

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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IN THE MATTER OF THE ) DOCKET NO. 98-2035-04  
APPLICATION OF PACIFICORP )  
AND SCOTTISHPOWER PLC FOR ) REPORTER'S TRANSCRIPT  
AN ORDER APPROVING THE ) OF PROCEEDINGS  
ISSUANCE OF PACIFICORP )  
COMMON STOCK. )  
\_\_\_\_\_)

Salt Lake City, Utah

Wednesday, August 4, 1999

9:10 a.m.

BEFORE:

STEPHEN F. MECHAM, Chairman, Public Service

Commission of Utah; and

CONSTANCE B. WHITE, Commissioner, Public

Service Commission of Utah; and

CLARK D. JONES, Commissioner, Public

Service Commission of Utah.

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RENEE L. STACY, CSR, RPR  
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INDEX

Page

Witness: Alan V. Richardson

Direct Examination by Mr. Fell. . . . . 537  
Cross Examination by Mr. Reeder . . . . . 546  
Cross Examination by Mr. Dodge. . . . . 624  
Cross Examination by Mr. Tingey . . . . . 643  
Cross Examination by Mr. Farr . . . . . 648  
Cross Examination by Mr. Sandack. . . . . 649  
Cross Examination (continued) by Mr. Farr . . . 656  
Redirect Examination by Mr. Fell. . . . . 661

Witness: Andrew N. MacRitchie

Examination by Mr. Reeder . . . . . 621

Witness: Richard T. O'Brien

Direct Examination by Mr. Hunter. . . . . 663  
Cross Examination by Mr. Reeder . . . . . 677  
Examination by Mr. Hunter . . . . . 758  
Examination by Mr. Reeder . . . . . 759  
Examination by Mr. Hunter . . . . . 760  
Cross Examination by Mr. Mattheis . . . . . 761  
Cross Examination by Mr. Dodge. . . . . 765  
Cross Examination by Mr. Sandack. . . . . 773



RENEE L. STACY, CSR, RPR  
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## EXHIBITS

### Marked Received

|   |     |     |
|---|-----|-----|
| SP 1, 1.1 - 1.5, 1S, 1S.1,<br>1S.2, 1R                | 545 | 545 |
| SP 1R.1   | 545 | 545 |
| Cross Examination 4 and 5                             | 560 | 589 |
| Cross Examination 6                                   | 583 | 589 |
| Cross Examination 7, Proprietary                      | 587 | 590 |
| Cross Examination 8, 9, 10, 11<br>and 12, Proprietary | 620 | 624 |
| PacifiCorp 1, 1R                                      | 668 | 668 |
| Cross Examination 13                                  | 701 | 722 |
| Cross Examination 14, Proprietary                     | 722 | 738 |
| Cross Examination 15, Proprietary                     | 722 | 747 |
| Cross Examination 16, Proprietary                     | 722 | 757 |
| Cross Examination 17, Proprietary                     | 722 | 757 |

RENEE L. STACY, CSR, RPR  
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1 August 4, 1999

2 9:10 a.m.

3

4 P R O C E E D I N G S

5 CHAIRMAN MECHAM: Let's go back on the

6 record. Mr. Richardson from ScottishPower with us.

7 Let me swear you in first.

8 ALAN V. RICHARDSON

9 called as a witness and sworn, was examined and

10 testified as follows:

11 DIRECT EXAMINATION

12 BY MR. FELL:

13 Q Mr. Richardson, would you please state your

14 name and spell your name for the record.

15 A My name is Alan Victor Richardson, A-L-A-N,

16 V-I-C-T-O-R, R-I-C-H-A-R-D-S-O-N.

17 Q Mr. Richardson, would you please state your

18 position with ScottishPower.

19 A I am an executive director of

20 ScottishPower, a member of the main board of

21 directors, the group, and after the merger, I'm

22 intended to become CEO of PacifiCorp.

23 Q Mr. Richardson, you have sponsored direct

24 testimony identified as ScottishPower 1, which is

25 accompanied by exhibits, supplemental testimony,

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1 which is identified as ScottishPower 1S and rebuttal  
2 testimony, which is identified as ScottishPower  
3 testimony 1R. You are also sponsoring exhibits which  
4 are identified as Exhibits 1.1SP through 1.5SP, 1S.1  
5 and 1S.2 SP, and we will be circulating an additional  
6 exhibit, which is the letter you recently entered  
7 into, which we will identify at the time that it's  
8 brought up.

9 Mr. Richardson, do you recall prefilng  
10 this testimony?

11 A Yes, I do.

12 Q And if I were to ask you the questions  
13 today that are contained in that testimony, would  
14 your answers be the same?

15 A They would.

16 Q In the testimony there are a couple of  
17 reference to Mr. Robert Green as a witness, and Mr.  
18 Green has been substituted for and now Mr. Graham  
19 Morris is testifying, and so is it correct that the  
20 references to Mr. Green should be Mr. Morris now?

21 A That is correct.

22 MR. FELL: Is that acceptable to the

23 Commission?

24 CHAIRMAN MECHAM: It is.

25 MR. FELL: Thank you very much.

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1 Q Mr. Richardson, do you have a brief  
2 statement you would like to make.

3 A I do.

4 Q Would you please proceed?

5 A Thank you. Forgive me if you may have  
6 heard some of this from Mr. Wright yesterday, but  
7 maybe it's important you hear it from me.

8 ScottishPower and its predecessors have  
9 been serving customers in Scotland for over a hundred  
10 years. We are good utility managers and we have  
11 demonstrated our ability to transform businesses,  
12 particularly utility businesses. In the last eight  
13 months, I've spent a lot of time here in Utah  
14 listening very carefully to what people say about  
15 Utah and what their expectations are for a utility  
16 operating in Utah. I've met many hundreds of Utahns,  
17 in fact.

18 We're used to -- ScottishPower is used to  
19 working in a regulated environment. Ninety-seven  
20 percent of our earnings, in fact, last year came from



21 regulated businesses, so working with regulators and  
22 processes like this are reasonably normal for us.  
23 Our investors take a long-term view of the business,  
24 and so do we. We're here for the long term with an  
25 actual commitment to customers, to communities and to

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1 investments. And I think you'll be aware that we  
2 have reached four stipulations in the last couple of  
3 days. We covered very carefully the stipulation with  
4 the Division and the Committee, but we have three  
5 other stipulations on the environment with the Land  
6 and Water Fund and the Office for Energy and Resource  
7 Planning. We have a stipulation with Crossroads and  
8 Salt Lake City Action Plan, and another one with  
9 Deseret General and Transmission, and we also, as Mr.  
10 Fell pointed out, recently we signed a letter with  
11 the Department of Communities and Economic  
12 Development, and that contains, importantly, some of  
13 our commitments to Utah.

14       We've had many constructive discussions  
15 with interested parties right across Utah, and I  
16 think this, with the stipulations, demonstrates  
17 ScottishPower's ability to work successfully with a  
18 broad range of parties, including customers and  
19 communities, and having gone through the last couple  
20 of days, I would just add that I'm very aware of the

21 industrial customers and remain committed to dealing  
22 with them on an individual basis in a normal business  
23 function after the merger is hopefully approved.

24           The past two days, I think, have shown that  
25 with the DPU, CCS stipulation, the risks have been

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1 very effectively dealt with. ScottishPower offered  
2 new standards, five network standards about  
3 reliability, telephone answering complaint handling  
4 and dates of customer guarantees. These standards  
5 together are unparalleled by any utility in the U.S.  
6 They're precisely defined. They're not available  
7 from PacifiCorp alone. Customers will be better off  
8 in practice, and we value this package alone at \$60  
9 million per year.

10         In addition to the standards, we will honor  
11 all employment contracts. Indeed, all contracts that  
12 PacifiCorp have in place. We've committed -- and  
13 you'll find detail of this in the letter with the  
14 DCED -- we've committed to a point, the senior  
15 executive from ScottishPower, to take up residence  
16 here in Utah immediately after merger approval, and  
17 reporting directly to me, he will play a leading and  
18 a constructive role for Utah issues.

19         We've clearly committed to training and  
20 learning, and this is a very, very important part of

21 the way we take a business forward. We will develop  
22 a specific score to work initiative and we've made  
23 specific commitments on support for low income  
24 customers, and we promise \$5 million to the  
25 PacifiCorp Foundation on closure of the deal.

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1           Finally, as you're well aware, we're  
2 committed to a \$48 million merger credit, \$12 million  
3 a year for four years. That's 1.7 percent of the  
4 average bill over that period. I've no need to  
5 mention our commitment to file a transmission plan.  
6 I believe that we've surpassed the standard for  
7 approval of the merger asset out in this state of  
8 Utah.

9           But, finally, I want to say that our  
10 intentions for PacifiCorp and Utah are of the highest  
11 order. We want to set the standard of which we can  
12 all be proud. We want PacifiCorp to truly become a  
13 leading U.S. utility over the next five years.  
14 Thanks.

15       Q   Mr. Richardson -- we're going to now  
16 circulate, Mr. Chairman, the letter with the  
17 Department of Community and Economic Development and  
18 the Division of Business and Economic Development and  
19 we'll want to mark that as an exhibit.

20           CHAIRMAN MECHAM: All right. Why don't we

21 mark it as SP 1R.1.

22 Q (BY MR. FELL) Mr. Richardson, for the  
23 record, would you please identify what we have marked  
24 as Exhibit SP 1R.1, the letter from you to these two  
25 departments?

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1       A   Yes. This is a letter from me to David  
2   Winder and Rick Mayfield at the two departments, and  
3   signed by -- in fact, by all three of us. It talks  
4   about -- I guess it talks about the conclusions we've  
5   come to after quite a lot of meetings. It talks  
6   about ScottishPower's commitment to Utah presence  
7   with the senior executive I've already mentioned and  
8   the sort of role he will be taking up. It talks  
9   about his commitment to communities as being  
10  important in that role, and beneath, in the medium to  
11  long term, to groom a successor to guarantee good  
12  continuity of a leading role in Utah.

13           It commits to PacifiCorp's headquarters  
14  being in PacifiCorp's service area and, in  
15  particular, Utah Power & Light's headquarters being  
16  located in Utah. And, importantly, it says that  
17  insofar as is conventionally reasonable, we will work  
18  towards having fair proportionality in Utah in terms  
19  of the business.

20           It says that ScottishPower will endeavor to



- 21 maintain on this board of directors a nonexecutive
- 22 director from the Utah Power service area. And maybe
- 23 it's not well known, but after the merger
- 24 ScottishPower have committed to appoint Mr. Nolan
- 25 Karras to the board of directors of ScottishPower

RENEE L. STACY, CSR, RPR  
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1 group as a nonexecutive director. It commits to our  
2 support for work in economic development. Although  
3 we're unable to provide the detail, we've committed  
4 to work with the department under Division to make  
5 sure the details are suitable, and quite strong  
6 commitment to increased support for Utah businesses.

7 I have promised in the letter to review the  
8 way that grants are shared out from the PacifiCorp  
9 Foundation and I think we all want that to be  
10 demonstrably equitable. Although I am somewhat  
11 distant from the foundation, twice removed, as it  
12 says in the letter, we will be able to work on that.

13 And at the end of the letter we're  
14 committing to ensure that Utah -- the Utah part of  
15 the PacifiCorp business is well involved across the  
16 range of issues, such as Foundation gifts, training,  
17 representation on boards and committees and economic  
18 development in general. Together, that brings the  
19 department and the Division able to recommend  
20 approval of the merger transaction.

21           There is a point at the end that says that  
22 the department and Division do have an interest in  
23 the issues raised by the large industrial customers  
24 and we don't want to inhibit them in carrying out  
25 their full role in terms of what they might want to

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1 do to represent the issues raised by those groups.

2 Q And, Mr. Richardson, isn't it true that  
3 ScottishPower also is committed personally to meeting  
4 with the industrial customers and negotiating with  
5 them as needed to review their special contract  
6 situations?

7 A As I said -- I said that in my preliminary  
8 statement, but there's no question that customers who  
9 appear to have issues need to be dealt with and need  
10 to be dealt with in a very professional and  
11 commercial way, and that is the commitment we bring.

12 MR. FELL: Mr. Chairman, the applicants  
13 move for the admission of the testimony and exhibits  
14 I previously identified.

15 CHAIRMAN MECHAM: All right.

16 MR. FELL: As well as this new exhibit, SP  
17 1R.1.

18 CHAIRMAN MECHAM: Is there any objection to  
19 their admission? Thank you. We'll admit them.

20 (Whereupon Exhibits SP 1, 1.1 - 1.5, 1S,

21 1S.1, 1S.2, 1R and 1R.1 were marked and received.)

22 MR. FELL: Mr. Richardson is available for

23 cross examination.

24 CHAIRMAN MECHAM: Okay. Thank you. Why

25 don't we begin over here. Mr. Reeder.

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1 CROSS EXAMINATION

2 BY MR. REEDER:

3 Q Good morning, Mr. Richardson.

4 A Good morning, Mr. Reeder.

5 Q Welcome to Salt Lake.

6 A Again. Thank you.

7 Q We're looking forward to seeing you and  
8 your staff discuss with us the terms of our contract.  
9 We've had some difficulty getting to that point, as  
10 you know.

11 Let's begin with some background about  
12 ScottishPower, if we might. Mr. Richardson,  
13 ScottishPower was owned by the UK government until  
14 approximately 1991, if I understand your history  
15 correctly.

16 A That's correct.

17 Q And came to existence in its current form  
18 as a result of a privatization?

19 A Yes. The government passed the electricity  
20 Act in 1989, which allowed for the privatization and

- 21 the deregulation of the electricity industry.
- 22 Q And in 1991, the present shareholders
- 23 acquired the assets and the operations of what is now
- 24 ScottishPower from the UK government?
- 25 A That's correct.

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1 Q And can you tell me approximately how much  
2 you paid the British government to acquire  
3 ScottishPower at that point?

4 A I think the market capitalization was about  
5 1.9 billion pounds at the time, but maybe we could  
6 check that, but that's sort of what I recall.

7 Q What was the process of privatization? Was  
8 it a bid or was it negotiation? How did you come  
9 into possession of the assets and the operation of  
10 ScottishPower?

11 A It was a public offering by the government.

12 Q Government offered? And how did you and  
13 your management team come into management of it at  
14 that point?

15 A Most of the management team were in place  
16 from running the old business, which was the South of  
17 Scotland Electricity Board. That same team in its  
18 majority had worked to shape up the privatization,  
19 get the business ready for privatization, and a very  
20 few senior officers were appointed from that side.



21 For example, myself. I joined the company exactly at

22 the day of privatization.

23 Q So most of the management team were

24 originally part of the UK-operated enterprise that

25 are in place today?

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1     A   The management team, since 1991, has  
2   changed considerably. There are -- I'm just not  
3   sure -- I guess old age -- with one or two  
4   exceptions, but basically people have moved on in a  
5   fairly natural way.

6     Q   So of the management team in place today,  
7   can you tell me which of those were managers during  
8   the period of time that you were the government  
9   operation?

10    A   You mean the executive team or the  
11   management team?

12    Q   Please.

13    A   You talk about the top ten executives, so I  
14   think there's only one who was there before  
15   privatization.

16    Q   Most of you have been brought in since  
17   privatization?

18    A   At that level, yes, which is exceptional in  
19   the company.

20    Q   And since 1991, these are the persons who

21 have been in charge and developed the strategy for

22 ScottishPower?

23 A Well, there's been a gradual change. The

24 people who left, one of them, for example, left as

25 recently as May this year. So it's been a gradual

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1 natural movement of senior people in the business.

2 And I think that's healthy, actually.

3 Q ScottishPower has expanded its business  
4 beyond that of the operations that were acquired from  
5 the UK government, has it not?

6 A Yes, indeed.

7 Q And, indeed, you're in the water business,  
8 the telephone business, and you've acquired another  
9 electric distribution utility in the UK, have you  
10 not?

11 A That's correct.

12 Q Can you tell me the process by which you  
13 acquired the water company?

14 A The water company was acquired by a hostile  
15 bid.

16 Q Can you tell me about the hostile  
17 acquisition of the water Company?

18 A Yes. I mean, it was -- I'm not expert in  
19 these matters, but basically one morning after a lot  
20 of work, many, many months of work, we put in an

21 unsolicited bid for the company, Southern Water,  
22 which is one of the top ten water companies in  
23 Britain, with 1.7 million customers. In Britain at  
24 that time there were two electricity companies owned  
25 by water companies and we were the first electricity

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1 company, indeed the only still, to have offered to  
2 buy a water company.

