

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter of The Application of
PacifiCorp And ScottishPower plc for an
Order Approving the Issuance of PacifiCorp
Common Stock

DOCKET NO. 98-2035-04

STIPULATION

This Stipulation (“Stipulation”) is entered into among PacifiCorp (“PacifiCorp”), ScottishPower plc (“ScottishPower”), the Division of Public Utilities (“DPU”) and the Committee of Consumer Services (“CCS”). PacifiCorp and ScottishPower are referred to jointly as the “Applicants”. References to ScottishPower shall include New ScottishPower plc, as defined in the Amended and Restated Agreement and Plan of Merger, dated as of December 6, 1998 and amended as of January 29, 1999 and February 9, 1999. PacifiCorp, ScottishPower, DPU, and CCS are referred to individually as a “Party” and collectively as “Parties”.

BACKGROUND

A. PacifiCorp is an Oregon corporation and an electric public utility in the state of Utah. PacifiCorp provides retail electric service in the states of California, Idaho, Oregon, Utah, Washington, and Wyoming.

B. ScottishPower is a public limited company in Scotland. ScottishPower provides retail electric service in the United Kingdom and, through its subsidiaries, also provides telecommunications, water, and waste water services.

C. On December 31, 1998, PacifiCorp and ScottishPower filed an Application with the Public Service Commission of Utah (“Commission”) requesting an Order approving the issuance of PacifiCorp common stock, pursuant to Utah Code Ann. §54-4-31, in connection with a merger transaction whereby PacifiCorp shall become a wholly owned, indirect subsidiary of ScottishPower.

D. The DPU and the CCS have reviewed the Application, the prefiled testimony of the Applicants, and the responses to extensive discovery requests submitted by parties to this and other proceedings. On June 18, 1999, the DPU filed testimony in this proceeding, recommending that the merger be approved by the Commission, subject to adoption of conditions proposed by the DPU. The CCS filed testimony recommending that the merger be rejected by the Commission unless adequate conditions, including a credible rate plan for Utah retail customers, were imposed.

E. PacifiCorp, ScottishPower, the DPU, and the CCS have met to discuss the proposed transaction and resolve as many of the DPU’s proposed conditions and the CCS’s

issues as possible. This Stipulation constitutes the negotiated resolution of all of the issues between the Applicants, the DPU, and the CCS. ScottishPower agrees that it is willing to accept an Order issued by the Commission with the terms set out in this Stipulation. Based upon the terms and conditions of this Stipulation, DPU and CCS acknowledge that ScottishPower and PacifiCorp have satisfied the standard in Utah for Commission approval of the proposed merger transaction and recommend that the Commission approve the Application, incorporating the conditions of this Stipulation.

TERMS OF STIPULATION

The terms and conditions of this Stipulation are set forth below.

1. ScottishPower and PacifiCorp shall agree to all commitments and conditions as included in Witness Alan Richardson's Supplemental Testimony Exhibit AVR-1 (a copy of which is attached as Attachment 1). In the event of any conflict between Attachment 1 and this Stipulation, the terms of this Stipulation shall govern.

2. On June 18, 1999, ScottishPower and PacifiCorp filed a proposed cost allocation methodology for the allocation of corporate and affiliate investments, expenses, and overheads. In or about October 1999, PacifiCorp and ScottishPower shall schedule a conference/meeting with regulators in all PacifiCorp states (including CCS in Utah) to discuss the proposed and alternative corporate and affiliate cost allocation methodologies. The DPU agrees to use its reasonable best efforts to reach agreement with the other state regulators as to the corporate cost allocation methodology to be recommended to the respective state commissions. In the event the state regulators are unable to reach agreement or the DPU concludes that the methodology supported by any of the other U.S. regulatory states would cause actual or perceived financial harm or inequity (on the basis of projections at that time) to the ratepayers in Utah, the DPU may support or recommend such allocation methodology to the Commission as it determines to be appropriate. ScottishPower assumes the risk of whatever allocation methodologies or decisions the Commission may adopt.

