Monday, August 2, 1999: 9:10 a.m.

CHAIRMAN MECHAM: Okay, let's go on the record in Docket No. 98-2035-04 entitled In the Matter of the Application of PacifiCorp and ScottishPower PLC for an Order Approving the Issuance of PacifiCorp Common Stock. And let's take appearances for the record.

MR. HUNTER: Edward Hunter and James Fell representing PacifiCorp.

MR. BURNETT: Brian Burnett and Jamie Van Nostrand representing ScottishPower.

MR. GINSBERG: Michael Ginsberg representing the Division of Public Utilities.

MR. TINGEY: Doug Tingey for the Committee of Consumer Services.

MR. FARR: Brian Farr for the Utah Department of Economic and Community Economic Development and the Board of Business and Economic Development.

MR. REEDER: Good morning. My name is

Robert Reeder. I appear this morning for a group of industrial users under the acronym UIEC. Our names and addresses are already in the record.

MR. MATTHEIS: Peter Mattheis appearing

on behalf of Nucor Steel.

MR. DODGE: Gary Dodge of Parr Waddoups, appearing on behalf of a group of customers called the Large Customer Group.

MR. McNULTY: Matthew McNulty from Van Cott Bagley, on behalf of the Utah Associated Municipal Power Systems.

MS. WALKER: Joro Walker, with Land and Water Fund.

MR. SANDACK: Arthur Sandack, on behalf of the International Brotherhood of Electrical Workers, Local 57.

MR. RANDLE: Steve Randle on behalf of the Utah Farm Bureau Federation.

MR. FOX: Jeff Fox on behalf of Crossroads Urban Center and Salt Lake Community Action Program.

MR. CRABTREE: David Crabtree on behalf of Deseret Generation.

MR. ALLRED: Steven Allred on behalf of Utah League of Cities and Towns.

CHAIRMAN MECHAM: Any others? Not that that isn't enough. Okay. Thank you.

All right, Mr. Ginsberg, you wanted to go through the witness list.

MR. GINSBERG: What I was trying to at least determine right up front is, there were some witnesses that were listed who there was no need to appear, and there were some that were date certain, and I guess I was trying to determine to let people know who would need to come and who wouldn't, and whether Mr. Talbot, and I understand for the Committee, is here today, and whether the other Committee witnesses will be needed. So it was just generally the issue. The ones that were listed earlier, Mr. Davis, Dolan, Fox, Malko, Burks, Nielsen. I assume now all the DG&T witnesses wouldn't be needed.

MR. HUNTER: That's correct.

MR. GINSBERG: Does anybody require any of those witnesses, or are there others that aren't needed?

MR. HUNTER: The applicants don't need any of the Committee witnesses. We left them undetermined to start with. The applicants also don't need to have the U.S. witness on the stand.

I think the schedule we handed to the Commission addresses our position on whether or not we need the other witnesses.

MR. FOX: Do the applicants need a

representative from Crossroads and Salt Lake Community Action Program?

MR. HUNTER: Only for purposes of providing evidence on the motion, the motion or stipulation, which will be heard by the Commission probably sometime tomorrow.

MR. SANDACK: Do the applicants need Mr. Newman?

MR. HUNTER: Yes, we do.

CHAIRMAN MECHAM: Well, I suppose the expectation from the Commission is that if questions arise that need to be answered that can only be answered by those witnesses, we'll have to provide some means, by telephone or otherwise, of getting the answer. So --

MR. TINGEY: Can we ask if anyone wants any of the other Committee witnesses?

MR. REEDER: Mr. Talbot and Mr. Gimble.

MR. TINGEY: Yes. Mr. Biewald and Mr. Chernick you do not need?

MR. HUNTER: It appears to be the

case. Part of the problem is, until we hear the stipulation witnesses, and see if they defer questions to others, we won't be sure, but I don't anticipate anyone other than Mr. Talbot and

Mr. Gimble.

CHAIRMAN MECHAM: Mr. Dodge?

MR. DODGE: I think we can accommodate you with Mr. Talbot this morning if we stand beyond the stipulation.

MR. TINGEY: Mr. Talbot is much more flexible than the others. It will be Mr. Chernick we need to schedule.

MR. DODGE: We're okay with that.

CHAIRMAN MECHAM: There again, if questions arise that need to be answered, we'll have to provide some way, not necessarily by airplane, but perhaps by telephone to answer them.

MR. DODGE: The applicants have also said that they don't need the Community and Economic Development witnesses, and we probably would not have them come, unless someone else needed them. We would not need to talk to Mr. Davis. We would like to talk to Mr. Winder.

MR. McNULTY: It's my understanding that the applicants do not need Mr. Daniel from

U.S., unless there is anybody else who feels like they would want to take some time with him. If not, I would just like to proffer his testimony for that time on Friday, when it's scheduled to go on.

CHAIRMAN MECHAM: He's scheduled to go on Friday. Any response?

MR. GINSBERG: Also, in light of the stipulation, the schedule may move a little quicker than it would have otherwise. Do you want to just keep the witnesses at the times that they are scheduled now or have them see how it goes?

CHAIRMAN MECHAM: Well, if we're moving more quickly, I'd just as soon keep going, you know, unless there are absolute dates certain that need to be adhered to.

MR. GINSBERG: The only one I was told had to be on a certain date was Mr. Goins.

MR. SANDACK: Mr. Newman is not available later in the week. He's set for Friday.

CHAIRMAN MECHAM: Okay. Well, we might just skip over him and move to the next one if we're there early.

MR. TINGEY: With respect to the Committee witnesses, it appears like people only want Mr. Talbot and Mr. Gimble, which we're pretty flexible on. Unless the Commission wants the other two, and then they are in another hearing and will not be available until a week from today, so just to keep that in mind if you have questions for them.

CHAIRMAN MECHAM: Okay.

MR. MATTHEIS: With respect to Dr. Goins, I would like to leave him for Thursday. That's by far the best date for him. He has conflicts.

MR. REEDER: And if it's not inconvenient, if you would prefer, we can have Drew Baker come on the present schedule, which is Thursday.

CHAIRMAN MECHAM: Well, we'll hold to those, but again, if we're ahead of schedule we'll move where we can forward. Okay. Then let's begin with the four-party --

MR. HUNTER: One procedural matter. I request that Mr. Fell be admitted to practice before the Commission for the purposes of this proceeding.

MR. REEDER: No objection, we'd welcome him.

MR. BURNETT: I'd also like to request

that Jamie Van Nostrand be admitted to practice before the Commission for purposes of this proceeding.

MR. REEDER: No objection. We'd

welcome him.

CHAIRMAN MECHAM: All right, we'll grant both.

MR. BURNETT: Thank you.

CHAIRMAN MECHAM: Thank you.

Then let's go with the four witnesses who are sponsoring the stipulation, and we'll identify each separately, and then we'll swear you all in.

(Exhibit Stipulation 1 and DPU 1.OSR marked for identification.)

CHAIRMAN MECHAM: Okay, let's go back on the record. While off the record, we marked the stipulation signed by the Division, the Committee, PacifiCorp and ScottishPower as Stipulation 1. Mr. Alt, who will testify shortly, has an exhibit which we have marked as DPU 1.0SR, it's entitled Summary List of Division Merger Conditions.

Okay. We have the four witnesses sponsoring and here to support the Stipulation 1. I'm going to have each one identify themselves, and

identify the party they're representing, and then
we'll swear them in. Go ahead. Will you identify
yourself?
MR. ALT: I'm Lowell E. Alt, Jr.,

manager of the Energy Section for the Division of Public Utilities.

MR. GIMBLE: I'm Daniel E. Gimble, the energy group manager for the Committee of Consumer Services. I'm testifying here on behalf of the Committee Board on Stipulation.

MR. WRIGHT: My name is Matthew Reginald Wright. I'm representing ScottishPower.

MR. LARSON: D. Douglas Larson representing PacifiCorp.

CHAIRMAN MECHAM: Thank you. Why don't we have all four of you stand and we'll swear you in.

LOWELL E. ALT, JR.,
DANIEL E. GIMBLE,
MATTHEW R. WRIGHT, and
D. DOUGLAS LARSON

called as witnesses, having been first duly sworn, were examined and testified as follows:

CHAIRMAN MECHAM: Mr. Alt, we'll begin with you. And Mr. Ginsberg, if you need to help him in any way, go ahead.

MR. GINSBERG: If you could identify the exhibit you're going to be referring to and explain what it is.

MR. ALT: The exhibit DPU 1.0SR, that is the way I labeled it, it's titled Summary List of Division Merger Conditions. It has three columns, the first column -- actually, the first two columns are very similar to our original exhibit in my direct testimony, DPU 1.2, that showed in the first column each of the Division's issues or concerns about the merger. And the second column adjacent to each issue was our proposed condition to mitigate or remedy, the concern, each concern.

What we've done here is added a third column that contains our current conditions proposed by the Division that are contained in the joint stipulation on the merger. And we put them side by side with the original conditions so that people can see the changes that we've made, if any, on each one.

MR. GINSBERG: All right. Can you go ahead and make your presentation now?

MR. ALT: Okay. I'd like to briefly describe the process that got us to where we are today with this stipulation recommending approval of the merger with 51 conditions. The Division started in this case by developing a list of the issues. We did this by reviewing the file in the last merger case, the Division's issues at that time and those of other parties.

We had several internal staff discussions, brainstorming sessions, if you will, to try to ferret out all the concerns that we had about things that could go wrong or things that could get worse if this merger went through, and that became our issues list. All parties in the case filed an issues list, or most of them did anyway, and we reviewed those and revised our issues list to where we saw fit, based on things that we didn't think of or that other parties had. And from that we concluded that there were a few key issues.

First, we saw that a lot of the parties were concerned about service quality and reliability, as well as us. We also saw that a lot of parties were concerned about the impact of the merger on the rates that customers pay. Another significant concern was the ability of the Commission to continue to adequately regulate the merged Company.

There were also areas that related to the State of Utah, communities and employees, and the risks that they might have an adverse impact on them. And then other parties also identified issues relating to the environment, energy conservation, municipalization, retail competition, and the location and aesthetics of utility facilities.

The Division realized fairly early on that this merger was quite different than the last Utah Power merger, in 1988, and that this merger had few quantifiable benefits and large uncertainties and risk. The last merger, I think there were identified hundreds and millions of dollars of potential savings, and the Company -- when I say the Company, often I mean ScottishPower and PacifiCorp -- in their testimony have identified very few quantifiable savings or benefits that they're willing to guarantee.

And so the Division, after reviewing

their testimony, we decided that what we needed to do was focus on trying to develop, if we could, a list of conditions that would be sufficient to mitigate all the risks and uncertainties and adverse impacts that might come from this merger. We reviewed the Utah Commission ordered conditions in the last Utah Power merger. We had many conversations and meetings with ScottishPower and PacifiCorp as well as other parties, and we spent a lot of time reviewing responses to data requests, not just the ones we submitted, but other parties in the case. We held conference calls with the Commission staff of the other PacifiCorp states and we exchanged information with them, including all data requests issued to the companies.

We also looked at the conditions in testimony from the staff, Commission staff in the other western states of PacifiCorp. And also there were stipulations between those staffs and the companies, and we reviewed those. Being kind of last for filing the testimony or towards the end, it gave us the benefit of being able to review the work in all the other states, which we found quite advantageous. We also, during this process, intervened at the FERC merger case, so that we could get all the information in that case and we reviewed it.

This, after many staff meetings, resulted in our testimony being filed that recommended approval of the merger with a list of about 46 conditions that we believed would mitigate the risk and resolve in a net positive benefit the standards set out by the commission early in the case. And these conditions, as I mentioned earlier, were in Exhibit DPU 1.2.

We then, after filing our testimony, began discussions, more discussions with the companies, and tried to see if there were some common ground on conditions. And so we had numerous meetings with ScottishPower and PacifiCorp, and towards the end, after we had a draft stipulation, we invited all the parties in the case to two meetings in our conference room here in the Heber Wells Building, and even asked them to file written comments on the draft stipulation. And several parties did that, the industrial customers in particular.

And we reviewed all those, and then we felt that we could reach an agreement with the Company, and we did. And the exhibit -- well, first, the joint stipulation has been filed, and then the exhibit that we talked about, the Division filed this morning, that shows those 51 conditions.

We took into account, in arriving at that stipulation, all the information that was available to us, including all the comments, both oral and written, by the other parties that were offered to us. We found them very valuable. We got a lot of excellent ideas and comments related to the specific wording of conditions.

What I'd like to do now is talk about more specifically the stipulation and 51 conditions that are in them. In our exhibit that we filed this morning showing our revised conditions, which are the ones in the stipulation, I'd like to point out that all of the original issues that we had when we filed our direct testimony are still there today. In fact, we have actually added some conditions on the end that we got from both the rebuttal testimony of other parties -- well, primarily from there. And the fact that all our original issues are still there and we have a condition that we feel mitigates the risk and uncertainty related to each of those issues in our revised conditions, and the fact that we've added some new issues and also new conditions, and they were addressed in our rebuttal testimony filed recently, we feel that we haven't dropped issues.

In other words, all the issues that we've spent so much time outlining and making sure that we had everything covered, they're still covered, and they're still in this exhibit we filed this morning, and addressed by the conditions in the stipulation.