3       The process then went through the sort of  
4 normal process in Britain, which is, this is our bid,  
5 this is the cost, these are the reasons. You get the  
6 rebuttal from the other side down to a shareholder  
7 vote, and the shareholder vote was won by some useful  
8 margin, and approximately three months after the bid,  
9 ScottishPower acquired control and took control.

10     Q   It was a cash tender offer for the shares?

11     A   I believe so, but maybe if you get to Mr.  
12 Morris, he would be much more precise on that.

13     Q   Okay. We have a number of questions for  
14 Mr. Morris. Hopefully I can find them all when we  
15 get there.

16       Tell me about the acquisition of the  
17 telephone company.

18     A   We have grown the telephone company. It  
19 includes acquisitions within it, but basically at  
20 privatization. ScottishPower operated probably the

21 largest private telecoms network in Britain and it  
22 needed our network to operate its electricity  
23 businesses and it involved a lot of data transfer  
24 across the continent to the different parts of the  
25 businesses.

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1           At that time, as we are today, we were a  
2 leading -- as an electric utility, we were leading in  
3 telecommunications. That meant we had a good  
4 infrastructure of fiberoptics and switches, and we  
5 invested further in the fiberoptic network to begin  
6 to build the basis of what could become some kind of  
7 commercial business.

8           In 1994 -- I think it was '94 -- we had  
9 recruited a chief executive for that business from  
10 the real world that meet the telecom's world, and his  
11 requirement was to build the business as an identity  
12 under the business and grow it, so from those  
13 relatively humble beginnings, that executive set the  
14 bounds, building the infrastructure, and it's a very,  
15 very modern infrastructure that we built, but also  
16 acquiring businesses that would bring telecom's  
17 traffic to that network, because under British rules,  
18 if you bring the traffic, you can charge the rate and  
19 then there are tests. It sounds simple.

20           And that was successful, and I think most



21 recently, last April -- a year ago April, we acquired  
22 an internet company which brought an enormous amount  
23 of traffic, an enormous amount of growth to the  
24 telecom's business, so we've grown the telecom's  
25 business.

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1 Q Have you acquired operating telephone  
2 companies?

3 A No.

4 Q You've acquired no telephone companies by a  
5 hostile takeover route?

6 A Not at all.

7 Q You've grown your electric distribution  
8 business by acquiring Manweb?

9 A Yes.

10 Q Can you tell us about the process of  
11 acquiring Manweb?

12 A The process of acquiring Manweb, it was  
13 done just over a year earlier and it was a very  
14 similar process.

15 Q Was it a hostile takeover?

16 A Yes.

17 Q Can you tell us about it?

18 A Well, it's very similar. A lot of  
19 background work before making the bid one morning,  
20 and again, the normal process of our proposal, our

21 offer and the rebuttal from the existing management  
22 and ownership, and in three months a shareholder  
23 vote, which was, again, very positive in favor of  
24 that merger -- or that takeover, and acquisition in,  
25 I think, August of 1995.

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1 Q And was it a similar cash tender offer, to  
2 the best you recall?

3 A Yes. I mean, I don't pay a lot of  
4 attention to that detail. There are other things for  
5 me to worry about.

6 Q Mr. Richardson, let's look at the exhibit  
7 to your testimony which is the five-year financial  
8 summary. Counsel, help me identify it. It is, in  
9 the appendix, EVR 1. Does it have a separate exhibit  
10 number?

11 MR. FELL: That is Exhibit 1.1 SP.

12 Q (BY MR. REEDER) Page 19 of that exhibit,  
13 please, sir.

14 A I have it.

15 Q At the top of the page on the left-hand  
16 side it says Five Year Financial Summary.

17 A Uh-huh.

18 MR. FELL: Excuse me. I haven't located it  
19 yet. I'm looking at windmills in my page 19.

20 THE WITNESS: It's Investing for Growth.

21 MR. FELL: The page number at the upper  
22 right-hand corner, it's been typed in. It's page 21  
23 and it's the five-year financial summary.

24 MR. REEDER: Since there's apparently some  
25 difficulty locating it, has the Commission been able

RENEE L. STACY, CSR, RPR  
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1 to find that? Is the reference adequate to assist  
2 you in finding it? Very good.

3 Q Mr. Richardson, looking at the results of  
4 operation here, there is a line that shows ratios and  
5 statistics.

6 A Yes.

7 Q The second line from the bottom in the  
8 ratios and statistics line shows the return on equity  
9 for five years for ScottishPower, does it not?

10 A That's correct.

11 Q And it shows returns on equity exceeding 27  
12 percent in most years, with a couple of years only  
13 exceeding 24 percent?

14 A That's right.

15 Q You've been very successful in achieving  
16 return in your enterprise, have you not?

17 A Well, they're reasonable numbers. I  
18 agree.

19 Q Would you expect to earn those kinds of  
20 returns from your U.S. utility operations?

21 A We've not said that, no.

22 Q If we were to add PacifiCorp's earned

23 return -- and, counsel, help me. Is it 10 and a half

24 or 10.6?

25 MR. HUNTER: 10 and a half.

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1 Q (BY MR. REEDER) If we were to add  
2 PacifiCorp's 10 and a half percent return on these  
3 earnings, what would it do?

4 A I don't know. You need to ask a finance  
5 man for that.

6 Q It would be much lower, wouldn't it?

7 A Yes, it would.

8 Q Do you have any plans to enhance that  
9 return to bring it to this corporate earned return  
10 history?

11 A Well, you used the word. I mean, this is  
12 history. The future is something that we try to  
13 build.

14 Q Are you prepared to accept a lesser return  
15 than a 10 return when your history has been over 24  
16 percent for five years?

17 A Obviously this shows a range of returns  
18 across the business.

19 Q Let's go to the employee lines, if we  
20 might. If we look at the line for Manweb, what can



21 we observe occurring at Manweb since your

22 acquisition?

23 A Sorry. I'm just having a little difficulty

24 getting the line.

25 Q If you go to employees --

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1 A My eyesight -- no, no. I've got that.

2 It's just getting the line. The line is 2151; is

3 that correct?

4 Q Correct. Is it fair to observe that the

5 number of employees in Manweb has declined since your

6 acquisition?

7 A Oh, yes.

8 Q Fairly significantly?

9 A It's declined by some -- on that sheet some

10 800 or so jobs.

11 Q Okay. What about at Southern Water

12 Company?

13 A Similar story.

14 Q And what about the number of -- what does

15 the top line on that sheet represent?

16 A That is kind of the historic energy

17 businesses in Scotland.

18 Q If we look at the number of employees in

19 the Scottish energy business, the number of employees

20 in Manweb, the number of employees in ScottishPower,

21 we see those numbers declining fairly dramatically

22 since the acquisition, don't we?

23 A That's correct.

24 Q Is it a fair inference that that's one of

25 the tactics of ScottishPower, to significantly reduce

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1 employees when they acquire a company?

2 A Yeah. We think we've got an obligation to  
3 shareholders and to customers to run an efficient  
4 business, and if you look into those businesses, you  
5 will find other statistics that demonstrate the  
6 performance of those businesses is remarkably  
7 better.

8 Q When you acquired the water company, what  
9 did you find attractive about it? Or what was  
10 attractive about it to cause you to want to acquire  
11 it, is a better question.

12 A That's an interest question. I think the  
13 water company in many ways was like PacifiCorp was a  
14 year ago, which is that it had a focus on many  
15 initiatives which were not to do with the core  
16 business, and one of the major successes that we had  
17 in Southern Water was refocusing the management back  
18 on to the very valuable and very necessary core  
19 business, and by that I mean Southern Water were  
20 involved in diversified activities in Britain and

21 abroad.

22 Q Did you sell a bunch of those assets when  
23 you acquired it?

24 A We did.

25 Q Did it have a bunch of cash on its balance

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1 sheet when you acquired it?

2 A I can't remember that detail. I would

3 imagine it would have, yes.

4 Q What about Manweb? Tell me about Manweb.

5 What made Manweb an attractive acquisition?

6 A Manweb was a smaller electricity company

7 with 1.3 million customers. That's by British

8 standards. And its operating ratios as reported by

9 the regulator and by our own analysis were

10 significantly below our own and we felt rightly that

11 we could take Manweb and transform it up to operating

12 ratios more like our own, and indeed today many of

13 their operating ratios are better than

14 ScottishPower's own, a rather an interesting

15 statement.

16 Q Did it have a bunch of cash on its balance

17 sheet at the time you acquired it?

18 A I honestly can't remember.

19 Q Mr. Richardson, in the UK do you operate

20 under licenses?

21       A   Yes, we do. Well, licenses apply to  
22 utility businesses. Let's put it that way.  
23 Obviously some of our businesses are a licensed  
24 activity.  
25       Q   And do those licenses contain terms and

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1 conditions generally governing the way you do  
2 business?

3 A I'm not sure what you mean by "generally  
4 governing the way you do business."

5 Q Maybe it's easier to talk to you with an  
6 exhibit.

7 May we have marked as the next exhibit in  
8 order the proxy statement of PacifiCorp? It has a  
9 summary of licensing conditions in it and may be  
10 easier to talk about it from there.

11 A I need a copy.

12 MR. REEDER: Counsel, for your information,  
13 to make the document small, I have taken the  
14 agreement out of it so I didn't reproduce the whole  
15 document.

16 MR. BURNETT: And I've micro-sized it, I see.

17 MR. REEDER: Yeah. We tried to save trees.

18 MR. BURNETT: Are you also providing  
19 magnifying glasses?

20 MR. REEDER: No, but I have a card for a



21 good ophthalmologist when we get through if you need

22 one.

23 MR. BURNETT: Well, I do. I apparently am

24 going to need one. Is this Cross Exhibit No. 4?

25 CHAIRMAN MECHAM: Yes. Let's go off the

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1 record a minute.

2 (Discussion off the record.)

3 (Whereupon Cross Examination Exhibits 4 and  
4 5 were marked for identification.)

5 CHAIRMAN MECHAM: Let's go back on the  
6 record. While off the record, we marked the proxy  
7 statement as Cross Examination Exhibit 4 and we  
8 marked the listing particulars as Cross Examination  
9 Exhibit 5. Go ahead, Mr. Reeder.

10 Q (BY MR. REEDER) Mr. Richardson, directing  
11 your attention to page 119 of the listing  
12 particulars -- do you have that document?

13 A I do, yes.

14 Q Have you been able to locate page 119?

15 A I have it, yeah.

16 Q In a discussion on the record a few moments  
17 ago I asked you about the terms and conditions of the  
18 licenses issued by the regulators in the UK,  
19 ScottishPower and its electric power affiliates. We  
20 concluded we needed to speak the same language about

21 licensing conditions.

22 A Okay.

23 Q On that page are there summarized the

24 principal terms and conditions of the licenses of

25 ScottishPower and Manweb?

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1 A Page 119?

2 Q 119.

3 MR. FELL: Mr. Richardson, in the actual  
4 published listing particulars document, page 119, the  
5 top line should be Section B, ScottishPower,  
6 Subsection 1, summary of the principal terms and  
7 conditions of ScottishPower's licenses. May I  
8 approach the witness?

9 CHAIRMAN MECHAM: Yes.

10 MR. BURNETT: I can't find this. Is it in  
11 the summary of listing particulars?

12 CHAIRMAN MECHAM: Let's go off the record  
13 just a moment.

14 (Discussion off the record.)

15 CHAIRMAN MECHAM: Let's go back on the  
16 record. We're going to defer the line of examination  
17 Mr. Reeder was pursuing until we get the full  
18 document here, and we'll go to another line of  
19 questions. Go ahead, Mr. Reeder.

20 Q (BY MR. REEDER) Mr. Richardson, changing

- 21 topics and moving from the UK licensing conditions
- 22 and changes to those conditions, let's talk about
- 23 contract approval process with ScottishPower as it
- 24 will exist in the U.S.
- 25 A Okay.

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1 Q Will the officer whom you offered to locate  
2 in Utah in response to the requests of Mr. Winder be  
3 the person with authority to execute contracts with  
4 my clients?

5 A No, not at this stage.

6 Q Where will the person with the authority to  
7 execute contracts with my clients be located?

8 A It depends on the size of contract, but if  
9 you're talking, I guess, about your own clients, it  
10 would rest with Mr. O'Brien, most likely, or myself  
11 in Portland.

12 Q So in order to obtain the approval of a  
13 contract, it would only be necessary for us to go to  
14 Portland and negotiate with you or Mr. O'Brien?

15 A I don't think you'd have to go to  
16 Portland. We believe in treating our customers  
17 properly, and that normally means we travel to meet  
18 with them in my business. I think you should  
19 understand, you cannot just generalize these  
20 statements. Some of the contracts that your clients

21 negotiate are very large and, like any normal  
22 business, ScottishPower has its rules for approval of  
23 expenditures and contract authorization, and that, as  
24 it exists in Britain, is clearly structured, very  
25 practical and a rapid process, and I would expect

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1 that PacifiCorp becoming part of the ScottishPower  
2 group would become part of that process where Mr.  
3 O'Brien, myself, or ourselves together, would have  
4 levels of contract authorization beyond which we  
5 would have to seek approval of the PacifiCorp board  
6 or then the ScottishPower board, and that is a  
7 perfectly normal process. As you go away from  
8 myself, certainly, those proposals would go forward  
9 with a recommendation.

10 Q When will we know where the contract  
11 authority will reside in the new entity?

12 A I really don't think you need to know.  
13 From your point of view, you should simply see  
14 PacifiCorp dealing with you, making offers and  
15 sealing those offers in a very normal way.

16 Q Assume that we prefer to deal with someone  
17 who has authority to bind the Company. How will we  
18 know and when we will know who will have authority to  
19 bind the Company on our contracts?

20 A Well, you presumably work in a certain



21 way. What we do is we authorize our people to  
22 negotiate so that when it comes -- the negotiations  
23 don't mislead you in any way. The people who are  
24 negotiating, who would be the people you know and  
25 love, maybe --

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1 Q I assume they're best friends.

2 A No. They would be the same friends. I  
3 mean, it's important point that people who would be  
4 dealing with you in the future would be the same  
5 PacifiCorp people, by and large, that you're dealing  
6 with now.

7 Q Will they have the authority to bind the  
8 Company?

9 A Well, the way we proceed is to authorize  
10 those people to take the business forward. We do not  
11 espouse a central approach in ScottishPower. We  
12 believe that the people we are dealing with should be  
13 well authorized, they should understand in the next  
14 meeting where they're likely to get to, and the range  
15 of negotiating, negotiating range that they need to  
16 deal with you properly, so you should feel well dealt  
17 with by the people that you're dealing with in a very  
18 normal sense.

19 There's no need to come up the line. If  
20 gets very inefficient. Just think about it. I do

21 nothing else other than negotiate with large  
22 customers. I think we can do that much better by  
23 dealing with people who know and understand your  
24 business at very close range, making sure those  
25 people are properly trained and properly able and

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1 properly authorized to negotiate.

2 Q Assume that we find it more efficient to  
3 deal with the decision maker, someone who can make a  
4 decision, rather than report back what the decision  
5 was on the proposal made. Where would we have to go  
6 to find that person who could decide for the  
7 Company? Would we have to go to Glasgow, Mr.  
8 Richardson?

9 A No. I think it's important -- and this is  
10 one of the things that's disturbed me over the last  
11 couple of days, you could say. It's important to  
12 understand that we enjoy and want to enjoy good  
13 relationships with the customers. We want those  
14 customers to feel that they're properly serviced in  
15 terms of the way the electricity is delivered and the  
16 contracts are negotiated.

17 Quite honestly, if you want to negotiate  
18 detailed contracts with me, you're in difficulty  
19 because, you know, there are only so many hours in a  
20 day and there are only so many skills that I

21 personally have at any one time, so the practical way  
22 as to get people in front of you who are capable,  
23 competent and authorized to work out the best  
24 possible contract with you. That is our thrust.  
25 Q And they would bring the contract back to

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1 you for your approval?

2 A If the contract was of that value that it  
3 needed approval, that, I would put to you, is  
4 perfectly normal business procedure.

5 Q And then would you have to seek approval?

6 A It depends on the size of the contract.

7 Q On the contracts with the clients that I  
8 represent.

9 A The nature of --

10 Q They're fairly large contracts, as you  
11 know.

12 A Oh, yeah, but the nature of the business is  
13 that the business hierarchy, if you like, is aware of  
14 these things going on all the time so there are no  
15 surprises within the business or without the  
16 business, so as a proposal would reach an executive  
17 or a board for approval, it would have been well  
18 signalled and, you know, in these cases well  
19 discussed before it got there. These things are not  
20 done in closed rooms.

