August 4, 1999 2:15 p.m.

PROCEEDINGS

CHAIRMAN MECHAM: Let's go back on the record. And we'll go now to Mr. O'Brien, representing PacifiCorp.

MR. HUNTER: Please state your name and business address.

CHAIRMAN MECHAM: We probably ought to swear him in first.

RICHARD T. O'BRIEN,

Called as a witness, having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HUNTER:
Q Please state your name and business address for the record.
A It's Richard T. O'Brien, O apostrophe B-R-I-E-N, 825 NE Multnomah, M-U-L-T-N-O-M-A-H,

Portland, Oregon.

Q By whom are you employed?

A PacifiCorp.

Q And what position do you hold there?

A Executive vice president and chief operating officer.

Q In connection with this proceeding, you've prepared and caused to be prefiled direct testimony that was marked as PacifiCorp Exhibit 1 and rebuttal testimony which was premarked as PacifiCorp Exhibit 1R?

A That's correct.

Q And if I asked you those same questions today under oath, would your answers be the same as they are printed there?

A They would.

Q Do you have a brief statement?

A I do. In my direct testimony, I cover a number of things. Why PacifiCorp presumed a transaction with ScottishPower and other things. In October of last year, as you've heard, PacifiCorp announced a strategy to return to its roots. In short, PacifiCorp identified that it must focus on its core business, the domestic western electric utility business; shut down all other endeavors with the exception of Powercor; embark on a cost reduction program, commit our company and its staff to higher levels of customer service; and in addition, we simultaneously announced a share repurchase program designed to support PacifiCorp's share price and return capital to our then dissatisfied investors.

At the time of our announcement on Wall Street in October, our chairman and CEO said he would listen to anyone who had a proposal for achieving these goals, quote, better and faster, end quote. ScottishPower came forward and made such a proposal and in December of 1998 our two companies announced the merger which is proposed in front of you.

It is actually a rather simple merger, just a share-for-share exchange of stock, and in non-regulated companies it would actually proceed fairly quickly if there were no competition issues. But here, as you know, we'll be before the PSC, and you will decide whether or not the standard that you've adopted we meet, and that standard is the net positive benefit.

My testimony, ScottishPower's testimony, and importantly, our stipulation with the DPU and the Committee demonstrates that this merger is in the public interest. And not only is it in the public interest, but it further emphasizes the refocus program that PacifiCorp started in October.

So ScottishPower is fully committed to PacificCorp's focus on western operations. They have a proven and enviable history as a utility operator. Their assets, views and objectives are very complementary to ours. They can assist us in realizing our cost reduction programs. They have a proven track record of using a different set of tools, tools that PacifiCorp doesn't have or has not employed. We think that that should lead to prices that are lower than they otherwise would have been.

They will also help us accelerate our goal to improve customer service. Alan mentioned that the stipulation sets forth the seven system performance standards and the eight customer guarantees. It will also result, the merger will, in a financially stronger PacifiCorp.

In short, this combination will allow us to achieve our operations and our customer objectives better, faster, and with more certainty than PacifiCorp could on its own.

Some intervenors really, I think, tried to contest that point. They do so, really, by looking at two things. One, would PacifiCorp be better on a standalone basis, or alternatively, could it merge with a domestic utility company?

With respect to the latter point, I think that in my rebuttal testimony, I indicate that transactions with other utilities are really just hypothetical and that it's this transaction that needs to be evaluated before the Commission.

My direct and rebuttal testimony also responds to the first point, that PacifiCorp could on its own offer a similar package of benefits as the merged company.

I would just say that PacifiCorp is in the first stages of its refocus strategy. That strategy hinges on earning an acceptable rate of return in its regulated business in every state where we do business.

This company has in the last two years, as you've heard, gone through some significant cost reduction programs. And I think we have reached the point where we would really start going for price increases to try to help assist in increasing our returns. And it's really through that combination of cost efficiencies and price increases that we would have tried to refocus our strategy with success.

While we would be doing that, it is very uncertain to me that we would be able to deliver improving customer service along the lines that ScottishPower has. In addition, it is certainly beyond the realm of possibility that PacifiCorp would offer $48 million of rate credits to Utah customers, or for that matter, any customers.

I think it's fair to say that PacifiCorp, upon a standalone basis, has numerous challenges. Together with ScottishPower, we could really go forward and move the business forward, as Alan has said. We can also move the delivery of that business to our customers with greater success.

That concludes the summary of my testimony.

MR. HUNTER: Mr. Chairman, we offer PacifiCorp Exhibits 1 and 1R.

CHAIRMAN MECHAM: Any objections? Thank you. We'll admit them.

(Whereupon Exhibits PacifiCorp 1 and 1R were marked for identification and admitted into evidence.)

Q (BY MR. HUNTER) Several subjects that were deferred to you for response. The first involving the counting question. The premium that PacifiCorp paid for Utah Power at the time of the first merger, is that premium on PacifiCorp's books?

A No, it is not.

Q And what's the reason for that?

A Because the Utah Pacific merger was put together under terms of an accounting pooling of interest, and under a pooling of interest accounting, the historical book base of the two companies is added together. There is no acquisition premium on the books anywhere.

Q There were also some questions yesterday about the umbrella loan agreement. They were Mr. Dodge's and Mr. Reeder's questions, but maybe I can paraphrase and make this move quickly.

Mr. Dodge wanted to know what the current limits are under the umbrella loan agreement approved by the Commission in its '97 order. Can you tell us about that?

A I can attempt to. The '97 order provided PacifiCorp with the ability to lend down to its subsidiaries amounts in the aggregate of

$200 million. So between all of the subsidiaries of PacifiCorp, $200 million was the most that the utility company could lend to any affiliate.

Importantly at that time, there was no affiliate above PacifiCorp. PacifiCorp was the highest company in the scheme. So that PacifiCorp could never lend money outside of itself, only down. Limited to $200 million.

Loans up from subsidiary companies had no limit under the proposal. The reason for that is because if PacifiCorp is able to borrow money from its affiliates and subsidiaries as cheaply as it can on the marketplace, by definition, it avoids the transaction fees associated with any of those loans. So it is a benefit.

Moreover, PacifiCorp does not stake any credit risk for that, because it really is the receiving party of the loan, so you don't have to worry about the creditworthiness of who's providing you the money. That's what's in the conditions of the '97 agreement.

Q Thank you. There were also a series of questions that Mr. Reeder asked about cost reduction programs. They talked about '98 cost reduction programs. Could you explain what those programs are and what the total dollar amount of them is?

A Mr. Reeder's numbers were actually accurate. The $50,000 estimate of how much money we would save from the 1998 early out program, which was effected in February of '98, is the estimate that we have provided publicly.

The estimate that we provided with respect to the savings over the 1999 budget, which we announced in October, was $30 million.

Importantly, the $50 million that Mr. Reeder references has been broken down to about $35 million in operating and maintenance costs ongoing, and about $15 million of capital ongoing as a portion of our labor is capitalized over the capital additions the company puts in place.

If you were to look this year, then, would you expect to see in 1995 -- in 1999 $35 million, that portion of the 50 which is O&M, plus $30 million as a net savings off of 1998 that would be a $65 million reduction in O&M?

The answer to that is no. The reason for that is, as was pointed out in a couple of responses, costs at PacifiCorp tend to escalate if you don't do anything about them. We didn't do anything about a large number of our costs, which continue to escalate, so that we are always entrapped with things like a three percent increase or four percent increase in our G&A costs.

The number that we recently provided to Wall Street may end the mystery here. I think the number we provided on a phone call about a week ago on our second quarter earnings suggests that overall, between G&A and other O&M, the company would expect that its 1999 total for those two categories is approximately $40 million less than what our 1998 total for those two items would have been. There is a $40 million savings, but it is not a $65 million savings for a variety of reasons.

Q Does PacifiCorp have any additional programs it's planned to reduce costs?

A No. As I've said, as I've said in other states and I'll say it here, when Mr. McKennon took over the company as its chief executive officer in early September, we had a relatively short period of time within which we had to put a strategy to put together for Wall Street.

One of the first things done to try to stabilize the situation after our previous CEO departed was to inform Wall Street we would in fact stick with a media, that we would have a meeting with our investors in late October.

As a result of that, we had a very compressed period of time within which to look at our strategy to try to refocus that strategy in a way meaningful to shareholders. And we didn't have the time to do the details we would have liked to have done with respect to what could we do in 1999, what could we do in 2000 and the years beyond that?

We did put a five-year plan together. When we talked in October with Wall Street, what we told them is we had plans to take $30 million out of the business relative to the budget for 1999. And that those actions would be in place by 12/31/98 so they could count on the fact that we would have a cost reduction curve that continued to go down.

We also told them that going forward, they could expect earnings growth from PacifiCorp, and while we were not specific with what the goal was, we told them that that earnings growth would come from two things, as I've mentioned earlier, cost reductions, and trying to get closer to our authorized rate of return in every jurisdiction where we do business.

Beyond that, we did not identify specific areas of cost reduction for 2000, 2001, 2002, or

2003. We really used that generic accounting term called a plug to get us to the point where we could show accounting earnings in what we thought was a reasonable way that they could deliver on. But we didn't have the specifics of the plan of how we would deliver on them.

Q There were another series of questions that dealt with the company's new pricing philosophy as expressed by Mr. Reeder. Presumably a new approach towards special contract customers. He talked about the coincidence that there was some discussion between you and Utah regulators sometime August, September, about new rate case strategy and the company offering itself as a purchase candidate. Phrased slightly differently than he did. Would you comment on those representations?

A Yes. I -- before becoming chief operating officer, I was chief financial officer at PacificCorp. I think in that time period, I then probably uniquely can talk about both roles, both what I thought the returns look like and what I thought we ought to do in communicating those returns.

In late July when I became chief operating officer, at that time I became in charge of the regulatory actions of the company.

