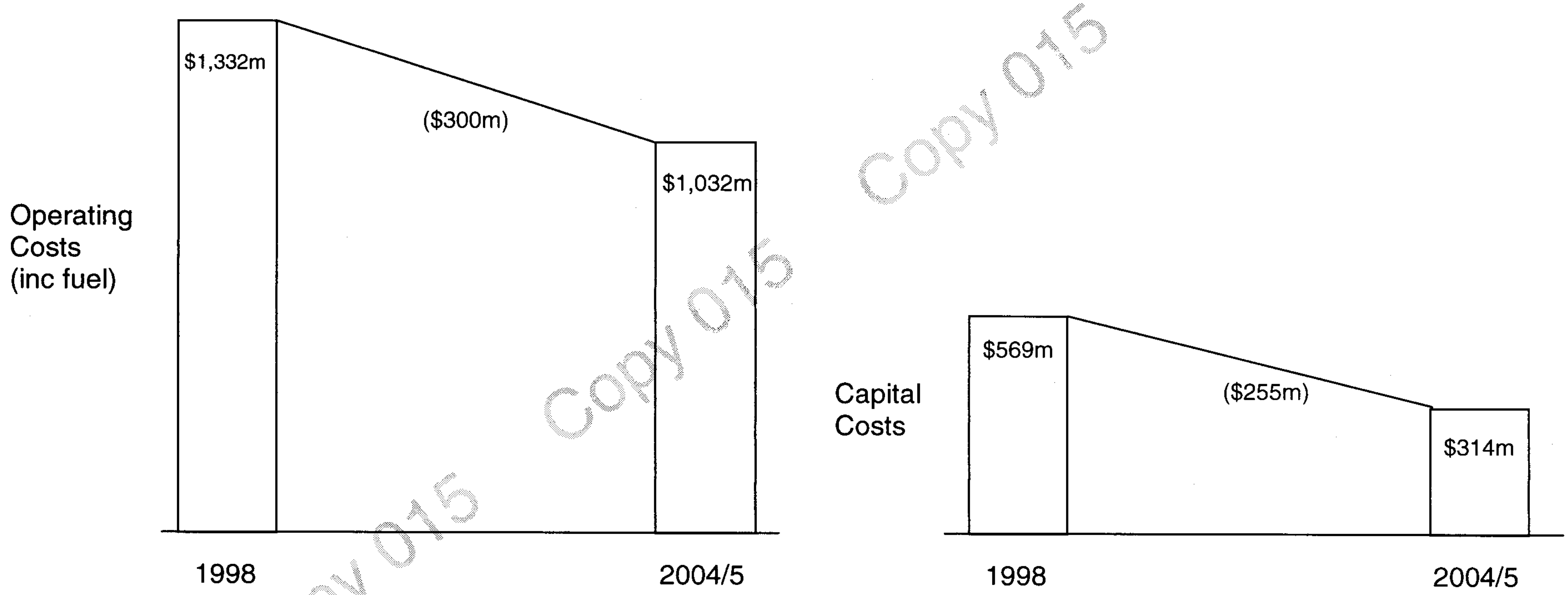
Scenario	$m	(*) 1998	2000/1	2001/2	2002/3	2003/4	2004/5	Cumulative Reduction
Highly Optimistic **PacifiCorp Stretch Goal**	Operating Costs (inc fuel)	1,332	1,251	1,219	1,128	1,056	1,034	298
	CAPEX	569	429	380	338	314	314	255
Optimistic	Operating Costs (inc fuel)	1,332	1,255	1,240	1,164	1,104	1,088	244
	CAPEX	569	432	384	344	318	320	249
Base	Operating Costs (inc fuel)	1,332	1,261	1,265	1,215	1,158	1,147	185
	CAPEX	569	433	386	351	325	328	241

(*) Note: 1998 values have been restated to 2000 money values. Fuel consumption has been equalized at 1998 volumes to demonstrate the savings targeted on a "like-for-like" basis.

The Highly Optimistic outcome will be used in communications with the financial community and will be referred to as PacifiCorp's Stretch Goal.

The diagram below shows the chart to be used in such presentations:-

PacifiCorp Stretch Goal



Source: 1998 PacifiCorp Annual Report and Transition Plan Estimates

TRANSITION PLANNING PROCESS

ScottishPower has developed and refined an approach to transition planning through its experiences of planning and implementing change programs in the UK. This process has transformed its core businesses in Scotland, Manweb and Southern Water. The same approach has been used to develop PacifiCorp's Transition Plan.

The process involves a systematic and fundamental review of business activities and a critical assessment of opportunity. Specifically, the development and implementation of the PacifiCorp Transition Plan is intended to:-

- transform PacifiCorp into a leading US investor-owned electric utility in terms of cost and performance;
- deliver the Merger Commitments; and
- provide a platform for further growth.

A Transition Team was appointed shortly after the merger was completed. The Team consisted of senior ScottishPower managers with transition planning and change management experience and carefully selected senior PacifiCorp managers with broad experience in all aspects of PacifiCorp's business. These managers were appointed on a full-time basis to allow them to focus on the task at hand. A program management structure was put in place to ensure that the large number of medium and small inter-related projects were managed systematically and consistently.

In the first phase of data collection, relevant information was gathered from a wide variety of sources, both internal and external to the Company. This was followed by an intensive phase of data analysis in which objective organizational, financial and performance comparisons were made.

Action plans were formulated, discussed and refined to arrive at a comprehensive set of change proposals ("initiatives") to effect a fundamental transformation in PacifiCorp's level of performance. Included in these proposals were targeted investments in people, processes, systems and technology, to ensure that changes proposed were sustainable.

The Transition Team then assessed the risks associated with the proposals to arrive at a meaningful set of possible outcomes (scenarios) including the likelihood of the necessary favorable conditions, eg., cooperation of labor unions, continuing stable economy, and the existence of the required management capability.

ScottishPower brings to the application of transition planning an overarching management style which is characterized by aggressive goal setting, clear accountability for plan development, a commitment to deliver and a sustained focus.

SUMMARY FINDINGS

The overall conclusions drawn from the analysis of the Company's operations are:-

- PacifiCorp is an average to better-than-average performer in terms of non-production costs and shows considerable room for improvement when compared to the top performing utility companies;
- PacifiCorp is a low-cost producer of electricity and owns, or operates, some of the lowest cost coal plants in the US. Nevertheless there is scope for improvement;
- the cost of PacifiCorp's Head Office is average although relatively high when compared to top performing US utilities;
- levels of manpower productivity, although not untypical for the industry, are capable of being improved. The Transition Team believes that improvement is possible whilst also improving levels of customer service;
- PacifiCorp has a recent history of unfocused executive leadership. Employee morale has been low following recent poor financial performance, and failed corporate development ventures and there has been a lack of trust in senior leadership;
- there is a lack of determined follow-through of business plans;
- employees have a strong desire to provide a high level of service to customers, but need improved processes, systems and communications to unlock their full potential;
- a 'silo' mentality, poor communications between business units, an ongoing Utah Power/Pacific Power tension and no obvious team approach to business have led to overlap and some lack of accountability;
- PacifiCorp has been under-earning in most of its jurisdictions – sometimes significantly;
- PacifiCorp is a fundamentally sound business operating in a relatively high growth region with changing legislative environments and:
  - a willing and capable workforce;
  - a management team who will respond positively to firm leadership; and
  - a potential for business performance improvement.

PLANS FOR CHANGE

The proposals contained within the Transition Plan are numerous and diverse. They are focused on addressing the key organizational, operational and performance issues identified. There are a number of themes which emerge.

- **Clarify Accountabilities.** Organizational re-design with clearly specified job roles and responsibilities, coupled with investment to change the business culture, will rectify the instances of confused accountabilities.

- **De-layer Management.** In addition to the cost advantages, flattening the structures and widening the span of control will dismantle "silos", improve communications, allow decisions to be made closer to the customer and facilitate faster and more effective decision-making. The Transition Team believes that through investment in management capability (skills and people) the number of management positions can be reduced.

- **Downsize And Refocus Corporate Office.** Corporate Office departments and employees will be refocused on supporting the core businesses, and will provide services on a more commercial basis than hitherto, emulating best practice from outside the utility industry. The other key roles of the Corporate Office will be:-

  - to provide direction and leadership;
  - to implement and operate an efficient and effective risk control and performance reporting framework; and
  - externally, to focus on influencing the operating environment to ensure that the Company and its customers are best positioned in relation to developing and implementing legislation;

- **Increase Cost Performance Of Operations.** Opportunities exist to improve manpower productivity beyond levels typical in the utility industry through better management, investment in systems and processes, more effective work scheduling and improved logistics support. The recent investment in SAP has provided an excellent platform on which to develop these initiatives. Training of supervisors and managers will also be significant. Further, a review of operating facilities has revealed opportunities to improve cost performance by consolidating properties without a deterioration in service.

- **Ensure Targeted And Prudent Investments.** An intensified focus on the economic and financial benefit of capital investment will ensure expenditure is optimized. Investment in state-of-the-art systems and data to support smart decision-making will be critical. Initiatives to reduce costs will be enabled by prudent investment ensuring the sustainability of cost reductions.

- **Capitalize On Synergies With ScottishPower.** The Plan recognizes that PacifiCorp's Corporate Office is no longer a group Corporate Office and that certain activities should cease as a result. Further, opportunities will be taken to leverage capabilities across the ScottishPower group, for example to implement the benefits of joint development efforts, particularly in information systems and technologies.

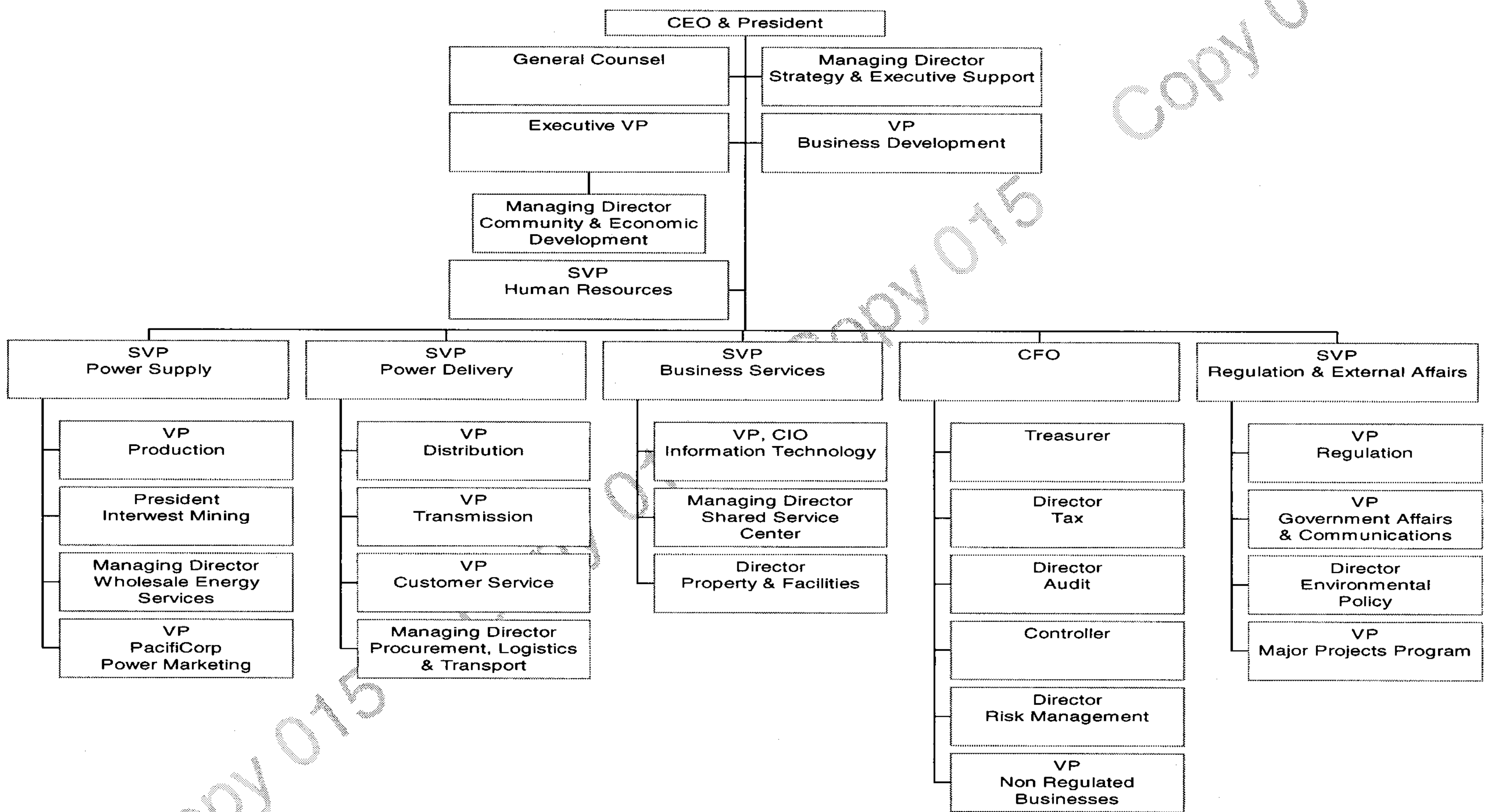
- **Manage Culture Change.** To address the fundamental issues of executive leadership and a results-driven approach to business, a program, under the direct sponsorship of the CEO, will be established to co-ordinate the diverse initiatives proposed to align the business culture with future business needs.

  Some of the objectives will be:-

  - to articulate PacifiCorp's vision and strategy and actively promote an understanding of the meaning and implications of our commitment to our corporate values;
  - to re-establish a strong leadership presence supported by extensive management development and training with targeted external recruitment and insets of UK managers to facilitate culture change;
  - to ensure that employees are properly trained, supported in meeting the challenges posed by the Plan, and encouraged to take responsibility for their own personal development;
  - to align the performance management and reward system with achievement of the Plan to ensure that business successes are rewarded and that failures to perform are dealt with quickly, directly and positively; and
  - to ensure by all of this that customers enjoy ever-increasing levels of service and performance and shareholders earn the returns that they deserve.

EXECUTIVE STRUCTURE

The following organization structure will be put in place over the first year of the Plan:-



The key features of this organizational structure when compared to the prior structure are:-

- **Separation Of Current COO Responsibilities Into Two Business Units.** Operations split by type and nature of business to achieve better focus, balance and a more appropriate span of control.
- **Creation Of A Business Services Unit.** Internal service provider created to deliver business needs with a commercial culture.
- **Consolidation Of Regulation And Public Affairs Functions.** Management of all external relationships re-aligned to optimize PacifiCorp's operating environment and more effectively influence public policy.
- **Creation Of General Counsel Position.** Strategic legal advice brought in-house and a gateway created for commissioning and managing external legal advice. Position will also take the title and legal responsibilities of the Corporate Secretary.
- **Creation Of Business Development Team.** Clearly separate from operations, a focus on business growth and development opportunities ensured.
- **Creation Of CEO Support Office.** Dedicated support for the CEO established to co-ordinate planning and Transition Plan delivery, to be a focal point for driving culture change, to provide specialist executive support on key issues and to serve the Board and CEC.
- **Maintenance Of Executive VP Based In Utah.** The Merger Commitment to maintain executive presence in Utah honored; EVP also charged with interim Company-wide responsibility for community and economic development.
- **Retention Of Strategic Human Resources Department.** Strategic focus on HR strategy and policy is retained at top level.

The structure confers many benefits on the business:-

- **Balance.** There will be a better balance of responsibilities than previously. Several of the executive positions are seen as excellent development posts for succession to the CEO role.

- **Focus And Accountability.** Most of the executive positions have a significant span of responsibilities, yet each has a reasonably homogeneous portfolio.

- **Removal Of "Silos".** The structure addresses weaknesses perceived in previous organizational structures - a "silo" mentality and poor lateral communications. This is achieved either by merging appropriate activities under a single head, or by creating more commercial relationships between activities.

- **Release Of Executive Time For Leadership Roles.** By establishing a high caliber executive team, the CEO will release more time to fulfil essential leadership roles eg., contributing to strategy development, internal and external communications and fulfilling Board responsibilities.

- **Enabling Change And Extracting Synergies.** A key objective of the SVP Power Supply and the SVP Power Delivery will be to maximize value from the synergies between the businesses within their control and minimize overlap and duplication. Further, the SVP Power Delivery will lead several change processes to prepare Procurement and Transport for transfer into the Business Services Unit within 12 to 18 months and to separate out Customer Services all within a two-year timeframe.

  Similarly, the SVP Business Services will drive the introduction of an internal commercial service provision ethos and prepare the Business Services Unit to make a major contribution as the Company grows and changes.

- **Managing Risks.** The CFO will ensure the financial integrity of PacifiCorp through the establishment and operation of a financial risk and control framework building on the UK model. The SVP Regulation & External Affairs will consolidate external facing resources and maximize PacifiCorp's position in the local political, regulatory and community environments, as well as oversee key policy projects.

GOVERNANCE

The key executive governing committees will be:-

PacifiCorp Executive Board	
Chair	**Sir Ian Robinson**, Chief Executive, ScottishPower
CEO & President	**Alan Richardson**, Executive Director, ScottishPower
	Ian Russell, Deputy Chief Executive, ScottishPower
	Ken Vowles, Executive Director, ScottishPower
Executive VP	**Bill Landels**
SVP Power Supply	**Terry Hudgens**
SVP Power Delivery	**Andy MacRitchie**
SVP Business Services	**Tim Meier**
Chief Financial Officer	**Karen Clark**
SVP Regulation & External Affairs	**TBA**
SVP Human Resources	**Mike Pittman**
General Counsel	**TBA**

Accountable to the ScottishPower Board for:-

- Approving the business strategy of PacifiCorp;
- Approving PacifiCorp's plan and budget;
- Monitoring progress against plan and budget;
- Dealing with HR governance issues; and
- Approving capital expenditures.

Chief Executive's Committee	
Chair	**Alan Richardson**, Chief Executive Officer & President **Bill Landels**, Executive VP **Terry Hudgens**, SVP Power Supply **Andy MacRitchie**, SVP Power Delivery **Tim Meier**, SVP Business Services **Karen Clark**, Chief Financial Officer **TBA**, SVP Regulation & External Affairs **Mike Pittman**, SVP Human Resources **Rich Walje**, VP & CIO **TBA**, General Counsel **Tom Imeson**, VP Public Affairs and Communications **Matthew Wright**, VP Regulation **Barry Cunningham**, VP Production
Accountable to the PacifiCorp Executive Board for:- • Implementing the business strategy of PacifiCorp and as agreed with the PacifiCorp Executive Board; • Setting business policy within the framework agreed by the PacifiCorp Executive Board; • Preparing PacifiCorp's plan and budget for approval by the PacifiCorp Executive Board; • Monitoring progress against plan and budget; and • Approving capital expenditure up to its designated authority.	

SUMMARY LEVEL INITIATIVES

ANNUAL OPERATING COST SAVINGS AND WORKFORCE IMPACT BY 2004/5

	Base		Optimistic		Highly Optimistic	
	FTE	Opex $m	FTE	Opex $m	FTE	Opex $m
Corporate						
Executive Organization : Eliminate executive positions, phase out major projects, establish Business Development	1	9	4	10	4	10
Legal : Consolidated control under General Counsel, negotiated fee reductions	1	1	3	2	3	4
Human Resources : Decentralization of structure	(4)	(3)	(4)	(3)	(4)	(3)
CFO and Controller : Combine similar functions, devolve to SBUs and Shared Services, Tax, Treasury and Audit rightsized in recognition of role in larger SP group	47	7	61	8	61	9
Business Services : Focus on reducing transaction processing costs, centralize property and facilities	38	2	61	5	61	6
Regulation & External Affairs : Devolve Environment to Power Supply and rightsize departments for steady state	71	7	84	10	84	12
Non Regulated : Sell aircraft, Synfuels	25	7	25	8	25	9
Total	**179**	**30**	**234**	**40**	**234**	**47**
Customer Service						
Customer & Community : Reduce CBMs, create new community and economic development group under Landels	2	(1)	2	(1)	36	3
Business Centers : Rationalize management and improve productivity through new technology	77	5	77	6	78	6
Revenue Stream : Create centralized debt management center, develop real-time credit checking system	19	2	19	2	19	2
Bad debt write off : Reduce net write offs		4		6		6
Marketing : Focus on retention and stop non-related activities	6	3	8	3	16	4
Demand-side management, fulfil merger commitments, savings in amortization fall off during plan		12		14		19
Total	**104**	**25**	**106**	**30**	**149**	**41**
Information Systems						
Reduce software enhancements and utilize external resources for development	48	1	48	1	48	1
Reduce mainframe support costs			20		20	1
Centralize help desk facilities	3	1	3	1	3	1
Reduce number of contractors		1		1		3
Rationalize Business Support and desktop services	3	1	3	2	18	2
Total	**54**	**3**	**74**	**5**	**86**	**8**

ANNUAL OPERATING COST SAVINGS AND WORKFORCE IMPACT BY 2004/5 (ctd)

	Base		Optimistic		Highly Optimistic	
	FTE	Opex $m	FTE	Opex $m	FTE	Opex $m
Distribution						
D&T Head Office : Delayer management structure and centralize from 33 locations	30	2	40	3	48	4
Centralize D&T dispatch functions : Transmission to one, Distribution to two	18	2	21	3	24	3
Operations restructuring : Depot closures, reduction in supervisors/managers/field staff	186	5	235	9	335	17
Improved operations productivity : improved scheduling, management focus through target setting	60	8	60	9	60	9
Construction : Centralize project support and design, optimize contractor management, reduce run rate	106	2	127	3	127	3
Procurement : Contractor Alliances, vendor/standards rationalization, garage reductions, rightsize fleet	42	12	56	14	64	14
Metering Business Organization : Homestart, productivity/organization improvements, skills transfer	80	7	80	6	80	7
Total	**522**	**38**	**619**	**47**	**738**	**57**
Production						
Asset utilization : More effective utilization of assets through centralized approach to planning		1		1		2
Head Office : Combine Tech Services & Engineering, and reduce soft costs	10	1	10	1	10	2
Thermal and Hydro Plant Efficiency : total process management introduced, reduce overtime and management	114	5	153	11	233	20
Reduce O&M at Non-Operated Generation facilities : work on committees to drive out costs		2		4		6
Procurement : Reduce material costs through alliance partnerships		1		2		4
Contractor management : Look for win-win partnerships with maintenance contractors	7		14	1	28	3
Total	**131**	**10**	**177**	**20**	**271**	**36**
Fuel Savings						
Manage fuel costs : mainly driven by contract negotiations to take account of changing market conditions	17	8	63	30	70	33
Heat rate Monitoring : improve boiler efficiencies within thermal plants		1		2		5
Synfuels at Hunter : substituting synfuels for coal at Hunter reduces unit cost of coal						3
Hayden contract settlement		1		1		1
Bridger dragline productivity : improve to industry benchmark						1
General efficiencies : reduce level of support staff	4		4		4	1
Total	**21**	**10**	**67**	**33**	**74**	**43**
Total	**1011**	**116**	**1277**	**175**	**1,552**	**231**

STAKEHOLDER BENEFITS

The Transition Team was chartered to conduct a review of PacifiCorp's operations with a particular emphasis on reducing costs while at the same time improving customer service and network performance. Having summarized the cost savings, it is important to describe the benefits conferred by the Plan on all stakeholders.

MERGER COMMITMENTS

One of the guiding principles in developing the Transition Plan was to ensure that the merger commitments were honored. The costs associated with delivering the Merger Commitments is in excess of $200m over a five year period.

CUSTOMER SERVICE IMPROVEMENTS

As the Transition Plan is implemented, PacifiCorp's customers will experience a revitalized customer-oriented philosophy. Changes to policies and procedures will be driven by customer needs and expectations rather than merely by internal business requirements. Investments in systems, technology and IT will streamline and speed up processes and will have the effect of improving service levels while lowering the cost of processes. The Company has made a series of Customer Service Guarantees. While only recently implemented, it is already clear that these guarantees provide benefits to customers through improved levels of services and assured standards

NETWORK PERFORMANCE IMPROVEMENTS

PacifiCorp has made a commitment to improve the Company's Network Performance Standards over the next five years. The commitments are to reduce:

- SAIDI (equivalent to Customer Minutes Lost in the UK) by 10%;
- SAIFI (interruption frequency) by 10%; and
- MAIFI (momentary interruptions) by 5%.

A "toolbox" approach is planned for PacifiCorp, building on experience, skills and systems from the UK to invest in new technologies and to improve network operation.

ENERGY EFFICIENCY/ LOW INCOME

Working with interested parties in each state, the Company is helping to develop innovative solutions to the issues facing low-income families. In each state, programs are being developed that will provide debt counseling, energy efficiency advice and education, assistance with home weatherization measures, and access to emergency assistance. Recognizing the innovative nature of these programs, the Company has established them as pilot projects. By providing funding for the next three years, the intention is to demonstrate program cost-effectiveness which will, in turn, allow the programs to be rolled out on a larger scale.

ENVIRONMENTAL BENEFITS

ScottishPower's environmental track-record, combined with PacifiCorp's own strong focus on environmental matters, meant that commitments to the environment figured prominently during the merger approval process. At least 20 separate commitments were made, ranging in scale from the development of 50 MW of renewable generating resources to the inclusion of a PacifiCorp officer on ScottishPower's Environmental Policy Advisory Committee ("EPAC"). Solid progress on all environmental commitments has been achieved since merger completion. Achievements to date include the filing of a Green Tariff in each state and the establishment of a PacifiCorp EPAC to ensure that environmental issues specific to the US are fully addressed. The first meeting of the PacifiCorp EPAC took place in February.

COMMUNITY AND ECONOMIC DEVELOPMENT

The Transition Plan will build on PacifiCorp's past investments in community and economic development through the creation of a department specifically tailored to meet the Company's responsibilities with regard to community needs. The Community & Economic Development Department will have responsibilities for community development, needs of low-income customers, demand-side management, educational investment through the Open Learning Centers (four of which have now opened) and economic development. These responsibilities will be delivered primarily through Local Liaison Managers, with support from senior Company officials. This exciting development will quickly start to make a positive impact in these areas. As an interim measure, Bill Landels will lead this department and it will be based in Salt Lake City.

LEADING US UTILITY

The executive team fully expects that, as management's vision for PacifiCorp is realized, perceptions about the Company will evolve dramatically. PacifiCorp will be respected throughout the industry and become the benchmark to which other companies aspire. Employees will be proud to work for the Company. Regulators, elected officials and communities will perceive the Company and its management as highly competent and responsive.

POLITICAL AND REGULATORY ISSUES

POLITICAL

Introduction

A proactive plan has been prepared and is underway to address the concerns of certain key external US stakeholders, who include regulators, politicians and special interest groups. These groups will wish to understand the rationale for the changes and how they and their constituencies will be impacted over the long-term. Items of concern will be job losses, continued improvements in customer service and system performance and the perceived loss of corporate presence within the communities served by the Company. PacifiCorp will work with key external parties to build their awareness of the Company's customer service strategy, and to help position the Transition Plan positively in the context of transforming PacifiCorp into a top investor-owned electric utility.

Approach

The key external influencer strategy includes contact with certain individuals before the announcement of the Transition Plan, to begin sharing transition-related messages and to allay possible concerns. When the Transition Plan is announced, key influencers will receive special consideration to ensure they hear first about the changes directly from PacifiCorp, and have an opportunity to ask questions to help keep the changes in perspective. Contact will be made and follow-up meetings will be held within a month of the announcement.

Alan Richardson will make contact with individuals as appropriate, especially in cases where he has already established an important relationship with them. Based on feedback from PacifiCorp representatives as they talk with external stakeholders, others may be identified that will need the extra attention of a visit or call from him. Some external influencers will be scheduled for a visit by Sir Ian Robinson in June. Members of the PacifiCorp Advisory Board and the three Regional Advisory Boards have also been engaged as active and vocal supporters of the need for change.

Talking points, covering merger benefits and the rationale for PacifiCorp's required transformation will be provided to assist PacifiCorp representatives and supporters in sharing important messages with key external influencers. The progress of Customer Service Guarantees and updates on environmental, low-income and other commitments will be emphasized in these discussions. It will also be an opportunity to remind stakeholders in appropriate states that customers are already receiving financial benefit in the form of the Merger Credits. Influencers in special interest groups will receive additional information linked to their key interests or issues.

Influencers will be informed that the achievement of the job reductions will be handled sensitively and that the financial incentives offered to encourage volunteers will mitigate the personal economic impact. Job-seeking support provided by the Company combined with the current low rates of unemployment in our regions will minimize the likelihood of protracted unemployment for those who seek re-engagement.