Any proposed methodology to be submitted to the Commission for approval will comply with the following principles:

(a) For services rendered to PacifiCorp or each cost category subject to allocation to PacifiCorp by ScottishPower or any of its affiliates, ScottishPower must be able to demonstrate that such service or cost category is necessary to PacifiCorp for the performance of its regulated operations, is not duplicative of services already being performed within PacifiCorp, and is reasonable and prudent.

(b) Cost allocations to PacifiCorp and its subsidiaries shall be based on generally accepted accounting standards, that is, in general, direct costs shall be charged to specific subsidiaries whenever possible and shared or indirect costs shall be allocated based upon the primary cost-driving factors.

(c) ScottishPower shall have in place time reporting systems adequate to support the allocation of costs of executives and other relevant personnel to PacifiCorp.

(d) An audit trail shall be maintained such that all costs subject to allocation can be specifically identified, particularly with respect to their origin. In addition, the audit trail must be adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates.

(e) Costs which would have been denied recovery in rates had they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the ScottishPower group.

(f) Any corporate cost allocation methodology used for rate setting in Utah, and subsequent changes thereto, must be approved by the Utah Commission.

ScottishPower also assumes the risk of the Commission's approval or adoption of corporate cost allocation methodologies which differ from those adopted by U.K. regulatory agencies.

3. No merger transaction related costs shall be allowed in rates. Enhancements to severance costs relating to the merger will not be allowed in rates. Normal severance costs may be considered for allowance in rates. Future costs arising as a result of the transition plan which result in net cost savings may be considered for allowance in rates. The Applicants agree that they will not in any future rate case in Utah argue for inclusion in rates of any of the items described in Attachment 2.

4. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of ScottishPower shall not be held by PacifiCorp, the entity for utility operations, or a subsidiary of PacifiCorp. This condition shall not prohibit the continued holding of any existing investments or the holding of diversified businesses and investments by affiliates of PacifiCorp.

5. ScottishPower and PacifiCorp agree to notify the Commission subsequent to ScottishPower's Board approval and as soon as practicable following any public announcement of (1) an acquisition of a regulated or non-regulated business representing 5% or more of the market capitalization of ScottishPower or entering into a new business venture or expansion of an existing one, or (2) a merger, combination, transfer of stock or assets of any material part or all of PacifiCorp or the direct owner of PacifiCorp stock. In addition, PacifiCorp shall comply with the provisions of Utah Code Ann. §§54-4-28 through 54-4-31.

6. ScottishPower shall comply with PacifiCorp's Transfer Pricing Policy, as currently in effect or hereafter amended with the approval of the Commission, in respect of transactions with PacifiCorp.

7. PacifiCorp or ScottishPower shall notify the Commission, and provide sufficient information and documentation to the Commission, prior to the implementation of plans by

either PacifiCorp or ScottishPower (1) to form an affiliate entity for the purpose of transacting business with the regulated operations of PacifiCorp, (2) to commence new business transactions between an existing affiliate and with the regulated operations of PacifiCorp, or (3) to dissolve an affiliate which has transacted any substantial business with the regulated operations of PacifiCorp.

8. PacifiCorp shall comply with the provisions of Utah Admin. Code Section R746-401 which sets out the Commission's Rules for reporting the construction, purchase, acquisition, sale, transfer or disposition of utility assets and utility plant.

9. ScottishPower and PacifiCorp shall be required to provide notification of and file for Commission approval of the divestiture, spin-off, or sale of any integral utility function of PacifiCorp. This condition does not limit any jurisdiction the Commission may otherwise have over the divestiture, spin-off or sale of any utility asset.

10. ScottishPower, PacifiCorp and all affiliates shall make their employees, officers, directors, and agents available to testify before the Commission to provide information relevant to matters within the jurisdiction of the Commission.

