

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

Thursday, August 5, 1999

9:05 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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A P P E A R A N C E S

FOR PACIFICORP: EDWARD A. HUNTER

Attorney at Law  
STOEL RIVES, LLP  
201 South Main Street  
Suite 1100  
Salt Lake City, UT 84111-4904

JAMES F. FELL  
Attorney at Law  
STOEL RIVES, LLP  
900 SW Fifth Avenue  
Suite 2300  
Portland, OR 97204-1268

FOR SCOTTISHPOWER: BRIAN W. BURNETT

JAMIE VAN NOSTRAND  
Attorneys at Law  
CALLISTER, NEBEKER & McCULLOUGH  
Gateway Tower East Suite 900  
10 East South Temple  
Salt Lake City, UT 84133

FOR THE DPU: MICHAEL L. GINSBERG

Assistant Attorney General  
500 Heber Wells Building  
160 East 300 South  
Salt Lake City, UT 84114

FOR THE CCS: DOUGLAS C. TINGEY

Assistant Attorney General  
500 Heber Wells Building  
160 East 300 South  
Salt Lake City, UT 84114

FOR DCED and the  
DBED BOARD: BRIAN L. FARR  
Assistant Attorney General  
500 Heber Wells Building  
160 East 300 South  
Salt Lake City, UT 84114

RENEE L. STACY, CSR, RPR  
(801) 328-1188 799

A P P E A R A N C E S (Continued)

FOR DG&T:            DAVID F. CRABTREE  
Assistant General Manager  
and General Counsel  
DESERET GENERATION &  
TRANSMISSION  
5295 Commerce Drive  
Suite 500  
Murray, UT 84107-5378

FOR UAMPS:           MATTHEW F. McNULTY III  
Attorney at Law  
VAN COTT, BAGLEY, CORNWALL  
& McCARTHY  
50 South Main Street  
Suite 1600  
Salt Lake City, UT 84144

FOR UIEC:            F. ROBERT REEDER  
WILLIAM J. EVANS  
Attorneys at Law  
PARSONS BEHLE & LATIMER  
201 South Main Street  
Suite 1800  
Salt Lake City, UT 84145-0898

FOR NUCOR STEEL:    PETER J. MATTHEIS  
Attorney at Law  
BRICKFIELD BURCHETTE & RITTS  
Eighth Floor, West Tower  
1025 Thomas Jefferson  
Street, NW  
Washington, D.C. 20007

FOR THE LARGE

CUSTOMER GROUP: GARY A. DODGE  
Attorney at Law  
PARR WADDOUPS BROWN GEE  
& LOVELESS  
185 South State Street  
Suite 1300  
Salt Lake City, UT 84111-1536

RENEE L. STACY, CSR, RPR  
(801) 328-1188 800

A P P E A R A N C E S (Continued)

FOR IBEW 57:       ARTHUR F. SANDACK  
Attorney at Law  
8 East Broadway, Suite 620  
Salt Lake City, UT 84111

FOR UTAH LEAGUE OF  
CITIES AND TOWNS:   STEVEN W. ALLRED  
                          ROGER TEW  
Attorneys at Law  
SALT LAKE CITY CORPORATION  
LAW DEPARTMENT  
451 South State, Suite 505  
Salt Lake City, UT 84111

FOR THE LAND  
AND WATER FUND:    JORO WALKER  
Attorney at Law  
LAND AND WATER FUND  
2056 East 3300 South  
Suite 1  
Salt Lake City, UT 84109

FOR UTAH FARM  
BUREAU FEDERATION:   STEPHEN RANDLE  
Attorney at Law  
RANDLE, DEAMER, ZARR,  
                          McCONKIE & LEE  
139 East South Temple, #330  
Salt Lake City, UT 84111

FOR CROSSROAD URBAN  
CENTER AND SLCAP:   JEFFREY VERN FOX  
149 South Windsor Street  
Salt Lake City, UT 84102

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(801) 328-1188 801

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1 August 5, 1999

2 9:05 am.

3

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

5 CHAIRMAN MECHAM: Let's go on the record

6 and we'll swear in Mr. Moir.

7 BOB MOIR

8 called as a witness and sworn, was examined and

9 testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BURNETT:

12 Q Good morning Mr. Moir.

13 A Good morning.

14 Q Would you please state your full name for

15 the record and spell it, please.

16 A My name is Bob Moir, spelled M-O-I-R.

17 Q And by whom are you employed?

18 A I'm employed by ScottishPower.

19 Q And what position do you hold there?

20 A I hold the position of general manager for

21 the ScottishPower Group Metering Business.

22 Q Mr. Moir, did you prefile direct and

23 rebuttal testimony in this docket?

24 A I did, yes.

25 MR. BURNETT: Mr. Moir's testimony has been

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1 marked for identification purposes at ScottishPower 2  
2 with attached exhibits. His direct testimony is  
3 ScottishPower 2 with Exhibits 2.1 through 2.7. His  
4 rebuttal testimony is marked ScottishPower 2R, with  
5 an accompanying exhibit, ScottishPower 2R.1.

6 Q Mr. Moir, do you have any changes or  
7 corrections to that testimony?

8 A I have a couple of changes to my rebuttal  
9 testimony. On page one of the rebuttal, line number  
10 eight, for some reason I gave Mr. Maloney a temporary  
11 transfer to BPA, so it should correctly read, "two of  
12 the conditions proposed by DPU witness, Mr. Maloney,"  
13 and the word "in" in front of Mr. Maloney should be  
14 struck, as should the word "BPA."

15 On page three, I would like to add a word  
16 which changes the sense of the whole thing, and it's  
17 on the first line of page three between the words  
18 "does" and "make," as far as, "does make sense,"  
19 write out the word, "does not make sense." Slight  
20 change.

21 Q Thank you. Are those the extent of your  
22 corrections?

23 A They are, yes.

24 Q If I were to ask you these questions today,  
25 would your responses be the same?

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1 A They would, yes.

2 MR. BURNETT: Mr. Chairman, I would move  
3 for the admission of ScottishPower 2, with its  
4 accompanying Exhibits 2.1 through 2.7, ScottishPower  
5 2R, with its accompanying Exhibit 2R.1.

6 CHAIRMAN MECHAM: Any objections? We'll  
7 admit them.

8 (Whereupon Exhibits SP 2, 2.1 - 2.7, 2R and  
9 2R.1 were marked and received.)

10 Q (BY MR. BURNETT) Mr. Moir, do you have a  
11 summary of your testimony?

12 A I do, yes.

13 Q Would you please give it for the  
14 Commission?

15 A Certainly, yes. My testimony this morning  
16 is to describe a package of customer service  
17 improvements that ScottishPower intends to implement  
18 after the transaction is complete. This proposal  
19 will actually redefine the relationship between  
20 PacifiCorp and its customers and, in fact, it will be



21 the most comprehensive offered by any other utility  
22 in the United States.  
23 ScottishPower's customer service package is  
24 in two parts. The first part addresses aspects of  
25 the overall level of service provided by the

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1 Company. These are called performance standards.  
2 And under these, ScottishPower has committed to  
3 significant improvements in system reliability over  
4 five years. ScottishPower has agreed to improve the  
5 system average interruption and duration, commonly  
6 known as SAIDI, by 10 percent.

7 We will also improve the system average  
8 interruption frequency, again commonly known as  
9 SAIFI, by 10 percent, and the momentary average  
10 interruption frequency, again commonly known as  
11 MAIFI, by 5 percent, all over five years.

12 ScottishPower has also agreed to improve,  
13 in part, the performance of the five worst performing  
14 circuits in Utah each year by 20 percent.

15 Moving away from network issues, the  
16 performance standards also address our telephone  
17 answering capability where we commit to answering 80  
18 percent of our calls within 30 seconds over the  
19 course of the next two years. We commit to targets  
20 of 20 seconds and ten seconds respectively, so that

21 effectively means, by the year 2002, all of our  
22 calls, or around 80 percent of our calls, will be  
23 answered in ten seconds by 2002.

24           The second part of ScottishPower's overall  
25 customer service package is its customer guarantees.

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1 These cover the day to day interfaces between  
2 individual customers and the Company. The customer  
3 guarantees are essentially a promise that  
4 ScottishPower will deliver service of the highest  
5 quality. Failure to meet that promise in any of the  
6 eight years covered will result in a payment of \$50  
7 to residential customers and \$100 to commercial or  
8 industrial customers.

9 The detail of these customer guarantees is  
10 outlined in my testimony and in the stipulation, but,  
11 in brief, they cover areas such as supply entities,  
12 appointments, switching on customers' power and all  
13 of the time frames associated with the estimates for  
14 providing a supply, response to bill inquiries and  
15 power quality complaints in general.

16 Moving on, ScottishPower's customer service  
17 package has been incorporated into the stipulation  
18 with the DPU and the CCS, with refinements on  
19 additional provisions designed to customize the  
20 package to the needs specifically of Utah customers.

21 There are several additional commitments of  
22 significance in the stipulation. ScottishPower has  
23 agreed to include its performance standards and  
24 customer guarantees in tariffs in Utah.  
25 In addition, ScottishPower has agreed to

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1 provide quarterly reports on entities and customer  
2 guaranteed payments on the performance of them.  
3 Furthermore, in the stipulation, ScottishPower has  
4 committed to review, revise and submit a plan for  
5 continuation of its customer service improvements  
6 beyond the year 2005. So that's essentially our  
7 package, our commitment, seven performance standards  
8 and eight customer guarantees.

9 But I would say this. ScottishPower has  
10 eight years' experience of this type of approach,  
11 customer service in the UK. I personally have been  
12 involved in the development with our regulator and  
13 implementation of them in say ScottishPower and  
14 Manweb.

15 In that time, I have seen the company  
16 transformed. The days of complacent mediocre  
17 customer service are long gone. These standards are  
18 used at all levels from the CEO to the meter man as a  
19 driver to improvement and culture change.

20 Now, people ask me, can PacifiCorp not do

21 this on their own. I think the answer to that is  
22 quite clearly, yes, probably, in the long term it  
23 could. Right now they couldn't. They don't have the  
24 systems, they don't have the processes, they don't  
25 have the experience, and they don't have the overall

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1 management focus. They certainly have no plans for  
2 this type of package. As an old management adage, if  
3 you don't measure, you can't manage.

4 As far as this morning is concerned, I will  
5 respond to general areas of my testimony and  
6 specifically performance standard Section 7 and, of  
7 course, all of the customer guarantees. My  
8 colleague, Robin MacLaren, who you've already met and  
9 ScottishPower's chief engineer, has also filed  
10 testimony in this case and will respond to questions  
11 involving the network and specifically the detail  
12 behind performance standards one through five.

13 I'd like to finish with a quote from an  
14 external report by a consultancy firm from  
15 California, JBS Energy, one that did a  
16 commission-wide survey on customer service. This  
17 report is actually attached as an exhibit to my  
18 rebuttal testimony, so permit me to read from that  
19 report. No other utility has such a consistently  
20 high quality customer service program covering so



21 many areas, accompanied by unequalled reporting and  
22 auditing commitments. The package presented by  
23 ScottishPower and PacifiCorp is, thus, best in class  
24 and promises to customers a high level of performance  
25 and a very broad range of measures of customer

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1 service. The package is unmatched by offerings of  
2 other U.S. utilities. Thank you.

3 Q Does that conclude your summary?

4 A It does, yes.

5 MR. BURNETT: Mr. Moir is available for  
6 cross examination.

7 CHAIRMAN MECHAM: Thank you. Mr. Dodge,  
8 are you going first on this one?

9 MR. DODGE: I am. Thank you.

10 CROSS EXAMINATION

11 BY MR. DODGE:

12 Q Mr. Moir, you indicate that -- you talk  
13 about the performance guarantees. If I'm a  
14 residential customer at home and my power goes out  
15 for 24 hours, I'm without lights and air  
16 conditioning, you send me a check for \$50. That may  
17 be some reasonable response or my mollify me that  
18 that's great, you know, they recognize it. What  
19 about a commercial customer or an industrial customer  
20 whose power is off for 24 hours and potentially

21 losing millions of dollars in production? The \$100  
22 check you're going to send them really won't do very  
23 much for them, will it?  
24 A I don't imagine it would, in all honesty,  
25 and I don't try to kid anybody that the \$50 and the

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1 \$100 payments are in any way meant as real true  
2 compensation for inconvenience or loss of supply or  
3 production. As far as the \$100 is concerned for a  
4 commercial and industrial customers, these payments  
5 are nominal payments. The real measure and the  
6 reason that they're in there is to make sure that the  
7 Company, as I said earlier, from the CEO right down  
8 to the guys who are actually restoring supply, make  
9 absolutely certain that the supply does go on as  
10 quickly as possible.

11         So I agree with you. The \$100 doesn't mean  
12 very much. It's not meant to mean very much, but  
13 it's meant as a nominal fee and to say that the  
14 Company recognizes that we want to get supply back on  
15 as quickly as possible.

16         Now, as far as the 24 hours is concerned,  
17 these guarantees are very much backstop standards.  
18 We would be extremely surprised if commercial and  
19 industrial customers went off supply continually for  
20 longer than 24 hours. In fact, one of the

21 performance standards is that 80 percent of our  
22 customers will be restored to supply within three  
23 hours, so the essence of the thing is that the larger  
24 the customer becomes, then I would have to confess  
25 that the \$100 payment becomes less meaningless.

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1           If you take it to the far extreme level of  
2 a customers, those on special contracts, by  
3 definition, special contracts implies special  
4 arrangements and, therefore, the customer guarantees,  
5 in particular, do not really refer to special  
6 contract customers. Obviously, if they're on the  
7 distribution network they are going to benefit from  
8 SAIDI, SAIFI, MAIFI in terms of the overall  
9 improvement to a network performance.

10       Q    Right. And maybe this question is better  
11 directed to Mr. MacLaren, but those network  
12 guarantees are aimed at the distribution system; is  
13 that right?

14       A    They are aimed at the distribution system,  
15 yes.

16       MR. DODGE: Okay. Thank you. No further  
17 questions.

18       CHAIRMAN MECHAM: Thank you. Mr.  
19 Mattheis?

20       MR. MATTHEIS: No questions, your Honor.

21 CHAIRMAN MECHAM: Mr. Reeder?

22 CROSS EXAMINATION

23 BY MR. REEDER:

24 Q What are your commitments to the

25 transmission system?

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1 A I will refer that one to Robin MacLaren.

2 MR. REEDER: Thank you. Nothing further.

3 CHAIRMAN MECHAM: Thank you.

4 MR. SANDACK: If I could just briefly

5 address the witness.

6 CROSS EXAMINATION

7 BY MR. SANDACK:

8 Q Sir, maybe I'm confused. You talk about

9 the distribution versus transmission. I guess I'm

10 concerned about the actual generation system and the

11 outages that may come in the course of the plant

12 operation. Does your -- I mean, that might be the

13 ultimate source of the outages that might work its

14 way to the residential unit; isn't that correct?

15 A That is correct, yes.

16 Q Does your review entail reviewing plant

17 maintenance and upkeep, things of that nature?

18 A Which review do you refer to?

19 Q Well, I'm not quite sure. I understand

20 you've got in place some guarantees, but I guess I'm



21 looking more to the source of the problem and what  
22 does ScottishPower intend to do about eliminating  
23 potential problems by perhaps maintenance, which is  
24 necessary in any plant.  
25 A Are we talking about generation plant,

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1 transmission plant, distribution plant or --

2 Q Generation.

3 A Generation plant. First of all, can I say

4 the customer guarantees in our published statement

5 that goes to external customers and whatever

6 experience they have, and if they lose supply, for

7 whatever reason, with us, the generation,

8 transmission, and distribution, the customer

9 guarantees obviously cover that, but as far as -- I

10 have no experience -- I'm not a generation engineer,

11 and perhaps Mr. MacLaren will make reference to your

12 question, although he himself is not -- does not have

13 a generation background.