And I'd like to also point out that practically all of our original conditions either remain as they were or have been enhanced by changing the wording, and you can tell some of them are in words that are quite a bit longer than they originally were, the paragraphs. Many conditions were reworded to refine and clarify, allowing the Company to accept the wording where they found some problems initially, without really changing the intent of the condition.

We feel that the revised conditions, those in the stipulation, adequately address the merger risks and costs, such that we can still today recommend approval of the merger with these conditions as similar to what we recommended in our direct testimony.

As I mentioned, our revised list of conditions was influenced by the conditions proposed by other parties and their rebuttal testimony, as well as comments received both in writing and orally at meetings we had with them. And either as a group or individually, we've met with the parties throughout this process. And as I mentioned before, we adopted several new conditions that came from the rebuttal testimony of other parties. There were some conditions proposed and direct testimony of other parties that we excluded from our stipulation and our revised set of conditions. Generally they are in three different categories.

First, we felt some of these related to things that were not directly related to the merger case. Second, we felt they were not within the Commission's jurisdiction or what their role is. We asked them to do something that we felt wasn't their role. And third, things that were not measurable and therefore not enforceable.

Finally, I'd like to talk about one of the conditions in particular. It's one of the more important ones. Originally in our direct testimony we had a condition towards the end that proposed two different ideas for a rate cap, and in the stipulation and our revised condition exhibit, this has been replaced by a merger credit condition.

Now, this merger credit, Condition No. 43 on our three-column exhibit. And basically, the merger credit involves $12 million per year to Utah customers for the years 2000 through 2003 for a total of $48 million, and this credit would appear as a credit on customers' bills and would be basically allocated between customers and classes based on the percentage of revenues or their customers' bill, exclusive of taxes. This represents approximately about 1.7 percent -- the 12 million per year represents about 1.7 percent of the annual revenue requirement of PacifiCorp, based on 1998 actual revenues in Utah, through tariffs.

And we actually even calculated, for information, a typical residential bill. The average residential rate one customer uses approximately 75- kilowatt hours per month for a total bill, exclusive of taxes, of about $39.17. The merger credit would represent a credit against that of 69 cents per month.

The last two years of the credit,

according to the stipulation, ScottishPower, PacifiCorp would be able to offset that if they were able to demonstrate in a rate case that cost savings equal to that amount or up to that amount were already included in rates.

In accepting the merger credit as opposed to our original rate cap proposal, we felt, after thinking about it, was actually a better idea. Apparently, the idea came from Oregon, as we understand it, in the ENRON-Portland general merger. There was a merger credit similar to this, in concept was agreed to, and became part of that merger package. And Oregon proposed one, as people have probably seen in the newspaper or in their surrebuttal testimony, they negotiated in Oregon a settlement that involved a four-year merger credit, very similar to this. The only difference is it's $12 million a year for three years, and the fourth year is $15 million instead of 12, and the last two years can be offset in demonstrated savings in rates.

So this rate credit -- merger credit is very similar to what was negotiated in Oregon. The impact on customers is approximately 1.7 percent, as I understand it from a newspaper article. I haven't validated that. We felt that something that was comparable to what was in Oregon, which is essentially the next biggest state of PacifiCorp, very similar in size to Utah, was appropriate.

We also looked at the stipulation reached in Wyoming between the Commission staff and the Company's, which involved a rate cap of $12 million the first year and $8 million the second year, and we tried to quantify the impact of that on a comparable basis to a four-year merger credit, and felt that it was in the ballpark of being comparable to what we agreed to in Utah in the stipulation. So we felt the next two biggest states, Oregon and Wyoming, reached stipulations on impacts on rates very comparable to what we reached in Utah and felt that was a measure of fairness and reasonableness.

We felt that the merger credit would more clearly identify to customers the benefit of the merger, because they would see it on their bill. If we do it in rate cases, sometimes it's hidden and hard to see. It was a known quantity both to us and to the Company that had benefits to us. The rate cap was an unknown quantity, and even in advance was hard to identify and just how much savings you would get until you actually got into a rate case. So I think that that's kind of the summary of why the Division supported the stipulation.

CHAIRMAN MECHAM: Okay. Thank you. Let's go to Mr. Gimble for an opening statement.

MR. TINGEY: We're going to have a conversation, if that's okay.

CHAIRMAN MECHAM: All right.

MR. TINGEY: I wouldn't pass up a chance to ask him questions.

MR. TINGEY: Let's see, you've explained why you're here. Want to do that again?

MR. GIMBLE: Sure.

MR. TINGEY: Please.

MR. GIMBLE: My name is Daniel Lee Gimble. I'm presently employed in the position of energy group manager with the Committee of Consumer Services.

MR. TINGEY: And what's the purpose of your testimony today?

MR. GIMBLE: To support on behalf of the Committee board the stipulation reached between the Committee and the Division, PacifiCorp and ScottishPower, regarding the proposed merger.

Secondly, explain why the Committee changed its initial position of opposing the merger to that of supporting the merger, provided that the conditions set forth in this agreement are approved.

MR. TINGEY: Did you participate in the negotiations that culminated this stipulation?

MR. GIMBLE: Yes, Roger Ball, Doug Tingey and I represented the Committee in the key negotiation discussions.

MR. TINGEY: And prior to the stipulation, what was the Committee's recommendation?

MR. GIMBLE: Our recommendation was pretty firm. Absent a credible or constructive rate plan for Utah retail customers, it would either top rates at existing levels or provide for reductions. The Committee recommended that the proposed merger be denied. Frankly, without a rate plan, we deemed the level of assured merger benefits for ratepayers as small, about $3.5 million on a Utah basis associated with decreases in corporate costs, and distant three years out. While shareholders were offered a premium that was large and immediate.

In the closing remarks of my direct

testimony, I invited the applicants to address this shortcoming in their case of this asymmetry between shareholders and ratepayers by proposing a constructive rate plan for consideration.

MR. TINGEY: And what factors led the Committee to change its initial position?

MR. GIMBLE: The lack of a reasonable rate plan for Utah residential and small business customers has been the principal issue dividing ScottishPower and the Committee over the past few months, I mean really since the time the applicants filed their direct testimony in late February. The key fact for the Committee, therefore, was securing a $48 million merger credit over four years for Utah residential and small business customers. And as Lowell stated, that's about a 1.7 percent impact on electric bills.

We also found, as a second factor, that the Division, in their direct testimony, had given careful consideration to developing merger conditions that, in concert with $48 million merger credit, would afford retail customers a reasonable level of monetary benefits and protections against merger related risk. So in short, the merger credit, along with the 50 plus other conditions contained in the stipulation, we think are going to lower retail customers' electric bills, go a long ways towards mitigating risk and should improve PacifiCorp's performance in the area of customer service.

As it stands, the stipulation will also insure a more fair sharing of the benefits and the risks of the merger among management, shareholders and retail ratepayers. And I'll come back to that point in a minute.

MR. TINGEY: Mr. Alt has explained the merger credit. Is there anything you need to add?

MR. GIMBLE: Well, just briefly, the merger credits in Condition 43, as stated in Condition 43, is a merger credit of 12 million per year for the period of 2000 to 2003. It's going to appear on Utah retail customers' bills. I think one point that Lowell skipped was that it is going to be allocated among customers on a revenue, rather than a usage basis. This was an important consideration of the Committee. And as Mr. Alt stated, in the years 2002 and 2003, this 12 million merger credit may either be partially or fully offset to the degree merger related cost reductions are reflected in base rates.

MR. TINGEY: So will you talk about the aspects of the merger credit that made it attractive to the Committee?

MR. GIMBLE: Yes. I think there's

various considerations that make the proposed merger credit attractive. Lowell said a couple but I'll punctuate those and add to it. First, it's consistent with the merger credit approach agreed to in Oregon, except if you will, the downpayment in Utah begins a year earlier and, therefore, has a slightly higher net present value to Utah customers. And as Mr. Alt testified, it also appears to be comparable in value to the cap on rate increases agreed to in Wyoming.

And I'd just like to add that that cap in Wyoming doesn't include the fact of the depreciation case that's currently filed up there. PacifiCorp has filed to increase depreciation rates up there, like they filed here.

The second point I'd like to make, the merger credit will be identified on customers' bills as a separate amount. Thus, the monetary benefits of the merger will be visible or transparent to customers on their electric bills.

Third, the Oregon Electric

Restructuring Bill, Senate Bill 1149 may create a bit of momentum to more forward the restructuring debate in Utah. Therefore, it was very important to the Committee that the merger credit be implemented in early 2000.

We also proposed that parties in the stipulation agreed to a condition which gives the Utah Commission control over how any residual merger credit will be paid, should electric restructure proceed in Utah prior to the end of the credit period.

A fourth consideration, and this was an important one to the Committee also. The Committee has been informed that PacifiCorp plans for a rate increase in Utah in the very near future the merger credit provides a 12 million or approximately 1.7 percent offset on customers sales to any potential rate increase over the next two years. Not only is the merger credit a downpayment or expected cost savings from a merger down the road, but it provides customers with a significant advantage to near term rate increases.

The fifth factor, and this is another critical factor or consideration from the Committee's standpoint. The Committee believes and our experts agree that it's imperative that the new ScottishPower management have a monetary stake in merger related outcomes. We would like ScottishPower focused on PacifiCorp's core western operations here in the U.S. The ability for ScottishPower to offset the merger credit in the last two years, therefore, provides management with a strong economic incentive or motive to achieve cost savings through efficiency gains through PacifiCorp's operations. So regarding the future cost savings, we view the $48 million as a floor rather than as a ceiling.

MR. TINGEY: We've talked about how the stipulation addresses the main Committee issues, and I guess we just talked about rates. Anything else to say on that?

MR. GIMBLE: Well, CCS witnesses, Talbot and Gimble -- myself -- testified to a lot of credible great plans for Utah residential and small business customers. We think that is satisfactorily addressed by Condition 43.

MR. TINGEY: Okay. Some financial issues were also raised. Are they addressed?

MR. GIMBLE: Yes, I've got a list of them here. I'll try to be quick. CCS witness

Talbot testified to risks associated with currency and change fluctuations. We think that's adequately addressed by Condition 18, which states that ScottishPower shall follow reporting requirements delineated in FASBE 52.

Second, CCS witness Talbot testified on the potential risk of continued expansion by ScottishPower and PacifiCorp dividend policy. We think that is satisfactorily addressed by Condition 15.

Third, CCS witness Talbot expressed concerns regarding the availability of capital for PacifiCorp's core operations in the western U.S. We think that's addressed by Conditions 14 and 17 I.

Fourth, CCS witness Talbot testified that the risk attendant to continued expansion by ScottishPower may negatively impact PacifiCorp's cost of capital. We think this is addressed by Conditions 19, 21, 22, and especially 25. And I'll go to 25 just for a minute here, because this was an important consideration to us.

The second part of 25 says, 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.

Fifth, Committee witness Talbot testified that the potential tax gains from a double leveraged capital structure. I believe that

Condition 19 provides an ability for any party to raise issues relating to capital structure, including potential tax benefits, from a more efficient capital structure in future rate proceedings.

Six, committee witness Talbot raised issues relating to ScottishPower's corporate structure, and currently you came up with her allocating corporate costs. We think this is satisfactorily addressed by Condition 2. Explicitly in Condition 2, it calls for a meeting among regulators and consumer advocates at the next PITA meeting to address the issue of alternatives, to consider alternative methods for allocating corporate costs. The Committee is likely to take an expert to that October meeting.

MR. TINGEY: The Committee also discussed a network reliability funding. Is that addressed in the issues?

MR. GIMBLE: Yes, in my direct testimony I expressed a concern regarding 55 million in capital and operating costs relating to investments and network reliability, would possibility be funded by ratepayers through rated increases. I believe this concern is adequately addressed by condition 28, in particular and also conditions 29 through 38 and condition 44.

MR. TINGEY: The penalties that have been proposed for nonperformance of certain conditions is also discussed. Is there a condition about that?

MR. GIMBLE: Yes, during discussions on the conditions, the Committee proposed language that resulted in Condition 16. This condition now altered the process by which the disposition of penalties associated nonperformance will be determined.

MR. TINGEY: And renewable resources and the costs of that was also a concern. Was that dealt with?

MR. GIMBLE: Yes, in my direct testimony I expressed a concern that the acquisition of 50 megawatts of renewables at a price tag of $60 million would occur outside the RAP process, where all resource options that are subject to regular economic analysis, that establishes the cost effectiveness of each alternative. I believe this concern is adequately addressed by Conditions 40 and 41.

MR. TINGEY: A couple more. Regulatory

costs is also identified as a possible problem?
MR. GIMBLE: Yes, because reliable information is a cornerstone of effective regulation, I raise a concern relating to ready access to ScottishPower's books, records, strategic business plans, et cetera if access to such materials is hindered or blocked, then I perceived it, I think correctly, to be a significant cost of the merger. We think Conditions 11 and 17 address this issue satisfactorily, but certainly ScottishPower is used in a different regulatory environment in the UK, and there may be cultural differences that will have to be ironed out. We're cognizant of those.
MR. TINGEY: In the Committee's testimony, the idea was discussed that some of the proposed merger benefits could be achieved by PacifiCorp without the merger.
MR. GIMBLE: Right.
MR. TINGEY: Is that issue dealt with?
MR. GIMBLE: We think that Condition

43, which calls for a merger credit of $48 million over four years, addresses that. I mean absent the merger, PacifiCorp would not be offering a merger credit of 48 million to retail customers in Utah.