I think it was shortly after that, and I agree with Mr. Gimble that the time frame for that meeting was August, and at that point, I had not been involved in any discussions with ScottishPower, even though our previous person, Fred Buckman -- it was in a general nature. I think the fact that I wasn't involved shows it wasn't specific at all with respect to any of the actions the company was going to take.

We came forward and talked not just to Utah, but we tried to talk to the regulatory groups in almost every state. And we informed them that the company was going to adhere much more closely to a policy of examining its prices with respect to what its authorized rate of return could be in those jurisdictions.

That didn't necessarily mean that we were going to be more aggressive; it didn't mean that we were going to be harder to deal with. What it meant was we were going to be more consistent.

I think my discussion with the Committee and the DPU down here really revolved around the fact that PacifiCorp had not filed rate cases in jurisdictions -- in any jurisdiction other than Oregon and Wyoming. Since the 1989 -- or since the merger of the Utah Power and Pacific Power system in 1989. Other than as agreed price reductions or price increases in Oregon. So we hadn't had a firm discussion with anybody about the rate cases.

And as I saw the rate case in 1997 unfold, I think it's fair to say that from my view, PacifiCorp was unpracticed in putting on a rate case. And I think there were several areas where we didn't do a very effective job, not because people didn't try, not because people on the other side weren't forgiving, but we hadn't done one for a long time.

I thought given the fact that most of our earnings were going to come from a core business, which was regulated, we just had to be a lot clearer about what our regulatory policy was. What I said was I thought we would much more regularly file rate cases beginning with one in 1998.

Q Did ScottishPower have anything to do with its new pricing policy?

A Absolutely not.

Q There were questions about the contract approval process. How was the contract -- the special contract approval process for PacifiCorp written out?

A The process starts with the relationship manager for the specific customer. Those unnamed customers. And as we negotiate with those customers, there is routinely feedback up through the system so that generally, we are informed as to what the terms would look like.

And I think as we get closer to fruition of a contract, it would be PacifiCorp's policy that on these large contracts, and yes indeed, some of Mr. Reeder's contracts, customers, would certainly be in this range, would go to the PacifiCorp board for final approval.

That doesn't mean that those customers need to negotiate with our board. That process would be very difficult. But they do, in fact, negotiate with people who are very close to the customers, and those people have the authority generally to negotiate around certain parameters, and when they are done, then we will take that board for what I would call -- take that contract for what I would call fairly perfunctory review at our board.

Q Thank you.

MR. HUNTER: Mr. O'Brien is available for cross.

CHAIRMAN MECHAM: Thank you. Mr. Reeder.

CROSS EXAMINATION

BY MR. REEDER:

Q Good afternoon, Mr. O'Brien.

A Good afternoon.

Q Good to see you again.

A You too, Bob.

Q Welcome to Salt Lake City. Let's begin with some of your summary, if we might. The $80 million savings anticipated from your refocus program and your employment actions in 1998 has dwindled to $40 million, or do we expect further savings from the programs in years past 1999?

A As I indicated, the savings on the combined O&M and G&A line for 1998 will be about $40 million. I would say that that savings will continue.

But as I said, every other cost at PacifiCorp will continue to escalate unless we do something about it. And within about three years' period of time, the savings that the company put on the table would otherwise go away if you don't do anything about those other costs.

Q Let's stick with the $80 million number. Has it dwindled to 40, or is there further savings from the program yet to be realized in the year 2000 and 2001? I recognize other costs have increased, but the question is, has the 80 from the employment action and refocus program dwindled to 40, or are all the effects of it yet to be realized?

A The $80 million in total cost reductions, and recall that I suggested in my summary that those were cash reductions, some of which go to capital, some of which go to O&M. The $80 million was never going to be $80 million of O&M reduction; it was going to be $35 million of O&M reduction. The $30 million that came through relative to our budget was, as I said, relative to the budget, it was all O&M. But it was not all off of actuals for 1997.

So to be clear, again, the amount that will be recognized in 1999 when you look at those two line items in total will be about $45 million.

Q Okay. How much would we expect to see in the year 2000 as a result of the initiation of those two programs?

A $45 million less whatever the escalation is in the other part of the businesses that we don't control.

Q Let's leave the escalation aside. Let's just decide, what do these programs, not as a result of the merger, produce on a going forward basis? Are they producing their maximum in 1999, or will they produce further savings in further out years?

A They will produce savings consistent with what we are seeing in 1999.

Q So the most we can expect from those is $45 million, you're telling us?

A No. What I said is $45 million of
operating and maintenance costs and $80 million in
cash savings is what I said.
Q Help me find the remainder of the savings
above the 45. Where will I look for them?
A It's going to be in capital.
Q Reduced capital expenditures?
A Yes.
Q All right. You released your earnings for
the first and second quarter of this year?
A We have.
Q What were your earnings for the first
quarter?
A I don't actually recall that number. Hang
on.
Q Does the number 29 cents sound familiar?
A Yes.
Q And of that 29 cents first quarter
earnings, can you tell me what portion of it was

contributed by domestic electric operations?

A It's fair to say the majority.

Q 25 cents?

A That's about right.

Q Have you released your second quarter earnings?

A Yes, sir.
Q You released those about a week ago?
A Yes, sir.
Q Do you have those numbers in mind?
A I think I can get there.
Q Can you give me those numbers, please.
A 20 cents.
Q Can you tell me what part of the 20 cents was contributed by domestic electric operations?
A The majority.
Q Were those earnings in excess of earnings for prior years?
MR. HUNTER: Maybe if you told us which year.
Q (BY MR. REEDER) Let's try 1998.
A Are we talking about domestic electric earnings or the company as a whole?
Q Let's do them one at a time. Which do you want to talk about first?

A I think the second quarter earnings relative to the previous year were down in Utah -- down primarily because of a price reduction in Utah.

Q For earnings the year before?

A For the equivalent second quarter of last year.

Q And for the first quarter?

A The first quarter I think was -- again, I don't have the first quarter in front of me. I think roughly in line with the year before.

Q Would it be fair to conclude that the O'Brien cost savings programs are having some effect?

A Yes, sir. A good effect.

Q I would agree. You have Cross Examination Exhibit Number 4? If not, could counsel make it available to the witness? I believe that it is the proxy of PacifiCorp.

A I have it.

Q Mr. O'Brien, would you direct your attention to page 31, please.

A Yes, sir.

Q Page 31, it reports the first meeting between ScottishPower and PacifiCorp, doesn't it?

A It does.

Q And that meeting occurred on July 16th, 1998?

A Yes.

Q Present were Mr. Robinson, Buckman and others?

A Yes, sir.

Q The next meeting is a follow-up meeting to that when?

A September 24th was a time when Mr. McKennon and Mr. Robinson spoke. The next actual meeting I don't think was until --

Q Doesn't this first paragraph say on August 19th, there was a further meeting between ScottishPower and PacifiCorp?

A You're right, I missed that. It did.

Q Then follow-up meetings in September where ScottishPower said, let's escalate our relationship?

A There was a telephone meeting in September, to be clear.

Q All right. Turning to page 34. You suggested in your summary that the comparison against another western merger was purely hypothetical. Isn't it true that on or about December 4, 19 -- December 6, on or about December 6, 1998, the board of PacifiCorp considered an offer received by a domestic utility, a group of domestic utilities, for

$25 per share in cash and shares?

A While I agree with what you say in the proxy, you mischaracterize my testimony. What I said was that it was not the correct thing to do in this merger proceeding to compare the transaction before the Commission with a hypothetical transaction that could happen. This transaction stands on its own. And I stand by that piece of my testimony.

Q All right. Now, this transaction needn't have been hypothetical, because there was an offer?

A This transaction is not in front -- this transaction being that in the proxy -- is not in front of the Commission to consider.

Q Why did you say no to the offer of the domestic electric utility?

A Are you asking me why we said no to this specific transaction?

Q I think that's a better statement of the question, yes, sir.

A Let me quote. Counsel for PacifiCorp reviewed the regulatory approvals that would be required to be obtained to effect a merger with a domestic utility and compared those approvals and related issues with the approvals that would be required to consummate a merger with ScottishPower.

The PacifiCorp board of directors discussed, among other things, the complex regulatory issues raised in a merger between domestic utilities, the non-binding and conditional nature of the correspondence, the probability of completion of a transaction if an offer were made, and the fact that the price suggested was lower than that reflected in the proposed exchange ratio in the merger agreement. End quote.

Q The price of $25?

A The price was $25 per share in value, including both cash and shares.

Q And the price to be fetched from ScottishPower was what?

A At that time, the price was in excess of $25.

Q Is the price that one would expect today still $26?

A No. But I don't do future soothsaying very well.

Q What did you do to protect that value so the shareholders would get that higher value of $26?

MR. HUNTER: Objection. This is irrelevant to this transaction. The shareholders have voted on this deal. They've accepted it. What PacifiCorp could or could not have done to change the transaction before the Commission is simply not relevant to what's before the Commission today. Plus, it could take us forever.

MR. REEDER: I can see that it could take a bit of time. But the issue opened by this witness was, was there another western offer? And why wasn't it considered?

CHAIRMAN MECHAM: Well, is there any way you can short circuit this?

MR. REEDER: Sure.

CHAIRMAN MECHAM: How?

MR. REEDER: Just I'll try to ask my questions at a faster speed.

CHAIRMAN MECHAM: That wasn't exactly what I had in mind.

(Laughter.)

MR. REEDER: I'll try to keep it as brief as I can.

Q Do you have the question in mind, Mr. O'Brien?

A I do not --

MR. HUNTER: I objected to that question and didn't get a ruling. This is not a question that's asked hypothetically, or why did you reject this deal? The question was, why didn't you do something with the current merger agreement to ensure that the price turned out to be higher than it did? That's simply not relevant. It's also not on the subject Mr. Reeder said he was going to explore.