REGULATORY

Background

During the merger approval process, ScottishPower and PacifiCorp committed in each state, either as part of a stipulation or in testimony, to file this Transition Plan with the Commissions no later than six months after the closing date of the merger. Given a closing date of November 29, 1999, the six-month period will expire at the end of May 2000. With the May 4th announcement of the Transition Plan proposals, there will be sufficient time prior to the May 30th filing deadline, to meet with employees and other key stakeholders to discuss the Plan's findings and initiatives in greater detail.

General Regulatory Considerations

In general, the state regulatory commissions are very supportive of utility efforts to improve reliability and overall efficiency while reducing costs. The Transition Plan demonstrates that PacifiCorp's historical performance in these areas has resulted in an average-performing utility, and affirms ScottishPower's ability to improve this performance consistent with the goal of becoming a top US utility across a range of metrics.

Changes of the magnitude proposed in the Plan create uncertainty for all stakeholders, including regulators. It is crucial that key Company personnel be available to respond to this uncertainty and discuss and address Commissioner and Staff questions and concerns. Key factors in mitigating concerns regarding the Plan are delivery of the Merger Commitments and continued involvement in the communities we serve.

IMPLEMENTATION ISSUES

TRANSITION PLAN COMMUNICATIONS

A comprehensive Transition Plan communications program has been developed that addresses US audiences and will be professionally managed and supported by PacifiCorp communications personnel. ScottishPower Corporate Affairs is responsible for communicating the Plan in the UK and the Transition Team is liaising to ensure alignment of timing, key messages and outcomes for maximum effectiveness.

The key audience for Transition Plan communications is of course PacifiCorp employees. Arrangements have been put in place to ensure that the need for information on the proposals is satisfied. This will include Company-wide presentations of the Transition Plan proposals within the first two days of announcement followed by a program of detailed meetings with local work groups to discuss the implications of the Plan in greater depth.

LABOR RELATIONS

An innovative labor relations strategy has been designed, through specific initiatives largely unique in US utility labor relations, to retain the support and co-operation of labor unions and employees. It balances the determined drive on efficiency during Transition Plan implementation with employee and union-oriented initiatives likely to be seen as valuable and thus meriting their long-term engagement with the Company. Successful delivery of the strategy is essential to achieve the productivity and efficiency initiatives.

A time-limited exit package has been designed to attract a sufficient number of volunteers over the period of the Transition Plan. Release dates (at the Company's discretion) will ensure a balanced management of exits with operational needs. Most exits will be through early retirement. A voluntary severance plan will also operate to facilitate releases of employees not eligible for early retirement. The arrangements will be presented in such a way as to provide an option for employees who prefer to leave rather than struggle with change. These will be entirely consistent with the voluntary approach to exits traditionally pursued by ScottishPower and promoted in the US during the merger approval process.

RISKS

The initiatives contained in the Transition Plan were developed by the Transition Team under instructions to be extremely bullish and aggressive in their approach to proposing change. This was done to 'unfetter the mindset' and to remove such barriers to creative thought that might have existed due to past experience of failed change proposals, reluctance to challenge 'sacred cows', or preconceptions that certain proposals would be politically unacceptable or too difficult to negotiate with the labor unions.

Clearly, the following obstacles to implementation do exist:-

- **Operating Environment.** The operating environment presents some uncertainty. For example, the details of how SB1149 will be implemented in Oregon is still subject to discussion with OPUC staff and other parties with decision-making authority resting with OPUC. The FERC requirement to set up a Regional Transmission Organization ("RTO") will need to be implemented in consultation with other parties and is therefore not exclusively under the control of PacifiCorp management. Changing environmental legislation and increasing pressures from environmental groups are also prevalent. It is unclear how these and other issues will impact some of the proposals set out in the Plan.

  With the evolution of the structure of the industry in the US and in the states served by PacifiCorp, and with the ever-increasing expectations of customers, the operating environment presents considerable uncertainty. Economic and fiscal conditions also impact the Plan and prospects for full delivery.

  There is always the possibility that the Company going forward will have restrictions or unforeseen burdens placed upon it by regulatory bodies which conflict with, undermine, or otherwise render inadvisable some of the initiatives.

- **Labor Relations.** Although ScottishPower has a history of constructive and mutually respectful relationships with trades unions in the UK, it is not a foregone conclusion that the proposals contained in the Transition Plan will be implemented without difficulty. There are risks that less than full agreement with labor unions will render some of the proposals inoperable, viable only at increased cost, achievable but on a slower track than planned or able to be only partially implemented. While recognizing the Plan's proposals to be stretching, PacifiCorp will enter into negotiations with labor unions in good faith and in a positive, constructive manner.

- **Internal Environment.** Implementation of the proposals for the later years will depend in many cases on the successful implementation of early year initiatives. In practice, the initiatives contained in the Plan will be examined and reviewed on an ongoing basis and each will be implemented to the specified timetable according to the judgement of management at the time. Such judgements will take account of current conditions and the capacity of the business to sustain many and varied changes simultaneously.

  One of the key enablers of the Transition Plan is management development and training. Additionally, there may be a need to recruit certain managerial skill sets externally. The Executive believes PacifiCorp does not have the required management depth or talent to deliver this Plan. The decision to proceed with some of the initiatives will depend on the capability of management and therefore the success of the development and recruitment programs.

  While research has shown that PacifiCorp employees generally support the need for change, there is the potential for pockets of resistance where the Company will experience particular difficulties in implementation. Once again, this could impact the extent, timing or costs of implementation.

CONCLUSION

While it is the ambition of PacifiCorp management to implement the full extent of the Transition Plan to achieve all of the benefits for its stakeholders, the outcome is far from certain, either qualitatively or quantitatively.

The package of initiatives contained in the Transition Plan probably represents the most demanding challenge that PacifiCorp's management have ever had to face. The sheer complexity and volume of the changes proposed, coupled with all the developments and changes that would have occurred absent the Transition Plan, will put the capability of management to its stiffest test. Nevertheless, the Executive Team is prepared to meet the challenge.

PACIFICORP'S VISION

PacifiCorp's vision is aligned with ScottishPower's, and supports its accomplishment in the US:-

"We will be a "Top 10" US utility,
known for our focus,
outstanding performance
and unprecedented service."

We have identified the key success factors which are critical to the realization of our vision:-

- Outstanding financial performance;
- Outstanding operational performance
- Unprecedented customer service
- Exceptional customer and community loyalty
- Industry leading innovation

The realization of the vision is PacifiCorp's key contribution to supporting ScottishPower's US strategy. The Transition Plan sets out how the core business is to be reshaped and how utilization of its existing assets is to be maximized.

This will be PacifiCorp's over-riding focus for the immediate future.

NETWORK PERFORMANCE

Introduction

ScottishPower has a strong record of improving the underlying performance of the transmission and distribution networks in ScottishPower and Manweb. Step change improvements of 30% in Scotland and 47% in Manweb were made to the underlying performance, as measured by Customer Minutes Lost ("CML") in the UK - equivalent to System Average Interruption Duration Index ("SAIDI") in the US. This step change was made through a combination of technology, investment and improved operational response.

PacifiCorp has made specific commitments to improve its network performance over the next five years. The commitments are to reduce SAIDI (interruption duration) by 10%, SAIFI (interruption frequency) by 10% and MAIFI (momentary interruptions) by 5%. A similar "toolbox" approach is planned for PacifiCorp to invest in new technologies and to improve network operation.

Outage Reporting

One of the immediate issues to be addressed in PacifiCorp is the accuracy and consistency of outage reporting. There has been a lack of focus on the value of, and need for, accurate monitoring of the effects of system outages. ScottishPower introduced a system called 'Prosper' in the UK, at a development cost of some $2m, to more accurately track the impact of system faults on customers and outage times. A similar system, "Prosper-US", is currently being introduced in PacifiCorp as part of the Merger Commitments.

This project is an important step in having PacifiCorp recognized as a leader in the field of utility management. It will allow the Company to improve the management of its assets and enable both the targeting of the most effective solutions to network problems and tracking the responsiveness of field operations. The system is fundamental to PacifiCorp's plans for managing capital expenditure levels through accurate targeting of spend. It also demonstrates a high degree of credibility with customers and regulators, who would benefit from having more reliable information from utilities. Effective measurement of network performance and customer service is generally poor in the US and it is anticipated that the "Prosper-US" system will set a new benchmark in the US.

Network Performance Improvement

An important feature of the Transition Plan is to put more focus on the forward-thinking aspects of the management of the transmission and distribution assets, to ensure that strategic objectives are planned and delivered. Planning for performance improvement will require that a strategic view of the network be taken to ensure that cost effective and sustainable improvements are delivered through three main areas:-

- **Investment.** There will be a refocusing of PacifiCorp's current capital plans to target investments at the worst-performing areas of the network. This will include the introduction of appropriate technological solutions such as overhead line protection, network automation, insulated conductors, alternative supplies, stronger construction and remote control. Improved monitoring of the network, for power quality, transient operation and fault location, will allow these technologies to be targeted in the most cost-effective manner.

- **Network Control.** Modern technologies and improved business processes are being introduced to allow more efficient operation of the network, and to aid the Dispatch Centers to better manage the outage restoration process. These technologies will include a distribution management system (CADOPS - similar to ScottishPower's ICOND system), Trouble-Call and voice response systems to improve the interface to the Business Centers for the management of customers affected by network outages. The management of field crews will also be improved by these systems during both normal operations and major events.

- **Operational Response.** The speed of mobilizing repair crews, getting the right skills on site, having effective tools and materials and identifying the correct location of the outage, are all factors in getting customers back on supply quickly. All these are addressed by the Transmission & Distribution workstream plan and will ensure crews are strategically located and are available to respond effectively.

Customer Relationships

The ability to demonstrate improvements to network performance and reliability is an important aspect of our relationships with customers, regulators and politicians. For customers, where competition will increase the demands they make of their supplier, it is important that they can relate to and trust PacifiCorp. Some community representatives could lobby for municipilization on the grounds of declining service by PacifiCorp. It is therefore not only an important element in PacifiCorp's customer service orientation, but is an important defense that the Company can demonstrate a strong, reliable network and an organization that can maintain and improve that service in the most cost-effective manner.

ScottishPower has a strong reputation in the UK of managing relationships with major industrial customers. This is due to its partnership approach to both the power supply and the customer's production process, to maximize the customer's productivity and competitiveness. This was achieved through joint studies involving network monitoring, reviewing the resilience of the production process and identifying and applying the most effective solutions. Such an approach was instrumental in encouraging customers to locate in ScottishPower's territory or to choose ScottishPower as their service provider. Similar relationships will be encouraged and developed with selected PacifiCorp customers and State agencies.

Summary

In all of the above-mentioned areas, PacifiCorp requires development and resources to achieve these improvements and the capability to deliver them is not fully present within the Company. ScottishPower has experience in achieving these objectives and can bring that experience to PacifiCorp through the Transition Plan and management, to improve network performance and customer relationships.

CUSTOMER SERVICE

Well-earned customer loyalty is one of ScottishPower's corporate values. It is fundamental to the transition planning process that opportunities for driving costs down are associated with increasing levels of service to PacifiCorp's customers. The unprecedented package of Network Performance Standards and Customer Service Guarantees already represents a pioneering approach to serving the customer.

The Customer Services organization is responsible for ensuring that all customers receive accurate, consistent and timely responses to their inquiries. It is further responsible for ensuring that customers experience an enhanced level of service either through improvements in communicating with the Company or through expanded payment options.

As the Transition Plan is implemented, PacifiCorp's customers will experience a revitalized customer-oriented philosophy. Changes to policies and procedures will be driven by customer needs and expectations rather than merely by internal business requirements. Investments in systems, technology and IT will streamline and speed up processes and will have the effect of improving service levels while lowering the cost of the associated processes. The Company has made a series of Customer Service Guarantees. While only recently implemented, it is already clear that these guarantees provide benefits to customers through improved levels of services and assured standards

The Customer Service Guarantees will undoubtedly improve the Company's response to customer inquiries through achieving focus and accountability. There will also be clearly defined accountability throughout the Customer Service organization with an expectation that each area will strive for top rated performance.

A centralized Customer Service Center will assume primary responsibility for the over 2m, non-credit related, in-bound customer inquiries. Further centralization of customer inquiries will lead to greater economies of scale. This, in turn, will lead to improvements in call routing, scheduling and staff utilization. Issues that have historically limited performance, such as state specific rules and regulations will be addressed through call routing and technology improvements ("call scripting"). The changes outlined in the Plan, along with the technology that will be developed based on experience from ScottishPower, will assure accuracy and consistency while enabling the Company to meet its Merger Commitment relating to the delivery of superior telephone call response times.

Over 1m credit related in-bound calls will be directed through the innovative routing system to a new centralized Customer Credit Management Center. Trained professional Customer Credit Representatives will seek to resolve credit related inquiries during the first call, manage low-income assistance programs and assist in debt counseling. Over time, investment in technology and training will allow the Company to provide payment arrangements and options to meet individual customer needs, thereby reducing the number of customers who have to be disconnected for non-payment, improving the collection of accounts receivable, and reducing net write-offs and overall collection related expense.

Both the Customer Credit Management Center and the Customer Service Center will leverage technology to gain consistency and efficiency in processes. This technology will also assist the Company in satisfying the Merger Commitments related to response time, reducing operating costs and providing meaningful and timely performance results to the service agents and their managers. Overall, the Company will be positioned to provide top rated services to a diverse group of customers while accommodating the massive scale changes anticipated due to emerging deregulation.

Commercial and industrial customers will also encounter the Company's revitalized customer-oriented philosophy. Whether communicating with the Company via the commercial and industrial segment within the Customer Service Center or through designated account managers, commercial and industrial customers will receive timely, accurate and consistent responses. The overarching goals for this area will be to ensure that the Company delivers electric power and does all "the basics" (conservation, complaint handling, billing, reliability, account management, etc.) competently and at a reasonable price. When issues do arise, these customers will be able to interact with specialists who not only understand the electric business, but also understand the nuances associated with serving a commercial and industrial customer.

Using information gained in the complaint handling process and elsewhere, continuous improvement will be driven by the new Retail Marketing department, which will focus on measuring customer satisfaction and proactively identifying technologies and services that position the Company to provide superior customer service.

In addition, complaints will be viewed as learning opportunities. Responsibility for managing, processing and responding to customer complaints will be transferred from the Regulation Department to Customer Services which will then be better positioned to, when appropriate, use the knowledge gained in handling the complaints to incorporate changes into processes and training. The goal is a reduction in overall complaints.

As PacifiCorp goes forward it is critical that it does not lose sight of its customers' need for quality service at a reasonable price. The Company's commitment to raising the profile and importance of customer service in the organization is reflected in the appointment of an Executive VP, Bill Landels, as executive sponsor of customer service on the PacifiCorp Executive Board. In this way, the Company will ensure that the entire organization is responsive to its customers and continues to seek ways to improve customer satisfaction while reducing costs.

COMMUNITY & ECONOMIC DEVELOPMENT

As an infrastructure provider, PacifiCorp has a unique relationship with the communities it serves. By facilitating and working in communities to manage growth and community development, the Company is better positioned to manage its costs and the delivery of its product. While many industries encourage employees to be active in their communities, PacifiCorp firmly believes that investment in these relationships, as well as investment in its relationships with the sovereign nations located within its service area, makes good business sense and supports its values.

PacifiCorp has a history of investing in the communities it serves. In some states, participation in the recruitment of basic industries has allowed the Company to reduce the cost and improve the efficiency in providing utility related information to companies considering locating within PacifiCorp's service territory. Further, PacifiCorp has been able to establish a positive working relationship with major consumers while providing an opportunity to influence their siting decision.

In the past, investment in communities has been implemented through the various Operational Managers, senior managers and the Community Business Managers. The Transition Plan will build on this investment through the creation of a new team, Community & Economic Development, which will have responsibility for:-

- facilitating the Company's need for new infrastructure;
- community development;
- needs of low-income customers;
- demand-side management;
- educational investment through the Open Learning Centers; and
- economic development.

These responsibilities will be delivered primarily through Local Liaison Managers, with support from senior Company officials. While previous community supporting roles have had a number of responsibilities (eg., account management, media management, operational management), this team will have a single focus to do its part to serve the diverse needs of its communities.

The establishment of this new team is an exciting development opportunity and one which will quickly start to make a positive impact. As an interim measure, Bill Landels will lead this department and it will be based in Salt Lake City. Bill will work to identify a successor over the longer term.

It is recognized that the goals of this team cannot be delivered without strong partnerships. Therefore PacifiCorp is committed to work with state and local organizations and agencies throughout its service territory and with other companies in the regions. In addition, the Company, through its employee/retiree volunteer effort, will actively recruit employees or retirees to serve on key local economic development boards.

Education is a key area of concern to both the Company and state and local officials. As the economy expands, state agencies are becoming increasingly concerned with the availability of qualified employees. To meet this need, the Open Learning Centers will be aligned within the Community & Economic Development department.

PacifiCorp employees have a proud history of community service. As the Company moves forward, it is important that these employees are acknowledged for their commitment. It is equally important for all employees to be given the opportunity to receive the personal rewards associated with giving back to their communities. PacifiCorp, through its employee/retiree volunteer effort, is committed to making a positive difference in the communities it serves and in the lives of its customers and valued employees.

Through close involvement in the communities served by the Company, and by listening carefully to the needs, priorities and aspirations of local communities, PacifiCorp will realize its vision of being regionally responsive.

LOW INCOME, THE ENVIRONMENT AND ENERGY EFFICIENCY

During the merger process, the Company made a wide range of commitments in the areas of low income customers, the environment and energy efficiency. Since merger completion at the end of November, important progress has been achieved across the range of these commitments.

Low Income Commitments

A commitment of $1.5m was made to support the creation of a debt-counseling service, enhance the provision of energy efficiency and safety advice, and reintroduce the matching of customer contributions for emergency assistance. This commitment forms the basis of a number of specific agreements that were reached in individual states.

Customer Contributions

Twice a year, the Company makes an appeal for donations from customers. The money collected is used to assist members of the community who are experiencing particular difficulty paying their bill. Using the most recent levels of customer contribution as a guide, an additional $160,000 has been made available by the Company to match those contributions. The total amount available for emergency assistance this year is budgeted to reach $386,000, to be used across the Company's service territories. The first appeal for donations under the new "Company-match" arrangements will occur in the Fall of 2000, at the beginning of the heating season.

Low-Income Programs

Low-income families are the group of customers most likely to experience problems meeting their payment obligations (for all their obligations, not just utility bills). They are also the group most likely to live in poorly insulated homes. Experience from both the US and the UK suggests that these customers are best served by programs that address the broad range of their issues, not just how to pay a specific bill. Working with interested parties in each state, the Company is helping to develop innovative solutions to the issues facing low-income families.

In each state, programs are being developed that will provide debt counseling, energy efficiency advice and education, assistance with home weatherization measures, and access to emergency assistance. Recognizing the innovative nature of these programs, the Company has established them as pilot projects. By providing funding for the next three years, the intention is to demonstrate program cost-effectiveness which will, in turn, allow the programs to be rolled out on a larger scale.

The first programs will be rolled out in Oregon and Washington, followed later in the year by Utah, Idaho and Wyoming. In Washington, $300,000 has been awarded and split among three community agencies. In Oregon, $400,000 has been awarded to fund the extension of a highly successful federal program. In each case, the first customers will receive help and advice from the programs in May 2000. Announcements of developments in other states will be made over the course of the next few months.

In addition to the funding commitments the Company made, it also agreed to make changes to current arrangements for weatherization programs (in Oregon and Washington) to enable agencies to use the money provided more effectively. To make these changes, the Company filed revised low income weatherization tariffs in the two states in mid-January.

Environment And Energy Efficiency Commitments

ScottishPower has a proven track record of commitment to the environment. It has developed a comprehensive set of environmental principles that underpin business decision-making, and has taken an extremely proactive approach to the debates surrounding environmental issues in the UK. This track-record, combined with PacifiCorp's own strong focus on environmental matters, meant that commitments to the environment figured prominently during the merger approval process. At least 20 separate commitments were made, ranging from the development of 50 MW of renewable generating resources to the inclusion of a PacifiCorp officer on ScottishPower's Environmental Policy Advisory Committee ("EPAC"). Solid progress on all environmental commitments has been achieved since merger completion. Achievements to date include:-

- **Green Tariff**. The Company undertook to file a 'green resource' tariff in all states within 60 days of merger completion. Tariffs were filed before the end of January in each state. State approvals have been received from Wyoming, Oregon, Washington and Utah.

- **Bonneville Environmental Foundation**. ScottishPower contributed $100,000 to the Bonneville Environmental Foundation, on February 2, 2000. The funding will be used for the development of new renewable resources and fish mitigation projects.

- **Energy Efficiency**. In Oregon, the Company committed to spend around $6m on energy efficiency programs. A working group of interested parties was convened, and has made excellent progress:-

  - targets have been agreed and levels set (for both energy savings and expenditure);

- programs to deliver those targets have been identified, developed and agreed; and
- tariff changes to support the new programs have been filed.

In Oregon this year, the Company will spend $5.8m on energy efficiency programs. These programs will seek to achieve energy savings of 3.83 aMW (equivalent to 33.5 GWh, enough energy to supply 2000 homes for a year);

- **Environmental Policy Advisory Committee ("EPAC")**. As well as including a PacifiCorp officer on EPAC, the Company has established a 'shadow' EPAC within PacifiCorp to ensure that environmental issues specific to the US are fully addressed. The first meeting of the PacifiCorp EPAC occurred in February, and will be held on a quarterly basis. A key initial task for the Committee is the setting of annual environmental performance targets for the Company.

- **50 MW Renewable Resources**. A multi-disciplinary project team has identified a range of options for developing 50 MW of renewable resources. The focus has now moved to detailed discussions with the developers of a number of specific sites, to decide the best way forward. The Company intends to be in a position to make a positive announcement on the development of the 50 MW by the Fall of 2000.

RATE IMPACTS

Background

During the merger approval process, ScottishPower and PacifiCorp committed in each state, either as part of a stipulation or in testimony, to file this Transition Plan with the Commissions no later than six months after the closing date of the merger. Given a closing date of November 29, 1999, the six-month period will expire at the end of May 2000. With the May 4th announcement of the Transition Plan proposals, there will be sufficient time prior to the May 30th filing deadline, to meet with employees and other key stakeholders to discuss the Plan's findings and initiatives in greater detail.

General Regulatory Considerations

In general, the state regulatory commissions are very supportive of utility efforts to improve reliability while reducing costs. The Transition Plan demonstrates that PacifiCorp's historical performance in these areas has resulted in an average-performing utility, and affirms ScottishPower's ability to improve this performance consistent with the goal of becoming a top US utility across a range of metrics.

As discussed earlier, this goal cannot be accomplished without the support of and partnership with several key stakeholders, including the state regulatory commissions. Change of this magnitude creates uncertainty for all stakeholders, including regulators. It is crucial that key Company personnel be available to respond to this uncertainty and discuss and address Commissioner and Staff questions and concerns. Key factors in mitigating concerns regarding the Plan are delivery of the Merger Commitments and improvements to customer service.

Transition Plan Costs And Benefits In Prices

The following factors will influence the timing of when Transition Plan costs and benefits will be reflected in customers' prices:-

- **Merger Credit.** The merger stipulations provide that, by the beginning of 2001, customers in four states will receive line item bill credits totaling $29m annually aggregating to $118m of credits over five years. These Merger Credits were viewed as "down-payments" for future merger savings and recognize that achievement of Transition Plan initiatives are not without risk and cost. Indeed, the Merger Credits are a mechanism that passes through future benefits of the Transition Plan without any offsetting costs to achieve the savings. Since the early years of the Transition Plan require substantial investment and costs to achieve, and that offset much of the early year savings, customers will be better off receiving the Merger Credit.

- **Rate Case Stipulations.** In Wyoming, the Company entered into a stipulation limiting the amount of rate increases to predetermined levels (although requiring justification for the predetermined level). The most recent rate case in Wyoming was subject to a maximum of $12m increase even though a substantially higher level of increase could have been justified. The Company believes that this stipulation provides benefits to Wyoming customers in the form of lower prices.

- **Cost-Benefit Demonstration.** It was recognized in the merger approval process that the undertakings of the Transition Plan must be justified through an after-the-fact cost-benefit analysis. Therefore, in the rate cases currently underway, only the initiatives that have been completely implemented could be subject to the necessary review. In future rate cases – once the costs and benefits become known and measurable – this type of review will occur and the costs and benefits recognized in rates.

- **Overall Results Of Operations.** The Commissions will continue to monitor the Company's results of operations. Over time, the costs and benefits of the Transition Plan will be reflected in the results of operations as well as cost and revenue changes that happen as a normal course of business and that have not been reflected in the Transition Plan.

If the Company is earning a reasonable return, no rate changes will be necessary. Only if returns consistently fall outside the range of reasonableness will the Company need to evaluate the need for rate increases or decreases.

In general, it will be recognized that the existence of the Transition Plan will mean that PacifiCorp will have less need for rate increases to enable appropriate returns to be earned than would have been the case absent the merger and associated Transition Plan.

Transition Plan Enablers

7. TRANSITION PLAN ENABLERS

INTRODUCTION

The successful achievement of the Transition Plan will depend on the implementation of several key enablers. These can be seen either as catalysts or pre-requisites for many of the initiatives. In most cases the enablers represent some form of investment (not always financial) from which benefit is derived on an ongoing basis.

Enablers fall into several (overlapping) categories:-

- Development of people - eg., management development, skills training.
- Implementation of technology – usually IT - eg., call center technologies, network monitoring technologies
- Investment in facilities - eg., Open Learning, Training Centers
- Investment in information and knowledge - eg., benchmarking
- Cultural interventions - eg., management behavior, employee communications, corporate identity
- Personnel interventions - eg., management recruitment and insets
- Injections of high level expertise - eg., use of consultants
- Cash payments - eg., early retirement payments, severance payments, negotiated changes to union contracts

The following sections discuss several of the enablers necessary to achieve the Transition Plan.

MANAGEMENT DEVELOPMENT

Introduction

In order to achieve the goal of delivering PacifiCorp into the "Top 10" of US investor-owned utilities and to develop management capability for further growth, there is a need to identify training and development requirements and to target action into areas that will achieve these goals.

PacifiCorp, as with ScottishPower, has a clear and public commitment to the development of employees and believes that effective training and development, properly targeted and focused, will support Company strategy and objectives.

In the course of reviewing business performance, the Transition Team highlighted a range of training needs and opportunities. Additionally, work has been carried out on identifying the extent of the gap in the desired business culture. This work also identified a number of management development areas.

A comprehensive training and development strategy cannot be completed until the details of the Transition Plan are fully developed. However, from initial work carried out, a training plan will be developed to address the following needs:-

- realign current training to meet objectives set within the Transition Plan;
- build a strong management capability for the future;
- maintain (at a minimum) the integrity of statutory training to meet operational standards;
- fulfil commitments made to employees, the PUCs and unions during the merger approval process; and
- address certain gaps raised in the findings of the culture research.

The Training Plan will set out a number of "best practice" training and development activities and enabling HR processes, to be introduced or to be further developed by PacifiCorp in the near future. Details are provided on the first steps being implemented.

Initial Projects

The reviews being undertaken have resulted in priority programs being put in place:-

- **Senior Management Development Program.** A short modular Senior Management Development Program has been introduced with the aim of equipping managers with the skills and the understanding to deliver transition. The aims of the program are to:-
  - introduce a new management style based on strong leadership and commercial awareness;
  - assist in ensuring managers are both strategically aware and results-oriented;
  - help develop the communication skills for driving change and maintaining employee performance and motivation; and
  - commence the development of managers who can be fully accountable for parts of the business.

The Program requires a high degree of involvement from the executive team and combines inputs from leading business schools together with discussion groups. As well as providing input and skill development, the groups will identify key issues affecting the business and develop joint action plans for business improvements. The program is being run over three days, and commenced in April 2000 and 60 PacifiCorp Directors will have completed the Program prior to Transition Plan announcement.

- **PacifiCorp Masters in Business Administration ("MBA")**

Work has begun to identify a model for an MBA program for PacifiCorp. Talks have taken place with various state universities to assess their ability to provide a flexible and focused program for middle managers (eg., Portland State University and Western Governors University). The target is to have the first group of managers (up to 20) selected and enrolled for a program to commence in September 2000.

- **PacifiCorp Executive Participation In The ScottishPower Business Leadership Program ("BLP")**

The ScottishPower BLP continues to be a world-leading program aimed at developing the leadership capabilities of our future senior managers. The Program has a limited number of participants and is a combination of in-company learning, together with exposure to a global learning environment through participation in an international Business School Program. The fourth wave will commence in November 2000 or early in 2001 and will include four high potential senior managers from PacifiCorp.