21 Q Are you saying to me that we have to go to  
22 the Scottish board for approval?

23 A Well, no, I'm not. What I'm saying is  
24 there is a proper structure, and I would hope you  
25 would want us to have a proper structure, by which

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1 contracts are authorized. They very largest of  
2 contracts, quite rightly, would go to the  
3 ScottishPower board.

4 Q Would our contract go to the Scottish  
5 board?

6 A I don't know the size of your contract.

7 Q When asked this question by counsel for  
8 Solution in Idaho, how did you answer?

9 A I wasn't asked that question, I don't  
10 think, by Solution.

11 Q If you were asked that question and told  
12 them that they had to go to the ScottishPower board,  
13 would that be a misrepresentation of your testimony  
14 in Idaho?

15 MR. FELL: Mr. Chairman, the witness has  
16 said that he doesn't recall that, so I think the  
17 transcript in Idaho will speak for itself on that  
18 matter. If Mr. Reeder wants to disclose the size of  
19 his client's electric power bill for the year, then  
20 we can perhaps have a witness who would provide more



21 information about that.

22 Q (BY MR. REEDER) Mr. Richardson, you've

23 indicated a willingness to meet with and negotiate

24 with your special contract customers, haven't you?

25 A One of the issues is they're not yet my

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1 customers.

2 Q Is it a case that you have done any work at  
3 all to determine the size of these contracts?

4 A I'm generally aware some of the contracts  
5 are in the millions of dollars per year.

6 Q Your counsel has objected because we  
7 haven't told you the size of our contract. Is there  
8 any question in your mind about the size of our  
9 contract?

10 A It's an interesting and large contract,  
11 yes.

12 Q Have you done any due diligence at all to  
13 determine the size of that contract, sir?

14 A The precision --

15 MR. FELL: Mr. Chairman, which client are  
16 we talking about? Mr. Reeder is representing an  
17 industry group.

18 CHAIRMAN MECHAM: I know.

19 MR. FELL: Mr. Richardson knows well the  
20 two contracts.

21 MR. FELL: I'm sorry, but the record does

22 not know well, and I certainly do not know at all.

23 Q (BY MR. REEDER) Mr. Richardson, do you

24 know the two contracts about which I'm referring?

25 A I think so.

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1 Q Thank you.

2 CHAIRMAN MECHAM: But we don't need to be  
3 mysterious about it.

4 THE WITNESS: My point, Chairman, is that  
5 there is -- in any business there's a perfectly  
6 normal hierarchy of approval. It protects the  
7 business itself, but it also protects the party that  
8 is contracting with the business to make sure the top  
9 level of the business feels it is able to commit to a  
10 contract of that dimension. That is perfectly  
11 normal. In ScottishPower it is a well signalled and  
12 a suitably rapid process. We authorize our people to  
13 negotiate that way. And I really don't find that  
14 unusual.

15 COMMISSIONER WHITE: Whatever the size of  
16 the contract, the identity of the customer or the  
17 amount, do you have similar contracts in your other  
18 businesses in the UK?

19 THE WITNESS: Sorry. I thought you were  
20 looking over my head. We have similar size of

21 contracts, yes.

22 COMMISSIONER WHITE: Okay.

23 Q (BY MR. REEDER) Mr. Richardson, let's

24 pursue a couple of issues here for a moment. Will

25 the board at PacifiCorp to whom you've said this

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1 board -- this contract might be referred be a board  
2 that acts with PacifiCorp or will it be an advisory  
3 board?

4 A It will be an executive board.

5 Q And it will have the authority to act for  
6 and on behalf of PacifiCorp or will it be an advisory  
7 board to the board of ScottishPower?

8 A It will be an executive board operating  
9 executively in the structure of ScottishPower.

10 Q By executive board, do you mean it will be  
11 a board composed of the employees of ScottishPower?

12 A It will contain in our present planning the  
13 chief executive of the ScottishPower group, who will  
14 be its chairman, and it will contain the finance  
15 director and the deputy chief executive of the  
16 ScottishPower group, as well as myself.

17 Q So it will be a board composed of  
18 executives of the Company?

19 A With the intention of addressing just this  
20 sort of issue and many others that you raised here.

21 Q And will the authority of that board allow  
22 it to approve these contracts and bind the Company,  
23 or will it be necessary for this board that was  
24 referred to in Idaho as the advisory board to seek  
25 the approval of the ScottishPower board in Glasgow?

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1     A   The advisory board has no role at all in  
2   approving any contract.  And maybe your language is  
3   not clear.  I'm talking about the executive board of  
4   PacifiCorp which would be put together immediately on  
5   closure of this transaction.  The idea is that board  
6   meets monthly and is able to make very focused  
7   specific decisions about PacifiCorp and its  
8   performance and commitments in the rest of the U.S.

9     Q   Are you intending to leave me with the  
10  impression that I don't know with whom I have to deal  
11  to get a contract done, Mr. Richardson?

12    A   I think, Mr. Reeder, you know me and --

13    Q   And well I do.

14    A   And there is no question that ScottishPower  
15  underlines very strongly its commitment to  
16  customers.  If you need to speak with me, visit me,  
17  or me to visit you or your clients, that will be  
18  arranged.  I call that normal business.  But the  
19  point I put to you is there is a proper process for  
20  conducting fruitful negotiations, such as with your



21 client, and I think we both understand what that  
22 process is. I'm committed to making that process  
23 work. I think your clients will be, too.

24 Q You've explained to us the Scottish style  
25 of making that process work, I trust.

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1 A I think it's a business style, yes.

2 Q Okay. Now, we talked -- in answer to the  
3 Commissioner White's question, you answered the  
4 question you had similar contracts in the UK. What's  
5 the load of your largest customer in the UK?

6 A It's about 40 megawatts.

7 Q How many 40-megawatt customers do you have?

8 A I don't recall. We don't count customers  
9 that way.

10 Q How many special contract customers with  
11 loads in excess of 10 megawatts do you have?

12 A We don't have special contracts.

13 Q How many contract customers with loads in  
14 excess of 10 megawatts do you have?

15 A I would be guessing. We can get that  
16 information if you needed it, but I -- there would be  
17 a useful number. In the tens.

18 Q Do you recall the response given to us by  
19 ScottishPower when we indeed asked that question?

20 A I don't.

21 Q Would it surprise you to learn that, when  
22 we asked that question, we were told it was  
23 irrelevant to this proceeding and would not be  
24 provided?

25 MR. FELL: Mr. Chairman, Mr. Reeder is just

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1 arguing with the witness over a discovery issue that  
2 he should argue with us about.

3 CHAIRMAN MECHAM: He's probably right about  
4 that.

5 MR. FELL: If he had an objection to the  
6 discovery, he had an opportunity to raise the  
7 objection and have it resolved before this point.

8 MR. REEDER: I think we're talking about a  
9 manner of style here, but last night, Counsel, we had  
10 a discussion concerning whether such a request had  
11 been made and what the response was. I'm prepared  
12 now to offer that discovery request and the response  
13 to this record, if you'd like, or we can confirm that  
14 we asked the question and were denied the  
15 information.

16 MR. FELL: If you were told the information  
17 was not relevant, that was the answer. You can  
18 produce the discovery response. It doesn't bother me  
19 that way.

20 MR. REEDER: With that representation, we

21 were told it was irrelevant and we won't burden the  
22 record further.

23 CHAIRMAN MECHAM: We'll take your word for  
24 it.

25 THE WITNESS: If I could just add that,

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1 you know, customers, as have your own, as  
2 demonstrated a few questions ago, they have a  
3 sensitivity about their names being used in public  
4 arenas, and we were expecting that confidentiality, I  
5 think, which is found in all of the contracts with  
6 those customers.

7 Q (BY MR. REEDER) Would it surprise you to  
8 learn that when we asked simply for the number of  
9 contracts in excess of 10 megawatts, you also  
10 declined to answer it?

11 MR. FELL: Mr. Chairman, Mr. Richardson was  
12 not -- he was not the responder to the discovery  
13 requests in this case.

14 MR. REEDER: Nor will he be the person who  
15 actually negotiates the contract, we're told.

16 MR. FELL: Mr. Reeder is distorting Mr.  
17 Richardson's responses. Mr. Richardson was talking  
18 about an authorization to sign, not negotiations.

19 CHAIRMAN MECHAM: All right. Thank you for  
20 those clarifications. Let's keep going.

21 Q (BY MR. REEDER) Mr. Richardson, let's talk  
22 about the form of regulation that you enjoy or have  
23 in the UK, if we might. Are all of your customers  
24 today free to choose their power supplier?  
25 A They are, yes.

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1 Q And that's a new event for ScottishPower?

2 Until early this year they were not free to do so;

3 am I right?

4 A The -- no, you're not right. The markets

5 opened on September the 14th, 1998. Four companies

6 opened their franchise areas to competition and two

7 of those companies were ScottishPower companies,

8 ScottishPower and Manweb.

9 Q When did customers with less than 100

10 kilowatts gain access to competitive power in the UK?

11 A 1994.

12 Q 1994. Less than 100 kilowatts?

13 A Sorry. Can you state that again?

14 Q Does 1999 sound like it could be the date.

15 A No, I'm sorry. That's right. Can I just

16 go back?

17 CHAIRMAN MECHAM: Absolutely. You keep

18 going.

19 THE WITNESS: Your first question was when

20 did ScottishPower customers have a choice. September



21 the 14th, 1998 we opened -- or we began to open our  
22 markets. In Britain -- and I've been away from  
23 Britain for eight months so I'm not really into the  
24 details, but I think about May this year all  
25 customers in Britain had choices. Every residential,

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1 every industrial customer.

2 Q (BY MR. REEDER) So opening the market in  
3 UK was phased and the last phase was opened sometime  
4 in 1999? The last phase to open was primarily the  
5 customers at less than 100 kilowatts, was it not?

6 A Yes. I'm sorry. I misheard your question  
7 before.

8 Q And at the same time, you began to offer  
9 competitive metering, didn't you?

10 A Metering is not yet fully competitive. I  
11 think that's the year 2000, and there are still  
12 question marks over how that or if that will be  
13 allowed.

14 Q But some customers in the UK have choice of  
15 metering companies today and some further will have  
16 them in the year 2000? Is that the way it works?

17 A Large -- I think large industrial customers  
18 have -- that is over -- I can be corrected here,  
19 maybe, but my understanding is over 100 kilowatts  
20 customers can choose what we call their meter

21 operator, which is the asset owner and maintainer, if

22 you like, which is a small part of the business, but,

23 nonetheless, it's important to some customers.

24 Q So would it be fair to say today that the

25 price constraint on your UK book of electric business

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1 is competition?

2 A I'm not sure what you mean by price

3 constraint in that context.

4 Q Is there a regulatory authority who sets  
5 the price for the sale of the commodity kilowatt  
6 hours in the UK for any of your customers?

7 A My experience is, as we move into  
8 competition, there is more regulation, which is an  
9 interesting observation.

10 Q Let's just talk about kilowatt hours.

11 A Tariffs still exist and will continue to  
12 exist.

13 Q For kilowatt hours or for transmission?

14 A For kilowatt hours, and indeed for  
15 transmission, and the tariffs set the kind of safety  
16 net or floor or ceiling, depending which way you want  
17 to look at it, that people who don't wish to exercise  
18 their choice are then protected by the tariff, as the  
19 people wishing to see choice can move or stay below  
20 tariff.

- 21 Q The provider of last resort has a tariff.
- 22 Anyone who isn't provided by the provider of last
- 23 resort has choice?
- 24 A Yes, that's one way of putting it.
- 25 Q Does Manweb operate as a provider of last

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1 resort in this territory?

2 A Yes, it does.

3 Q Does it also offer choice?

4 A Fully.

5 Q Now, you also operate a transmission

6 distribution system in the UK?

7 A We operate a transmission business in

8 Scotland, distribution business in Scotland and a

9 distribution business in Manweb.

10 Q Tell me about the regulation of your

11 transmission business.

12 A The transmission business is fully

13 regulated.

14 Q And you operate pursuant to tariffs?

15 A I think that's a U.S. term which I've

16 struggled with. It is regulated on the basis of a

17 price cap which is essentially based on the assets,

18 the O&M costs and the rate of return on investments,

19 on equity.

20 Q The transmission system of ScottishPower

21 has been, as a part of this transaction, separated to  
22 become a part of what, Mr. Richardson? Can you help  
23 us understand what that means?

24 A I really don't understand what that means.

25 The transmission business of ScottishPower is part of

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1 the power system's division of ScottishPower.

2 Q And what did the regulators require that  
3 you do with that transmission business as a part of  
4 this transaction?

5 A Nothing.

6 Q Did they not require that you separate it  
7 into a separate entity?

8 A No.

9 Q It was not a condition of your securing  
10 approval?

11 A That was not a condition.

12 Q Is it the case that you have to do it  
13 within three years?

14 A No.

15 Q When must you separate it?

16 A I think you misunderstand the thrust of  
17 what the UK require, which is that a generation  
18 business must be what they call ring fenced, and they  
19 require that to be done by placing the generation  
20 business into a separate entity with its own profit



21 and loss account and its own balance sheet so that  
22 there is clear regulatory separation, financial  
23 separation, so regulators can properly regulate the  
24 regulated business, which is the transmission  
25 business, away from the separate entity of the

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1 generation business.

2           So I think the essence is that the  
3 transmission business remains at the core of  
4 ScottishPower and the generation business is safely  
5 put in a package as a separate entity.

6     Q   The two are separated legally in ownership,  
7 separate entity ownership?

8     A   The reality is for -- since -- almost since  
9 my first day at ScottishPower, we have separated the  
10 transmission business from the generation business.  
11 We have separate lawyers, separate contracts.

12    Q   But now they must be separate sister  
13 corporate entities for ownership?

14    A   Yeah, I think that's reasonable.

15    Q   On the operation of the transmission  
16 system, UK has a national grid system, do they not?

17    A   England and Wales has a national grid  
18 system.

19    Q   And does your transmission system operate  
20 as a part of that national system?

- 21 A No, it does not. It is contracted to them.
- 22 Q It is contracted to them?
- 23 A We have -- we own and operate the
- 24 transmission business in the south of Scotland, i.e.,
- 25 ScottishPower, and we obviously exchange security and

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1 energy with users in England and Wales, and that is  
2 done through contracts with the National Grid Company  
3 who operate the transmission business in England and  
4 Wales.

5 Q Who has the operating authority to decide  
6 when a constraint exists on the transmission system  
7 under the new structure that results from this  
8 merger?

9 A The new structure will really be no  
10 different from the old structure in terms of the way  
11 the transmission business operates, although clearly  
12 there are discussions going on about the visibility  
13 of that, but basically the same people, transmission  
14 operators will declare constraints, and I said the  
15 constraints in Scotland are almost identical.

16 COMMISSIONER WHITE: Excuse me, Mr. Reeder.  
17 When you talk about this merger, are you talking  
18 about PacifiCorp/ScottishPower or are you talking  
19 about ScottishPower/Manweb or some prior transaction?

20 MR. REEDER: PacifiCorp/ScottishPower.

21 Q It's true, is it not, Mr. Richardson, to  
22 make the record clear, that as a condition for the  
23 approval of this merger by one set of UK regulators,  
24 you were required to ring fence the generation  
25 business separate from the transmission business?

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1 A I think I clarified that to you a few  
2 moments ago.

3 Q But it was as a result of the approval of  
4 this merger?

5 A I would really need to see the letter which  
6 I -- you're asking me to recall something that I read  
7 several months ago.

8 MR. FELL: Mr. Chairman, the details of  
9 this are addressed by our witness Graham Morris, and  
10 this is not the appropriate witness to go into the  
11 details of those conditions.

12 CHAIRMAN MECHAM: Can you wait for Mr.  
13 Morris, Mr. Reeder?

14 MR. REEDER: Oh, sure. Or we can clear it  
15 up now. I have the letter in front of me. It's  
16 fairly simple to let the witnesses look at the letter  
17 and the Commission look at the letter. The letter, I  
18 think, pretty much speaks for itself. We can resolve  
19 the debate with the letter, I think.

20 MR. FELL: I can assure you that's not

21 true.

22 MR. REEDER: Well, let's try and put the

23 letter in and see if the letter speaks for itself and

24 move from that topic.

25 CHAIRMAN MECHAM: All right. Why don't you

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1 distribute it. We'll go off the record for a  
2 minute.

