-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the Matter of the Application of	)	Docket 98-2035-04
PACIFICORP and SCOTTISH POWER	)	Division of Public Utilities
PLC for an Order Approving the Issuance	)	Testimony of Ronald L. Burrup
of PACIFICORP common stock	)	Exhibit No. DPU 3.0 (RLB)

June 18, 1999

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Ronald L Burrup, I am employed by the Utah Division of Public Utilities (Division) as a Technical Consultant. My business address is 160 East 300 South, Heber Wells Building, Salt Lake City, Utah

Q HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A Yes, on a number of occasions. My qualifications are shown on the attached Exhibit No. DPU RLB 3.1.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?

A The purpose of my testimony is to recommend conditions to address the Division's concerns in several areas such as merger savings and costs, asset valuation, intra-company loan agreements, dividend payments, and financial reporting requirements. The specific merger conditions that I recommend are shown in bold type. They are also shown separately on Exhibit No. DPU RLB 3.5.

Q PLEASE EXPLAIN WHAT YOU REVIEWED IN CONNECTION WITH THIS APPLICATION?

A I reviewed public and internal financial statements of PacifiCorp and ScottishPower, financial projections, estimates of cost savings, due diligent reports, , board minutes, reports of financial analysts and consultants, and the prospectus to shareholders. I also reviewed the data requests and responses of the Division, other parties in Utah and other states. In addition, I participated in frequent discussions with other states and attended presentations by ScottishPower and PacifiCorp in Oregon and Utah.

MERGER SAVINGS AND COSTS

Q IS THIS MERGER SIMILAR TO THE 1989 MERGER OF UTAH POWER AND PACIFIC POWER?

A No, in some ways it is the opposite. In the 1988 merger, the applicants made a concerted effort to quantify every conceivable merger savings. Merger savings were specifically identified year by year and by area for both companies. The companies provided forecasts and detail on each area of merger savings. The merger savings were estimated to be $481 million in the first 5 years. In 1989 Utah Power reported a return on equity of 15.5% in the Utah jurisdiction, so merger savings were reflected in a series of rate reductions.

In the present case the applicants are vague about specific merger savings. They claim that merger savings haven't been quantified, that this will occur after the merger. Only $10 million in merger savings have been specifically identified from PacifiCorp and none from Scottish Power. When this $10 million is allocated to Utah, it amounts to about $3.5 million. This is less than one half of one percent of Utah's annual tariff revenues of $822 million. This lack of specificity about merger savings means that there are more unknowns. This merger is not as clearly a “good deal” like the 1989 merger.

Q WHAT IS YOUR CONCLUSION REGARDING MERGER COSTS AND SAVINGS?

A The applicants commit to $10 million in merger savings by the third year after the transaction closes. My opinion is that the $10 million is understated, and that greater consolidation savings can be achieved. This represents only 22% of PacifiCorp's 1998 budget for these services. This does not include any savings in the same service areas for Scottish Power. Nor does this included any savings from benchmarking and implementation of best practices.

Q HAVE OTHERS ESTIMATED MERGER SAVINGS TO BE GREATER THAN $10 MILLION?

A Yes, Warburg Dillion Read (WDR), an investment banker in the UK issued a 45 page report in December 1998, on the Scottish Power/PacifiCorp merger. They estimated that Scottish Power could achieve merger savings of $200 million annually. I prepared Exhibit No. DPU RLB 3.2 that shows their estimate of target merger cost reductions on the bottom line. WDR bases their estimates on Scottish Power's track record at ManWeb and Southern Water, and on WDR's observation that “UK wires and generation productivity appears to be 22-55% higher than in PacifiCorp[1]”.

Q HAS MR. RICHARDSON INDICATED THAT MERGER BENEFITS MAY BE SIGNIFICANTLY GREATER?

A Yes, in his supplemental testimony filed on April 16, 1999, Mr. Richardson states on page 8 lines 11 through 13 the following.

[1]Warburg Dillon Read, report December 1998, page 24

Apart from the corporate costs reductions, we are confident that we will achieve additional significant cost savings in the future, although their magnitude cannot be quantified.

