

SCOTTISH POWER PLC

**PROPOSED POST-MERGER TREATMENT OF
AFFILIATE TRANSACTIONS, CORPORATE
COSTS ALLOCATION AND LOCATION OF
SCOTTISH POWER CORPORATE COSTS**

SCOTTISH POWER plc

CORPORATE STRUCTURE

The proposed corporate structure for the combined ScottishPower Group, post-merger is provided in Appendix 1 and includes the following companies:

Scottish Power plc

In order to maintain the appropriate separation of ScottishPower's subsidiary businesses, it is proposed to establish a corporate structure to include a separate holding company that will provide common corporate services for the combined ScottishPower Group.

Scottish Power UK plc

Scottish Power UK plc will incorporate existing ScottishPower businesses of Generation, Transmission, Distribution, Supply, Second Tier Supply and Wholesale. Its subsidiaries will be existing Scottish Power plc subsidiaries, the principal ones being Manweb, Southern Water and Scottish Telecom.

NA1 Ltd. and NA2 Ltd.

NA1 Ltd. and NA2 Ltd. are the partners in the NA General Partnership. They provide Scottish Power plc with liability protection in respect of its ultimate ownership of the NA General Partnership. Both companies are investment holding companies only and will not contain any cost centers.

NA General Partnership

NA General Partnership is Scottish Power plc's acquisition vehicle for US investments that shall enable them to be made in a financial and tax efficient manner. Again this shall be an investment holding entity without cost centers.

e) Nevada Holdco

Nevada Holdco it is an investment holding company, without cost centers, that can be used as the vehicle for further investments in the US, if and when required.

f) PacifiCorp

_____ This is the PacifiCorp group as it presently exists.

LOCATION OF COMMON CORPORATE COSTS

Since privatization, ScottishPower has organized its group-wide activities through a small Corporate Office and has devolved all operational activities to business level under the control of the relevant business Managing Director. This structure has remained in place with the acquisitions of Manweb and Southern Water, which also operate as separate businesses within the ScottishPower Group. It is our intention to continue applying this principle to the enlarged ScottishPower Group, but with common corporate costs being incurred by Scottish Power plc.

Such costs will comply with agreed definitions of common corporate costs that will apply to both existing ScottishPower corporate functions and to existing PacifiCorp corporate functions. Appendix 2 provides the description of ScottishPower common corporate functions that will reside in Scottish Power plc. Since these functions relate to complete departments and are consistent with the current UK Company structure, they are readily identifiable and easily audited.

A detailed analysis of PacifiCorp common corporate functions, mirroring those of ScottishPower, will be carried out prior to the conference on allocation methodology planned for October. It is expected that, as a

minimum, this analysis will produce the amount currently allocated across PacifiCorp using the Three-Factor Formula. Only those costs meeting the common definitions will be so applied.

The remaining current UK corporate functions are set out in Appendix 3 and relate exclusively to the UK. They will be costed to Scottish Power UK plc rather than Scottish Power plc. Similarly non-common US corporate costs will remain in PacifiCorp.

CORPORATE COST ALLOCATION METHODOLOGY

Scottish Power plc Common Corporate Costs

Initially, it is proposed that the common corporate costs for each corporate department charged into Scottish Power plc be charged back in full to the company where they originated. Therefore, ScottishPower costs will be charged to Scottish Power UK plc and PacifiCorp costs charged to PacifiCorp. As the integration activities occur and departments are merged, the combined costs will continue to be allocated between Scottish Power UK plc and PacifiCorp in the established baseline proportion for that department. It is proposed to use 1999 normalized department results as the base year for establishing this relationship. Hence, if the 1999 normalized department costs were \$4m and \$8m in ScottishPower and PacifiCorp respectively, and a subsequent savings of \$3m were made when the departments were merged, then the revised department costs would be allocated \$3m to Scottish Power UK plc and \$6m to PacifiCorp.

Where project work of a significant nature is undertaken, e.g. on a new major equity investment, then the direct costs involved will be directly allocated to this project.

