Division of Public Utilities
Utah PSC Docket No. 98-2035-04
Lowell E. Alt, Jr.
Exhibit No. DPU 1.2

Summary List of Division Merger Conditions

ISSUE	CONDITION
	1. PacifiCorp/ScottishPower shall agree to all commitments and conditions as included in Witness Alan Richardson's Supplemental Testimony Exhibit AVR-1 EXCEPT as modified by the following Division proposed conditions:
The corporate structure of the merged companies is unknown and there is no methodology in place for the allocation of ScottishPower's corporate costs to PacifiCorp.	2. Within 30 days of the completion of the merger ScottishPower/PacifiCorp shall file a proposed cost allocation methodology with the Utah Public Service Commission for its approval. Cost allocation methodologies shall comply with the following principles: a. For all costs allocated to PacifiCorp from the ScottishPower group, ScottishPower must demonstrate a benefit to PacifiCorp. b. Cost allocations shall be based on generally accepted accounting standards, that is, that in general, direct costs shall be charged to specific PacifiCorp subsidiaries wherever possible and shared or indirect costs shall be allocated based upon the primary cost-driving factors. c. ScottishPower shall have in place timekeeping and project management systems adequate to support the allocation of executives' costs. d. An audit trail shall be maintained such that all costs allocated can be specifically identified along with their origination and adequately supported. Failure to adequately support any allocated cost may result in denial of its recovery in rates. e. Costs which have been denied recovery in rates had

	they been incurred by PacifiCorp regulated operations will likewise be denied recovery whether they are allocated directly or indirectly through subsidiaries in the ScottishPower group. f. Any corporate cost allocation methodology, and subsequent changes thereto, must be approved by the Utah Commission. ScottishPower will assume the risk for the Utah Commission approval and adoption of corporate cost allocation methodologies which differ from those adopted by OFFER or any other U.S. regulatory jurisdiction.
ScottishPower has guaranteed a $10 million savings in corporate costs. However, the basis from which this savings is measured will determine whether or not any of the guaranteed savings is realized by ratepayers.	3. The achievement of the $10 million guaranteed savings shall be measured from PacifiCorp's 1999 actual corporate costs, normalized and adjusted so as to reflect only those costs that would be included in rates. All costs related to the ScottishPower merger shall also be excluded.
Both ScottishPower & PacifiCorp have committed to recording merger "transaction" costs below the line. However, there are merger related costs that have not been classified as "transaction" costs.	4. All merger related costs incurred by PacifiCorp and ScottishPower shall be recorded below the line.
The most recently proposed corporate structure would create a U.S. registered holding	5. Any diversified holdings and investments (e.g., non-utility business or foreign utilities) of ScottishPower and PacifiCorp shall not be held by PacifiCorp, the entity for utility operations.

company to facilitate further acquisitions by ScottishPower in the U.S. This potential diversification creates more risk.	6. ScottishPower/PacifiCorp shall be required to notify the Utah Commission subsequent to ScottishPower plc's Board approval and as soon as practicable following any public announcement of and acquisition of a regulated or non-regulated business representing 5% or more of the market capitalization of ScottishPower plc.
Potential for affiliate transactions to result in cross-subsidization of other members of the ScottishPower group by PacifiCorp, the regulated utility.	7. ScottishPower shall be required to comply with PacifiCorp's Transfer Pricing Policy. 8. The Merged Company shall notify the Commission, and provide sufficient information and documentation to the Commission, prior to the implementation of plans (1) to form an affiliate entity for the purpose of transacting business with the electric divisions of PacifiCorp, (2) to commence new business transactions between an existing affiliate and the electric utility divisions of PacifiCorp, (3) to dissolve an affiliate which has transacted any substantial business with such divisions, (4) to enter into new business ventures or expand existing ones, or (5) to merge, combine, transfer stock or assets of any part or all of the Merged Company. 9. The Merged Company shall provide notification of all asset transfers to or from PacifiCorp, its affiliates, or subsidiaries in accordance with current PSC rules (PSC R746-401).
Potential divestiture of PacifiCorp's utility activities.	10. The Applicants shall be required to provide notification of and file for Commission approval of the divestiture, spin-off, or sale of any integral utility assets or functions.
Access to books, records and personnel affects PSC's ability to effectively regulate PacifiCorp.	11. Establish agreed upon procedures by which Division staff can have access to documentation supporting the purpose and/or circumstances attributable to costs charged to PacifiCorp. 12. The holding company(s) and subsidiaries' employees, officials, directors, or agents shall be available to testify before the Utah Commission to provide information