MR. REEDER: Why didn't you do something to protect it? Why isn't that relevant? What does the public interest include if it doesn't include considering options? What does the public interest include if it doesn't consider who's affected and how by this transaction? I think it's obvious that we have to probe that area.

MR. HUNTER: I don't want to argue with Mr. Reeder, and I won't, but I'd like to make the point, I've never heard Mr. Reeder take the position the Commission should be looking at shareholder interest in any other transaction. I hope he makes that argument in the context of a rate case in the future.

But I don't think that the public interest is engaged in whether or not PacifiCorp's negotiations with ScottishPower that resulted in the transaction before the Commission -- it simply has nothing to do with that.

If Mr. Reeder wants to attack this transaction, I assume that's his right. But trying to determine what hypothetical negotiation between ScottishPower and PacifiCorp might have led to is simply not relevant or productive.

CHAIRMAN MECHAM: It is a little tenuous, Mr. Reeder. Which is why I'm looking for -- we're fairly liberal with what we allow, but I try to keep it within some reason.

MR. REEDER: We'll try.

Q What advises you to protect the shareholder value?

MR. HUNTER: Objection.

MR. REEDER: I'm trying to be as quick as we can.

CHAIRMAN MECHAM: I assume your objection is the same, principally on the grounds of relevance?

MR. HUNTER: It is, that's correct.

CHAIRMAN MECHAM: Do you have an opinion on the subject? We certainly can exclude irrelevant evidence, but we don't have to.

THE WITNESS: It's always dangerous to ask me if I have an opinion. I do, and I think I can maybe try to short circuit this. Mr. Reeder has a very short-term focus on shareholder value. The protection mechanisms that could have been used in this transaction, you could look at comparable utility transactions and find that there are very few provisions of collars, which would be the typical way to produce the kinds of shareholder mechanism that Mr. Reeder might be talking about.

But more importantly, in looking at shareholder value, one should not look as a day trader; one should look over the long-term and take into consideration the merger partner that one is dealing with.

Amongst all of the things that I quoted, the most important of those that the board considered is who is the best long-term partner for PacifiCorp with respect to and from the viewpoint of shareholder value. And unanimously, the PacifiCorp board chose to go forward with ScottishPower. A transaction which should be evaluated over time and not at any one point in time.

Q (BY MR. REEDER) Did the Pacific board consider or reject collars? Is that your testimony?

A PacifiCorp board never considered or rejected a collar. I did not say that.

Q Did they consider or reject insurance of some nature?

A I don't know what kind of insurance you could buy. They did not consider or reject it.

Q Can you tell us the identity of the persons who made the $25 offer, Mr. O'Brien?

A I could, but I won't.

Q Rather a simple request. May I have an order directing --

A Mr. Reeder, if it was something that was worth disclosing and would have been important to our shareholders to consider, you would have found it on page 34 of our proxy statement in the second or third full paragraph. It is not there. Our lawyers made a determination that it did not need to be made public. And I won't make it public here.

Q   Was that utility that made the offer a western utility?

A   I think if I didn't quote it, perhaps you did. Fifth line down, from a U.S. electric utility.

Q   Was it a western utility?

A   I stand by my statement.

Q   You're refusing to answer?

MR. HUNTER: To the extent that we have to get into it, and I don't see the relevance since the transaction before the Commission is the transaction they're going to have to determine, decide whether or not it's in the public interest, do we have to clear the hearing room and have some kind of protective procedure --

CHAIRMAN MECHAM: No, we don't. How does this bear on -- where do you want to go with this, Mr. Reeder? It is true that the transaction we have before us is with ScottishPower, and we have to determine whether or not that's in the public interest. If you think we can't do that without comparing all other options --

MR. REEDER: I'm asking you to compare the option that was on the table and rejected because of regulatory burdens. Now we're here; it could have been someone that could have had synergies to open up the west for us. Or it could have been someone else. We don't know.

MR. HUNTER: To the extent Mr. Reeder wants through his witnesses to present evidence there was a utility who would have been a better merger partner and if you don't approve this transaction that person is waiting in the wings, ready to come in and do a transaction, that's one thing. That might actually be relevant.

If he doesn't have that kind of evidence, there's simply no point pursuing this, and there's specifically no point pursuing this through Mr. O'Brien. He can put on evidence through his witness.

MR. REEDER: Why are we trying to hide who the potential acquirer was in this record?

CHAIRMAN MECHAM: I don't know the answer to that, but --

THE WITNESS: As I said, you know these things are sensitive. Much as your own client's identity has been protected in this hearing. And I don't think you're going to hear from me anything that didn't show up in our proxy statement. The reason for that is that as you would expect, the letter was sent under confidentiality. And it's not my place to breach the confidentiality under which the letter was sent.

Moreover, you mischaracterize my testimony by saying only regulatory issues stood in the way. I continued to read the sentence, and it is not in order of necessarily the impact. But there are several other things including, most importantly, non-binding and conditional. I saw the letter. Non-binding and conditional.

Q (BY MR. REEDER) Did your board of directors follow up to see if you could make it binding and unconditional?

A Irrelevant. It just doesn't matter.

Q Did you?

MR. HUNTER: Mr. Chairman, once again, do we actually have to pursue this subject until Mr. Reeder shows us how it links up with any issue that's legitimately before the Commission in determining what the public interest is?

MR. REEDER: I think it's a real question about whether or not the merger is in the public interest. If the board of directors turned away utility synergies that could have brought a better benefit, we need to know why and on what basis.

MR. HUNTER: So what?

CHAIRMAN MECHAM: I suppose they've indicated in this proxy, we have the reasons that they've disclosed and made public. I don't think that in order to make a public interest finding as to this specific transaction we need to know what other offers were there and/or rejected. So perhaps we could pursue another line here.

MR. REEDER: Okay.

Q Mr. O'Brien, in questions to Mr. Richardson, we asked concerning the premium to be paid. Those questions were deferred to you. Page 1, I think we concluded the proxy was a better question asked of you? Are you on page 1 of the proxy?

A Yes.

Q Mr. Richardson and I discussed whether
there was a premium to be enjoyed with the purchase price at the time the purchase price was made. We had discussion about what that 26 represented and some discussion about the definitions of it. Can you help us understand what that means?

A Yes. And I quote, the merger consideration represented a premium of 26 percent over the market price of PacifiCorp common stock before the announcement, end quote.

Q The stock was trading at hypothetically $19, you'd expect a 26 percent premium on the $19?

A That is correct.

Q Now, does it also represent a premium over book, sir?

A "It" being the price that is offered by ScottishPower?

Q Yes, sir.

A Yes, it does.

Q Can you tell me what the premium over book is?

A I can. And I will.

Q Thank you.

A Bear with me one minute.

Q That's only fair.

A Page 98 of the same reference document. Without reading all of the caveats which, of course, the lawyers and accountants put around this --

Q You are a lawyer, but you're not an accountant?

A Thank you for recognizing I have some

value.

Q You are an economist, right?

A Oh, God, there it went. If you look at the bottom of page 97, it suggests what the purchase consideration is. And as the column suggests, at September 30th, 1998, the total purchase consideration was 3,630,000,000 pounds. That's the total purchase consideration at September 30th, 1998. The net book value of the sates acquired was 2,430,000,000 pounds. The difference being the good will arising on the acquisition around 1.2 billion pounds.

Q For those of us slow of math, can you help us understand what that might be in U.S. dollars?

A That's about $1.9 billion.

Q A premium of about $1.9 billion?

A At September 30th, 1998.

Q Over book?

A Yes, sir.

Q Flip in the same document to page 53.
A I have it.
Q Morgan Stanley there did a breakup analysis to determine the value of PacifiCorp, did they not?
A It appears that they did, yes.
Q And in that evaluation, as shown in the

PacifiCorp proxy on page 53, it suggests in determining the fair value that generation of PacifiCorp should be valued at approximately 1.8 times -- help me, Mr. O'Brien. What is the -- what are the values? At least you're an economist. I'm having trouble with the words.
A Actually, it is more correct to say that Morgan Stanley used a variety of approaches to make their valuation for PacifiCorp. And as you can see, they used ranges of value, not point estimates. And they used varying multiples, including the aggregate value, which is the total value of the company, to asset value capacity and output.
They did their best to try to segregate that into business lines. And I don't pretend to know if they did it correctly, because I didn't examine it.
Q Morgan Stanley's estimate, nonetheless, is reported in your proxy?
A It is.

Q To your shareholders. Is it the generation business line should have a value of 1.4 to 1.8 times book?

A Times asset value.

Q Is the asset value and book value different?

A I don't precisely know the answer to that
question.
Q Who would?
A You could ask Mr. MacRitchie or the
ever-present Mr. Morris.
Q Mr. Morris, I'm presuming you're keeping
score on these questions so we can just say to Mr.
Morris, "Could you answer the questions, please."
(Laughter.)
A It does say that book asset values were
used for valuation. Again, just reading what it says
in the proxy.
Q Mr. O'Brien, in connection with this
transaction, is it fair to say that your 27
executives are getting $20 million?
A No.
Q What is fair?
A It's fair to say if 27 executives are all
terminated or relocated 100 miles outside of the

place where they currently work, within a two-year period of time, that that is the total amount, the aggregate total amount of the full value of the severance package offered to those individuals.

Q $20 million?

A Only if they lose their employment.

Q I trust you're included in that 27?

A I am.

Q Mr. O'Brien, what were the members of the board who are non-executives paid as severance pay?

A Could I take a moment to check the document? Because I'm not sure you've characterized it correctly. I could give you the amount, which is $50,000 per non-executive director, but I'm not sure you've characterized the reason why.

Q Please do.

A Page 57 of the merger agreement, first full paragraph, fourth line down, PacifiCorp has agreed to pay each non-employee director $50,000 promptly following the date the director's unvested shares are forfeited following completion of the merger. End quote.

Q When will that event occur?

A Unvested shares are forfeited following completion of the merger.