That would either augment any future rate increases in the near future, or offset future rate increases in terms of the net effect on customers' electric bills.

MR. TINGEY: So to get to the bottom line on this, the key issues raised by the Committee are dealt with in this stipulation?

MR. GIMBLE: Yes.

MR. TINGEY: And in your testimony you proposed that the net positive benefits test should show significance and understandable benefits. Does this stipulation do that?

MR. GIMBLE: I think it does. In conjunction with the other conditions comprising the stipulation, my answer is yes. The $48 million merger credit now represents a material reduction that will be noticeable on customers bills. Absent the merger, Utah retail customers would not receive these reductions.

MR. TINGEY: So do you believe that the stipulation that we're discussing is in the public interest?

MR. GIMBLE: Yes, I do. I think it represents a fair and reasonable compromise of the concerns and issues raised in the context of this proposed merger, particularly with respect to the rate plan issue.

MR. TINGEY: So do you recommend that the Commission adopt the stipulation?

MR. GIMBLE: Yes, I do.

MR. TINGEY: Do you have anything else?

A. That concludes my remarks.

MR. GIMBLE: CHAIRMAN MECHAM: Okay. Thank you. Let's go to Mr. Wright.

MR. FELL: Mr. Wright, did you participate in negotiating the stipulation which has been marked Stipulation Exhibit 1?

MR. WRIGHT: Yes, I did.

MR. FELL: Would you please explain the development of that stipulation from ScottishPower's perspective?

MR. WRIGHT: Yes, I can. Good morning.

CHAIRMAN MECHAM: Good morning. Mr. Wright, could you spell your name?

MR. WRIGHT: My surname, W R I G H T.

CHAIRMAN MECHAM: Apparently the court

reporter wants your full name.

MR. WRIGHT: Matthew, M A T T H E W,
Reginald, R E G I N A L D, Wright.

CHAIRMAN MECHAM: Thank you.

MR. WRIGHT: Okay. ScottishPower filed its application in this docket in December, and a great deal of information and discussion has taken place since then. For our part, we filed direct testimony in February. We followed up with supplemental testimony in April, and rebuttal testimony in July. This process culminated in the signing of the stipulation last week.

I will not dwell on the earlier testimonies, and to some extent they will be covered later in the proceeding by the other ScottishPower witnesses, but I will explain how and why the stipulation came about; and more importantly, why it guarantees that the merger between ScottishPower and PacifiCorp is in the public interest.

Following the rounds of testimony, ScottishPower had offered a broad range of commitments that, in our view, represent a substantial benefit to Utah's customers. These included an unmatched package of service standards, consisting of seven performance standards and eight customer guarantees. They dealt with all the main customer interfaces and, in our view, made the Company very visible and accountable to its customers. The guarantees and service commitments are backed by penalties in the event of nonperformance. And in supplemental testimony we attempted to estimate the worth of at least some of these commitments, and we did that through the reliability commitments and estimate the value of $60 million per annum.

In addition, at the time we guaranteed corporate cost savings of $10 million per annum, system wide, which would equate to approximately three and a half million in the State of Utah, plus an offer to share our foundation plan, post closure of the transaction, identifying where additional savings could be made.

In addition, we had offered environmental community and employee commitments resulting in a wide range of benefits, which I believe is consistent with ScottishPower values and our desire to have benefits ruled in the stakeholders in this merger.

Despite this, and despite the fact that

some intervenors did see value in benefits in various parts of ScottishPower's proposals, and indeed at that time resulted in the completion of at least two other stipulations, the environmental and conservation stipulation and the low income stipulation, which will be covered later by our witness, Mr. Mike Marron, many parties still pointed to the risks inherent in the transaction. They felt that if these risks could not be adequately mitigated, there could be a danger that the risk could outweigh the benefits that we had identified and lead to harm overall, rather than positive net benefit.

ScottishPower's response to this has been twofold. Firstly, we have agreed to a comprehensive of proposed merger conditions that substantially mitigate or remove completely the risks that are inherent in this transaction. And we have already heard some of that from witnesses Lowell Alt and Don Gimble.

In addition, we substantially increased the guaranteed financial benefit resulting from the merger. The combination of these, in our mind, can leave no doubt about the benefits of the transaction.

Dealing with the conditions first, we used as a starting point the Division of Public Utilities' proposed conditions that they put forward in their testimony. These were subsequently revised and extended by negotiations, first with the DPU and later with the CCS. And to some extent they reflect the views of other parties. As Mr. Alt has already mentioned, there were two DPU sponsored meetings where the stipulation was discussed, and comments from the other parties were to some degree built into the stipulation.

The outcome was a stipulation exhibit that we have put forward, which has no fewer than 51 separate conditions. I don't intend to go through all of the conditions, but I would like to point to a few examples of the way in which certain risks are addressed by the conditions. And I would offer the following examples. One concern, one risk was that the cost benefits of the merger commitments had not been demonstrated. In response to that, there are a number of conditions which I think go to that risk. We have to demonstrate that the main item of expenditure that we have identified, which is relating to implementing the service commitments, is not incremental. We have that as a Condition No. 28.

Equally, we have committed that Utah rates will not increase as a result of the merger, which is Condition No. 44. We have had a explicit consideration of what should be included and what should be excluded for rate making purposes, which is covered by Condition No. 3 and indeed by the Attachment 2, which considers explicitly what would be below the line for ratemaking purposes and covers the transaction costs associated with the merger.

I would point out that ScottishPower and PacifiCorp understand that we bear the risk of disallowance if cost benefit is not demonstrated in any case under normal rate making practice, and we have also offered the filing of the transition plan and the semiannual reporting details of merger cost savings, which is covered by Conditions 13 and 12.

As a further example of a point to financial and cost of capital risks that were raised by many of the parties, in response to that, we have agreed to the use of a hypothetical capital structure, which uses as a reference point comparable A rate collectible utilities in the

U.S., which is Condition No. 19.

We have agreed to the maintenance of separate long-term debt in PacifiCorp, which is Condition No. 21. We have reinstated Commission approval for debt issuances, which is Condition No. 22. We have agreed that inter-group loans are covered by the existing umbrella loan agreement which is Condition 14. And further, if the cost of capital of electric operations increases as a direct result of the merger, we have agreed that ScottishPower shareholders will bear that cost.

In addition to this, there are various reporting and certification commitments; for example, Condition 15, which requires certification. The service will not be impaired by the payment of the dividends. So on that point I think you will see there is a very, very comprehensive list of conditions which protects PacifiCorp ratepayers from any risks that cost of capital will be higher as a result of PacifiCorp being part of the ScottishPower grid.

I would notice an observation, however, that far from being required to protect PacifiCorp from risk, the initial evidence is that PacifiCorp customers will benefit from being part of the

ScottishPower group. PacifiCorp was placed on the credit watch by the rating agency, which is a positive implication by the announcement of the merger, which is an indication by the rating agency that PacifiCorp's financial condition will be improved as a result of the merger with ScottishPower.

Finally, by way of example of cost allocation methodology, we have already filed a proposal on the 18th of June, which outlines broadly our approach to cost allocations. This would cover cost allocations from the ScottishPower parent Company to PacifiCorp.

We have proposed a meeting in October, to be attended by all of the jurisdictions of the PacifiCorp territory to discuss that, and that is covered by Condition 2. We have agreed to a set of principles that will guide those discussions, which is also contained in Condition 2.

We have agreed not to assert any federal preemption in terms of cost allocation methodologies, and that's Condition No. 23. We have agreed the appropriate level of access to books and records, which is Condition No. 11. And again, I would point out that ScottishPower understands that it bears the risk of disallowance if any corporate costs cannot be proved to be prudent and reasonable allegations from a parent.

I use as these examples for the purpose

of demonstrating the comprehensiveness of the conditions that we've agreed, and how they work in conjunction with one another to protect PacifiCorp's Utah customers from any potential down sides, while still importantly capturing the up sides.

Just before I move on to the issue of the merger credit, there were a couple of points that I wanted to make at this time, which perhaps should have been in the stipulation, and for some reason not included, were a couple of additional commitments. I wanted to mention that we have committed that a senior ScottishPower executive will be appointed and will be based and will live in Utah and will operate out of Utah. I also wanted to mention that PROSPER, which is a full reporting system that ScottishPower has developed, will be installed and operational within 18 months of the completion of the merger. So those are just two additional points.

Returning to process. Having

considered the risks, it left the requirements or otherwise for an additional monetary benefit. When dealing with risk, I would have to admit that the process is to some degree suggestive. I understand there will be a difference of opinion in terms of both of the extent and likelihood of risks and how effectively can be dealt with through conditions. We were therefore prepared to consider an additional monetary benefit, even though we believed that the case that we had put forward in our direct testimony and other testimony was affirmative.

It was important, however, to set out some principles on how this issue was to be approached. The residual component, which is now the merger credit, was arrived at after an explicit consideration of benefits and risks. Therefore, the monetary benefit is considered to be the balancing item which is sufficient to demonstrate that beyond that, the merger is in the public interest.

Importantly it's not an attempt to capture all of the benefits that may be achievable, and the DPU and the Committee accepted our argument that these are not known at this time. And indeed, I think they can be captured in the future by conditions relating to the filing of the transition plan and recording of other merger savings through the semiannual reporting. So those are additional benefits that will flow through in the fullness of time through the ratemaking process. The starting point for the stipulation is what is required to meet the standard now; it's approved, that merger is in the public interest now.

Equally, it should not incorporate the potential outcome of other issues. Principal amongst these are rate issues. We said from the outset that we didn't believe that this was a rate case. It is a merger approval. It has to meet a particular standard. We should not roll into it business as usual issues or attempt to prejudge their outcome. Therefore, we were not in favor of rate freezes or rate caps. Rather, the objective with the merger credit was to clearly reinforce the merger benefits as a guaranteed and identifiable minimum, which could be flowed directly through to customers almost immediately on closing of the transaction.

The outcome was the merger credit, which has been described by Mr. Alt and Mr. Gimble, of $12 million per annum for four years for a total of $48 million. This superseded our previous offer of a $10 million systemwide or three and a half million in the State of Utah. Whilst it's not the an attempt to capture the full amount of savings that may be achievable, there is a recognition that the companies will fund the merger credit through cost savings. And as Mr. Gimble has already mentioned, there should be an incentive on the Company to be efficient going forward. Therefore, the merger credit is offset against cost savings in the third and fourth years. In this way, the credit can be captured in rates. Once there, they will remain there until a future rate case, and in all probability, it will remain there in perpetuity. The benefits of the merger credit are, therefore, enduring.

We are pleased to have been able to reach agreement with the DPU and the CCS on the size of the credit, and we believe it's clearly sufficient against the backdrop of the other 50 other comprehensive conditions and the additional benefits that ScottishPower have already offered. The conditions protect the customers from risks, and taken that as overall, but we believe the merger is in the public interest. I don't think that that is in dispute.

But there are things that are not covered by the stipulation, and with regard to this

I would comment as follows: ScottishPower has met repeatedly with all the intervening parties within this proceeding, and we've heard issues which are many and varied. We have taken the approach that we would attempt to deal with the issues raised as a result of this merger, and these are fully covered in the stipulation.

Many other issues that are business as usual are there, regardless of the merger, and are dealt with in other forums. And examples would be the creation of a regional transmission organization, which is covered through the FERC forum. And indeed, there's already a proceeding in that regard. Rates, which are covered by rate cases; special contracts which you could get a special contracting task force; forums which are established already considering these issues.

We do not wish to prejudge the outcome of these discussions and, indeed, any judgment by us this time would be premature. Having said that, we're very happy and very keen to take part in these debates, but the merger approval should not be conditioned on the outcome of these issues.

Finally, we do not believe that the merger approval is about determining the maximum benefit that may be achieved. It's about meeting the standard, the public interest standard. With all of the service quality, environmental, community and employee benefits, as well as the merger credit of $48 million, and the prospect of more to come through the normal ratemaking process, as well as all of the stipulated conditions which protect against risk, I believe we have not only met the standard for approval, but I believe we have cleared the bar by some distance. We believe the Commission should adopt the stipulation and approve the application. Thank you.

MR. FELL: Mr. Wright, one further question. ScottishPower's witness, Alan Richardson, refers to low income assistance terms in his supplemental Exhibit 1-S.1SP. And there has subsequently been entered into a low income stipulation. Are you familiar with that, reasonably familiar?

MR. WRIGHT: Yes, I am.

MR. FELL: Mr. Chairman, later in the

proceeding we'll be introducing the low income exhibit -- stipulation rather, and I'd just like to point out that if any of the parties to the stipulation feel there's any conflict with this stipulation, we'd like to discuss it in that context. We think there is not, but I'd just like to point that out. We'd like to make sure that as we wrap this up, that the people who are parties to that low income stipulation understand it will proceed as outlined there unless some conflict is pointed out. Thank you.

CHAIRMAN MECHAM: Okay, thank you. Thank you, Mr. Wright. Let's go to Mr. Larson.

