SECURITIES AND EXCHANGE COMMISSION

(Release No. 35-27969; International Series Release No. 1288; 70-10261)

Scottish Power plc
Dornoch International Insurance Limited

Authorizing Operations of Captive Insurance Subsidiary of Foreign Registered Holding Company

May 16, 2005

Scottish Power plc ("ScottishPower"), a foreign registered holding company, Glasgow, Scotland, UK, and Dornoch International Insurance Limited ("DIIL"), Dublin , Ireland, a new captive insurance company subsidiary of ScottishPower, (collectively, "Applicants"), have filed with the Securities and Exchange Commission ("Commission") an application-declaration, as amended ("Application"), under sections 12(b), 13(b), and 33(c) of the Public Utility Holding Company Act of 1935, as amended ("Act") and rules 45, 54, 89, 90 and 91 under the Act. The Commission issued a notice of the Application on April 7, 2005 (Holding Co. Act Release No. 27957; International Series Release No. 1284).

ScottishPower Investments Limited ("ScottishPower Investments") is the direct parent of ScottishPower Insurance Limited ("SPIL"), an indirect insurance company subsidiary of ScottishPower. ScottishPower Investments is a wholly-owned direct subsidiary of ScottishPower UK, plc ("SPUK"), a foreign utility company ("FUCO") subsidiary of ScottishPower. SPIL operates as an insurance company domiciled in the Isle of Man and serves as a captive insurer for the UK-based members of the ScottishPower system. SPIL currently is authorized to provide property damage, general liability, employer's liability, motor own damage, and motor liability insurance. DIIL is also a wholly-owned direct subsidiary of ScottishPower Investments.[1]

Applicants are seeking approval to operate DIIL. DIIL will assume the insurance duties currently performed by SPIL on behalf of ScottishPower and also begin to provide insurance services to PacifiCorp, the US-based public utility subsidiary of the ScottishPower system.

On an annual basis, ScottishPower system companies spend approximately $40 million for the purchase of commercial insurance and related services. Under the current insurance program, system companies maintain commercial insurance policies with underlying deductibles of $1 million per event for general liability coverage and $7.5 million for property coverage. Losses below these deductibles are self-insured by system companies whereas losses in excess of these deductibles are paid by the commercial insurance. ScottishPower may from time to time choose to purchase commercial insurance in place of, or to reduce, the deductible or self-insurance to meet their strategic goals and objectives. Commercial premiums and the deductibles and self-insured retained risks are then allocated to subsidiaries owning a given risk based on such factors as number of automobiles, payroll, revenues, total property values, product throughput, as well as loss history.

ScottishPower intends that SPIL would eventually be dissolved after DIIL operates for approximately one year. DIIL intends to provide property damage and

[1] DIIL was originally incorporated as Dornoch Risk International Limited ("DRIL") on June 30, 2004. DRIL changed its name to DIIL by resolution at its December 10, 2004, board meeting and this was effected by the Irish Registrar of Companies on January 20, 2005.

liability insurance coverage of all or significant portions of the deductibles in many of PacifiCorp's current insurance policies, and to provide coverage for activities which the commercial insurance industry carriers will no longer provide, *e.g.*, overhead distribution and transmission line property damage insurance.

Premiums for the proposed expansion of the insurance program for the first year were determined to equal the aggregate losses for system companies plus administrative expenses. Aggregate losses for general liability were estimated using actuarial methods.

DIIL would continue to analyze the commercial insurance bought by the ScottishPower system companies, and coordinate the coverage it provides to minimize the risk of loss to the system. Supplementing its primary role of underwriting system retained risk, DIIL may also replace or reduce certain insurance sold to ScottishPower system companies by traditional insurance providers in the areas of property damage and general liability. An actuarial analysis will be performed to determine the proper premiums consistent with methods used to determine the retained risk premium. To the extent traditional insurance programs are reduced, DIIL may attempt to obtain equal levels of loss protection and coverage in the reinsurance market. Applicants state that DIIL will apply stringent credit standards to all reinsurance counterparties.

DIIL will not be operated to generate profits beyond what is necessary to maintain adequate reserves. To the extent that premiums and interest earned exceed current claims and expenses, an appropriate reserve would be accumulated to respond in years when claims and expenses exceed premiums. To the extent that losses over the long term are lower than projected, DIIL could correspondingly lower premiums, thereby reducing the premium expenses that would otherwise by paid to DIIL.

ScottishPower would make an initial equity contribution to DIIL of approximately $40-60 million. Beyond the initial equity contribution and funding of DIIL, ScottishPower may provide any subsequently required capital contributions through additional equity and or debt purchases exempt from the Act. PacifiCorp is not being asked to provide any capital for DIIL's operations. DIIL would set premiums and operate pursuant to rules 90 and 91 under the Act. Premium costs would closely track loss experience and be sufficient to cover DIIL's underwriting costs and future claim payments. The returns from the investment of this capital would be used to pay for DIIL's operating costs and can be used to reduce future premium costs.