Q Following completion of the merger, each retiring executive -- each retiring board of director member will be paid $50,000?

A In exchange for their unvested shares.

Q Okay. Now, in connection with the transaction, PacifiCorp retained Salomon Smith

Barney?

A We did.

Q Can you tell me how much you paid them for the fairness opinion?

A $25 million.

Q You got a bargain. How much did ScottishPower pay Morgan Stanley?

A We got a bargain.

Q How much were they paid?

A I think the number you used with Mr. Richardson, if I recall, $36 million.

Q $61 million in advisory fees in this deal?

A That doesn't include the lawyers.

(Laughter.)

Q They are my colleagues.

(Laughter.)

MR. BURNETT: Can we stipulate to the reasonableness of the lawyers' fees?

MR. REEDER: Stipulated.

(Laughter.)

Q (BY MR. REEDER) $61 million, how does that compare with the guaranteed rates in Utah, Mr. O'Brien? $48 million worth of rate guarantee and $61 million to investment bankers?

A You've already used the number I was going to give. After two full days of going through the conditions, I have it memorized. $48 million. That's how it compares. In the state of Utah, by the way.

Q Shareholders get, if the share price rises, $1.6 billion premium over their price at the time the merger was announced?

A If the share price rises to the exact share price it was at September 30th, to go back to those calculations that we used, that would be the amount of the premium that they would receive over the market price at the time the deal was announced.

Q So if my arithmetic is correct, there's about $1.8 billion worth of dollars flowing to shareholders and management as a result of this transaction, and Utah ratepayers get $48 million?

A In the four years of the stipulation, Utah ratepayers get $48 million. It is not defined what Utah ratepayers would get going forward beyond that.

It is certainly our expectation that prices will be lower than they otherwise would have been, and that will certainly be a benefit to all of our ratepayers, not just those here in Utah.

Q Rates will be lower under ScottishPower in Utah than they would have been under PacifiCorp?

A Yes, sir.

Q All right.

MR. REEDER: I'm going to ask to have marked as the next exhibit in order your refocus plan. I want to talk about that a minute or two.

MR. HUNTER: Do you have copies?

MR. REEDER: We do.

CHAIRMAN MECHAM: Off the record just a minute.

(Whereupon Cross Examination Exhibit 13 was marked for identification.)

CHAIRMAN MECHAM: Back on the record. We have marked as Cross Examination Exhibit 13 a document entitled PacifiCorp Investor/Analyst Presentation, October 28th, 1998, New York. Mr. Reeder.

MR. REEDER: Unfortunately, the pages aren't numbered, so we shall try to say the heading of the page.

Q A housekeeping question before we go there.
On the loans. Having ScottishPower as an affiliate
doesn't change the cap on loans in any way, does it?
A No.
Q $200 million is all that can go out of
PacifiCorp, even adding ScottishPower?

A You had to go and ask that question. Actually, that is not the right answer. The answer, under current regulations, is that actually no money can flow from PacifiCorp to ScottishPower.
Q By adding ScottishPower, the umbrella loan agreement, what do you -- how do you intend to act?
A Did you say how do we intend to act?
Q Precisely. Do you intend to loan them no money?
A As I said, under current regulations, both state and federal, importantly federal, PacifiCorp could not lend money to the holding company or anyone in the ScottishPower group above PacifiCorp.
Q Is that the Public Utility Holding Company Act regulations?
A Yes, sir.
Q Increased the absolute bar?
A Under my opinion, which I am not a lawyer, at least licensed to practice in that area, that is

my opinion, yes.

Q Is there a waiver of that condition?

A No, sir.

Q So the million dollars or whatever is in cash at PacifiCorp can't flow upstream to ScottishPower, period?

A At the current time, that is my understanding. Yes, sir.

Q You would have to add "at the current time." Why the condition, Mr. O'Brien?

A As hard as industrial customers and others push for changes in deregulation, others push for changes in PUHCA.

Q If PUHCA is repealed, you could upstream money?

A I don't know. Because I don't know the conditions under which it would be repealed. But that is why I said "at this time." Because laws change.

Q Directing your attention to Cross Examination Exhibit 13, let's go to the page entitled the new strategic direction continued. It begins, weaknesses of PacifiCorp.

A I have it.

Q What do you mean by transforming

transaction?

A This was Mr. McKennon's part of the speech, and I did not make it; I was there to listen to it. And I think it is fair to represent his statement as being one which says that PacifiCorp was very focused on looking outside of the domestic electric utility business, including places like Turkey, the U.K., Australia, Brazil, and any other number of not only countries but businesses within those countries in an effort to transform itself from a domestic western electric utility company into something different.

And Mr. McKennon's precise statement I think, and this may be a liberal interpretation but not much, is that he, Keith McKennon, didn't think we needed to be transformed.

Q The next paragraph talks about too many underperforming business distracting and distracting from the core business. What does that mean?

A As I said, we had a number of both mature -- well, not really mature, but maturing and less mature businesses. Including our eastern wholesale trading activities, including our investment in Turkey, including several efforts that we had made with respect to building a business in the United Kingdom. And what we saw in the evolution of some investments that we had made in tenuously connected businesses to the electric utility business.

And we mentioned that several of those, including our investment -- I almost said adventure; that's probably true too -- with Energy Works, which was a joint venture with Bechtel, including our investment with KN Energy, the simple choice and enable joint venture. Those are three, the other being Eastern Energy Trading, which Mr. McKennon specifically mentioned as being underperforming, distracting, and detracting from returns.

Q   Mr. O'Brien, in your opinion, was one of the telephone businesses operated by PacifiCorp one of those distracting and underperforming businesses?

A   Absolutely not.

Q   You did, nonetheless, sell it?

A   You have to rub that in, didn't you? We did.

Q   Wouldn't it be the case that these criticisms, criticisms that could be applied to the person acquiring PacifiCorp?

A   I'm sorry, could you ask that again?

Q   Preoccupation with transforming transactions? Is it the case ScottishPower is aggressively acquiring through hostile takeovers water and telephone?

A I actually don't think that's the case. Because I don't think that ScottishPower is actually trying to transform itself from one thing into something else. I think it is much more focused on trying to stay with utility businesses, of which the water business is certainly one. And I think in its reach to the United States, it has been very careful to say that they are not looking globally; they are really looking towards the United States.

So I don't think that is a fair representation, and I have to tell you that in the executives that I have met at ScottishPower, including Ian Russell and Ian Robinson and, importantly, Alan Richardson, these people are absolutely focused.

Q Turn the page to the western strategy, if we might. Mr. Richardson -- Mr. O'Brien, I'm tempted to ask you, what do you believe the focus of ScottishPower to be? Electricity, water, gas, or corporate growth through acquisition?

A In my opinion, it's building on the expertise that they have in running regulated businesses.

Q Under what we would call in the '80s a conglomerate?

A As an economist, I could not use that term.

Q As an economist, what term would you use?

A A focused strategy on building off of their regulatory capabilities.

Q Turn the page to the western strategy. There you list a number of transactions that you propose to pull out of or cease to be a part of?
A Yes.
Q Do you see the top one, natural gas?
A Yes.
Q Is ScottishPower in the natural gas business?
A ScottishPower is in the business of selling natural gas to its retail customers. They are not in the business of marketing and trading natural gas in the way that our company, TPC Corporation, was. Different lines of business.
Q Different parts of the same industry?
A I think that's fair to say, yes.
Q Do you know whether they have an intention to engage in the natural gas business or some part thereof in the U.S.?
A I do not know that.

Q Turn the page. There we have reference to the $30 million.

A Yes.

Q There was discussion this morning or yesterday with Mr. Larson whether that $30 million included the employment action, second employment action, in 1998. Can you tell me whether or not it does?

A Yes. The $30 million was premised on that, both employment action, not hiring jobs that people wanted to put in their budget, and other reductions. So yes, it is in there.

Q So the December involuntary severance of 700 people is part of this $30 million reduction?

A No. That's not correct. And I'm sorry if I've confused you.

Q You have.

A In February of 1998, we had the early retirement, which was completed at the end of that first quarter. That involved the 700 plus employees. This involved some employees, but if I remember correctly, the number is around 100 to 125 employees. And it was both through a re-up of some of the early retirement provisions as well as some enhanced severance.

Q Maybe we're saying the same thing. This does include the December employment action, whatever number of employees --

A This is the December employment action. Not to be confused with the February employment action is the point I'm trying to make. And that is where the $50 million, roughly, of which as I said $35 million is capital.

Q We see on the bottom of that page --

A I'm sorry, O&M.

Q Yes, capital and O&M. On the last line of the page, $750 million, the share repurchase program?

A Yes, sir.

Q What happened to that program?

A When we announced this program in October, we indicated that we would be evaluating the timing which we would commence the share repurchase. We did not indicate and, in fact, indicated that it would proceed most likely at or near the end of the year or could possibly go into the following year.

As we got closer with ScottishPower, we determined that we really could not offer the share repurchase program because the board officers of the company and others knew that we were considering the transaction. As a result of that, any purchases really couldn't be made in the marketplace anyway based on the fact that we would have inside information.

So we did not follow through on the program that had been announced. We have not bought back one share since that announcement.

Q Now, in fact, the share repurchase program was fairly complicated, wasn't it? The shares were to be purchased, purchased not by PacificCorp but by a second entity in some fashion?

A If that's your definition of complicated, that is exactly what was going to happen.

Q We'll use our Scottish friends' "scheme." The scheme was to buy it in a second entity.

A The only reason that we were buying in a separate entity, and that entity is a 100 percent held subsidiary of PacifiCorp, PacifiCorp Group Holdings, is because that is where the cash was held.

Q How much cash was it?

A At that time, probably about $1 billion.

Q What happened to that cash?

A A large portion of that cash was actually dividended, if there is such a word, was upstreamed to PacifiCorp through a dividend.

Q The money now is in PacifiCorp?