14 Q So the efforts you're going to make

15 essentially are more at the meter level and the

16 distribution level?

17 A Well, distribution level, certainly. The

18 various references to the transition plan, and indeed

19 beyond that, the Company's operating plan will

20 specifically look at the way of doing things, the

21 modus operandi of an entire network, the way that our  
22 people are organized, operate, the working practices  
23 and all that sort of stuff, and that will obviously  
24 include maintenance regimes within the distribution  
25 network.

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1 Q So this is part of the transition plan,  
2 again?

3 A What is?

4 Q The review that you anticipate to maybe  
5 correct deficiencies in regard to performance of  
6 generation.

7 A It is, yes. To generation?

8 Q Yes.

9 A No. No.

10 Q Has there been review of the generation  
11 system?

12 A I'm not aware of a review of the generation  
13 system inside PacifiCorp. As far as the scope of the  
14 transition plan is concerned, these questions would  
15 be better directed to Mr. MacRitchie.

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

17 CHAIRMAN MECHAM: Thank you.

18 COMMISSIONER WHITE: Mr. Moir, I don't know  
19 if you're the right one for me to direct these  
20 questions to, but I'll give it a try. Do you have a

21 sense of comparing perhaps PacifiCorp's current level  
22 with ScottishPower's customer level of money spent on  
23 maintenance of the distribution system, however you  
24 measure that, per customer or per line or whatever?  
25 THE WITNESS: You are right. I am not the

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1 right person to ask. I think Mr. MacLaren would  
2 answer it more accurate than I could.

3 COMMISSIONER WHITE: Okay. Thanks.

4 CHAIRMAN MECHAM: Is there any redirect,  
5 Mr. Burnett?

6 MR. BURNETT: I just have one question.

7 REDIRECT EXAMINATION

8 BY MR. BURNETT:

9 Q The package you're talking about, it's an  
10 end result to the customers that will guarantee  
11 certain things to them; is that correct?

12 A It is, yes.

13 Q And so whatever happens underneath that  
14 generation, transmission and distribution will be  
15 taken into account in those customer guarantees and  
16 we'll fix those in order to make sure that customers  
17 receive the guarantees?

18 A That's correct, yes.

19 MR. BURNETT: I have nothing further of  
20 this witness.

21 CHAIRMAN MECHAM: Thank you. Thank you,

22 Mr. Moir.

23 MR. BURNETT: ScottishPower calls Robin

24 MacLaren to the stand.

25 CHAIRMAN MECHAM: All right. Thank you.

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1 Mr. MacLaren was previously sworn and remains under  
2 oath.

3 ROBIN MACLAREN

4 recalled as a witness, having been previously duly  
5 sworn, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. BURNETT:

8 Q Good morning, Mr. MacLaren.

9 A Good morning.

10 Q Would you please state your full name for  
11 the record and spell it, also?

12 A My name is Robin MacLaren, R-O-B-I-N,  
13 M-A-C, capital L-A-R-E-N, MacLaren.

14 Q And you've previously been sworn in?

15 A I have.

16 Q By whom are you employed?

17 A I'm employed by ScottishPower.

18 Q In what position?

19 A I was, until recently, chief engineer for

20 ScottishPower for the distribution and transmission



21 networks. I have recently come across to the U.S.  
22 where I have been working on the merger, and I would  
23 intend to remain in the U.S. after that merger is  
24 completed.  
25 Q And did you prefile rebuttal testimony in

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1 this docket?

2 A I did.

3 Q This has been marked for identification  
4 purposes as ScottishPower 3R, along with attached  
5 exhibits 3R.1 and 3R.2. Do you have any changes or  
6 corrections to that?

7 A I do not.

8 MR. BURNETT: At this point in time, we  
9 would move for the admission of ScottishPower 3R,  
10 along with its attached Exhibits 3R.1 and 3R.2.

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

13 (Whereupon Exhibits SP 3R, 3R.1 and 3R.2  
14 were marked and received.)

15 Q (BY MR. BURNETT) Mr. MacLaren, do you  
16 have a summary of your testimony?

17 A I do.

18 Q Could you please give it for the  
19 Commission.

20 A As you heard from Mr. Moir, we are

21 proposing a substantial and comprehensive package of  
22 service standards and guarantees, and I will address  
23 the network performance standards. I believe that  
24 a -- I'm not going to go over in detail the contents  
25 of the stipulation, as I believe we've covered those

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1 the other day, but in summary I believe that  
2 stipulation, combined with my rebuttal testimony,  
3 covers all the concerns that have been raised by the  
4 intervenors and enable the DPU and CCS staff to  
5 endorse the overall package of being a substantial  
6 benefit to customers.

7 We have proposed to improve the underlying  
8 network performance by some 10 percent in what is the  
9 average annual duration of customer outage. Also to  
10 reduce the average annual number of customers outages  
11 by 10 percent and to reduce the momentary outages by  
12 some 5 percent. We'll do that over the five years  
13 following the merger and, as Mr. Moir said, we've  
14 also committed to a measurable 20 percent improvement  
15 in the five worst performing circuits every year in  
16 the state of Utah.

17 In my rebuttal testimony I emphasize the  
18 economic benefits of network performance  
19 improvements, and yesterday and the day before you  
20 heard the figure of some \$60 million per annum for

21 the value of system performance improvements  
22 mentioned on a number of occasions. This figure is  
23 derived using survey data and techniques developed by  
24 the Electrical Power Research Institute in America,  
25 which is well known both nationally and

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1 internationally.

2           The figure is based on a survey of customer  
3 views on the lost value directly attributed to power  
4 outages of differing duration and the value of our  
5 offered improvements has been calculated as shown in  
6 Mr. Richardson's supplemental testimony and the  
7 methods are detailed there.

8           Suffice it to say, in the interest of  
9 brevity, I believe the methodology to be a robust and  
10 professional method of putting economic value on  
11 network improvements, and I've seen it used in a  
12 number of studies.

13           The survey was -- the survey -- some  
14 intervenors did ask us about the figures within the  
15 survey which was conducted in 1991, and whilst the  
16 data and values seemed to be reasonable based on some  
17 20 years' experience on work and reliability, we did  
18 research further studies, and in my rebuttal I show  
19 further studies which range from some 30 to 60  
20 million dollars worth of benefit for these

21 improvements. The lower figures explicitly exclude  
22 customers larger than one megawatt and you will have  
23 heard in the last testimony questions mentioning  
24 millions of dollars lost for large customers if they  
25 happen to be off for any extended time, so I think

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1 that just underpins, in my view, the higher figures.

2       These extra studies cover wider  
3 geographical areas and, as I say, my experience in  
4 the UK suggests that the use of these figures are  
5 appropriate. I am very clear that this is an  
6 economic assessment and I expect the results to have  
7 some variance, but I believe that the magnitude of  
8 the figure is robust and is a very positive value of  
9 the transaction now before you.

10       The DPU stated that they had not included  
11 the \$60 million benefit and its assessment on whether  
12 to recommend approval of the merger applications, and  
13 I would certainly like the Commission to understand  
14 certainly that, in my view, these are clearly  
15 substantial additional economic benefits to the state  
16 of Utah, which I do think should be taken into  
17 account.

18       Network reliability is extremely important  
19 to the economy and its development. I have worked  
20 closely on economic development and helping to



21 attract industry to both Scotland and to Wales, where  
22 we operate in the UK, and we would expect to be doing  
23 the same here in Utah. In fact, in UK where  
24 companies can operate outwith their supply area, our  
25 expertise in ScottishPower has been chosen over the

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1 local electricity suppliers to provide more reliable  
2 supplies for upward investment in areas such as  
3 electronics and microelectronics.

4       So I think we bring to Utah a track record  
5 of improvement, and I personally have worked with  
6 many large industrial customers covering all sectors,  
7 whether it be steel, electronics, paper. I've worked  
8 with all these areas and worked cooperatively with  
9 customers to improve reliability, and I think that is  
10 important and will continue to be important to us.

11       We will work closely with all our  
12 customers. I've already had discussion with some  
13 communities in Utah about how we ensure they have  
14 better reliability in their supplies, and these have  
15 been fruitful and there are proposals on the table  
16 with them through PacifiCorp, which I believe will  
17 help to address their needs.

18       So, in summary, I believe our network  
19 performance proposals and our ways of working will  
20 produce substantial and economic benefits for Utah.

21 The focus and quality of service in the network will  
22 provide benefits to customers directly through this,  
23 and as I say, I believe the value of that is at least  
24 \$60 million per year economic benefit over the  
25 PacifiCorp territory.

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1           And indirectly, by focusing our staff more  
2 strongly in the delivery of measurable network  
3 standards, we will provide a better service to our  
4 customers. And that summarizes my position.

5           MR. BURNETT: Thank you. Mr. MacLaren is  
6 available for cross examination.

7           CHAIRMAN MECHAM: Thank you.

8                   CROSS EXAMINATION

9 BY MR. DODGE:

10       Q    Good morning, Mr. MacLaren.

11       A    Good morning.

12       Q    The improvements you are promising to the  
13 network system will come at a cost?

14       A    They will come at a cost. That's detailed  
15 in the testimony that the total cost over five years  
16 for the overall standard include -- overall package,  
17 including the customer guarantees, is some \$55  
18 million.

19       Q    And those costs will be borne by customers?

20       A    Those costs will be funded out of an

21 improved management of the network and will not  
22 reflect through to customers in any form of a rate  
23 increase.

24 Q You say it won't come through in the form  
25 of a rate increase, but the capital improvements will

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1 be part of rate base and the operational expenses  
2 involved in it will be part of the expenses the  
3 Company will expect to recover in a rate case; is  
4 that correct?

5 A These would certainly form part of the rate  
6 case, and my understanding is that that investment  
7 then becomes subject to a review by the Commission as  
8 to whether you believe it to be prudent or not, and  
9 so that would be a matter for the Commission to  
10 decide, but it would certainly be put forward in  
11 terms of capital expenditure because, as I said two  
12 days ago, part of that capital expenditure, in fact,  
13 will be diversion or change of the way that the  
14 capital program is measured, so capital program is  
15 managed to produce efficiencies and more effective  
16 use of capital for the customers in Utah.

17 Q So, in other words, you think you can  
18 squeeze this 55 million out of current budgets, but  
19 the bottom line is the customers still pay for it?

20 A The bottom line is that the customers will

21 pay for it through the normal rate base, but we will  
22 also be applying our skills to achieve what could  
23 otherwise not be achieved without the merger to  
24 release that money for these performance  
25 improvements.

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1 I have personally been responsible, both in  
2 the UK on the distribution network and the  
3 transmission network, for getting these kind of  
4 performance improvements within existing capital  
5 budgets and finding ways to achieve the amount of  
6 money and the better engineering that is required to  
7 get at improvement, and I believe very strongly that  
8 we can achieve that here. As I said at the start, I  
9 actually have a personal commitment to that, and we  
10 can assure that that happens.

11 Q Mr. MacLaren, the promised improvements in  
12 outage duration and frequency and in momentary  
13 outages are on a system wide average; is that right?

14 A That is correct, yes.

15 Q Is there a guarantee to, for example, the  
16 commercial customers that their current duration,  
17 frequency or momentary outages will be reduced by 10  
18 or 5 percent to them specifically?

19 A There is a guarantee on average across the  
20 customer base that we will achieve that improvement.



21 It is very difficult to specify for individual  
22 customers what the change will be, however, we have  
23 been working closely with the DPU to see how we best  
24 can measure and identify if there are individual  
25 customer problems that have to be addressed. I think

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1 the proposal and the package is about moving the  
2 overall performance of the network in Utah forward,  
3 and my understanding, as I said on -- I think it was  
4 Monday -- that performance has not improved  
5 substantially in the distribution network over the  
6 last ten years, and I believe it should and it can be  
7 improved.

8 Q Same question with respect to specific  
9 industrial customers. There's no guarantee that the  
10 outages they currently experience will be improved by  
11 10 percent or 5 percent?

12 A The short answer to your question is no.  
13 When it comes to larger customers, we take a slightly  
14 different approach in working with these larger  
15 customers. In the UK, and I would expect to  
16 introduce it here, we have set up joint improvement  
17 groups with large customers, because very often their  
18 demands for reliability are actually far higher than,  
19 say, the average customer, for instance, a  
20 microelectronics plant is very, very dependent on a

21 reliability of supply. I know some of the larger  
22 customers -- or some of the customers in Utah who  
23 we've spoken with have emphasized that.  
24       What we do then is sit down with them to  
25 look at what particular solutions are, because the

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1 solutions can be within their plant and solutions can  
2 be at our network, and sometimes the most cost  
3 effective solution is within the plant. While I will  
4 not name the firm in the UK, I can remember something  
5 like a 50 cent capacitor or electronic component  
6 being added to a particular critical piece of  
7 equipment. They managed to avoid very large, multi  
8 tens of thousand pounds investment on the network, so  
9 I believe that there's an entry influence as we  
10 generate electricity right through to the delivery  
11 point, and by working with our customers, we can very  
12 often eliminate problems very cost effectively.

13 Q The question, I guess, is: You  
14 attribute -- one thing we agree on is that their huge  
15 significant costs to large customers of outages?

16 A Yes.

17 MR. BURNETT: Would you specify which  
18 customers? Are you talking Schedule 9?

19 MR. DODGE: Large customers.

20 MR. BURNETT: Like special contracts.

21 MR. DODGE: Large customers.

22 Q Wouldn't you agree that most large

23 customers face the potential of significant economic

24 damage?

25 A I would have said that generally my

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1 experience in working with large customers is that  
2 reliability sits at the top of the list. Most of the  
3 time in the context of what they are looking for,  
4 they are looking for a reliable delivery of  
5 electricity.

6 Q And the surveys that you attached shows the  
7 wide variance in perceived value depending on whether  
8 you include the significant damages that would be  
9 suffered by those large customers? You testified to  
10 that?

11 A Yes, that is correct.

12 Q And yet, again, you haven't made any  
13 specific commitments to those customers about  
14 improvement other than that you'll help them? In  
15 other words, there's no measurable commitment to  
16 improve their performance specifically as opposed to  
17 a system average?

18 MR. HUNTER: Once again, isn't this a  
19 question of whether it's a special customer or a  
20 tariff customer as to who is going to get what

21 guarantees and what voltage they're served at?

22 MR. DODGE: No. My question doesn't

23 matter. Take it either way.

24 Q I'm saying large customers. You've

25 indicated there's no guarantee as to that group

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1 specifically that there will be any given performance  
2 improvement.

3     A   They will benefit from the overall package  
4 that is in place and they will also, I am sure,  
5 benefit from the approach that we bring to Utah in  
6 our working with large customers. As I said, we have  
7 already spoken to some customers in Utah and I  
8 believe that we can make improvements and work with  
9 them to improve the network. Large customers are not  
10 only large industrial customers. They are also the  
11 cities and the towns of Utah who we supply from our  
12 network and the -- I know that companies -- some of  
13 my people have been looking at supply arrangements  
14 and looking for innovative ways of improving the  
15 network, so we bring our commitment to work with  
16 customers to try and work with them to ensure  
17 reliable supplies.

18           In short answer to your question, with that  
19 10 percent improvement, you will benefit from that if  
20 you're attached to the distribution network. If



21 you're attached to transmission network, you will be,  
22 by nature, a sufficiently big customer that you will,  
23 by definition, have individual attention and that is  
24 what we bring.  
25 Q Thank you. You actually answered my next

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1 question. The network performance standards are  
2 aimed at the distribution system, and for a  
3 transmission level customer, whether it be a city or  
4 a town or a company with its own substation,  
5 et cetera, you've said in your testimony that the  
6 network will be examined and improvements will be  
7 made, if necessary, but beyond that, is there any  
8 specific guarantee to customers at that level about  
9 system reliability improvement? I mean guarantees as  
10 opposed to what you plan to do.