Applicants maintain that with maturation DIIL may also be able to provide coverage to a wider number of PacifiCorp activities beyond property damage and general liability. For example, DIIL may seek to provide Workers Compensation coverage. ScottishPower requests a reservation of jurisdiction over the underwriting of additional insurance activities, *i.e*., other than for property damage and general liability, pending completion of the record ("Additional Insurance Activities").

DIIL will be domiciled in Dublin, Ireland and managed by a professional captive management company, Aon Insurance Managers (Dublin) Ltd, which will perform all the management and administrative services for DIIL. Aon Insurance Managers (Dublin) Ltd is a wholly-owned indirect subsidiary of insurance broker Aon Corporation and is not an affiliate of PacifiCorp or ScottishPower. DIIL would be licensed by the Irish Financial Services Regulatory Authority ("IFSRA"). To receive this license, DIIL has had to meet numerous IFSRA standards including submission of a satisfactory business plan, financial projections, risk management measures and corporate governance standards. DIIL must also meet numerous ongoing IFSRA standards to continue in good standing, including the meeting of established solvency margin, technical reserves and annual audit of financial results requirements.

The proposed transactions are subject to the requirements of rules 53 and 54. ScottishPower states that it is in compliance with all the requirements of rule 53(a), except clause (1). ScottishPower has adopted a corporate structure that separates its existing foreign operations from its U.S. utility operations. The organization of foreign activities under SPUK, and U.S. utility activities under PacifiCorp, reflects ScottishPower's intent to develop these two business areas in a financially independent manner.

As of December 31, 2004, the ScottishPower system had an "aggregate investment," as the term is defined in rule 53 under the Act, in exempt whole generators ("EWGs") and FUCOs, as defined in sections 32 and 33 of the Act, respectively, of approximately $2.45 billion. This investment represents approximately 56% of the ScottishPower system's consolidated retained earnings of approximately $4.39 billion as of December 31, 2004. As a consequence, ScottishPower's aggregate investment exceeds the safe harbor requirement of rule 53(a). In its financing order issued last year, the Commission authorized ScottishPower to maintain aggregate investment in EWGs and FUCOs up $4.68 million ("Current Aggregate Investment").[2] ScottishPower also

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[2] *ScottishPower, plc, et al.*, Holding Co. Act Release No. 27851; International Series Release No. 1276 (May 28, 2004). The Commission reserved jurisdiction over aggregate investment in excess of the Current Aggregate Investment Limit up to $12.5 billion at any one time outstanding, pending completion of the record.

states that none of the adverse conditions specified in rule 53(b) exist. ScottishPower states that it satisfies all of the other conditions of paragraphs (a), (b) and (c) of rule 53.

Fees and expenses to be incurred in connection with the proposed transactions are estimated to be $25,000. Applicants submitted a filing to the Washington Utilities and Transportation Commission ("WUCT"), outlining the agreement between PacifiCorp and DIIL. No formal approval of this filing is required from the WUCT under Washington law. By order dated March 28, 2005, the Oregon Public Utility Commission authorized DIIL to provide insurance coverage for PacifiCorp. Applicants maintain that no other state or federal commission, other than this Commission, has jurisdiction over the proposed transactions.

Due notice of the filing of the Application has been given in the manner prescribed by rule 23 under the Act, and no hearing has been requested of or ordered by the Commission. Based on the facts in the record, the Commission finds that, except as to those matters over which jurisdiction is reserved, the applicable standards of the Act are satisfied and that no adverse findings are necessary.

IT IS ORDERED, under the applicable provisions of the Act and rules under the Act, that, except as to those matters over which jurisdiction is reserved, the Application be granted and permitted to become effective immediately, subject to the terms and conditions prescribed in rule 24 under the Act.

IT IS FURTHER ORDERED that jurisdiction is reserved over the underwriting of Additional Insurance Activities.

ScottishPower will submit the following information to the Commission pursuant to rule 24 under the Act, on a semi-annual basis, for the periods ended June 30 and

December 31 of each year (such reports to be submitted within 60 days after the end of the preceding semi-annual period, commencing with the first full semi-annual period following the issuance of the Commission's order in this matter). The rule 24 certificates will contain:

> (1) a summary for the reporting period of PacifiCorp's premium payments to DIIL as compared to aggregate loss experience, organized by line of insurance coverage provided by DIIL (for the first year compared to the commercial insurance premiums paid (if any) and thereafter showing the comparison period over period, on a rolling basis, for three years successively) and a statement of savings on a rolling basis;
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> (2) an analysis by PacifiCorp of claims paid by DIIL during the period on behalf of the associate company to include lead-in and end-of-period insurance reserve balances (for the first year compared to any insurance reserve balances maintained, if any, and thereafter showing the comparison period over period, on a rolling basis, for three years successively); and
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> (3) a copy of the DIIL's income statement and balance sheet, including any accompanying notes.

For the Commission, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland
Deputy Secretary