MR. HUNTER: Mr. Larson, were you involved in the negotiations of the stipulation?

MR. LARSON: I was.

MR. HUNTER: And you're familiar with the terms of the stipulation?

MR. LARSON: Yes.

MR. HUNTER: Would you please explain PacifiCorp's position on the stipulation?

MR. LARSON: I promise I will keep my comments brief. I believe Mr. Alt and Mr. Gimble and Mr. Wright have done a very credible job of going through the stipulation and explaining the 51 conditions. I agree with Mr. Wright's assessment of the benefits of the stipulation, and would second his comments.

What I would like to do is take a few

minutes and just talk a little bit about the stipulation and the direction that we're headed from PacifiCorp's perspective. As many of you will recall, back in October of 1998, Mr. McKennon, our CEO and Chairman of the Board, announced a refocus program, basically PacifiCorp getting back to the core business. Those objectives and that $30 million that was talked about in that program will be achieved in 1999, and customers will receive the benefits of that.

The items that are included in the stipulation, and all of the items that are included in the testimony presented by ScottishPower, are incremental to those savings that have been announced by PacifiCorp. The ScottishPower transaction really supplements what Mr. McKennon was talking about in the refocus program.

I think what this transaction will do is provide PacifiCorp with a quicker and cheaper way of achieving really what was meant by the refocus program that Mr. McKennon talked about.

This transaction has many benefits. I think Mr. Wright has talked about a lot of them. The testimony that has been submitted to the Commission identifies all of those benefits.

From my perspective, I consider the merger credit that Mr. Alt, Mr. Gimble and Mr. Wright have talked about, which is the four-year $12 million credit that will show up on customers' bills, as the icing on the cake to this transaction.

Over the past seven months, you know, I've had the opportunity to talk to many customers, legislators, city folks, and in those conversations many have asked me the question, couldn't PacifiCorp really do this on their own? And my response to that has been, you know, possibly. But I think, really, the more germane question to ask is, could PacifiCorp and ScottishPower do this transition to the refocus strategy? And my response to that is definitely. I firmly believe that together PacifiCorp and ScottishPower can get back to the core business, deliver these deficiencies, these benefits, to customers quicker, cheaper, and with more surety. And for those reasons, I would urge the Commission to adopt this stipulation in its entirety.

MR. FELL: Thank you, Mr. Larson.

CHAIRMAN MECHAM: Thank you. Let's take a brief recess.

(Recessed from 10:30 to 10:45 a.m.)

CHAIRMAN MECHAM: Okay, let's go back on the record. I would assume Mr. Reeder and Mr. Mattheis and Mr. Dodge, at the very least, might have some questions about that.

MR. REEDER: I think that's fair.

MR. GINSBERG: We talked a little bit about a way to proceed that will maybe make it a little more focused, and I think Mr. Dodge actually proposed where we would go condition by condition and allow whatever questions any of the parties or the Commission had on those conditions, so at least you could hear it all on that particular one at once. I mean maybe all of them wouldn't be covered, but at least you would be able to focus on that particular area rather than having it fragmented, if it sounds sensible to you.

CHAIRMAN MECHAM: I suppose it could work. Shall we proceed then?

MR. DODGE: Paragraph by paragraph.

CHAIRMAN MECHAM: All right. Well,

I'll tell you what, why don't we --

MR. DODGE: Do you want us to begin?

CHAIRMAN MECHAM: Why don't you.

MR. DODGE: Again, what our proposal

is, that as we go through, there won't be questions on every paragraph, but where there are, I think it may be more meaningful for the Commission to hear the questions on the same paragraph at the same time.

CHAIRMAN MECHAM: Let's go that route.

MR. DODGE: Thank you. And I'll begin -- I guess I'd like to start by asking Mr. Wright on Paragraph 1. And my questions right now will be designed primarily to understand the stipulation as it's written and also to address some things that may not be in here.

CHAIRMAN MECHAM: You're actually going through the stipulation as opposed to the merger conditions?

MR. DODGE: Yes.

CHAIRMAN MECHAM: Okay.

MR. DODGE: You could do go through either, though, because they're numbered the same.

CHAIRMAN MECHAM: All right.

MR. DODGE: So the first stipulation,

Mr. Wright, the first paragraph says that the
applicants shall agree to the commitments in
Mr. Richardson's supplemental testimony. And my
question is, simply, in what form will you agree?

This document doesn't represent that agreement, I take it?

MR. WRIGHT: No, it does not. There is an attachment which attempts to summarize the commitments made in the previous testimony. It says that in the event there's a conflict between that attachment and the stipulation, the stipulation will govern. So the intention of Attachment 1 is to capture the other commitments that we have made.

MR. DODGE: Let me ask it a different way. Is this stipulation your commitment to live by Mr. Richardson's --

MR. WRIGHT: Yes.

MR. DODGE: Okay so the words "shall agree" could be replaced with "agree" and it would have the same effect?

MR. WRIGHT: Yes.

MR. DODGE: You mentioned that Exhibit Attachment 1 is that the terms of the stipulation will prevail in the event of conflict. And I'd like to understand a little bit where, in your view, it may conflict.

MR. WRIGHT: Okay. I certainly can give you examples. The corporate cost savings that we previously identified, the 10 million, is referenced in the attachments.

MR. DODGE: And that would be on Page 6? Cost allocation, Section 2 B, cost allocation, et cetera of the attachment; is that right?

MR. WRIGHT: That's correct.

MR. DODGE: So that commitment is intended to be overwritten by the commitment, the merger credit commitment?

MR. WRIGHT: It was superseded in the negotiations by the merger credit.

MR. DODGE: On that same page, Section 2 A, it indicates that all financial books and records will be kept in Portland, Oregon and will continue to be available to the Commission upon request at PacifiCorp's offices in Portland, Salt Lake, and elsewhere in accordance with current practice. Is that condition superseded by the stipulation?

MR. WRIGHT: Sorry, which page are you on?

MR. DODGE: Page 6, Section 2 A-1.

MR. WRIGHT: There is a books and records condition in the stipulation, which is Condition 11. And the extent there's a conflict between those, the stipulation prevails.

MR. DODGE: Do you understand what current practice is as referenced in Mr. Richardson's Exhibit, Attachment 1?

MR. WRIGHT: I suspect that that means current ratemaking practices, such as books and records available now, will be available in the future.

CHAIRMAN MECHAM: Mr. Wright, could I get you to pull that mike a little closer to you, please?

MR. WRIGHT: Of course.

CHAIRMAN MECHAM: Thank you.

MR. DODGE: If I may return this to Mr. Alt. Mr. Alt, what do you understand in terms of the conflict, if any, between the way it's described and Mr. Richardson's Attachment 1 and your Stipulation No. 11?

MR. ALT: Well, in reference to the phrase that you are talking about, if I look at Stipulation Condition 11, let's see, it's the next to the last sentence, applicants agree that corporate records shall be available for inspection in Utah or Portland, Oregon, period. Is that clear?

MR. DODGE: What I'm trying to get at, the supplemental testimony, Mr. Richardson's Exhibit 1 says it will be available in Portland -- it doesn't have or -- and Salt Lake, is how I would read that, but it's modified with, in accordance with current practice. And I guess I'm trying so see, is there an agreement to keep books and records in Utah or only in Portland or Utah?

MR. ALT: Well, my understanding is that the most recent thing is the stipulation, and it says they will be available for inspection in Utah or Portland, Oregon. And that satisfied us as opposed to having them in Scotland or elsewhere, as originally it's stated.

MR. LARSON: The books and records will be available in Salt Lake or Portland. I mean there are some records that are kept in Salt Lake City, there are some that are in Portland, and, you know, some can be made available, if not voluminous, in Salt Lake City. And so our commitment is that there will be access to those books and records either in Salt Lake City or Portland, Oregon.

MR. DODGE: And this may be jumping ahead a little to Condition 11, but is the commitment also to make books and records available to intervenors in rate cases to the extent there's a proper Request for Production of Documents.

MR. LARSON: It is our opinion that the rights that intervenors have related to PacifiCorp books and records will be made available in either Salt Lake City or Portland, Oregon.

MR. DODGE: So you're willing to interpret Condition 11 to apply to intervenors in rate cases?

MR. LARSON: As it relates to your current rights to access to books and records of the Company.

MR. DODGE: So intervenors won't be told to show up in Scotland to look at documents?

MR. LARSON: No.

MR. DODGE: And I guess this is to you again, Mr. Wright, in that same exhibit, Mr. Richardson's Attachment A, on Page 7, Paragraph beginning with C, it states: ScottishPower and PacifiCorp will exclude all costs of the transaction for the PacifiCorp utility. Is that now superseded by Condition 3 in the stipulation?

MR. WRIGHT: It is.

MR. DODGE: And do you see Stipulation

3 as being as broad as the statement in Attachment 1.

MR. WRIGHT: The intent of the clarification, and the reason why the condition in the stipulation is longer, is because parties raised specific issues with regard to what would constitute transaction costs as opposed to transition costs. We have attempted to be as clear as we can be, both in that stipulation and, indeed, in the attachment referenced in condition as to what constitutes a transaction cost, as excluding it from ratemaking purposes. So it does supersede it, it is more explicit in terms of what we were trying to do there.

MR. DODGE: Also on Page 7 under section D of the Attachment 1, it states: ScottishPower intends to achieve an actual capital structure equivalent to that of comparable A rated electric utilities in the U.S., with a common equity ratio for PacifiCorp of not less than 40 percent. Is that commitment intended to be superseded?

MR. WRIGHT: The way that commitment stands, there is again further clarification in the stipulation covering capital structure issue, in the event the conflict, the stipulation supersedes it.

MR. DODGE: Let me explore that briefly. The stipulation essentially says for ratemaking the parties will use an assumed capital structure; is that correct?

MR. WRIGHT: Correct.

MR. DODGE: Isn't there, in addition to that, a commitment on the part of ScottishPower to attempt to achieve an actual power structure of an A rated utility, and with a common equity ratio of not less than 47 percent?

MR. WRIGHT: That is correct.

MR. DODGE: So that is a commitment in addition to simply the fact that we will use that as the assumed capital structure in the rate case?

MR. WRIGHT: That's correct.

MR. DODGE: Thank you. That's all I have on Stipulation Paragraph No. 1.

MR. MATTHEIS: I just have a quick follow-up question for Mr. Wright, and I'm referring to Mr. Larson's comment where he asked if they had to go to Scotland. And I want to make sure that is ScottishPower's view as well?

MR. WRIGHT: Absolutely.

MR. MATTHEIS: Nothing further on No. 1.

CHAIRMAN MECHAM: Mr. Reeder, do you have anything on No. 1?

MR. REEDER: Directing your attention to Exhibit D 2, in the appendix to the supplemental testimony of Mr. Richardson. PacifiCorp will maintain a separate debt and, if outstanding, preferred stock ratings. Do you have that condition?

MR. WRIGHT: Yes.

MR. REEDER: Compare that with stipulation Condition No. 21.

MR. WRIGHT: Yes.

MR. REEDER: Do you understand that you will maintain a rating of the bonds and stock of PacifiCorp in D 2, and is that commitment to maintain ratings preserved in Paragraph 21?

MR. WRIGHT: 21 supersedes D 2. This was a subject of discussion as a result of arriving at the stipulation. I believe what you wanted to see was that PacifiCorp shall maintain actual separate long-term debt and not just the rating. Although, it will have a rating, if you don't have that. But the stipulation Condition 22 supersedes

D 2.

MR. REEDER: So you will not now maintain a rating of U.S. debt?

MR. WRIGHT: Well, if you have outstanding debt you will have a rating, so we will maintain the rating as well.

MR. REEDER: Is there a degree or level upon which you will maintain that rating?

MR. WRIGHT: No, there's not.

MR. REEDER: In the conditions imposed by OFFER on this merger as a result of the formation of a holding Company, was there a condition to maintain a rating?

MR. WRIGHT: I do not know.

MR. REEDER: Are you familiar with the conditions proposed by OFFER on this action?

MR. WRIGHT: Only in general terms. I'm not aware of the specific condition.

MR. REEDER: Mr. Wright, for the record, can you describe for us who OFFER is?

MR. WRIGHT: OFFER are the Office of

Electricity Regulation. They're based in Birmingham in the UK. They are being amalgamated with the Office of Gas Regulation. They are the main utility regulator in the UK.

MR. REEDER: We have marked for identification UIEC Exhibit No. 2, that is that, are the conditions proposed by OFFER on this transaction, as opposed to the witness concerning those conditions, try to understand what OFFER required of the rating, if we may.

CHAIRMAN MECHAM: Off the record.

(Off the record.).

(Exhibit Cross Exhibit 1 marked for identification.)

CHAIRMAN MECHAM: Okay, let's go back on the record. We have marked the exhibit that Mr. Reeder has offered as Cross Examination Exhibit 1, it's entitled Modifications to Public Electricity Supply Licenses Following Take-over. Mr. Fell, do you have a question about that exhibit?

MR. FELL: Yes, I did, Mr. Chairman. I got the impression from Mr. Reeder that this paper represented conditions imposed on the merger transaction by OFFER. And that is not what this paper is. This paper is a response to consultation and it is does not represent final terms. Also OFFER did not have, as I understand it, approval authority over the transaction. That the agency that addressed that was the Office of Fair Trade. So before we proceed, I'd like to understand what Mr. Reeder is -- whether he's trying represent that this contains final conditions.