Q WHAT CONDITION WOULD YOU RECOMMEND TO INSURE THAT THE $10 MILLION IN BENEFITS IS REALIZED?

A The following paragraph would resolve the Divisions's concerns. It is similar to paragraph 4 from the Wyoming stipulation (included as Exhibit No. DPU RLB 3.3

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.

Q IN OCTOBER 1998, PACIFICORP ANNOUNCED A “REFOCUS” PROGRAM AIMED AT IMPROVING FINANCIAL PERFORMANCE THROUGH COST REDUCTIONS AND REFOCUSING ON THE CORE BUSINESS. DO YOU BELIEVE PACIFICORP CAN ACHIEVE THE SAME LEVELS OF COST REDUCTIONS THROUGH THIS PROGRAM WITHOUT THE MERGER?

A. No. It is my opinion that real change in financial performance and customer service will only come through a change in senior management. I agree with the Warburg Dillion Read report that concluded PacifiCorp has “attractive assets but these have been undermanaged, resulting in a significant loss of shareholder confidence in management”. In addition, the current “refocus” effort does not include any of the customer service guarantees included in the ScottishPower proposal.

ScottishPower, on the other hand, has proven management expertise in operating a vertically integrated electric utility, and has demonstrated its success in reducing costs and increasing customer service.

Q PRIOR TO THE MERGER, HAVE YOU EVER HEARD PACIFICORP MANAGEMENT REFER TO BENCHMARKING OR BEST PRACTICES?

A No.

Q IS BENCHMARKING A USEFUL TOOL FOR AN ORGANIZATION TO USE TO IMPROVE ITS PERFORMANCE?

A. I believe it is. The American Productivity and Quality Center and the Strategic Planning Institute Council on Benchmarking have adopted a written Benchmarking Code of Conduct. It states:

> Benchmarking - the process of identifying and learning from best practices anywhere in the world - is a powerful tool in the quest for continuous improvement.

Benchmarking accelerates change by 1) using tested methods 2) identifying areas of improvement, 3) convincing skeptics and 4) involving process owners[2].

Q HOW DOES THE APPLICANT PROPOSE TO RECORD MERGER RELATED COSTS?

A In the 1989 merger, the costs were split between customers and shareholders. In this merger, applicants have "promised to exclude from our books for ratemaking purposes" costs ScottishPower and PacifiCorp will incur to complete the tranasction[3]. The total transaction costs for PacifiCorp are estimated to be $50 million. ScottishPower has not finalized its cost estimates for the transaction[4]. The PacifiCorp transaction costs to date ($13.2 million in 1998) have been charged below the line to Account 426[5]. If merger related costs are not accurately identified and excluded from rates, they could easily surpass the $10 million in merger savings. Division witness Mary Cleveland discusses merger costs in her direct testimony in more detail.

ScottishPower has stated that its transaction costs will be capitalized and amortized over several years and that these costs will be borne by shareholders and not

[2] Source: PriceWaterhouseCooper, Benchmarking: A Manager's Guide and American Productivity and Quality Center

[3] Supplemental testimony of Alan Richardson, page 8

[4] ScottishPower response to Idaho PUC data request number 22

[5] PacifiCorp's response to Idaho PUC data request number 13

considered to be costs for recovery from customers.

Q SCOTTISH POWER HAS STATED THAT IT WILL MAKE ADDITIONAL INVESTMENTS TO IMPROVE CUSTOMER SERVICE. WILL THESE INVESTMENTS INCREASE COSTS?

A No. Scottish Power has committed to reducing already existing PacifiCorp capital or operating budgets by a similar amount to implement customer service improvements without increasing costs[6]. The table below shows PacifiCorp's domestic electric operations estimated construction budget for 1999 through 2001 (in millions).

Type of facility	1999	2000	2001
Distribution	$168	$180	$180
Production	120	87	113
Mining	31	33	52
Transmission	50	51	51
Other	110	63	66
Total	$479	$414	$462

The $32 million in capital expenditures described in Mr. Alan Richardson's supplemental testimony, is to be spent over 5 years to improve customer service. It represents only about 1-2% of the existing capital budgets ($6.4 million per year divided by $479 million construction budget). It is reasonable to assume that capital budgets will not increase as a result of these expenditures.