3 (Discussion off the record.)

4 (Whereupon Cross Examination Exhibit 6 was  
5 marked for identification.)

6 CHAIRMAN MECHAM: Okay. Let's go back on  
7 the record. While off the record, we have  
8 distributed a letter to -- addressed to the Secretary  
9 of State, Honorable Stephen Byers, written by Charles  
10 A. Berry, Executive Director, from ScottishPower, and  
11 I also assured Mr. Fell that, to the degree Mr.  
12 Richardson is unable to fully address this document,  
13 that we will allow Mr. Morris, when he takes the  
14 stand, to do so as well. Mr. Reeder.

15 MR. FELL: Mr. Chairman, are we going to  
16 mark this exhibit? We've been marking them  
17 differently.

18 CHAIRMAN MECHAM: I'm sorry. If I didn't  
19 say so, we marked it as Cross Examination Exhibit 6.

20 MR. FELL: Exhibit 6. And, Mr. Chairman,



21 I'd like to lodge an objection to the line of cross  
22 examination we're undergoing here. If Mr. Reeder's  
23 purpose is to only demonstrate whether Mr. Richardson  
24 might be familiar with United States operations or  
25 regulation, that's one thing, but if his objective is

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1 to seek to drop into Utah the regulatory structure  
2 that exists in the United Kingdom, then I object to  
3 this line of cross examination if it's being used for  
4 that purpose.

5 CHAIRMAN MECHAM: All right. Well, it's  
6 noted on the record. Go ahead, Mr. Reeder.

7 Q (BY MR. REEDER) Mr. Richardson, do you  
8 have in front of you Cross Examination Exhibit No. 6?

9 A I do.

10 Q Are you familiar with that letter?

11 A Yes, I am.

12 Q And is it a letter dated -- it's dated 1  
13 April 1999?

14 A That's correct.

15 Q I had trouble with the date the first time  
16 I read it. And is this the letter that generally  
17 spells out the conditions that you and I have been  
18 discussing?

19 A Yes.

20 Q And is Condition No. 6 generally the

21 condition that you and I have been discussing?

22 A Yes, it is.

23 Q Thank you. Now, Mr. Richardson, was the

24 result in Paragraph No. 6 a result sought by

25 ScottishPower or a result resisted by ScottishPower?

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1 MR. BURNETT: Would you restate the  
2 question?

3 Q (BY MR. REEDER) I'm signalling your  
4 counsel that he may want to pay special attention to  
5 the question. Was the result sought here by  
6 ScottishPower a result welcomed by ScottishPower or  
7 resisted by ScottishPower?

8 MR. BURNETT: Which result are you talking  
9 about?

10 MR. REEDER: The result in Paragraph 6.

11 MR. FELL: I continue my objection. This  
12 is an objection about UK regulation and trying -- and  
13 the objective appears to be to drop UK regulation  
14 into Utah, and I think that is not relevant to this  
15 proceeding.

16 MR. REEDER: Quite the contrary, sir. The  
17 question is about corporate attitude and I'm  
18 attempting to establish what was the corporate  
19 attitude with respect to separation.

20 MR. FELL: We have also objected to

21 restructuring issues.

22 CHAIRMAN MECHAM: I'm well aware of that

23 and I'm sure we'll have plenty of argument about that

24 tomorrow.

25 MR. FELL: Mr. Richardson, proceed.

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1 THE WITNESS: Okay. ScottishPower operates  
2 a competent license. That is a license that covers  
3 generation, transmission and what you call retail.  
4 The transmission license is very clear in its reclaim  
5 that ScottishPower, as a transmission operator, must  
6 not discriminate. We take our license very seriously  
7 and we have done since its application to the  
8 Company, so moving in this direction actually was a  
9 pretty natural move for us. The businesses were  
10 effectively ring fenced as internal operations.

11 We take a view that they are the rules by  
12 which we must play, so it was a fairly natural move  
13 for us to agree that the generation business could be  
14 settled into a separate entity.

15 Q (BY MR. REEDER) When this condition was  
16 first -- when a condition similar to this was first  
17 initiated by the regulator, what was the response of  
18 ScottishPower?

19 A I think you need to be precise about just  
20 which initiation regulators with respect to the habit

21 of initiating all sorts of things to test reaction.

22 Q Did ScottishPower file comments with the  
23 regulator when the regulator proposed this condition,  
24 and if so, what did those comments say?

25 MR. BURNETT: I'm going to object to this.

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1 It is a confidential document. Obviously, that's why  
2 Mr. Reeder was pointing to me. If he wants to refer  
3 to the document in particular, then, you know, we'd  
4 be happy to pass it around. It's be reduced to a  
5 yellow document. Originally it was a pink document.  
6 If he wants to point to it and have everybody read it  
7 from counsel table and from the bar or the bench,  
8 then we can. If he wants to actually pursue the line  
9 and read it into the record, we'll have to clear the  
10 hearing room for it, and we can do it either way Mr.  
11 Reeder prefers.

12 MR. REEDER: I've simply asked for a  
13 statement of corporate attitude without trying to  
14 refer to the document, but to my colleagues from  
15 PacifiCorp and ScottishPower, I've agreed not to  
16 challenge the confidentiality, so I will ask for the  
17 attitude without the document, but I will use the  
18 document if they prefer. I would defer to them on  
19 how they want to handle it.

20 MR. FELL: We would prefer to let the



21 document speak for itself and put that in.

22 CHAIRMAN MECHAM: All right. Let's go off

23 the record just a minute.

24 (Discussion off the record.)

25 (Whereupon Cross Examination Exhibit 7,

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1 Proprietary, was marked for identification.)

2 (Whereupon Cross Examination Exhibits 4

3 and 5 were substituted and re-marked.)

4 (Recess, 10:25 a.m.)

5 (Reconvened, 10:49 a.m.)

6 CHAIRMAN MECHAM: Let's go back on the

7 record. During the recess, we substituted what we

8 had marked as Cross Examination 4. That was an

9 excerpt from the proxy statement. And Cross

10 Examination Exhibit 5, which was also an excerpt from

11 listing particulars, and we have marked as Cross

12 Examination Exhibit 4 the full document, which is the

13 proxy statement, and as Cross Examination Exhibit 5,

14 a full document entitled Listing Particulars Relating

15 to the Admission of Official List of -- and so on,

16 and we'll be using those documents as we go forward.

17 Let me ask, is there an objection to their

18 admission, Cross Examination Exhibits 4 and 5?

19 MR. REEDER: No objection.

20 CHAIRMAN MECHAM: All right. We'll admit

21 those. And then with respect to Cross Examination

22 Exhibit 6, is there an objection to that being

23 admitted?

24 MR. FELL: There's no objection to that.

25 CHAIRMAN MECHAM: All right. We'll admit

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1 that.

2 (Whereupon Cross Examination Exhibits 4, 5  
3 and 6 were received.)

4 MR. REEDER: And we may get Cross  
5 Examination Exhibit 7 solved at this moment. Mr.  
6 Burnett, would you stipulate that Cross Examination  
7 Exhibit No. 7 is an extract of a letter from  
8 ScottishPower to OFFER and this extract is in  
9 response to the question we just asked?

10 MR. BURNETT: It is a document from  
11 ScottishPower in response to the general offer of  
12 issues and it was offered in the United Kingdom on a  
13 confidential basis. That's why it's designated as  
14 confidential here. It's not been listed for public  
15 review in the United Kingdom, so that's why we  
16 thought we had to maintain its confidentiality here.

17 MR. REEDER: Would you stipulate to its  
18 admission?

19 MR. BURNETT: Yes.

20 MR. REEDER: With that stipulation, we'll

21 let the document speak for itself and not pursue  
22 further ScottishPower's attitude on this record.  
23 We'll just let the document speak for itself. Would  
24 that be acceptable, Mr. Burnett?  
25 MR. BURNETT: That's acceptable?

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1 MR. REEDER: Thank you.

2 CHAIRMAN MECHAM: All right. Then we'll  
3 admit Cross Examination Exhibit 7, as well, as a  
4 proprietary document.

5 (Whereupon Cross Examination Exhibit 7,  
6 Proprietary, was received.)

7 Q (BY MR. REEDER) Mr. Richardson, I  
8 understand we now have the opportunity to have a  
9 listing agreement which won't require one to strain.  
10 Do you have a copy of that one in front of you?

11 A I do.

12 Q Would you refer to page 119 of the listing  
13 agreement, please?

14 A I have it.

15 Q And page 119 begins with Paragraph B,  
16 summary of the principal terms and conditions of  
17 ScottishPower composite and second tier license and  
18 of Manweb's second tier licenses, et cetera?

19 A That's right.

20 Q And there it purports to summarize and

21 describe the licenses and the conditions of those  
22 licenses?

23 A Yes, it does.

24 MR. REEDER: Mr. Chairman, I understand  
25 that we were to defer questions with respect to the

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1 precise terms of the licenses to Mr. Morris, but this  
2 witness can identify that there are licenses and  
3 these are the principal terms of the licenses from  
4 this document, I trust.

5 CHAIRMAN MECHAM: Well, ask him.

6 MR. REEDER: I was waiting for counsel to  
7 respond over there because he --

8 MR. FELL: Well, we will stipulate to that,  
9 that there are licenses and these are principal terms.

10 MR. REEDER: And this is a summary of those  
11 principal terms?

12 MR. FELL: This is a summary of the  
13 principal terms contained in this document. I just  
14 don't know -- I can't personally certify that there  
15 are no other principal terms.

16 THE WITNESS: If I could just say that the  
17 license -- ScottishPower license is -- the document  
18 is larger than this document, so --

19 MR. REEDER: Larger. I've read it.

20 CHAIRMAN MECHAM: All right. So have we



21 gotten through that?

22 MR. REEDER: I don't know. We're going to

23 try right now.

24 Q Mr. Richardson, would it be fair to say

25 that this is a summary of the licensing terms and

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1 conditions, to the best of your knowledge?

2 A I think, as Mr. Fell says, it is a summary.

3 It was written for this audience, obviously.

4 Q It is written for the audience of the

5 stockholders of ScottishPower?

6 A That's correct.

7 Q And these would be the terms and conditions

8 of the license then that would be material for a

9 stockholder to know?

10 A That is the spirit in which the document

11 was produced, yes.

12 Q For examination with respect to the --

13 well, foundation question. Were these license terms

14 and conditions, as you understand them, modified as a

15 result of the acquisition of PacifiCorp?

16 A These -- this purports to be the license

17 conditions as they exist. The letter we discussed

18 earlier allowed OFFER, the British regulator, to

19 secure ScottishPower's agreement to further changes

20 which were already in the process of being

21 negotiated, as I think you can see through the yellow  
22 sheet. Those changes were being negotiated through  
23 to other consultations, not just the utility review,  
24 and the -- well, I think essentially the utility  
25 review. The other one is not mentioned in the

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1 letter. But basically consultation was ongoing and  
2 OFFER have taken opportunities such as this to just  
3 progress that.

4 Q Mr. Richardson, are you familiar with the  
5 conditions that were opposed by OFFER as additions to  
6 these conditions, those shown on -- summarized on  
7 page 19 as a result of this transaction?

8 A That's a pretty complex area because, as  
9 I've said, there are three consultations which have  
10 been going on, I mean, two definite, plus this merger  
11 approval, and Mr. Morris is definitely well rehearsed  
12 to give you precise answers on that.

13 Q Mr. Morris will be the person to whom we  
14 should direct the questions concerning the new  
15 conditions added as a result of this transaction?

16 A That's correct.

17 MR. FELL: Mr. Chairman, there's a premise  
18 that they were added as a result of this transaction  
19 and it's that clause that's causing the witness  
20 problems and will be discussed by Mr. Morris.

21 CHAIRMAN MECHAM: All right. We'll take

22 that up when Mr. Morris comes to the stand.

23 MR. REEDER: Thank you.

24 Q Mr. Richardson, why does that give you

25 pause that they were added as a result of this

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1 transaction?

2 A Well, I think the reason I'm sort of  
3 hesitant, if you like, is I detect in your tone the  
4 implication that we had to have those conditions  
5 placed around us in order to be sure of something  
6 about this merger. That is not the case. This  
7 merger has no impact on UK operations or UK  
8 competition or UK market power. What the regulator  
9 was doing in this instance is to pick up on  
10 discussions in consultations that were already well  
11 in progress, and I was involved in them myself before  
12 I left the UK, but those discussions were well in  
13 progress, and if you look at what the regulator in  
14 Britain is doing, he is taking the opportunity as  
15 transactions such as this or Eastern Electricity's  
16 acquisition of new generation from Powergen or the  
17 merger of Southern Electricity with Scottish  
18 Hydroelectricity. Each of those transactions have  
19 presented the opportunity to develop new license  
20 conditions that sort of help him take forward this

21 utility review consultation.  
22 I think that's the way regulators work. I  
23 think he's taken these opportunities while everyone  
24 is focused on the moment. Are you going to do this  
25 or aren't you. And, you know, this is simply a part

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1 of that normal regular transaction, so that is why  
2 I'm uncomfortable.

3 Q You would normally expect that a  
4 transaction would give rise to new conditions, then?  
5 I think it's anything --

6 MR. FELL: Mr. Chairman, we'd like to --  
7 this is all being deferred to Mr. Morris and we're  
8 going to bog down over this.

9 MR. REEDER: Fair enough. We'll defer to  
10 Mr. Morris.

11 Q Mr. Richardson, look at page 11 of the  
12 listing particulars if you would, please.

13 A Okay.

14 Q There on Paragraph 10 there's reference to  
15 share buyback.

16 A Correct.

17 Q Can you describe that for me, please?

18 A Well, what it proposes is that between the  
19 shareholder votes and prior to the merger date, i.e.,  
20 closure of the merger, ScottishPower will undertake



21 to acquire -- buy back up to 500 million pounds worth  
22 of its share.  
23 Q Can you translate the pound number into  
24 U.S. dollar number? How many shares of ScottishPower  
25 do you propose to buy back after this transaction is

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1 approved but before it's consummated?

2 A Well, if you said it was approximately five  
3 pounds a share, that's 100 million shares.

4 Q How many dollars?

5 A You're testing my math. It's about \$800  
6 million.

7 Q Is it the case that there was proposed a  
8 share buyback for PacifiCorp in October of 1998?

9 A I believe that to be the case, yes.

10 Q And to your knowledge --

11 MR. FELL: I beg your pardon. Did I hear  
12 you say October of 1988?

13 CHAIRMAN MECHAM: No, '98.

14 MR. FELL: '98? Thank you.

15 MR. REEDER: I hope I said '98.

16 CHAIRMAN MECHAM: You did. It was '98.

17 Q (BY MR. REEDER) Mr. Richardson, are you  
18 generally familiar with that share buyback scheme?

19 A Not really. I think the question would be  
20 much better dealt with my Mr. O'Brien.

21 Q Do you know the magnitude of that share

22 buyback scheme?

23 A I actually couldn't recall it, no.

24 Q Do you know whether that share buyback

25 scheme has been cancelled or withdrawn?

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1 A I really don't know. It's a matter for  
2 PacifiCorp and its board.

3 Q Do you know where the cash that was to be  
4 used for that share buyback scheme now goes?

5 A No, I don't.

6 Q Mr. Richardson, what is a windfall tax?

7 A In the context of as applied to utilities  
8 in -- do you have a page where it's referred to?

9 Q The exhibit to your testimony, page 19,  
10 same page we were referring to earlier this morning.

11 A Okay.

12 Q Do you have that page in front of you?

13 A I have that.

14 Q Do you see the reference to windfall?

15 A Yes.

16 Q What is the windfall tax referenced there?

17 A In that context, the windfall tax is  
18 something that the present government levied on  
19 electricity, water and gas utilities. I'm not sure  
20 about gas, but I'm pretty sure. To -- in order to

21 call back some of the windfall profits enjoyed by  
22 electricity companies. Well, the utilities -- those  
23 utilities since privatization.

24 Q Was it levied largely as a result of the  
25 windfall profits on the electric side?

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1 A No. I mean, it was balanced across the  
2 three sectors I've discussed.

3 Q Did ScottishPower have a windfall tax  
4 liability?

5 A Well, I think you can see there that -- I  
6 think that's a number of 317 million pounds, so  
7 that's a liability, I would guess.

8 Q Is that the total amount of ScottishPower's  
9 liability for windfall taxes?

10 MR. FELL: For clarification, we're  
11 talking about the ScottishPower consolidated? That's  
12 what this reports.

13 THE WITNESS: This includes Southern Water,  
14 in fact. Sorry. I mean, I've seen a lot of numbers  
15 in the last eight months, but I'm pretty sure that is  
16 317 million total amount.