CHAIRMAN MECHAM: Mr. Reeder.

MR. REEDER: Well, let's ask Mr. Wright, because the discovery response that we got from ScottishPower suggests that this document is the document that contains the conditions that will become the subject of modifications to the license when a holding Company is formed. Maybe we can establish this with the witness.

Mr. Wright are you familiar with the contents of the document or familiar with the document I've just handed you?

MR. WRIGHT: I am now.

MR. REEDER: Have you seen the document before today?

MR. WRIGHT: I believe I've seen it briefly. I haven't studied it in detail.

MR. REEDER: What is that document?

MR. WRIGHT: This document is a Proposed Modifications to Public Electricity Supply Licenses Following Take-Over. It is a response to the consultation by the Office of Electricity

Regulation, there have been in the UK a large number of acquisitions and mergers of public electricity supplies, OFFER, the regulator, has taken this opportunity, not actually proposed as a result of this transaction, but more generally to seek to establish some conditions that are generic in the event of any further take-overs which would provide the opportunity to add these conditions as conditions of the proposed merger or acquisition.

So they are general conditions. The status of this particular paper, I do not know. It is a consultation paper. It certainly is not the final order. It does not constitute license modifications, but it is a consultation and, therefore, given it has recommendations in the back, I take this to be OFFER's proposed license modifications in this area.

MR. REEDER: Mr. Wright, are you familiar with the discovery responses provided by ScottishPower in this proceeding?

MR. WRIGHT: Generally. There were a

good many, and I can't recall them all.

MR. REEDER: Would you refer to the response to Discovery Request No. 20, please?

MR. FELL: Mr. Chairman, we'll have to

take a moment to locate that.

CHAIRMAN MECHAM: Let's go off the record just a minute.

(Off the record.)

CHAIRMAN MECHAM: All right, let's go back on the record. We've been having some discussion as to what exactly Cross Examination Exhibit 1 is. Mr. Fell and ScottishPower are working to get the final conditions. Mr. Fell, do you want to supplement that in some way?

MR. FELL: Yes, we expect to have a copy of the final conditions. We'll certainly have it by the lunch break, so we can provide it to Mr. Reeder then.

MR. REEDER: Let's be clear about what we're seeking and what we've asked for. We have asked for the conditions that will be imposed as a modification to the license upon the circumstance that ScottishPower becomes a subsidiary of a holding Company to which this document was provided. You are seeking to provide to me the competition offer responses, the responses to the competition offers in a letter dated April 1. There are two sets of conditions and you have provided both of them. I do not intend to examine the April 1st letter at this moment. We do have that letter. These are separate conditions imposed on the license that you have provided to me for that purpose. Now, if these are not the final ones, I'll be more than happy to defer until we can get the final ones.

MR. FELL: May we go off the record again? Mr. Reeder apparently has the documents that we could look at quickly and see whether we are in agreement to see if that's what he's talking about.

CHAIRMAN MECHAM: Yes, we can go off the record.

(Off the record.)

CHAIRMAN MECHAM: All right, let's go back on the record. Mr. Reeder.

MR. REEDER: Off the record we've had a discussion about what the conditions to be imposed upon ScottishPower, the licensee, will be when it becomes a subsidiary. It appears that we're trying to discern just precisely what those conditions are at this point. They may or may not be the documents we're going to view. Mr. Fell has promised that we will look at it further during the lunch hour and try to get to the correct set of

issues, if these are not them, and that's
satisfactory to me.
MR. FELL: So we'll pass on that issue and come back to it after we get to what might be the correct set of documents, if these are not they, with your permission.
CHAIRMAN MECHAM: That's fine.
MR. REEDER: Thank you. And I have no further questions on that condition then.
CHAIRMAN MECHAM: Okay.
MR. REEDER: That's Condition 1.
CHAIRMAN MECHAM: I'm aware of that. Mr. McNulty.
MR. McNULTY: Thank you. I want to -- I would call it a housekeeping question possibly, and I want to, Mr. Wright, Condition 1 as it relates to the proposed penalties for nonperformance as it relates to Attachment 1, is Condition 1 where you'd like to talk about? Or do you think it would be appropriate to talk about those penalties?

MR. WRIGHT: I believe there is a condition which is Condition 16 which deals with that point. So we can take it now or take it when we get to Condition 16.

CHAIRMAN MECHAM: Why don't we take it when we get to 16.

MR. McNULTY: Thank you.

CHAIRMAN MECHAM: Are there other questions with respect to Stipulation 1? That is Point 1 of Stipulation 1?

MR. SANDACK: Just briefly.

CHAIRMAN MECHAM: Could you come forward, Mr. Sandack, and use the microphone?

MR. SANDACK: I don't know that this is really a condition, but just by way of Mr. Alt's general remarks when he opened it up, you indicated you've met with the parties to review these stipulations. When did you meet with the intervenors to do that, sir?

MR. ALT: I don't have the dates in front of me. We met two times. Does anybody else remember?

MR. SANDACK: The reason I asked is, I don't recall being invited to that meeting. Do you know if someone tried to contact my office in that regard?

MR. ALT: I don't even, to tell you the truth, remember who took the responsibility of contacting all the parties. I thought the Company did that. So maybe one of the attorneys.

MR. RANDLE: The dates were Tuesday, July 20th, and Monday, July 26th.

MR. SANDACK: Do you know if anyone bothered to contact the IBEW 57 for that purpose?

MR. RANDLE: I didn't set up the meeting. I don't know who made the calls.

CHAIRMAN MECHAM: Well, why don't we do a check there. Do you have anything --

MR. SANDACK: Just as far as Condition 1 goes, I gather it might not need a clarification, but the commitments to the employees on Mr. Richardson's supplemental testimony, which is Page 9, also has commitments regarding new programs, since they're not in conflict, Mr. Wright, with the stipulations. Otherwise, I take it you tend to abide by those new programs as well; is that correct?

MR. WRIGHT: That is correct.

MR. SANDACK: Thank you. That's all I have.

COMMISSIONER WHITE: I have a couple questions I'd just like to clarify. In the supplemental testimony, Access to Books and Records, Paragraph 2 A, there was some discussion about how that may or may not be in conflict with Paragraph 1 of the stipulation. The very first sentence of 2 A said that PacifiCorp will maintain its own accounting system separate from ScottishPower's. That does not appear in Paragraph 1. Does that mean that it's in conflict, or is that dealt with somewhere else? Or will ScottishPower or will PacifiCorp, in fact, maintain separate books and records?

MR. LARSON: PacifiCorp will maintain separate books and records.

COMMISSIONER WHITE: Okay. There was also a question about penalties, and you indicated that that would be covered in Paragraph 16. Although I noticed that those penalties go only towards violation of the five network performance standards. What I'm getting at is, are there penalties, if the Company violates any of the other conditions? And if so, where is the proper paragraph to address those.

MR. WRIGHT: The Payments to Customers

Association which nonperformance of the A's
customer guarantees, I would imagine that they are
covered in the attachment.

CHAIRMAN MECHAM: But isn't there an

express reference to the penalty section somewhere in the statute in the stipulation, which I can't find?

MR. HUNTER: Mr. Chairman, it's Condition 39.

CHAIRMAN MECHAM: It is Condition 39, 54-725.

COMMISSIONER WHITE: Okay. So if the Commission believed that PacifiCorp or ScottishPower had not lived up to any of the terms and conditions, I take it we would be expected to proceed under section 54/725.

MR. WRIGHT: Right.

MR. ALT: There's also a condition in Section 50 that addresses this in a sort of way.

CHAIRMAN MECHAM: All right, we'll cover that when we get to 49 conditions further on.

COMMISSIONER WHITE: And then again, we're jumping around, but you did cover this a little bit, Paragraph 3 of the stipulation says that merger transaction costs will not be allowed in rates. But did I understand you to say that some transition costs may be under certain circumstances?

MR. WRIGHT: That's correct.
COMMISSIONER WHITE: That's all I have right now. Thank you.
CHAIRMAN MECHAM: Let's go to Condition 2 then.
MR. MATTHEIS: I'll start off with just a few questions.
Mr. Alt, looking about half-way down in the first paragraph on Condition 2, it talks about in the event state regulators aren't able to reach agreement. And DPU concludes that a methodology supported by any of the other U.S. Regulatory states would cause actual or perceived financial harm. I take it that that Division is going to be doing the judging of the perceived harm?
MR. ALT: Yes, because this condition only binds condition in terms of the recommendations to the Commission. We couldn't bind the Commission in a stipulation.
MR. MATTHEIS: Right. And just below that then it says, if the Division does conclude

that it may cause actual or perceived harm, then the Division is free to recommend any methodology it deems appropriate. Do I take it, though, the Division wouldn't recommend a methodology that would actually cause harm to the ratepayers?

MR. ALT: I would certainly hope not. It would be against our statutory regulation.

MR. MATTHEIS: Mr. Wright, I just want one point of the clarification on the last sentence of that first paragraph, where it talks about ScottishPower assuming the risk of whatever allocation methodologies or decisions the Commission may adopt. ScottishPower isn't agreeing here to adopt whatever methodology the Division proposes in that paragraph; ScottishPower is simply agreeing that whatever the Commission rules on, ScottishPower will accept; is that correct?

MR. WRIGHT: That's correct.

MR. MATTHEIS: Quick question on Subparagraph B, I don't know if this is appropriately for Mr. Alt, if he can handle it, or Mr. Wright or Mr. Gimble or Mr. Larson. When I talk about Generally Accepted Accounting Standards, is that the same thing as GAAP? Is GAAP Generally Accepted Accounting Principles, or is there something different?

MR. ALT: Not being a CPA, that would have been -- Mary Cleveland was a Division witness that originally drafted these. But you have to remember in the context that these principles are applying to the allocation of corporate type costs, like from ScottishPower down to PacifiCorp, that's what this is primarily all about, as long as you realize that. So I assume that maybe there are GAAP rules that deal with this. I don't know for sure. We could have Mary Cleveland --

MR. MATTHEIS: I was just asking if that's something intended to be specifically different than GAAP, or if it's just written to be general?

MR. ALT: I don't know.

MR. LARSON: Actually I am a CPA, but I haven't been practicing for a while. This was intended to be applying to GAAP.

MR. MATTHEIS: To your understanding, subpart D and, again, Mr. Alt, I'll stick with you as long as I'm starting there. Can you explain a little bit of the concern here? I mean I take it that the concern is, it may be difficult to trace these costs back to Scotland or some fear that the

Commission's ability to obtain these records may be embodied by this merger. Would you just express what this condition is designed to get at?

MR. ALT: Well, I think my view of the

concern is that there's going to be ScottishPower and it's going to have some affiliates other than PacifiCorp, and there may be costs flowing from affiliates to ScottishPower, and then from there down to PacifiCorp that would end up being allocated in these types of costs. And if there's not some kind of an audit trail, it's very possible that costs that shouldn't belong in PacifiCorp's rates might accidentally find their way there, if our auditors can't find something that they consider to be non-allowable in rates. If there's not an audit trail for them to be able to track them down, it's just we have to be able to do an adequate audit and this is a requirement to capture that ability.

MR. MATTHEIS: And, Mr. Wright, the audit trail here -- this is not only the trail to be maintained, but obviously those records will be made available to the Commission and the Division.

MR. WRIGHT: Of course. And you'll see that there's an incentive on us do that very thing, because it may result in denial of recovering rates. So it's in interest to be sure that is there and complete and accurate and all the things it needs to be.

MR. MATTHEIS: And made available?

MR. WRIGHT: Indeed.

MR. MATTHEIS: And subpart F, a quick point of clarification. I take it what this is covering is ScottishPower cost allocations that will be used, or subsidiary cost allocations that will be used further downstream and have impact in Utah?

MR. ALT: Yes, that's the concern that we're addressing here with this condition.

MR. MATTHEIS: And the concern is that we may not have authority to look upstream without having something here, or have the ability to look upstream, or what is the concern?

MR. ALT: Well, the concern has to do with the reasonableness of the costs that get passed to PacifiCorp from ScottishPower, or rather affiliates in any way, shape, or form. And we need to be able to audit it. We need to have an allocation method that deals with it that's agreed to and that's previously discussed. And this half is just simply saying that the Commission has to approve that allocation methodology. This relates to, you know, the mechanics, the formula.

MR. MATTHEIS: Right. This provides

the Commission with some authority to prove it. That may not be there otherwise.

MR. ALT: Well, what we were trying to do in a lot of these conditions, even if some people may feel the Commission had the authority, we wanted to make it clear that there was no doubt about it, and this is one of those cases.

MR. LARSON: This is clearly consistent with the auditing that takes place of corporate costs now, as the Commission deals with it in rate cases.

MR. MATTHEIS: Nothing further.

CHAIRMAN MECHAM: Mr. Dodge.

MR. DODGE: Following up on that, Mr. Alt, Paragraph 2 attempts to deal with corporate cost allocations, insuring that there's an adequate audit trail, et cetera, for cost allocations. Is Paragraph 2 designed in any way to deal with the identification and auditing of corporate savings that may result as a result of the merger, as opposed to allocations of costs?

MR. ALT: I don't believe so.