Allocation of Corporate Costs within PacifiCorp and ScottishPower UK plc

The methodology proposed above is for the allocation of costs from Scottish Power plc to the top levels of Scottish Power UK plc and PacifiCorp respectively. It is not proposed to change the methodologies currently in use in the UK and US for allocation of these costs further within Scottish Power UK plc and PacifiCorp. Thus, allocation of these costs within PacifiCorp will continue to be on the basis of direct charging and the Three-Factor Formula.

AFFILIATE TRANSACTIONS

ScottishPower is required under its UK licenses to ensure that no regulated business gives any cross-subsidy to, or receives any cross-subsidy from, any other business of the Company, or of an affiliate or related undertaking of the Company. If a service available in the market place is provided by any business within the enlarged ScottishPower Group at a price different to the prevailing market price, then this would be a cross-subsidy either to or from the regulated business. Thus, ScottishPower would be in breach of its UK license. All such transactions must therefore take place at market rate and this process currently used within ScottishPower will be continued in relation to any transactions between Scottish Power UK plc and PacifiCorp for UK regulatory purposes.

For US rate making purposes however, we will apply the more advantageous of cost or market value as the pricing standard. For services provided into the US regulated business at a market rate that is higher than cost, the difference would be charged 'below the line' in the accounts of the regulated business.

Information on all such transactions between Scottish Power UK plc and PacifiCorp will be made available, together with a full audit trail, to enable regulation staff and/or external auditors to report on compliance with the obligations relating to cross-subsidy.

AUDITING

All transactions between PacifiCorp and Scottish Power UK plc will be treated on the same basis as current affiliate transactions within PacifiCorp. An audit trail will exist with respect to all transactions between the regulated entity and its affiliates that relate to jurisdictional services and products. The regulator will have access to necessary affiliate records to ensure that cost allocations and affiliate transactions are conducted in accordance with regulatory requirements and that no cross-subsidy exists.

REVIEW

This allocation methodology will be reviewed in collaboration with regulators during the year 2004 to determine its continued suitability. If, for whatever reason, its continued use becomes inappropriate then we will jointly agree a revised suitable methodology. This will coincide with the next Price Review in the UK by UK regulators.

Appendix 1

Proposed ScottishPower Group Corporate Structure

APPENDIX 2

SCOTTISH POWER PLC COMMON CORPORATE FUNCTIONS CURRENTLY LOCATED IN SCOTTISHPOWER

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

This includes the direct costs, including premises and administrative support, of executive and non-executive directors. The executive directors are:

The Chief Executive who has responsibility for the entire ScottishPower Group.

The Deputy Chief Executive & Finance Director who has responsibility for the Southern Water, ScottishTelecom and Information Systems businesses, as well as corporate responsibility for finance, strategy and corporate affairs.

The Executive Director, UK Power Operations who has responsibility for the Generation, Power Systems, Manweb, Contracting and Technology businesses, as well as corporate responsibility for gas, safety and environmental issues.

The Executive Director, Customer Sales & Services who has responsibility for the Energy Supply and Retail businesses, as well as corporate responsibility for electricity trading, multi-utility and regulation issues.

The Executive Director and CEO Designate of PacifiCorp.

SAFETY & ENVIRONMENT

The Corporate Safety Manager is responsible for coordinating the Group's activities to meet the requirements of safety legislation.

The Corporate Environment Director is responsible for coordinating the Group's environmental activities, focusing heavily on environmental improvements, encouraging energy efficiency and developing renewable energy.

REGULATION

The Director of Regulation is responsible for coordinating all regulatory activities of the ScottishPower businesses at group level by liaising with regulatory staff within each business, and interfacing with regulatory bodies at local, national and international level. The department also provides advice on regulatory and competition issues to Executive Directors and businesses within the ScottishPower Group.

Interfaces with Government departments on regulatory and competition issues are also the responsibility of the Regulation Department.

FINANCE

The Corporate Finance Department is responsible for all financial activity at group level and consolidation and co-ordination of financial reporting and control at business level. The functions included are:

Group Accounting which produces consolidated budget, forecast and management accounts for the main Board and financial accounts for external publication. The group also produces the relevant consolidated

regulatory accounts and the consolidated business plan. Other external accounts prepared by Group Accounting include the Form 20-F required under the rules of the New York Stock Exchange, where ScottishPower's shares are also listed.