17 Q (BY MR. REEDER) Can you help us understand  
18 how much of that arose from windfall profits on the  
19 electric side of the UK earned by ScottishPower?

20 MR. FELL: Objection. This is clearly Mr.

21 Morris. There's no way that Mr. Richardson would

22 know the details of the financial exhibits.

23 Q (BY MR. REEDER) Mr. Richardson, can you

24 tell me or do you want me to defer that to Mr. Morris?

25 A No. It would be testing my memory to the

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1 point that I much prefer Mr. Morris. He could answer  
2 that with precision.

3 Q Can you tell me what led to the imposition  
4 of the windfall tax?

5 MR. FELL: This is Mr. Morris again. Mr.  
6 Chairman, we have tried to establish that Mr. Morris  
7 will answer the financial questions. He's the  
8 financial witness and he --

9 CHAIRMAN MECHAM: Correct. All right. He  
10 will.

11 MR. REEDER: I'm asking about the concerns  
12 of the taxing authority. I'm not asking about a  
13 number.

14 Q Do you know the concerns of the taxing  
15 authority that led to the imposition of the tax, Mr.  
16 Richardson?

17 A I mean, this was a government initiative.  
18 It was brought in as part of the new government's  
19 manifesto. I'm not so sure it was something that was  
20 led by the taxing authority.



21 Q Mr. Richardson, what strategies or tactics  
22 were available to ScottishPower to reduce or minimize  
23 this exposure windfall taxes?

24 MR. FELL: Objection. Mr. Morris.

25 CHAIRMAN MECHAM: Well, let's -- if you

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1 believe it's Mr. Morris that should answer it, say  
2 so, Mr. Richardson.

3 THE WITNESS: Well, basically, because it  
4 was historic, we weren't able to invoke any  
5 strategies or tactics. It was a straightforward tax  
6 applied at the discretion of those who decided the  
7 tax.

8 Q (BY MR. REEDER) What would have happened  
9 if you had reduced your price to customers, Mr.  
10 Richardson?

11 A When we were charging those customers, we  
12 had no idea there would be a windfall tax down the  
13 road. That's the nature of utility businesses.

14 Q The windfall tax came as a surprise to you?

15 A Not at all.

16 Q How much notice did you have that the  
17 windfall tax was coming?

18 A Well, as I've said, it was declared very  
19 clearly in the labor party manifesto, so if you're  
20 pressing your books the right way, you would

21 anticipate it.

22 Q When it became clear in the labor party

23 manifesto, did you seek to reduce your prices to

24 minimize the exposure to this windfall tax?

25 A No. We have a business to run. Tax is

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1 something that is a treatment of the results you  
2 achieve, I would put it, and I think you are  
3 definitely getting to the areas of Mr. Morris'  
4 expertise.

5 CHAIRMAN MECHAM: If that's true, just say  
6 so and we'll go to Mr. Morris.

7 Q (BY MR. REEDER) Let's move to page 107 of  
8 the listing particulars, please. You see a Note B?

9 A Yes.

10 Q Does that note describe this transaction?

11 A I think you would do much better to refer  
12 that one to Mr. Morris.

13 Q I'm just asking your knowledge, sir. Does  
14 this describe the subject transaction?

15 CHAIRMAN MECHAM: He deferred it to Mr.  
16 Morris, so that's what we'll do.

17 Q (BY MR. REEDER) Do you have any knowledge  
18 of the matter?

19 CHAIRMAN MECHAM: I'm sure he has some,  
20 but let's defer that to Mr. Morris.

21 Q (BY MR. REEDER) If I may pursue the

22 question, the question is --

23 MR. FELL: There's been a ruling on this.

24 CHAIRMAN MECHAM: If he says that Mr.

25 Morris is the witness to answer it, then you'll defer

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1 it to Mr. Morris.

2 Q (BY MR. REEDER) Mr. Richardson, will

3 goodwill arise from this transaction?

4 A I understand it will.

5 Q Mr. Richardson, what's the practice of

6 ScottishPower with respect to the amortization of

7 goodwill that will arise from this transaction?

8 A That question is definitely for Mr.

9 Morris. And he will answer it fully, I'm sure.

10 Q I'm sure that he will. Mr. Richardson, as

11 a businessman, what impact would the amortization of

12 that goodwill have on your earnings?

13 A You know, that's -- I understand that that

14 is quite a technical question. I far prefer in a

15 public hearing like this that that question is

16 answered by an expert, and that is Mr. Morris.

17 Q Mr. Morris will be prepared to tell us what

18 the impact on your earnings will be and what the

19 earnings expectation of your investors will be on the

20 amortization of that goodwill?

21 A I think he will --

22 MR. FELL: Mr. Morris will respond to that

23 question.

24 CHAIRMAN MECHAM: Okay. It's clear to me.

25 Q (BY MR. REEDER) Mr. Richardson, we'd ask

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1 that you remain available until we finish that  
2 examination so that we're sure we have answers to  
3 those questions.

4 A No problem.

5 Q Mr. Richardson, in the purchase price of  
6 ScottishPower there is a significant premium paid for  
7 the shares, is there not?

8 A I'm sorry. Is that 107 or are you just --  
9 in general?

10 Q You were going to make Mr. Morris read the  
11 listing particulars. We'll make him read the listing  
12 particulars. The question to you, sir, is: Is there  
13 a premium?

14 A There is a premium, yes.

15 Q Sir, what is that premium?

16 A It would depend how you define it, but it's  
17 something between 15 and 25 percent.

18 Q Fifteen to 25 percent over book value?

19 A You're getting technical.

20 Q Is it 15 to 25 percent over book or over



21 market?

22 A I'm sorry. If you really want to go into  
23 precision of the definition, and I understand there  
24 are at least three definitions of premium, then you  
25 want to pursue that with Mr. Morris. In principle,

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1 there is a premium.

2 Q Isn't it true, Mr. Richardson, that you are  
3 paying a sum for the shares of PacifiCorp in value of  
4 ScottishPower shares which value exceeds the market  
5 value for those shares?

6 A That is true, and I would suggest that's  
7 perfectly normal for a merger process.

8 Q And isn't it true that the value on the day  
9 that the -- approximate day the transaction was  
10 announced of the premium in excess of market was  
11 someplace between 25 and 26 percent?

12 A I cannot agree to that. I mean, I --

13 Q You don't know or you can't agree to the  
14 percentage?

15 A Back to the definition. You say someday  
16 about the time of the merger being announced, and  
17 there are also different ways of defining premium.  
18 I'm sure Mr. Morris would give a very precise  
19 statement of what the premium was on the day of  
20 announcement.

21 Q Mr. Richardson, would you refer yourself to  
22 the cross examination exhibit that is the proxy  
23 statement of PacifiCorp.

24 CHAIRMAN MECHAM: That is 4.

25 Q (BY MR. REEDER) Are you generally familiar

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1 with this document?

2 A Yes.

3 Q Would you please refer to page Roman  
4 numeral 5, please?

5 MR. FELL: Mine only goes to 4.

6 THE WITNESS: So does mine.

7 MR. FELL: Is this the questions and  
8 answers about --

9 MR. REEDER: The first question and answer,  
10 yes.

11 THE WITNESS: The questions and answers  
12 about the merger; is that right?

13 MR. REEDER: Page one?

14 THE WITNESS: Opposite 4.

15 CHAIRMAN MECHAM: It must be page one.

16 MR. REEDER: Must be page one? Very good.

17 Q Would you refer to page one?

18 A I have it.

19 Q Read the second paragraph of the first  
20 answer.

21 MR. FELL: Mr. Chairman, the document  
22 speaks for itself. Whether there's an explanation or  
23 a difference related to this will have to go to Mr.  
24 Morris, and, frankly, I object to this tactic of  
25 trying to demonstrate that Mr. Richardson is not a

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1 financial expert. He's not. We'll stipulate to  
2 that.

3 CHAIRMAN MECHAM: Yeah, and he said so.  
4 Where do you want to go with this second paragraph,  
5 Mr. Reeder?

6 MR. REEDER: I need to establish the 26  
7 percent premium over market value at the time.

8 Q Isn't that true, Mr. Richardson? There's a  
9 26 percent premium over market value at the time? We  
10 can quarrel about it, but I think that's what it  
11 says.

12 A Yeah, okay.

13 MR. FELL: That is what the document says.

14 CHAIRMAN MECHAM: Okay.

15 Q (BY MR. REEDER) Now, you understand that's  
16 the facts? You don't quarrel --

17 MR. FELL: Object to that form of  
18 question. That's what the document says. That's  
19 what we've stated.

20 Q (BY MR. REEDER) Mr. Richardson, does this

21 document truthfully and accurately and without  
22 failing to state a material fact declare a premium or  
23 not?  
24 MR. FELL: Objection. Mr. Richardson is  
25 not an officer of PacifiCorp, to start with, and

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1 we're dealing with a PacifiCorp proxy statement. He  
2 is not the witness to be answering technical  
3 questions like that.

4 CHAIRMAN MECHAM: So you're saying Mr.  
5 O'Brien should field this question?

6 MR. FELL: Mr. O'Brien might answer this,  
7 yes. He is the one to talk to about this.

8 CHAIRMAN MECHAM: Well, the document  
9 does --

10 MR. REEDER: I don't see why we can quarrel  
11 with the document, sir.

12 MR. FELL: If we don't have to quarrel with  
13 it, then I would be happy with that. We need not  
14 quarrel about it, and that's what Mr. Reeder is  
15 doing.

16 CHAIRMAN MECHAM: May I ask what you're  
17 doing?

18 MR. HUNTER: Mr. Chairman, PacifiCorp would  
19 be happy during the time that Mr. O'Brien is on the  
20 stand to answer questions about the PacifiCorp



21 costing statement.

22 Q (BY MR. REEDER) I'm sorry. It's

23 ScottishPower that's paying the price. Are they

24 paying a price over market value or not? Can we have

25 a straight answer to that question?

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1 A The power plan says what it says. I'm  
2 quite sure that is right in the context of how this  
3 is written. I'm not a financial expert.

4 Q And do you have an approximate dollar  
5 amount of this premium that you're paying that you  
6 don't know about as a financial expert? I'm sorry.  
7 That was an unfair question. Do you have an  
8 estimation of the dollar amount of the premium, Mr.  
9 Richardson?

10 A The premium varies with stock pricing. My  
11 understanding is it varies between a half a million  
12 dollars and something like 1.6 billion dollars.

13 Q It varies because of the stock price of  
14 ScottishPower?

15 A Depends how you represent the premium, but  
16 it varies depending on the stock price of  
17 ScottishPower and PacifiCorp.

18 Q It is variable because of stock prices  
19 then?

20 A Yes.

21 Q Now, do we understand the purchase price

22 represents a premium over book value?

23 A Yes, it does.

24 Q Can you help us understand what the premium

25 over book value might represent?

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1     A   I think I can. You're into technical  
2   areas, you know, which it would be improper for me to  
3   even begin to answer those questions on behalf of the  
4   Company.

5     Q   Do you have an estimation of what you at  
6   ScottishPower are paying for the value over book of  
7   the assets of PacifiCorp?

8     A   It will be a similar range, 500 to 1600  
9   million dollars. Depends.

10    Q   That, sir, is the value over market of the  
11   shares. What's the value over book?

12    A   I'm sorry. I really would be operating on  
13   recall and I'm way out on my own expertise. Far  
14   better represented to either Mr. O'Brien or Mr.  
15   Morris. Both will be prepared to deal with it.

16    Q   Is it fair to conclude, no matter what the  
17   number is, that you're paying a substantial premium  
18   over book?

19    A   That is true, and I believe that is  
20   normal.

21 Q Okay. Now, as you're paying this premium  
22 over market and over book, you're buying assets that  
23 are regulated today, aren't you?

24 A We are.

25 Q And you're coming from an environment where

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1 competition exists, aren't you?

2 A Yes. We're coming as an experienced  
3 utility operator.

4 Q In a competitive environment?

5 A Presently in a competitive environment,  
6 still highly regulated.

7 Q But your customers have choice except when  
8 they choose not to exercise choice?

9 A That has been a very recent development,  
10 yes.

11 Q So you're familiar with it?

12 A Absolutely.

13 Q And you understand, sir, that the U.S.  
14 market is moving at various paces toward a  
15 competitive environment, don't you?

16 A The U.S. market has many more complexities  
17 than the British market, but you can perceive  
18 movement, yes.

19 Q But you can understand that these assets  
20 will sooner or later be exposed to competition, can't

21 you?

22 A Which assets?

23 Q PacifiCorp assets.

24 A I don't think all of PacifiCorp's assets

25 will be exposed to competition.

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1 Q Would you expect that their customers would  
2 have choice?

3 A I cannot prejudge.

4 Q Are you buying into this market, sir, with  
5 the belief that competition will not exist in this  
6 market at any time in the foreseeable future?

7 A Not at all. I've said to this Commission  
8 and others and other audiences many times that we're  
9 not carrying a banner for deregulation or  
10 competition. We do bring a lot of experience and I  
11 think that experience will be valuable and relevant,  
12 but we will be one voice among many in what I  
13 perceive to be a pretty complex set of circumstances  
14 as the U.S. tries to find its way forward in the  
15 issues of choice, deregulation and restructuring.  
16 It's very complex. We're able players and we will  
17 contribute to that in a very meaningful way, but  
18 that's all we will do. We will contribute to it and,  
19 just like the UK, the rules will evolve and we will  
20 play by those rules.



21 Q Will you support and encourage

22 restructuring of the U.S. electric market?

23 A We are getting ourselves up to speed

24 presently with NOPRs and FERC's consultation and we

25 bring, I think, relevant experience from Britain and

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1 that allows us to understand some of the special  
2 circumstances or these special circumstances that  
3 exist in the U.S.

4 Q Your reference to NOPR, sir, was reference  
5 to the rulemaking from the FERC with respect to the  
6 formation of regional transmission organizations?

7 A That's correct.

8 Q Those comments are due when, sir?

9 A My understanding is it's August the 16th.

10 Q And will ScottishPower be filing comments  
11 in that rulemaking?

12 A No, we will not.

13 Q Has ScottishPower participated in the  
14 formation of PacifiCorp comments?

15 A We are trying to get ourselves up to speed  
16 so we can understand the PacifiCorp comments.

17 Q Do you have a corporate policy with respect  
18 to the development of RTOs, and if so, what is that  
19 corporate policy?

20 A We don't have a corporate policy.

21 Q You have no corporate policy with respect

22 to RTOs?

23 A No.

24 Q What advice and direction are you giving to

25 PacifiCorp with respect to the formation of RTOs?

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1     A   I think our disposition is to be  
2 progressive as a utility. I think the word  
3 "progressive" needs definition because it probably  
4 has quite different meanings in Utah or even from  
5 Oregon, but certainly from the UK, I think, but  
6 basically we perceive that people want change. They  
7 want to progress towards some kind of better  
8 marketplace, and we support that. If you look at  
9 what we have done in Britain, we have been right at  
10 the front of the restructuring process. The reason  
11 for that was that the Electricity Act in 1989 it was  
12 very clear that the industry would deregulate in  
13 1998, so we had nine years' warning and we worked  
14 diligently to make sure that that deregulation was  
15 well delivered.

16           There were many working parties. Mr.  
17 Marron sitting out there actually led one of the  
18 major working parties in Britain for the development  
19 and delivery of deregulation, so we are not shy about  
20 stepping forward on these matters. There are

21 principles -- as investors as utilities and as people  
22 are concerned about customers, there are principles  
23 that, you know, we would stand for and we would  
24 represent very clearly in the discussions that went  
25 forward, so basically we will be willing participants

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1 in the development of the markets in the west of the  
2 U.S., but we will be one participant amongst many.  
3 In this state, for example, the legislature itself  
4 has a very close interest in that subject.

5 Q You described yourself at the front in the  
6 UK. Indeed, ScottishPower was among the first  
7 distribution companies to open their market to the  
8 customers, were they not?

9 A ScottishPower and Manweb, yeah. 3.1  
10 million customers.

11 Q Can we expect the same behavior of  
12 ScottishPower's affiliate, PacifiCorp, in the U.S.?

13 A I'm not quite sure what you mean the same  
14 behavior. If you mean taking a positive and leading  
15 position in the developments of markets that can be  
16 made to work to the benefit of customers in a  
17 sustainable way, I would say yes, very definitely.