MR. DODGE: Is there a condition, to your knowledge, that attempts to identify or insure the Commission's ability to audit, and then pass on to the ratepayer any corporate savings that may occur as a direct result of the merger? Condition 12, I think.

MR. ALT: Yes, Condition 12 is probably the best one. It makes a commitment in the year end semiannual report that they file with the Commission, to identify the savings for five years. They will do that for five years.

MR. DODGE: And without intending to jump ahead to Condition 12 now, do you understand that condition, or if not that condition some other condition, to require PacifiCorp -- excuse me, ScottishPower to make an identification of all tax savings, for example, that they result to entities above PacifiCorp, parent of PacifiCorp?

MR. ALT: I would say no.

MR. DODGE: Is there in your mind, a condition in the stipulation that requires them to identify corporate tax savings as resulting from the merger?

MR. ALT: Not specifically.

MR. DODGE: Do you view that as some kind of a deficiency in the conditions and stipulations?

MR. ALT: No.

MR. DODGE: And can you explain why?

MR. ALT: Well, I talked with two of our witnesses that have this area, and they felt satisfied with our conditions that tax savings that normally are recovered in rates would still be through normal rate case processes. No one felt that there was any requirement or need to identify a tax savings upward and beyond PacifiCorp.

MR. DODGE: Let me make sure I understand, then, your answer. If you assume that there are significant tax savings to the Nevada partnership that owns PacifiCorp or to the holding Company or someone else that won't ever be reflected on the books and records of PacifiCorp, do you think this Commission ought to take into consideration, in setting rates, the amount of those tax savings that may result from the merger?

MR. ALT: Well, again, not being a CPA, but my understanding of the principle is it's not our intent to try to capture those.

MR. DODGE: Have you seen any exhibits

or information that tries to identify the magnitude of the potential tax saving to the upstream entities?

MR. ALT: I don't recall personally

having seen that, no. Our witnesses that -- specifically, we had six witnesses and we divided up into areas that they were responsible for, and there were, as everyone knows, a ton of data responses, requests and responses by the Company in different areas, some of which were proprietary, and some of our witnesses went over to the rooms designated to handle those proprietary documents, and that's probably where they were. I'm not sure. I personally did not view those documents, so I can't speak to them directly. But if you feel that we need to know more about whether there was someone in the Division that saw those numbers and was aware of them, we could ask and find out.

MR. DODGE: I think it's important for you and the Commission to understand the magnitude of projected savings and then identify the question as to whether those savings are appropriate for consideration to be passed on to Utah ratepayers, or some portion. And maybe the way I need to do that is both by referencing Mr. Talbot's testimony and the confidential exhibit that we have prepared for you to look at. I'll ask counsel for the applicants how they wanted to handle the confidential exhibit, but I think between those two, we can bracket a range of potential tax savings and why. And I'd like -- in light of that, I guess I'd like you to review, and Mr. Gimble as well as the applicant to review, whether any of those are appropriate for inclusion in the consideration of future rate cases.

MR. ALT: And would you give me a moment to consult with my two witnesses whose area that falls in to see what I may have stated is consistent with their opinion?

MR. DODGE: And maybe we can ask the applicants how they want to handle Exhibit DPU 13.

MR. FELL: It's a confidential exhibit that's limited to very few people, so that typically we would have to clear the room of persons who are not authorized to review that exhibit. One of the thoughts that we've used in other proceedings was that if the particular number didn't have to be used, if the witness was familiar with it and the person asking the question was, you could proceed. I'm not sure of whether the magnitude of the number -- I'm not sure to what extent that is important to this exchange.

MR. DODGE: Two things that I think are important to the exchange. One is a range. We can use Mr. Talbot's number for that, if you'd like, for an indication of the range.

And secondly is the manner in which the tax savings will be generated. And I think the exhibit may be necessary to reflect that. Now, if it's just the number you're concerned about, we can keep that out of the exhibit.

CHAIRMAN MECHAM: Let's do this. Let's go off the record.

(Off the record.)

CHAIRMAN MECHAM: Let's go back on the record. Mr. Alt has had an opportunity to confer with his colleagues in the Division. Mr. Alt, what did you learn?

MR. ALT: I learned that we believe that we have not historically looked at consolidated operations. We look at taxes, but that we're not a hundred percent sure about that, but we would like to reserve the right in future rate cases to deal with these cases as they come up and not prejudge a decision today about what the

Division's right to do or not to do in future rate cases on this issue.

MR. GIMBLE: I might add that I concur with what Mr. Alt has said, and the Committee believes that we're in no way precluded from raising any tax issues in future rate cases, including any benefits that might be generated upstream.

MR. DODGE: And if I can explore that a bit, we'll get at it the long way towards where we need to be. We may need to go through the confidential exhibits a little later, but we can do most of what I need with information on the record. So I'd like to ask you to start with you, Mr. Gimble, because your testimony directly referenced, as did Mr. Talbot's and your witness. You indicated in your testimony that by Mr. Talbot's calculation, this has nothing to do with knowing specifics of the Company. He referenced what he referred to as a double leveraged structure of this particular acquisition; is that right?

MR. GIMBLE: Yes.

MR. DODGE: And in that context, his guesstimate, I guess is what I would call it, based on understanding the text rules but not the specifics, was that there my be as much as $109 million per year in tax savings to the owner of PacifiCorp, basically an upstream of PacifiCorp?

MR. GIMBLE: Yes, but by exploring the double letters capital structure, he provided an example that generated a potential tax benefit of up to -- I think your figure was 109; is that what you said?

MR. DODGE: I believe that's what Mr. Talbot said $109.2 million. In the normal course of looking at just the books and records of PacifiCorp, assuming there were $109.2 million savings at entities above that, that figure wouldn't show up on those records, would it? The whole $109.2 million number, on PacifiCorp's records?

MR. GIMBLE: On PacifiCorp's, probably not. But I don't think we're precluded from asking Data Request to get records that the -- corporate group information records data that relate to the corporate group level.

MR. DODGE: And would you support a condition that made it clear that the Commission, Division, Committee and Intervenors as appropriate,

would have complete access to information necessary
to determine the nature and extent of the tax
savings upstream of PacifiCorp?
MR. GIMBLE: I don't think I'd oppose

it, but I think it's covered by condition. I think it's 11.

MR. DODGE: In terms of adequate access of books?

MR. GIMBLE: Yes.

MR. DODGE: And then secondly, are you comfortable that this condition reserves the ability of the Commission, if they decide it's appropriate, to allocate that upstream tax savings to ratepayers or some percentage of it, if they conclude that's appropriate?

MR. GIMBLE: Could you please restate the question?

MR. DODGE: Are you comfortable that the stipulation as it's written adequately preserves the Commission's ability to both identify the extent of tax savings to upstream companies and determine the extent to which those savings ought to be allocated to Utah ratepayers?

MR. GIMBLE: Yes. From the Committee's standpoint, I don't think we've waived any rights to argue that any tax benefits that arise from this combination should be flowed through to Utah retail ratepayers.

MR. DODGE: Mr. Wright, do you agree

with that statement?

MR. WRIGHT: What was the statement specifically?

MR. DODGE: Is there any way to have it reread?

MR. BURNETT: I could repeat it.

MR. DODGE: No, I'd rather have it read, if you don't mind. I'm not sure your memory is better than mine.

(Record read.)

MR. DODGE: Could you restate what you just said, Mr. Gimble, the second --

MR. GIMBLE: I'll do my best. I don't think that the Committee in any way has waived its right to raising any potential tax issue in future rate cases, including any tax benefits that might be generated upstream.

MR. DODGE: Mr. Wright, does the Company agree with that?

MR. WRIGHT: I don't think the stipulation precludes that issue being given in a rate case.

MR. DODGE: Does the stipulation
preserve the ability of the Commission to consider
that issue in a second rate case?

MR. WRIGHT: I don't think it's explicitly considered in the stipulation, but if you're asking me can the issue be preserved, I think the answer is yes.

MR. DODGE: Does the Company agree is that it will be preserved, is my question?

MR. WRIGHT: Yes.

MR. DODGE: Thank you. Does PacifiCorp have the same view, Mr. Larson?

MR. LARSON: Yes.

MR. DODGE: Thank you. Those are the only questions I have on that paragraph.

CHAIRMAN MECHAM: Okay.

MR. REEDER: Briefly to the tax issue. In an early draft of stipulation, we had proposed a condition that included taxes, explicitly Condition No. 25. Are you familiar with that earlier draft and that language?

MR. FELL: Mr. Chairman, we'll have to see a copy of that. The numbering changed and certainly --

MR. REEDER: Mr. Wright and Mr. Gimble and Mr. Alt? Are you familiar with condition No. 25, gentlemen? Have you had a chance to review it?

MR. GIMBLE: Yes.

MR. REEDER: Do you recall that in earlier drafts of Condition No. 25, no matter what the number was, that in addition to the words area "lower capital costs" there were inserted the words "and taxes"?

MR. WRIGHT: I certainly recall that, yes.

MR. REEDER: Mr. Gimble, do you recall that.

MR. GIMBLE: I don't.

MR. REEDER: Mr. Alt, do you recall that?

MR. ALT: Yes. I have the document in front of me.

MR. REEDER: Maybe you can help understand why, when we had asked that taxes be explicitly and expressly included, it was removed.

MR. ALT: The question is to me?

MR. REEDER: Any of you.

MR. ALT: Well, I'll take it first. I

talked to our witnesses and they told me that it
wasn't essential to have that in a condition, that
during a normal rate case procedure, if we were
entitled or able to that capture tax savings, we

would do so.

MR. LARSON: Let me take also a response. If you read 25, it says, is able to lower costs, those savings will be reflected in rates. I think what has been stated here, Mr. Reeder, is that the issue is preserved for a rate case, parties will be able to argue their positions related to the impact of the consolidated taxes and the Commission will make the determination on whether or not it is appropriate to include those upstream consolidated taxes in the filing. Our position may be different in that proceeding than yours. And that will be for the Commission to determine.

MR. WRIGHT: I concur totally with that remark by Mr. Larson.

MR. GIMBLE: I agree also. I mean we want to preserve our ability to look at all tax issues. There may be tax risks that we want to address in future rate cases also. There's both sides of the coin.

MR. REEDER: Mr. Gimble why did you find it necessary to spell out a condition with respect to you cost of capital in the stipulation?

MR. GIMBLE: In terms of --

MR. REEDER: Upstream costs of capital.

MR. GIMBLE: Please point me to --

MR. REEDER: Paragraph No. 25.

MR. GIMBLE: Basically to protect Utah ratepayers.

MR. REEDER: It's a good idea to make clear when we're changing control, that we know what the rules are going to be with respect to costs in the future, isn't it?

MR. GIMBLE: I would generally concur with that statement.

MR. REEDER: Now, we've taken care of the cost of capital issue in this paragraph, haven't we?

MR. GIMBLE: I think so.

MR. REEDER: Would you have any objection to our request to the Commission to add the word "taxes" to that photograph to make it equally clear that taxes and the order of magnitude of the $109 million a year multiple times, the

credit that's on the table here now, would flow
through to the ratepayers? Would you object to
that act by this Commission.
MR. GIMBLE: Is that a question to me?

MR. REEDER: Yes, sir.

MR. GIMBLE: I don't think we need to add it. I mean I think we have our rights in normal ratemaking to raise any task related issue, including any benefits that might be generated upstream.

MR. FELL: Mr. Chairman, I object to the form of the question. My understanding from Mr. Talbot's testimony is that that number, that 109 million, was related to exploiting a double leverage capital structure as well, and I'm not quite sure how that relates to the tax savings from the transaction.

MR. LARSON: Let me see if I can make one statement to clarify and see if this answers Mr. Reeder's question. In Paragraph 25, the purpose of that I mean, as you recall, there are other conditions about debt costs, separate debt costs for PacifiCorp. To the extent that PacifiCorp debt costs or cost of money goes down, those will be reflected in rates. This is a condition specifically related to PacifiCorp. What we're talking about in the tax arena is something completely outside of the PacifiCorp arena, it's at a holding company level, and what we have stated is that parties are free to bring that issue before the Commission and argue their positions on it. But at this time, there is no need for a specific condition for that issue.

MR. REEDER: We may have to go to the confidential exhibits to clarify the number to take it out of the range of speculation and show what ScottishPower showed to us when asked this question, specifically what it meant. We won't go there just now.

Mr. Gimble, the question to you now is, would you object to the Commission adding that condition?

MR. GIMBLE: I guess I've already answered that question. In terms of we preserved our ability to look at that issue in terms of whether I would object to you proposing that to the Commission? I wouldn't object.

MR. REEDER: Would you object to the Commission adding it?

MR. GIMBLE: I would have to consult

with Mr. Talbot.

MR. REEDER: Mr. Alt, would you object to the Commission adding to that condition language to make it clear that if there are tax savings that

arise from the fact that for the first time in
regulation, leastwise in this state, there's the
risk that we will have a difference in a parent tax
rate and subsidiary tax rate, because we have
different taxing authority?

MR. FELL: Objection to the question.
The question assumes that the Commission has always
exactly tracked parent tax rates and utility tax
rates, and that's simply false.

MR. REEDER: The objection didn't
address the question. We're assuming different tax
rates because we have a foreign parent and a
domestic subsidiary. Heretofore, the parent and
the subsidiary have the same tax rates, the U.S.
tax rates.