11 A I think the guarantee that I'm giving is  
12 that we will work with these customers. There are  
13 specific reasons for seeing this package associated  
14 with the distribution network. The transmission  
15 network is an interconnected network which in Utah  
16 interconnects with other states. It relies on  
17 generation rate going to the western coast of the  
18 United States. PacifiCorp has control over certain  
19 parts of the network but does not have control of the  
20 overall reliability and the interdependence on other

21 transmission networks. That is the nature of a  
22 transmission system. We have applied our standards  
23 to the specific part of the network which we own, we  
24 operate and control and can take absolute  
25 responsibility on.

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1           As I said, with larger customers, my  
2 experience and my way of working, whether it be with  
3 semiconductor plants or whatever it is, that we work  
4 very closely with them, and if there is a problem, we  
5 will be more than happy to sit there and work through  
6 the best way of resolving these problems.

7       Q   Do you have any reason to believe that was  
8 not PacifiCorp's attitude as well?

9       A   The short answer to that is yes in that I  
10 have been -- as said, had discussions recently,  
11 certainly with some of the larger communities, and I  
12 think our way of working has resolved some issues  
13 that have been hanging around for some time,  
14 particularly with one of the larger communities, as I  
15 say. I view them as one of our larger customers, and  
16 whilst that is a small example of the track record  
17 that we have, it is illustrative that we have started  
18 to work with PacifiCorp in that area and bring our  
19 skills here from the UK.

20           MR. DODGE: Thank you. No further

21 questions.

22 CHAIRMAN MECHAM: Thank you. Mr.

23 Mattheis.

24 CROSS EXAMINATION

25 BY MR. MATTHEIS:

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1 Q Just a couple of brief questions. Thank  
2 you. Mr. MacLaren, can we turn to Exhibit RM-2 of  
3 your testimony just real briefly?

4 A Yes. I wonder if someone can give me a  
5 copy of that. I think I have a photocopy of what I  
6 believe is the page, but given the proceedings, it  
7 would just help to make sure that I have the precise  
8 piece of paper in front of me. Thank you, Brian.

9 Q I just want to understand the source of the  
10 \$60 million cost reduction. Is it my understanding  
11 that basically what you've done is taken this BPA  
12 service data and applied it to PacifiCorp? Is that  
13 correct?

14 A That is correct. The BPA study covered a  
15 fairly wide variety of customers in the northwest and  
16 we have applied that data to the PacifiCorp  
17 territory. The Exhibit RM-2 which covers Bonneville,  
18 Puget Sound and Energy, Duke Power and Southern  
19 California Edison widens the overall scope of the  
20 customer base covered and is designed really to try

21 and underpin and ensure that the figures derived in  
22 the BPA study are robust.

23 Q And to make sure I understand, if we look  
24 just at BPA, the \$60 million is that 61 million over  
25 in the column under estimated benefit?

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1 A That's correct.

2 Q And the derivation of that is again a 5 and  
3 10 percent based on the figures in the previous  
4 column, the total cost of system outages?

5 A That's correct, yes.

6 Q Okay. And the total system cost of  
7 outages, those are yearly numbers?

8 A These are annual numbers, yes.

9 Q Okay. And the conclusion there, then, if I  
10 look at the previous column, it says total system  
11 cost of outages, would be the total cost to Utah  
12 ratepayers on an annual basis is 851 million?

13 A Hold on. You derive --

14 Q I'm not a mathematician, so I'll defer to  
15 you.

16 A These are across the PacifiCorp territory,  
17 these figures, rather than directly for Utah, so  
18 possibly it's round about 30, 20 --

19 Q I'm sorry. Across PacifiCorp system, the  
20 cost per year, 850 odd million dollars?



21 A Yes. Which is why I believe it's important  
22 that we all work together to try and improve these  
23 figures.

24 Q Would that imply that we should spend \$800  
25 million in system improvements to achieve these

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1 benefits?

2 A I think this does become a discussion with  
3 both Commission and with customers in terms of what  
4 they would like and are prepared to spend to remove  
5 these outages, because it does require one to move  
6 forward. I think our -- sorry. It does require a  
7 tradeoff in terms of reliability and investment. I  
8 believe that the Utah system is still well up the  
9 curve where there is distinctive cost benefit that  
10 this analysis underpins. At some stage you start  
11 requiring very heavy investment within the network to  
12 start reducing that figure even further and you run  
13 into, effectively, a cost benefit balance.

14 Q Right. And this doesn't purport to be the  
15 cost benefit analysis?

16 A This is not the full cost benefit  
17 analysis. This purports to show the incremental --  
18 or this does, in my view, show the incremental  
19 improvement which will result from our proposals.

20 MR. MATTHEIS: Nothing further.

21 CHAIRMAN MECHAM: Thank you. Mr. Reeder.

22 CROSS EXAMINATION

23 BY MR. REEDER:

24 Q Good morning.

25 A Good morning.

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1 Q You are a transmission engineer, aren't  
2 you?

3 A I've spent some 15 years of my career in  
4 transmission and some ten in distribution.

5 Q Would it be fair to describe a transmission  
6 system as the high voltage system that delivers  
7 generation to load?

8 A That would be correct.

9 Q And your goal as the transmission engineer  
10 is to make that system operate as efficiently as it  
11 can operate, is it not?

12 A If efficiency includes minimizing costs and  
13 maximizing reliability, the answer to that is yes.

14 Q And it's true, is it not, sir, that most  
15 transmission systems, even yours in the UK, and  
16 PacifiCorp's in particular, are interconnected with  
17 transmission systems owned by others?

18 A That is correct.

19 Q And the relative efficiency of a  
20 transmission system is somewhat dependent upon

21 behavior of the systems with which it's

22 interconnected, isn't it?

23 A That is the nature of electricity

24 transmission.

25 Q Your neighbor's loop flows can create

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1 tremendous problems for you? Your neighbor's lack of  
2 adequate repair or maintenance can create tremendous  
3 problems for you, can't it?

4 A It can, which is why we generally work  
5 together with our neighbors, as we do in the UK.

6 Q What is the plan of ScottishPower to  
7 improve the regional transmission system that we all  
8 depend on for service?

9 A I think currently we are working within the  
10 Western System Coordinating Council to ensure that  
11 reliability is maintained, the industrial reliability  
12 issues. We work them, and the overall coordination  
13 of the system, I believe, is dealt with through the  
14 various control centers in the western part of the  
15 U.S. and we would continue to do that and continue to  
16 work with our neighbors to ensure that reliability  
17 standards are maintained.

18 As I say, I have spent 15 years of my life  
19 in this working with utilities with adjacent  
20 transmission utilities and I'm well used to the

21 problems, whether these be stability problems,  
22 transient stability problems or other stability  
23 problems -- we haven't gone too much clear into that,  
24 but they are issues that have to be addressed, and as  
25 long as you have interconnected systems, you will

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1 have these technical limitations that you have to  
2 work to ensure that power flow is reliably given to  
3 customers.

4 Q An additional limitation that we need to  
5 address in a transmission system are the constraints  
6 that exist in our system or in our neighbor's systems  
7 to move load -- to move generation to load, isn't it?

8 A That is correct. Some transmission systems  
9 have constraints. Others less so.

10 Q Isn't it true that on PacifiCorp's system  
11 there are some import constraints, particularly into  
12 the Utah market.

13 MR. BURNETT: If you know?

14 Q (BY MR. REEDER) Fair enough. If you know,  
15 sir.

16 A The short answer is that I know that there  
17 will be constraints. They're bound to have  
18 constraints of some sort. Depends where the  
19 generation is coming from. If you were bringing  
20 generation in from Canada or something like that, you



21 are bound to have a constraint somewhere, and we  
22 already have.  
23 Q Let's go to the 30,000 foot view for a  
24 minute. You're familiar with the PacifiCorp system,  
25 aren't you?

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1 A I have an overview of the system. As I  
2 said, I've been here for a few months and it takes  
3 some time to become fully familiar with a large  
4 interconnected network.

5 Q Are you generally familiar where the  
6 generation is that serves the Utah load?

7 A Very broadly. I could not be specific  
8 about it.

9 Q Isn't it true that some of that generation  
10 is located in Wyoming?

11 A That would be my understanding.

12 Q Some of it might be located in Utah?

13 A Could well be.

14 Q Some of it might be located in the  
15 northwest?

16 A Could well be.

17 Q So we're very dependent upon a regional  
18 system to bring generation to load, aren't we?

19 A That is the nature of transmission systems  
20 throughout the world, yes.

21 Q So if a constraint exists on any of those  
22 systems that would keep the low cost power from  
23 getting here, we may suffer higher prices than we  
24 would otherwise suffer, wouldn't we?

25 MR. BURNETT: I think that reaches a

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1 conclusion that foundation hasn't been laid for.

2 Q (BY MR. REEDER) If you know.

3 A It would depend on what sources there are.

4 Q Please explain, sir.

5 MR. BURNETT: Explain what?

6 MR. REEDER: His answer was to my question

7 it would depend on what the sources were.

8 THE WITNESS: Would you repeat the previous

9 question?

10 Q (BY MR. REEDER) If I have an opportunity

11 to buy one cent hydro power in the northwest and

12 deliver it to Utah to displace two and a half cent

13 thermal generated power in Utah, I should do so,

14 shouldn't I?

15 MR. BURNETT: That would depend on a

16 variety of factors. Could you --

17 THE WITNESS: By the same nature as if I

18 were buying something from the UK to bring across

19 here, I might have to pay transportation charges and

20 I would have to assess the overall position. That

21 would be something that would be reasonable to do.

22 Q (BY MR. REEDER) But we should look at the

23 transmission system as a vehicle to provide the

24 opportunity to deliver that and then we must look at

25 the cost of it, must we not?

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1     A   It is an element of the overall cost.  You  
2   have generation costs, you have transmission costs,  
3   you have distribution costs, and each of these has to  
4   be taken into account in the purchasing decision by  
5   the purchaser, the same as it has in any other walk  
6   of life.

7     Q   So if we had one cent power in the  
8   northwest and two and a half cent power in Utah and  
9   there existed a physical constraint that kept us from  
10  making that market choice, we might be impaired,  
11  might we not?

12           MR. BURNETT:  I think he's answered your  
13  question.

14           THE WITNESS:  I think I've answered your --  
15  sorry.

16     Q   (BY MR. REEDER)  And was the answer yes?

17           MR. BURNETT:  It depended on a variety of  
18  factors.  It's asked and answered.

19           THE WITNESS:  And I was drawing a parallel  
20  between me having to, for instance, attend a meeting

21 here or to attend a meeting in New York. I have to  
22 make the assessment of whether the airfare travel  
23 makes it worth my while going to New York or  
24 remaining here. That is an economic decision I make  
25 and it depends on the infrastructure of the

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1 particular commercial part of the world that I'm  
2 working in, whether it be airfare or whether it be  
3 electricity. There are costs associated with doing  
4 things and one makes an economic decision based on  
5 the cost of doing so.

6 Q (BY MR. REEDER) What's the plan of  
7 ScottishPower to put itself in a position to make  
8 that choice? If you're not part of a regional system  
9 you can't participate in those choices, can you?

10 MR. BURNETT: That calls for a legal  
11 conclusion and I object to the question. In  
12 addition, it is the subject of our motion to strike.

13 CHAIRMAN MECHAM: Which we'll have an  
14 opportunity to get to. To the degree that it calls  
15 for a legal conclusion, I won't have the witness  
16 respond.

17 MR. BURNETT: I'm instructing the witness  
18 it calls for a legal conclusion.

19 CHAIRMAN MECHAM: How are you feeling, Mr.  
20 MacLaren?



21 Q (BY MR. REEDER) Let's try a business  
22 question to a transmission engineer. In order to  
23 have any sway in the planning of a regional system,  
24 you're going to have to be at the table that does the  
25 planning, are you not?

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1 A And we are through the Western System  
2 Coordinating Council.

3 Q And that's your plan to participate, sir,  
4 in regional planning is through the Western Systems  
5 Planning?

6 A That is my understanding of the current  
7 situation.

8 Q And in the Western Systems Planning, sir,  
9 as you understand it, doesn't each individual system  
10 make the decision about whether or not to expand,  
11 thus islanding itself?

12 MR. BURNETT: Could you restate the  
13 question?

14 Q (BY MR. REEDER) In the Western System's  
15 planning system, doesn't each system make the  
16 decision whether or not to expand, thus islanding  
17 itself?

18 MR. BURNETT: If you know.

19 THE WITNESS: I do not know the detail on  
20 that particular issue.

21 Q (BY MR. REEDER) Okay. Let me make sure I  
22 understand. You're relying on a planning system but  
23 you don't understand how it works?

24 MR. BURNETT: I think his testimony is  
25 clear. He's been here a few months. He's getting

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1 familiar with the system and he's not an expert on  
2 the system, nor is he an expert on the Western States  
3 Coordinating Council, and I would object to any  
4 further line of cross along this line.

5 CHAIRMAN MECHAM: Move on.

6 MR. REEDER: We'll move on. I think the  
7 point is made.

8 Q Mr. MacLaren, are you familiar with the  
9 term "pancake rates"?

10 A I am.

11 Q Can you describe what it is for this  
12 record?

13 A My understanding is that it relates to  
14 different transmission rates which depend on the  
15 costs associated with each part of the transmission  
16 network.

17 Q And it's really each individual owner  
18 charging a separate rate for the movement across  
19 their systems, aren't they?

20 A Which I understand is due to the costs of

21 that particular part of the system, and my  
22 understanding is that that is a rate that is agreed  
23 by FERC in setting these tariffs.

24 Q So if I were hypothetically bringing one  
25 cent power from Washington Water Power system, I'd

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1 have to pay their transmission rate, Idaho's  
2 transmission rate and any other interconnecting  
3 transmission rates to get here, wouldn't I?

4 MR. BURNETT: If you know.

5 THE WITNESS: Which I understand to be the  
6 case, and as I say, based on -- or I understand FERC  
7 to have taken the view that that is the cost of  
8 moving power across these networks to get it here.  
9 It's no different from me deciding to fly Delta, then  
10 another airline, then another airline to get to New  
11 York.

12 Q (BY MR. REEDER) Sir, would you agree, as a  
13 transmission engineer, that multiple pricing  
14 protocols, pancake rates, impairs the efficient use  
15 of the regional system?

16 A I would say not necessarily.

17 Q Could you explain?

18 A Because these send price signals to  
19 customers to indicate what the costs are that these  
20 customers are incurring in moving power across the

21 network and are influenced by the historical costs in  
22 establishing the transmission network.

23 Q Will ScottishPower seek to maintain system  
24 by system rates and perpetuate pancake rates, sir?

25 A You asked me if I understood and believed

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1 to understand as to how the pricing was. I am not in  
2 a position at this stage to say. As you, I believe,  
3 will understand, FERC currently have a notice of  
4 proposed rulemaking out which talks about the  
5 possible future operation and structuring of the  
6 transmission network. That is a process that is in  
7 place at national level. I would want to see how the  
8 debate on that that develops.

9 Q I'm asked you what ScottishPower's position  
10 was, sir. Would you seek to perpetuate pancake  
11 rates?

12 A I said I don't have a position at this  
13 stage.

14 Q What was ScottishPower's position in the  
15 UK?

16 MR. BURNETT: I'm going to object to this.  
17 Mr. Richardson discussed this. We've mentioned we  
18 are going to participate in the process. We've  
19 testified to that. There is a notice of proposed  
20 rulemaking at FERC. We'll participate. We will



21 participate in that, and I don't believe we need to

22 pursue this any further with this particular

23 witness.

24 CHAIRMAN MECHAM: Do you think that Mr.

25 Richardson's response was adequate?

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1 MR. BURNETT: Yes.