A In the electric operations, that is correct. Both -- and I would say that it's primarily used, and the reason you don't see $1 billion on our balance sheet at the end of June is that that is really captured in paying down debt at the utilities level.

Q ScottishPower formed any part of the decision-making to dividend that up to PacifiCorp?

A Absolutely not.

Q Is there any correlation between the fact that there's about an $800 million shareback of ScottishPower to occur before the merger is consummated but after it's approved in the share buy-back?

A You'd have to ask ScottishPower that. You know the reasons behind the number they set I can tell you is we made a dividend to the electric operations from our unregulated company. A requirement which the company in no way had to do.

But we did that because we thought it would help to continue the focus that we had announced on the western utility operations, because it really does benefit the western electric utility operations to have that money in the form of a dividend, knowing it would not have to pay that back to an unregulated

subsidiary.
So we did bolster the company by making that dividend, the decision entirely made on PacifiCorp's own merit.
Q Moving to the page entitled implementing the strategy. First bullet point, focus on being a

western electric utility. Our focus is now changed?

A No. As I said in my opening remarks, and as I strongly believe, I think that ScottishPower serves only to underscore that focus on the western electric utility company. I think that the items they have put forward for customer improvement will really continue to focus us, even more, on that western utility.

Q The bullet point down about four says, seek rate increases where necessary. Do you have a multiyear plan to seek rate increases anywhere?

A As I said, in October, at this presentation, what I said was that PacifiCorp, and there is a slide in here which actually refers to this, was underearning in almost every jurisdiction that it was in.

And that as a result of that, we felt as a management team we owed it to shareholders to try to close the gap between earned and potentially authorized rates of return.

Q Turn to the next page. I think that's the slide you're referring to.

A It is.

Q Would it be fair to conclude that that bullet point meant you're going to seek rate

increases in Wyoming, Idaho, Oregon?
A It's fair to assume that based on this page, with the 1997 returns that we used at this calculation, that those are the areas where we would have been underearning at that point in time.
Q Would they have been the focus of the previous proposed action to seek rate increases where necessary?
A No. Because as I said, this is at a point in time. We were making a commitment to our shareholders to try to close the gap in every jurisdiction where we do business. Wherever a gap existed or would exist in the future, we would seek to close it.
Q Does that bullet point a mean seek a rate increase in Utah?
A If we were underearning relative to what we thought the authorized rate of return was, yes, indeed.

Q What was your plan in October for rate increases for Utah?

A As I said, I had already been down here in August. My plan was we were going to file a rate case as soon as we had the capability to do so. Depending, of course, on the 1998 results, remembering that at this point, we were only 10 months into those results. And I only had a forecast for where we thought we would be.

Q Turn to the page that talks, Utah allocation order phase-in.

A Yes.

Q Is that your estimation at this time -- at the time of this showing -- of the impact of the phase-in in Utah?

A Yes. As you know, that was subsequently changed.

Q At the time you made this presentation, that was your anticipation of what the impact of the phase-in might most --

A It was.

Q -- most likely look like?

A It was.

Q Turning to the cost cuts page.

A Yes.

Q Says target annual savings, $30 million, it
says not all head count?
A (Witness nodded head up and down.)
Q Where in addition to action -- the
employment action we've discussed were you going to
take action to reduce costs?

A We looked in several areas of -- not in any necessary order, but fuel costs come to mind, not filling budgeted positions, which wouldn't necessarily be head count reductions from existing but head count reductions from what we thought the budget was. Sounds a little bit like the government, but in fact this was partially a cut from what we thought costs would be.

In addition to that, we generally looked at other areas of what I would call non -- spending not necessarily related to the company's provision of electric service. Things we thought might be optional and could be deferred without risking operational failures.

Q Turning the page, far right-hand column, what does the CAGR mean?

A Acronym for compounded annual growth rate.

Q Turn to the next page and explain what that exhibit purports to show.

A We have an avowed goal which we've expressed on Wall Street on numerous occasions where we would try to keep the compounded annual growth rate of our O&M, other O&M, and A&G costs at a rate less than two percent. A rate which we thought would say we're really trying to strive to keep costs below inflation.

What we are trying to show here is that we think, based on the 1999 number of $683 million before the targeted cuts, and then to the $653 million that we actually thought we could get to, as I said, we were on pretty much track for, we would approximate the two percent growth over the 1996 number for those same line items.

Q Turn the page entitled workforce reductions. Before we talk about that page, is it fair to say part of the O'Brien program was containing growth in A&G costs? Is that part of the O'Brien program?

A It really is a company-wide effort, and I would not want it to be just mine. But it certainly was the focus of the company's effort, yes.

Q What does the workforce reduction number of nine percent on the bottom of that page mean, Mr. O'Brien? What was the plan of PacifiCorp?

A Well, I think, to be fair, when you ask what the plan is, a portion of this is actually not planned but actual. And that is the 700 million -- not 700 million. 700 employees that were actually out of the workforce as a result of the workforce reduction in January.

The planned part of it is the 175, which then would result in approximately 9,200 employees or a nine percent reduction from the workforce numbers at 12/31/97.

Q We've discussed what that means in terms of annual savings, haven't we?

A We have.

Q Moving back several pages to U.S. electric now.

A Yes.

Q At the bottom of that page, the series of years, '99, 2000, 2001, 2002?

A I see it.

Q What is that intended to represent in those years? What's your plan?

A This is actually a disclosure that we made based off of our 10-K filing. And I don't have the 10-K filing with me. But there is a footnote in there which talks about the company's long-term wholesale purchases and long-term wholesale sales.

And because those contracts are significant and material, and because they are expiring in the near future over this period, we had a requirement, we thought, to disclose those material contracts, and we did so in a paragraph in the 10-K.

Q Are these cost savings that result to PacifiCorp in those years as a result of action and contracts?

A No, they are not. What this says --

Q What are they?

A This is talking about top line growth, or lack of growth, for the wholesale long-term regulated contract explorations. And what this says is that we have significant long-term contracts which are currently above market, which will be expiring over this period.

And those are the numbers with parentheses on them at the top. And that's accounting short form for those are negative numbers. So we have sales going down, and then we have the purchases below that which are also expiring, and you can see the net difference.

And that net difference says that we're actually expecting that we will have to overcome sales -- net sales reductions of some $31 million in 1999, some $33 million in 2000, growing to $75 million in 2001.

Q Did you have a plan to overcome that loss of revenue?

A As I said in my opening remarks, we didn't have enough time to plan for every line item for any year beyond 1999. We did have a general plan --

Q What was that general plan?

A The general plan, as I said, was to use a combination of cost reductions and price increases to get nearer to our authorized returns and provide earnings growth to our shareholders.

Q For the years 2000, 2001, 2002, that's how you planned to accommodate them?

A Yes, sir.

Q Turning to earnings estimate, about the third page from the back.

A I have it.

Q What does that show?

A It shows that our 1999 estimated earnings should be $1.20. Our 1998 estimated earnings were 98 cents at this time. We also indicated -- and Mr. Bob Dalley, the company's controller, was actually making this presentation, but again, I will attempt to summarize.

What he said is it's $1.20 for 1999, less the potential impact of whatever comes out of Utah. With respect to both the allocation order and the rate case. And a footnote is made on the bottom.

Q Does the negative number mean -- is that like the growth and depreciation expense?

A That means that's an increase in cost.

Q Do you plan to increase your depreciation expenses?

A The company's plan for continued investment in the business requires that every year we make capital additions, and I think Mr. Wright quoted a number which I agree with, about $500 million a year.

Because those dollars are escalated versus the book values, which are historic, it is a dead certainty that depreciation will increase as long as you continue to make investments which replace things in your system.

Q This wasn't a planned regulatory action to increase rates and depreciation costs?

A No, this is the result of business as usual.

Q This is the plan through 1999 to approve your earnings that we loosely called on this record the O'Brien plan?

A Loosely, yes. I prefer the refocus plan.

Q Okay. Let's go to the last item. Through it all, to maintain some creditworthiness in the market, you plan to maintain an A rating on your bonds?

A That's correct.
Q Mr. O'Brien, in preparing that presentation to the board that we've just gone through, there was considerable work done by PacifiCorp, wasn't there?
A May I just check your reference? This actually was not a presentation made to our board.
Q I'm sorry. In preparing the presentation to the investment analysts, it was considerable work?
A Yes, sir.
Q It was preceded by a presentation to the board?
A We had several presentations to our board, yes. About several matters.
Q And it was preceded -- and that board presentation was preceded by a substantial amount of work, wasn't it?
A A substantial amount of work focusing on the near-term problems of PacifiCorp, yes.
MR. REEDER: And I hate to do this, Mr.

Chairman, but those documents are the pink documents we'd now like to explore. Mr. Hunter I trust has them with him?

MR. HUNTER: They're secreted somewhere in the offices of the Commission.

CHAIRMAN MECHAM: Any objection to the

admission of Cross Examination Exhibit 13? We'll admit it.

(Whereupon Exhibit Cross 13 was admitted into evidence.)

CHAIRMAN MECHAM: Off the record a minute.

(Whereupon a recess was taken.)

(Whereupon Exhibits Cross Examination 14, 15, 16 and 17 were marked for identification.)

CHAIRMAN MECHAM: Let's go back on the record. And just -- perhaps this will help us push along here. While off the record, we've marked Cross Examination Exhibit 14, which is a document entitled PacifiCorp Board of Directors Meeting, October 16th, 1998; Cross Examination Exhibit 15 is a document with the word Pegasus written across the top, October 16th plan; Cross Examination Exhibit 16 -- these are all large documents, some larger than others. Cross Examination 16 is a multipage document, perhaps

72-page document, that says Financial Statements for October 16th, 1998 Western Fine Tune 750 stock repurchase. And Cross Examination Exhibit 17 is again a large document that has Salomon Smith Barney on the cover page. And it refers to Project Sapphire Presentation, Board of Directors, December 4th, 1998.