MR. HUNTER: I'm in the awkward
position, because I think I'm representing
PacifiCorp and objecting. But he's doing
ScottishPower. We object on the basis of what
Mr. Reeder is trying to do is prejudge the decision
this Commission makes in the rate case. Mr. Reeder

wants language in there that says tax changes will result in reduced rates. What we'd like is to preserve that issue until we have an opportunity to present evidence, whether it's factual evidence before the Commission with which they could make a determination.

CHAIRMAN MECHAM: All right. But what he's asking Mr. Alt is would he object to the Commission adding it, and Mr. Alt is free to answer that over the objection. And, you know, if it has an impact on us, so it be.

MR. ALT: I wouldn't object to the Commission adding that as a condition, if they believed that that's essential and within their jurisdiction and whatever. I have no objection to it. I would just comment that the Division didn't include it because we didn't feel it was essential to show a net positive benefit. And, therefore, our conditions on their own met the test, and adding that was extra that we didn't feel was needed.

MR. REEDER: Mr. Alt, these conditions faced with the opportunity to structure the future versus rely on enforcement remedies that may or may not be effective in the future, what would be your advice as a regulator to them?

MR. ALT: I'm sorry, that wasn't clear.

MR. REEDER: When this Commission is

faced with the opportunity to structure the future so as to minimize the enforcement risks or to rely on some enforcement opportunity in the future, which course would you recommend to them?

MR. ALT: Well, as you can tell, in most of our conditions we're trying to lay things out in advance.

MR. REEDER: You would agree with me, would you not, that it's prudent for this Commission, where the opportunity presents itself to structure the future so as to avoid contests to take that option?

MR. ALT: Yes, where appropriate.

MR. REEDER: Nothing appropriate.

CHAIRMAN MECHAM: I know we've been talking about Condition 25, but is there something further on Condition 2?

COMMISSIONER JONES: Mr. Alt, on the Condition No. 2, particularly on the allocation questions, I'm not familiar with what's going on the last ten years in PITA, but I understand from hearsay that it's been a real struggle trying to come up with some conclusions on allocations. Are we setting up the same problem by this language for this further merger or income tax?

MR. ALT: Well, my personal observation -- and I've been to a number of PITA meetings in the last few years -- is that some issues are more controversial in PITA than others, they tend to be issues where you get cost shifting from -- major cost shifting from one state to another, like the allocation were generation costs, for instance. But my personal observation, and I haven't talked to other staff extensively about it, but would be that my expectation is that this would not necessarily be that type of a controversial issue at PITA, and I think that our perspectives would be more similar here in terms of protecting all the states from getting unreasonable costs allocated from ScottishPower and its other affiliates down to PacifiCorp. So I think we would all share more of a common interest here, and my expectations are high for a mutual agreement on this particular issue.

COMMISSIONER JONES: Thank you.

CHAIRMAN MECHAM: What exactly -- is it

only ScottishPower's overhead and affiliate investments that are being allocated under No. 2, or is there something else?

MR. ALT: Well, that's my

understanding. Because the first sentence says for the allocation of corporate and affiliate investments, expenses and overheads. And you're talking about from ScottishPower and its other affiliates besides PacifiCorp. That's what Condition 2 was addressing. Other allocations, like between states, is dealt with in a later condition.

CHAIRMAN MECHAM: Mr. Larson.

MR. LARSON: Yes, just one statement on Condition No. 25. Even though Mr. Reeder didn't ask me my opinion related to a condition on that, I'll give it. What I see by trying to add the tax language there, is basically prejudging the issue before anybody has had an opportunity to present evidence on consolidated taxes. It's not an issue that's new to us or new to this Commission. I mean PacifiCorp has had subsidiaries. Those subsidiaries have produced tax benefits related to the businesses that they've been in. And this Commission has elected to use the electric taxes for setting rates in the state, and I think what we've said here and are comfortable with is allowing parties to bring the issue of taxes before this Commission and put forth their arguments related to the consolidated tax issue, and leaving this Commission with full authority to make the determination on whether or not that's prudent to include that issue in Utah rates. And so I would be strongly concerned about including or prejudging the issue by putting the tax issue in No. 25.

MR. REEDER: Mr. Larson, have you seen the exhibits that are marked pink that are in the possession of Mr. Burnett?

MR. LARSON: I have not.

MR. REEDER: Have you seen the exhibits that are marked pink that address specifically how the tax savings are achieved and the magnitude of those cost savings in response to our data request?

MR. LARSON: I have seen no pink documents related to ScottishPower.

MR. REEDER: Thank you.

MR. WRIGHT: If I may, ask since I haven't had an opportunity to respond either. I think there are a number of observations just summarizing, one, ScottishPower's in agreement with the issue being preserved in the rate case, and I've stated that already. We've also heard that it appears that taking consolidated taxes is not standard ratemaking practice at the current time, so in that respect we would wish to reserve our rights to debate the point at a later date.

I would also make the observation that whatever the magnitude of tax savings, it isn't actually guaranteed at this time and, therefore, whatever the amount speculated is not guaranteed.

And I finally make the point that the absence of this within the stipulation doesn't actually have a bearing on whether the stipulation is in the public somewhere, because we believe that the conditions as they're already there, combined with the merger credit, meets the standard. So if there is other benefits that are achievable in the same way as future cost savings that will be identified by the transition plans can be imputed in future rate cases, then the tax issues can similarly be addressed at that time.

MR. REEDER: Mr. Wright, if this state is a rate of return regulated state, and there are savings that occur because of a structure in that regulation, would you suggest that the Commission overlook those savings in rate of return regulated states and determine either the tax cost or the rate of return?

MR. WRIGHT: I'm not sure I followed that question.

MR. REEDER: Do you know what a rate of return regulated state is?

MR. WRIGHT: Yes, I do.

MR. REEDER: And that means that this company has the exclusive prerogative to provide electricity to many providers in the state, does it not?

MR. WRIGHT: Indeed it does.

MR. REEDER: And one of the quid pro quos for that, is it not, that those prices are set on a cost plus return basis?

MR. WRIGHT: That is correct.

MR. REEDER: If there are savings to be captured as a result of structuring, through whatever means one may choose, rate of return regulation would compel that those savings be captured so as not to supply supra rates of return, would it not?

MR. FELL: Objection, he's calling for

a legal conclusion.

CHAIRMAN MECHAM: It does call for a legal conclusion, I suppose.

MR. REEDER: I think if that were the

first one this witness had given, we would probably be surprised.

As a businessman, Mr. Wright, you're in the regulated business, tell me your businessman view.

MR. WRIGHT: I believe we're talking about rates of return in the regulated utility. The point is that we are concerned with the tax benefits we're talking about upstream benefit. Now, what we've said is we don't want to preach in our discussion, but it's abundantly clear the issue is preserved. There is clearly a debate on this point and the debate can take perhaps an appropriate forum.

MR. REEDER: Why should there be a debate? Why don't we resolve now, while we've got a change of control, whether or not you'll be able to keep in ScottishPower benefits that would otherwise reduce the rates?

MR. WRIGHT: Because this is not the appropriate forum to debate in.

MR. REEDER: This is forum where you've
asked for approval for change of control. We can
resolve it today and not debate it another, can't
we?

MR. WRIGHT: The issue, Mr. Reeder, is whether the merger is in the public interest and whether we have demonstrated that.

MR. REEDER: The issue, sir, is there is a change of control, and what terms and conditions should be imposed on the change of control to insure that the public interest is met.

CHAIRMAN MECHAM: All right. I think both points are fairly clear.

MR. DODGE: Mr. Chairman, I do have one or two follow-up questions to those men.

CHAIRMAN MECHAM: Go ahead.

MR. DODGE: They'll be brief.

CHAIRMAN MECHAM: Okay.

MR. DODGE: And Mr. Reeder has proposed a condition that insures that tax savings will benefit the ratepayers, to which you've objected. Mr. Wright, would you object to the Commission ordering including the condition that both you and Mr. Larson agreed to? That is that all parties agree the issue is not waived, it's preserved, the

Commission has jurisdiction, both to have access to documents and to make a determination on it in a future rate case?

MR. WRIGHT: I think I've stated it on

the record here, I don't think we need an explicit merger condition to reflect that.

MR. DODGE: Would you object to that?

MR. WRIGHT: I would have to consult with --

MR. DODGE: Mr. Larson, would you object to that kind of a condition being placed in Commission's order.

MR. LARSON: I would have to consult with Mr. Wright.

MR. DODGE: No other questions.

COMMISSIONER WHITE: Well, it seems to me that Paragraph 25, along with quite an few other paragraphs in the order does, in fact, prejudge some issues, so I'm interested in your drawing the distinction between issues that it's prudent to prejudge, I guess, in the stipulation, and issues that you'd prefer not to have prejudged. And I'll let anyone who cares to respond, go ahead.

MR. WRIGHT: I'll make one observation. 25 deals with costs of capital, which is clearly an issue -- there was a great deal of testimony about the risks of PacifiCorp becoming part of the ScottishPower, whether that would indeed lead to a higher cost of the capital. It's also part, an established part of the ratemaking process, so we thought it was important to deal with that issue up front. The tax issue is somewhat different, inasmuch as the benefits or efficiencies that may be there are not demonstrated at the current time. And historically, those are some issues that dealt with rate cases, so we felt there was a distinction in the issues.

MR. LARSON: For the most part, I would concur. I mean if the issues that appear to be being prejudged in the document are ones that -- I mean if you lower a cost, those will be reflected on your books and records and quarterly reflected in prices. The consolidated tax issue or something like that is an issue that clearly the Commission has made a decision in the past on, and this would be divergence from that and ought to be, you know, maintained for a future rate proceeding.

COMMISSIONER WHITE: Does the Division have any concern that the stipulation may prejudge some issues for us in future proceedings?

MR. ALT: I'm not sure what you mean.

COMMISSIONER WHITE: Well, just look at Paragraph 25, though I think it may apply to other paragraphs as well, where there's language saying that ScottishPower shareholders will bear certain costs, and certain costs will be treated in certain ways. Now, it looks entirely likely that that is in fact the way the Commission would treat it, but if because of some unusual circumstance, in the future the Commission didn't want to be bound by these conditions, do you see any problems?

MR. ALT: I don't think so. I mean the comment I'd like to add is the focus of the Division was primarily mitigation of risk and uncertainty and adverse outcomes of these conditions.

COMMISSIONER WHITE: It seems to me that the second sentence of Paragraph 25 is really what the Division is focusing on.

MR. ALT: Right. If you look on our exhibit, the three-column exhibit, that I, at the outset, was describing, that we have this comprehensive -- what we characterize as a comprehensive set of the issues and conditions to deal with them, we saw very small and few

quantifiable that we could really get our hands
around, benefits in this merger compared to the
last one, so our focus was a lot of conditions to
mitigate all the possible risks that could make

things get worse. And this particular Condition 25 was dealing primarily with the risk that cost of capital would go up. We were concerned that ScottishPower might go off in unregulated areas, and often, in many of our discussions, we used the Pinnacle West of -- I think it's Arizona Public Service, they went into the banking business and it almost bankrupted the utility and called into question their ability to provide adequate service. That was one of the things that we were concerned about.

We didn't want cost of capital going up, we didn't want expenses going up, we didn't want service to deteriorate. Those were the key drivers in all our conditions, all of them practically. And the one on cost of capital was, we were protecting against increases. We just happened to make the distinction that, okay, if they go up, you're at risk for those shareholders, but if they go down, as normally would happen, we're going to capture.

It was simply because we were talking about cost of capital that we felt we needed to talk about both sides of it. Not that our conditions were intended to go out and capture every little benefit that we could see, even though it wasn't something that was firm and easily quantifiable, and testifiable to as being certain and dependable and we can capture them in a condition. That's where we had a lot of problem. We ended up with a merger credit to deal with the benefit side. Most of the conditions deal with the risk side, the cost side. I don't know if that helps.

COMMISSIONER WHITE: Thanks. Okay, let's move to Condition 3. Mr. Dodge.

MR. DODGE: Recognizing these may not have been your words, Mr. Alt, can you explain what you understand to be the difference between enhancements and severance costs -- enhancements and normal severance costs in Paragraph 3?

MR. ALT: I'm afraid I'm not the person to ask for the Division that question. I understand that these were spelled out in a proxy statement, because during -- I think it was during one of the meetings with all the parties that the

issue came up, one of the attorneys, I think one of
the industrial intervenors asked, could we define
what that is, and the answer from the Company, as I
recall, was that it was defined in the proxy

statement and that the Attachment 2 referred to the proxy statement and, therefore, there was linkage within the definition we didn't need to do in the stipulation, and that's the reason we were okay with it. That's my recollection.

MR. DODGE: Mr. Gimble, do you have any further understanding of what those terms refer to?

MR. GIMBLE: Well, I think it refers to primarily, if you look at -- I think it's Attachment 2 to the stipulation. I think under change and control, it has an enhanced executive severance. I think it relates to that. We asked for the discovery request on that also, after we read it in a London newspaper -- I think it was a London newspaper article -- the enhanced severance looked like it was going to be in excess of seven million. I guess $7 million, this is A.3 here. My understanding is that will be below the line.