2 MR. BURNETT: Also, I mean, we've said  
3 we're participating in the process. What more is  
4 there? You know, we have yet to -- we're new here.  
5 We're going to participate in the process. We don't  
6 have all the answers. Mr. Reeder is saying what's  
7 the exact answer, and we've responded we're going to  
8 participate in the process and develop that as we go  
9 along, and that's the end of the discussion.

10 MR. REEDER: Generally it's good to know  
11 before you turn over your car to your teenage child  
12 that, A, they've got a driver's license, B, where  
13 they're going, and C, when they'll be back. I don't  
14 think we know from ScottishPower where they're going  
15 on these transmission issues yet and they're asking  
16 for the keys. That's all I'm asking, is where are  
17 you going and when are you going to be back before we  
18 give you the keys.

19 MR. BURNETT: You know, I think a better  
20 analogy might be that Mr. Reeder already has a car

21 with a kid in it with a driver's license and he's  
22 been driving for years and we're going to buy the car  
23 from him. I mean, we're going to change ownership of  
24 that whole situation.

25 THE WITNESS: Can I just say that I don't

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1 believe that this is a question that could be posed  
2 to many utilities without a firm -- with a firm  
3 view. This is a process that is going on just now  
4 nationally. There are many companies discussing and  
5 talking about what their issues are, and very few  
6 have final positions with respect to what the notice  
7 of proposed rulemaking is. That debate continues to  
8 snow and it involves the states, the commissions,  
9 everyone else in coming to what the conclusion is on  
10 the best way forward for customers, which is what  
11 it's about, and it's about all customers, wholesale,  
12 retail, commercial, to get the best solution for  
13 these customers for the development of the U.S.  
14 electricity industry.

15 Q (BY MR. REEDER) When are the comments due  
16 on the NOPR?

17 A There are preliminary comments due in mid  
18 August.

19 Q Eleven days from now?

20 A So I believe.

21 Q And you're not willing to tell us on this

22 record what ScottishPower is going to say?

23 A ScottishPower is not commenting on the

24 NOPR.

25 CHAIRMAN MECHAM: And I think that was made

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1 clear earlier, too. I've enjoyed all the stories, I  
2 must say, but --

3 MR. REEDER: I have nothing further.

4 CHAIRMAN MECHAM: Okay. Thank you, mr.  
5 Reeder. Mr. McNulty. You better use that  
6 microphone.

7 CROSS EXAMINATION

8 BY MR. McNULTY:

9 Q Mr. MacLaren, I have several questions, and  
10 you'll recall I'm the person who doesn't understand  
11 the system very well, so if I get off into phase  
12 metering and stuff, you'll help me with that?

13 A I'll try.

14 Q ScottishPower owns transmission systems in  
15 the UK; is that correct?

16 A That's correct. In the south of Scotland.

17 Q Does ScottishPower share ownership of any  
18 of these transmission systems with other entities?

19 A No. We have our own transmission network.  
20 We are interconnected to the north of Scotland

21 transmission system and we are interconnected to the  
22 transmission system in England and Wales.

23 Q The interconnection does not grant you some  
24 portion of ownership rights in any of those companies  
25 that you're interconnected with?

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1 A It does not.

2 MR. McNULTY: Thank you very much, sir.

3 CHAIRMAN MECHAM: Mr. Sandack.

4 CROSS EXAMINATION

5 BY MR. SANDACK:

6 Q As I understand your testimony, sir, it's  
7 ScottishPower's intent to extract \$55 million in  
8 savings from existing operation to essentially pay  
9 for the enhanced performance standards to meet the  
10 guarantees to customers; is that correct?

11 A That would be correct. We would be looking  
12 for efficiency and redirection, I must emphasize,  
13 because, as I said on Monday, some of this is about  
14 applying the capital that's currently spent in a  
15 better way to improve the efficiency.

16 Q Okay. So as I understand it, the company  
17 has \$1 billion in capital, PacifiCorp, on the books  
18 right now in cash. Are you willing to dip into that  
19 to fund these efficiencies?

20 A What we're talking about here, I think, is



21 that we spend -- PacifiCorp spend, as I understand,  
22 somewhere around \$400 million per year on the network  
23 and associated support of the network currently and  
24 I'm saying that that figure is not going to change  
25 any, and within that expenditure, we will refund the

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1 necessary -- but I see it as a -- I'll start that  
2 answer again, if I may. That within the current  
3 PacifiCorp budgets, we would find efficiencies and  
4 improvements in the way that we engineer things and  
5 in the way that capital is directed to fund these  
6 performance improvements.

7 Q Is that additional capital expenditure over  
8 and above what PacifiCorp is --

9 A No, it is not.

10 Q The 400 is essentially what they've already  
11 been spending?

12 A Yes, that is correct. And as I said  
13 earlier, I have had budget -- I mean, my budget in  
14 the UK was probably two to three hundred million  
15 dollars on the network and we have been able to fund  
16 that sort of improvement by finding efficiencies and  
17 that kind of a budget.

18 Q Does that budget just go to the  
19 transmission system or does it include generations?

20 A No. That is the transmission and

21 distribution networks. It does not include the  
22 generation element.  
23 Q We learned yesterday that 50 odd million  
24 dollars in savings cost 700 jobs to PacifiCorp in  
25 1998. Is that your intention?

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1 MR. BURNETT: Well, I'm going to object to  
2 those numbers, or at least -- I'm not sure this  
3 witness is the one to testified as to whether there's  
4 a correlation between 55 million and 700 jobs.

5 MR. SANDACK: Well, I don't think we need  
6 to be exact. Those were PacifiCorp's numbers  
7 yesterday.

8 CHAIRMAN MECHAM: So what's the question?

9 Q (BY MR. SANDACK) The question is: Is  
10 this going to result in 700 more jobs being lost?

11 MR. BURNETT: Redirecting an existing  
12 capital budget? Is that the question? Is  
13 redirecting the existing capital budget going to --

14 MR. SANDACK: No. As I understand it, they  
15 were going to make some --

16 Q Well, capital expenditures does include  
17 labor, does it not?

18 A It is an element. As I say, what we've  
19 looked at and the kind of typical example would be  
20 optimization of standards and optimization of

21 procurement methods and savings in that respect and  
22 that would be applied to the network to achieve  
23 performance improvements.

24 As I said on Monday, applying slightly  
25 different technology to the network where we might

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1 otherwise have spent on fuses, we maybe spend on  
2 something more automatic or we put in some automatic  
3 equipment that might be manual before. That kind of  
4 change would be the kind of change I would see.

5 Q So you're not looking towards job  
6 elimination; you're looking toward engineering  
7 type --

8 A Looking toward better engineering, but it  
9 must be clear that sometimes better engineering does  
10 result in job changes or even skill changes. And  
11 when we went to just these in the UK, we have very  
12 heavily gone into training and retraining with staff  
13 to make sure that they are well able to work safely  
14 and competently operate the new system. It's an  
15 integral part. It's not just about engineering.  
16 It's about the people who operate that equipment,  
17 too, and you must put in that infrastructure then as  
18 well.

19 Q I understand, but it just seems from the  
20 experience that we've had that every time sometimes

21 mentions efficiencies, lots of jobs are lost and  
22 translate directly into cost savings and make up the  
23 majority of those savings. You can understand our  
24 concern about job loss, then, can you not?  
25 MR. BURNETT: Is the question that he can

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1 understand your concern?

2 MR. SANDACK: The union's -- the employees'  
3 representatives' concerns about more job losses.

4 THE WITNESS: I can understand your  
5 concern, yes. I can understand, yes.

6 Q (BY MR. SANDACK) I gather when you say you  
7 need to improve infrastructure, you work closely with  
8 the employees in achieving those ends, do you not?

9 A Absolutely, because there are issues such  
10 as safety. We talked on Monday about the need to  
11 ensure safety standards and maintain safety standards  
12 for employees. When you're introducing your  
13 equipment, you must make sure that training is right  
14 and safety procedures are right.

15 Q You go to the employees for help in  
16 achieving efficiency? You mentioned the one  
17 situation about the fuse in the plant. Did that come  
18 from an employee's suggestion, by any chance?

19 A It came from some of my engineers, and I  
20 was working with them on that and, in introducing it,



21 we set up teams which included the linesmen and  
22 others who were actually operating the equipment, so  
23 our general approach is to work very closely with  
24 staff. People are going to feel -- very often have  
25 a -- that have worked in the field have a lot to

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1 bring to these kinds of discussions. You can't do  
2 these things just sitting in an office.

3 Q How frequently do you shut down your  
4 generation units in the UK for maintenance?

5 A I couldn't answer that. I have experience  
6 on the technical side of generation. I don't have at  
7 my fingertips the likes of the generation plant the  
8 maintenance frequencies.

9 Q Has the frequency become less frequent over  
10 the years or more frequent in terms of the efficiency  
11 that you've achieved in maintenance?

12 A I cannot specify in the context of how  
13 often things are maintained. I do know that the  
14 availability of the plant and its ability to run its  
15 load factors has increased over the years as our  
16 maintenance and the operating regimes have become  
17 optimum. In looking at the output, the output from  
18 the generators is higher than it ever has been,  
19 particularly in the UK. That helps to preserve jobs  
20 because of the nature of the competitive industry.

21 If the plants are not efficient, then that is more  
22 likely to impact jobs, for instance, the frequency of  
23 the maintenance of the plant, is very much the  
24 output, that the generator is operating and the jobs  
25 are there.

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1 Q I understand that you could maintain the  
2 plants less frequently and that would affect jobs as  
3 well, would it not, negatively?

4 A If that were the case, that follows  
5 logically, but as I say, I cannot tell you  
6 specifically or relate specifically to the generation  
7 maintenance or speak for it, the generation  
8 maintenance frequencies either here or in the UK.

9 Q Okay. So Mr. Moir deferred to you and who  
10 would you defer to on that question? Do you have a  
11 witness who speaks to that?

12 MR. BURNETT: On generation and maintenance?

13 MR. SANDACK: Yes.

14 MR. BURNETT: I don't believe we've  
15 addressed that particular issue.

16 Q (BY MR. SANDACK) I guess, just in  
17 closing, it seems like a chicken and an egg kind of  
18 analysis to me. You want to make the cost savings  
19 from the current capital expenditures to the tune of  
20 \$55 million, but you're not willing to commit any new

21 dollars into that without charging ratepayers if you

22 can't meet your efficiencies?

23 MR. BURNETT: I'm going to object to that

24 question. I believe that's a mischaracterization.

25 Our testimony and his statement today -- his

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1 testimony today is we're redirecting existing capital  
2 budgets through efficiencies to fund this  
3 improvement.

4 MR. SANDACK: My understanding was it was  
5 the existing capital budgets that they would going to  
6 achieve the efficiencies from.

7 MR. BURNETT: That's correct.

8 CHAIRMAN MECHAM: My guess is Mr. MacLaren  
9 knows that.

10 MR. BURNETT: Well, asked and answered, but  
11 go ahead.

12 Q (BY MR. SANDACK) Isn't that correct, sir?

13 A The answer is that, as always, we are  
14 looking for improving the efficiency of the capital  
15 expenditure and we will do the same here in  
16 PacifiCorp. We believe that some of that efficiency  
17 can be attained by bringing the ScottishPower skills  
18 to bear. We can get that efficiency and improve --  
19 use some of that efficiency improvement to improve  
20 and maintain the network performance for customers in

21 Utah, and I think that is a skill that we do bring to  
22 Utah. We have a track record of having done so. It  
23 is not increasing rates to the customers in Utah. It  
24 is bringing better management skills and improved  
25 network performance as a benefit, too.

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1 Q Well, if you can't make the \$55 million  
2 savings, is ScottishPower willing to put more money  
3 into it to achieve what it takes in capital  
4 expenditures to make those savings without charging  
5 it to ratepayers?

6 A We are confident that we can do that with  
7 55 million that we have talked about here, and if  
8 there were any changes, we need to find efficiencies  
9 to do that, and I'm quite confident that we can do  
10 that. That 55 million is over five years. It is, in  
11 capital expenditure terms, about \$6 million per year.  
12 That's a \$400 million capital budget. I'm quite  
13 certain, from the years of experience that I have in  
14 that, area, and my evaluation of where we are with  
15 PacifiCorp, that I will find ways of achieving that.  
16 In fact, my carrier will no doubt depend on it.

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

18 CHAIRMAN MECHAM: Thank you, Mr. Sandack.

19 COMMISSIONER JONES: Mr. MacLaren, I'm  
20 interested in the timing, first of all, on the



21 customer's guarantees on the 50 and 100 dollars.

22 Does that take effect the day you consummate the

23 merger?

24 THE WITNESS: I think some of the standards

25 we have said that we will introduce within 30 days of

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1 a consummation of the merger. Some will take a bit  
2 longer to achieve. I think in the original testimony  
3 it laid out time scales. I just cannot recall  
4 without going back to the testimony. Mr. Moir  
5 probably has that at his fingertips.

6 COMMISSIONER JONES: In Mr. Richardson's  
7 Exhibit 1, there's a 90-day guarantee on the  
8 complaint resolution, 90-day delay, but I didn't see  
9 anything on the 50 and 100 dollars, when that takes  
10 effect.

11 THE WITNESS: Sorry. The 50 and 100  
12 dollars -- I need to go to the -- is Mr. Moir in the  
13 room? If it was permissible, Mr. Moir could probably  
14 just confirm -- no. Okay. If somebody could give me  
15 a copy of Mr. Richardson's testimony. I'm familiar  
16 enough with it that I should be able to find it.

17 (Discussion off the record.)

18 THE WITNESS: Ninety days, yes.

19 COMMISSIONER JONES: And then in the same  
20 attachment it indicates that in five years the system

21 will have accomplished the 10 percent, the 10 percent  
22 and 5 percent.

23 THE WITNESS: Yes.

24 COMMISSIONER JONES: Is that a straight  
25 line period to get to that 10 percent or do we get

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1 results within the first year or the second year?

2 THE WITNESS: No. I think it will tend to  
3 be back end weighted when one is talking about a  
4 distributed network on carrying out this kind of  
5 change and have to plan the change and have to plan  
6 where you're making the changes to the network. You  
7 then have to order the equipment and undertake the  
8 capital program. You have staff training issues and  
9 implementing new technology, and my view would be  
10 that the first year would be effectively spent  
11 planning the changes, clearing issues like rights of  
12 way and environmental type of issues, and then the  
13 execution would start in year two and you would start  
14 seeing benefit probably from sometime in year two  
15 through to year five, with an acceleration as the  
16 program picks up towards the back end. That has been  
17 how it has happened in the two occasions that we've  
18 run these programs before, both in Scotland and in  
19 Manweb. You see the changes coming through, but it  
20 tends to take you -- there is an inertia to be

21 overcome, both in the context of organizational. As  
22 somebody said yesterday, there's very often 50, 60  
23 years' worth of history in the way things have been  
24 done and you have to work through that as changed  
25 management to achieve the output.

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1           COMMISSIONER JONES: Okay. Thank you very  
2 much.

3           COMMISSIONER WHITE: I don't recall the  
4 track record of ScottishPower and Manweb. Could you  
5 remind me, in terms of things like how much did you  
6 improve reliability on transmission and distribution  
7 over the years?

8           THE WITNESS: In Scotland, if I recall the  
9 figure correct, it was 23 percent.

10          COMMISSIONER WHITE: Over?

11          THE WITNESS: Over five years, five, six  
12 years. And in Manweb it was about -- if I recall the  
13 figure rightly, it's 47 percent improvement in  
14 underlying reliability.

15          COMMISSIONER WHITE: And how were those  
16 measurements derived? What does the 23 percent and  
17 the 47 percent refer to?

18          THE WITNESS: These refer to the average  
19 time a customers is off supply in the course of a  
20 year. You refer to very often a city, but what it

21 means is if you were the average customer, you would  
22 typically, in Utah, maybe be off for say about 80  
23 minutes in the year. Those are very widespread, of  
24 course, on that, but as you move the average, then,  
25 to actually move the average, you've obviously got to

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1 be moving people who are served in that average to  
2 move the average upwards.