All of those that I've identified are considered proprietary, and we are in an in camera session now. Let's turn to Mr. Reeder.

(In camera portion of the transcript
is sealed and segregated from the
main transcript.)

* * * * *

(Sealed in camera session begins.)

(In camera session ends.)

* * * * *

CHAIRMAN MECHAM: Back on the record. Mr. Mattheis, do you have any cross examination for Mr. O'Brien?

MR. MATTHEIS: Just a couple of questions, Your Honor.

CROSS EXAMINATION

BY MR. MATTHEIS:

Q Mr. O'Brien, we talked at length, I won't go into it, about benefits that the current PacifiCorp shareholders are achieving in this transaction and benefits current management, current directors, are achieving. When are those benefits going to be realized?

A Breaking your question down into its components, the shareholders will receive the prospect of a premium at the time that the shares actually change hand -- change hands.

As you know, unrealized versus realized gains for shareholders will depend on individual actions with respect to when they actually sell their shares, whether they realize any gains over their basis in PacifiCorp stock. All of that will be determined at some point after the transaction is completed.

With respect to the employees who you are referencing in your general $20 million, those employees I would say would receive what you are referring to as a benefit when, as, and if they are terminated from PacificCorp. And that would be in recognition of the fact that the future stream of earnings from PacifiCorp would be zero and would be replaced by the package that they would receive. So when, as, and if they are terminated.

With respect to the directors, I think the record is clear that those directors are paid when the transaction is completed.

Q   And for the ratepayers in Utah, the $12 million rate reduction per year for four years kicks in immediately?

A   My understanding is that if we can get through this hearing, and if the transaction is actually approved in all of the jurisdictions, that if it takes effect this year, the $12 million would

start in the year 2000. If it is delayed, I would
just say on a pro rata basis, month by month, the
credit would be delayed equivalent.
Q   And that benefit lasts four years? Well,
two years, then possibly two more, depending on other
circumstances?

A The credit I think is clear after we went through two days of this on the record for how it lasts, my understanding is it's 12 and 12 and 12 and 12 with the last two years offsettable by costs.

Q And after that, is there any guarantee of benefits for Utah ratepayers?

A I think there are. There are guarantees related to system performance, there are ongoing guarantees relative to the customer service standards.

Q Are there quantifiable guarantees, I guess is what I should have asked, that we can put a dollar amount on? I think you said earlier in response to something Mr. Reeder asked that you believe rates will be lower in Utah on a going forward basis. Is that just a belief?

MR. HUNTER: Are you including the --

MR. MATTHEIS: After the first four years.

MR. HUNTER: I was going to ask whether

you're including the $60 million number associated with the liability benefits. Is that what you're referring to?

MR. MATTHEIS: If he wants to answer that. I'll leave it to the witness. Mr. Hunter can testify, but that --

THE WITNESS: I think that there are benefits related to reliability. I think there are estimates on the record of $60 million annually from that.

Q (BY MR. MATTHEIS) That's not a rate reduction?

A No, it's not.

Q You believe rates will be lower?

A I do. I've testified to the fact that I believe with ScottishPower, rates would be lower than they otherwise would have been.

Q How long do you expect it to realize those other rate reductions other than $48 million? Will that depend on the transition plan?

A It will depend on how effective we are as a combined entity in reducing costs and passing those costs through either as a result of the transition plan or in some future rate case when the company comes forward and customers will receive the benefit of the cost management tools that are being employed.

Q Would you call those rate reductions that you expect to be speculative?

A I would call them no less speculative than what PacifiCorp could do on its own. But I think they are speculative, yes.

MR. MATTHEIS: Nothing further.

CHAIRMAN MECHAM: Thank you. Mr. Dodge?

CROSS EXAMINATION

BY MR. DODGE:

Q Good afternoon, Mr. O'Brien. I thought I understood the umbrella loan agreement, then I didn't, then I did, and now I don't again.

A Good.

Q With Mr. Reeder, you got into a discussion of PUHCA, however you want to say it. You probably refer to it as PUHCA?

A I do.

Q Most do. Putting that aside, ignoring any federal or state laws and focusing only on the umbrella loan agreement, is it your understanding that the effect of making ScottishPower an affiliate for purposes of that, in one of the conditions we identified is the effect of that that in any event, no more than $200 million at any given time can be loaned by Pacific corps to anyone, including ScottishPower? Upstream affiliates?

MR. HUNTER: Are we talking about a stipulation condition?

MR. DODGE: Yes. The effect of -- his understanding of the effect of the umbrella loan agreement as amended, if you will, by the stipulation condition. Which says that ScottishPower will be deemed an affiliate for purposes of the umbrella loan agreement.

THE WITNESS: Before answering your question, can I just clarify your hypothetical? What you're saying is without respect to existing laws on the books, both state and federal, what amount PacifiCorp could lend up to a company in the ScottishPower group?

MR. DODGE: Correct.

THE WITNESS: I think that's a pretty huge hypothetical, but based on that, I guess you could say that even in Utah, under your hypothetical assumption, because you've asked me to ignore any rules or laws in Utah, we could lend up to $200 million.

Q (BY MR. DODGE) And that was simply the question. That provides a $200 million cap, independent of other laws or regulations? A contractual cap?

A That is my belief and understanding of the loan agreements as they exist today, yes.

Q Thank you. I think I understand again. Mr. O'Brien, I think you've effectively conveyed your opinion that although you had a plug number, as I think you referred to it, in terms of how you intended to improve performance through rate increases or price decreases, there were no specific plans.

The consequence of accepting that view -- no specific plans that you could testify to beyond the year 1999 in PacificCorp at the time.

The consequence of that in your view, I guess, is that the Commission should not, indeed cannot, try and do an analysis of merger -- what benefits from this point on flow from the merger versus those that would have flowed from a PacifiCorp without the merger?

A I think the consequence is that not just with PacifiCorp, but I think with almost any company where you tried to look at one case versus another, there are so many external factors, as well as internal factors, that could influence the forecasts, that I think it's very difficult to compare forecasts from merged entities to standalone entities.

And while we have a standalone plan, I stand by my statement that we were not in a position to have spent enough time to know where each and every individual cost cut or each and every individual rate case was going to go and what it was going to result in. And this was our best guess.

And we made it our best guess because Mr. McKennon and myself and our board wanted to make sure that we had credible numbers that we thought we could lay up for Wall Street and meet.

So we used our best judgment to try to put numbers that we thought were realistic down on a piece of paper so that we could stand committed to them, but we didn't use such precise management judgment that I know every activity we would take beyond 1999.

How you apply that and what the Commission's job is in looking at those two cases, I really can't judge other than to say I think it's very, very difficult to be able to make those sorts of comparisons in any meaningful way.

Q So if one accepts that that comparison
cannot be made in a meaningful way, what the Commission's left with is comparing savings against the transition plan? In other words, holding the new company or the company under new management to the transition plan?

A Well, I think broadly, the Commission is left with whether or not -- and again, I don't mean to state what the Commission's job is, but my interpretation is that the Commission is left to determine whether this transaction is broadly in the public interest.

And in considering that, I think if you look at the immediate benefits of the rate credit and you look at the detail with which the transition plan will be put before the Commission, I think there will be ample opportunity for people to look at how ScottishPower and PacifiCorp as a combined entity will reduce costs going forward in the future, and it will be, in essence, a report card which you could hold up and say, you did these things.

And I have spent enough time with the ScottishPower people looking at the Manweb transition plan that when they say this is a detailed plan, they mean it. This is a detailed plan. You will see the details behind the cost reductions that will come forward. This is not an empty program, nor an empty promise.

Q   Assuming worst case, which I certainly don't, except for purposes of this question, that either the transition plan filed six months later shows, looks like we can't reduce costs more than or even as much as the $12 million, maybe not at all, or the transition plan says that it can and then the results are that that doesn't happen -- assuming, again, those worst case scenarios, under that condition, it's your view that the $12 million guaranteed credits plus the other conditions still are enough to make this merger in the public interest?

A That is definitely my view.

Q And you'll acknowledge that the commitment that rates will never increase as a result of the merger is a very difficult one to enforce four years out because of the lack of a credible standalone comparison? Won't you?

A I agree that it's difficult to do that. I'm not sure if it's solely for lack of the reason that it is without a standalone comparison.

As I said, I think that costs generally

increase unless you do something about them. And you have to manage them actively. And I think standalone or not, it's going to take effective management to keep costs in a profile which will lead to longer term customer benefits.

Q Mr. O'Brien, one last area of questions.

You were asked generally about the severance packages. And I guess I was impressed and distressed in reading about those vis-a-vis you specifically. Impressed, I guess, that it is an impressive package. But depressed that it appears to have, because I happen to be a fan of yours, it appears to have huge incentive for you to walk away from the company between 12 and 14 months after the consummation of the merger. Can you comment on whether that indeed is the likely outcome of the merger?

A I can comment that I hope that is not the outcome. I can also comment that the board put a package together for me which allowed me to do my current job with a lot of focus.

Remember, we told Wall Street that we were going to focus on our western electric utility operations, and we were not going to be distracted from that. This merger could be a huge distraction for our company if we let that happen.

One of the ways that the board could ensure that that kind of thing wouldn't happen is to put someone in authority, like myself, who could stand between ScottishPower and what they would like to do and really force them to do only what they should do.

And I can say that that has never really been a big issue with ScottishPower, because I think we have gotten along famously. And I think when I say, "It's not the proper time for you to be messing around with our operations," they have been very respectful of that.

But going into this transaction, the board had absolutely no assurance that that wouldn't happen. And they needed somebody who could say, "Stop." And when you do that, you sometimes put yourself at risk.

And what the board wanted to recognize is that if that were, in fact, the outcome -- and again, I hope it's not -- but if, in fact, that were the outcome, that I said "Stop" so many times that the people from ScottishPower said, "We don't necessarily get along with Mr. O'Brien very well," that I had some outcome that was certain.