18 Q Will you be among the first to open your  
19 markets?

20 A I really -- I mean, I -- there's no

21 framework into which I can plug the answer for that.

22 I think I've given you a very clear answer about the

23 disposition of ScottishPower towards operating the

24 electric utility to the benefit of customers.

25 Q If I were to represent to you that

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1 PacifiCorp was a major participant in the formation  
2 of a regional transmission organization known as  
3 INDEGO, would you be familiar with the subject matter  
4 of which I speak?

5 A I'm familiar with the name, and, to be  
6 honest, not very much more than that.

7 Q If PacifiCorp were and did indeed have the  
8 role that I have represented to you, would  
9 Scottish -- would PacifiCorp under ScottishPower's  
10 ownership change its attitude and direction?

11 A Well, you presume I know the history. I  
12 don't know the history. What I would say is that  
13 ScottishPower would develop very clear principles,  
14 attitudes, statements, whatever, and we would  
15 communicate those in order to help people like this  
16 Commission, the FERC and others, legislatures,  
17 whatever, to understand just what the issues were to  
18 help bring about a good solution for the  
19 marketplace.

20 I think it's very important that we have



21 good market that, you know, will deliver sustainable  
22 benefits to customers. You cannot simply, you know,  
23 jump and say we'll do this. It's got to be good, I  
24 think. We got here after 90 years of utility  
25 development in Utah, and I think you have to work

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1 very carefully, very professionally, and probably  
2 patiently, to develop the right kind of solution  
3 going forward.

4 Q Mr. Richardson, you're leaving with the  
5 impression that ScottishPower will not be first in  
6 the market.

7 A I didn't give you that impression.

8 Q Do you intend to leave that impression?

9 A You're putting words in my mouth. My  
10 problem with your statement is you haven't defined  
11 what that market might be. What I've said is we will  
12 be right at the front in developing that market in  
13 such a way that that market can work for all players  
14 to the benefit of customers as well as shareholders  
15 and it can be sustained. That is very, very  
16 important.

17 Q Will you be in the front of encouraging  
18 regulatory and legislative reform?

19 A I'm not sure the answer to that question is  
20 yes. I think if we got the debate right, that form

21 will not surely follow at a good pace. I'm quite  
22 sure, for example, if we knew what the market  
23 solution was and we knew we had sustainable benefit,  
24 the legislature and the FERC would pass the necessary  
25 legislation very quickly, and that is our thrust.

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1 Q You enjoy the benefits of a competitive  
2 market in the UK?

3 A I think it's healthy, yes.

4 Q Would you prefer competition to regulation?

5 A I am a natural competitor. I come from a  
6 competitive environment.

7 Q Would you resist the introduction of  
8 competition in the U.S. if you're a natural  
9 competitor?

10 A You're using the word "resist." I've used  
11 the word "progress."

12 Q We shall have this conversation further.

13 A I'm sure we will.

14 CHAIRMAN MECHAM: You mean somewhere out of  
15 our presence?

16 Q (BY MR. REEDER) Mr. Richardson, are you  
17 willing to accept the impact of the introduction of  
18 competition on PacifiCorp?

19 A We've been absolutely consistent that we've  
20 said that whatever the rules are, we will play by the

21 rules, and if those rules include competition, then  
22 we will compete. You know, part of what we want to  
23 do with PacifiCorp is really get it fixed to be the  
24 low cost provider, and in my mind, if you get  
25 yourself there, then whether you're regulated or

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1 competitive, you know, that's a pretty good position  
2 to be as a company and indeed as a customer of that  
3 company.

4 Q You recognize, sir, that the introduction  
5 of competition may diminish your ability to earn at  
6 the rate that you're now earning or it may enhance  
7 it, do you not?

8 A Well, that's the nature of competition.

9 Q And you're willing --

10 A The game is to win.

11 Q And you prefer that model or are willing to  
12 accept the impact of that on PacifiCorp?

13 A We're willing to accept the impact of that  
14 on PacifiCorp. I would emphasize again the framework  
15 is important.

16 Q Mr. Richardson, what are the transaction  
17 costs of ScottishPower in connection with this  
18 matter?

19 A I think you had an argument on Monday with  
20 Mr. Wright about the exact number. Subject to

21 correction, I believe it's something like \$250

22 million.

23 Q And of that \$250 million, was there a

24 payment to Morgan Stanley?

25 A Yes, there would be.

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1 Q Can you tell us the approximate amount of  
2 that payment to Morgan Stanley?

3 A No, I couldn't.

4 Q If on this record it should develop that  
5 the payment to Morgan Stanley was about \$36 million,  
6 would you have an objection to that?

7 A No. That might be the sort of number,  
8 yes.

9 Q Can you tell me how the payment to Morgan  
10 Stanley compares with the rate guarantee in Utah?

11 A We have said that all transaction costs  
12 will be below the line.

13 Q You've got a \$48 million rate guarantee in  
14 Utah and you paid Morgan Stanley \$36 million for a  
15 fairness opinion, sir?

16 A That's business.

17 MR. REEDER: The next line of examination  
18 requires some documents that Mr. Burnett has in his  
19 custody that, unfortunately, are colored. Mr.  
20 Burnett, how would you wish to proceed?



21 MR. BURNETT: I would wish to proceed with  
22 the witnesses that can actually answer questions on  
23 the pink documents, rather than have you parade them  
24 in front of the witnesses that do not have any  
25 knowledge of the pink documents so that we can get on

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1 with this procedure.

2 MR. REEDER: Thank you for the speech, and  
3 now can we determine whether this witness has that  
4 knowledge of his own?

5 MR. FELL: Would we like to go off the  
6 record and take a look -- I need to take a look at  
7 the documents.

8 CHAIRMAN MECHAM: That's a good idea.  
9 Let's go off the record and take a look.

10 (Discussion off the record.)

11 (Recess, 11:30 a.m.)

12 (Reconvened, 11:52 a.m.)

13 (Whereupon Cross Examination Exhibits 8, 9,  
14 10, 11 and 12, Proprietary, were marked for  
15 identification.)

16 CHAIRMAN MECHAM: Okay. Let's go back on  
17 the record.

18 MR. FELL: May we start with procedures?

19 CHAIRMAN MECHAM: Yes.

20 MR. FELL: As I understand it from Mr.

21 Reeder, he has some confidential documents that he  
22 would like to have identified and lay some foundation  
23 for. The appropriate witness to do that is Mr.  
24 MacRitchie, and we have him with us here so that we  
25 don't get any confusion about the description of

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1 what's being identified, and so what we would propose  
2 is that Mr. MacRitchie be sworn in and if he'd just  
3 handle this foundation question, and then we can get  
4 back to Mr. Richardson.

5 CHAIRMAN MECHAM: Let's do that. Mr.  
6 MacRitchie?

7 MR. REEDER: That is their stipulation.

8 CHAIRMAN MECHAM: Okay.

9 ANDREW N. MacRITCHIE  
10 called as a witness and sworn, was examined and  
11 testified as follows.

12 CHAIRMAN MECHAM: You may want to state  
13 your full name for the record and perhaps spell it  
14 for the court reporter.

15 THE WITNESS: Andrew N. MacRitchie.  
16 MacRitchie is spelled capital M-A-C, capital  
17 R-I-T-C-H-I-E.

18 CHAIRMAN MECHAM: Okay. Mr. Reeder.

19 MR. REEDER: Shall I examine him, counsel?

20 MR. FELL: Yes, please.

21 EXAMINATION

22 BY MR. REEDER:

23 Q Mr. MacRitchie, directing your attention to  
24 the prospectus of PacifiCorp -- do you have that  
25 document?

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1 A Yes, I do.

2 Q In there, sir, there is made reference to  
3 a -- on page 51 -- an analysis done by Morgan Stanley  
4 at the behest of ScottishPower. Can you see that  
5 page?

6 A Yes, I do.

7 Q Are you familiar with that analysis?

8 A I am.

9 CHAIRMAN MECHAM: And just to be clear,  
10 we're looking at Cross Examination Exhibit 4, page  
11 51.

12 MR. REEDER: Yes, sir.

13 Q In there, sir, it makes reference to two  
14 cases presented by the management of ScottishPower to  
15 Morgan Stanley to assist them in their evaluation?

16 A That's correct.

17 Q Sir, do you have in front of you  
18 Confidential Exhibits 8, 9, 10, 11 and 12?

19 A I do.

20 Q And so that we have it clear on the record

21 how these documents relate together and what they  
22 are, would you please describe to me what they are  
23 and how they fit with this statement in these proxy  
24 statement.

25 MR. FELL: Please proceed.

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1 THE WITNESS: Exhibit 8 is the presentation  
2 made by Morgan Stanley to the ScottishPower PLC  
3 board. Exhibits 9, 10, 11 and 12 are management  
4 studies referred to in the proxy statement that were  
5 provided to Morgan Stanley as part of their  
6 preparation for that board presentation.

7 MR. REEDER: Counsel, it's your stipulation  
8 that these are documents referred to and we can offer  
9 them to the Commission on that representation?

10 MR. FELL: Yes.

11 MR. REEDER: Very well.

12 CHAIRMAN MECHAM: Okay. Now, for  
13 identification purposes, 8 has on the front page,  
14 Project Jet. Nine is a response to UIEC 16.9. Cross  
15 Examination Exhibit 10 is a response to UIEC 16.10.  
16 Cross Examination Exhibit 11 is a response to UIEC  
17 18.1(a), and Cross Examination Exhibit 12 is response  
18 to UIEC 18.2(a).

19 MR. REEDER: Counsel, can they be made a  
20 part of the record on that, and we'll defer



21 examination to another witness at another time?

22 MR. FELL: Yes, that's correct, and we'd

23 like them all designated proprietary.

24 CHAIRMAN MECHAM: They are and they will be

25 separated from the rest of the record in this case.

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1 MR. REEDER: I have no objection to them  
2 being marked proprietary, of course.

3 CHAIRMAN MECHAM: All right. Then we'll  
4 admit them as we've identified them. That's Cross  
5 Examination Exhibit 8 through 12.

6 (Whereupon Cross Examination Exhibits 8, 9,  
7 10, 11 and 12, Proprietary, were received.)

8 MR. REEDER: With the stipulation of the  
9 admission of these documents, I have no further  
10 questions of Mr. Richardson.

11 CHAIRMAN MECHAM: Mr. Mattheis or Mr.  
12 Dodge?

13 MR. MATTHEIS: No questions, your Honor.

14 CHAIRMAN MECHAM: Thank you. Mr. Dodge?

15 (Mr. Richardson back on the stand.)

16 CROSS EXAMINATION

17 BY MR. DODGE:

18 Q Good morning, Mr. -- good afternoon  
19 almost, Mr. Richardson. How are you?

20 A Good morning, Mr. Dodge. I am well.

21 Q Mr. Richardson, some intervenors and others  
22 have expressed some concern that, to a certain  
23 extent, ScottishPower is asking for approval of this  
24 merger without showing before the fact what it thinks  
25 it can do for the benefit of the ratepayers in the

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1 long term. Do you recognize that as a legitimate  
2 concern?

3 A No, I don't.

4 Q You've indicated that, until you filed a  
5 transition plan, or your witnesses, and your  
6 testimony, I believe, and have a chance to analyze  
7 that, it's premature to kind of spell out exactly  
8 what you hope to do, but are you not familiar with a  
9 number of other mergers that have gone on, both in  
10 the UK and the U.S. where exactly those kinds of  
11 plans and proposals have been presented as part of  
12 the approval process?

13 A Well, we're talking about this merger and  
14 this proposal, and I think as I said in my summary,  
15 that over a range of commitments we have removed risk  
16 and we've made very clear commitments, indeed which  
17 can be measured in dollars that demonstrate, we  
18 believe, that we have surpassed the standard required  
19 here in Utah to approve the merger.

20 Q Until we actually see the transition plan

21 and then the results of what ScottishPower does in  
22 implementing that, the only thing in terms of cost  
23 reductions that the customers can be assured of is  
24 the 12 million assured for four years; is that right?  
25 A Yes; that's correct.

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1 Q In other words, there's no commitments  
2 beyond that level, beyond the four years, other than  
3 your commitment that you think you can get more?

4 A That's true.

5 Q Do you recognize it as a legitimate concern  
6 that those numbers, although big to most of us -- 12  
7 million a year is a lot of money -- but those numbers  
8 compared to the acquisition premium being paid to  
9 PacifiCorp shareholders and even the money being paid  
10 to lawyers and analysts in the transaction, that it  
11 doesn't seem like a lot of dollars are guaranteed to  
12 ratepayers?

13 A I think you can have all sorts of ratios.  
14 I think \$48 million is a lot of money. 1.7 percent  
15 is a material reduction on rates, and I stand by my  
16 position that we've demonstrated very clearly  
17 benefits in this merger.

18 Q You also, presumably, recognize that, to  
19 customers, the 1.7 percent reduction over four years,  
20 although perhaps not insignificant, also is a fairly

21 small number compared to the types of price increases  
22 they may be facing? It may have nothing to do with  
23 ScottishPower, I'm not suggesting they do, but the  
24 kind of price increases that was testified to  
25 yesterday that may be requested?

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1     A   I think, you know, there is a business as  
2   usual dimension. What you have is within the  
3   business as usual is ScottishPower and PacifiCorp  
4   arriving with the merger proposal that, you know,  
5   gives 12 million a year benefit to customers, amongst  
6   other things, and, you know, I would maintain that,  
7   in that context, that's good. If there are price or  
8   rate increases around, then that serves to mitigate,  
9   and we've always said with the merger prices will be  
10  lower than they would be absent the merger, and I  
11  think the merger credit in the context in which Mr.  
12  Dodge puts it, I think the merger credit demonstrates  
13  very well that prices will be lower than they would  
14  be absent the merger.

15     Q   Mr. Richardson, if the Commission were to  
16  request that you put your best people on it and come  
17  back as soon as possible with a more definitive  
18  transition plan and what you can and will commit to  
19  do in terms of cost reductions and other  
20  efficiencies, is that something ScottishPower would



21 accept?

22 A No.

23 Q Is there a reason for that?

24 A It wouldn't work.

25 Q And it wouldn't work by choice?

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1       A   The nature of the transition plan is a  
2 detailed and full review of the business. I think  
3 Mr. Wright covered that yesterday and I'm sure Mr.  
4 MacRitchie, when you get to him, will cover it. It  
5 is highly intrusive. It requires a strong commitment  
6 right through the business to get this plan done so  
7 that we can deliver the best business possible going  
8 forward. It is simply not possible, in our belief,  
9 to deliver a transition plan with the necessary rigor  
10 unless you have the ownership. And I would simply  
11 repeat that I think with what is already in the  
12 stipulation, you know, we have surpassed the standard  
13 for public benefit.

14           The transition plan is something -- in our  
15 minds, it's icing on the cake and it will come six  
16 months down the road, and I think it will be very  
17 valuable for driving the business, normal business in  
18 the future.

19       Q   Is it your understanding that Utah Power  
20 suffered the intrusiveness you've indicated with

- 21 Pacific Power at the time of the merger back then
- 22 when the applicants brought a fairly detailed
- 23 commitment of efficiencies and cost savings they were
- 24 willing to stand behind?
- 25 A I really have a very poor understanding of

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1 that merger and the question would be much better  
2 directed to Mr. O'Brien.

3 Q Thank you. Do you accept that in the minds  
4 of people who may like you but don't know you yet  
5 that the change of control presents some kind of a  
6 risk to them in terms of uncertainties, contract  
7 negotiation styles and principles utilized,  
8 et cetera?

9 A That's a very broad question. I mean, let  
10 me say first of all that the stipulation I think  
11 deals with the risks -- the real risks set up by the  
12 Division and others around this merger, and I think  
13 we've dealt with that very effectively. And  
14 interesting, just in passing, if I could return to an  
15 earlier subject, it occurs to me that that  
16 stipulation was fully negotiated, effectively by Mr.  
17 Wright, \$48 million, and it was signed by him on the  
18 day it was agreed. Mr. Reeder earlier was worrying  
19 about authority. You know, we're good on authority.  
20 That was signed and we stood here and testified to

21 it.

22 But to get back to your question, I think

23 in terms of real risk, that's been dealt with. I

24 understand your comment about the unknown in terms of

25 having to negotiate with us, but, you know, I hold

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1 very strongly that the people you will be negotiating  
2 with will be PacifiCorp people that you know and  
3 probably love. You'll get to love us, and they will  
4 be working to very clear -- very clear rules, and we  
5 have said to you, you and your colleagues outside of  
6 this room, that, you know, we will negotiate  
7 vigorously and in good faith, so you really are  
8 seeing ghosts, I would suggest.