- **Project Management Initiative**

A new "Project Management Initiative", to identify and prepare people for project management work, has been launched. It seeks approximately 100 individuals across every location and functional area of the Company who possess both a range of skills and a drive to succeed to fill roles as project managers. Following appropriate training, such individuals will play pivotal roles in working with line management to deliver the many initiatives contained in the Transition Plan.

OPEN LEARNING

Introduction

As part of the merger approval, ScottishPower and PacifiCorp committed to provide personal development opportunities to PacifiCorp's employees and, in time, for the wider community at a later stage.

These opportunities will, in part, take the form of Open Learning Centers ("OLCs") located at specific sites. The underlying philosophy reflects the approach which has proven to be successful in the UK and which will play a vital role in enhancing the Company's community activities. For employees, OLCs will provide access to learning opportunities for job-related and personal development needs.

Nature And Purpose Of Open Learning

The Open Learning Program will provide employees with facilities for studying to acquire new practical skills or academic qualifications through computer-based programs, videotapes, books and, where facilities permit, a classroom-type environment. An OLC is a room on Company premises set aside exclusively for study purposes and equipped with a number of multi-media computers and TV/video equipment, together with the necessary learning material such as CD-ROMs, to enable employees to study their chosen courses in a quiet, comfortable environment outside their working time. The room is equipped with hardware and software to a level consistent with expected demand from the local employee population, and the extent and nature of the learning material available is demand-driven. If there is sufficient interest in a particular subject to suggest viability, a course program will be devised to meet the demand.

Open Learning operates in a complementary way to more traditional forms of training and development. Programs can be devised to meet identified business needs and can often be the most economical means of addressing these. In particular, the onsite learning methods employed by Open Learning are conducive to training delivery to dispersed staff across wide geographical areas while in-house delivery avoids the high costs associated with externally provided courses. In this way, Open Learning integrates with the overall strategy for delivering training and development plans in a cost-effective manner.

Open Learning creates a positive learning environment in the business. By providing high quality, dedicated facilities to employees and demand-driven learning programs, the basis of a learning culture is formed in which employees see their own personal skills enhancement as an enjoyable and rewarding experience.

In due course, Open Learning facilities will be extended to the families of employees and to local communities. Examples of community links in the UK are:-

- granting access to groups supporting physically challenged people so that they can learn new skills and equip themselves for furthering their career prospects and improving quality of life; and

- active relationships with schools, which ScottishPower believes to be good corporate citizenship and community care as well as sound business sense in stimulating knowledge and interest among students in ScottishPower as a prospective employer.

Implementation Progress

The initiative to establish OLCs in PacifiCorp is well underway and the first two Centers became operational in Portland Business Center on March 29, 2000 and in North Temple Office, Salt Lake City on March 31, 2000. Formal openings will follow. The level of attendance at the openings of these two centers (120 in Portland and 202 in Salt Lake City) is a measure of interest shown by staff in this initiative. A further two Centers became operational in Casper, Wyoming and Yakima, Washington on 21st and 26th April, respectively. These initial four sites represent main employee centers of population in four of the states in PacifiCorp's territory.

Following a short but thorough review of experience, and subject to the approval of PacifiCorp executives, it is planned to establish a further four OLCs in the second half of this year. The review will recommend the locations of these new Centers to best meet the needs of PacifiCorp's geographically dispersed employee base.

The Open Learning Center network is managed by an Open Learning Center Manager, administrative assistant and an Open Learning Adviser at each local Center. The portfolio of courses, currently some 528 with more to follow, has been developed following a survey of managers and employees to establish interest in Open Learning with the results being used to establish an initial portfolio of programs. The establishment of OLCs is creating a high level of interest among employees. So far, 245 employees have registered on the system.

The focus of work is now on extending Open Learning facilities to communities throughout PacifiCorp's territory. Specific proposals set within a clear strategy will be presented to executives following the review of experience, but it is likely that the community initiatives program will be taken forward on an educational platform, with links to schools featuring prominently. A network of contacts is being developed in all of the states both in the business and educational communities (eg., Oregon Business Council) to assist in formulating proposals for taking forward the community initiatives.

INFORMATION TECHNOLOGY

It is evident from the workstream plans that Information Technology has a key role to play in the delivery of the Transition Plan. Many of the initiatives proposed in the Transition Plan depend critically on the successful implementation of systems and technologies. Most of these must be in place and fully operational before the Company can start to effect the changes that will bring benefits, both in cost performance and levels of service.

Examples of systems needed to enable the businesses to deliver their plans include:-

- enhanced Call Center technology;
- web enabled applications;
- fully leveraged SAP;
- integrated CADOPS;
- "Prosper US";
- power plant diagnostics and controls;
- new Energy Management Systems;
- e-Business;
- mobile workforce support; and
- Enhanced Risk Management and Trading.

The Information Systems Department has a pivotal role to play in supporting the needs of the businesses and in working with them to provide the appropriate enabling systems, on time, to specification and at an appropriate cost.

Responsiveness to internal customer needs is a key driver and will be achieved by leveraging the available skills and supplementing when necessary with those available within ScottishPower. There will be continued investment in training and development for staff within IT to ensure that the department retains a highly skilled and motivated workforce and one that is cost competitive.

Alternative means of resourcing for application development and support will also be considered where it is assessed to be of minimal risk and is cost effective to do so.

The Information Technology Executive Committee ("ITEC") will be accountable to the CEO for ensuring a coordinated approach to IT investment in PacifiCorp and maximizing opportunities for group synergies.

CULTURE CHANGE RECOMMENDATIONS

The Mercer/PacifiCorp culture project team considered the findings and proposed a set of initiatives designed, in aggregate effect (over a period of time) to start to move PacifiCorp towards the culture necessary to support the new vision. Many of the actions and initiatives are already underway. In order to maintain a vital focus on the business culture issue, it is proposed to manage the entire package of proposals as a program from the CEO's office.

Develop Leadership Capability

1. Create blueprint vision, values and direction for PacifiCorp.
2. Introduce ScottishPower values into PacifiCorp.
3. Create a new leadership cadre and identity that builds trust and teamwork.
4. Create a new leadership development program to build ongoing capabilities.
5. Develop a new performance and rewards strategy for leaders that is aligned with the new expectations.

Increase Results Orientation

6. Identify and continuously strive for best practice levels of performance.
7. Ensure focused use of training and development.
8. Incorporate continuous improvement and results achievement into performance management process.
9. Develop and implement a new top-down goal setting and review process based on PacifiCorp's strategy.

Strengthen Communications

10. Develop and implement a comprehensive communication strategy that supports PacifiCorp's new vision, goals, and direction.
11. Strengthen communication infrastructure to effect desired behavior and culture changes.
12. Establish communication and feedback measures to monitor and ensure culture change.

LABOR RELATIONS

Introduction

An innovative labor relations strategy has been designed, through specific initiatives largely unique in US utility labor relations, to retain the support and co-operation of labor unions and employees. It balances the determined drive on efficiency during Transition Plan implementation with employee and union-oriented initiatives likely to be seen as valuable and thus meriting their long-term engagement with the Company. Successful delivery of the strategy is essential to achieve the productivity and efficiency initiatives. Through common application, it will contribute to integrating employees in PacifiCorp within the ScottishPower group. The strategy has also been designed to position the Company well in preparing for longer-term initiatives in the US.

Since its inception, ScottishPower has consistently adopted progressive and flexible labor relations strategies and policies which are designed to meet the varying short, medium and long-term needs of the business. Invariably, these have been developed in such a way as to achieve stretching productivity and efficiency objectives while maintaining labor relations stability through a balanced program of HR initiatives such as Open Learning, trade union partnerships, training investment and occupational health facilities.

This "balanced agenda" approach, coupled with policies that have achieved manpower reductions without serious confrontation or labor relations problems, have together created a framework of stability within which the Company has been able to achieve significant cost reduction and structural changes. It applies equally to unionized and non-unionized employees.

In the US, the labor relations strategy will build on the existing positive labor relationships in order to support the Transition Plan by preparing the ground and providing the tools for delivery. The strategy will help drive the Transition Plan agenda which will generate changes of a magnitude unprecedented in PacifiCorp. At a higher strategic level, the strategy is designed to position the Company in the eyes of employees, unions, regulators and politicians as an employer capable of delivering hard change agendas but, equally, as one which is visionary and markedly different in bringing a fresh approach to the US labor relations environment. In short, it is intended to capture the imagination of all parties and, through its unique nature, attract visibility within the US. In this way, the strategy will support the Company as it seeks to consolidate and expand within the US.

Key Objectives And Means Of Delivery

The labor relations strategy has eight high level objectives. These are to create:-

- an environment of commitment and motivation among our employees;
- an acceptance of the need for change;
- a belief that there are real opportunities for improvement;
- a belief that the Transition Plan is robust and the right way ahead;
- positive feelings about ScottishPower among employees, unions, regulators and politicians;
- a workforce who want to be part of PacifiCorp's future;
- a "felt fair" attitude to how we treat people in the change process; and
- conditions for the engagement of the trade unions in the long term.

These strategic objectives will be delivered by means of effective communication and labor relations strategies. A strong communication plan, which will address both internal and external needs, has been developed. The plan will manage the expectations of employees, prepare the groundwork for the Transition Plan, help win the "hearts and minds" of employees and create favorable external perceptions. It will integrate fully with labor relations plans, representing a powerful inter-relationship that will underpin Transition Plan delivery and set the scene for positioning PacifiCorp as a major player on the US employment scene.

Content Of The Labor Relations Strategy

The labor relations strategy will comprise a number of integrated initiatives which collectively will deliver:-

- mechanisms to achieve required manpower reductions;
- a visionary "give and take" negotiating agenda which will position PacifiCorp as a progressive and different US utility employer; and
- a framework for positive trade union working relationships.

The various elements of the strategy are now discussed.

Exit Packages

A time-limited ("window of opportunity") exit package strategy has been designed to attract a sufficient number of volunteers over the period of the Transition Plan. Release dates at the Company's discretion will ensure a balanced management of employee exits with operational needs. Most exits will be through early retirement. A voluntary severance plan will also be negotiated to facilitate releases of employees to whom early retirement is not appropriate. The exit arrangements will be presented in such a way that they will provide an option for employees who prefer to leave rather than struggle with change. As such, the opportunities will be entirely consistent with the voluntary approach to exits traditionally pursued by ScottishPower and promoted in the US during the merger approval process.

The labor relations strategy has been designed to minimize the risk of union disengagement. To achieve this, a menu of initiatives has been developed which, it is believed, will provide a "balanced scorecard". These initiatives are discussed below and will be developed within an overall framework of understanding with the unions, recognizing their legitimate right to represent those PacifiCorp employees who are their members. The menu has been created on the basis of what is likely to have impact and be seen as new in the American labor relations context and therefore of value to the unions to the extent that they would wish to be associated with an employer whose values are expressed through such approaches.

Initiatives Portfolio

Overall Philosophy

A "labor compact" is proposed which, by its nature, embraces both union and non-union employees. The compact will be enacted primarily through labor relations and training and development initiatives. This conveys to unions and employees that Pacificorp recognizes the unions' association with the Company. It also demonstrates to union and non-union employees that the Company is prepared to invest in the future of all Pacificorp employees through a strong people development agenda. Nothing written to this effect currently exists in Pacificorp. The compact is crafted to become a value in Pacificorp and the CEO has already referenced it (with prior union knowledge) in an address at a conference between west coast utility IBEW union leaders and managers which took place in March 2000.

The labor compact was presented strongly as a cross-company initiative with the elements of the strategy to be applied consistently across PacifiCorp.

Initiatives

Areas where impact is likely to be made with the trade unions and employees are:-

- **A Seat At The Table.** Unions have been offered a "seat at the table". This capitalizes on the importance which senior union leaders place on face-to-face dialogue with senior executives. A two-tier joint consultative structure, similar in principle to that in the UK, is capable of application in PacifiCorp. The higher level will comprise the ScottishPower Chief Executive and Executive Directors who will visit PacifiCorp annually to give a "state of the nation" address to the union leadership. This will be supplemented by quarterly meetings of the PacifiCorp CEO and his senior team to discuss high-level business issues.

- **Trade Union Membership Neutrality.** In the US, trade union membership is largely confined to industrial employees. Indeed, attempts by labor unions to recruit non-union labor in the US can often be met with openly hostile responses from employers. Within the IBEW, the principal union at the national level, the opportunity to recruit new members is a matter of high interest. It is likely that PacifiCorp's more relaxed attitude to the issue of labor recruitment will accrue dividends far in excess of any significant increase which is likely to occur in union membership. The mechanism for this is a Company position of "neutrality" which allows unions to organize labor provided they adhere to prescribed procedures. It is thought that such an attitude, publicly portrayed, will be largely unprecedented in the US utility industry.

- **Benefits.** Benefits in the US are high priorities for employees. They include vital interests such as medical care and retirement plans. The Company's unionized employees in the US do not enjoy the comfort of the UK state benefit system and are reliant on individual labor contract negotiations to at least maintain the benefit level. Elevating this process to a PacifiCorp joint benefits forum will demonstrate a shared commitment to the importance of benefits, in the same way that employer/employee pensions committees in the UK bring prominence and transparency to occupational pension scheme management and scheme quality. A demonstration of the importance with which the Company regards benefits in the way suggested will therefore have a valuable impact on union perceptions of the Company. This will flow through to non-unionized employees and influence their attitudes.

- **Training And Development Initiatives.** The creation of training and development initiatives through a strong and clearly identifiable function (not currently present in PacifiCorp), will be vital for the future of the business and will send strong messages to PacifiCorp union and non-union employees about the Company's attitude to long-term people development.

The labor unions are likely to react positively to the creation of a clear and coherent people development strategy, especially so in relation to management development, which they feel is lacking. They regard this deficiency as contributing to the decline of PacifiCorp's position among US utilities and the loss of strategic direction.

- **Employee Support In Lay-off Situations.** Employee outplacement support in lay-off situations already exists in PacifiCorp, but is less pro-active than in comparable parts of the UK operation and tends to be oriented to non-union employees.

- **Use Of Contractors.** Similar sensitivities exist in the US as in the UK regarding the use of contractors. In particular, the largest trade union (IBEW) has an issue about non-union contractors and there is a perception in the workforce that contractors obtain the best quality work. Indeed, an agreement exists between the Company and the IBEW covering their members in Utah, Idaho and Wyoming (some 1,950 employees) that a comprehensive joint review of the use of contractors will take place. Naturally, the outcome of this will be of interest to the other major trade union (UWUA) and union members in other states. Therefore, there is a need for a Company position on contractors based on clarity and consistency in terms of utilization. This position will be designed to meet as far as possible unions' concerns (eg., on work quality) within the overriding business interest, trading this off for changes to labor contracts to ensure that PacifiCorp employees are at least as competitive as contractors, thus minimizing the need for contractors outside the Company's normal utilization parameters.

- **Apprenticeships.** Apprenticeships need to be addressed on two fronts. Currently, there is a legacy issue of a pool of non-skilled employees with no age barrier who are awaiting upskilling training. The formation of this pool of around 250 employees raised expectations among the employees concerned and their trade unions that career enhancement would result. This has not happened and the issue is now a source of long-running contention. A strategy will be developed to terminate this pool arrangement and bring the matter to a conclusion in an equitable, felt-fair way. It would be intended, as part of this solution, to introduce a model apprenticeship scheme for individuals wishing to make a career in PacifiCorp which might be linked into school-to-work and which will be planned as a year-on-year commitment to ensure a constant supply of new talent.

TRANSITION COMMUNICATIONS

Introduction

It is critical that all key stakeholders understand and, where realistic, support the significant and challenging changes that have to be implemented.

A comprehensive communications program has been developed that addresses US audiences and will be professionally managed and delivered by PacifiCorp communications personnel. ScottishPower Corporate Affairs is responsible for UK communications and is working closely with the Transition Team them to ensure alignment of timing, key messages and outcomes for maximum effectiveness. The success of the Transition Plan will partly depend on all stakeholders understanding the nature and rationale of the proposed changes, and in some cases, taking ownership of and supporting the Plan.

Timeframe

The Transition Plan communications program covers two phases:-

- **Phase I : Transition Plan Announcement (May 2000).** This phase includes the period from Transition Plan Announcement Day minus five and Transition Plan Announcement Day plus 14.

- **Phase II : Post-Transition Plan Announcement (May 2000 And Beyond).**

Key Messages

The emphasis of messages and tactics vary for each phase. However, the following messages will be common throughout both phases:-

- the Transition Plan will provide the clear direction and focus that will enable PacifiCorp to become a "Top 10" US investor-owned electric utility;

- it will result in significant and challenging changes in the way PacifiCorp does business, and will be implemented over five years;

- PacifiCorp will deliver on its commitments to customers, shareholders, employees, regulators and communities; and
- PacifiCorp cares about local communities, safety and the environment.

External And Internal Audiences

External stakeholders include shareholders, regulators, politicians, community leaders, customers and the US media. Internal stakeholders include senior management, managers, employees, union leaders and subsets of these groups. The HR/labor relations communications plan has been detailed earlier in this Plan and close working will ensure that messages are consistent.

Communication Principles

The style of the communications will be influenced by several key guiding principles. Transition Plan communications will be honest and as open as possible. Communications will be timely, balanced and sensitive. A primary consideration is that groups or individuals most impacted will receive the information first. Feedback and monitoring mechanisms will be used at every phase to gauge the effectiveness of communications.

Phase I : Transition Plan Announcement (May 2000)

Objectives

- To help ensure that key stakeholders understand the Transition Plan and its relationship to the strategy;
- To help ensure that employees understand the relevant changes in their areas and, whenever possible, how these changes impact them as individuals;
- To help stakeholders feel positive about the Transition Plan and show how the Plan relates to the new vision of PacifiCorp;
- Balance the positive elements of the Plan in order to keep the job reduction aspect in perspective;
- Help employees understand the management process for implementation of the Plan; and

- Demonstrate senior management commitment to the Plan.

Approach

The focus of this phase is to communicate the Transition Plan and to ensure that stakeholders understand how changes will impact them. Communications will be managed in a phased, controlled and sensitive way.

Internally, the Transition Plan will be communicated to the entire organization (eg., via telephone conference calls, face-to-face meetings, video and printed materials). The CEO and his executive team will play a key role in the communications process. It will be evident that senior management "owns" the Plan and is firmly committed to implementing it. The intent is to utilize business unit leaders to communicate the Plan to their own employees.

Externally, senior ScottishPower and PacifiCorp executives will be called upon for interviews to UK/US investors and media regarding the Transition Plan. Informal discussions and meetings will be held with stakeholders (regulators, community leaders, politicians, etc.) and feedback will be sought on reactions to the Transition Plan.

<u>Phase II : Post-Transition Plan Announcement (May 2000 And Beyond)</u>

Objectives

- To support management in ensuring that key stakeholders accept the Transition Plan;
- To continue to encourage key stakeholders to support and embrace the Transition Plan;
- To support management as they implement the Transition Plan and continue to support them as they ensure that employees are committed to the long-term success of the Company; and
- To demonstrate achievement as the successive phases of the Transition Plan are delivered and to help celebrate successes as they occur.

Approach

Desired outcomes of this phase are that key stakeholders believe the Plan will result in positive outcomes for PacifiCorp and that employees actively support and begin to implement the Plan. Internally, this will be accomplished through the Company's internal employee magazine "PacifiCorp Today", CEO teleconference calls, face-to-face meetings, the Communications Advisory Council and the informal network of employees.

Regular discussions and meetings with key external stakeholders and a focus on proactive media stories will reinforce appropriate messages. During this phase, transition communications and 'business as usual' communications become one and the same and all Company communications will be managed and conducted, not on a project basis, but within normal line responsibilities.

CORPORATE IDENTITY

Introduction

As part of transition planning, a project was established to examine the various issues surrounding corporate identity and to make recommendations for the consideration of the Board. Specifically the objectives of the project were:-

- determine leverage points for identity in supporting the vision and strategic objectives of PacifiCorp and ScottishPower;
- assess equity of existing PacifiCorp brands and viability of the ScottishPower brand with key stakeholders;
- understand key issues that influence future branding and their implications such as introduction of new offerings, foreign ownership, market deregulation, cultural differences and employee attitudes; and
- seek cost savings through consolidation of visual elements including branded materials, vehicles and location signage.

Branding Assumptions

A survey indicated that customers and the public were much more aware of PacifiCorp's local identities - Pacific Power and Utah Power. PacifiCorp and ScottishPower enjoyed similar levels of brand awareness but lower than those of Pacific Power and Utah Power.

The close match of the ScottishPower and PacifiCorp positioning and brand attributes allows the creation of a blended position from which to execute the brand recommendation. The "Powermark" could be used in any brand execution as the common linking element. ScottishPower graphic standards will be considered for application to fonts, colors and word treatment.

Reaction Of Employees

Focus groups of employees revealed that the majority of negative sentiment doesn't stem from the most recent PacifiCorp/ScottishPower merger but is derived from the 1989 merger of PacifiCorp with Utah Power & Light.

Employees have clearly stated that they want to work for **one** company and see a name change as the opportunity for a "fresh start". Many employees perceive that regionalizing identity is fragmenting. Employees are receptive and eager to work under a new, single identity.

Implications Of A New Name

Shifting to a new name will allow the organization to evolve or re-invent its identity with both employees and customers. Moving to a single non-regional name will serve to unite the organization under one umbrella.

Some other benefits include:-

- demonstrating decisiveness on the part of the new leadership;
- suggesting strong leadership going forward;
- eradicating the legacy of previous management(s);
- setting expectations about future actions;
- galvanizing employees to work toward a shared success; and

- creating a fresh start affording cost savings going forward with single identity signage, collateral, stationery and advertising.

Conclusion

There is a window of opportunity to change the Company name. The single, new name will be a key signal about the future and will demonstrate decisiveness of the new Company leadership.

For **customers** it will signal that things are different and will demonstrate how that difference is better while preserving the Company's good reputation.

For **employees** a new name will send a strong message about leadership and the need to abandon the "silos" and start to work as a team under a new united banner. It responds directly to the shared sentiment of employees to "get on with it" and seizes the opportunity for a fresh start. There will be no more "them and us." It's just "us".

For **Wall Street** and **shareholders** who are accustomed to mergers, acquisitions and the associated consolidation of names or re-naming, the signal will be subtler, but still important to their perception of the future.

For **communities** and **politicians** the change might initially be received with some surprise and perhaps resistance, especially as the change will have been instituted by a foreign company. Nevertheless experience has shown that such reactions tend to be short-lived. Clear communication of the positive logic for the proposed change will be important.

A proposal on corporate identity will be put to PacifiCorp Executives in the near future.

Transition Plan Workstreams

8. TRANSITION PLAN WORKSTREAMS

The joint ScottishPower/PacifiCorp Transition Team was organized into five main "workstreams", each of which relates to a major business area.

The following table shows the five workstreams with the main headings of the activities reviewed by the workstream Transition Teams.

Corporate Services	Transmission & Distribution	Customer Service, Sales & Marketing	Power Supply	Information Systems
• CFO/CEO departments • Legal • Strategic Planning • Environment • Safety • Regulation • HR • Corporate Secretary • Public Relations • Non Regulated Businesses	• T&D Operations • Network Strategy • T&D Head Office • Metering • Transport • Procurement	• Income Collection • Customer Service • Sales & Marketing • Community Involvement • Economic Development	• Generation • Mining • Energy Trading • PacifiCorp Power Marketing	• Information Systems Department • Business Systems Integration Project

Key findings of the workstream Transition Teams are set out on the following pages along with some of the organizational and operational initiatives proposed to move PacifiCorp to a "Top 10" industry position.

Corporate Services

8.1 CORPORATE SERVICES

SCOPE OF WORK

The task of the Corporate Services Workstream was to review all of the Corporate and most of the non-regulated functions and/or activities within PacifiCorp. All of the areas of the Company not covered by the business unit workstreams were reviewed, including all organizational and cost issues associated with the operation of the Corporate Office functions and Company-wide activities.

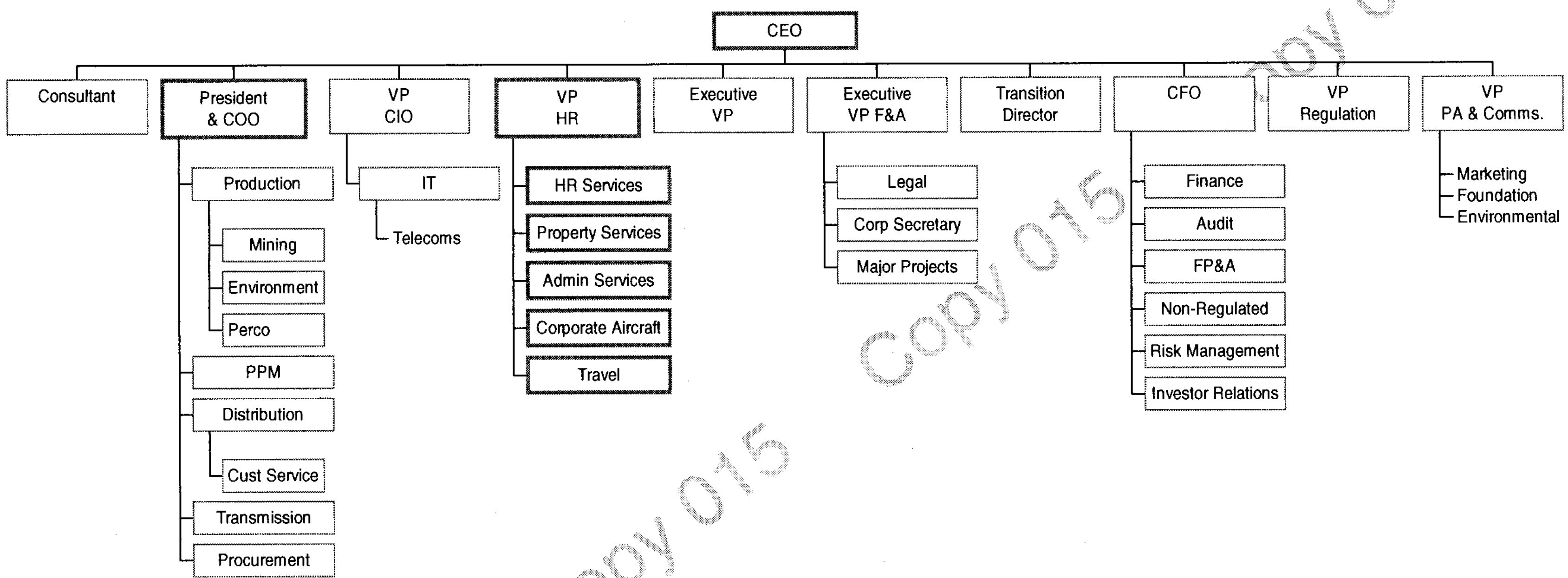
The Team was further tasked to review the overall Corporate organizational structure and make proposals on the appropriate structure for the future.

The table below shows the scope of this workstream:-

Corporate Services	Finance	Human Resources	Non-Regulated
CEO	Controller	Staffing	PEI (Enstor)
COO	Tax	Labor Relations	PacifiCorp Trans
Public Affairs	Treasury	Legal and EEO	PERCO
Regulation	Audit	Employee Benefits	PFS/Syn-Fuels
Corporate Secretary	Mining Financials	Compensation	PFS
Legal	Financial Planning/Analysis	Training	PGH
Administrative Services	Regulation/Revenue Requirements	Mining HR	
Property Management			
Investor Relations			
Corporate Development			
Strategic Planning			
Electric Operations Support			
Environmental Support			
Mining Corporate			
Other Corporate and Cross-Company Cost Issues			

FINDINGS

The interim organization put in place following the completion of the merger was:-



This structure represented a balance between the perceived need to make some immediate adjustments and the acknowledgement that the Transition Teams would consider the issues surrounding structure as part of its review and make its own proposals for consideration.

It is always difficult to generalize when considering diverse activities as represented by Corporate Services, however, the following common themes were found:-

- there is a large number of committed, skilled employees. However, activities were closely scrutinized to establish if they were doing the right things in the most effective way to support the businesses;

- Corporate Services is generally larger and more expensive than the top ranked US Utilities (G&A Benchmark) and has not changed significantly with business strategy;
- Corporate Services could be more focused on supporting the Businesses and needs to align goals/objectives more clearly with Company strategy;
- senior leadership has been mixed and strategy has not always been consistent, with a lack of focus on delivery/follow-through;
- the organization needs to increase focus, accountability and coordination between functions to remove the likelihood of overlaps and duplication;
- culture and management style is inconsistent across the organization;
- there are several issues regarding staff. Many are overworked (highly stressed) and most are not being given appropriate opportunities for training and development;
- policies and procedures could be improved to drive out further efficiencies; and
- SAP functionality could be further utilized.