I would say again, though, even though I agree with your summary of the package, given that I am still only 45 years young, I think my expectation would be that on a standalone basis, I would have a job for a lot longer than three years.

MR. DODGE: Thank you, no further questions.

CHAIRMAN MECHAM: Thank you, Mr. Dodge.

Mr. Sandack, are you the only one with questions?

MR. SANDACK: Just a few questions.

CROSS EXAMINATION

BY MR. SANDACK:

Q I haven't had the pleasure to meet you.

A Nice to meet you.

Q I guess I'm thoroughly confused regarding the employee cutbacks that were made in 1998 and the valuation of that for your purposes of refocusing your earnings statements and the commitments that you made, financial commitments you made with that regard.

As I understand it, there were 700 jobs from the electric restructuring program that essentially were reduced in the domestic operations; is that correct? I'm looking at the workforce reduction page in this Exhibit 13. Unfortunately, it's not numbered.

A That 700 million approximation --

Q 700 jobs.

A I'm sorry. I keep saying million. The 700 person reduction is the reduction that occurred as a result of the early out program which we sponsored and took effect around January and February of 1998.

Q Now, is that reduction essentially responsible for the $30 million that you wanted to reduce the budget by?

A No. That is the number down at the bottom which is the 175. Let me try to summarize and see if I can't --

Q I just got turned around.

A Let me see if I can clarify. Out of the 700 person reduction we took in January, we announced that the cash savings from that would be about $50 million per year. And as I said, a portion of that would be capital and a portion of that would be operating and maintenance expense. And roughly $15 million of it would go to capital, and $35 million of it would go to O&M.

Going down two lines to the 175 person reduction, this is a piece, but only a piece, of the $30 million O&M reduction that we announced in Wall

Street -- on Wall Street, actually -- in the October presentation that we made. Does that help?

Q So is the 175 included in the 700?

A No, it is not. It's in addition. And it is a combination of both electric and non-electric activities. Because as we say, it has other, and it results from business sales. There are other items that are included in there.

Q   All right. So for the 700, that did result in $50 million annual cash savings to the company?

A   Correct.

Q   And of that -- I believe you said $15 million was capital, labor towards capital expenditures; is that right?

A   That's correct.

Q   That might be either -- your own employees or perhaps employees that -- contractors, in terms of these capital improvements?

A   These are our employees.

Q   These are all your employees?

A   Yes, sir.

Q   Okay. I mean, could you actually translate that to like a dollar figure for employee in terms of the actual savings in your domestic electric --

A   I could roughly, if I could divide 700 people, $50 million -- I don't have a calculator. But --

Q 35 --

A $45,000 apiece, something like that.

Q Of that 700, they were all given, I guess, an incentive to leave by an early retirement or something of that nature; is that correct?

A Most of them were. There were a few who were affected by an enhanced severance package. But most, absolutely most, took the early retirement package, yes.

Q And did you really anticipate that many people leaving the company?

A We did.

Q Was that more than you'd planned, or less?

A No, it was actually about what we thought. You can fairly well determine on an actuarial predicted basis how many people will accept an early retirement program by the design. We could have designed this like the 19 -- I'll get my years wrong because I wasn't at PacifiCorp, but I think it was in '91 or '90, as the early retirement package was instituted, and it had generally five years of service added to people's years of service, and also was a five plus five program. So five years of service and five years of age.

This program was designed as a three plus three program, because we didn't want it to affect any more than this number. But you can generally actuarially predict how many people will accept this, and this is close to what we had thought.

Q All right. The other 175, were they from domestic electric?

A As I said, it was a combination of other businesses and some from domestic electric.

Q Do you know how many for domestic electric?

A I don't recall right now. If that's important, I could find out.

Q When you say that was a piece of the $30 million, what percentage did that represent? Do you know?

A In looking at the schedule, it might be fair to say that that was the majority of it. The other businesses. And what we had said is we were also working on a $30 million cost reduction program, the details which of we didn't really know at that time, but we would expect that the employee numbers would probably be lower than that.

And that really is the blank item at the bottom of that page where we say the cost reduction program, we really would have slotted in there some more employees to the extent that that was the part of the $30 million that we were going to get to.

At this time, we didn't say how many we were going to have; we let Wall Street know that this was the general expectation, that there would be additions to that.

Q How many did you actually have?

A I don't recall. But I think it was in the order of 125.

Q So was that -- you'd go out pretty much with your expected there?

A I got the $30 million. It wasn't necessarily how I expected to get it, but that's why you have managers. You let them tell you the best way to get it.

Q It all came from loss of jobs?

A No, sir. No, sir.

Q The majority of it?

A No, sir. Actually, a lot of it came from other areas, and part of it came -- as I keep trying to allude to, this was a reduction from budget. People had some planned initiatives that they wanted to take, which we just cut back. We couldn't afford to do. So some of this is from the twinkle in people's eyes as to how they would like to spend money versus the hard edge to where they're going to spend money. And if there was some ability to reduce those budgeted costs for 1999.

Q And were those budgeted costs strictly budgets for job positions?

A No, sir. Across the board. O&M, A&G.

Q Okay. And as I understand, this plan for Wall Street basically was a concerted effort made by you as a standalone company to refocus without regard to the merger or possibility thereof?

A That's correct.

Q Did you accomplish what you wanted out of this refocus presentation, this plan?

A As I said in my opening remarks, I think we are only initially into that refocus program, but as I said to Mr. Reeder, I think we have accomplished what we set out to do. We have delivered what we said we were going to do on Wall Street in the first quarter, we delivered what we said we were going to in the second quarter. It is my expectation we will do that in the third quarter. We are delivering on what we said we were going to do.

Q In terms of the earnings you projected you needed to make?

A In terms of the earnings and in terms of the focus. We are staying focused on what we said we were going to do.

Q What would be the consequences if you hadn't made your objectives, at least in terms of Wall Street? Briefly.

A After we set this plan forth, if we didn't make our expectations? That is your question?

Q Yes.

A I think continued questions about the value of PacifiCorp stock, more questions about the company's ability to manage, continuing questions about whether or not the management team and the employees of the company are committed to delivering shareholder value.

Q Was this -- did this also have to do with your rating and so on, rating and things of that nature?

A This plan considered a number of things. And as I said earlier, it did include a share repurchase, which would negatively affect your credit. On the other hand, we had over a billion dollars of cash on the balance sheets, so I think we think it did take into effect the ratings, yes.

Q So is it fair to say that as a result of this presentation and the action thereon in 1998, that you made the cuts to the workforce in electric restructuring that were required to satisfy your people on Wall Street as well as the ratepayers and customers of the power line at PacifiCorp?

A No, I think, unfortunately, satisfaction is a measure which is gauged daily. Did we do enough in October to satisfy our investors that we were absolutely focused on delivering a western strategy that we thought would have shareholder benefit? Yeah. But would investors stand pat for the next couple of years based on that? No. They're going to want continuing improved performance. And we would have had to deliver that. So we couldn't stand pat.

Q Have you measured whether your performance is -- I'm talking about performance towards customers in this period of time in terms of the effect of these cuts to manpower, how that's affected your performance. Have you had a chance to measure that?

A We have measured customer performance over a few measures. We have not broadly measured customer performance, but I think it's fair to say that over the past nine months, most of our customers I think feel better about where the delivery of their services are occurring, responses in the call centers, responses to storms.

I think specifically here in the state of Utah, I think our customers are feeling better because we're trying to work through some undergrounding issues and trying to fix some things going on here with respect to the A and B line.

There are a number of customer performance measures that are occurring over this period.

Q You haven't studied that in any detailed way?

A No, I've just tried to give you some related data that I have that says I think we're doing better.

Q Now, with 700 odd jobs in the electric operations gone, were you required, then, to utilize more subcontractors to perform the services that those former employees performed?

A No.

Q You didn't increase that level whatsoever?

A I didn't say that. What you asked is were we required to. I think we may have increased some. But I think in general, what we told people very specifically, what I told people is if you come back to me and I find you are substituting contractors for employees, one, you will have to economically justify why you let employees go and used contractors, so you better be saving money; but secondly, I don't want to see it. I want these people to be -- if we are going to pay them an early retirement package, I want these people to be gone.

Q   You don't have information saying they are

turning around and contracting for you now --
A We measure that. Some on the BSIP project, an interim project, and those people are now gone. There are others that are here for some reason. But did we in any way replace even a minor portion of the 700 with contractors? No, we did not.
Q On the capital project, have you cut back on your capital projects? Is that why you were able to make the cuts?
A No. All I was saying is that with respect to how PacifiCorp accounts for its employee costs, it's generally the case that a portion of every employee's costs who works in the operations is attached to capital spending programs. The perhaps don't have to go down at all.
And what happens is when you reduce the number of employees, you automatically reduce the amount of, if you will, employee costs that are related to that capital just because there are less

people. So you could spend the same amount. You could even spend more. You just have less employee costs going to that. So we did not reduce capital in that way.

Q You made a statement earlier that any further reductions in future years that I guess arise out of this $30 million, or the $15 million, would be carried forward out of the capital?

A Right. And I think I just tried to explain that all that is is the capitalized portion of those people's salaries who are no longer with the company. It does not reduce the amount of capital the company is spending, capital on projects. It reduces the amount of overhead and salaries allocated to those projects.

Q All right. At this point, the company doesn't have any more planned reductions, either voluntary or forced; is that correct?

A That's correct.

Q Do you have any plans to hire employees?

A Not at this time, no. Not generally. I mean, we always have one or two positions that we're looking at. But not generally.

Q You do have an education program, do you not, for your employees?

A I think you covered this yesterday. And to summarize, we do have an education program which provides an increment to people who take on additional education. We help to pay for part of that. We subsidize their education.

Q Can you be more specific in terms of what you actually allow them?