3 COMMISSIONER WHITE: I understand that you  
4 are trying to focus on results and may have various  
5 ways of achieving those, but still, could you give me  
6 an idea of, say, spending on improvements to the  
7 transmission and distribution system? Do those go  
8 up, do those go down?

9 THE WITNESS: In the context of -- I mean,  
10 back to the 55 that -- I'm used to working within a  
11 constrained capital budget and finding better ways of  
12 engineering and looking at plant, plant life and  
13 replacement. You don't necessarily match one for one  
14 when you do replacement. Technology has moved on,  
15 capability of systems has moved on, and you find a  
16 better way of doing things and delivering the same  
17 output or better output to customers at a lower  
18 cost.

19 COMMISSIONER WHITE: Okay. Thank you.

20 CHAIRMAN MECHAM: Any redirect?



21 MR. BURNETT: I just have a few questions I  
22 thought I might run through real quickly.

23 REDIRECT EXAMINATION

24 BY MR. BURNETT:

25 We've talked about this \$55 million.

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1 That's over a five-year period?

2 A That is correct.

3 Q Averages to \$11 million?

4 A Averages is million, yes.

5 Q That's system wide. Utah would take a  
6 proportion of that?

7 A Yes.

8 Q 30 percent or whatever?

9 A It would take -- yes, it would take a  
10 proportion. I would guess roughly in proportion to  
11 customers.

12 Q You mentioned the annual budget for capital  
13 expenditures.

14 A My understanding, it's about 400 million,  
15 though we'd have to take PacifiCorp's advice  
16 specifically, but it's of that order.

17 Q Of the \$55 million number, how much of that  
18 is capital improvements?

19 A 30 million of that, or thereabouts, is on  
20 capital improvement.

21 Q And so when a rate case came around, if  
22 those investments were made, at that time the  
23 Commission would review that as whether or not it  
24 should be included in rate base?  
25 A That's my understanding in all of the way

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1 that the mechanism works.

2 Q And they could review it at that point in  
3 time?

4 A We are putting forward proposals, and I  
5 believe that when we have made these investments and  
6 we've improved, then it will be up to the Commission  
7 to decide whether or not that has prudent expenditure  
8 and is allowable into the rate base.

9 Q We had some discussion regarding customers  
10 and the benefit to customers of this. Is it your  
11 understanding that Schedule 9's customers use the  
12 distribution system?

13 A I'm sorry. I wouldn't be able to answer  
14 that as I'm not familiar in fine detail with the  
15 schedules here.

16 Q You know, you've discussed this previously,  
17 but do you believe your experience in ScottishPower  
18 helps you to -- I mean, there's been some discussion,  
19 could PacifiCorp do this on their own. I would like  
20 you to describe why your experience with

21 ScottishPower would assist you in this.

22 A Absolutely. I believe that we, working

23 with PacifiCorp, can do a lot better than PacifiCorp

24 can on its own, and I don't believe it's just about

25 important skills or applying technology. I think

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1 it's about issues such as I touched on earlier, the  
2 changed management, introducing -- we have been  
3 through it before twice and I believe that we can  
4 bring these skills to work with staff and PacifiCorp  
5 to improve a service, so I do think that this is not  
6 a question that -- if I -- I'll rephrase that.

7 Anybody can do anything given sufficient time and  
8 resources.

9 I believe that we can do this faster and  
10 quicker and with more certainty with the merged  
11 companies than would be possible with PacifiCorp  
12 stand alone. In fact, on some of the issues which,  
13 on reporting some of the discussions that I've had  
14 about giving the DPU oversight of customer network  
15 performance, I think in the course of a week or two  
16 working together -- again, it's hearsay, but they  
17 basically believe that we managed to achieve in two  
18 or three weeks of discussion what they have been  
19 trying to achieve for two or three years working with  
20 PacifiCorp stand alone.

21           So I believe in both working with  
22 regulators and system performance and network  
23 performance is something that will be very much a  
24 benefit to customers in Utah, and I think I'm looking  
25 forward to that, and the people in PacifiCorp that

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1 I've worked with are working very closely with us on  
2 this.

3 Q On these overall system performance, is it  
4 your opinion that all customers will benefit?  
5 There's no reason that all customers wouldn't  
6 benefit, is there?

7 A Absolutely, on the package, as I said, the  
8 distribution performance standards will benefit all  
9 customers of the distribution network and I believe  
10 that in other parts of the network the way that we  
11 worked and the skills and experiences that we bring  
12 to complement those of PacifiCorp will result in  
13 benefit to customers.

14 MR. BURNETT: I have no further questions.

15 COMMISSIONER WHITE: I just have one more  
16 question. Same kind of question I had before. I  
17 don't recall what the facts were on the rates that  
18 customers pay in ScottishPower's territory and  
19 Manweb. What's the history there? Have their rates  
20 remained stable, gone up, gone down?



21 THE WITNESS: I think the exact detail of  
22 that would be best asked with -- probably with Mr.  
23 MacRitchie. I know generically that the rates have  
24 gone down over the period, but the precise figures I  
25 don't have.

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1 COMMISSIONER WHITE: Okay. Thanks.

2 CHAIRMAN MECHAM: Anything else?

3 MR. BURNETT: I have nothing further of  
4 this witness.

5 CHAIRMAN MECHAM: All right. Thank you,  
6 Mr. MacLaren. Let's go off the record a minute.

7 (Discussion off the record.)

8 CHAIRMAN MECHAM: Okay. Let's go back on  
9 the record. We now have Mr. Morris on the stand with  
10 us who has been previously sworn and remains under  
11 oath.

12 GRAHAM L. MORRIS

13 recalled as a witness, having been previously duly  
14 sworn, was examined and testified further as follows:

15 DIRECT EXAMINATION

16 BY MR. VAN NOSTRAND:

17 Q Good morning, Mr. Morris. Would you state  
18 your name for the record, please.

19 A Good morning. My name is Graham Morris,  
20 spelled G-R-A-H-A-M, M-O-R-R-I-S.

21 Q And by whom are you employed, Mr. Morris?

22 A I'm employed by Manweb, spelled

23 M-A-N-W-E-B, a wholly owned subsidiary of

24 ScottishPower.

25 Q What is your position with Manweb?

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1 A My position in Manweb is head of finance,  
2 which is the equivalent of chief financial officer in  
3 the U.S.

4 Q Do I understand correctly that you're  
5 adopting as your own testimony the prefiled direct  
6 testimony of Robert Green which has been marked as  
7 Exhibit ScottishPower 4?

8 A That is correct.

9 Q And accompanying that is Exhibit 4.1 and  
10 4.2?

11 A That's correct.

12 Q And did you also prefile rebuttal testimony  
13 in this case marked as exhibit ScottishPower 4R?

14 A I did.

15 Q And accompanying that testimony are  
16 Exhibits 4R.1 through 4R.3?

17 A That's correct.

18 Q Do you have any additions or corrections to  
19 make to that testimony or exhibits at this time?

20 A No, I do not.

21 Q And if I asked you the questions set forth  
22 in Exhibit ScottishPower 4 and Exhibit ScottishPower  
23 4R at this time, would your answers be the same as  
24 set forth therein?  
25 A They would.

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1 MR. VAN NOSTRAND: Mr. Chairman, I would  
2 move the admission of Exhibits ScottishPower 4 and 4R  
3 and the accompanying exhibits.

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

6 (Whereupon Exhibits SP 4, 4.1 and 4.2, 4R  
7 and 4R.1 - 4R.3 were marked and received.)

8 Q (BY MR. VAN NOSTRAND) Mr. Morris, do you  
9 have a brief summary of your testimony?

10 A I do.

11 Q Could you please proceed?

12 A Thank you. My testimony describes how  
13 PacifiCorp's customers in Utah will benefit from the  
14 cost savings that ScottishPower will achieve and the  
15 other financial benefits that will flow from the  
16 transaction. We have committed to rates that are  
17 lower than they would have been without the  
18 transaction. Through the stipulation, we have heard  
19 how this commitment will be fulfilled.

20 As discussed earlier this week, Condition

21 43 of the stipulation provides an annual merger  
22 credit in the amount of \$12 million for four years  
23 commencing next year. This provides an immediate  
24 benefit to customers and flows through to customers  
25 the corporate cost savings that we have promised to

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1 achieve, as well as the cost savings that we expect  
2 to achieve in other areas of PacifiCorp's  
3 operations.

4 Another important consideration in the  
5 stipulation is an overall commitment that rates will  
6 not increase as a result of the merger as set forth  
7 in Condition 44. We believe the transaction will  
8 have a positive impact on the financial integrity of  
9 PacifiCorp. The early signs from the rating agencies  
10 are encouraging in this regard as PacifiCorp has been  
11 placed on credit watch with positive implications.  
12 Given that ScottishPower has a higher rating than  
13 PacifiCorp, this development is not surprising. An  
14 improved rating should lead to lower borrowing costs  
15 for PacifiCorp which will translate into cost savings  
16 for customers under Condition 25.

17 To address any concerns that the financial  
18 impacts may not be positive, we have included several  
19 provisions in the stipulation with the Division and  
20 the CCS to protect Utah customers. Condition 25, for



21 example, protects customers from any increasing costs  
22 of capital, as any higher capital costs as a direct  
23 result of the transaction will not be passed through  
24 to customers. Another provision in the stipulation  
25 requires the use of a hypothetical capital structure

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1 tied to the capital structure of a comparable A-rated  
2 electricity utility.

3       We have taken affirmative steps to  
4 anticipate and address concerns about how  
5 ScottishPower would allocate costs to PacifiCorp and  
6 how affiliated transactions will be treated. We  
7 addressed these issues in our filing of June 18th.  
8 Let me read that again. We addressed the issue of  
9 corporate cost allocations by filing on June 18th our  
10 proposal for allocations of corporate cost  
11 overheads.

12       Our proposals, together with the additional  
13 measures in the stipulation, provide a clear  
14 indication of our commitments to achieve cost  
15 allocations and affiliate transaction reporting that  
16 are acceptable to the Commission and can be properly  
17 traced back through to the Company's books.

18       We have ensured that the costs associated  
19 with the transaction will not be passed on to  
20 customers. The companies are bearing the transaction

21 costs and the acquisition premium which ScottishPower

22 is paying for PacifiCorp.

23 The stipulation with the Division and CCS

24 addresses these issues as well. Condition 26, for

25 example, provides that rates will continue to be set

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1 based upon the original costs and prohibits the  
2 revaluing of assets to reflect indirectly the  
3 acquisition premium.

4 Another concern arising from the  
5 transaction is that the Commission and the Division  
6 and the CCS continue to have the necessary access to  
7 the Company's books and records. We've proposed  
8 conditions to address this issue in our direct  
9 testimony. There are additional provisions in the  
10 stipulation to ensure the Commission's regulatory  
11 oversight does not change as a result of the  
12 transaction.

13 Thank you for the opportunity to summarize  
14 my testimony. I look forward to answering any  
15 questions the Commission or other parties may have  
16 regarding the subjects addressed in my testimony.  
17 Thank you.

18 MR. VAN NOSTRAND: Thank you, Mr. Morris.  
19 Mr. Chairman, Mr. Morris is available for cross  
20 examination.

21 THE COURT: Thank you. Let's take a short

22 recess.

23 (Recess, 10:31 a.m.)

24 (Reconvened, 10:51 a.m.)

25 CHAIRMAN MECHAM: Let's go back on the

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1 record. Are you on first, Mr. Reeder?

2 MR. REEDER: I am.

3 CHAIRMAN MECHAM: Okay. Go ahead.

4 CROSS EXAMINATION

5 BY MR. REEDER:

6 Q Good morning, Mr. Morris.

7 A Good morning, Mr. Reeder.

8 Q You are the fellow to whom a number of  
9 questions have been punted. My first question is:

10 Will you answer all the questions that have been  
11 punted to you?

12 A To the best of my knowledge and belief.

13 Q Mr. Morris, you're the CFO from Manweb in  
14 U.S. terms; am I correct?

15 A That's correct.

16 Q Were you with Manweb at the time of the  
17 takeover?

18 A I was.

19 Q At the time -- it was a hostile takeover,  
20 as I recall.

21 A That's correct.

22 Q Mr. Richardson suggested you'd know whether

23 or not it was a cash tender offer?

24 A It was a cash offer.

25 Q And he also suggested that you would know

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1 whether or not the takeover of Scottish Water was a  
2 cash tender offer. Was it a cash tender offer?

3 A Southern Water. Yes, it was.

4 Q Southern Water.

5 A Yes, it was.

6 Q Isn't it true that, as a result of that  
7 takeover, the rates of Scottish Water were capped or  
8 frozen at some level?

9 A Southern Water.

10 Q Southern Water, yes. I'll write that down.

11 Southern Water. Isn't it true they were capped or  
12 frozen at some level?

13 A I think within the UK the regulatory  
14 parameters of electricity and water companies tend to  
15 be all muddled around and are minus acts from the  
16 regulation, so even absent the transaction, the rates  
17 are capped within water and electricity companies.

18 Q So you customarily expect your rates to be  
19 capped?

20 A Even absent a transaction, yes, we would.



21 Q All right. The questions concerning

22 windfall tax were punted to you.

23 A Yes, they were.

24 Q Was the windfall tax totally retroactive or

25 did you have an avoidance opportunity?

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1 A No, we had no avoidance opportunity. May  
2 I just take the opportunity to explain how the  
3 windfall tax was calculated?

4 Q Please do.

5 A It was a tax largely on the movement in the  
6 share price of the companies and was a comparison of  
7 share price movement from flotation to a point in  
8 1997 and the movement in the share price compared  
9 with the average of the four years earnings gave a  
10 windfall tax which the companies have to bear.

11 Q But your routine followed the price of the  
12 ScottishPower stock?

13 A As I am a shareholder, yes, I did.

14 Q What was the highest price of ScottishPower  
15 stock?

16 A Over six pounds a share.

17 Q And that price occurred about when?

18 A From memory, it was about a year ago.

19 Q Was it about in November or December of  
20 1998?

- 21 A Subject to check.
- 22 Q And what's the current price? As best you
- 23 know.
- 24 A It's best not to guess in these.
- 25 Q I'll accept an approximation.

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1 A Approximation of about five pounds a share.

2 Q So it's down a bit from where it was when  
3 the transaction was consummated?

4 A That is correct.

5 Q Are you familiar with Cross Examination  
6 Exhibit No. 1?

7 A Yes, I am.

8 Q And Cross Examination Exhibit No. 1 is  
9 what, sir?

10 A It was a report by OFFER, the Office of  
11 Electricity Regulation on February the 11th, 1999 in  
12 which it published its recommendations on  
13 strengthening the ring fencing provisions in the PES,  
14 which is the public electricity supply licenses in  
15 the UK.

16 Q There's been some confusion on this record  
17 on whether or not these were the final conditions to  
18 be imposed on licenses. Can you clear up that  
19 confusion?

20 A Yes, I hope I can.

21 Q Are these the final conditions?  
22 A That is going to take a little longer than  
23 yes-no answer, if you'll allow me. The publication  
24 which came out from OFFER followed a number of  
25 significant developments in 1998 in the UK, which

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1 included East Midlands Electricity and London  
2 Electricity, have been taken over, and the merger of  
3 Hydro-Electric and Southern Electric, as well as  
4 Midlands Electricity divesting its supply business,  
5 and the result of the developments in the market in  
6 1998, OFFER felt so much had changed that they had to  
7 put forward further ring fencing conditions.

8       They relate to all PESs in the UK that have  
9 been taken over, such as Manweb, and would be  
10 incorporated in due course into the licenses of  
11 ScottishPower.

12       The position of the paper is that it was  
13 OFFER's recommendation to the Department of Trade and  
14 Industry, and the way the regulation works in the UK,  
15 these were recommendations that were put to the  
16 Departments of Trade and Industry to which  
17 ScottishPower then responded.