11. ScottishPower and PacifiCorp shall provide adequate access for the Commission, DPU and CCS or their authorized agents to relevant books, records and officials of all ScottishPower entities. Failure to provide adequate supporting documentation of costs may result in those costs being denied rate recovery. Requests by such entities or their authorized agents shall be deemed presumptively valid, material and relevant, with the burden falling to ScottishPower and PacifiCorp to prove otherwise. ScottishPower and PacifiCorp shall reserve the right to challenge any such request before the Commission and shall have the burden of demonstrating that any such request is not valid, material or relevant. Applicants agree that corporate records shall be available for inspection in Utah or Portland, Oregon. ScottishPower and PacifiCorp shall pay reasonable expenses incurred by the Commission, DPU and CCS in accessing corporate records and personnel located outside of the State of Utah.

12. For a period of five (5) years commencing with the year 2000, PacifiCorp shall include in its year-end semi-annual report a full description, calculation (with supporting work papers) and dollar identification (both total PacifiCorp and Utah's share) of merger savings achieved for the reporting year.

13. No later than six months after the closing date of the merger, ScottishPower and PacifiCorp will file the merger transition plan with the Commission. The plan will include the items described in Mr. MacRitchie's Utah rebuttal testimony.

14. The existing Umbrella Loan Agreement between PacifiCorp and its affiliates (approved by the Commission on November 19, 1997 in Docket No. 88-2035-03), as it may hereafter be amended with approval of the Commission, will continue to govern the terms for loans between PacifiCorp and its affiliates and ScottishPower shall be deemed to be an affiliate in accordance with the terms of the Umbrella Loan Agreement.

15. For two years following the merger, PacifiCorp shall file a cash flow summary (or other evidence) with its dividend report, showing that service will not be impaired by payment of the dividend, and shall comply with the provisions of Utah Code Ann. §54-4-27. In addition, an officer of PacifiCorp shall be satisfied and shall formally certify to the Commission that PacifiCorp has adequate capital to meet all of its outstanding commitments and carry out its public service obligations in the State of Utah.

16. Any penalty payable by ScottishPower for failure to meet any of the five network performance standards in the State of Utah, as specified at page 9 of the Direct Testimony of Bob Moir, shall be paid as designated by the Commission. Upon the assessment of any such penalties, PacifiCorp and ScottishPower shall consult with the DPU and the CCS to identify an appropriate recipient and shall file its proposal with the Commission. PacifiCorp and ScottishPower agree to be bound by the Commission's decision in this regard.

17. General and Financial reports - To be filed with the Commission:

(a) FERC form 1 - PacifiCorp and Utah state;

(b) Annual and quarterly reports (if any) to shareholders of ScottishPower;

(c) Semi Annual reports showing Utah and PacifiCorp operating results, allocation factors, coal reports, demand side management report, production costs modeling, peak loads by jurisdiction, normalizing adjustments and work papers, all in respect of the regulated operations of PacifiCorp;

(d) Monthly financial and operating reports of the regulated operations of PacifiCorp;

(e) Securities and Exchange Commission Reports 10-Q (quarterly) and 10K (annually) of PacifiCorp;

(f) Annual class cost of service studies for the regulated operations of PacifiCorp;

(g) Monthly Energy Information Administration Form EIA 826 for the regulated operations of PacifiCorp;

(h) Annual affiliated interest report for PacifiCorp and relevant affiliates; and

(i) Five year financial plan and forecast of financial condition (including capital expenditures) for PacifiCorp, provided that such shall not be filed with Commission but shall be available for inspection at the offices of PacifiCorp or its attorneys in Utah on an annual basis.

18. For the purpose of U.S. regulatory reporting, ScottishPower shall follow FASB 52

19. Unless otherwise approved by the Commission, the Applicants agree to the use of a hypothetical capital structure to determine the correct costs of capital for ratemaking purposes in Utah. The capital structure shall be constructed using a group of A-rated electric utilities comparable to PacifiCorp.

20. Within 90 days after closing of the merger, PacifiCorp and ScottishPower shall provide a detailed report indicating PacifiCorp's proportionate share of the ScottishPower group's total assets, total operating revenues, operating and maintenance expense, and number of employees. Subsequent to this initial report, this information shall be included as part of PacifiCorp's semi-annual filing with the Commission.