ORGANIZATIONAL DESIGN

The overall findings from the analysis indicated that significant organizational change at Corporate would be necessary to establish the optimal organizational structure to take the business towards "Top 10" positioning.

Proposals

PacifiCorp faces a period of significant change and will require a strong executive management team to deliver improved financial and operational performance while driving the implementation of the Transition Plan.

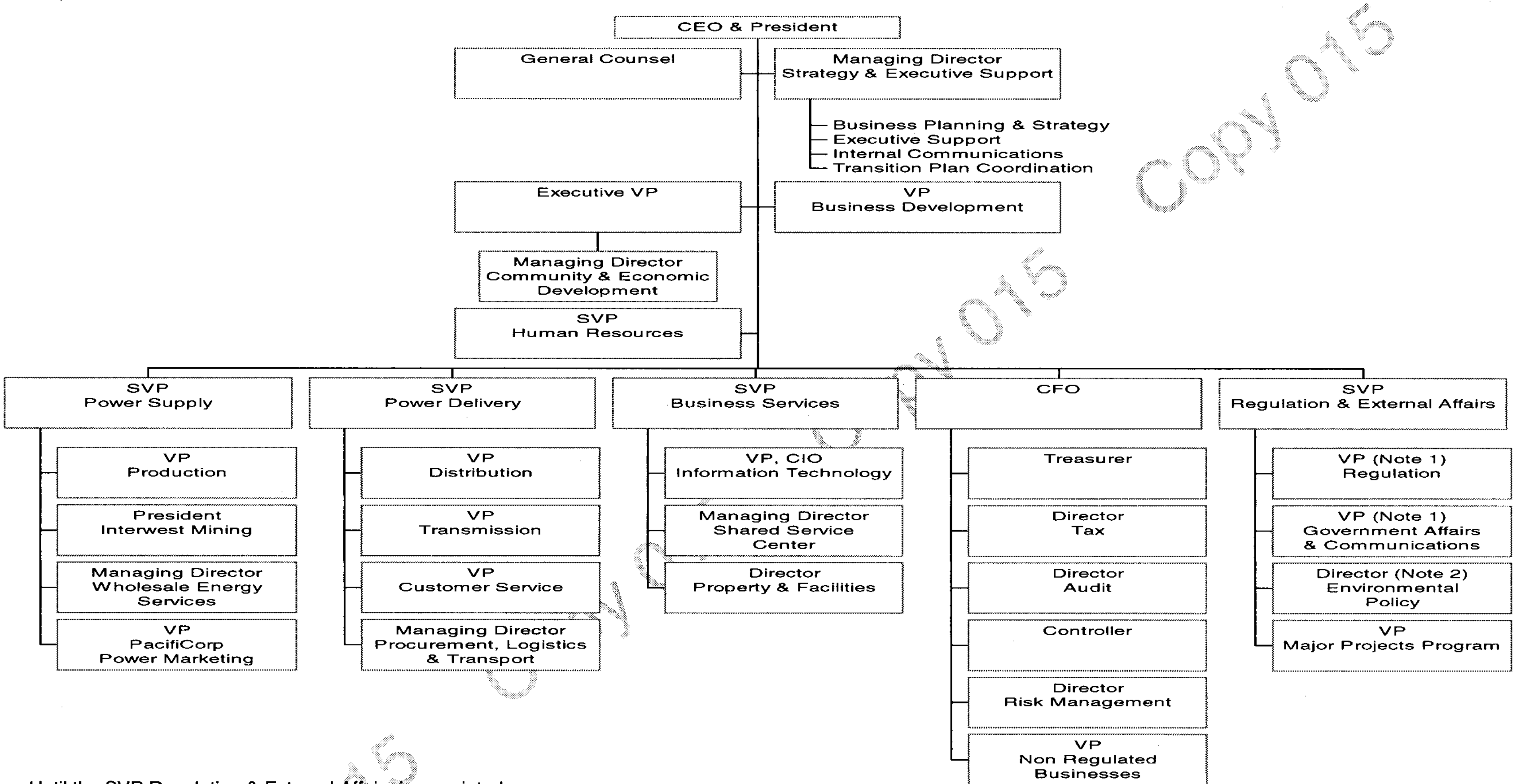
A major redesign of the organization is proposed to be effective from "Day One", with further enabling changes phased over the five year Transition Plan period.

The principal objectives in redesigning the Company's organizational structure are to:-

- ensure accountabilities for achievement of business objectives are clear and unambiguous;
- support a focus on delivery of value from the core utility business;
- ensure that provision of business support is efficient and driven by the needs of the businesses;
- separate strategy and policy development from operations; and
- establish a strong executive group with balanced portfolios.

2000/01 Organizational Structure

The organizational structure proposed for implementation in 2000/01, is shown below:-



Notes: Until the SVP Regulation & External Affairs is appointed,:
1. VP Regulation and VP Government Affairs and Communications will report to the CEO
2. Director Environmental Policy will report to VP Government Affairs & Communications

The key features of this organizational structure are:-

- **Separation Of Previous COO Responsibilities Into Two Business Units.** Operations split by type and nature of business to achieve better focus, balance and a more appropriate span of control.
- **Creation Of A Business Services Unit.** Internal service provider created to deliver business needs with a commercial culture.
- **Consolidation Of Regulation And Public Affairs Functions.** Management of all external relationships re-aligned to optimize PacifiCorp's operating environment and more effectively influence public policy.
- **Creation Of General Counsel Position.** Strategic legal advice brought in-house and a gateway created for commissioning and managing external legal advice. Position will also take the title and legal responsibilities of the Corporate Secretary.
- **Creation Of Business Development Team.** Clearly separate from operations, a focus on business growth and development opportunities ensured.
- **Creation Of CEO Support Office.** Dedicated support for the CEO established to co-ordinate planning and Transition Plan delivery, to be a focal point for driving culture change, to provide specialist executive support on key issues and to serve the Board and executive committees.
- **Maintenance Of Executive VP Based In Utah.** The Merger Commitment to maintain executive presence in Utah honored; Executive VP also charged with interim Company-wide responsibility for community and economic development.
- **Retention Of Strategic HR Department.** Strategic focus on HR strategy and policy is retained at top level.

The structure confers many benefits on the business:-

- **Balance.** There will be a better balance of responsibilities than previously. Several of the executive positions are seen as excellent development posts for succession to the CEO role.

- **Focus And Accountability.** Most of the executive positions have a significant span of responsibilities, yet each has a reasonably homogeneous portfolio.

- **Removal Of "Silos".** The structure addresses weaknesses perceived in previous organizational structures - a "silo" mentality and poor lateral communications. This is achieved either by merging appropriate activities under a single head, or by creating more commercial relationships between activities.

- **Release Of Executive Time For Leadership Roles.** By establishing a high caliber executive team, the CEO will release more time to fulfil essential leadership roles eg., contributing to strategy development, internal and external communications and fulfilling Board responsibilities.

- **Enabling Change And Extracting Synergies.** A key objective of the SVP Power Supply and the SVP Power Delivery will be to maximize value from the synergies between the businesses within their control and minimize overlap and duplication. Further, the SVP Power Delivery will lead several change processes to prepare Procurement and Transport for transfer into the Business Services Unit within 12 to 18 months and to separate out Customer Services all within a two-year timeframe.

  Similarly, the SVP Business Services will drive the introduction of an internal commercial service provision ethos and prepare the Business Services Unit to make a major contribution as the Company grows and changes.

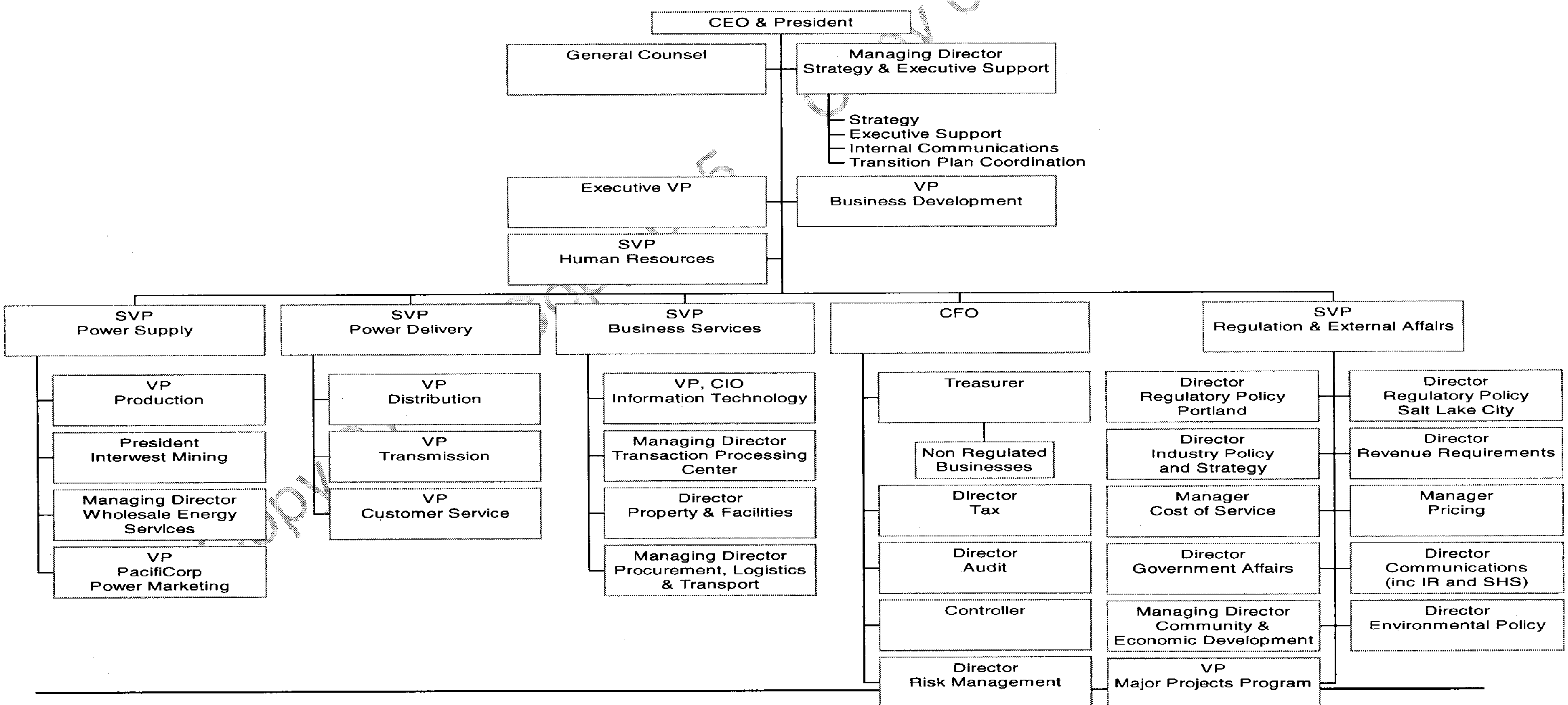
- **Managing Risks.** The CFO will ensure the financial integrity of PacifiCorp through the establishment and operation of a financial risk and control framework building on the UK model. The SVP Regulation & External Affairs will consolidate external facing resources and maximize PacifiCorp's position in the local political, regulatory and community environments, as well as oversee key policy projects.

2001/02 Organizational Structure

The planned changes for implementation in 2001/02 to the structure are:-

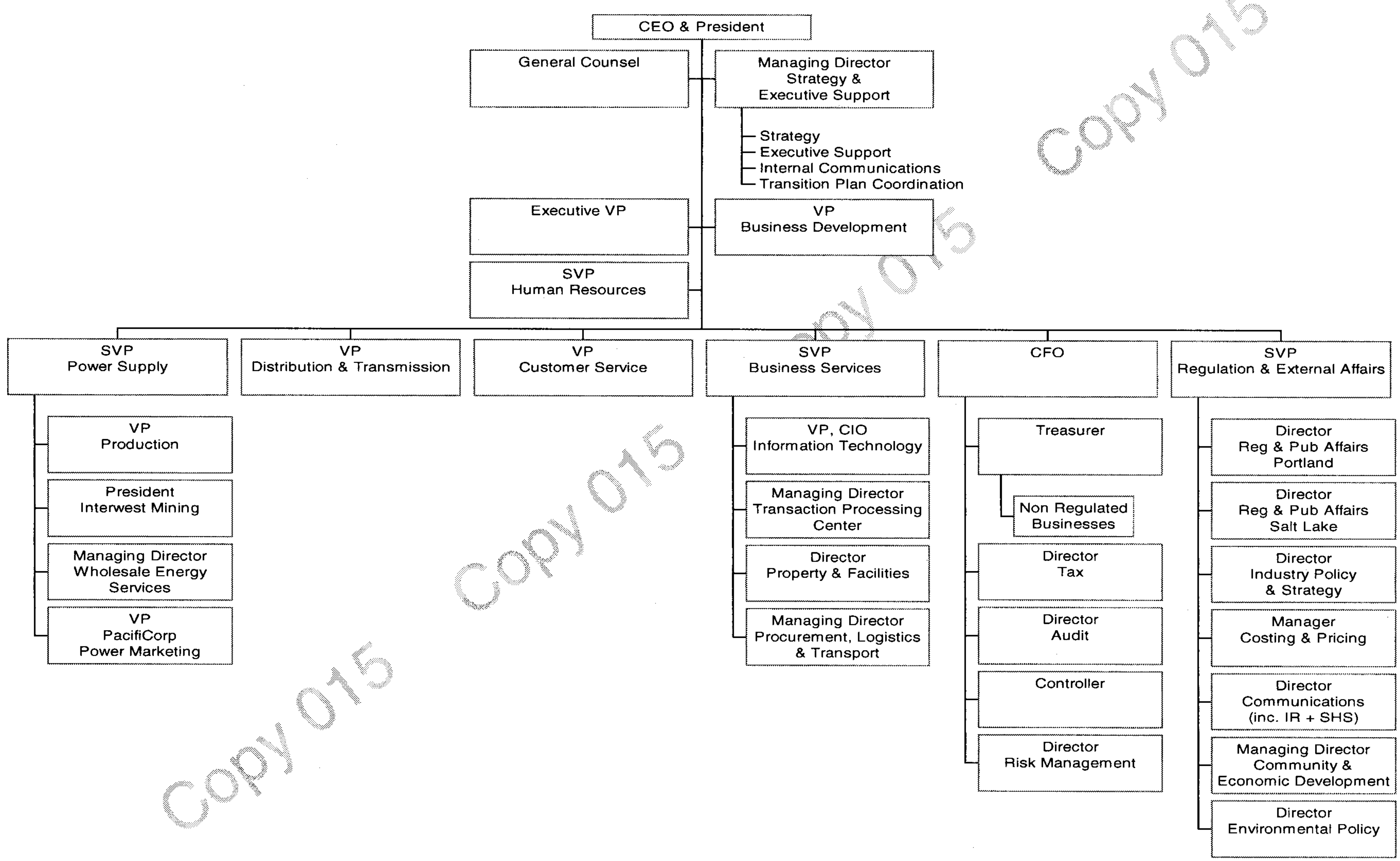
- the removal of the VP Non-Regulated Business role, since the sale/close down of the majority of such business will mean that management of the remainder will no longer need to be that of a first line report to the CFO;
- the removal of the temporary VP Regulation and VP Government Affairs & Communications roles following the first phase of restructuring of the Regulation function; and
- Procurement, Logistics & Transport transferred to Business Services.

resulting in the following organizational structure:-



2002/04 Organization

In the following two years, further changes are planned and the organization will be developed as shown:-

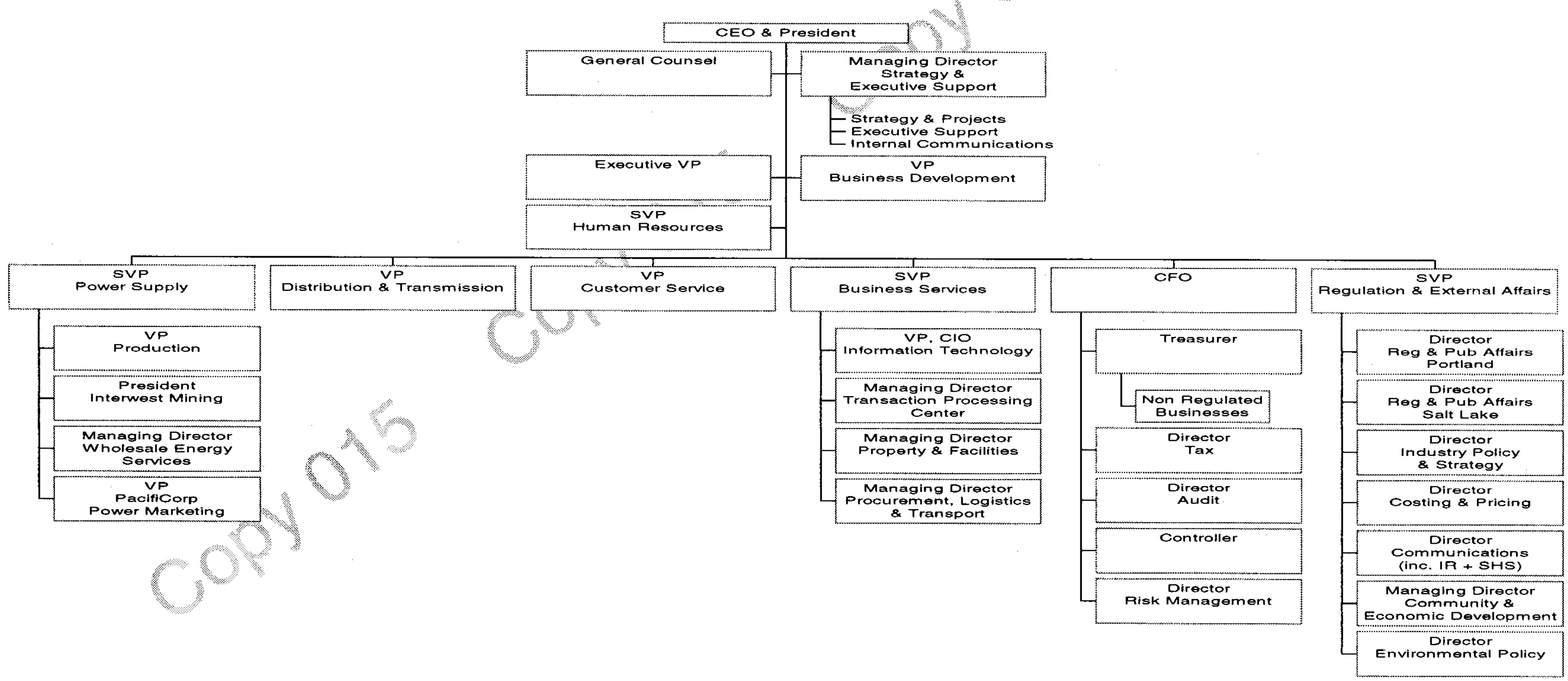


The key features of this structure are:-

- **SVP Power Delivery.** Post removed. Power Delivery operations will be in a stable environment, and the major Transition changes will be well underway enabling a reduction in the top to bottom reporting lines.
- **Regulation & External Affairs.** All functions will be fully integrated.
- **Major Projects Program Office.** When projects come to completion, implementation is passed to the business units, then the office is closed. Responsibility for any new projects will remain with the SVP Regulation & External Affairs.

2004/05 Organization Structure

In the final year of the Plan, one further organizational change is planned as shown:-



The key feature of this structure is:-

- **Transition Plan Coordination.** Office closed as the Plan is completed. Responsibility for any further change programs will remain with the business units.

INITIATIVES

Performance Improvement

The workstream plan contains individual initiatives associated with the areas of Corporate Services and Non-Regulated Businesses that have been reviewed by the Workstream. The initiatives involve significant change not only to the organizational structure, but also to the external resources, systems, processes and controls that are used to support the businesses in achieving their performance goals.

These initiatives can be summarized as follows:-

- **Organization.** Consolidating functions, removing management layers, focusing resources to support the businesses.
- **Ceasing Activity.** Stopping or winding down activities (eg., Non-Regulated Businesses) that are not performing as expected.
- **Right-Sizing.** To ensure the business supports the strategy.
- **Efficiency.** Implementing more effective ways to meet the business needs including outsourcing and removing duplication.
- **Customer (Business) Focus.** Concentrating on supporting the businesses and treating the businesses as a customer through the Business Services Unit and devolvement of key functions into the businesses.
- **Merger Consolidations.** Deriving synergies from merging PacifiCorp with ScottishPower.
- **Investments.** Supporting the delivery of value across the Company.

CORPORATE SERVICES WORKSTREAM PLAN INITIATIVES

More specifically, the key change proposals in some of the Head Office departments can be summarized as:-

Human Resources	• devolve appropriate labor relations and training & development resources and expertise to the businesses; • transfer routine transactional activities to Business Services; and • phase out Staffing activity.
Finance	• downsize to a level consistent with fulfilling function of an operating company with a focus on core business; • transfer routine transactional activities to Business Services; • reorganize Revenue Accounting and Financial Planning & Analysis to obtain process synergies; • devolve financial decision making to Business Units; • focus on achieving maximum SAP functionality to achieve efficiencies; and • implement significant training and development program to develop finance staff capabilities.
Regulation	• merge Regulatory Policy with Government Affairs with some downsizing; • downsize to a level appropriate for steady state rate case activity; • combine functions with similar skill sets to release synergies; • transfer some activities to other departments where efficiency savings can be made; and • reduce management positions by widening span of control.
Public Affairs	• general downsizing in Government Affairs and Communications; and • internal communications transferred to Executive Support.
Legal	• re-establish General Counsel position to provide legal advice in-house and to manage external sourcing of specialist advice.
Business Services	• form functions that directly support the businesses into a new internal service department; and • operate within a unified customer orientated environment with culture and goals linked to business performance.
Environmental Services	• devolve compliance to the businesses and retain direction, strategy and policy at the center; • establish Environmental Policy Advisory Committee; and • outsource specialist expertise on selective basis.

COST AND WORKFORCE REDUCTIONS

The foregoing Corporate Services Plan and the initiatives contained within it have the following implications for operating cost and capital expenditure reductions and for workforce reductions over the five years of the Plan.

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	2	1	16	28	30
Optimistic	2	7	28	38	40
Highly Optimistic	3	10	32	43	47

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	5	1	1	1	1
Optimistic	5	1	2	2	2
Highly Optimistic	5	1	2	2	2

Cumulative Manpower Reductions

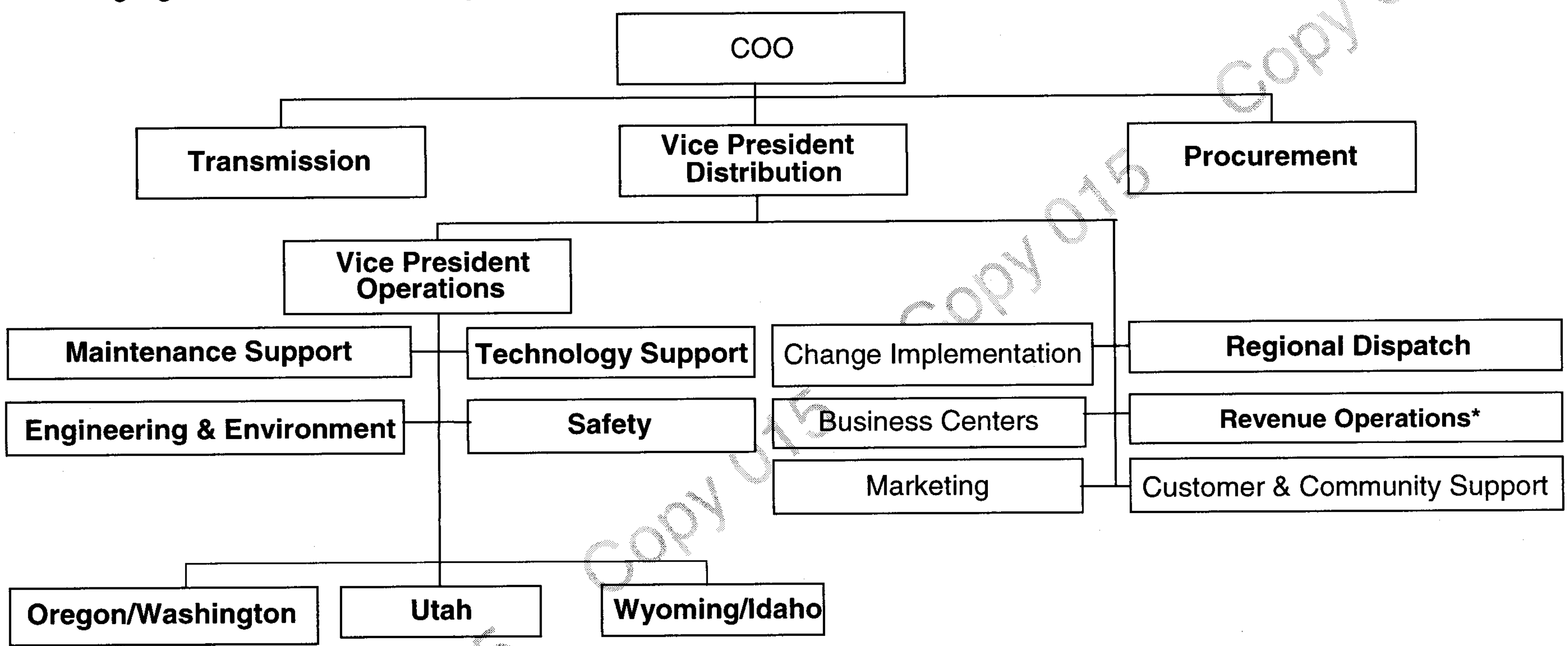
FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	69	132	170	172	179
Optimistic	82	175	225	227	234
Highly Optimistic	82	175	225	227	234

Transmission, Distribution & Procurement

8.2 TRANSMISSION, DISTRIBUTION & PROCUREMENT

CURRENT ORGANIZATION

The organizational structures pre-merger for Transmission, Distribution & Procurement are shown below. The bold boxes highlight the areas reviewed by the Transmission, Distribution and Procurement Transition Team:-



* The Customer Service Transition Team reviewed a part of the Revenue Operations activity

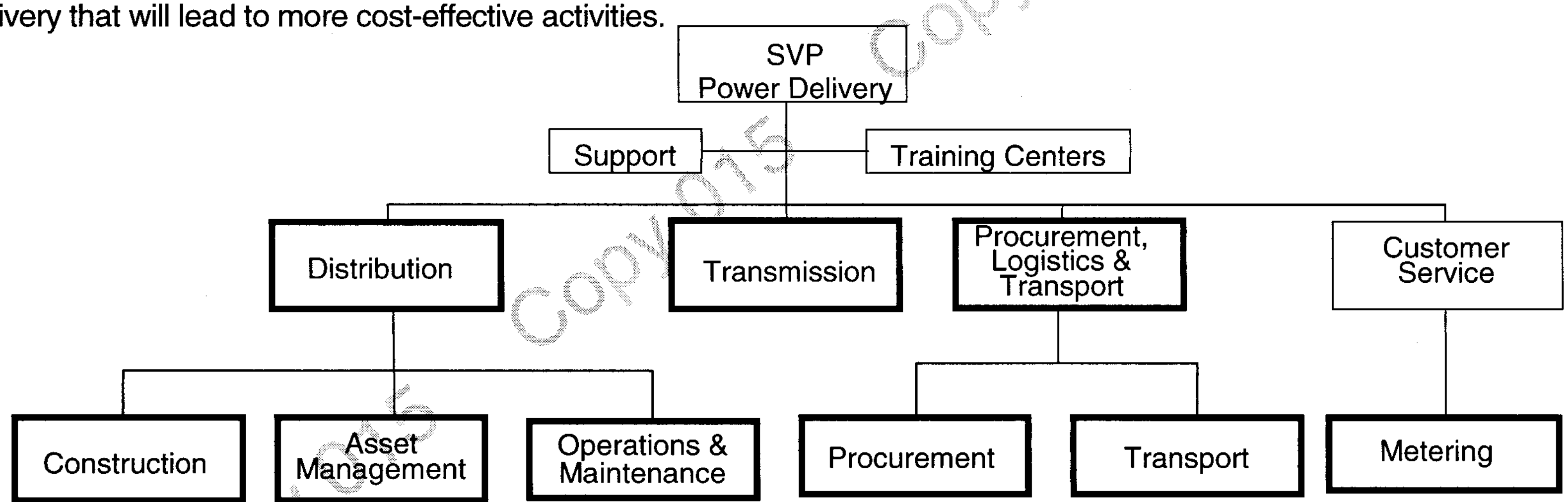
Key aspects of this structure are that:-

- Transmission is separate from Distribution;
- Operations are carried out on a regional basis;
- Meter Reading is separate from other metering activities; and
- Metering & Transport operational activities are embedded within Regional Operations.