18       Q In fact, one of the events giving rise to  
19 these recommendations was, to quote, "The  
20 announcement by ScottishPower and the National Grid

21 Group of major overseas acquisitions," wasn't it?

22 A That was part, but I would say not a

23 significant part, but it was part.

24 Q These February 11, 1998 conditions that

25 form a part of Cross Examination Exhibit No. 1 are

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1 conditions that Manweb has accepted as a part of  
2 their license, are they not?

3 A That is correct.

4 Q And they are conditions, are they not, sir,  
5 that ScottishPower, the operating company in the UK,  
6 to distinguish from the holding company, will accept  
7 as a part of its license when a holding company is  
8 formed?

9 A Again, I think to clarify that --

10 Q Please do.

11 A The proposals, as I said earlier, were  
12 proposals put forth by OFFER in a letter to Kim  
13 Howells of the Department of Trade and Industry,  
14 which I think you put forward as an exhibit, a letter  
15 from Mr. Charles Berry. We itemized a series of  
16 conditions that we would accept broadly along the  
17 lines of the conditions within the OFFER  
18 recommendations.

19 Q And it's true, is it not, sir, that these  
20 conditions will be applied to ScottishPower once its



21 PES license is held by a subsidiary company?

22 A You seem to be quoting, Mr. Reeder. Could

23 you just --

24 Q I'm quoting ScottishPower's response to

25 Data Request No. 20.

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1 A I will believe it.

2 MR. BURNETT: Could you show him a copy,  
3 please?

4 MR. REEDER: Sure. I forgot to ask if I  
5 could approach. May I?

6 CHAIRMAN MECHAM: Of course you can, since  
7 you have.

8 MR. REEDER: I do get ahead at times.

9 THE WITNESS: That is correct.

10 Q (BY MR. REEDER) It is correct, sir, that  
11 these are the conditions that will become a part of  
12 ScottishPower's license when you become a subsidiary  
13 of the holding company?

14 A Can we be clear what we mean by these  
15 conditions? The conditions to which I would answer  
16 yes are the conditions referred to in Mr. Berry's  
17 letter.

18 Q Those conditions referred to in Mr. Berry's  
19 letter are the conditions of the February 11th  
20 consultancy report of OFFER marked as Cross

- 21 Examination Exhibit No. 1, are they not?
- 22 A I think they differ in some minor detail.
- 23 Q Maybe we better read the discovery response
- 24 again. The standard ring fence terms which
- 25 ScottishPower accepted in the undertakings to DTI on

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1 April 1, 1998 include the modifications relating to  
2 the license described in OFFER's February 1998  
3 paper. These will be applied to ScottishPower once  
4 it's PSC license is held by a subsidiary company. Do  
5 you want to change that statement?

6 A No, I do not. It's probably true.

7 Q Is that correct a correct statement?

8 A That is a correct statement. The points of  
9 my clarification is that there are some conditions  
10 referred to in the OFFER documents which are optional  
11 on the Company.

12 Q Now, in an off-the-record discussion with  
13 you and your counsel in order to expedite this  
14 matter, I've asked you in a monologue, or however you  
15 choose to do it, to monologue, to draw the analog  
16 between the conditions that OFFER has proposed in  
17 Cross Examination Exhibit No. 1 and the stipulation  
18 conditions here so this Commission can see what was  
19 proposed by the UK regulators and how it relates to  
20 what you've agreed to here.

21 A That is correct.

22 Q Are you prepared to just describe those

23 conditions? And, Counsel, have I fairly stated our

24 discussion?

25 MR. VAN NOSTRAND: That's correct. That's

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1 a comfortable way to proceed.

2 Q (BY MR. REEDER) To proceed as

3 expeditiously as you can, please do so.

4 A Thank you. Yes. In the appendix to the

5 OFFER documents to which we refer, there were eight

6 conditions, and if I can quickly run through those

7 and then contrast those with the --

8 Q I am leaving you in charge to explain the

9 analogs.

10 A Thank you. The first condition within the

11 stipulation was to delete a subparagraph in the PES

12 license so as to resolve any circularity that it

13 created. It was a very technical correction of the

14 license and really has no equivalent within our

15 conditions. That was Condition 1.

16 Condition 2 was all about the definition of

17 a holding company. One of the problems we've had in

18 the UK is where some of the water companies that

19 acquired electricity companies, it wasn't entirely

20 clear in the area of access to books and records as

21 to whether the electricity regulator would have  
22 access up to the corporate holding company, so  
23 Condition 2, 2(a) redefined or properly defined what  
24 a holding company was in Condition 1 of the PES  
25 license, and 2(b), obligated the undertaking to

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1 provide the access to books and records. And I think  
2 the broad equivalent to that within our conditions is  
3 Condition 11 where we ensure that the regulator has  
4 sufficient authority to go up into ScottishPower to  
5 get the access to books and records.

6 Condition 3 of the appendix was a  
7 modification of the de minimis provisions, and very  
8 briefly, just to explain that, when we originally  
9 wrote the PES license -- in fact, it was something I  
10 was involved with -- we were trying to restrict at  
11 that time the unregulated activities that the PESs  
12 could get involved with, and the original condition  
13 we wrote back in 1988 was defining the scope in terms  
14 of 5 percent of turnover. What we've done with this  
15 modification was, in fact, to expand it so it's also  
16 5 percent of capital employed, because, as you  
17 realize from many startup activities, it would be  
18 very easy to get into an unregulated activity and  
19 still not have the turnover.

20 Q Let me stop you a minute. This is



21 limitation on diversification, then?

22 A That is correct. And it's probably a good

23 comparison with Conditions 4 and 5 within our

24 stipulation.

25 Condition 4 of the modifications is a

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1 modification relating to the payment of dividends and  
2 is there to say that we must not declare a dividend  
3 unless a director issues a certificate of both  
4 compliance with its license and also that it wouldn't  
5 cause any breach of the license in the future, and  
6 that's particularly comparable with Condition -- the  
7 second half of Condition 15 and Condition 49 within  
8 our stipulation.

9       Condition 5 of the stipulation is one on  
10 corporate debt and says that we must use all  
11 reasonable endeavors to ensure that any corporate  
12 debt has an investment grade rating, and split into  
13 two parts, it says where there was any corporate  
14 debt, it must be maintained at the same investment  
15 grade rating, and for any new corporate debt it's got  
16 to be maintained at an investment grade rating, which  
17 he defines as triple B minus by Standard & Poor's  
18 methodology, or BAA3 by Moody's, and that's probably  
19 more comparable to Condition 21 within our  
20 stipulation, and also on page seven of Mr. Green's

21 original direct testimony.

22 Q Except for the condition that a rating be

23 maintained, is it not, sir?

24 A That is correct. We felt that the

25 commitment within the OFFER stipulation to maintain

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1 triple B minus was, in fact, inferior to the  
2 commitments we'd already made. Condition 6 was the  
3 elective modification. This is where I referred to a  
4 modification earlier which is not mandatory, but it  
5 was particularly relevant to Eastern Electricity, but  
6 this is a modification where the past could elect for  
7 the generation to be an affiliate rather than a  
8 subsidiary.

9 Q This is now an election that ScottishPower  
10 will have to make now that your generation is  
11 separated, correct?

12 A I think that's covered in the letter to Mr.  
13 Berry. That's correct. Condition 7 is really one  
14 which is -- they had to put in place so that there  
15 are safeguards so that people are not allowed to  
16 undermine any of the other ring fencing provisions  
17 and the rates in Conditions 8 and 9 which we've put  
18 in place.

19 The cross default obligations, which is the  
20 final condition, Condition 8, which prohibits any

21 borrowing arrangements where a PES can find its own  
22 liabilities in respect to debt finance increased as a  
23 result of its parent or affiliate, and is very, very  
24 similar to Conditions 48 and also Condition 19 of our  
25 stipulation. And that's the eight proposed

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1 conditions.

2 Q Would you commend the Commission to compare  
3 the conditions in the UK with the conditions here to  
4 assure that corporate separateness and corporate  
5 integrity is preserved?

6 A I think the only thing I would add to that,  
7 and I would certainly recommend that the Commission  
8 read through those, but the thing I would add to that  
9 is that these were put in place because of the  
10 peculiar circumstances that exist within the UK, and  
11 it's fair to say that the vast majority of the  
12 concerns that OFFER had came out of our particular  
13 circumstances that were happening in 1998 in the UK  
14 through the expansion of deregulation of the  
15 electricity market in the UK, together with many of  
16 the mergers that were happening at that time, but as  
17 you say, it's an interesting exercise to compare and  
18 contrast.

19 Q In fact, one of the discussions was the  
20 concern about OFFER while ScottishPower investing in

21 some electric utility west of the Rockies, was it

22 not?

23 A Yes, and that was a particular concern

24 which we addressed by the creation of the holding

25 company.

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1           COMMISSIONER JONES: Mr. Morris, could I  
2 interrupt? Could you just define ring fence for us?

3           THE WITNESS: Yes, certainly. The ring  
4 fencing provisions that we've got within the UK are  
5 largely around preventing -- in the early days, it  
6 was quite permissible to have regulated and  
7 unregulated activities of the company being performed  
8 within the same company within the same set of  
9 published accounts, and it was impossible and getting  
10 increasingly so for the regulators to understand  
11 whether the financing of the unregulated activities  
12 was being funded by the cash from the regulated  
13 businesses, and so the ring fencing provisions are  
14 largely that, to ensure transparency to make sure  
15 that we can't use the cash from the distribution and  
16 transmission businesses to get out into unregulated  
17 activities such as contracting or any other  
18 technology developments or division which is outside  
19 of the regulatory ring fence.

20           COMMISSIONER JONES: Does that require



21 separate companies or is it just separate accounting?  
22 THE WITNESS: No. It's largely separate  
23 accounting. They are never going to swallow separate  
24 companies. Depends how you define company, in fact.  
25 One of the things that we've seen in that is that

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1 generation would be a separate company but would not  
2 be a separately owned company.

3 COMMISSIONER JONES: Thank you.

4 Q (BY MR. REEDER) The separation is you can  
5 separate them into separate companies and main common  
6 ownership? You don't have to separate ownership of  
7 the companies, is what you refer to?

8 A That's correct.

9 Q So when you answered Commissioner Jones'  
10 questions, you did not intend to suggest they didn't  
11 require them to be in separate companies; they just  
12 don't require separate ownership? They let them be  
13 sister companies?

14 A That's correct.

15 Q Do you have a copy of Cross Examination  
16 Exhibit No. 4? I believe it is the PacifiCorp  
17 proxy.

18 A I do.

19 Q Would you direct your attention to page 87,  
20 please.

21 A I have that now.

22 Q Page 87 is pro forma condensed balance

23 sheet for the combined companies as of September 30,

24 1998?

25 A No, I'm sorry. I'm not on --

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1 Q Page 87.

2 MR. BURNETT: Are you using Cross

3 Examination No. 4?

4 THE WITNESS: I will be when I --

5 MR. REEDER: I thought I was. The proxy

6 statement of PacifiCorp.

7 THE WITNESS: It's okay, Mr. Burnett. I've

8 got it now.

9 Q (BY MR. REEDER) If you've got a copy

10 of the one I'm using, it might be easier for us to

11 communicate.

12 A Certainly.

13 Q Does everyone have a copy of Cross

14 Examination Exhibit No. 4 and the page? Let's look

15 at the line that's entitled net assets, if we might.

16 A I have that.

17 Q The net asset position of ScottishPower on

18 that date was a billion one pounds negative?

19 A I'm sorry. I can't see that number. Net

20 assets of ScottishPower at September 30th, 1998 under

21 the UK GAAP, 1.812.

22 Q Okay. Let's look in the first column under

23 ScottishPower. Look down at the line that says "Net

24 current assets (liabilities)."

25 A 1154.3?

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1 Q Negative?

2 A Negative.

3 Q What does that mean?

4 A That means the sum of stocks, plus debtors,

5 plus short term bank, less loans, less the creditors,

6 is a negative 1154.3.

7 Q Or in U.S. terms it would mean that your

8 current ratio is negative?

9 A That's correct.

10 Q Now let's look at PacifiCorp. PacifiCorp

11 is in the next column under U.S. GAAP. What is

12 PacifiCorp's current ratio at the same time?

13 A 1302.2.

14 Q Is it the practice and tradition of

15 ScottishPower to maintain a negative current ratio or

16 is this just a bad snapshot in time?

17 A This is caused by one of the differences in

18 UK GAAP. One of the things that we have within the

19 UK, and I presume you have in the U.S., are capital

20 contributions towards net assets of customers, and

21 because we show those for the creditors at this point

22 in time, that figure of net current assets, minus

23 liabilities, is shown as negative.

24 A different accounting treatment would have

25 that moved from other creditors into an offset in

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1 tangible assets, and perhaps a better comparison is  
2 when you add the fixed assets to the net current  
3 assets and you get total assets. That's current  
4 liabilities. It's just a way -- that was probably  
5 about ten years ago that we changed into UK GAAP that  
6 is perhaps causing this confusion.

7 Q How liquid are your fixed assets?

8 A They're usually okay.

9 Q How liquid are your current assets? Can  
10 you disposed out in 45 days or less to pay your  
11 bills?

12 A The majority of those current assets could  
13 be.

14 Q If you disposed out within 45 days to pay  
15 your bills, they're not towers and wires?

16 A Current assets are stocks.

17 Q No. Fixed assets. You want to stay with  
18 the fixed assets. How liquid are your fixed assets,  
19 sir?

20 A The fixed assets are not liquid but the



21 problem is caused by the big negative within other  
22 creditors that you're assuming is a short-term  
23 liability. It's, in fact, more associated with the  
24 monies that we have received in respective capital  
25 contributions from our customers.

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1 Q Let's look at UK GAAP applied to  
2 PacifiCorp. That is the column fifth over, is it  
3 not?

4 A That is correct.

5 Q Even when UK GAAP is applied to PacifiCorp,  
6 it has a positive current ratio, does it not?

7 A It does.

8 Q Does this reflect a difference in capital  
9 acquisition styles between ScottishPower and  
10 PacifiCorp?

11 A I'm afraid I am not familiar enough with  
12 PacifiCorp to technically answer that question.

13 Q Does ScottishPower and its affiliates rely  
14 to a large extent on short-term debt for capital?

15 A No.

16 Q Are most of your -- you don't rely to a  
17 great debt on short-term capital?

18 A That's correct.

19 Q And this is just simply an accounting  
20 problem that causes an adverse negative current

21 ratio?

22 A It's an accounting difference.

23 Q But even when we apply the accounting

24 difference, PacifiCorp is still positive? I guess

25 that's as far as we're going to get.

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1 A That's correct.

2 Q Let's go to page 98.

3 A I have that.

4 Q Here we talk about the amortization of the  
5 goodwill, do we not?

6 A We do.

7 Q Can you explain -- we asked Mr. Richardson  
8 yesterday how the value paid for shares compared to  
9 book value and how you intended to book the  
10 difference and treat the difference once booked.  
11 This explains the answer to that question, does it  
12 not?

13 A It explains probably the first three  
14 quarters of that, yes.

15 Q Explain how it answers that question.

16 A The Note (b) that starts that page is a  
17 calculation of the subtraction of the net book value  
18 of the assets from the purchase consideration, and in  
19 pounds million is 3630 minus 2430, gives a goodwill  
20 arising on acquisition of around 1.2 billion pounds.

21 Q For us who are not fast with math, could  
22 you convert it into dollars so we know the magnitude  
23 of the dollars we're talking about?

24 A You certainly are testing my math. We  
25 would be talking there a figure around the order of

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1 \$1.8 billion goodwill.

2 Q So we've got \$1.8 billion we're going to  
3 book onto the assets of goodwill. Now what we do  
4 with it after we've got it goodwill booked?