21. Except as provided in Condition 22, until approved by the Commission in a separate proceeding, PacifiCorp shall maintain separate long term debt.

22. With the exception of inter-group loans which shall be provided in accordance with Condition 14, PacifiCorp shall apply to the Commission for approval of debt issuances by PacifiCorp or on its behalf, in accordance with Utah Code Ann. §54-4-31 provided that the DPU and CCS agree that PacifiCorp may apply for a waiver of this requirement following 12 months after the closing of the merger.

23. PacifiCorp and ScottishPower agree not to assert in any future Utah proceeding that the provisions of PUHCA or the related Ohio Power v FERC case preempt the Commission's jurisdiction over affiliated interest transactions and will explicitly waive any such defense in those proceedings. In the event that PUHCA is repealed or modified, PacifiCorp and ScottishPower agree not to seek any preemption under any subsequent modification or repeal of PUHCA.

24. PacifiCorp and ScottishPower shall provide the DPU and the CCS with a copy of any SEC filed lobbying reports.

25. If ScottishPower is able to lower the costs of capital, then those savings shall be reflected in rates in accordance with regulatory practices in the State of Utah. If, however, the cost of capital of electric operations of PacifiCorp increases as a direct result of the merger, ScottishPower's shareholders will bear that cost.

26. Rates will be set based upon original and not revalued costs. Any premium paid by ScottishPower for PacifiCorp stock will be disregarded for ratemaking purposes.

27. (a) PacifiCorp will comply with ScottishPower's proposed performance standards and service guarantees and will not allow its underlying outages to increase above current levels for the periods set out in ScottishPower witness Moir's direct testimony.

(b) PacifiCorp will include the proposed performance standards and service guarantees in its tariff.

(c) During 2004, PacifiCorp will review and if necessary revise its performance standards, service guarantees and related requirements. In any event, PacifiCorp will submit for Commission approval its proposals for the continuation of performance standards, service guarantees and related requirements.

28. PacifiCorp will fund network expenditures required to implement the service standards commitments in ScottishPower's direct testimony from efficiency savings and redirected internal funding; and will report funding sources and expenditures against the \$55 million estimate.

PacifiCorp will report on expenditures and sources of funds in its year-end semi-annual report.

29. PacifiCorp will operate its current outage reporting system in parallel with Prosper (an automated system expected to verify customer reported outages) until the earlier of Commission approval to terminate the current system or until the establishment of baselines in accordance with Condition 30.

30. (a) PacifiCorp will perform audits at six-month intervals to ascertain the differences between customer reported faults (from the telephone systems) and those recorded in the fault reporting systems to ascertain the differences due to reporting deficiencies. These three audits will terminate 18 months after approval of the transaction. Thereafter, PacifiCorp will perform audits upon request of the DPU or the Commission.

(b) Based on that data, the DPU will, within 18 months after approval of the transaction, file a report with the Commission recommending outage baselines. Disputes, if any, regarding the outage baselines will be resolved by the Commission.

31. Subject to the following reporting and dispute resolution provisions, PacifiCorp may use the IEEE criteria to determine what constitutes an "extreme event" as proposed in the Direct Testimony of ScottishPower witness Moir. The claim by PacifiCorp may involve judgments regarding design limits of or extensive damage to the power system. If so, PacifiCorp will file with the DPU a report specifying the basis for the claim and any disputes regarding the merits of the claim will be resolved by the Commission.

32. PacifiCorp will audit, in response to DPU requests, to determine actual outage levels B after correcting for under or inaccurate recording. The results of that determination will be submitted to the DPU and will be subject to audit by the DPU or its designated expert.

33. PacifiCorp will provide quarterly reports of outages on a district basis. The report will include a comparison of the average district outage levels (for outage durations, outage frequencies, and short duration outages) with the outage level for the highest and lowest circuits. PacifiCorp recognizes that the DPU has the statutory authority to request additional information. PacifiCorp agrees to provide explanations or corrective action plans regarding unfavorable outage variances in response to DPU requests.