A I don't actually remember the plan, but I think to the extent that people get a passing grade in whatever class they take, if it's related to the subject area of their business, I think we generally pay -- I'm going to guess somewhere between 80 and 85 percent of the tuition.

Q Okay. I guess I must have missed some of the discussion recently with respect to the severance enhancement package that was a part of merger agreement or -- I guess the question I had the other day was whether or not you had brought in an outside consultant to evaluate the reasonableness of that.

A We did.

Q Okay. Who was that?

A We hired a company called MCG Equities LLC. And they made a presentation to the personnel committee of the board as well as the management of the board.

Q Can you describe the document you're looking at?
A Yeah. This is the study that MCG Equities LLC put together for the presentation that they made with the personnel committee of the board.
Q Okay. Is that --

A It's a portion of it, anyway.

Q Is that a part of the record, or is that something you just --

A I don't know that it's a part of the record, no.

MR. HUNTER: It is not.

MR. SANDACK: Could we get copies of that and have that included in the record?

MR. HUNTER: Over the evening, I'll be happy to show you a copy, and we can discuss that.

MR. SANDACK: Okay. We'll do that.

CHAIRMAN MECHAM: Okay.

MR. SANDACK: I've got no further questions. Appreciate it, thank you.

CHAIRMAN MECHAM: Thank you, Mr. Sandack.

COMMISSIONER WHITE: So as I'm understanding this, the new company, that is, assuming that the merger goes through, has to find the money to fund the merger premium, the transaction costs, that kind of thing?

THE WITNESS: The combined entity, to be able to deliver shareholder value, has to discover and implement all that's required, including cost reductions, building new businesses, and all the other things that need to be done, to deliver to shareholders an increase in equity value.

COMMISSIONER WHITE: Okay. I think I understand what you said. And maybe I just didn't ask the question very well. Because we're talking about $250 million in transaction costs. And are you saying that those costs also -- the money for that also will be found through new businesses, through cutting costs, through continued operations of these combined companies?

THE WITNESS: I think that it's important to recognize one of the things that Mr. Richardson said yesterday with which I agree, which is you have to take a long-term perspective on the utility business industry.

Over time, you're absolutely right, Commissioner, that you have to find -- you have to work hard to get the revenues and earnings and cost reductions that would result in enough cash to overcome the costs that you've incurred in the transaction.

COMMISSIONER WHITE: So you're telling us, as is ScottishPower, that you're confident going forward, this new entity can, in fact, do that.

THE WITNESS: I am.

COMMISSIONER WHITE: One thing I don't

understand is how this fits in with the cash on the
books we've been hearing about because of the sale of
various assets. Where does that fit into this
picture? Will that cash be available to pay some of
these costs we've been talking about?
          THE WITNESS: It will be available to pay
some of the costs, but the next step maybe of your
question is that certainly in their valuation of
PacifiCorp, they had to take into account that cash
was already on the balance sheet. How they employ
that cash you could decide and color code where the
dollars go.
          But the valuation of the company really
includes all the cash on the balance sheet, and then
you would pay the costs to acquire the right to spend
that capital however you wanted to.
          COMMISSIONER WHITE: If they hadn't
acquired you, that cash would be available for
PacificCorp to spend?

THE WITNESS: That's correct.

COMMISSIONER WHITE: So what are we getting for this transaction? Just in terms of the cold, hard cash? I've heard about the management expertise and the transition plan. In terms of that pot of money, what advantage, if any, is coming to ratepayers?

THE WITNESS: So when you use the term "we," you meant ratepayers? Just to be clear?

COMMISSIONER WHITE: Yes.

THE WITNESS: Recognize, as I said, that billion dollars in cash that the company had was largely entirely from unregulated operations.

COMMISSIONER WHITE: I thought that was probably the answer. Okay, thanks. I don't have any more.

THE WITNESS: Sure.

CHAIRMAN MECHAM: Mr. O'Brien, I don't want to prolong the agony, yours or mine.

(Laughter.)

CHAIRMAN MECHAM: Let me just see if I can summarize where we are at this point. There's sort of -- I'll characterize it as two stages. The first stage is merger approval, and based on the four party stipulation, it's your judgment and the judgment of

ScottishPower and other proponents of the stipulation that insofar as the customers in Utah are concerned, there really are no costs of the merger because they're not going to be passed the through in rates anyway. And you've mitigated the risks.

So as far as the formula is concerned,

there's zero on that side and $48 million in benefits, and therefore, that results in a finding of net positive benefits in the merger.

THE WITNESS: I agree with that.

CHAIRMAN MECHAM: And then what I'll call the second phase is, although it's somewhat mixed with the first in that we're talking about those $48 million in reduced prices to customers, or potentially so, we have to look at this down the road, comparing it only to the transition plan that would be supplied six months from now to determine whether or not there are merger savings that meet or exceed that $48 million.

But in your judgment, that transition plan, though relevant for ultimately determining merger savings overall, is irrelevant in determining whether or not this merger is in the public interest?

THE WITNESS: Generally, I would agree with that. I think that there are benefits from the transition plan which you will see as a result of ongoing cost reductions which will provide ongoing benefits to Utah customers. But I think in your consideration today, you really can't rely on that, because they're not here in front of you.

CHAIRMAN MECHAM: Now suppose Mr. Reeder, Mr. Mattheis and Mr. Dodge convince us that the merger is wanting in some respect and we don't approve it. What is the outcome or what is the reaction of PacificCorp? What does PacificCorp do in that event? Do you put yourself back up for sale? Do you hire a new management or supplement manager? What do you do?

THE WITNESS: That's a good question, one that I have to tell you I think about nightly. Because this deal is not done. And I have to have a backup.

I think that the company is actually in a better position than it has been to effectively deliver service to customers at a reasonable price. And we will absolutely commit ourselves to improving customer service, to maintaining a cost profile which we think is reasonable, and to trying to really do what we told Wall Street we were going to do, which is to focus on the western electric strategy.

I think that will entail some new management. I think that that would entail a very focused approach to how we look at the tradeoff between cost reductions, reliability, and rates.

We have a pretty good team at PacifiCorp. And I think we could deliver that. The problems come in a few respects. One is that, as I've said, I think that ScottishPower will help us deliver that plan more efficiently, more quickly, and with more certainty. The other is that even though that may be a plan that I think we can execute, I think that our shareholders would put quite a bit of pressure on the board and management to do something to maybe return cash earlier.

That could be through the form of a share repurchase program, which we had announced previously, and would probably go to execute. It could take the form of people deciding, even though I would have to tell you from my standpoint I am quite worn out on transactions, and I think we would stay as focused as possible on the job at hand.

But as you know, sometimes you don't control your own destiny in the capital marketplace. And if investors decide that they are either unhappy with management or the board or the execution of that plan, shareholders have indicated, even in the utility business, that they can have influence over those decisions.

I don't know how long we could forestall that. I can tell you we would work real hard to forestall that and deliver on what we said we're going to do.

So we'll be here. One way or another, we will absolutely be here, and we will do our jobs.

CHAIRMAN MECHAM: Let me quickly go back to the middle question I asked. Technically, you're saying insofar as a business plan from PacifiCorp is concerned, other than the refocus effort, you really don't have a specific plan against which we could spare the performance under the transition plan that ScottishPower will supply six months from now?

THE WITNESS: I think you have a general plan, Chairman. I think that plan we went over with some of the pink sheets, I think you could generally look at the earnings profile of that plan and you could generally look at the revenue line items on that plan as our place holder for a combination of price increases and cost reductions.

But that's about as specific as you're going to be able to get. And I would just suggest that I don't think that's enough specificity to make a judgment as to what the combined entity could do versus what PacifiCorp could do on its own.

Especially the further out you get, the more hypothetical our plan is. And that's the blessing, I think, of ScottishPower's transition plan is it will have a multitude of specificity which you can rely on.

CHAIRMAN MECHAM: But I foresee some significant difficulty in trying to really nail down what the merger savings are without some form of comparison. And I understand what you're saying is true. But otherwise, as I was complaining yesterday, we're going to be looking at this subjectively. Now, Mr. Wright assures me he's going to take as much subjectivity out of it as he can. But I can't see how there won't be some significant amount of that in making a determination of what really the merger savings are.

THE WITNESS: I think if I were to hypothesize, maybe the only way really to do that is to look at the last year of PacifiCorp on a standalone basis and where things stood in that year. And I think you will get that in the transition plan. I think you will get a view of where we are currently, then you'll get a projection of where we could go under ScottishPower.

And perhaps when that plan comes forward -- I mean, you would be able to then see and ask the questions, well, would PacifiCorp have been able to do that on its own?

I just don't think that there is enough specificity in that plan to really be able to answer that question. And while I apologize for that, I think that is where we are, given how quickly we put our transition plan together and how much we focused on 1999.

Because had we not delivered or said we were going to deliver on 1999, I can assure you I wouldn't be here even talking about this. Because I think we were under immense pressure from Wall Street to put something up that we thought we could deliver on. So that's what we really focused on.

CHAIRMAN MECHAM: All right. Is there any redirect?

MR. HUNTER: No redirect.

CHAIRMAN MECHAM: All right. Thank you, Mr. O'Brien. Let's go off the record.

(Whereupon a discussion was held off the record.)

(Whereupon the proceedings were adjourned at 5:33 p.m.)

STATE OF UTAH)
) SS.
COUNTY OF SALT LAKE)

I, MARY D. QUINN, Certified Shorthand Reporter, Registered Professional Reporter and Notary Public in and for the State of Utah do hereby certify:

That the foregoing transcript pages were stenographically reported by me at the time and place hereinbefore set forth;

That the same was thereafter reduced to typewritten form;

And that the foregoing is a true and correct transcript of those proceedings.

DATED this ________ day of ________________________,

19_____.

MARY D. QUINN CSR, RPR

My Commission Expires 1/5/2002