9 Q What is the very clear set of rules that  
10 will guide those negotiations?

11 A Well, the same as PacifiCorp would have  
12 clear rules that set boundaries for negotiations in  
13 the premium. ScottishPower will either adopt those  
14 or modify them as time goes forward. That would be  
15 normal business.

16 Q And I guess therein lies the rub or the  
17 question. Will they be modified?

18 A Pardon?

19 Q Will that set of principles that guides the  
20 utility currently be changed as a result of answering

21 to a different owner?

22 A I think it would be very strange if in time

23 rules weren't adjusted and changed. That's quite

24 normal in business operations.

25 Q Can you give us any assurances now in what

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1 manner they will change?

2 A No, I can't.

3 Q So there again, customers, to a certain  
4 extent, are just asked to take it on faith that the  
5 result will be beneficial?

6 A The position is no different, I would  
7 suggest, than it is today with PacifiCorp. Really no  
8 different. They're a bunch of business people and so  
9 are we, and we're here to do business.

10 Q Well, I'll give you they're tough  
11 negotiators, but the question is: What's changed?  
12 What is changing? Your answer is you don't know and  
13 there's nothing you can tell us right now as to what  
14 will change in terms of the principles or the set of  
15 rules, as you referred to them, that will guide the  
16 Company's direction under your control?

17 A All I'm suggesting is that, in normal  
18 business, rules evolve and that sort of thing, you  
19 know, will probably naturally happen, so it would be  
20 wrong for me to sit here and say nothing will ever



21 change because I think the reality is, you know, that  
22 these processes, these policies do change over time,  
23 and that's the thrust of my answer.

24 Q You do recognize that normal business  
25 outside of this context doesn't include a captive set

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1 of customers that have no choice but to deal with  
2 this particular provider?

3 A I think PacifiCorp have acquitted  
4 themselves very well in dealing with those customers  
5 and we would expect to continue to deliver to those  
6 customers in the same spirit and strength that  
7 PacifiCorp have been.

8 Q Mr. Reeder asked you a question or a series  
9 of questions about the acquisition premium, and I  
10 won't go back into that, except in concept. Will the  
11 ratepayers of PacifiCorp at some point in the future  
12 run the risk of seeing a claim asserted by PacifiCorp  
13 under the control of ScottishPower that the  
14 acquisition premium, whatever it is, is a stranded  
15 cost that ought to be recovered as part of any  
16 deregulation process?

17 A I thought we covered that yesterday, and my  
18 interpretation of the stipulation, Clause 44 I think  
19 it was, demonstrates very clearly that, you know,  
20 costs will not increase as a result of the merger.

21 Q And costs -- and I'm just asking you  
22 because I understand you will be the CEO. Costs not  
23 increasing includes any claim for stranded cost  
24 recovery?  
25 A That's what Mr. Wright --

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1 MR. HUNTER: Objection. That misstates the  
2 record. He didn't say that there would be no claim  
3 for stranded cost recovery. He said the acquisition  
4 premium will not be recovered for stranded costs.

5 MR. DODGE: Thank you for that. And I did  
6 intend that restriction, at least for this question,  
7 as it relates to the acquisition premium.

8 Q So Mr. Wright's statement, in your view, is  
9 clear and you stand by it?

10 A Absolutely.

11 Q Now, let me ask the question that Mr.  
12 Hunter objected, because I hadn't asked. Does  
13 ScottishPower believe, in light of its acquisition  
14 and recognition that industry restructuring that's  
15 happening in Utah, does it believe that it retains a  
16 claim to stranded cost recovery, whatever may  
17 already -- whatever claim may already exist in  
18 PacifiCorp?

19 A I think you presume that industry  
20 restructuring is happening in Utah. I think all

21 that's happening in Utah is quite a lot of people are  
22 discussing the implications of any restructuring that  
23 might come forward, and I couldn't presume that  
24 restructuring is going to happen in Utah, so I don't  
25 agree with that point. I really lost the rest of

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1 your question.

2 Q Let's start with Oregon where I don't think  
3 it's just a discussion. Does ScottishPower believe,  
4 in the context of the deregulation legislation in  
5 Oregon, that it retains a claim to stranded costs?

6 A I think, as I've said several times, I  
7 mean, there are rules, and I would guess the rules  
8 would allow the ability to claim stranded costs  
9 identified before this Commission and it would put  
10 its case and no doubt be challenged, but the  
11 Commission would come to its decision. We would put  
12 that case strongly and we would abide by the  
13 decision.

14 Q The answer is you -- I'm not sure I  
15 understood the answer. You're not stating that  
16 ScottishPower or PacifiCorp under ScottishPower will  
17 not make a claim to stranded costs as a result of its  
18 acquisition in the face of deregulation?

19 A Lots of notes there. I mean, Mr. -- this is  
20 Mr. O'Brien's business at present. What I'm saying

21 is that in normal business under normal rules,  
22 PacifiCorp would have a right to claim stranded costs  
23 in the circumstance -- in circumstances that arise.  
24 That right is not surrendered.  
25 Q You do recognize that deregulation is or is

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1 becoming a reality in most of the western states in  
2 the United States?

3 A I think deregulation is only agenda. It  
4 might be a bit strong to say reality. I think  
5 there's a lot of work to be done to assure this  
6 Commission and a lot of other players that  
7 deregulation should happen. I think more precisely  
8 it's not one hat fits all. I think if you are going  
9 to have it, it's going to be special for Utah,  
10 special for Oregon, whatever it is.

11 Q In your stipulation -- or, excuse me, the  
12 letter that you sent to Mr. Winder that you  
13 introduced this morning, you reference a high  
14 level -- senior level ScottishPower executive that  
15 will be officed in Utah. Help me understand. Will  
16 that person be an officer of PacifiCorp?

17 A Yes, he will.

18 Q As well as an officer of ScottishPower?

19 A We have to swing on your definition of  
20 ScottishPower, but yes, he would be -- we have not



21 actually named this person in Britain yet, so

22 principally, yes.

23 Q Yeah. Help me with the swing. What entity

24 will this individual be an officer of in addition to

25 PacifiCorp?

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1 A Both PacifiCorp and ScottishPower. The  
2 gentleman is versed, similar seniority as myself.

3 Q And he's not been named, you say, so you  
4 can't tell us who this individual is?

5 A No, he has not been named.

6 Q Maybe my question was unclear. Will he be  
7 an officer of New ScottishPower PLC, or whatever  
8 entity is at the top of the chain? Will he be of the  
9 holding Company or the Nevada partnership or which  
10 entity?

11 A You presume that we've worked those things  
12 out. I have to talk about ScottishPower at present  
13 and that is my discussion. We've actually not  
14 determined the structure for ScottishPower going  
15 forward.

16 MR. FELL: If it helps, the letter says  
17 that ScottishPower will relocate an executive. It  
18 doesn't make any representation regarding the  
19 person's position with the old ScottishPower or the  
20 holding company. It talks about the position with

21 PacifiCorp.

22 Q (BY MR. DODGE) Maybe I misunderstood the

23 letter. I had understood that he would continue --

24 he or she would continue to be an executive of

25 ScottishPower. Is that inaccurate?

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1 A Well, I'm an executive with ScottishPower,  
2 been here for eight months.

3 Q Will you be after the merger?

4 A Yes.

5 Q And you will be an officer of a  
6 ScottishPower named entity as well as the CEO of  
7 PacifiCorp; is that right?

8 MR. FELL: For clarification -- there may  
9 be some confusion here. I think the word "officer"  
10 is used differently in the UK.

11 MR. DODGE: I apologize for that. Maybe I  
12 didn't understand.

13 THE WITNESS: Yeah. And we always struggle  
14 with the level. What I mean is I will be -- I am an  
15 executive director of ScottishPower group, so in that  
16 context, I will remain an officer of ScottishPower as  
17 well as CEO of PacifiCorp. I mean, that's a good  
18 thing, to keep up the ability to reach across and  
19 influence properly, which is what you would want, I  
20 think. The gentleman who will be coming to Utah, to

21 Salt Lake City to live is presently a senior managing  
22 director of ScottishPower and he will relocate here  
23 and his sole job will be in Utah and representing  
24 PacifiCorp in the way I described in the letter. It  
25 will be a single task, so his history of as -- what

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1 he does next in relation to Scotland would be very  
2 light indeed, in my mind.

3 Q And will that be part of the transition  
4 plan to define his precise role, or will that not be  
5 covered in that document or in that planning process?

6 A No. It wouldn't, but I think the letter,  
7 if you read the letter, the first two or three  
8 paragraphs, I think, begin to set out really very  
9 well just what his role is.

10 Q And so I understand, that individual will  
11 not have a role in approving or recommending, for  
12 example, contract negotiations or contract  
13 extensions?

14 A No, that would not be the case.

15 Q That will -- you indicated that will  
16 continue to go through PacifiCorp executives.

17 MR. FELL: Excuse me. I didn't understand  
18 how the question and answer related to each other.

19 Could we go through that one again?

20 MR. DODGE: Sure.

21 Q The individual you've -- well, that you  
22 haven't identified but you've said will locate --  
23 relocate in Utah, will that individual have any role  
24 in the negotiation or approval, if you will, of  
25 contract negotiations with Utah customers?

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1 A Well, that's a different question now that  
2 has been reposed, but basically the executive would  
3 facilitate -- help facilitate good negotiations with  
4 customers in Utah.

5 Q But will not be a part of the approval  
6 chain?

7 A In the letter it says he will have brought  
8 influence, which means he will be able to speak with  
9 Mr. O'Brien and myself and put his particular Utah  
10 view, if that is necessary, about the sort of deal  
11 we're arriving at, but the executive line would be  
12 through Mr. O'Brien.

13 Q And subject to whatever normal business  
14 reporting requirements and board approvals may be  
15 required of ScottishPower, it will be you and Mr.  
16 O'Brien that will be the chief executives, I guess,  
17 ultimately approving contracts above a certain  
18 level? Did I understand your testimony correctly?

19 A That's correct.

20 Q Would ScottishPower object if this



21 Commission were to decide, as part of its approval  
22 process, that special contract customers required  
23 some kind of protection in the form of extended  
24 contracts through the rates through the period of the  
25 rate commitment for the tariff customers or the rate

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1 credit period for tariff customers?

2 A I understood the question until you added

3 the last bit. Could you just ask it again?

4 Q Would ScottishPower object if this

5 Commission were to decide that, as part of its

6 approval, it would require the extension of current

7 contracts with Utah customers through the end of the

8 rate credit period, which is 2003?

9 A I would guess we would. I think the issue

10 is that there is normal business which needs to

11 continue, and special contracts have, as we saw I

12 think very clearly yesterday, a whole range of

13 implications that extend beyond this merger, and I

14 don't believe you could simply role in a special

15 contract extension into this merger approval without

16 causing a whole lot of other questions to be answered

17 by that. I think the position is that the special

18 contracts exist. ScottishPower -- under

19 ScottishPower's control, those contracts would be

20 honored, and we've said that several times and we

21 mean it, and when the time comes for negotiation, and  
22 I have suggested, Mr. Dodge, that that timing is at  
23 your call, that when the time comes for negotiation,  
24 PacifiCorp, ScottishPower run it, we'll vigorously  
25 participate in those negotiations. And indeed if I

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1 could just add that when we last spoke, if you needed  
2 ScottishPower to join you at the table before the  
3 merger, then I've spoken with Mr. O'Brien and he's  
4 happy to allow our people at that table if that helps  
5 your process.

6 Q A similar question. Would ScottishPower  
7 object if this Commission were to state that, subject  
8 to ultimate Commission approval, under whatever, I  
9 guess, terms and conditions it deemed appropriate,  
10 that the same approach to analyzing and approving  
11 special contracts as has existed in the past would be  
12 utilized, at least through that period by Pacific or  
13 under ScottishPower? Would you object to that?

14 A It's simple to say, but, again, I think  
15 yesterday I think we heard that there was a task  
16 force. We heard that there are a lot of  
17 considerations around it, and I think if it was a  
18 simple discussion between you and I, it may be  
19 possible, but I think that there are other factors  
20 that quite honestly are much more in the control of

21 the Commission and the concern perhaps of the  
22 Commission, so I don't think we could get to a  
23 position that puts such definition on negotiations.  
24 I would think the principle is that what you want to  
25 know is you've got a business across the table from

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1 you that is genuinely prepared to negotiate,  
2 genuinely prepared to deliver the best possible  
3 contracts, and the spirit of these negotiations has  
4 pretty broad implications. We're very aware of them.

5 Q And, again, not meaning to suggest anything  
6 but bona fides on your side, you do recognize that,  
7 unlike normal business negotiations, there may not be  
8 a lot of options to go talk to at this point, a lot  
9 of options for most customers to go talk to?

10 A Yeah, but that's the nature of the  
11 business, and I think -- as I said earlier, I think  
12 PacifiCorp have acquitted themselves very well in  
13 these negotiations. I think they have taken the  
14 broad view and they've helped to bring about some  
15 very valuable special contracts. That situation did  
16 not change with ScottishPower.

17 Q The first part of my earlier question that  
18 said subject to Commission control and approval was  
19 intended to encompass whatever the task force may  
20 recommend, whatever the Commission may do as a result

21 of that, et cetera, so subject to Commission --  
22 ultimate Commission approval, or under whatever  
23 conditions it deems appropriate, help me understand  
24 what barriers there are to your agreeing to use the  
25 same concept and approach to contract negotiations as

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1 historically been used.

2 A Well, I mean, basically I would just find  
3 it very strange for a regulatory Commission to impose  
4 methods and styles and vigor of negotiations as part  
5 of a merger condition. You know, we've said, and  
6 we've said it many, many times, that we will  
7 negotiate vigorously in good faith, also, the  
8 objectives around it, and we will do that. And I  
9 just think if you start trying to write that down,  
10 you will probably destroy more of your opportunities  
11 than you create, to be honest.

12 MR. DODGE: I have no further questions.

13 Thank you.

14 CHAIRMAN MECHAM: Thank you, Mr. Dodge.

15 Anything further from the lawyers for Mr. Richardson.

16 MR. TINGEY: I have a few.

17 CHAIRMAN MECHAM: Okay. Go ahead.

18 CROSS EXAMINATION

19 BY MR. TINGEY:

20 Q Good afternoon.



- 21 A Good afternoon.
- 22 Q Very few.
- 23 A It's almost lunch.
- 24 Q Yes. I can feel that.
- 25 I think you just hit the bottom of the

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1 list. You talk about the task force that's out there  
2 for special contracts and you fully intend to comply  
3 with whatever comes out of that task force from this  
4 Commission?

5 A Absolutely.

6 Q Okay. There were discussions about the  
7 Company attitude toward restructuring and Mr. Reeder  
8 requesting commitments to be at the forefront and  
9 those sorts of things. And so I'd like to have a  
10 short conversation about priorities here. What is  
11 the first priority of you and the Company right now?

12 A That is very clear. The first priority is  
13 obviously to assume control and then set about  
14 transforming PacifiCorp and its existing operations.  
15 That is my job and basically if I'm deflecting far  
16 from that, then I'm missing my priority.

17 Q Short term, it would be creating a  
18 transition plan and implementing that plan?

19 A Yeah. And that will take a few years to  
20 implement.

21 Q And I believe the term has been used as

22 focusing on the core business?

23 A It has, yes.

24 Q And that is top of the list?

25 A Absolutely.

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1 Q Under the regulatory scheme as it now  
2 exists or as it may change, whatever it is?

3 A Yes. Absolutely, yes.

4 Q I'll just ask a general easy one that Mr.  
5 Dodge got part of. Mr. Wright, over a couple of  
6 days, made a number of clarifications and statements  
7 and representations and whatnot, and just as a  
8 general matter, do you, as the CEO, back up what he  
9 said the last few days?

10 A Yeah. I think I was in danger of losing my  
11 job to Mr. Wright at some point. He actually set out  
12 our position very clearly and I fully endorse all  
13 that he said.

14 Q Thanks. One of the discussions was about  
15 spinoff and spin-down and terms like that. Do you  
16 know the difference between those two terms, and if  
17 you do, can you educate me?

18 A I think we should cease from using the  
19 second one in the event that it might become part of  
20 our language. I think I understood what Mr. Reeder

21 was referring to. One is about selling and the other

22 is about setting it in a different place in the

23 structure of the business.

24 Q And in either event, you would need to come

25 get approval and go through the regulatory process?