After Prosper is in place, PacifiCorp will include in the quarterly reports the numbers of customers in each district for whom outages have exceeded PacifiCorp's average outage frequency rate.

34. PacifiCorp shall continue with internal meter set and meter test field response standards in Northern Utah. It shall establish reasonable internal targets for field responses where none currently exist and for which targets have not yet been set and report performance against all district targets on a quarterly basis.

35. PacifiCorp shall report call-handling results during wide-scale outages against average answer speeds, hold times, and busy indications.

36. PacifiCorp shall report, each quarter, district data showing credits to customers for failures to meet customer guarantees. PacifiCorp will do so for the period of the commitment to these guarantees, as set out in the direct testimony of Bob Moir.

37. PacifiCorp shall implement and include in its tariff a dispute resolution process for dealing with customer claims resulting from customer guarantee failures on a fair and consistent basis.

Customers will continue to have the right to file informal complaints with the DPU or formal complaints with the Commission.

38. Following the introduction of Prosper, PacifiCorp will provide a quarterly report of the number of customer reported transmission outages where customers report loss of supply. For each customer reported transmission outage, PacifiCorp agrees to report as precisely as is possible the locality (that is, the PacifiCorp district, wholesale electric cooperative, municipality or other wholesale customer location) from which the customer report came.

39. PacifiCorp recognizes that it has a statutory obligation to provide adequate, efficient, just and reasonable service to each retail customer. PacifiCorp also recognizes that the Commission has the authority to supervise and regulate PacifiCorp's service and to enforce its orders, including through the provisions of Section 54-7-25.

40. PacifiCorp will continue to produce Integrated Resource Plans every two years, according to the then current schedule and the then current Commission rules.

41. PacifiCorp shall make a showing in a rate proceeding that any additions of renewable resources to the rate base or the revenue requirement first appearing in that rate proceeding are prudent investments.

42. For the two years following the final approval of the merger, ScottishPower/PacifiCorp shall comply with the provisions of the merger agreement in respect of employee benefit plans.

43. ScottishPower and PacifiCorp agree to provide guaranteed merger related cost-of-service reductions for four years through an annual merger credit. The amount of the credit shall be \$12 million per year for years 2000, 2001, 2002 and 2003. The total credit in years 2000-2003 will be \$48 million. The merger credit shall be allocated among PacifiCorp's retail tariff customers on the basis of a percentage of the customer bill, exclusive of taxes. At the end of each year, the aggregate amount of credit allocated in that year shall be calculated. These calculations shall be audited by the DPU, who shall report their audit results to the Commission. In the event the merger credit does not equal \$12 million in any of the first three years, the excess or shortfall shall be applied to the \$12 million due in the following year.

For each of the years 2002 and 2003, ScottishPower and PacifiCorp may reduce or offset the \$12 million merger credit to the extent that cost reductions related to the merger are reflected in rates.

The dates set forth in this Condition assume that the merger transaction closes in 1999. If closing is delayed, ScottishPower and PacifiCorp may adjust the dates so that the merger credit begins as soon as practicable but not later than 30 days after the closing date.

In the event that restructuring of the electricity business occurs in Utah prior to the end of the four years for payment of the merger credit, the Commission shall determine at that time how the outstanding merger credit shall be paid.

Any other terms required to implement this merger credit shall be included in the merger credit tariff for approval by the Commission.

44. Rates in Utah shall not increase as a result of the merger.

45. ScottishPower and PacifiCorp agree that they shall assume all risks that may result from less than full system cost recovery if interjurisdictional allocation methods differ among PacifiCorp's various state jurisdictions. The DPU agrees to use its reasonable best efforts to reach agreement with the other state regulators as to the interjurisdiction cost allocation methodology to be recommended to the respective state commissions. In the event the state regulators are unable to reach agreement or the DPU concludes that the methodology supported by any of the other U.S. regulatory states would cause actual or perceived financial harm or inequity (on the basis of projections at that time) to the ratepayers in Utah, the DPU may support or recommend such allocation methodology to the Commission as it determines to be appropriate. ScottishPower and PacifiCorp assume the risk of whatever allocation methodologies or decisions the Commission may adopt. In addition, ScottishPower and PacifiCorp assume all risks that may result from any difference among PacifiCorp's various state jurisdictions in respect of the conditions imposed by the different state commissions relating to this merger transaction.