	relevant to matters within the jurisdiction of the Utah Commission. 13. The Utah Commission should establish procedures by which the Public Service Commission and Division staffs, or their authorized agents can obtain needed access to subsidiary books and records, other relevant documents, data and records. Failure to provide adequate supporting documentation of costs may result in those costs being denied rate recovery. Requests by the Utah Commission, the Division, or their authorized agents shall be deemed presumptively valid, material and relevant, with the burden falling to ScottishPower/PacifiCorp to prove otherwise. ScottishPower/PacifiCorp shall reserve the right to challenge any such request before the Utah Commission and shall have the burden of demonstrating that any such request is not valid, material or relevant. In addition, ScottishPower/PacifiCorp shall pay for the expense incurred by Utah regulatory personnel in accessing corporate records and personnel located outside of the state of Utah.
Risk that the $10 million in merger savings will not be realized in rates	14. A 2001 Informational Filing shall include a full description, calculation (with supporting work papers) and dollar identification (both total PacifiCorp and Utah's share) of merger savings. This filing shall include in the adjusted revenue requirement calculation any merger savings achieved, applying established Utah ratemaking practices. The allocated share of merger savings shall not be less than the Utah allocated share of the $10 million of estimated PacifiCorp corporate savings, assuming that the closing date of the PacifiCorp/Scottish Power merger occurs in 1999. If the closing date of the PacifiCorp/Scottish Power merger does not occur in 1999, PacifiCorp/Scottish Power may make an appropriate adjustment in the $10 million of estimated PacifiCorp corporate savings to reflect the delay in the closing of the merger. In either event, if the annual amount of PacifiCorp corporate savings exceed $10 million, the higher amount of actual savings will be used. The $10 million in PacifiCorp corporate savings will apply notwithstanding the fact that foreign exchange variations in the costs charged will fall into PacifiCorp. The promised

	$10 million net reduction is permanent and guaranteed whether or not it is actually achieved. 15. No later than six months after the closing date of the merger, ScottishPower and PacifiCorp will file the merger transition plan with the Commission. The plan will include the items described in Mr. MacRichie's Oregon rebuttal testimony.
Risk that intra-company loans may disadvantage electric operations.	16. PacifiCorp and ScottishPower shall apply to the Commission for approval of intra-company loan agreements.
Risk that dividend payments may interfere with construction obligations.	17. For two years following the merger, PacifiCorp shall file a cash flow summary (or other evidence) with its dividend report, showing that service will not be impaired by payment of the dividend.
Risk that asset revaluation may be used to increase property tax expense which is used in setting rates.	18. Scottish Power agrees that asset revaluation resulting from the merger shall not be used as a basis to increase property taxes or other taxes or existing contract costs for the purpose of setting rates in the Utah jurisdiction.
Risk that state regulators will not maintain their ability to adequately regulate the merged company.	19. General and Financial reports - To be filed with the PSC: a. FERC form 1 - Total Company & Utah b. Annual and quarterly reports to shareholders c. Semi Annual reports showing Utah and total company operating results, allocation factors, coal reports, demand side management report, production costs modeling, peak loads by jurisdiction, normalizing adjustments and work papers, d. Monthly financial and operating reports e. Securities and Exchange Commission Reports 10-Q and 10K, quarterly and annual. f. Annual class cost of service studies g. Monthly Energy Information Administration Form EIA-826

	h. Annual affiliated interest report i. Five year financial plan and forecast of financial condition, filed annually for the total company, PacifiCorp division, and the Utah jurisdiction.
Gains or losses on foreign transactions can occur due to exchange rate changes. The Financial Accounting Standards Board (FASB) has rules governing such transactions.	20. ScottishPower shall follow the generally accepted accounting standards regarding foreign operations and exchange. Namely, FASB 52.
The Public Utility Holding Company Act of 1935 (PUHCA) came about largely due to wide spread abuses and the inability of state commissions to regulate large, multi-jurisdictional holding companies.	21. Unless otherwise approved by the PSC, the following apply: For ratemaking purposes, a hypothetical capital structure will used to determine the correct costs of capital. The capital structure shall be constructed using a group of A-rated electric utilities comparable to PacifiCorp. 22. Within thirty days after the approval of the merger PacifiCorp/ScottishPower shall provide a detailed report indicating PacifiCorp's proportionate share of the Holding company's total assets, total operating revenues, operating and maintenance expense, and number of employees. Subsequent to this initial report, this information shall be included as part of the PacifiCorp's semi-annual filing with the Commission. 23. Until approved by the Commission in a separate proceeding, PacifiCorp shall maintain separate debt and, if outstanding, preferred stock. 24. PacifiCorp shall apply to the Commission for approval of debt issuances. 25. PacifiCorp/ScottishPower agrees not to assert in any future Utah proceeding that the provisions of PUHCA or the related <u>Ohio Power v FERC</u> case preempt the Commission's jurisdiction over affiliated interest transactions and will explicitly waive any such defense in