5 A As the note goes on to say, the  
6 amortization of the goodwill over its estimated  
7 expected useful life gives rise to the following  
8 charges of the net income, and it shows there a  
9 figure of 60 million pounds, which is around \$90  
10 million for the year ended 31st of March, 1998, and,  
11 in fact, if you go to page 86 of the proxy statement,  
12 you can see the effect of that on earnings.

13 Q What is the effect on earnings?

14 A If we turn to page 86, the second to last  
15 column is in pounds to earning. The final column is  
16 in dollars, but you can see the effect there of a  
17 blocked off figure of operating profit from  
18 continuing operations before merger goodwill  
19 amortization. In pounds it is 1280.4 and in dollars  
20 is 2099.9, and you can see that the merger goodwill

21 amortization would reduce earnings by around 5  
22 percent in the year March 1998 if the merger had  
23 happened in that here.  
24 Q And if the merger consummation is delayed,  
25 do you expect that number to be of the same magnitude

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1 in the future?

2 A It's a number that will vary. It's  
3 actually a function of what the share price is on the  
4 close of the merger. It could well be significantly  
5 less than \$60 million.

6 Q What this will have is an effect on your  
7 earnings per share calculation, will it not?

8 A That's correct.

9 Q And the effect will be negative, will it  
10 not?

11 A That's correct.

12 Q And the effect will be negative for how  
13 long?

14 A For around 20 years.

15 Q And the negative effect on your earnings  
16 per share for 20 years will have what effect, sir, on  
17 your -- on the capital market's willingness to  
18 invest?

19 A Well, certainly this has been something  
20 that we've been very open with about the capital



21 market and our shareholders, and I think it's  
22 evidenced by the overwhelming we support we had of  
23 our shareholders in the recent AGM. They're well  
24 aware of this and yet very supportive of the  
25 transaction.

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1 Q And you're suggesting and your advisors  
2 have suggested that a better measurement of the  
3 performance of a utility is the cash per share rather  
4 than the earnings per share because one can be misled  
5 by things like goodwill amortization, correct?

6 A That's a valid point.

7 MR. REEDER: I have nothing further.

8 CHAIRMAN MECHAM: Thank you, Mr. Reeder.

9 Is there any objection to the admission of Cross  
10 Examination Exhibit 1? All right. We'll admit it.  
11 Thank you.

12 (Whereupon Cross Examination Exhibit 1 was  
13 received in evidence.)

14 CHAIRMAN MECHAM: Mr. Mattheis?

15 MR. MATTHEIS: No questions, your Honor.

16 CHAIRMAN MECHAM: Mr. Dodge?

17 CROSS EXAMINATION

18 BY MR. DODGE:

19 Q Good morning, Mr. Morris.

20 A Good morning Mr. Dodge.

21 Q One brief question that may have been  
22 covered, and if so, I apologize, with an earlier  
23 witness, but I want to make sure I understand from  
24 your perspective. With prior witnesses an exhibit  
25 was produced that showed in the neighborhood of \$250

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1 million of transition costs. Excuse me. Transaction  
2 costs or acquisition type costs. Do you expect that  
3 number to be the final number?

4 A It's still my current estimate, yes, it  
5 is.

6 Q And do you expect there to be any kind of  
7 transaction-related costs other than as reflected in  
8 those numbers in other categories at all?

9 A No. I think that exhibit tried to capture  
10 all the transaction-related costs of which I was  
11 aware.

12 Q And in any event, whatever  
13 transaction-related costs may occur before a closing,  
14 they will all be excluded for ratemaking purposes?

15 A Yes, I think Mr. Wright covered that very  
16 well on Monday and Tuesday.

17 MR. DODGE: Okay. Thank you. No further  
18 questions.

19 COMMISSIONER WHITE: Just to follow up a  
20 little bit on what Mr. Reeder was talking about, do I

21 understand, then, that because of the way you  
22 amortize the goodwill that your cost of capital may  
23 go up?  
24 THE WITNESS: We don't believe so. The  
25 effect of the amortization of goodwill is already

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1 built into the market's expectation and it is totally  
2 on ScottishPower's books, anyway. We have ring  
3 fenced specifically as such they it will have  
4 absolutely no effect on PacifiCorp's cost of capital.

5 COMMISSIONER WHITE: Or other costs?

6 THE WITNESS: Or other costs.

7 COMMISSIONER WHITE: That's what I was  
8 getting at. I have a question about the stipulation  
9 you've reached in Oregon. I don't know if you can  
10 help me with that or not. It's my understanding that  
11 ScottishPower or PacifiCorp, assuming that they  
12 consummate the merger, have also offered merger  
13 guarantees -- guaranteed credits -- guaranteed merger  
14 benefits to Oregon customers in roughly the same  
15 amounts as in Utah. Is that right?

16 THE WITNESS: That's correct.

17 COMMISSIONER WHITE: What I don't know is,  
18 in later years, are those also in Oregon offset by  
19 other savings as they are in Utah?

20 THE WITNESS: Almost exactly. We've -- the

21 only distinction we can see in Oregon is that the 12  
22 million that we've been referring to when we've been  
23 talking to yourselves is broken down into two  
24 elements. There's a \$9 million per year element  
25 which is the merger credit, but there's a separated

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1 \$3 million per year which is the annualization of the  
2 \$55 million which Mr. MacLaren was talking about, and  
3 in Oregon the 12 million is split into a nine and a  
4 three, which we haven't split in Utah.

5 COMMISSIONER WHITE: Now, what's the -- I  
6 don't quite understand the effect of the \$3 million  
7 amortized against the 55 million. Is that to be sure  
8 to capture the benefits?

9 THE WITNESS: Yes. If I can very, very  
10 briefly run through the math of that. The 55 million  
11 is made up of revenue and capital over five years.  
12 If you take the breakdown of that, that's \$30 million  
13 of capital and \$25 million operating costs. \$25  
14 million operating costs over five years is \$5 million  
15 a year. If we take the depreciation off and return  
16 on the capital, that would lead you to a revenue  
17 which, system wide, would be in the order of \$11  
18 million per year, and Oregon's share of that came to  
19 around \$3 million a year. That probably wasn't easy  
20 to do without a blackboard, but, believe me, the math



21 is still working.

22 COMMISSIONER WHITE: Okay. Thank you.

23 COMMISSIONER JONES: Is that 12 million a

24 year guaranteed for the four years, or is it similar

25 to Utah's where the last two years were offset

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1 against savings?

2 THE WITNESS: Well, I would say that even  
3 in Utah I still believe the 12 million is guaranteed,  
4 because even though it's offsetable, it's offsetable  
5 by reductions in rates that are passed to customers,  
6 so customers will still get the 12 million. It just  
7 won't be as transparent. If we've reduced -- say,  
8 for example, we've made cost savings which have been  
9 brought through in a rate proceeding to lower prices  
10 to customers, then it's offsetable in the context  
11 that the 12 million is offsetable by rate savings,  
12 but the 12 million is still there as a benefit to the  
13 customers.

14 The distinction in Oregon I think you were  
15 talking about is the 3 million is guaranteed as a  
16 separate line item on the bill, and that was the only  
17 distinction.

18 COMMISSIONER JONES: But without any offset  
19 in Oregon?

20 THE WITNESS: Without any offsetable, so it

21 only comes to 9 that's offsetable. The effect on

22 customers is exactly the same.

23 COMMISSIONER JONES: On the -- getting back

24 to the amortization, I was a little confused on page

25 98. Why are we going back to 1997 for the

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1 amortization?

2 THE WITNESS: This was just to show the  
3 effect, because we don't have the figures for 1999  
4 and the year 2000.

5 COMMISSIONER JONES: Okay. But it will  
6 likely start, let's say, in 2000, if that's when it's  
7 consummated?

8 THE WITNESS: That's correct.

9 CHAIRMAN MECHAM: Mr. Tingey?

10 CROSS EXAMINATION

11 BY MR. TINGEY:

12 Q You just started talking about the merger  
13 credit, and I believe I heard you say that the only  
14 difference with Oregon was as you just discussed, but  
15 I think there is another one.

16 A There is, indeed.

17 Q In fact, Oregon starts -- their credit  
18 doesn't begin until a year after the consummation of  
19 the merger?

20 A Their credit starts a year later in Oregon

21 than it does here.

22 Q Ours starts within 30 days of consummation?

23 A That's correct.

24 MR. TINGEY: Thanks.

25 CHAIRMAN MECHAM: Any redirect?

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1 MR. VAN NOSTRAND: Just one question, Mr.  
2 Chairman.

3 REDIRECT EXAMINATION

4 BY MR. VAN NOSTRAND:

5 Q Mr. Morris, I just wanted to clarify how  
6 these ring fencing provisions that were discussed in  
7 Cross Examination Exhibit 1 are incorporated in this  
8 letter from Mr. Berry that you referred to which is  
9 Cross Examination 6. Do I understand correctly that  
10 it is only the generation companies which the  
11 generation activities which were required to be  
12 separated into a separate company?

13 A That is correct.

14 Q And that's set forth in Condition 6 of the  
15 letter from Mr. Berry?

16 A Yes, it is.

17 MR. VAN NOSTRAND: No further questions.

18 CHAIRMAN MECHAM: Mr. Reeder?

19 RECROSS EXAMINATION

20 BY MR. REEDER:

21 Q Mr. Morris, in answer to a question from  
22 Commissioner White, you suggested that PacifiCorp  
23 would raise capital. In the scheme proposed with the  
24 holding Company, it's true, is it not, sir, that the  
25 access to capital markets will be through the holding

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1 company? It is they who will issue shares and debt,  
2 is it not?

3 A No. I think we've said that we will raise  
4 capital wherever it's the best for PacifiCorp, and  
5 certainly it's possible that PacifiCorp could raise  
6 capital.

7 Q Will you raise equity capital in  
8 PacifiCorp?

9 A No.

10 Q No common equity out of PacifiCorp?

11 A That's not my intention at this moment.

12 Q And all common equity will come out of the  
13 holding Company?

14 A That's correct.

15 MR. REEDER: Thank you. I have nothing  
16 further.

17 CHAIRMAN MECHAM: Mr. Van Nostrand, did you  
18 have any re-redirect?

19 MR. VAN NOSTRAND: One more question, if I  
20 may.



21 RE-REDIRECT EXAMINATION

22 BY MR. VAN NOSTRAND:

23 Q We had an extensive discussion about the  
24 relationship between the conditions in the OFFER  
25 consultation paper versus the conditions in the

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1 stipulation. Can you comment on how you see the  
2 relevance of those conditions in the UK versus the  
3 conditions over here?

4 A Yes, certainly. As I hope I made clear in  
5 my opening comments on that, these were specific  
6 concerns to offer in the UK because of the way the  
7 market was opening up within the UK and the actions  
8 of many of the PESs within the UK and it was  
9 something that the electricity regulator has been  
10 trying to get the PESs to accept for some time. It  
11 was an opportunity because of the changes in the  
12 license that were required, anyway, to get these onto  
13 ScottishPower's license.

14 Q So there wasn't anything particular about  
15 the transaction between ScottishPower and PacifiCorp  
16 which triggered the regulations?

17 A Nothing specifically.

18 MR. VAN NOSTRAND: Thank you. Nothing  
19 further.

20 RE-RECROSS EXAMINATION

21 BY MR. REEDER:

22 Q These are, nonetheless, conditions to

23 protect the integrity of the power supplier to ensure

24 the lights stay on, aren't they?

25 A Correct.

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1 MR. REEDER: Thank you.

2 COMMISSIONER WHITE: Speaking of  
3 conditions, I have just one more question. Has the  
4 Federal Energy Regulatory Commission in this country  
5 put conditions on the merger, and if it has, I guess  
6 I've forgotten where I could locate those.

7 THE WITNESS: Could I ask perhaps -- that's  
8 something Mr. MacRitchie has been more involved with  
9 than myself, and it's best perhaps you direct that to  
10 Mr. MacRitchie.

11 COMMISSIONER WHITE: Thanks.

12 CHAIRMAN MECHAM: Perhaps that's a good  
13 segue to Mr. MacRitchie.

14 MR. GINSBERG: Plus maybe the Commission  
15 should just be provided a copy of the order, because  
16 an order has been issued.

17 MR. BURNETT: We'd be happy to provide a  
18 copy to the Commission.

19 COMMISSIONER WHITE: I don't think we  
20 already have that.

21 CHAIRMAN MECHAM: I don't believe we do.

22 MR. VAN NOSTRAND: We have a copy ready to

23 be distributed now if you'd like.

24 CHAIRMAN MECHAM: Maybe we can just

25 distribute it over the lunch hour.

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1 MR. VAN NOSTRAND: Okay.

2 CHAIRMAN MECHAM: And the way it's going,  
3 trying to finish off this witness, is there anything  
4 from the audience? Thank you, Mr. Morris.

5 THE WITNESS: Thank you.

6 CHAIRMAN MECHAM: Guess we'll go to Mr.  
7 MacRitchie and then perhaps have a dual presentation  
8 after that. Is that how you contemplate it going?  
9 Let's go off the record.

10 (Discussion off the record.)

11 CHAIRMAN MECHAM: Let's go back on the  
12 record. We now have Mr. Kelly on the stand who is  
13 going to testify in advance of Mr. MacRitchie so we  
14 don't have to clear the room more than once before  
15 lunch.

16 JACK KELLY

17 called as a witness and sworn, was examined and  
18 testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BURNETT:

21 Q Good morning, Mr. Kelly.

22 A Good morning, Brian.

23 Q Would you please state your full name and

24 spell it?

25 A My name is Jack Kelly. Kelly is spelled

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1 K-E-L-L-Y.

2 Q And by whom are you employed?

3 A I'm employed by ScottishPower.

4 Q In what position?

5 A I am the managing director of ScottishPower  
6 Learning.

7 Q And did you prefile direct testimony in  
8 this docket?

9 A I do.

10 Q We'd note for the record this has been  
11 designated as ScottishPower No. 6, since we hopped  
12 out of order here.

13 CHAIRMAN MECHAM: That's fine.

14 (Discussion off the record.)

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

17 Q (BY MR. BURNETT) Do you have any changes  
18 and corrections to your testimony?

19 A I do.

20 Q Would you tell us what those are?



21       A   They're just factual details that need to  
22   be updated, actually. If you turn to page four of my  
23   direct testimony, on line seven, the figure 60 should  
24   be 68. On line ten, the figure 3,900 should be  
25   4,900. On line 12, the figure 1,200 should be 1,591.

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1 Q Hang on just a second. Let's just make  
2 sure that we're on the same page here with the  
3 lines. Apparently the line numbers might be a little  
4 different with your copy.

5 A We've had this problem before.

6 Q The first correction you had is in the  
7 sentence, "To date over 60 percent of ScottishPower"?

8 A Yes. That figure should be 68.

9 Q Okay. Let's go to the next correction,  
10 then.

11 A The next correction on line ten, which says  
12 "Company Learning Programs, 3,900," that figure  
13 should, in fact, now be 4,900.

14 Q Okay. That's on line eight in the one I  
15 have.

16 A And on line 12 where it says, "To date,  
17 1,200 Personal Development Plans have been crafted,"  
18 that figure should be 1,591. On page six of my  
19 testimony on line 25 -- that's under the general  
20 heading of Education and Employment, and the specific

21 subheading is Unemployed Programs -- it says, "More  
22 than 550 young people." That figure should be 640.  
23 And on page seven on line four, the figure of 40  
24 programs should now read 50. For over 400 young  
25 people, that figure should now be 510, and just for

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1 completeness on line 12, again the figure 3,900  
2 should be 4,900. That completes the corrections.

3 MR. BURNETT: At this time I would move for  
4 the admission of ScottishPower 6.

5 CHAIRMAN MECHAM: Any objection? We'll  
6 admit it.

7 (Whereupon Exhibit SP 6 was marked and  
8 received.)