[6] See Alan Richardson's supplemental testimony page 7 lines 6 through 23.

INTRA-COMPANY LOANS AND DIVIDEND PAYMENTS

Q WHAT ADDITIONAL RISK DOES THE MERGER PRESENT TO UTAH CUSTOMERS?

A There are two areas of additional risk that I see. First is the risk that intra-company loans may be unfair to electric operations. The Commission has already approved an intra-company loan agreement between PacifiCorp electric operations and the other PacifiCorp subsidiaries. At the end of 1998 PacifiCorp had in excess of $500 million in cash or cash equivalent. Scottish Power should reapply for approval of intra-company loan agreements stating what rates and limits apply to future intra-company loans.

The second area of risk is in dividend payment policy. State statutes require notification by a gas or electric utility prior to payment of a dividend. Historically the utilities have written a letter to the Commission containing the information required by the statute. The statute states:

> If the commission, after investigation, shall find that the capital of any such corporation is being impaired or that its service to the public is likely to become impaired or is in danger of impairment, it may issue an order directing such utility corporation to refrain from payment of said dividend until such impairment is made good or danger of impairment is avoided. UCA 54-4-27

In 1998, PacifiCorp's cash flow from operations (after dividend payment) covered only about half of the cash requirements for construction and repayment of maturing long term debt[7]. The capital budgets through 2001 also indicate a continuing need for capital in excess of cash flows from operations. To insure that dividend payments do not interfere with the need for capital, PacifiCorp should file additional information with the dividend payment notification required under the statute, for at least the next two years. The additional information may be in the form of a cash flow summary showing cash sources and needs. The following merger condition will resolve these two concerns.

PacifiCorp and Scottish Power shall apply to the Commission for approval of intra-company loan agreements. 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.

REVALUATION OF ASSETS

Q FOLLOWING THE MERGER, THE ASSETS OF PACIFICORP WILL BE REVALUED BY SCOTTISH POWER. DOES THIS IMPOSE ANY ADDITIONAL RISK?

A Yes. Scottish Power has stated that the revaluation will not change rate base values at PacifiCorp. However, revaluation may impact operating expenses. Mr. Malko appearing on behalf of Emery County recommends that the Commission defer any ruling

[7] Securities and Exchange Commission Form 10-K/A, Dec. 31, 1998, page 41

on asset revaluation to the jurisdiction of the Utah State Tax Commission[8]. This recommendation adds significant risk for customers. Property taxes in the 1997 test year were $83 million. If the Utah State Tax Commission increases property taxes based on asset revaluation, this alone could easily surpass the $10 million in merger savings. Customers would be left with additional merger costs in excess of the $10 million merger benefits, courtesy of the Utah State Tax Commission which has no jurisdiction over the merger. I recommend that the Commission adopt the following condition to address this significant risk.

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.

Q. IN THE 1989 MERGER THE COMMISSION REQUIRED CERTAIN REPORTING REQUIREMENTS. WHAT ARE THE REPORTING REQUIREMENTS THAT YOU RECOMMEND BE ADOPTED IN THIS MERGER?

A I recommend that reporting requirements from the prior merger be continued. These reports are not unduly burdensome. PacifiCorp has been filing them with the Division and Commission for the past 10 years. These reports relate to maintaining the state's ability to adequately regulate the merged company.

General and Financial reports to be filed with the Commission

[8] Testimony of J.Robert Malko, June 9, 1999, page 8, Docket 98-2035-04

a) FERC form 1

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 regulatory 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.

Q IF THIS COMMISSION APPROVES THE MERGER AND SCOTTISHPOWER SUBSEQUENTLY AGREES TO CONDITIONS THAT BENEFIT OTHER JURISDICTIONS, SHOULD THOSE CONDITIONS ALSO APPLY IN UTAH?

A Yes, conditions or benefits agreed to by ScottishPower or PacifiCorp in other jurisdictions that create a benefit for a jurisdiction, should also be received by Utah customers.

Q CAN YOU GIVE SOME EXAMPLES?