ORGANIZATION PROPOSAL

Transmission, which includes all activities except field operations which is undertaken in the Distribution business, was separated from Distribution organizationally three years ago in readiness for 'open access'. There remains significant external uncertainty regarding industry restructuring. Apart from the fact that there are limited opportunities for further synergy (and therefore cost saving) between the current Transmission organization and Distribution, it would be imprudent to impose organizational changes, which may have to be reversed, due to legislative direction. Therefore, organizationally, it has been left mainly untouched by the Transition Plan.

Key findings within Distribution point to average productivity and cost primarily brought about by limited controls. In response, the Transition Team proposes that Construction, Operation & Maintenance and Asset Management will be individually accountable organizations, with Construction not constrained by being tied to its own direct labor workforce. Construction will have the opportunity to have its work carried out by external contractors or alternatively, if it can be proven to be cost-effective, by the field operation groups reporting through the Operations & Maintenance organization. Such a structure introduces an intentional commercial tension within the organization; one which focuses groups and introduces a competitive element into delivery that will lead to more cost-effective activities.



A single Metering Business will be established. A consolidated Transport Business closely aligned with Procurement will be established. Both will have clear accountabilities. Once established, Metering will transfer to Customer Service, effectively consolidating the total income collection process. At some point in the future, Procurement, Logistics & Transport will transfer to Business Services.

Outlined in this workstream plan are the key changes within each of the major functions.

DISTRIBUTION OPERATIONS & MAINTENANCE

The Field Operations Team undertook a fundamental review of the Company's Transmission & Distribution customer operations & maintenance activities. The Team examined the operation and expenditures associated with the organization structure, terms and conditions, work scheduling, and productivity levels.

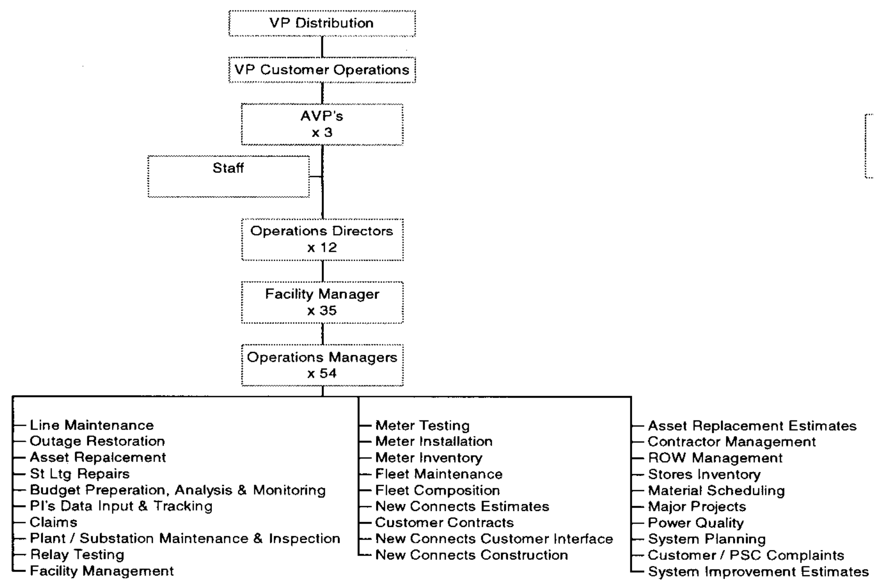
Key findings include:-

Strengths	Opportunities
• Good customer service focus • Very high safety awareness • Employees technically competent • Broad range of skills at crew level • Employees support need for change	• Productivity improvement by better work scheduling and work practices • Crew sizes • Improve cost focus and develop comprehensive performance measures • Achieve an improved focus on overtime • Rationalize standards • Rationalize facilities

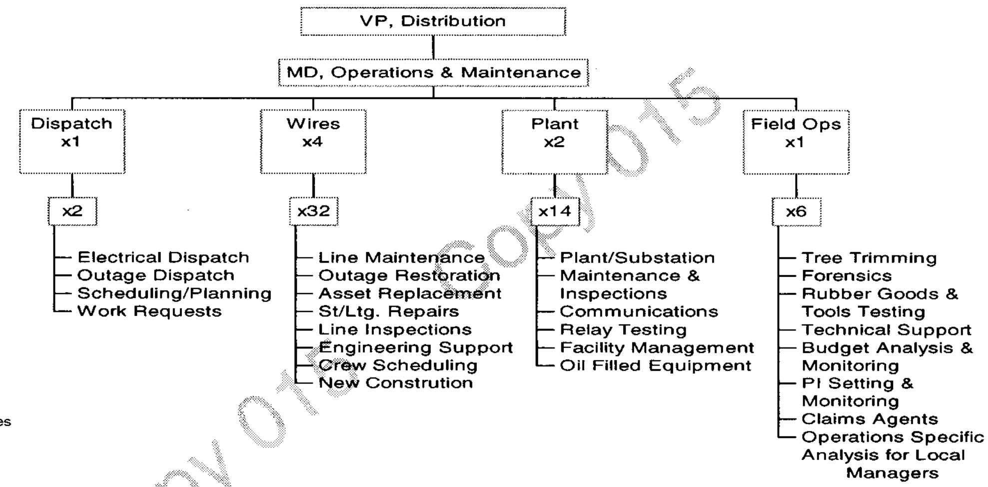
The chart overleaf highlights the elements and characteristics of the current Customer Operations business unit.

The structure is very hierarchical in nature with five layers between the VP Distribution and the foremen. The current Operations Managers are also responsible for a multitude of activities ranging from managing line and substation crews to ensuring estimates are completed and meters are read on time. They also have inventory and transportation responsibilities. When capital improvements are required, that work is also the responsibility of the local manager.

Current Organization



Proposed Organization



Key characteristics of the proposed structure include:-

- the new structure reduces the layers of management from five down to three. This will enhance communication and reduce the risk of misunderstanding and individual interpretation of policy, strategies and expectations;
- the focus is on operation and maintenance of the electrical system. The number of tasks and activities is greatly reduced and distractions from stores, metering, estimating, accounting, transport, etc., have been removed; and
- well-defined targets, goals and performance indicators are established and will be uniform and consistent across the entire business.

Specific Initiatives

The Transition Plan proposes a number of initiatives to improve the operational and cost perfomance of Distribution Operations. The following list presents a summary:-

- the Plan proposes a reduction in:-
  - organizational layers aimed at improving the effectiveness of management and supervisors;
  - the number of managers by delegating low level activities to the appropriate level;
  - unproductive time by monitoring areas such as productivity and sickness/absence rates;
  - the number of substation crews through improved work scheduling and introducing new maintenance standards;
  - communication technician work;
  - overtime costs; and
  - the number of regional engineers and area engineers.
- the Plan proposes to optimize the number of operating centers:-
  - the devolvement of distribution equipment maintenance centers work to operating centers; and
- the Plan makes proposals to properly size and equip line crews.

All of the above require consultation, and in some cases negotiation, with the appropriate labor unions.

DISTRIBUTION HEAD OFFICE

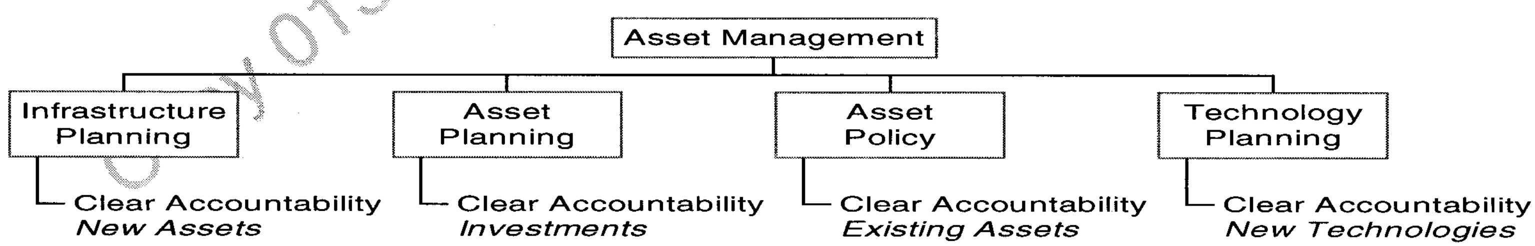
The current organization of PacifiCorp for dispatch, engineering and planning of the transmission and distribution network is over-managed, when compared to leading utilities, and distributed across a number of offices. Although the skill level is high, there could be greater clarity on strategy, direction and accountability. The Transition Plan proposal will concentrate the responsibility for distribution planning, policy and standards into a centralized organization, to be called Asset Management. Dispatch operations will take advantage of new technology investments to secure operating efficiencies and improve outage management.

Key Findings

Strengths	Opportunities
• Good customer focus • Local operations in command of local issues • Highly skilled staff • Robust network studies	• Head office activities geographically dispersed • Direction and strategy • Disconnect between policy and standards • Number of standards • Multiple databases, not strategically linked

Proposed Organization

A new Asset Management group will be established and will include infrastructure planning, maintenance policy, capital program management, investment parameters and standards. The group will be responsible for the delivery of fully operational initiatives to the business. Asset Management will also be responsible for core asset management programs and databases. The proposed organization is shown below:-



Key initiatives include:-

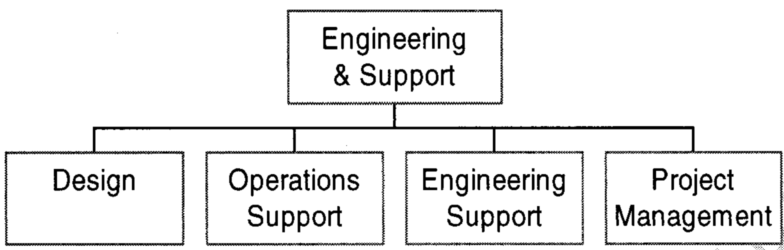
- centralization:-
  - Transmission Dispatch under the Transmission division;
  - Distribution Dispatch under Distribution Operations;
  - standards and maintenance policy;
  - telecommunications design group; and
  - safety organization.
- reduction in:-
  - the planning effort on load growth and replacement;
  - miscellaneous costs; and
  - the number of internal staff used on automation projects.
- creation of the asset planning group; and
- introduction of more automated analysis programs within Transmission.

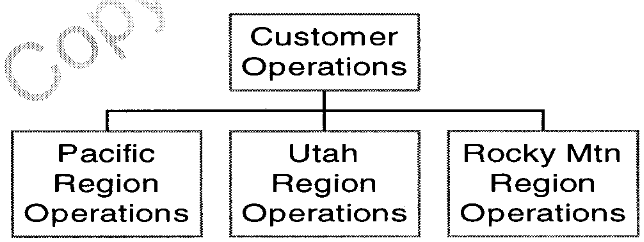
All of the above require consultation, and in some cases negotiation, with the appropriate labor unions.

CONSTRUCTION

Existing Structure

The scope of the Construction review covered both Headquarters Engineering & Operations Support, which makes up the elements of Major Projects and Customer Operations, which includes all new connection responsibilities. The summarized organizational structures are shown below. It should be noted that Engineering and Technical Support are located in Portland, Salt Lake City and 33 Field Locations; Customer Operations is located in Stayton, Salt Lake City, Ogden, Casper and 84 field locations. Construction activities are currently embedded in various parts of the existing organization as shown below:-





Key findings for new connections and major projects:-

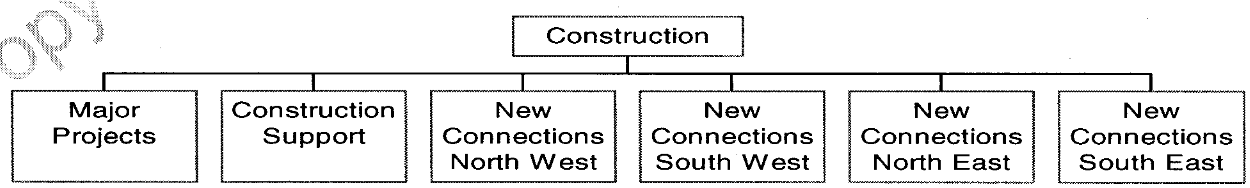
Strengths	Opportunities
• Committed to serving the customer; • Desire for improvement; • Good safety awareness; • Clerical and supporting staff well organized; and • Excellent skill sets.	• Improve focus by organizational redesign; • Similar functions in Portland & Salt Lake City; • Layers of management; • Average commercial acumen; • Manpower not effectively matched to workload; • Multiple standards inconsistently applied; • Contractor management improvements; and • Split responsibilities for customer management.

Proposed Organization

The proposed organizational structure will ensure clear focus and accountability in the design and delivery of all new customer connections and major projects. It is intended to build upon key strengths within the business and introduce "best practices" wherever possible to take advantage of opportunities for improvement in the provision of efficient business processes.

The design is based on the following principles:-

- common functions should be centralized to give specialization, economies of scale and delivery regardless of project location for both major project design and project management;
- employees involved in design and build of connections should be located in local build areas, close to the customer;
- the customer should be managed from enquiry to closure to give focused delivery of the customer commitments;
- management should have control of processes end-to-end; and
- a total Pacific Power / Utah Power split should be avoided to ensure full integration occurs.

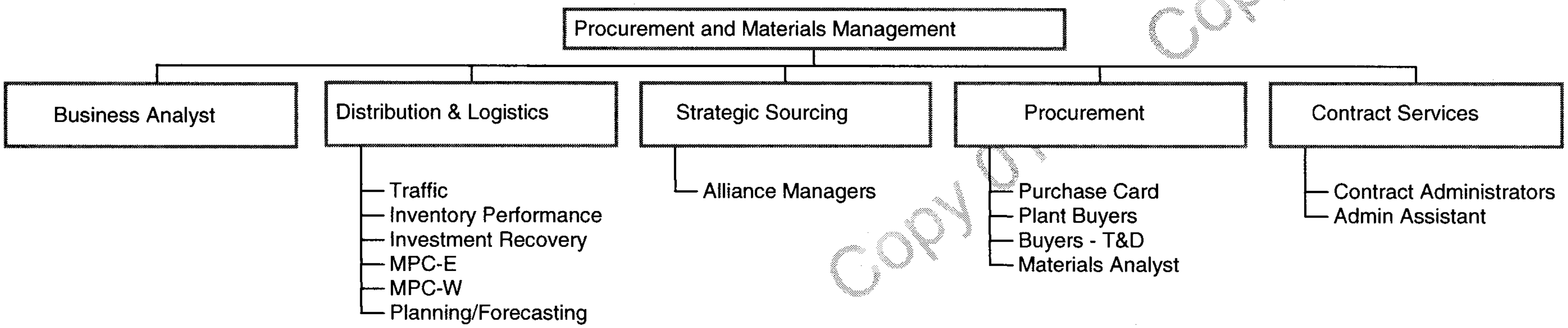


Key Initiatives include:-

- reduce amount of supervision/support in project management;
- increase estimator utilization by balancing the workload across locations;
- identify and implement simplified design/estimating/mapping tool;
- re-allocating tasks according to skill levels;
- improvement of contractor activities;
- improvement of customer management process from enquiry through design to build completion;
- introduction of a new scheduling tool; and
- centralization of design/project support/mapping functions.

PROCUREMENT AND LOGISTICS

The current Procurement and Materials Management organization is centralized. It was recently restructured to include procurement in Transmission & Distribution and Power Supply although the current span of operations excludes the Mine buyers and the field warehouses in Transmission & Distribution. The field warehouse operations currently report up through Operations, but Procurement and Materials Management are accountable for the inventory levels.



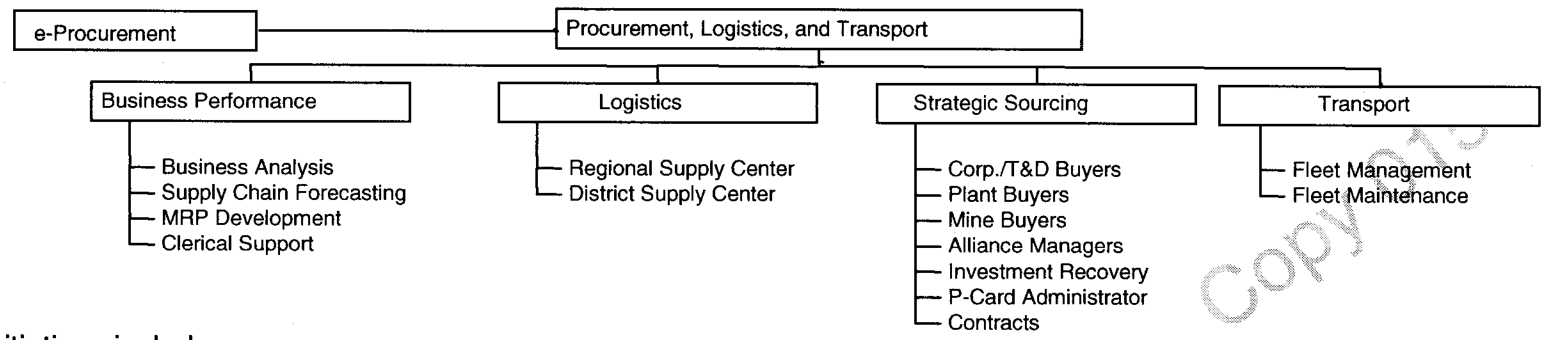
Proposed Organization

A centralized Procurement and Logistics organization will be established, consisting of three key departments including:-

- business performance/financials;
- logistics; and
- strategic sourcing.

The business will also include Transport.

In addition an e-Procurement project will be established to develop an effective solution going forward. Logistics will establish an integrated supply chain for Transmission & Distribution, which will include different solutions for different businesses.



Key initiatives include:-

- introducing a regional logistics model to service operations in place of current centralized packaging centers. The existing logistics arrangements will be changed to eliminate the two central packaging centers and move to a model with eight main regional stores and satellite stores in remote locations;

- re-focusing the existing organization on higher value strategic activities;

- focusing on driving inventory levels to their optimum position; and

- implementing an expanded sourcing program for a majority of PacifiCorp materials and services. This will focus on alliance contracts and reduce the number of vendors used.

Features

- Clear accountability for delivery;
- Company-wide management of supply operations, T&D regional and district warehouse operations;
- Disciplined and meaningful performance management program;
- Development of MRP; and
- Critical linkage to standards.

TRANSPORT BUSINESS

The review of Transport across PacifiCorp highlighted a lack of a coordinated approach to transport provision and maintenance across the Company. Capital expenditure for vehicle replacements has been reduced in recent years leading to an aging fleet with high maintenance costs and high vehicle downtime. The accountabilities for Transport within Transmission & Distribution are confused with a transportation group who are responsible for some aspects of transport and the remainder controlled by Field Operations

The initiatives developed by the team propose that all fleet management activities are consolidated within a single transport operation. This group would also take responsibility for all garage operations within Transmission & Distribution. This will then enable a clear focus on reducing costs across the Company and allow accurate comparisons of costs with external providers to ensure the services are being delivered in the most cost-effective manner.

Key finding include:-

Strengths	Opportunities
• Good skill sets in transport group; • Central control has improved service; • Good balance between in-house and outsourced work; and • Good standardization of vehicles.	• Improve fleet management; • Average workforce productivity; and • Maintenance workload focused on repairs.

Rationale For Change

The existing disparate responsibilities for fleet maintenance and management within PacifiCorp lead to loss of focus and accountability for the costs of the operation. It is therefore difficult to measure or evaluate the effectiveness and efficiency of the operation in its current format. The expertise and abilities of the transport specialists within the Company are also not being fully leveraged.

Organizational design principles include:-

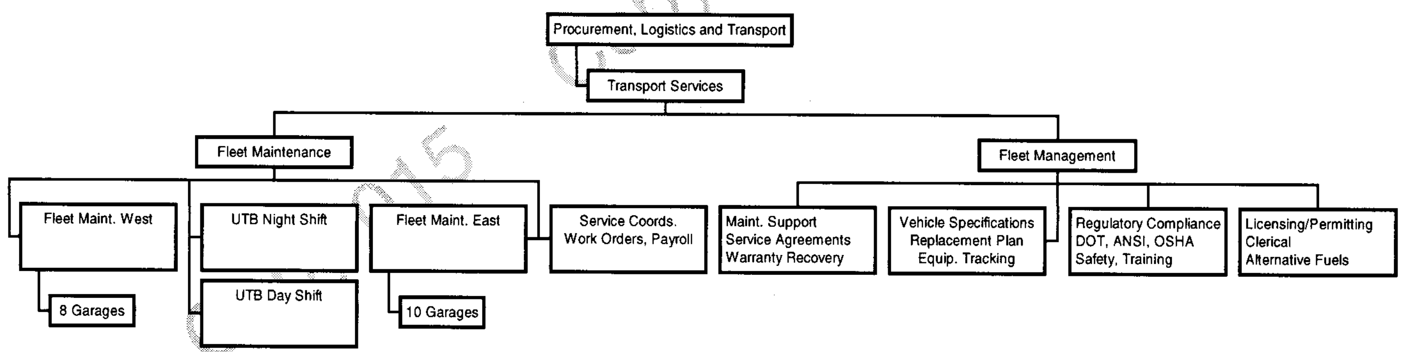
- establish consistent and accountable management of fleet across the Company;

- allow Field Operations to focus on core activities;
- add value through provision of fleet services on most cost-effective basis;
- enable true comparisons of costs with external providers;
- improve performance and productivity of garage operations; and
- demonstrate true costs of fleet to allow correct economic decisions to be made by users.

It is proposed that the new transport organization will become a part of the Procurement, Logistics and Transport Group. This group will provide services with a commercial ethos across the Company. The scope of the business will encompass Fleet management across the Company and garage operations in T&D. Support will also be provided for garage operations in Power Supply and Mining. As these operations cover a wider range of activities than vehicle repairs it is not proposed to change their current status.

Proposed Organization

Transport Services



Key Initiatives will include:-

- establish central control of all transport operations in transport business:-
  - ensures focus and accountability; and
  - establishes consistent practices across businesses.
- review potential for increased outsourcing of bucket truck overhauls:-
  - reduce costs and vehicle downtime.

- rationalization of T&D garage operations:-
  - increase use of out of hours working to minimize vehicle downtime.

- Right-sizing of fleet:-
  - remove existing surplus vehicles and reduce vehicle numbers in line with Operations; and
  - move to "newer and fewer" fleet with reduced maintenance and downtime.

All of the above require consultation, and in some cases negotiation, with the appropriate labor unions.

METERING BUSINESS

The Transition Team reviewed the Company's meter operations and undertook benchmarking discussions with other utilities. The benchmarking concluded that there is a performance gap in the areas of organization, wages and productivity. The conclusions are very similar to those found by ScottishPower in 1995 prior to it setting up of a standalone metering business. These include:-

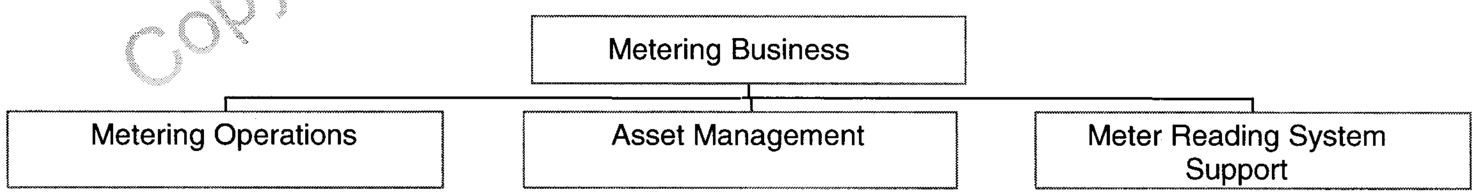
- approach to metering is fragmented;
- average productivity with little or no consequence for poor performance;
- confused accountabilities; and
- skilled employees performing low level activities.

Key findings include:-

Strengths	Opportunities
• Technically competent workforce; • Broad range of skills; • Highly developed standards; • Strong safety awareness; • Adequate route management software; and • Competitive pay for low level work activity.	• Average productivity rate; • Skilled employees performing low level activities; • High turn over rate; • Relatively poor safety record; • Limited performance management; and • Intra organization differences across regions.

Proposed New Organization

It is therefore proposed to set up a standalone metering business. Once established, the Metering Business will transfer under the management of Customer Service. This move will bring the responsibility for the total income collection process under Customer Service. The structure is shown below:-



Key features of the new organization:-

- one organization with total responsibility and accountability for all end-to-end metering activities;
- reduced number of reporting locations from 65 to 15 Metering Business offices;
- increased customer focus with field staff positioned where they are most effective;
- tighter control of the metering assets:-
  - reduced cost of asset purchases; and
  - reduced number of misplaced meters (installed without paperwork).
- strong focus on productivity;

Key initiatives include:-

- work with unions to introduce "HomeStart" for metermen, meter readers and collectors. This will mean that these employees can report directly to the first job rather than go first to the operations center thus raising productivity through the better use of the working day;
- seek to introduce flexible work hours for all the Company's collector positions;
- high cost skilled meter men are currently performing low level activities that could be performed by a semi-skilled employee at a reduced rate of pay. The initiative will seek to match skill sets more appropriately; and
- develop a comprehensive set of Key Performance Indicators to measure the performance of metering department employees.

All of the above require consultation, and in some cases negotiation, with the appropriate labor unions.

COST AND WORKFORCE REDUCTIONS

The foregoing Transmission, Distribution and Procurement Transition Plan and the initiatives contained within it have the following implications for operating cost and capital expenditure reductions and for workforce reductions over the five years of the Plan.

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-3	10	36	38
Optimistic	-	-	16	45	47
Highly Optimistic	-	1	21	55	57

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-2	19	47	62	70
Optimistic	-3	16	49	64	72
Highly Optimistic	-3	16	49	64	72

Cumulative Manpower Reductions

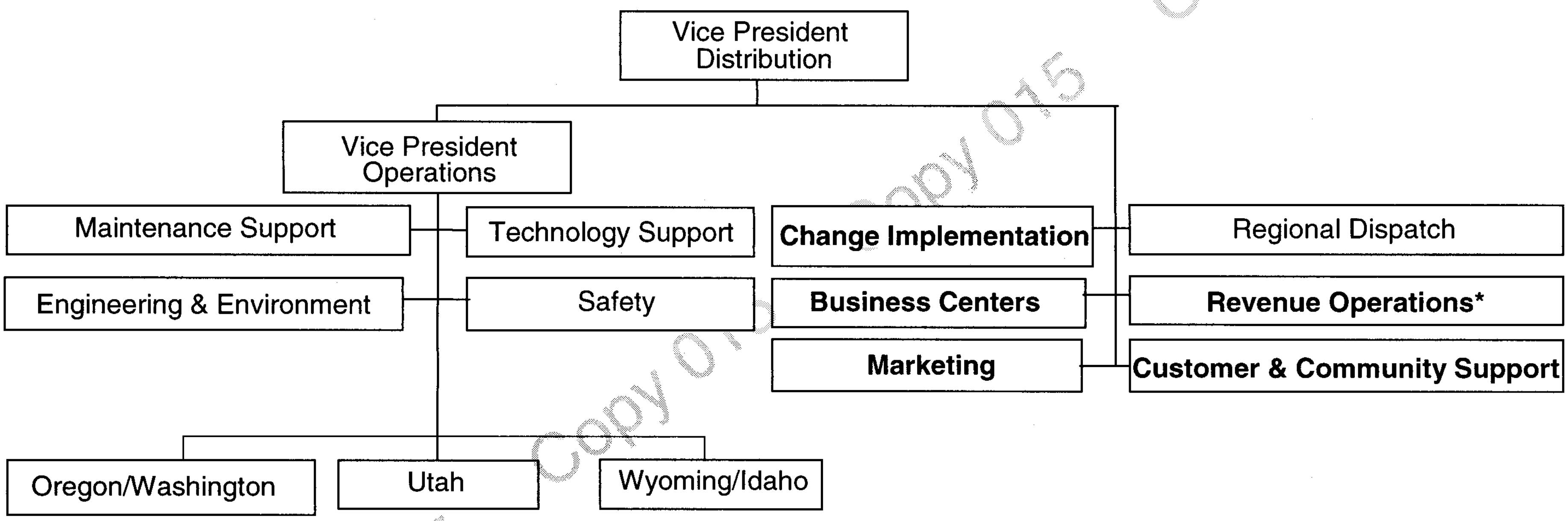
FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-27	65	392	522	522
Optimistic	-27	92	469	619	619
Highly Optimistic	-27	115	546	738	738

Customer Service, Sales & Marketing

8.3 CUSTOMER SERVICE, SALES & MARKETING

For the purposes of developing the Transition Plan, a Team was established to review Customer Service separate from the main Transmission, Distribution and Procurement Team. The primary rationale for this was that the PacifiCorp distribution business was considered to be too large for one Transition Team to tackle efficiently.