Internal Audit which is an independent review function set up as a service to the Board of Directors and management. Its remit involves reviewing and reporting on the systems of internal control across the Group.

Group Taxation which handles all tax compliance, administration, advice and planning for the ScottishPower Group.

Treasury which has responsibility for managing the Group's debt and cash balances, protecting the Group's interest charge from movements in interest rates and protecting earnings from movements in exchange rates.

Insurance Department which is responsible for the formulation, implementation and management of the Group's insurance and risk financing program. It also provides a claims-handling and advisory service to the rest of the Group.

Cash Department which provides the Corporate Office with a full banking and cash services facility.

STRATEGY

The department provides support to the Executive Directors relating to business development and corporate strategy. The four main areas include:

Strategic Objectives to assist the Board in setting the key business objectives and provide the strategy to implement these.

Business Planning involving the review and consolidation of Group business plans.

Project Management provision and specialist input for corporate and business projects.

Business Review of major capital investments and the monitoring of business performance.

CORPORATE AFFAIRS

Corporate Affairs are responsible for managing corporate image and reputation for the ScottishPower Group. This includes communications with all key stakeholder groups covering investor relations, national and international media, crisis planning, political liaison, sponsorships and community programs, internet/intranet and internal communications.

HUMAN RESOURCES

The Group Human Resources Director's team includes HR specialists who provide support to HR teams within Group businesses. In addition to specialists, the HR team provides services to Corporate Office employees. It also supplies group wide strategy in other areas such as payroll, pensions and occupational health. Other services provided by the department to the ScottishPower Group include employee relations, management development, compensation and benefits and support for the international assignments.

LEGAL

The Group Legal Director's team provides strategic advice to the Group's various businesses on contractual and commercial matters. In addition, the corporate Legal team advises on special projects including corporate mergers, joint ventures, acquisitions, divestments and material construction projects.

CORPORATE SECRETARIAL

The Corporate Secretarial Department is responsible for corporate governance within the ScottishPower Group. This includes the administration of the Board and Committee Meetings of the Group, the Group's statutory compliance and compliance with Stock Exchange/SEC and Companies House regulations. Other areas of responsibility include the administration of the employee share schemes, shareholder services, Data Protection and maintenance of central records/registers such as trademarks.

STRATEGIC MARKETING

Strategic Marketing is responsible for major Group wide marketing initiatives covering all aspects of the Group's activities.

SCOTTISHPOWER LEARNING (Corporate)

ScottishPower Learning provides a group-wide strategy and coordination function to support a range of initiatives aimed at improving education and opportunities for employees and people of all ages within the communities in which ScottishPower works.

APPENDIX 3

LIST OF EXISTING SCOTTISHPOWER DEPARTMENTS TO REMAIN IN SCOTTISH POWER UK PLC

PAYROLL

The Payroll Department is custodian of the integrated Human Resources/Payroll System and processes all remuneration, salary and expenses for all ScottishPower Group staff and pensioners. Liaison with various Government bodies relating to remuneration and employee data is also carried out by the Department.

GROUP PENSIONS

The Pensions Department is responsible for all aspects of the development and administration of the various pension schemes throughout the existing ScottishPower Group.

OCCUPATIONAL HEALTH

The Occupational Health service for ScottishPower employees is staffed by a team of health professionals who work in three key areas – ill-health prevention, health promotion and coping strategies.

In delivering a wide range of services, the core Occupational Health team is supported by a range of specialists from different disciplines, including physiotherapy and ergonomics, chiropody, ophthalmic services, dentistry and complementary health therapies.

SCOTTISHPOWER LEARNING (Business)

Specific initiatives currently taking place in the UK are as follows:

ScottishPower's New Deal program, an initiative within the Welfare to Work scheme, offers 250 places for unemployed people aged between 18 and 24 across the Group.

Open Learning facilities offer around 700 different learning programs in 46 Open Learning Centers across the UK. Primarily, these facilities are offered to help employees fulfill their potential in a variety of fields, but in addition they are made available to employees' families, pupils, teachers and community groups.

Community Initiatives to support school leavers, unemployed and disabled people build their level of skills and self-confidence, in order that they can join or re-join the workforce. For example, employees join in community projects in conjunction with the Princes Trust and the Outward Bound Trust.