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1       A   I thought the stipulation was very clear  
2   about what ScottishPower would need to do in the  
3   event that it wanted to move the businesses around in  
4   the way that was suggested.

5       Q   Mr. Wright also -- I can't remember who  
6   asked the question, but probably Mr. Reeder. Odds  
7   would be.

8           MR. REEDER: Stipulated.

9           MR. TINGEY: Yeah.

10       Q   About the possible backlash that may occur  
11   if an application requesting a rate increase of \$100  
12   million were filed on the heels of this merger,  
13   would you comment on that and the sensitivity toward  
14   that?

15       A   I think there has to be an element of  
16   business -- not an element. There's a requirement  
17   that business continues as usual. I've always  
18   requested fairness in the way that processes are  
19   dealt with and I have to say that, in my experience  
20   here, it certainly has been delivered. The treatment

21 has been fair. I think as a more specific point,  
22 PacifiCorp might talk about 100 million, but I guess  
23 there are others in the room who have got different  
24 ideas, and the Commission will arrive at its finding  
25 for what the increase can be and should be, and at

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1 that time we will handle that professionally, I would  
2 hope, together as part of normal business.

3 Q And you understand that there may very well  
4 be PR problems with such a course of action?

5 A I think you have to set it in the context  
6 of clearly the -- any price rise would be -- will be  
7 moderated by ScottishPower's presence to the tune of  
8 \$12 million a year and not to mention the significant  
9 other benefits that are brought by ScottishPower to  
10 this merger at this time, so I think there is a good  
11 story of saying, well, there is a price increase, but  
12 there are a lot of good things happening around  
13 this.

14 Q I'd like to have a conversation about your  
15 statement there. You're experienced in regulation  
16 and competition and otherwise, but that's probably  
17 for another day. We'll have that another day.

18 A Could I make a point?

19 Q Sure.

20 A If you look at what we think is the bastion



21 of free enterprise, which is the London Stock  
22 Exchange, it is perhaps the most regulated entity  
23 that exists.

24 MR. TINGEY: Okay. I have nothing  
25 further.

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1 CHAIRMAN MECHAM: Okay. Thank you. Mr.  
2 Farr?

3 CROSS EXAMINATION

4 BY MR. FARR:

5 Q I have just a couple quick ones. Good  
6 afternoon. In prefiled direct testimony, the  
7 Department of Community and Economic Development  
8 raised some concerns that they considered to be key  
9 potential detriments to the merger. Now, it's my  
10 understanding that the letter that you've introduced  
11 this morning as Exhibit SP 1R.1 with Mr. Winder was  
12 intended to address those concerns.

13 A That's correct.

14 Q Is that your understanding? And to turn  
15 them to a net positive benefit?

16 A That's right.

17 Q And to satisfy the department's concerns?

18 A Yes.

19 Q And that the department has recommended  
20 approval as it relates to the issues that were raised

21 in that prefiled testimony?

22 A That's correct.

23 MR. FARR: That's all the questions I

24 have. Thank you.

25 CHAIRMAN MECHAM: Thank you. Mr. Sandack,

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1 do you have anything?

2 MR. SANDACK: Please.

3 CROSS EXAMINATION

4 BY MR. SANDACK:

5 Q Sir, you've committed to an executive and

6 your statement is that it will provide a strong

7 ScottishPower presence in Utah.

8 A That's correct.

9 Q You've made no commitment towards that

10 presence in Utah in terms of numbers of employees,

11 though, have you?

12 A No, I have not.

13 Q And, in fact, geography doesn't really

14 concern you in terms of where and when employees

15 perform services on behalf of the utility; is that

16 correct?

17 A I don't agree with your statement at all.

18 Q Was it your -- did you not make a statement

19 that geography wouldn't play a role in those

20 decisions in how to manage the Company?

21 A I think in a place like Utah, geography is

22 an important consideration of service provision.

23 Q Do you have -- have you made any commitment

24 to establishing a stronger Utah presence through

25 other staff beyond the senior citizen? The senior

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1 executive. Excuse me. It may be a senior citizen --

2 A Is that on the record?

3 Q Strike it, if it is. We believe in  
4 promoting work for older people. But you have made  
5 no commitment to actual jobs in Utah?

6 A No, we haven't.

7 Q And you do recognize, though, that  
8 PacifiCorp has substantially cut the rank and file  
9 workforce in production, operations and supply; is  
10 that correct?

11 A Yes, we do.

12 Q Was it your statement they cut that to the  
13 bare bones?

14 A I don't think so. I really wouldn't know.

15 Q If I understand the deal here, so to speak,  
16 you're paying a substantial premium to the  
17 shareholders, the ratepayers are getting a credit,  
18 you're going to cut costs and improve service. Is  
19 this all going to come on the backs of employees in  
20 loss of jobs?

21       A   Well, I wouldn't put it quite the way you  
22 put it, Mr. Sandack, but what we've said -- we've  
23 been real up front and clear with the staff, and I've  
24 met a lot of the staff here in Utah at very close  
25 range, and it's pretty sure that there will be job

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1 reductions. What we said is we would do that in a  
2 very clear way. No surprises. No one has ever left  
3 ScottishPower in a forced way. It's all been  
4 voluntary, and that is what we expect to achieve in  
5 Utah and indeed all of the service territories. And  
6 I think we need to keep in mind the focus on what  
7 we're trying to do with the business, and the vast,  
8 vast majority of people will remain in the business.  
9 And we're talking about training those people and  
10 getting those people to enjoy a level of success in  
11 their individual operation as well as their combined  
12 operation, which I think is very, very important  
13 going forward. We really want to lift their heads,  
14 lift the performance. The people who will leave will  
15 be dealt with in a very caring way.

16 Q Would we anticipate that employees will  
17 work on behalf of the new company outside of the  
18 United States?

19 A That is not my anticipation.

20 Q We wouldn't have an accounting or payroll



21 department moving to Glasgow or something of that

22 nature?

23 A Again, that's not my anticipation.

24 Q Have you actually conducted a review of the

25 potential amount of job loss of the Company?

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1     A   No, we have not.  And that is truly an  
2 honest answer.  We have not.  We've done very high  
3 level benchmarking, which Mr. MacRitchie will testify  
4 to.  Quite honestly, it would be unfair at this range  
5 to talk about job reductions that we planned because  
6 we simply haven't done the work, and that work needs  
7 to be done in order to do that, you know, properly  
8 and, as I said, in a caring way.  People need to know  
9 that the work has been properly done with a good  
10 focus and a proper agenda that is about delivering a  
11 better business.

12     Q   But there's no question in your mind that  
13 there will be job losses?

14     A   There's no question in my mind.  I don't  
15 know where those job losses will occur.

16     Q   Are you aware that Utah employees since the  
17 last merger, 1988 -- the proportion that we had cut  
18 more across the PacifiCorp territory than other  
19 employees?

20     A   I've heard that, yes.

21 Q Is it fair to say that the only commitment  
22 you've made to the employees in any tangible nature  
23 is the training you plan to offer them?

24 A I think it's much more than that, in  
25 truth. There is certainly the learning. Embracing

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1 the lifelong learning is really where we start in  
2 most of this, because if we get staff into the mode  
3 of learning and realizing their individual  
4 capabilities, then that can be used to deliver much  
5 higher performance from them as individuals and the  
6 business as a whole, and that really is the heart of  
7 where, you know, the success of the utility will come  
8 from. So learning is right there. Training. You  
9 quite rightly expressed education, but also  
10 investments around them to make them able to do the  
11 job well, you know, whether it be a computer system  
12 in a coal center or the necessary tools of trucks in  
13 the geography that you talk about. You know, there's  
14 a whole range of investments that will be directed at  
15 the employees from which they will benefit.

16       If you look at our staff in Britain, if I  
17 might speak for them, my belief is they thoroughly  
18 enjoy their jobs. They are well supported in their  
19 jobs and they enjoy the success they have in their  
20 jobs at all levels.

21 Q Those types of training benefits would not  
22 apply to employees of subcontractors of the Company,  
23 would they?

24 A Not normally, although there may be  
25 circumstances where it may extend.

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1 Q Is it your intend to increase the amount of  
2 subcontracting in order to cut back on costs and  
3 eliminate benefits to your existing workforce?

4 A Well, no. You presume. That is not our  
5 intent. Our intent --

6 Q I don't presume that. I'm simply asking  
7 that. I'm certainly concerned about that.

8 A I understand. Our concern is to run an  
9 effective business. I mean, it seems to me if you're  
10 using contractors, it's another expense. I mean, it  
11 would be pretty clear what you're getting for that.

12 Q That's certainly a tool that you've  
13 employed in Manweb to a great degree?

14 A To some degree. I think you need some  
15 balance of contractors, because labor forces are what  
16 labor forces are, and you need to have a balance. As  
17 a businessman, I would look for that. But I'll tell  
18 you --

19 Q I'm not sure I understand what you mean  
20 labor forces are what they are and the balance. Can

21 you explain that?

22 A You need to make sure that you don't have a  
23 source of -- a single source of supply for anything  
24 in business, you know, so having contractors around  
25 in the business is. Healthy, but could I go on to

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1 say --

2 Q Sure.

3 A Well, what I really want is that the  
4 PacifiCorp staff -- and I've met a lot of them. I  
5 really want them to be the best contractors. I want  
6 them, you know, to set the standards and set the  
7 pace. There should be no reason to employ  
8 subcontractors to do other work, you know, so my  
9 focus -- our focus will be, you know, to train the  
10 staff, to motivate the staff, to direct the staff to  
11 perform to very, very high standards. You know,  
12 that's my goal and that's -- I think that's a very  
13 secure goal for the staff to share with me. It's  
14 certainly the way we go about our business in  
15 Britain.

16 Q I guess in Britain the labor picture is  
17 entirely different than in the states. Do you employ  
18 a temporary workforce in your own facilities at  
19 Manweb?

20 A We have a certain number, but we wanted to



21 look carefully. That's another expense that could

22 easily grow.

23 Q A part-time workforce?

24 A I don't know. I mean -- I wouldn't say --

25 yeah, I'm sure we do employ a certain part-time

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1 workforce in terms of office cleaning and things like  
2 that. I think my broad response to those couple of  
3 questions is that, you know, we have to run an  
4 economic business and you have to just know what the  
5 economic solutions are, and if you're not adopting  
6 them, you have to know why you're not adopting them,  
7 and I would suggest good reasons for that.

8 MR. SANDACK: Okay. Thank you, sir.

9 CHAIRMAN MECHAM: Mr. Farr?

10 MR. FARR: I have just one more question.

11 CROSS EXAMINATION (Continued)

12 BY MR. FARR:

13 Q In Mr. Sandack's original question to you  
14 about no regard for geography relating to employees,  
15 you seem to strongly disagree with that. Can you  
16 just explain your disagreement?

17 A Yeah. I mean, I generalize, but I think 80  
18 percent of PacifiCorp's customers in Utah are on the  
19 Wasatch Front, in other words, highly urbanized, but  
20 20 percent of them are in rural communities. There

21 is a disparity of geography there and we must, in  
22 planning the business for service levels, and this is  
23 part of the total package that we're offering, in  
24 order to achieve, for example, 80 percent of  
25 customers restored within three hours, we need to

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1 make sure what we're able to restore rural customers  
2 as well as urban customers. There's got to be a  
3 balance in that. So to proceed ignoring the  
4 geography would really put me in terrible trouble, I  
5 suggest, with customers and with this Commission, so  
6 we're not going to ignore the geography exists.  
7 PacifiCorp serves it and we want to serve it better.

8 Q And you have a commitment to do that at the  
9 lowest possible level, I think you mentioned in  
10 earlier testimony.

11 A Yes.

12 MR. FARR: Thank you.

13 COMMISSIONER WHITE: Will you be working  
14 with PacifiCorp in preparing their merger -- I'm  
15 sorry -- their rate case application?

16 THE WITNESS: Certainly not in detail,  
17 no. For example, Wyoming was filed and we had  
18 negligible input there.

19 COMMISSIONER WHITE: What is your  
20 understanding of what the Commission's authority

21 might be if, upon viewing your detailed plan of  
22 merger, we feel that it violates some conditions or  
23 is in some way not in the best interests of Utah  
24 customers?

25 THE WITNESS: This is filing the --

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1           COMMISSIONER WHITE: Your detailed plan of  
2 merger six months after the --

3           THE WITNESS: Transition plan.

4           COMMISSIONER WHITE: I'm sorry. Transition  
5 plan.

6           THE WITNESS: Well, I would want to be  
7 pretty sure that we didn't propose anything that you  
8 couldn't agree with. I mean, I would say that -- I  
9 said that we will play by the rules and I think the  
10 rules are very clear. And, remember, at that stage  
11 we will be fully married to PacifiCorp so we will be  
12 right on the inside and we will get excellent  
13 guidance from PacifiCorp's legal team at that point,  
14 and our intention is to file the transition plan the  
15 Company delivered, not to file a transition plan that  
16 gives you indigestion.

17           COMMISSIONER WHITE: Appreciate that. You  
18 mentioned that Mr. Morris was able to negotiate and  
19 sign the conditions.

20           THE WITNESS: Mr. Wright.

21 COMMISSIONER WHITE: I'm sorry. Mr.  
22 Wright.  
23 THE WITNESS: W-R-I-G-H-T.  
24 COMMISSIONER WHITE: Yes. By himself  
25 without consulting. I'm dying to ask you what the

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1 limits of his dollar authority -- how much did we  
2 leave on the table, but maybe that's not the right  
3 question to ask.

4 THE WITNESS: The answer is probably  
5 less -- that he was allowed less than he  
6 negotiated. No. I think it demonstrates the point  
7 he had a clear negotiating plan, agreed with me and  
8 others, and I think that was well delivered, you  
9 know, between the Commission, the Division and the  
10 Committee.

11 COMMISSIONER WHITE: Thanks.

12 COMMISSIONER JONES: Mr. Richardson, I  
13 assume that the decision to acquire PacifiCorp is  
14 based on the fact that you felt that there was  
15 under-performance by the Company and the Company had  
16 some great room for improvement based on both the  
17 stock value and their earnings. I guess my question  
18 is: Have you -- and I'm sure you probably have some  
19 idea. Where is the improvement and performance going  
20 to come from? Is it the regulated side or is it the



21 unregulated side, and if it's the regulated side,  
22 which states is that performance going to come from?  
23 THE WITNESS: Well, PacifiCorp are a good  
24 part -- they're actually a very good match for  
25 ScottishPower. That's the important thing. They

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1 look very like us in their range of regulated  
2 businesses. The financial performance offers has  
3 room for improvement and high level analysis, which  
4 Mr. MacRitchie will show more detail on, encourages  
5 us to believe that we can deliver improved  
6 performance, broadly improve performance, not just  
7 financial from the business. And basically my  
8 understanding is that opportunities for improvement  
9 is just right across the PacifiCorp business in all  
10 states, in all divisions, although I would say that  
11 the power supply business, the power stations do  
12 operate at a very good standard in the U.S. league,  
13 and I think that's important. But basically the  
14 answer is the transition plan will look very broadly  
15 at corporate divisions, individual operations, you  
16 know, what we can do to improve the business, not  
17 just the money, the customer service performance, the  
18 community commitments, the whole range of other  
19 things.

20 COMMISSIONER JONES: Have you identified

21 any operations that will be sold off?

22 THE WITNESS: No. We've said many, many

23 times we're not here to sell the properties. We're

24 here really -- we've invested in them and we want

25 those properties to work really well for shareholders

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1 and for customers.

2 COMMISSIONER JONES: What about Australia?

3 THE WITNESS: Australia is still within the  
4 ownership and the present plans are it will remain  
5 there.

6 COMMISSIONER JONES: I guess I have to wait  
7 for the transition plan.

8 THE WITNESS: Yes.

9 COMMISSIONER JONES: To see what it's all  
10 about. Thank you.

11 CHAIRMAN MECHAM: Is there any redirect for  
12 Mr. Richardson?

13 MR. FELL: Just one question.

14 REDIRECT EXAMINATION

15 BY MR. FELL:

16 Q Mr. Richardson, have you or ScottishPower  
17 developed a position on either whether or on how  
18 restructuring should occur in the state of Utah?

19 A No, we most certainly have not.

20 MR. TINGEY: Thank you. No further

21 questions.

22 CHAIRMAN MECHAM: All right. Let's take a

23 lunch recess and return at 2:15.

24 MR. FELL: Is Mr. Richardson excused from

25 the witness stand now? He will stay with us.

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1 CHAIRMAN MECHAM: Yes.

2 (Recess, 12:49 p.m.)

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