Pre-merger, Customer Service and Sales & Marketing were parts of the Distribution business. The organization is shown in bold below:-



* The bulk of Revenue Operations was reviewed by the Distribution Transition Team.

Each organizational change proposal was tested against some fundamental design principles which included the following:-

- ensure that the customer was kept 'in focus' at all times;
- reduce the number of reporting levels between the customer and management team;
- ensure crystal clear accountability all levels in the organization;
- focus on meeting all Merger Commitments;
- keep in-house strategically important functions such as Customer Service;
- provide opportunity for career progression and employee development;
- provide specialist skills for business development.

The Customer Service Transition Team was specifically briefed to review the following activities:-

- **Business Center Operations.** There are two business centers, one in Salt Lake City, Utah and one in Portland, Oregon. Together, they answer 3.5m telephone inquiries annually and deal with 80,000 items of customer correspondence.

- **Revenue Operations.** Revenue Operations co-ordinates the reading of electricity meters, together with the billing and payment processing.

- **Customer and Community Services.** This department provides energy efficiency advice, community presence and account management throughout the PacifiCorp service territory.

- **Marketing and Support.** This group is responsible for business unit planning. In addition, they carry out market planning and research, product development and Demand Side Management activities.

- **Change Implementation**. This group manages process improvement and change implementation projects for the Distribution Business.

Additionally, the Customer Services Transition Team was tasked with reviewing economic development activities within PacifiCorp in light of Merger Commitments made to Utah.

GENERAL OBSERVATIONS

There were some general issues relating to the management and organization that were identified from the analysis of the data collected. These included:-

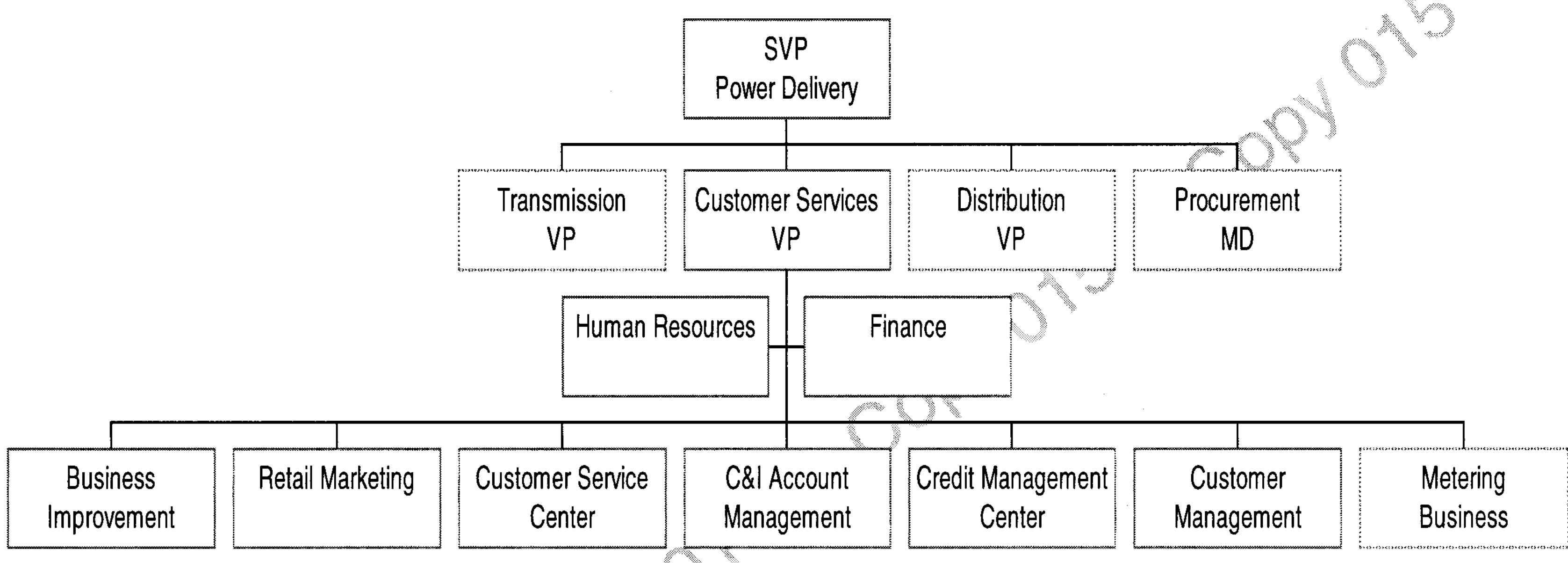
- to achieve top status, improvements are required in goal setting, reporting and management control;
- improvement of financial awareness across the Company will help achieve "Top 10";
- clear accountability and responsibility will eliminate 'management by committee';
- changes by management have been more process-driven than customer-driven; and
- additional synergies can be achieved from further integration of Utah Power and Pacific Power business processes.

Based on the Transition Team's findings from the data collection and analysis phases, a number of initiatives were developed. The initiatives addressed changes required within the areas investigated in terms of organizational design, technology, process efficiency and performance. These led to the design of a new customer facing organizational structure that has the capability to deliver:-

- a clear focus on delivering service excellence and continuous improvement;
- clear accountability and responsibility;
- effective credit management performance;
- reduction in customer complaints; and
- a sound foundation for future growth.

ORGANIZATIONAL PROPOSAL

The proposed Customer Services organization is outlined below:-



More detailed descriptions of the proposed organizational changes, initiatives and associated rationale are set out on the following pages.

BUSINESS CENTERS

PacifiCorp currently serves the majority of customers through two Business Centers. These centers are located in Portland, Oregon and Salt Lake City, Utah. They primarily service the geographic service territory defined by Pacific Power and Utah Power, respectively. Business Center representatives respond to customer inquiries and service requests from 3.5m annual inbound toll-free calls, inbound correspondence and referrals from field personnel.

Key Findings

Customer Satisfaction. Customer satisfaction is rated at 83% in PacifiCorp while the best in class utility is achieving 97%. Our customers want one-call resolution and connection to the right person on first contact.

Service Delivery And Quality. "Best in class" service level is 90% of calls answered in 20 seconds as compared to PacifiCorp's current performance (1999 data) of 54% < 20 seconds.

PacifiCorp's customer service commitment is that in 2001, 80% of customer calls will be answered within 20 seconds. This requirement increases to 80% of calls answered within 10 seconds in 2002.

Only 83% of PacifiCorp's telephone calls are resolved on the first call, compared with a best in class target of 90%.

Operational Costs and Performance. It is difficult to make a direct comparison of operating costs without a comparison of the capital investment in technology and a full understanding of the requirements faced by benchmark companies. However, with the appropriate technology, PacifiCorp Business Centers can make a reduction in operating costs.

PacifiCorp takes on average 5.9 minutes to handle a customer call compared to a utility "best in class" of 3.8 minutes. This is due to the time taken to navigate CSS, the customer billing system.

PacifiCorp's Interactive Voice Response ("IVR") system resolves 7% of incoming calls, compared with utility "best practice" of 31%.

Management and Supervision. Reductions in management and supervisory positions will be possible. PacifiCorp's current management to Customer Service Representative ("CSR") ratio is below the "best in class" utility ratio of 1:21.

Scenarios Considered

Four scenarios or operating models were considered by the Transition Team to arrive at a recommendation for Business Center Operations.

Scenario A - Close Down Both Business Centers And Centralize At A Single Site;

Scenario B - Primary Call Center With Three (Geographic) Satellite Centers And Separate Credit Management Center;

Scenario C - Outsource All Call Center Operations; or

Scenario D - Primary Customer Service Center With Credit Management Center (Recommended Scenario).

Recommended Scenario

The Transition Team evaluated these options and recommended the Scenario D.

The primary Customer Service Center will be located in Portland and the Credit Management Center will be located in metropolitan Salt Lake City. Both centers would utilize existing call center facilities. Utilizing these existing facilities helps retain the experienced workforce and minimizes customer disruption.

This recommendation is based on the design principle of retaining the strategically important customer service function within the Company. It satisfies the imperative of having an emergency back-up call center that can provide continuous customer service in the event that one of the centers is unable to function due fire or other disaster. It provides the best opportunity for delivering world class customer service because it increases accountability, delivers the benefit of specialized processes and improves productivity by leveraging technology across both centers.

Accountability is increased by separating the credit management function from the other customer service functions and placing these under separate dedicated focused managers who have responsibility for the chain of processes that determine how well the activity is performed. Locating these specialized personnel into dedicated facilities will reinforce this functional organization. Locating these functions within specialized centers allows the reduction of supervisory layers and redundant management structures that exists now.

The location recommendation is based on several factors:-

- Wasatch has an experienced and long established staff base. This is ideal to address the difficult credit collection issues;
- Portland has a higher turnover and while this can be a disadvantage with the long training time, scripting will reduce this significantly;
- physical constraints at both sites;
- location of synergy businesses, eg. Metering should be close to Credit Management and Marketing close to the Customer Service Center;
- providing opportunity for business growth;
- cost.

The potential disadvantages of the recommended option would be managed by increased training regarding geographic service areas and Commissions' rules. Implementation of new technology including process scripting which provides some automation and call handling assistance will make it easier for agents to handle a wider geographic area. For example, Commissions' rules will be built into the call handling process based on service location. Counseling and additional training will be available to employees who may find the change difficult.

Other Key Initiatives

- Increase the number of employees with direct customer contact relative to the number of management and support personnel by decreasing the layers of management between the customer and decision making managers.
- Implement a set of proven integrated call center technologies recommended by call center consultants. This technology will also be used in the credit management operation. Improved utilization of technologies will improve peak load performance by having more agents available at those times. Better utilization of IVR will reduce the current awkward menu option procedure for routing calls.

- Implement call recording and monitoring systems. This will allow better recording and analysis of customer calls to improve quality control, performance management and training.
- Reduce labor turnover. One of the most effective ways to improve customer service is increase the experience level of the workforce. This requires a reduction in the rate of labor turnover.

INCOME COLLECTION

Currently, 138 employees work in two separate Debt Recovery Teams within the Portland and Salt Lake City Business Centers. These employees resolve customer inquiries, establish payment arrangements and interface with field operations. In addition to the Business Center employees, there are 36 support employees performing various process and system improvement activities.

Income Collection, as defined, includes resolving credit related customer inquiries, processing field orders for connecting and disconnecting meters, managing active and inactive debt, supporting the customer accounting system, ("CSS"), and supporting billing processes. Income collection practices and performance were benchmarked against "best in class" companies in order to identify opportunities for improvement, establish key performance measures and set appropriate targets. Efforts currently underway were incorporated where appropriate into an overall plan that will improve service levels to both internal and external customers, reduce write-offs levels and lower operating costs.

Key Findings

The following conclusions were drawn based upon the data gathered through interviews and benchmarking:-

- an organization, with clear accountability and responsibility, would more effectively manage income collections;
- the front-end credit checking process needs to be strengthened. Technology exists and is currently being utilized by other companies that provides effective identification of at-risk customers;
- management reports have only recently been put in place. Income collection reports required to manage both active and inactive debt should continue to be produced in order to monitor KPI performance;
- the current customer information system makes it difficult to segment customers and track credit history;
- key performance indicators need to be strengthened; and
- outbound calling is currently performed manually. Predictive dialing technology could be utilized and would be more effective and less expensive. IVR capabilities should also be maximized in order to focus on high-risk customers.

The following initiatives serve as the foundation that will establish PacifiCorp as an income collection “best in class” performer:-

- create one Credit Management Center, change work processes and reorganize income collection personnel over a five-year period;
- develop a real time credit checking system to aggressively identify at-risk applicants at the time of application which will ultimately enable the Company to increase its deposit portfolio. Holding a higher deposit portfolio for at-risk customers will reduce accounts receivable exposure to write-off;
- renegotiate collection agency contracts with built in performance incentives in order to increase overall average collection agency recovery rates;
- train, emphasize and adhere to the allowed regulatory policies for collecting all monies due for non-pay disconnects at the time of reconnection; and
- it is essential that both business center and field personnel be able to quickly assess a customer and site track record in order to make sound collection decisions. CSS needs to be modified to allow for more effective tracking of high risk customers and sites. A revised credit coding scheme combined with simple, consistent management reports need to be put in place.

The common goal of the above initiatives is to more quickly identify customers who have potential to go into debt. PacifiCorp will work with these customers to agree repayment terms, and will therefore reduce the number of customers who are disconnected for non-payment.

MARKETING

PacifiCorp, similar to other US electric utilities, has taken a variety of approaches to marketing over the years. Marketing has, at various times, performed the traditional function related to product identification/development, pricing and promotion, while at other times it has focused on demand-side management and/or customer service. Currently, marketing is also involved in traditional customer satisfaction research, segment planning for customer retention, product and service management, project management, business unit planning, benchmarking, sales support and load research.

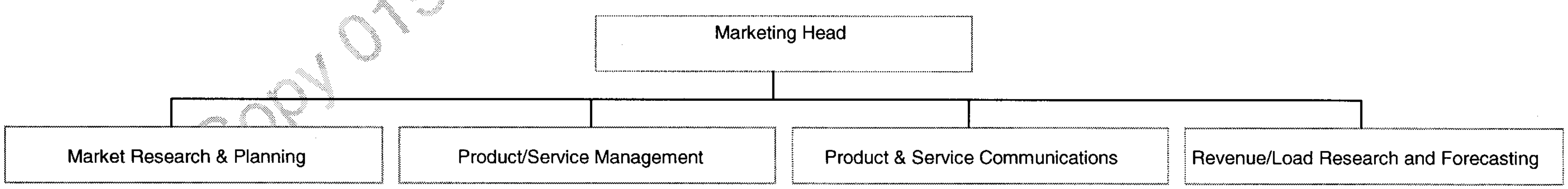
The key findings are:-

- Marketing is currently focused on sales activities, DSM and retention with little focus being given to the customer service needs of customers;
- there is a need to continually understand and monitor customer drivers of satisfaction and loyalty and develop strategies and tactics to improve customer satisfaction; and
- there is no single "best in class" marketing organization within the utility industry. A judgement must be made regarding how much marketing a company is willing to invest in.

Proposed Organization

The Transition Team proposes a marketing function within Customer Service. Marketing will focus only on those activities necessary to increase customer satisfaction and to retain customers and communities. The benefits are obvious - an increase in customer service and a reduction in costs.

The following marketing organization is proposed:-



All Demand Side Management and low-income activities will be moved and consolidated within a separately managed organization, thereby increasing accountability.

ACCOUNT MANAGEMENT & SUPPORT

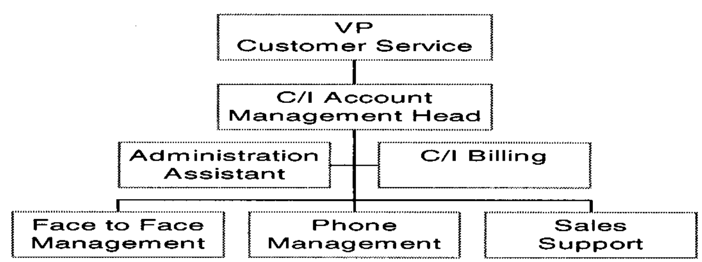
Historically, PacifiCorp has employed account managers to serve as the primary interface between large or key commercial and industrial customers and the Company. Over the last 10 years, the Company has changed its strategic focus with respect to this customer group a number of times. In 1995, the Company reorganized, centralizing its account management in an effort to become more customer and sales oriented. It was not until 1998 following a reorganization that customer satisfaction became the primary driver.

Key Findings

- The type and level of customer service support is not segmented by customer requirements and/or sophistication;
- Customers assigned to Customer Account Managers are sophisticated and share information either through common consultants or state and regional organizations. These customers are highly influential in both regulatory and legislative proceedings and therefore, dissatisfaction can lead to changes that impact PacifiCorp;
- Over the last 10 years the Company's approach, policies and practices have not been focused, or been consistently applied to customer service/satisfaction; and
- Based on the current level of customer satisfaction, PacifiCorp needs to retain its ability to meet with certain customers. Total withdraw from face to face management of these accounts could seriously impact customer satisfaction.

Proposed Organization

The Transition Team proposes a single organization responsible for managing this influential group of customers. This organization will be responsible for billing, supporting and servicing the needs of the key commercial and industrial customers for the Company. The focus will be to optimize the level of service while reducing cost. This will be achieved by working with customers on identifying the type of service they require.



ECONOMIC DEVELOPMENT & COMMUNITY INVOLVEMENT

Economic Development

Historically, PacifiCorp has pursued economic development in order to grow, diversify and stabilize its own customer base. As an infrastructure provider, PacifiCorp viewed its financial health as being linked to the economic health of the communities it served. In addition to the long-term strategic value placed on economic development, it was also viewed as providing more immediate benefits:-

- it allowed PacifiCorp to establish a positive working relationship with major customers while providing an opportunity to influence their siting decision;
- it reduced the cost and improved the efficiency in providing utility related information to companies considering locations within PacifiCorp's service territory; and
- by developing a positive relationship with the local government officials around a common concern, the economy, the Company was better positioned to address other issues as they arose.

Based on the above, PacifiCorp has been involved in economic development for over 15 years. Currently, responsibility for community and economic development resides in two departments:-

- the Community & Customer Service Department (C&CS); and
- the Marketing Department.

Key Findings

- Participation in Economic Development provides both immediate and long-term benefits to PacifiCorp's customers and the Company.
- The Company currently assists state and local organization/agencies in the recruitment process by providing a centralized source for information regarding the cost and service issues associated with siting specific companies.

- The Company further assists local communities in identifying issues such infrastructure limitations that will impact their ability to expand and/or stabilize their economies.

Community

Traditionally, District and Area Managers were, in addition to supervising customer service, sales, energy service and operations, responsible for maintaining a positive working relationship with the community leaders in their geographically assigned areas. In 1995, PacifiCorp eliminated the District and Area Managers positions and responsibility for these relationships were transferred to the newly created position of General Business Manager. In 1998, a task force was initiated to review the Company's outward bound community interface and the sales efforts. As a result of task force findings, the Customer and Community Services Department ("C&CS") was formed. The C&CS Department is currently responsible for the Company's relationship with over 800 communities it serves.

There are 42 Community Business Managers ("CBMs") within C&CS. In addition to acting as the primary liaison between the Company and the communities, the CBMs perform a host of activities in their specified geographic locations. These activities include:-

- intelligence gathering;
- franchise management;
- proactive account management; and
- reactive account management.

The CBMs' primary focus is community presence; the other functions were added in acknowledgement that given the number of CBMs, their role as community liaison was not a full-time job.

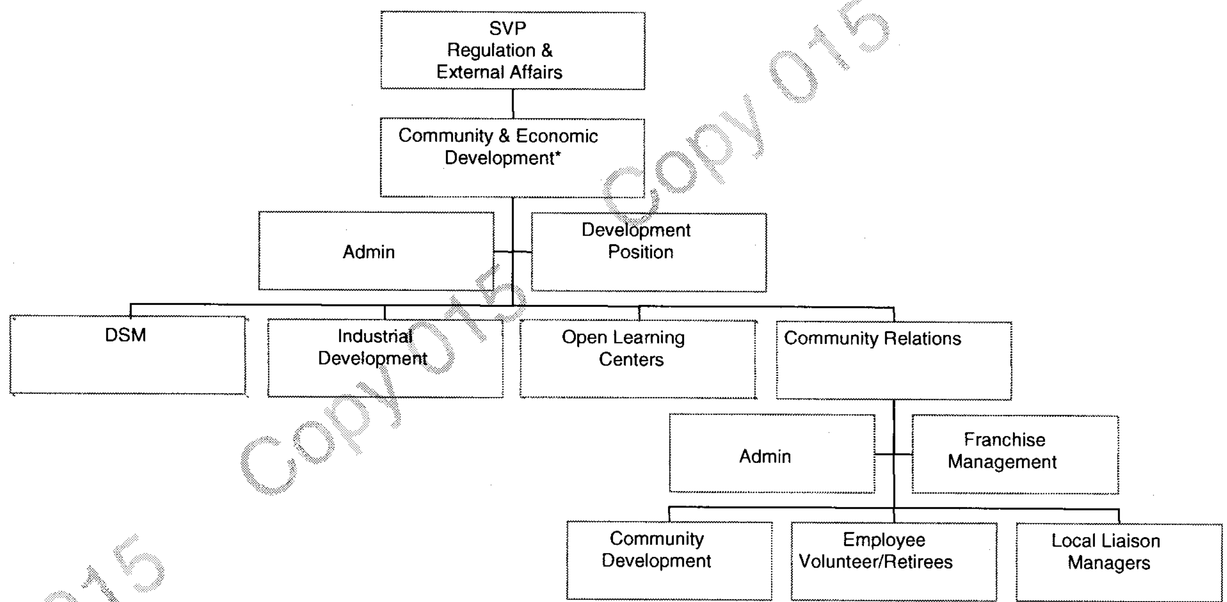
Key findings include:-

- PacifiCorp and its communities are linked strategically, financially and operationally;

- positive relationships with these key stakeholders will serve to benefit customers through lower costs, improved reliability and better access to new service; and
- Customer Business Managers are responsible for a host of activities including, community relations (franchise management), account management, and communications.

Organizational Proposal

It is proposed to consolidate Economic and Community Development with other outward facing functions. The activities currently being performed by the CBMs would be realigned with similar functions in other departments. The community presence activities would then be consolidated with other community facing activities, such as economic development, community development, the open learning centers and demand-side management. This will result in an increase in focus on the communities the Company serves while providing for clear accountability. Economic and Community Development will be aligned more closely with those departments responsible for external relationships, such as Governmental Affairs, Communications, and the Environment. This will put the Company in a position to leverage these resources to maximize their value to the shareholders, customers and key stakeholders.



* In the short term, until the SVP Regulation & External Affairs is appointed, this function will report to Bill Iandels, Executive VP.

COST AND WORKFORCE REDUCTIONS

The foregoing Customer Service, Sales & Marketing Transition Plan and the initiatives contained within it have the following implications for operating cost and capital expenditure reductions and for workforce reductions over the five years of the Plan.

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-1	4	17	21	25
Optimistic	-1	5	21	26	30
Highly Optimistic	-	14	30	36	41

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-7	-	-	-	-
Optimistic	-7	-	-	-	-
Highly Optimistic	-7	-	-	-	-

Cumulative Manpower Reductions

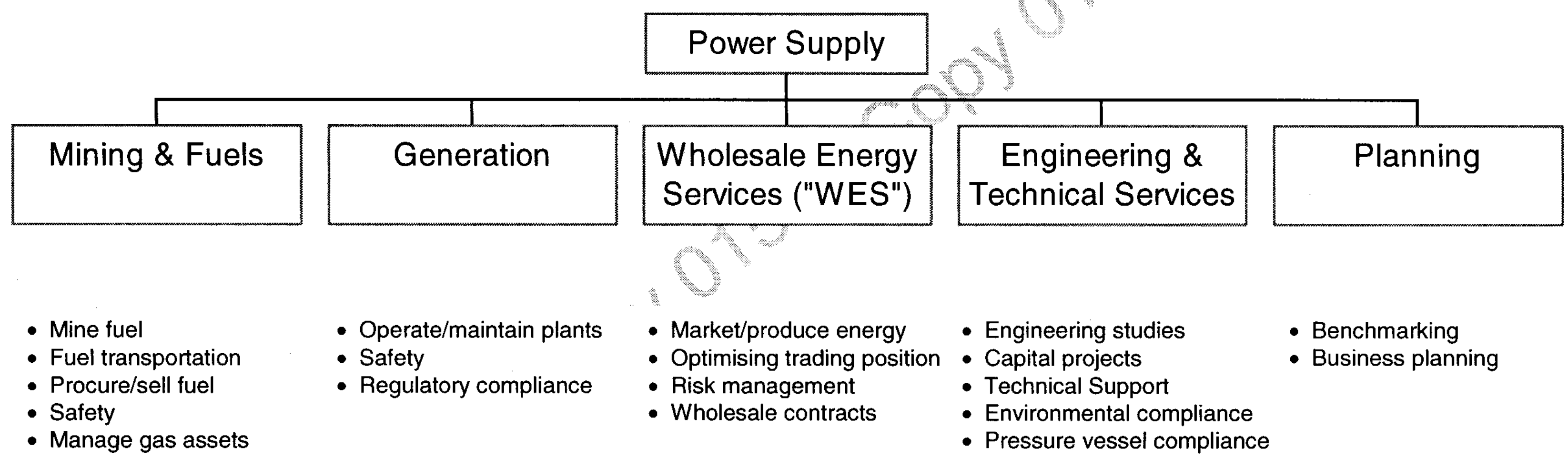
FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	42	66	93	98	104
Optimistic	43	67	95	100	106
Highly Optimistic	71	99	131	143	149

Power Supply

8.4 POWER SUPPLY

BACKGROUND

Power Supply currently comprises of Mining & Fuels, Generation, Wholesale Energy Services and Engineering & Technical Services. It has a total workforce of 2,412 and produces 50 TWh of electricity per annum. The existing organization is as follows:-



Note : Organization excludes Centralia Plant and Mine

The main PacifiCorp generation portfolio constitutes seven coal-fired plants and one gas-fired plant:-

- Naughton (Wyoming);
- Jim Bridger (Wyoming);
- Dave Johnston (Wyoming);
- Wyodak (Wyoming);
- Hunter (Utah);
- Huntington (Utah);
- Carbon (Utah); and
- Gadsby (gas fired plant) (Utah).

Additional to the wholly owned thermal plants, there are several which are either shared ownership conventional plants or are smaller plants of diverse fuel source. At Cholla, PacifiCorp owns part of a 1400 MW plant. It owns all of Blundell, a 23 MW geothermal plant. Little Mountain is a 14 MW gas plant operated by PacifiCorp to supply steam to Great Salt Lake Minerals' plant. PacifiCorp has minor interests in Colstrip, Craig, Hayden, Hermiston and Fort James that together contribute 670 MW to PacifiCorp.

The following table shows some primary performance indicators for the plants:-

	Coal Fired Plants Operated By PacifiCorp						
Location	**Carbon Utah**	**DJ Wyoming**	**Hunter Utah**	**Huntington Utah**	**JB Wyoming**	**Naughton Wyoming**	**Wyodak Wyoming**
PacifiCorp % Ownership	100	100	85	100	66.7	100	80
Number of Units	2	4	3	2	4	3	1
Plant Net MW Rating	175	772	1,320	895	2,110	700	335
Capacity Factor Average 96-98%	86.7	88.8	83.6	85.5	81.4	83.3	97.3
Total # of Employees	75	194	240	175	385	168	81
1999 Average OT Rate %	13	13.5	10	13.5	13	6.5	6.5

Like many utilities in the west, PacifiCorp began as a hydroelectric-based company. The Company's 53 hydro plants range in size from less than 1 MW to more than 90 MW and include 87 generating units with a total capacity of 1100 MW. This makes PacifiCorp the 10th largest hydro generator in the country.

GENERATING PLANTS – GEOGRAPHIC SPLIT AND CAPACITIES

	Total Capacity MW	PacifiCorp Share, MW
Thermal Plants		
Blundell	**23**	**23**
Carbon	**175**	**175**
Craig	856	165
Cholla	1,105	380
Colstrip	1,480	144
Dave Johnston	**772**	**772**
Gadsby	**235**	**235**
Hayden	446	78
Hunter	**1,320**	**1,122**
Huntington	**895**	**895**
Jim Bridger	**2,110**	**1,407**
Naughton	**700**	**700**
Wyodak	**335**	**268**
Hydro River Systems		
Bear River	**115**	**115**
Klamath River	**151**	**151**
Lewis River	**510**	**510**
North Umpqua River	**186**	**186**
Wind Plants		
Foote Creek	41	33

Bold type identifies plants operated by PacifiCorp

MINING & FUELS

PacifiCorp is currently the 11th largest producer of coal in the US. The mining operations are managed by Interwest Mining Company, a subsidiary of PacifiCorp, employing 1,520 people and operating five mines located in the states of Utah, Wyoming and Washington. Mining and Fuel Supply provided PacifiCorp Plants with 27.4m tons (PacifiCorp share) of coal in 1999 at a cost of $0.847/MMBTU. Approximately 40% was purchased under contract from third parties with 60% being provided by PacifiCorp's captive mining operations.