MR. DODGE: Now, Condition 3 again identifies those expenses that the applicants agree will be below the line. There are others that aren't reflected on the Attachment 2 to this stipulation, that the applicants have indicated they believe should be recovered above the line or in rates; is that right? Are you familiar with those?

MR. GIMBLE: In terms of associating with their transition forum?

MR. DODGE: Among other things. There was a two-page exhibit. The Attachment 2 to the stipulation reflects primarily the first page of that, and the second page reflected those things that the applicants considered to be above the line. Are you familiar with those costs?

MR. GIMBLE: Generally.

MR. DODGE: Not specifically. Maybe Mr. Wright is the one that can help me on this.

Mr. Wright, and I'll just go through them quickly. Tell me if this is your understanding. The companies believe that transition plan development costs of between one and two million dollars should be above the line or recovered in rates; is that right?

MR. WRIGHT: That's correct, to the extent that the cost is part of the planning process, which would itself deliver net benefit.

We wouldn't expect to recover the costs of a transition plan that didn't have benefits.

MR. DODGE: And the same would be true in executive severance costs -- and I guess this is the enhance severance cost -- excuse me, the other part -- this is normal severance cost of projected $11.7 million; is that right?

MR. WRIGHT: Those severance costs led overtime to savings, and the savings resulting from the severance were greater than the cost of the severance, and they were part of the transition process, and we would expect in accordance with normal ratemaking policy for those to be included above the line.

MR. DODGE: The same is true for projecting the half million dollars of bonus; is that true?

MR. WRIGHT: Not entirely, I don't think. I don't have that specific exhibit in front of me, but I think if they are ordinary costs of business costs, they would be included. If they were bonuses related to specifically completing the merger, then they would be excluded for ratemaking purposes. What we're seeking to do here, if it's not clear, is to try and identify those costs that are incremental as a result of the merger and exclude them for ratemaking purposes, as opposed to business as usual, ordinary costs which should not be excluded.

MR. DODGE: And among what the applicants believe are the business as usual costs that should be included, in addition to what we've talked about, there's two and a half million in payments to preferred stockholders to approve unsecured debt; is that correct?

MR. WRIGHT: Right, and I think that is on the basis that removing that, if you like expensive debt, there will be a positive net benefit in terms of the alternative debt costs will be lower. So again, this is all predicated on the fact that we can demonstrate benefits arising from these costs.

MR. DODGE: And then lastly, the applicants expect in excess of $.8 million in Mr. McKennon's employment agreement that would be above the line; is that right?

MR. WRIGHT: If it's on there, I'm not terribly familiar with that particular item.

MR. FELL: Mr. Chairman, could we have Mr. Dodge share that exhibit? We have a copy.

Just a moment.

MR. DODGE: Yes. It's actually a Wyoming exhibit and I don't have copies, but I'd be happy to make it. Attachment 2 is the first page of it.

MR. FELL: I might clarify that there's a decimal point in front of the 8, so maybe Mr. Dodge could reread that.

MR. DODGE: Didn't I say $.8 million?

MR. FELL: I didn't hear it.

MR. DODGE: And my point simply here is to finish what isn't on Attachment 2. It's properly not on Attachment 2. I'm just trying to have the Commission understand those costs the applicants believe are not merger related and, therefore, ought to be credit in the cost. And some have argued they have some connection to this merger.

So that there's no confusion, there's been reference to a $20 million severance package for PacifiCorp executives for 27 or '6, I forget, PacifiCorp executives. Is it accurate that that 20 million is made up of the 11.7 that you just talked about that you believe would be above the line, and the 8.3 enhanced executive severance that you agree would be below the line?

MR. WRIGHT: That's correct.

MR. DODGE: So when people talk about the $20 million severance, those are the two numbers that make up that approximately $20 million number; right?

MR. WRIGHT: I believe that's correct.

MR. DODGE: Thank you. There is no implied consent or agreement to the inclusion of any of those costs in rates by the Committee; is that right, Mr. Gimble?

MR. GIMBLE: That's right.

MR. DODGE: Is that the same with the Division?

MR. ALT: That's correct.

MR. DODGE: Thank you. I have no further questions on No. 3.

CHAIRMAN MECHAM: Mr. Mattheis.

MR. MATTHEIS: Thank you.

Mr. Wright, I guess the third sentence in No. 3 talks about future costs arising as a result of this transition plan, which result in net cost savings. Does that imply some linkage? Are we talking about identifying a specific transition cost and identifying specific savings related to that cost?

MR. WRIGHT: That's correct, and I'll have to look what condition it is, I think it's 12 or 13. We have agreed to provide our transition plan within six months of the closing of the merger. The transition plan will include both costs and benefits. The benefits will happily be costs as opposed to the transition plan. What we're trying to include here are the costs such as investments or severance that lead to net savings being included in ratemaking process.

MR. DODGE: And I guess that's my question. Is it going to be sort of a global view, you look at the transition costs and see whether they're are benefits or more specific linkage, that we're going to look at specific transition costs and see if that specific cost is a rated benefit?

MR. WRIGHT: Well, the transition plan will consist of a great number of individual initiatives, which on the whole will give a net benefit. I think the intention is to look at this in the round, as it were.

MR. MATTHEIS: That was my question. Going back to enhancements -- maybe, Mr. Larson, I want to direct to you -- to the enhancements of

severance costs. Were there change of control
severance costs and conditions in PacifiCorp
executives' contracts, for lack of a better word,
before this merger arose? Is that what we're

talking about here, or the enhancements that arose once the merger was undertaken?

MR. LARSON: My understanding is that those 26, 27 individuals that Mr. Dodge referred to had severance included in their employment package.

MR. DODGE: From the get-go, but before --

MR. LARSON: Prior to the discussions with ScottishPower. As a result of the discussions with ScottishPower, there were some additional enhanced severance that was put into place, and those are the items that I think Mr. Wright has described are being accounted for below the line, and we are not seeking recovery for any of those. The other thing that I would add is that these numbers are all maximum numbers; I mean it's not as though necessarily all of these things will take place.

MR. DODGE: And I just asked again, maybe I wasn't clear. The enhancements then that are reflected in this Attachment 2 are only the things that arose after the merger discussions began? In other words, if there were preexisting enhancements that said upon a change of control, you'll receive X. Those are doing to be above or those are transition costs, or will they all be included?

MR. FELL: Mr. Chairman, for clarification, may I hand the witness the document that includes the description of these?

CHAIRMAN MECHAM: Go ahead.

MR. DODGE: I've handed Mr. Larson the ScottishPower listing particulars, and he's looking at the executive benefits section of the listing particulars.

MR. LARSON: Okay, can you restate your question?

MR. DODGE: There are a couple of kinds of severance, I guess.

MR. MATTHEIS: There are those that may have been placed before this merger was ever contemplated; correct? And there are those that were put in place as a result of this merger discussion. My question is, are both of those considered enhancements in terms of this --

MR. LARSON: No.

MR. MATTHEIS: Just the second one.

MR. LARSON: Just the change in control provisions. Those are enhancements, those are the ones --

MR. MATTHEIS: So the preexisting severance packages are going to be above the line, or at least transition costs above the line?

MR. LARSON: To the extent that those are put into effect, then those would be included above the line as part of the transition plan.

MR. FELL: Mr. Chairman, for clarification, the listing particulars describes those benefits, and the enhanced portion of the benefits is contained in the severance plan already, but it doesn't get triggered simply because it requires certain changes that are occurring in this transaction. So it isn't -- I think the way the document describes it does not say that they were adopted for this transaction. But they are there and they're triggered by this transaction.

CHAIRMAN MECHAM: Mr. Reeder, do you have any questions on this point? Are you done, Mr. Mattheis? I'm sorry.

MR. MATTHEIS: That's fine, I think I

am done. Thank you.

MR. REEDER: Mr. Larson, you are the only one on the panel who has admitted to having an accounting background. May I ask you a number of questions?

MR. LARSON: I graduated from college in accounting.

MR. REEDER: I'm having some trouble with just trying to decide what the order of magnitude of these transaction costs might be. Can you help me? I see them expressed in pounds, I think, in Exhibit A. Can you tell me what the transaction costs from the PacifiCorp side are and for the transaction costs from the ScottishPower power side are in U.S. dollars so that we can understand what you're talking about?

MR. FELL: Could you identify the exhibit for me, please?

MR. REEDER: It's the stipulation Appendix 2. Or are there other transaction costs?

MR. LARSON: I think, if you look at it, they are stated both in dollars and in pounds, that your pounds are in parentheses. But mathematically stated, the conversion rate is probably about 1.6, Mr. Reeder.

MR. REEDER: Thank you. Now can you sum those numbers for me? What is the sum of the transaction costs revealed by this exhibit?

MR. HUNTER: If you've already done

that, we'd be happy to take your word for it.

MR. REEDER: I haven't done it on this exhibit. On another version of this exhibit we've done it, but we haven't done it on this exhibit.

MR. FELL: May we take a minute and provide Mr. Larson with a calculator?

MR. REEDER: Oh, he's fast with numbers.

CHAIRMAN MECHAM: You never thought the recalcitrant witness would be your own, did you, Mr. Fell?

MR. FELL: They're always the worst ones.

MR. LARSON: My calculation says a maximum of 259.8 would be charged below the line.

MR. REEDER: So 259 --

MR. LARSON: $259.8 million. Transaction costs that would be captured below the line. Now, in addition to the $259 million involved in this transaction in transition costs

alone, on this exhibit, are there other transition
costs that are not on this exhibit?

MR. LARSON: I am not aware of any.

MR. REEDER: Mr. Wright, are there

transaction costs associated with this transaction that are not in this exhibit?

MR. WRIGHT: I'm not aware of any.

MR. REEDER: Mr. Gimble, are you aware of any?

MR. GIMBLE: I'm not. I would have to consult about Mr. Talbot to make sure though.

MR. REEDER: Mr. Alt, are you aware of any?

MR. ALT: I actually personally haven't tried to capture what the transaction costs. Maybe one of our other witnesses have. So I'm not in position to answer that.

MR. REEDER: If there are transaction costs that are in addition to the $259 million, is the transaction, is the agreement that they are to be below the line?

MR. ALT: Well, that's the condition that in 3, the first sentence, no merger transaction related costs shall be allowed in rates. And if this list is not comprehensive, we will certainly enter in a rate case, through our audit determine if there are any additional, and proposed that it be excluded on this condition.

MR. REEDER: So the mere fact that they

are listed is not your intention to exclude them from the below the line treatment. If they are not listed, they can still be below the line.

MR. ALT: Absolutely, in my view.

MR. REEDER: Mr. Gimble?

MR. GIMBLE: Yes, I agree completely.

MR. REEDER: Mr. Wright?

MR. WRIGHT: There are transaction costs that are being omitted from here and there are transaction costs that will be delivered on.

MR. REEDER: Do you agree, Mr. Larson?

MR. LARSON: I agree.

MR. REEDER: Mr. Larson, can you tell between the two companies -- maybe it's self-evident. Are these costs only on PacifiCorp's books, or are these costs that appear someplace else?

MR. LARSON: These are costs that are being incurred by both PacifiCorp and ScottishPower related to consummating this transaction.

MR. REEDER: Are these the costs that

will appear on the books of PacifiCorp?

MR. LARSON: A share of these costs
currently -- I mean right now we are not combined
companies, so ScottishPower obviously has books,

and Pacific has books. Right now we are accounting for merger related costs below the line, and I presume ScottishPower is doing the same. And when it comes to setting rates, all of the PacifiCorp costs that have been incurred and consummated in this transaction, once it's completed, will be below the line and not included for ratemaking purposes, and the ScottishPower costs will never make it to PacifiCorp.

MR. REEDER: Are the costs we're seeing in Attachment 2 only PacifiCorp costs or do they include ScottishPower costs?

MR. LARSON: I think I already said they include both.

MR. REEDER: They include both. All right. What is the sum of transaction costs booked on ScottishPower's books to date, Mr. Wright?

MR. WRIGHT: I have no idea.

MR. REEDER: Even if in this record, it should appear that when asked that question in Idaho, your witness testified 250 million pounds.

Would you have an objection to that number?

MR. WRIGHT: I would have to look at what the question was, whether they had been incurred as of yet or not. I don't know. Your question says at the current time. I don't know. That was an estimate of the transaction costs for ScottishPower. Whether they've all been incurred in books, I really don't know.

MR. REEDER: Can you give me an estimate of the transaction costs to ScottishPower of concluding this deal in U.S. dollars?

MR. WRIGHT: Well, I assume it's 250 times 1.6, but I'm not the financial witness. There is a witness, Greg Morris, that would know more about the actual costs incurred with the transaction than I, I'm afraid.

MR. REEDER: Maybe during the luncheon recess you can inquire of him concerning the correct number.

Mr. Larson, what are the transaction costs that PacifiCorp, in U.S. dollars, anticipates as a result of closing this deal?

MR. LARSON: I don't know.

MR. REEDER: Could you make the same inquiry during the luncheon recess so we can establish what the transaction costs are to determine whether $259 million is anywhere near the complete number? We know so far it may not be.

MR. LARSON: Absolutely.

CHAIRMAN MECHAM: Okay. Let's take a lunch recess. Return at 2 o'clock.

(Recessed at 12:30 p.m.)