A Yes, ScottishPower recently filed rebuttal testimony in Oregon that included more specific conditions that should also apply in Utah. In Mr. MacRichie's Oregon rebuttal testimony at page 3, he states.

"No later than six months after the closing date of the merger, ScottishPower and PacifiCorp will file the merger transition plan with the Commission".

This plan should also be filed with the Utah Commission. Also Mr. Green states in his Oregon rebuttal testimony the following.

"The promised $10 million net reduction is permanent and guaranteed whether or not we actually achieve it, and I am providing a methodology whereby this net reduction can be tracked and verified".

I recommend the following merger condition.

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. The promised $10 million net reduction is permanent and guaranteed whether or not it is actually achieved.

Q COULD YOU EXPLAIN THE GENERAL TERMS OF THE WYOMING STIPULATION?

A Scottish Power and PacifiCorp signed a stipulation with the Wyoming Consumer Advocate Staff (CAS). The role of the CAS is to represent the public interest, as viewed by the whole body of citizens of Wyoming. They do not represent the views of only a few specific classes of customers. The CAS entered into two different stipulations, the first is with Scottish Power and PacifiCorp and addresses merger conditions. It is attached as Exhibit No. DPU RLB 3.3.

The second agreement is between PacifiCorp and the CAS regarding rate filings in 1999 and 2000. This agreement is referenced in the merger stipulation in paragraph 3.

The second agreement is attached as Exhibit No. DPU RLB 3.4.

Q. WHAT POSITION DID THE WYOMING CAS TAKE CONCERNING THE MERGER?

A. The CAS believed that there were a great deal of uncertainities[9] about the provision of service following the merger. However, those uncertainties cut both ways and there could be some very positive results coming from the merger. The CAS determined that by approving the merger with conditions it could deal with the uncertainties. I agree, in principle, with the statement made in the testimony of Denise Parrish.

> While there is no certainty, it is the CAS's belief that PacifiCorp customers will be no worst off, and will likely be better off, with the PacifiCorp/Scottish Power merger (and accompanying conditions), than without it.[10]

Q WHAT WERE THE CONDITIONS REGARDING RATES AGREED TO BY THE CAS AND PACIFICORP?

A Denise Parrish describes the agreement in her testimony as follows:

> In general, the separate agreement, which has been filed for informational purposes with the Commission separate and apart from this docket, imposes a cap on the amount of rate relief that PacifiCorp can request in Wyoming in 1999 and 2000. It does not limit the CAS's review of the requested relief, nor does it limit the CAS advocating a lesser amount of rate relief than requested by PacifiCorp. In exchange for this rate limitation, the CAS has agreed to work with the companies to expedite the

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[9] Testimony of Denise Parrish, Wyoming Docket No. 20000-EA-98-141, page 8

[10] Testimony of Denise Parrish, Wyoming Docket No. 20000-EA-98-141, page 11

> rate case process and has agreed to continue to work with the company on the review of its proposed depreciation modifications and on the review of interjurisdictional allocations. Finally, the agreement discussed limitations on rate increases to any particular class of service, so as to mitigate the impact of the increases on customers while still moving toward cost of service rates.[11]

The agreement caps the amount of rate increase PacifiCorp can seek in Wyoming in 1999 at $12 million, which is a 4.4% rate increase, and in the year 2000 the limit is capped at $8 million, a 2.9% rate increase, plus the impact of any change in depreciation.

Q IS THE RATE AGREEMENT AN IMPORTANT PART OF THE MERGER PROCEEDING IN WYOMING?

A Yes, Denise Parrish links the two agreements in her merger testimony.

> The rate agreement is an important consideration in this proceeding, since it shows that PacifiCorp is willing to continue to show a reasoned approach to phasing-in rate increases, and that the merger itself is not driving huge rate increases in order to immediately get returns to more appropriate levels. This agreement is in the public interest since it limits the size of the rate increase that will be requested in the next two years, even though PacifiCorp believes that it could justify a much larger increase.[12]

Q DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

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[11] Testimony of Denise Parrish, Wyoming Docket No. 2000-EA-98-141, page 16

[12] Denise Parrish, Wyoming Docket No. 2000-EA-98-141, page 16-17