The role of captive mines changed for PacifiCorp with the closure of the Dave Johnston Mine in November 1999 and the planned Centralia mine sale in association with the Centralia plant in the spring of 2000. Additionally, the Trail Mountain Mine will be closed in the fall of 2001 when its reserves are depleted. At that time, the remaining mines are expected to provide approximately 30% of PacifiCorp's fuel requirements.

Pacificorp Mining Operations

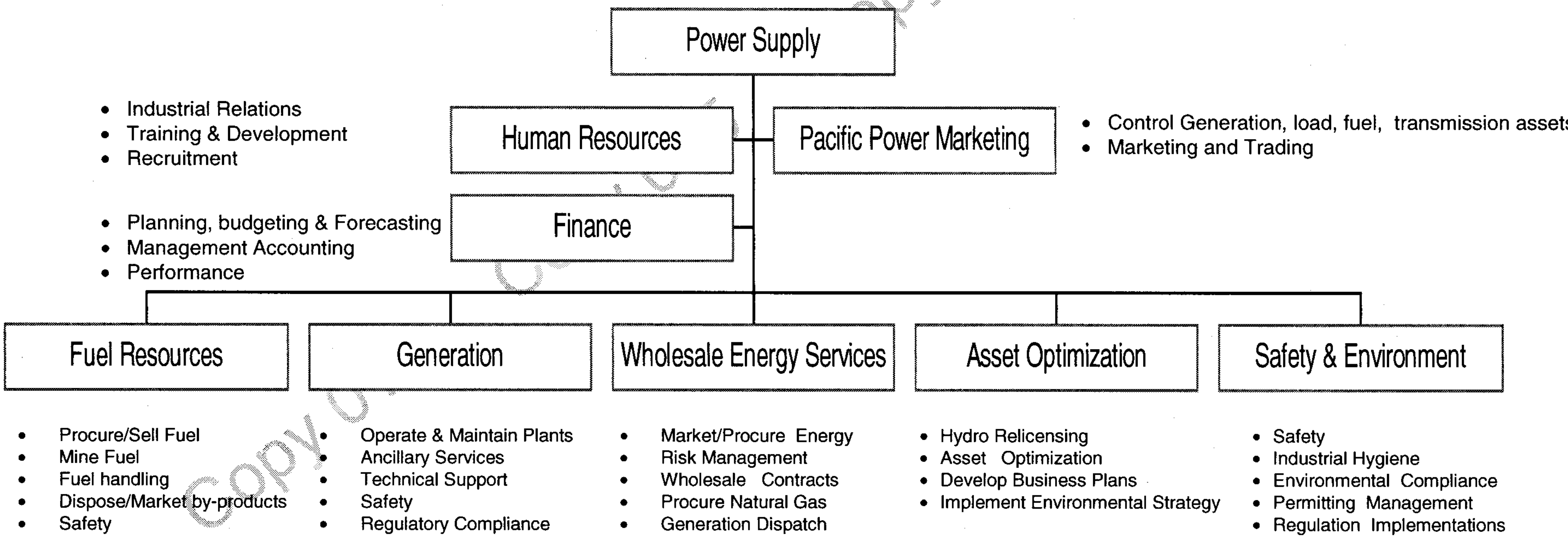
Mine	Location	Mining Method	1999 Production (tons)	1999 Manpower
Bridger Coal Company Jim Bridger Mine	Rock Springs Wyoming	Surface, Dragline and Truck/Shovel	6,294,000	375
Centralia Mining Company Centralia Mine	Centralia Washington	Surface, Dragline and Truck/Shovel	4,074,000	490
Energy West Mining Co. Deer Creek Mine Trail Mountain Mine	Huntington Utah	Underground, Longwall and Continuous Miner	7,717,000	536
Glenrock Coal Company Dave Johnston Mine	Glenrock Wyoming	Surface, Dragline and Truck/Shovel	2,940,000	70

TRANSITION PROPOSAL

Power Supply Organization

Benchmark evidence suggests that the traditional utility model for operating production facilities will not enable a step change in productivity. This has driven the Transition Team to investigate best practices in other process industries. The findings indicate that many global leading class industrials and manufacturers (Ford, GTE, Duke Power, GPU Genco and IBM) are now turning to process-centered management as the centerpiece of their operating and future business strategies. Process-centered management controls business processes from start to finish so that results are delivered amidst demanding customers, intense competition and continual change.

The proposed Power Supply organization will consist of three value-chain divisions: Fuel Resources; Generation; and Wholesale Energy Services. Four enabling divisions will support them: Asset Optimization; Safety & Environment; Human Resources; and Finance.



FUEL RESOURCES

Benchmarking

Stagg Engineering Services was retained by PacifiCorp to conduct an analysis of the Deer Creek, Trail Mountain and Bridger mining operations. Fifteen mines were used to benchmark the underground mines (Deer Creek and Trail Mountain), and thirteen mines were used to benchmark the Bridger surface mine.

The results of the evaluation work completed by PacifiCorp staff and its consultants indicate that the Fuels and Mining organization is generally well managed and operated. The mines are managed with a commercial awareness, and no large cost-reduction opportunities were identified. A summary of the key benchmark findings are shown below:-

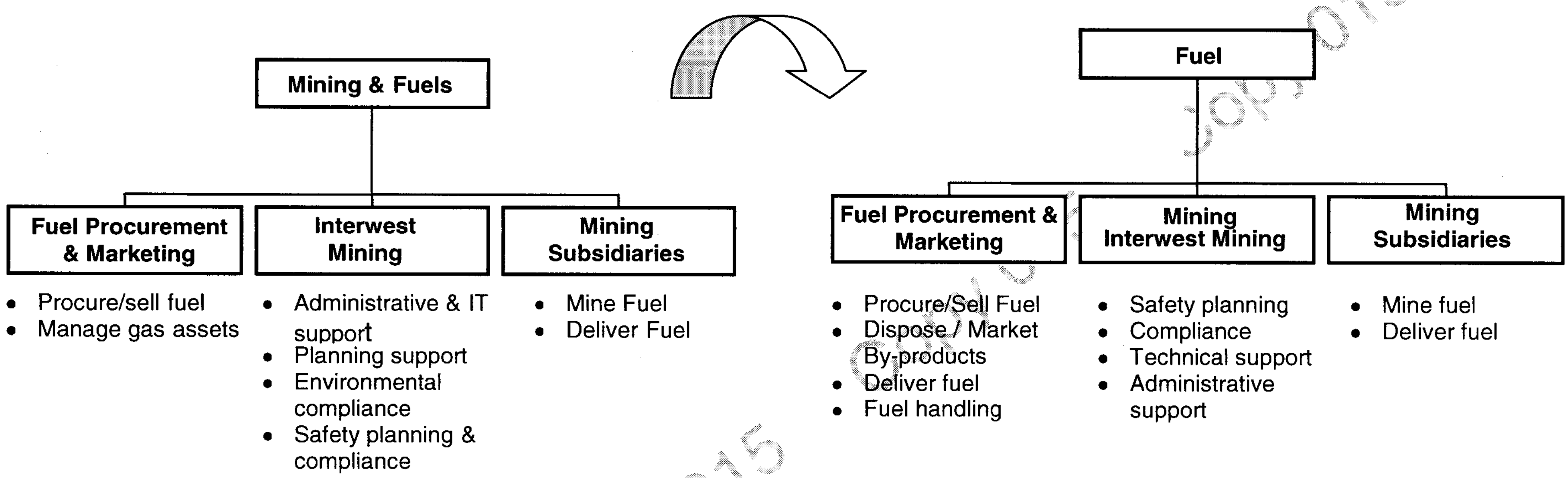
Best Practice	Benchmark Mines	PacifiCorp
Flat Organization Low Overhead	Andalex – Crandall Canyon Arch – Sufco Kewitt – Black Butte	Standard mining organization Med-high overhead
Flexible work schedules and flexible work rules	Andalex – Crandall Canyon Arch – Sufco, West Elk RAG – Twenty Mile Consol – Baily/Enlow Kewitt – Black Butte Peabody – Lee Ranch	Restrictive work schedules and rules - union workforce
Multi-skilling	Andalex – Crandall Canyon Arch – Sufco, West Elk RAG – Twenty Mile Consol – Baily/Enlow Kewitt – Black Butte Peabody – Lee Ranch	Division of labor Union workforce
New Technology Longwall & Haulage Systems	Arch – Sufco, West Elk RAG – Twenty Mile Consol – Baily/Enlow	Matched to production needs. Additional capital required to match best practice.
Panel Lengths >10,000 ft	RAG – Tenty Mile Arch – West Elk Consol – Baily/Enlow	6500 ft – limited by geology

Summary:-

- no large cost reductions identified
- some manpower reductions might be appropriate at Bridger and Energy West
- Dragline productivity at Bridger could be improved
- Energy West is appropriately capitalized for required production versus adding best technology

Proposed Organization

Today **July 2004**



The proposed Fuel Resources organization is similar in structure to the pre-Transition organization for Mining and Fuels. It consists of a mining group, a fuel supply group and separate operating mining subsidiaries. The mines will retain their separate subsidiary status for legal, contractual and labor purposes. With the closure of the Glenrock Mine and sale of Centralia, only two mining operations will remain after 2000. In 2001, the Trail Mountain mine will be closed when it runs out of reserves leaving only one operating mine within Energy West. Interwest Mining Company will continue to provide management services to the operating mines and will oversee these regulated assets.

The Fuel Procurement and Marketing Group will have responsibilities similar to those in the old organization with the addition of oversight coordination (with plant personnel) of coal stockpiles.

Key initiatives:-

- **Heat Rate Monitoring.** Following the example of ScottishPower's flagship station Longannet, heat rate of the thermal plants could be improved by implementing a comprehensive program to improve various processes associated with plant efficiency and equipment modifications. Heat rate improvement of 1.5%, or 110 Btu/kWh is envisioned.

- **Manage Fuel Costs.** Manage fuel costs within existing fuel strategy of supplying fuel requirements using captive mines and third party supply sources. Opportunities will be taken to leverage market prices in negotiations of fuel needs. The captive mining operation will continue to provide a secure fuel source for affiliated plants.

- **Fuel Handling.** Fuel Resources will be responsible for delivering specification coal to the silos of each power plant and for optimizing all fuel handling operations at the lowest possible cost. The fuel optimization responsibilities will include both meeting the particular fuel specification for a plant and the delivery of that fuel to storage. Delivery will be scheduled to maximize the economic operation of the plants and mines. The manager will also be responsible for making sure that the actual material handling functions at the plants are using best in class processes. The coal handling staff will report through the plant management system. There will be common KPIs between the plants and Fuel Resources with all costs being accounted for as a cost of fuel as opposed to plant O&M.

- **Bridger Dragline Productivity**. Increase Bridger dragline productivity to industry benchmark levels over a two-year period. Increasing productivity will translate into reduced coal costs. Increases to be achieved through re-engineering, dozer push, GPS systems use and training.

- **Synfuels at Hunter.** A third party could locate a Synfuels plant adjacent to the Hunter power plant with a guaranteed contract for PacifiCorp to take up to 1m tons of Synfuel product per year. By substituting Synfuel for coal, a reduction in overall fueling costs can be achieved.

GENERATION - THERMAL

Benchmarking was undertaken to evaluate the performance of PacifiCorp's thermal-electric plant operations incorporating both internal and external reviews. The external investigation was designed and implemented to collect data pertaining to costs and operational practices from eight plants, seven operated by other utilities and one by PacifiCorp. These plants were selected based on criteria that identified them as at or near "best in class".

An overview of the results is as follows:-

Best Practice	Benchmarked Plants Best Practice	Current PacifiCorp Position
O&M multi-skilling	PP&L Montana, Southern NCE, SW *	Limited implementation
Low workforce levels	NCE, Hoosier Energy, Southern *	Workforce levels 10% greater than top quartile
Electricians and Instrument Technicians combined classifications	Southern, Centralia	50% of PacifiCorp combined
Clear management focus on operations	All Plants	Management also focused on corporate initiatives
Separation of coal handling from plant	NEC, TVA, Southern *	Not separated from plant
Routine & emergency maintenance contracted out	All Plants *	Limited use of contractors outside of overhauls
Capital invested to burn non-design fuels	Southern, NCE, TVA	Limited modifications when changing fuels
Fuels blended to meet boiler design	TVA, Hoosier Energy	No structured blending programs
Primary fuel causes low equipment wear	All Plants	Utah plants' primary fuel is highly abrasive

* ScottishPower exhibits similar characteristics

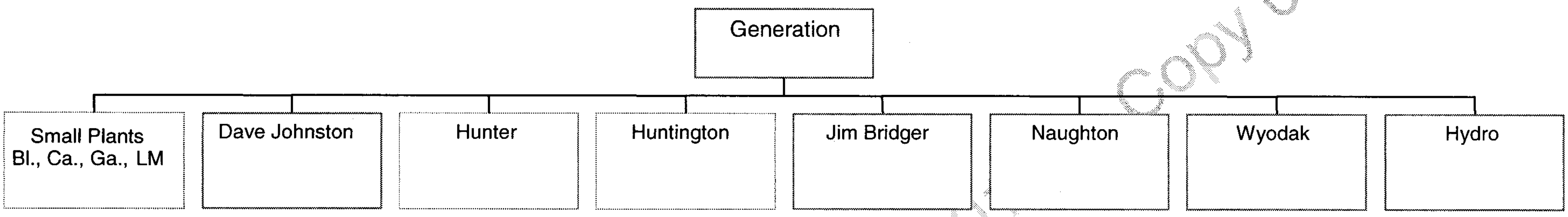
Key findings:-

- multi-skilling between crafts and operations personnel;
- Electrical and Instrument Departments combined;
- greater use of contractors; and

- units upgraded to burn non-design fuels.

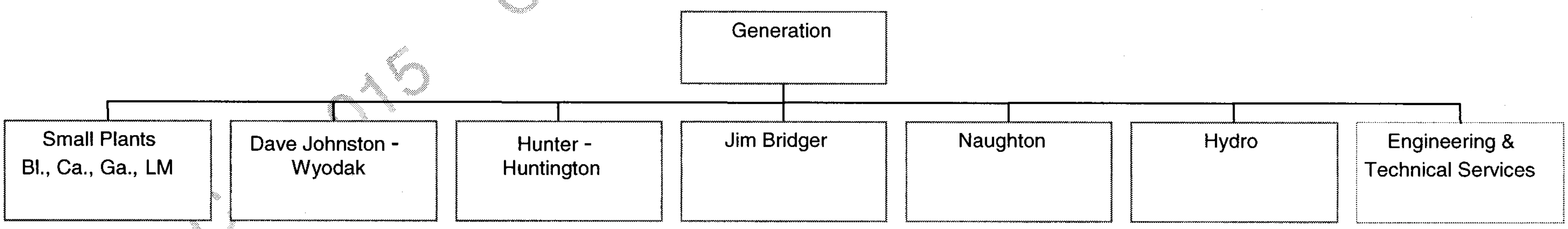
Organizational Proposal

Existing Organization



Key Changes:-
- combination of Hunter & Huntington
- combination of Dave Johnston & Wyodak
- integration of Engineering & Technical Services

Proposed Organization



Key initiatives:-

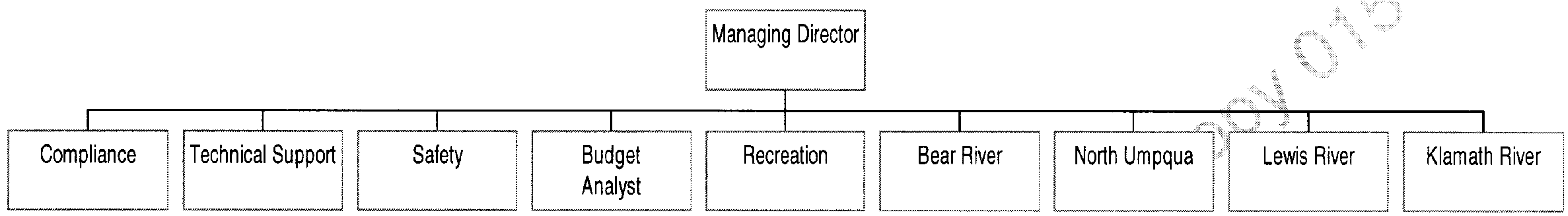
Total Productivity Maintenance ("TPM"). Total Productivity Maintenance ("TPM"), Reliability Centered Maintenance ("RCM") and process-centered workforce training and implementation will be essential for effective operation with the reduced workforce. Every employee will be expected to take full responsibility for their own assignment area after having been trained and, when necessary, certified in those responsibilities. While implementation of these practices is limited within the utility industry at this time, TPM and RCM are widely used in the manufacturing industry. Savings in the range of 10% to 20% have been achieved in these other industries.

Diagnostic Monitoring. Benchmarking identified automated performance and control systems installation as essential for "best in class" operation. The money to install these systems is presently in the five-year capital budget, and installation will play an integral part in the success of this Plan. The systems will not only provide better up-to-date information and control of the units, but will also facilitate the stated reductions in operations staff.

Maintenance Alliance Agreement. The implementation of a maintenance alliance agreement and the formation of a partnership for conducting specialized routine maintenance within the thermal plants will be essential to the success of the cost reduction effort. Costs could be reduced over a five-year period through the use of a single integrated contractor who functions as an alliance partner, has a well-designed maintenance contract and can profit from improved performance, reliability and safety. Through the application of their industry-wide experience and expertise and a flexible workforce, the contractor will be able to improve the reliability of the plants and reduce the cost of performing the maintenance work.

GENERATION - HYDRO

Proposed Organization



Key initiatives:-

Total Productivity Maintenance ("TPM"). Labor represents nearly 50% of the hydro production cost. Control of labor costs and improvements in the productivity of employees are essential. Total Productivity Maintenance (TPM), Reliability Centered Maintenance (RCM) and process-centered workforce training and implementation will be fundamental to the effective operation of the plants with the reduced workforce.

Maintenance Alliance Agreement. A maintenance alliance agreement will be implemented to handle regularly scheduled maintenance for hydro turbines and generators. A qualified alliance partner will provide the needed services to the dispersed hydro locations at a saving on current costs.

WHOLESALE ENERGY SERVICES AND PACIFIC POWER MARKETING

PacifiCorp is the third largest utility in the western interconnection area with a service territory and physical assets extending across nine western states and encompassing two regional control areas. The energy marketing within PacifiCorp is divided between a regulated, Wholesale Energy Services group and an unregulated, PacifiCorp Power Marketing group.

Wholesale Energy Services ("WES") manages the Company's portfolio of regulated assets including the generation facilities, retail load, and wholesale contracts. Activities include the development of load forecasts, load schedules, scheduling of generation, management of water resources associated with hydro, ensuring adequate capacity to meet residential and commercial loads, and the purchase and sale of energy/capacity/ancillary services. The thermal generating plant capacity dispatched by WES totals approximately 8500 MW, and hydro plant capacity totals approximately 1100 MW. The retail load, serving 1.4m customers, requires approximately 50TWh of energy and peaks near 8000 MW. WES purchases and sells power in the wholesale market in the west, manages long-term energy contracts and is active in the cash and forward markets related to electrical energy.

PacifiCorp Power Marketing ("PPM") is an unregulated energy-trading subsidiary of PacifiCorp. PPM's original focus was in the eastern US. This has now been re-focused in the west and mid-west markets. PPM manages resources for other entities such as municipal power authorities and carries out limited trading in the forward electricity commodity markets. PPM is also responsible for the construction and management of the Klamath Falls generating station, owned by the City of Klamath Falls, Oregon. The Klamath Falls generating station is a Combined Cycle Gas Turbine plant, which is scheduled to begin service in June 2001. PPM will be responsible for marketing the output after production commences.

WES and PPM have both gone through significant right-sizing initiatives recently, and no further changes to the respective operating structures are considered necessary at this time.

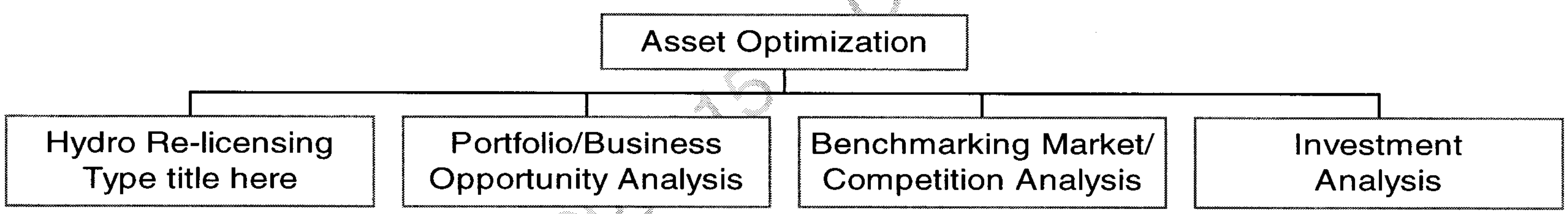
ASSET OPTIMIZATION

The Company's philosophy has been that any new load growth requirements would be provided through the purchase of energy and capacity on the open market. This philosophy was satisfactory. While the issue of adding capacity and energy remains relatively well handled through market availability, other issues pertaining to the management of assets have arisen.

The vast majority of the company's hydro licenses will expire over the next decade, requiring those plants involved to be re-licensed. The challenge is to find strategic approaches to re-licensing that best protect the Company's interests.

Organizational Proposal

The Transition Team determined that one of the key enabling groups within Power Supply should be a new organization called Asset Optimization. This group will ensure that all Power Supply facilities and assets (generating plants and mines) are being utilized to their maximum.



This group will be responsible for developing strategy to ensure compliance with environmental legislation, hydro re-licensing, benchmarking activities and asset management.

COST AND WORKFORCE REDUCTIONS

The foregoing Power Supply Transition Plan and the initiatives contained within it have the following implications for operating cost and capital expenditure reductions and for workforce reductions over the five years of the Plan.

Generation – Non-Fuel

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	1	-4	-	8	10
Optimistic	1	-1	7	18	20
Highly Optimistic	2	2	17	31	36

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	1	2	2	2	2
Optimistic	1	3	4	4	4
Highly Optimistic	1	5	7	8	8

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	43	76	131	131	131
Optimistic	49	94	177	177	177
Highly Optimistic	56	125	245	261	271

Production – Fuels

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-	4	9	10
Optimistic	4	10	23	27	33
Highly Optimistic	5	15	31	36	43

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-	-	-	-
Optimistic	-	-	-	-	-
Highly Optimistic	-	-1	-1	-	-

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	13	15	21	21	21
Optimistic	37	45	67	67	67
Highly Optimistic	41	50	73	74	74

Information Systems

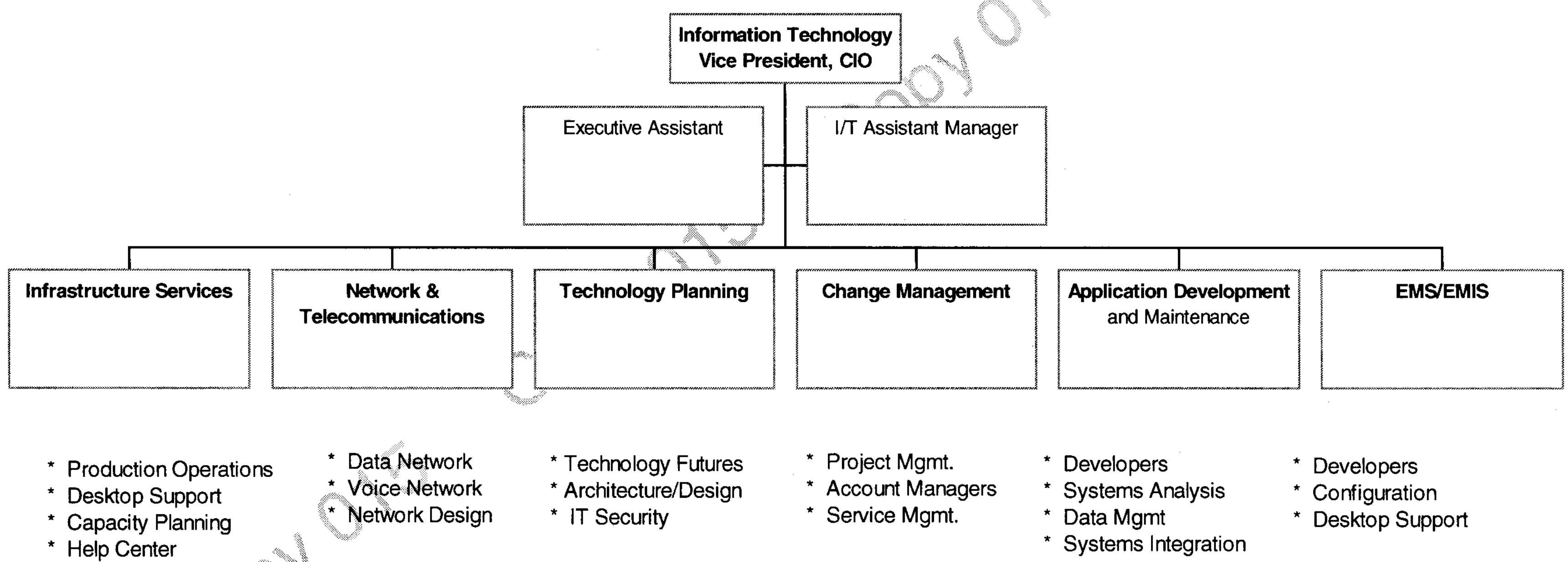
8.5 INFORMATION SYSTEMS WORKSTREAM PLAN

Two PacifiCorp departments were evaluated as part of the Information Systems Workstream Plan:-

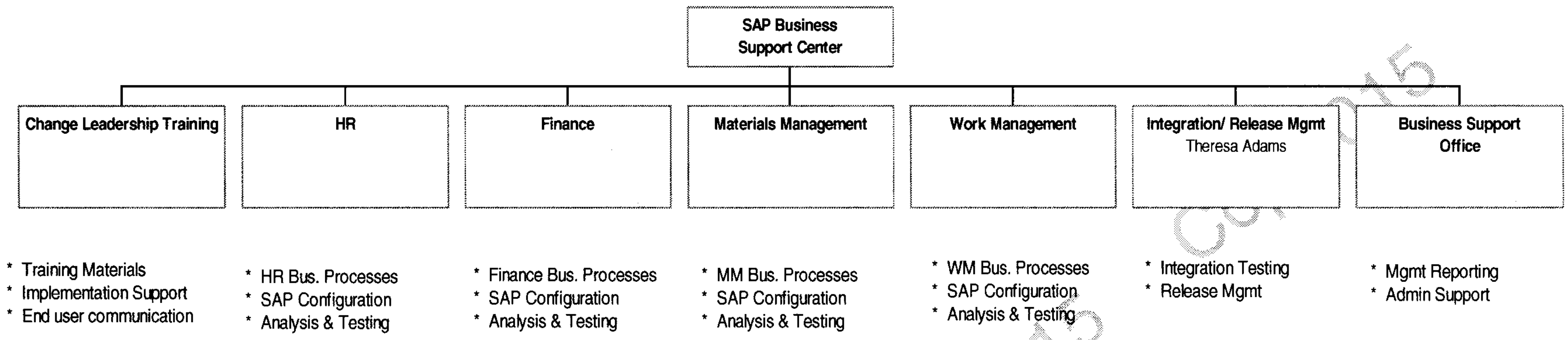
- Information Technology ("IT"); and
- Business Support Center ("BSC").

The organization structure level as of 1 December 1999 was:-

INFORMATION TECHNOLOGY



BUSINESS SUPPORT CENTER



The Information Systems Transition Team also looked at the provision of Information Systems services and associated expenditure across PacifiCorp.

Key findings include:-

- **Strengths:-**
  - the Service Level Agreement (SLA) discipline and existence of "Sunrise Goals" keeps the staff focused on the production operation. SLA compliance and consecutive days meeting "Sunrise Goals" have consistently improved over the last three years, while the goals have been stretching;
  - overall costs appear competitive. All benchmarks indicated that IT spending is low to average. Although there are opportunities in a few areas, IT does not appear to have an excessive budget overall;
  - telecom costs appear competitive;
  - the technology being utilized is current. PacifiCorp runs its systems on a combination of mainframe, UNIX, and NT platforms. Several major application systems (primarily the Customer Service System and SAP) were

implemented in the last four years. The technology is current without being "leading edge". The systems are stable;

- there has been low staff turnover, but that is probably not surprising given the average length of service; and
- overall, the organization is new but much has been accomplished in the last three years.