	those proceedings. 26. PacifiCorp/ScottishPower shall provide a copy of any SEC filed lobbying reports.
Despite ScottishPower's promises, there is a risk that the cost of capital could increase as a result of the merger.	27. If ScottishPower is able to lower the costs of capital, then those savings shall be reflected in rates in a timely manner. If, however, the cost of capital increases as a result of the merger, ScottishPower's shareholders will bear that cost.
PacifiCorp shareholders have been offered a substantial premium. If just a portion of this premium were to get into rates, the promised $10 million in savings would be completely dwarfed.	28. Rates will be set based upon original and not revalued costs; any premium paid by ScottishPower for PacifiCorp stock will be disregarded for ratemaking purposes.
ScottishPower's informal assurances to provide a service package do not establish enforceable accountability for achieving service results.	29. Continuously meet performance standards, provide service guarantees, and do not allow underlying outages to increase above current levels.
ScottishPower's plans to fund a maximum of $55 million in network expenditures from as yet unidentified efficiencies and internal funding sources are subject to a high degree of uncertainty.	30. Fund network expenditures from efficiency savings and redirected internal funding; report funding sources and expenditures against the $55 million estimate.

It is not possible to accurately determine outage levels with the current outage reporting system.	31. Implement Prosper, an automated reporting system, no later than 12 months after the merger transaction and also operate the current reporting system in parallel until actual outage levels are accurately and reliably determined.
Agreeing on outage levels using inaccurate and unreliable outage data can result in irresolvable differences between ScottishPower management and Division staff.	32. Measure outage-reduction performance against agreed to (by management and Division Staff) outage levels at the time Prosper is installed and audited -- or defer to the Commission on such.
ScottishPower's proposed use of IEEE criteria in defining an extreme event requires engineering judgements about what "exceeds design limits" and what constitutes "extensive damage." Reasonable engineers may differ on these matters.	33. Define"extreme event" as outside three standard deviations of the average number of daily incidents during the previous calendar year.
It is not possible to accurately determine outage levels with the current outage reporting system. Whether ScottishPower can effectively implement an accurate reporting system is uncertain.	34. Audit, upon request, to determine actual outage levels – after correcting for under or inaccurate recording.
ScottishPower may more efficiently reduce	

statewide outage levels by focusing limited investments in highly populated areas. Already high outage levels in sparsely populated high-cost rural areas could rise.	35. Report, each quarter, outage levels against internal outage targets on a district, circuit, and (where feasible) individual customer basis.
ScottishPower's standards package does not include *performance standards* for field responses. The Company may achieve its standards package at the expense of services not consider important enough to include in its service package.	36. Continue with meter set and meter test internal field response targets in Northern Utah. Establish internal field response targets where none currently exist. Report performance against all targets on a quarterly basis.
In the past, PacifiCorp has had a multitude of system breakdowns in handling calls during wide scale outages.	37. Report, during wide-scale outages, internal call-handling targets and results: average answer speeds, hold times, and busy indications.
In pursing efficiencies, ScottishPower may be especially pressed to adequately fund timely field responses in high – cost rural service territories.	38. Report, each quarter, district data showing credits to customers for failures to meet guaranteed service outcomes.
Management practices vary widely among PacifiCorp's Utah districts. Under such	39. Implement and tariff a dispute resolution process for

circumstances, managers may have a variety of interpretations regarding guarantee requirements.	dealing with guaranteed service outcomes failures on a fair and consistent basis.
Expensive resource acquisitions may cause rates to go up unnecessarily.	40. ScottishPower will continue to produce Integrated Resource Plans every two years, according to the current schedule and current PSC rules. 41. ScottishPower's commitment to develop an additional 50MW of renewable resources is conditioned on those resources meeting the cost effectiveness standards of the IRP then in place.
Commitment to employees	42. For the two years following the final approval of the merger, Utah PacifiCorp employee benefits will be held stable per the ScottishPower/PacifiCorp merger agreement.
Other conditions do not completely assure a net positive benefit.	43. Rate (revenue requirement) increases would be limited for a maximum of three years to either inflation increases as measured by the GDP or to increases such that the Utah rate of return on equity would not exceed that resulting from proceedings in any other PacifiCorp State. Both situations would require a full rate case where increases are limited to the cap and rates may be reduced. 44. Conditions or benefits agreed to by ScottishPower or PacifiCorp in other jurisdictions that would benefit Utah shall also be received by Utah. 45. Rates in Utah shall not increase as a result of the merger. 46. ScottishPower and PacifiCorp must accept the risk of less than full recovery of costs if the Utah PSC orders any cost

	or revenue treatment, conditions or requirements that differ from that in other jurisdictions.