46. PacifiCorp shall continue to comply with the procurement policy and competitive bidding requirements approved by the Commission on January 16, 1991 in Docket

No. 90-2035-05, as the same may hereafter be amended by the Commission.

47. ScottishPower shall not change its corporate structure to form a holding company or make any other major change in corporate structure without prior notice to the Commission along with an explanation of any expected impacts of the changes on PacifiCorp or Commission regulation.

48. PacifiCorp shall not, without the approval of the Commission, assume any obligation or liability as guarantor, endorser, surety or otherwise for ScottishPower or its affiliates provided that this condition shall not prevent PacifiCorp from assuming any obligation or liability on behalf of a subsidiary of PacifiCorp. ScottishPower shall not pledge any of the assets of the regulated business of PacifiCorp as backing for any securities which ScottishPower or its affiliates (but excluding PacifiCorp and its subsidiaries) may issue.

49. ScottishPower and PacifiCorp agree they shall provide management and financial resources adequate to enable PacifiCorp to meet its commitments, carry out its authorized activities and comply with its public service obligations.

50. In the event that PacifiCorp or ScottishPower does not comply with the above conditions, the Commission may make appropriate ratemaking adjustments to give full effect to these conditions. The Commission may exercise its authority to make, for retail ratemaking purposes, adjustments for misallocation of costs from non-regulated business to PacifiCorp or ScottishPower.

51. PacifiCorp and ScottishPower may request confidential treatment for any information or documents filed with the Commission, the DPU or the CCS or made available to them or their agents, in compliance with these conditions. Any request for confidential treatment will be handled as provided in the Government Records Access and Management Act, Utah Code Ann. §63-2-101 et seq., or pursuant to a Protective Order issued by the Commission.

GENERAL TERMS AND CONDITIONS

52. PacifiCorp, ScottishPower, the DPU and the CCS agree that this Stipulation has been reached through settlement negotiations. As such, evidence or conduct or statements made in the negotiation and discussion phases of this Stipulation shall not be admissible as evidence in any proceeding before the Commission or a court.

53. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any material part of this Stipulation or imposes additional material conditions in approving the Application, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all parties to this proceeding within 15 business days of the Commission's Order, to withdraw from this Stipulation. If any Party withdraws from this Stipulation on this basis, no Party shall be bound by the terms of this Stipulation and each Party shall be entitled to seek reconsideration of the Commission Order, file any testimony it chooses, cross-examine witnesses and in general put on such case as it deems appropriate.

54. PacifiCorp, ScottishPower, the DPU and CCS agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable. The DPU and the CCS recommend to the Commission that the Application of ScottishPower and PacifiCorp be approved with respect to the matters set out in this Stipulation.

55. Except as provided in this Stipulation, execution of this Stipulation shall not be deemed to constitute an acknowledgment by any Party of the validity or invalidity of any particular method, theory or principle of regulation, and no Party shall be deemed to have agreed that any principle, method or theory of regulation employed in arriving at this Stipulation is appropriate for resolving any issue in any other proceeding. No findings of fact or conclusions of law other than those stated herein shall be deemed to be implicit in this Stipulation.

56. The obligations of ScottishPower and PacifiCorp under this Stipulation are subject to the Commission's approval of the Application in this docket on terms and conditions acceptable to ScottishPower and PacifiCorp, in their sole discretion, and the closing of the merger transaction between ScottishPower and PacifiCorp.

Dated: July 28, 1999

UTAH DIVISION OF PUBLIC UTILITIES

PACIFICORP

By: /s/ Michael Ginsberg
Its: Attorney

By: /s/ Edward A. Hunter
Its: Attorney

COMMITTEE OF CONSUMER SERVICES

SCOTTISH POWER PLC

By: /s/ Douglas C. Tingey
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By: /s/ Brian W. Burnett
Its: Attorney