- **Opportunities:-**

- the investment appraisal of IT spending can be strengthened;
- the Business Support Center is seen as neither business nor IT. The Business Support Center has very capable employees who are working hard to increase PacifiCorp's utilization of SAP. Their knowledge and skills should be integrated into business process decisions;
- talented IT resources are scarce and costly. The market is extremely buoyant and PacifiCorp (like most other companies) will have a difficult time attracting and retaining key people over the next five years;
- there is a lack of depth in application development. There are two contributing factors to this:-
  - ♦ domain knowledge is limited because of the high number of new PacifiCorp employees in IT; and
  - ♦ employees are moving from what was predominantly a mainframe world to distributed processing and web-enabled applications. This poses significant retraining challenges.
- There could be greater flexibility in resourcing IT work. ITD does not currently have enough ability to vary its spending level based on the required workload;
- The past tendency to develop in-house has changed with SAP and other packages. Since in-house development tends to be more expensive over the life cycle than package implementations, in-house development should be minimized in the future.

EVALUATION OF ORGANIZATION

The Transition Team evaluated the current IT and Business Support Center geographic split between Portland and Salt Lake City. With the exception of the Help Desk, there is no justification to further centralize staff within the IT organization. PacifiCorp will continue to require desktop and telecom support with physical proximity to the business staff. The application development staff would work more effectively in one location, but this is not viable based on the difficulties of finding and retaining skilled staff. In order to provide the maximum flexibility and lowest cost application development services, IT will need to work effectively with technical staff in Portland, Salt Lake and wherever effective partnerships can be developed.

SAP SUPPORT ORGANIZATION

The benchmarking identified four support organization models that range from a completely separate support function (which includes all business and IT components required to support SAP) to one where SAP support is completely devolved to the businesses and IT. The benchmark work completed by PricewaterhouseCoopers suggests there is no "right" answer, as different structures will work better in different organizational environments.

There are three primary reasons for recommending a devolved support organization:-

- **Business Acceptance Of SAP.** PacifiCorp can leverage SAP to achieve Transition Plan initiatives. The product is powerful (but complex) and has a steep learning curve. Many of the Business Support Center staff have business (not IT) backgrounds and the knowledge transfer to the line units will occur more quickly if staff are integrated;

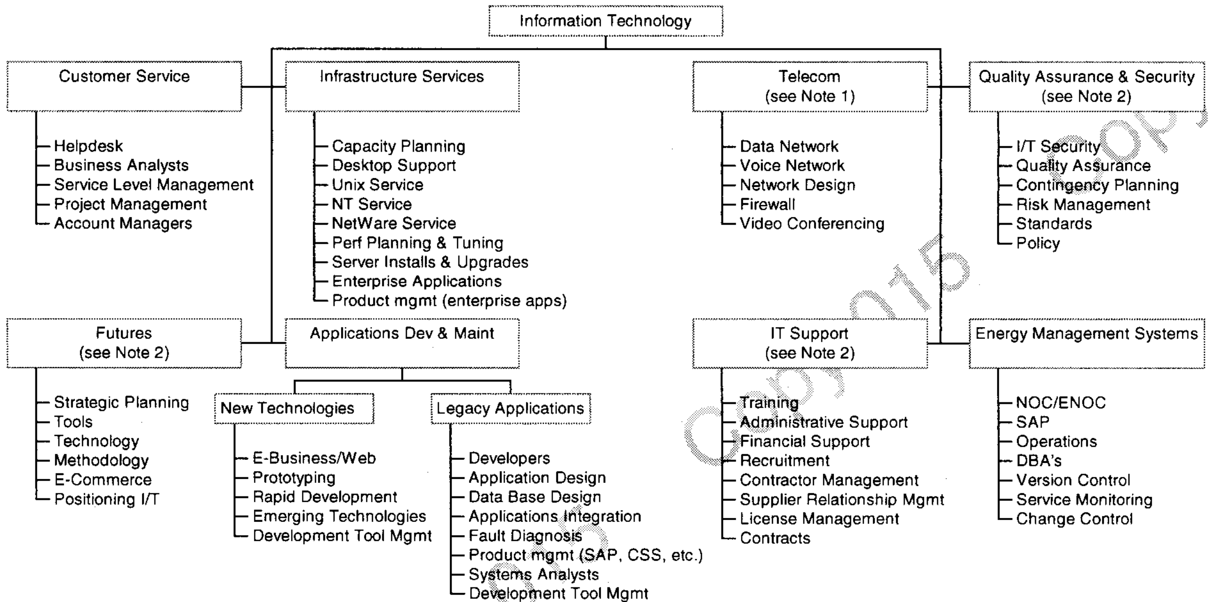
- **Duplication Of Functions With IT.** Both IT and the Business Support Center have staff that perform configuration, testing, integration and release management functions. Combining the groups will result in more consistent practices and a small reduction in staff; and

- **Executive Sponsorship.** The integrated nature of SAP means that there is no one clear business owner for the application. The Business Support Center currently lacks any executive leadership and is perceived as neither business nor IT. The CIO at PacifiCorp will champion SAP going forward.

The potential disadvantages of a devolved support organization center are based on SAP's integrated nature. To fully leverage SAP, business processes must be managed across organizational boundaries. For example, system changes to finance functionality can have significant work management implications. To address this potential disadvantage in the proposed organization, the recommendation is that the CIO will own SAP and drive cross-organizational decisions.

PROPOSED ORGANIZATION

The recommended organizational structure (to be in place by April 2003) is:-



Note 1 : Group-wide support.
Note 2 : Corporate Governance areas to be merged with ScottishPower. Some local support is anticipated, but overall numbers should reduce.

No separate Business Support Center will exist. The Business Support Center staff have been devolved to the business units and to the Application Development and Customer Service groups in IT.

The key results include:-

- in order to support PacifiCorp's goal of being a leading class utility in five years, the proposed IT organization will:-
  - enable and support the business by delivering value based IT;
  - enable exploitation of new technologies;
  - encourage and support group-wide synergies; and

  - demonstrate agility and greater flexibility in IT resourcing.

- PacifiCorp's business requirements over the next five years will include significant technology initiatives:-
  - e-Business;
  - web-enabled applications;
  - enhanced call center technology;
  - fully leveraged SAP;
  - CADOPS (integrated);
  - mobile workforce;
  - new Energy Management systems; and
  - enhanced Risk Management/Trading applications.

Key initiatives include:-

- improve organizational focus & increase high value skills:-
  - to establish the functional areas and organizational structure within the responsibility of the Information Systems Transition Team (ITD and BSC). This will underpin and enable the Company, via IT, to operate and develop appropriately throughout the five year transition period. This initiative will address and identify the savings that can be made due to the removal of duplication, improved processes and performance targets;
  - integrate the BSC services that are IT related into the new IT organization . Move business/SAP expertise from the BSC into the business units. This will improve business unit learning and utilization of SAP and will create synergies and savings in IT by consolidating like functions; and
  - evaluate desktop support staff level changes based on PacifiCorp's transition planning and implement new support levels.

- Alternative sourcing of services:-
  - reduce current application development and maintenance costs. Identify a direction for alternative means of resourcing to reduce costs and maintain or increase current capabilities;
  - reduce current mainframe processing costs without impacting service levels;
  - reduce the cost of providing the help center service whilst increasing the productivity in processing service calls; and
  - reduce the reliance contract staff.
- Synergies with ScottishPower:-
  - examine the cost and scope of maintenance and service contracts and reduce the cost to the Company by either terminating contracts, re-negotiation, exploiting synergies with ScottishPower or rightsizing the level of services with business requirements; and
  - examine the skills and services in both ISD in ScottishPower and IT in PacifiCorp. Identify where a sharing of information and experience can demonstrate future savings, productivity gains or risk mitigation. It has been identified that there are several areas of best practice that will deliver outstanding value to the ScottishPower group. In each of these cases a dollar amount can be justified thereby demonstrating savings to the Company. The target for this initiative is to demonstrate an improvement in service for the Company as a whole and a justifiable dollar benefit in avoided costs.
- Business Benefit:-
  - reduce the application enhancement work level unless the additional investment can be clearly offset by greater business benefits;
  - establish a project to consolidate the legacy Energy Management Systems and Regional Control Systems (Landis & Gyr) into one set of systems which will require a greatly reduced level of support and provide a standard platform to underpin the business development in this area. The main benefit will be in the business operations where the use of these systems can be standardized and exploited; and

- expand the use of video conferencing to every PacifiCorp location. Large video conference rooms would be set up in major facilities. Smaller offices may have a conference room or office area set up for individual video conferencing use.

TRANSITION PLAN IT ENABLING PROJECTS

The Information Systems Transition Team worked closely with the other Transition Workstreams to understand the business IT enablers. As potential projects were identified, the IS Team worked with the other Transition Team Members, IT, the Business Support Center and vendors to provide high level estimates of costs and labor. The following steps occurred as the Transition Teams were finalizing their Plans:-

- business IT enabler projects were added to the IT capital plan;
- the resourcing required to deliver the projects was evaluated against the existing IS Transition Plan. Contingencies were added due to a high volume of project work in Year 1 and Year 2; and
- overall PacifiCorp staffing was evaluated for potential impacts on IT support staff.

SUPPORTING BUSINESS ENABLERS

There is an increase in project work required by the businesses in Year 1 and Year 2. The work can be supported by IT, **but only** if the following occurs:-

- there is an immediate reduction in enhancements (60%);
- alternative methods of resourcing are utilized in line with Information Systems Workstream Plan; and
- ScottishPower resources are available for key projects.

COST AND WORKFORCE REDUCTIONS

The foregoing Information Systems Transition Plan and the initiatives contained within it have the following implications for operating cost and capital expenditure reductions and for workforce reductions over the five years of the Plan.

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-	2	3	3
Optimistic	2	2	4	5	5
Highly Optimistic	3	4	6	7	8

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	2	2	5	6	3
Optimistic	4	5	8	9	5
Highly Optimistic	7	8	11	12	9

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	9	37	46	50	54
Optimistic	9	57	66	70	74
Highly Optimistic	11	63	78	82	86

Organizational Changes
Geographical Positioning

9. ORGANIZATIONAL CHANGES – GEOGRAPHICAL POSITIONING

The organizational changes specified in the Transition Plan have implications for the locations of the management teams of the various business units. The following table indicates how Oregon and Utah will be impacted by the changes:-

	Oregon			Utah		
	Stay	Loss	Gain	Stay	Loss	Gain
Corporate Office	●					
Production HO				●		
Distribution HO	●				●	
Customer Service Center			●		●	
Income Collection Center		●				●
Community and Economic Development						●
Transmission Dispatch			●		●	
Distribution Dispatch	●			●		
WES	●					
Metering Business						●
Transport Business						●
Mining				●		
Training			●			●

Cumulated Cost And Workforce Reductions

10. CUMULATED COST AND WORKFORCE REDUCTIONS

This section summarizes and re-presents, for each of the workstreams, the operating cost and capital expenditure savings and workforce reductions due to the Transition Plan for each scenario and cumulated across the period of the Plan.

CORPORATE SERVICES

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	2	1	16	28	30
Optimistic	2	7	28	38	40
Highly Optimistic	3	10	32	43	47

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	5	1	1	1	1
Optimistic	5	1	2	2	2
Highly Optimistic	5	1	2	2	2

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	69	132	170	172	179
Optimistic	82	175	225	227	234
Highly Optimistic	82	175	225	227	234

INFORMATION TECHNOLOGY

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-	2	3	3
Optimistic	2	2	4	5	5
Highly Optimistic	3	4	6	7	8

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	2	2	5	6	3
Optimistic	4	5	8	9	5
Highly Optimistic	7	8	11	12	9

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	9	37	46	50	54
Optimistic	9	57	66	70	74
Highly Optimistic	11	63	78	82	86

TRANSMISSION, DISTRIBUTION & PROCUREMENT

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-3	10	36	38
Optimistic	-	-	16	45	47
Highly Optimistic	-	1	21	55	57

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-2	19	47	62	70
Optimistic	-3	16	49	64	72
Highly Optimistic	-3	16	49	64	72

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-27	65	392	522	522
Optimistic	-27	92	469	619	619
Highly Optimistic	-27	115	546	738	738

PRODUCTION – GENERATION

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	1	-4	-	8	10
Optimistic	1	-1	7	18	20
Highly Optimistic	2	2	17	31	36

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	1	2	2	2	2
Optimistic	1	3	4	4	4
Highly Optimistic	1	5	7	8	8

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	43	76	131	131	131
Optimistic	49	94	177	177	177
Highly Optimistic	56	125	245	261	271

PRODUCTION – FUELS

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-	4	9	10
Optimistic	4	10	23	27	33
Highly Optimistic	5	15	31	36	43

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-	-	-	-	-
Optimistic	-	-	-	-	-
Highly Optimistic	-	-1	-1	-	-

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	13	15	21	21	21
Optimistic	37	45	67	67	67
Highly Optimistic	41	50	73	74	74

CUSTOMER SERVICE, SALES & MARKETING

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-1	4	17	21	25
Optimistic	-1	5	21	26	30
Highly Optimistic	-	14	30	36	41

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-7	-	-	-	-
Optimistic	-7	-	-	-	-
Highly Optimistic	-7	-	-	-	-

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	42	66	93	98	104
Optimistic	43	67	95	100	106
Highly Optimistic	71	99	131	143	149

TOTAL TRANSITION PLAN

This following tables show the aggregate operating cost and capital expenditure savings and workforce reductions due to the PacifiCorp Transition Plan for each scenario and cumulated across the period of the Plan:-

Annual Operating Cost Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	2	-2	49	105	116
Optimistic	8	23	99	159	175
Highly Optimistic	13	46	137	208	231

Annual Capital Expenditure Savings

$m	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	-1	24	56	71	76
Optimistic	-	25	62	79	85
Highly Optimistic	3	29	68	86	91

Cumulative Manpower Reductions

FTE	2000/01	2001/02	2002/03	2003/04	2004/05
Base Case	149	391	852	993	1,010
Optimistic	193	530	1,099	1,260	1,277
Highly Optimistic	234	627	1,298	1,525	1,552

WORKFORCE REDUCTIONS

The following tables show the sources and the timing of the workforce reduction in the most extreme case – the Stretch Goal:-

Workforce Reductions By Business Area

	2000/01	2001/02	2002/03	2003/04	2004/05
Corporate	82	175	225	227	234
Information Systems	11	63	78	82	86
Transmission and Distribution	-27	115	546	738	738
Production (including Fuel)	97	175	318	335	345
Customer Service, Sales and Marketing	71	99	131	143	149
	234	627	1298	1,525	1,552

Workforce Reductions By Geographic Area

	2000/01	2001/02	2002/03	2003/04	2004/05	Current	% Reduction
Oregon	59	181	469	553	570	2,200	26%
Utah	118	319	548	625	629	2,914	22%
Wyoming	45	100	228	258	264	1,523	17%
Washington	2	15	29	53	53	862	6%
Idaho	8	10	22	34	34	177	19%
Other	2	2	2	2	2	112	
	234	627	1,298	1,525	1,552	7,788	20%

PACIFICORP TRANSITION PLAN

Andy MacRitchie and Matthew Wright

25 May 2000

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Transition Plan

- ScottishPower's approach to business change
- A merger commitment
- 5 year plan
- Will radically transform PacifiCorp
- Key driver is customer service and system performance

PacifiCorp to be a "Top 10"
US utility by 2004

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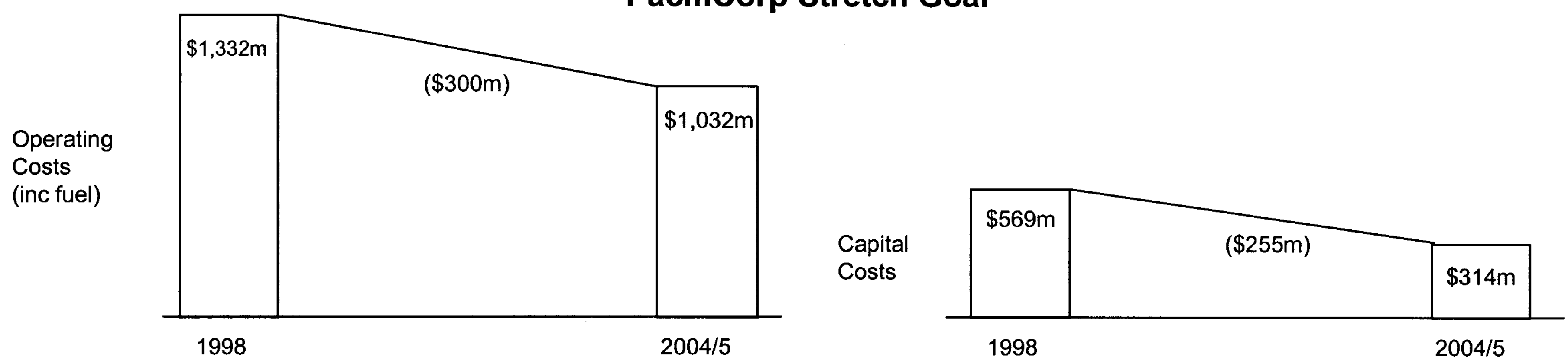
PacifiCorp Stretch Goal For 2004

City/Street Slide

- Annual operating cost savings of $300m from 1998 level
- Annual capital expenditure reduction of $250m from 1998 level
- Employee reductions of 1600, costing circa $185m
- Training and technology investment of $150m over 5 years
- Customer commitment investment of up to $55m

PacifiCorp Stretch Goal



Source: 1998 PacifiCorp Annual Report and Transition Plan Estimates

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Transition Plan Targets Off 2000

Scenario	$m	(*) 1998	2000/1	2001/2	2002/3	2003/4	2004/5	Cumulative Reduction
Highly Optimistic **PacifiCorp Stretch Goal**	Operating Costs (inc fuel)	1,332	1,251	1,219	1,128	1,056	1,034	298
	CAPEX	569	429	380	338	314	314	255
Optimistic	Operating Costs (inc fuel)	1,332	1,255	1,240	1,164	1,104	1,088	244
	CAPEX	569	432	384	344	318	320	249
Base	Operating Costs (inc fuel)	1,332	1,261	1,265	1,215	1,158	1,147	185
	CAPEX	569	433	386	351	325	328	241

(*) Note: 1998 values have been restated to 2000 money values. Fuel consumption has been equalized at 1998 volumes to demonstrate the savings targeted on a "like-for-like" basis.

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Generation And Mining

- Save on fuel contracts
- Transfer responsibility for fuel handling
- Reduce overtime
- Negotiate introduction of multi-skilling
- Combine management teams at Hunter and Huntingdon

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Transmission And Distribution

- Reduce layers of management from 5 to 3
- Centralize Head Office departments
- Reduce number of depot offices by 40%
- Negotiate the introduction of home start for meter readers
- Implement a targeted sourcing program for materials

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Customer Service, Sales And Marketing

- Establish separate Customer Service function
- Improve productivity through new call scripting technology
- Implement real time credit checking system
- Focus Marketing on promoting efficient service delivery
- Create new Community & Economic Development group

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Corporate Services

- Eliminate executive positions
- Sell corporate jets
- Realize synergies in Audit, Tax and Treasury
- Create Shared Services Center
- Outsource mainframe activities

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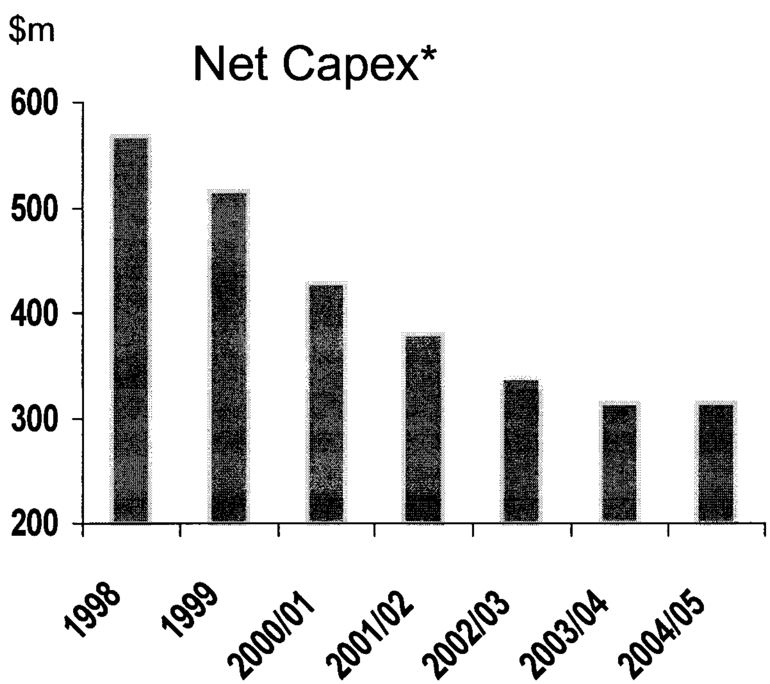
Investment



- Capex savings:
  - Procurement
  - Contractor management
  - Focusing expenditure
- Investment required over 5 year period includes:

- Training and Development	$50m
- New Technology	$70m
- Information Systems	$30m
TOTAL	**$150m**
- Customer Commitments	$55m

* Transition plan estimate. 2000 Money
Highly Optimistic Scenario

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Costs Versus Service

Customer Facing Business	OPEX ($m)		CAPEX ($m)		Service Impact
	Cum Enabling Expenditure 2001/05	Annual Net Savings 2004/05	Cum Enabling Investment 2001/05	Annual Net Savings 2004/05	
Procurement Savings – strategic sourcing etc	-	10	-	11	-
Productivity & Efficiency Savings – internal and contractors	44	36	19	19	+VR
Organizational Savings – restructuring, synergies, etc	20	26	20	2	+VR
Smarter Investments – business focus etc	-	5	23	40	+VR
TOTAL	**64**	**77**	**62**	**72**	

Improved service:-

- Dispatch and outage management technology
- Call Center technology
- Network automation to reduce outages
- Improved response by Field Crews
- Redirect investments into poorly performing circuits
- Training Centers to improve skill base

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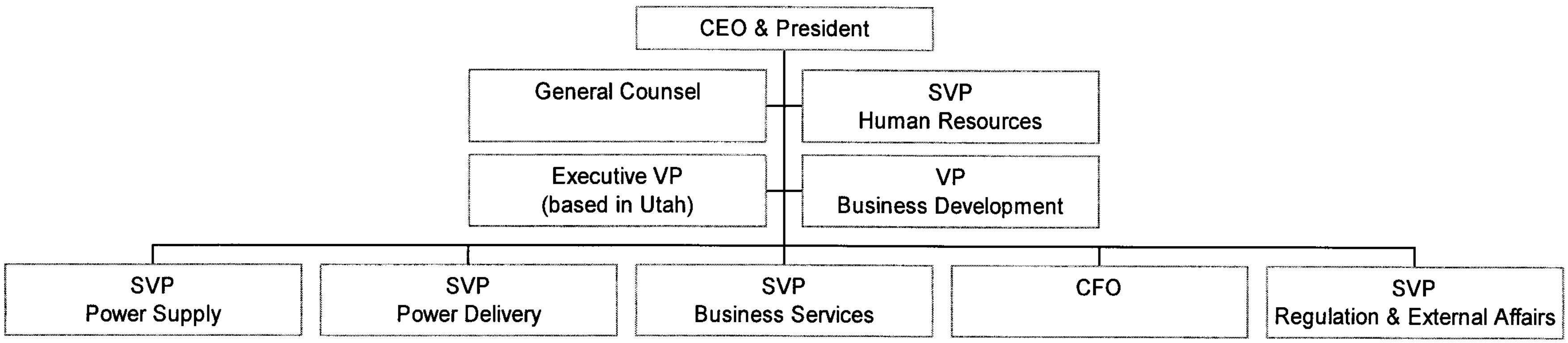
Re-Focusing The Organization



- Generation
- Mining
- Trading

- Transmission
- Distribution
- Customer Service

- IT
- Shared Services

– Clear accountabilities and balanced responsibilities

– Consistent business drivers ensuring focus

– Commercial discipline driving decisions

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Workforce Reductions - Stretch Goal

Workforce Reductions By Business Area

	2000/01	2001/02	2002/03	2003/04	2004/05
Corporate	82	175	225	227	234
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Other	2	2	2	2	2	112	
	234	627	1,298	1,525	1,552	7,788	20%

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*Actual Transition Start Point

Organizational Changes - Geographical Positioning

Oregon

Corporate HQ

Distribution SBU

Customer Service Center

Centralized Dispatch

WES

Procurement

Utah

Production SBU

Income Collection Center

Metering Business

Transport Business

Mining

Community & Economic Development

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PacifiCorp Stretch Goal - Achieving "Top 10"

Non Generation Cost / Customer

1998 Ranking		1998	2004
1		$173	
5		$186	
10		$228	
30		$270	
50		$292	
75	PacifiCorp	$352	$200*

– Deliver enhanced Customer Service and System Performance

– Meet merger commitments

Source:FERC Form 1 1998
(Non generation costs exclude bad debt & customer informational expenses)

*Transition Plan estimate

NB: Highly Optimistic Scenario

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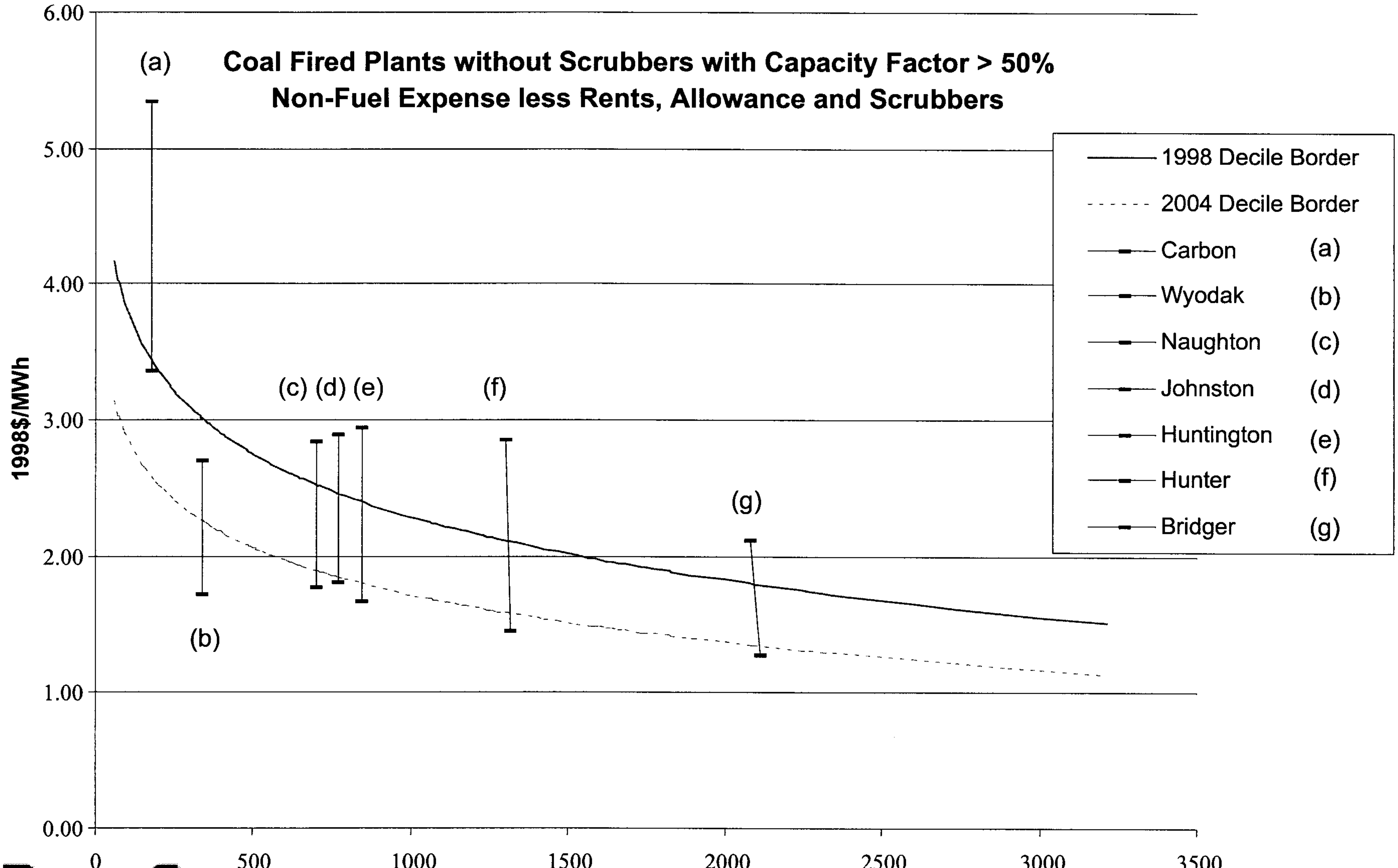
Generation - Achieving "Top 10"



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