9 Q (BY MR. BURNETT) Do you have a summary of  
10 your testimony, Mr. Kelly?

11 A I do.

12 Q Will you please provide it for the  
13 Commission?

14 A I will. Good morning. I believe that my  
15 testimony supports our contention that in managing  
16 our business we take a balanced view that recognizes  
17 the legitimate needs of all of our stakeholders and  
18 that these needs are identified and delivered through  
19 our plans. In particular, my testimony also reflects  
20 our values with regard to creating a positive working

21 environment within an organization and our commitment  
22 to the communities that we serve.  
23 Our approach to these and to other issues  
24 has developed from our UK experience where we have  
25 developed strong, effective partnership arrangements

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1 that are delivered both in the workplace and the  
2 community.

3 ScottishPower holds as one of its values a  
4 firm commitment to development and maintain the  
5 respect and the trust of all the communities it  
6 serves. We achieve this by building partnerships  
7 with national, regional and local organizations in  
8 the public and in the private sector. These  
9 initiatives support social and economic  
10 regeneration. The programs include support for  
11 education and employment initiatives, charities and  
12 caring organizations representing youth, people with  
13 disabilities and the elderly and the disadvantaged.  
14 We also sponsor the performing arts, sports and  
15 recreation.

16 Through our business activities and  
17 community support programs, ScottishPower group has a  
18 significant effect on the UK economy, accounting for  
19 over \$9 billion of output in the economy, both  
20 directly and indirectly, and supporting just over

21 153,000 jobs. Our employees also contribute,  
22 participating in a wide range of community programs  
23 that not only provide community benefits but  
24 opportunities for personal development for those who  
25 are involved.

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1           Particularly, our own employment  
2 initiatives for young people in the UK include  
3 training courses of one to two years' duration, which  
4 include work experience, education and the completion  
5 of a vocational qualification. We have ten different  
6 programs that are available for these young people  
7 who are paid a wage and are treated like our own  
8 employees while they're with us. To date, over 480  
9 young people have benefited from these programs, and  
10 of those completing the programs, about 80 percent of  
11 those young unemployed people have gone on to  
12 full-time employment and further education.

13           In partnership with the voluntary  
14 organizations in the UK, we have also helped a number  
15 of young people who can best be described as social  
16 dropouts, a program that is designed to raise  
17 self-confidence and self-esteem and prepare the young  
18 people for work or further education.

19           These programs are delivered by our own  
20 staff, and over the past two and a half years we have



21 helped over 500 young people in this program.  
22 Throughout our involvement with the  
23 government's New Deal Program, which is designed to  
24 get the longer-term unemployed back to work, we have  
25 offered over 300 places to date to the unemployed,

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1 and only last month ScottishPower received two of the  
2 12 awards given to industry by the government for its  
3 contribution in this area.

4 In schools, our School-to-Work program now  
5 involves ten schools in Scotland and is now being  
6 introduced into the northwest of England and North  
7 Wales. To date, over 300 young people have benefited  
8 from the program, which is designed to provide young  
9 people with the skills necessary for employment.

10 We have also provided computers for schools  
11 under a number of different initiatives and are  
12 allowed our Learn to Swim campaign in Southern Water  
13 has taught more than a quarter of a million school  
14 children to swim.

15 Moving on now to economic development, our  
16 involvement in economic development has led us to  
17 cooperate with public and private sector  
18 organizations and local economic development agencies  
19 and projects that are aimed at regenerating the  
20 social and economic infrastructure of local areas.

21 We are also involved, I think as Mr. MacLaren  
22 mentioned earlier, as major partners in the design  
23 and delivery of high-quality energy supply packages  
24 that attract inward investment to our communities.  
25 This is an important factor in replacing traditional

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1 industries with more modern enterprises.

2           ScottishPower serves two cities in the UK  
3 that have a very large proportion of low income  
4 families. Many of our competitors in the liberalized  
5 UK energy market have abandoned this group,  
6 preferring to target the middle and higher income  
7 households which are less costly and less risky to  
8 serve. We have not adopted this policy. Our  
9 attitude to the problem of low income customers is a  
10 positive one which takes a holistic approach to their  
11 problems and includes things like advice on the  
12 efficient use of energy, advice on weatherization,  
13 advice on budgeting and debt counseling, a welfare  
14 and benefits check, and energy bill profiling to meet  
15 the needs of the customer.

16           We have developed this approach in the UK  
17 in partnership with government agencies and others  
18 who represent low income families.

19           We recognize that many areas in the U.S.,  
20 as in the UK, rely on limited resources to serve the

21 needs of the communities. Through a partnership  
22 program similar to the one successfully developed in  
23 the UK, ScottishPower will work with PacifiCorp to  
24 become an effective partner in the community. We  
25 acknowledge that PacifiCorp is an active and

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1 interested contributor in the communities that it  
2 serves in Utah as well as in the other states. It is  
3 our intention to continue to earn and build upon the  
4 trust of these communities and to increase the  
5 contributions that we make in the areas of employee  
6 education, community learning, employee volunteerism  
7 and the financial support of worthy causes.

8         We're equally committed to developing and  
9 maintaining a positive working environment within our  
10 organization. It is essential to our long-term aims  
11 that our employees clearly understand their roles and  
12 how their contributions impact on the Company's  
13 performance and on its plans. It is also important  
14 that they have the knowledge and the skills required  
15 to discharge their duties safely, effectively, and  
16 productively, and our training facilities will focus  
17 on provision in these areas.

18         Our Open Learning Centers, while supporting  
19 business training, will also provide opportunities  
20 for our employees that will assist in their

21 self-development and skill enhancement. In due  
22 course, this will ensure the long-term employability  
23 and the capacity to take advantage of future career  
24 opportunities.  
25 Our Open Landing Centers, Training Centers

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1 and the educational partnerships that we will develop  
2 with colleges and universities will offer a  
3 comprehensive range of products that support the  
4 needs of the business and provide opportunities for  
5 self-directed learning and personal development. It  
6 is our intention that, following the merger, all  
7 PacifiCorp employees will have access to similar  
8 opportunities for learning, training and  
9 development.

10       Specific proposals and commitments within  
11 my testimony and reference to employee training and  
12 development, ScottishPower will introduce high  
13 quality training facilities in Oregon and in Utah for  
14 all PacifiCorp employees. The Company will also  
15 establish management development programs in  
16 partnership with local colleges and universities.

17       We are confident that the investments we  
18 make in training and in education of our workforce  
19 will improve the efficiency, effectiveness and  
20 productivity of the employees and lead to future cost



- 21 savings and benefits to customers.
- 22       On community initiatives, ScottishPower
- 23 will promote and support access to lifelong learning
- 24 for both its employees and the local community
- 25 through its Open Learning network.

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1           ScottishPower will also seek to introduce a  
2 School-to-Work initiative to assist young people in  
3 obtaining the necessary skills and experience to  
4 facilitate the transition from school to the  
5 workplace. ScottishPower also commits to continue  
6 PacifiCorp's existing programs in the areas of the  
7 arts and community development and its contributions  
8 through the foundation.

9           Regarding customer care initiatives,  
10 ScottishPower will support PacifiCorp's existing  
11 programs and will work with representative groups to  
12 introduce new pilots and programs to assist low  
13 income customers and special needs groups.

14           Mr. Moir who will follow me to the stand  
15 here will address the issues of low income families  
16 and the initiatives that we have taken on the  
17 stipulations that we have in this state, and that  
18 concludes my summary.

19           MR. BURNETT: Mr. Kelly is available for  
20 cross examination.

21 CHAIRMAN MECHAM: Thank you. Mr. Reeder?

22 MR. REEDER: No questions.

23 CHAIRMAN MECHAM: Mr. Mattheis?

24 MR. MATTHEIS: No questions.

25 CHAIRMAN MECHAM: Mr. Dodge?

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1 MR. DODGE: No questions.

2 CHAIRMAN MECHAM: You're getting off easy,

3 Mr. Kelly. Thank you.

4 THE WITNESS: Thank you.

5 MR. BURNETT: Thank you, Mr. Chairman.

6 CHAIRMAN MECHAM: Let's go off the record

7 just a minute.

8 (Discussion off the record.)

9 CHAIRMAN MECHAM: Okay. Now let's go back

10 on the record. We now have Mr. MacRitchie on the

11 stand, who has previously been sworn and remains

12 under oath.

13 DIRECT EXAMINATION

14 BY MR. VAN NOSTRAND:

15 Q Mr. MacRitchie, could you state your name

16 and spell it for the record, please?

17 A My name is Andrew N. MacRitchie.

18 MacRitchie is spelled capital M-A-C, capital

19 R-I-T-C-H-I-E.

20 Q And by whom are you employed, Mr.

21 MacRitchie?

22 A I'm employed by ScottishPower.

23 Q And what is your current position?

24 A My position is business and organizational

25 development manager.

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1 Q And what are your responsibilities in  
2 connection with this transaction?

3 A I'm currently overseeing the regulatory  
4 approval process in the U.S. and following the  
5 hopeful completion of the transaction, I will be  
6 managing the transition process with PacifiCorp and  
7 ScottishPower.

8 Q And did you submit prefiled direct  
9 testimony in this proceeding which has been premarked  
10 as Exhibit ScottishPower 5?

11 A I did.

12 Q That's accompanied by Exhibits 5.1 through  
13 5.5?

14 A That's correct.

15 Q And did you also submit rebuttal testimony  
16 in this proceeding marked for identification as  
17 Exhibit ScottishPower 5R?

18 A That's correct.

19 Q And that's accompanied by Exhibit 5R.1?

20 A Yes.

21 Q Do you have any additions or corrections to  
22 make to your testimony or exhibits?

23 A I have a correction to make to my direct  
24 testimony, page five, lines ten and 11. Strike the  
25 word "higher" and replace by "average" and strike the

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1 words "than average," concluding the sentence after  
2 "costs." That sentence now reads, "I conclude from  
3 exhibit SP AM-1 that PacifiCorp has average operating  
4 costs."

5 Q And as corrected, if I asked you the  
6 questions set forth in Exhibit SP 5 and SP 5R, would  
7 your answers be the same as set forth therein?

8 A They would be.

9 MR. VAN NOSTRAND: I move the admission of  
10 ScottishPower 5 and 5R and the accompanying exhibits.

11 CHAIRMAN MECHAM: Any objections? All  
12 right. We'll receive them.

13 (Whereupon Exhibits SP 5, 5.1 - 5.5, 5R and  
14 5R.1 were marked and received.)

15 Q (BY MR. VAN NOSTRAND) Mr. MacRitchie, do  
16 you have a brief summary of your testimony?

17 A I do. The proposed merger of PacifiCorp  
18 and ScottishPower being reviewed here today is  
19 essentially a simple transaction representing a  
20 transfer in ownership from one company to the other.



21 There have been many issues thrown up over the past  
22 few days which essentially are "business as usual"  
23 issues and seek to confuse the decision. Even the  
24 perceived risk raised by the many of the intervenors  
25 and representatives of some of PacifiCorp's

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1 industrial customers regarding a change in management  
2 philosophy is no different from situation which  
3 PacifiCorp will face in a stand-alone position as  
4 they seek to appoint a new executive should the  
5 transaction not go forward.

6       The simplicity of the transaction, coupled  
7 with the numerous conditions developed with the DPU  
8 and the CCS, ensures that customers are protected  
9 from any risks. At the same time, there is a  
10 significant package of benefits, including, as has  
11 been stated, the customer service improvements and  
12 guarantees, system performance improvements,  
13 environment and community commitments and training,  
14 greater Utah executive presence, financial stability  
15 brought about as being part of a larger group, and  
16 the 48 million merger credit.

17       Together, we, the DPU, the CCS and others  
18 have agreed that the standard has been surpassed.  
19 However, a further element of value, of interest to  
20 customers and obviously this Commission is the

21 ability of ScottishPower to improve the efficiency  
22 and overall performance of PacifiCorp. We do not  
23 believe the promise of the transition plan is  
24 necessary to meet the standard. It's clearly the  
25 icing on the cake.

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1 ScottishPower brings a very strong track  
2 record from the UK in transforming utility businesses  
3 which it owns and driving step change improvements in  
4 costs, while substantially improving customer  
5 service.

6 There is a concept known as the "experience  
7 curve" which, simply put, is: If you've done  
8 something before, you can do it again, better,  
9 quicker and with more certainty. We've done this  
10 type of transformation in three businesses three  
11 times with ScottishPower, Manweb and Southern Water.

12 Our capabilities are vested not only in our  
13 people, their skills and experiences, but also in  
14 processes that have been developed over a number of  
15 years, in systems which have been invested and  
16 implemented, and in an overall management style and  
17 approach to running utility businesses.

18 So what leads us to believe that these  
19 capabilities will be effective in PacifiCorp? We've  
20 used a high level yardstick comparison to assess both

21 the relative position of PacifiCorp's costs in the  
22 U.S. and also the annual trend over the past few  
23 years. This has led us to conclude that PacifiCorp's  
24 costs are average and, more importantly, that their  
25 costs have been rising out of step with industry

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1 leaders.

2           Therefore, application of our approach to  
3 utility transformation will arrest this cost spiral  
4 and deliver efficiencies greater, quicker, more  
5 economically and with more certainty than PacifiCorp  
6 stand alone, thereby mitigating the traditional  
7 outward pressure on prices.

8           We're aware of the inherent difficulties in  
9 using high level yardstick comparisons to establish  
10 absolute levels of savings, as it can only be  
11 directional. Detailed transition planning will start  
12 to quantify the potential opportunity. We've  
13 committed in this stipulation, working through with  
14 the DPU and CCS, to share this transition plan six  
15 months after closure showing costs and savings of a  
16 myriad of independent initiatives brought about by  
17 ScottishPower combining with PacifiCorp. We're also  
18 committed to sharing subsequent changes to that  
19 transition plan.

20           There shouldn't be a mystery or mystique

21 surrounding this plan. It's basically a large number  
22 of business initiatives, each with a cost and a  
23 saving over a three to five-year period. Many will  
24 relate to best practices from the UK and elsewhere  
25 and many to just smart management decisions.

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1           The last two years of the merger credit  
2 provide an incentive to the companies to ensure that  
3 these efficiencies are delivered early and provide  
4 enduring value to customers.

5           Ultimately what needs to be considered is  
6 whether PacifiCorp on its own could deliver more  
7 benefit to customers than being partnered with an  
8 experienced UK utility, such as ScottishPower. We  
9 clearly believe the partnership will be extremely  
10 valuable to all PacifiCorp's customers. That's the  
11 end of my summary.

12           MR. VAN NOSTRAND: Thank you. Mr.  
13 Chairman, Mr. MacRitchie is available for cross  
14 examination.

15           CHAIRMAN MECHAM: Okay. Thank you. Mr.  
16 Dodge?

17           MR. DODGE: Thank you.

18                   CROSS EXAMINATION

19 BY MR. DODGE:

20       Q   Almost good afternoon, Mr. MacRitchie.



21 How are you?

22 A Very well.

23 Q The high level benchmarking that you

24 referenced in your testimony -- I believe it's a

25 comparison used for that purpose -- is attached to

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1 your direct testimony; is that right?

2 A It is.

3 Q Exhibit AM-1 suggests that the PacifiCorp  
4 per customer nonproduction cost for 1996 was about  
5 \$300. Is that correct?

6 A 300.13.

7 Q Do you know what that number is as of  
8 either 1997 or '98 or '99?

9 A I believe that was provided as part of a  
10 discovery request. I'll try to find that for you.  
11 The 300.1, which was a '96 figure, rose by some 13  
12 percent in 1997 to 340.3, and by a further 4 percent  
13 to 352 million in 1998. It's an overall rise of some  
14 17 percent between '96 and '98 figures which equates  
15 to some 73 million.

16 Q Thank you. And the stated goal is to bring  
17 PacifiCorp within the top ten performing utilities in  
18 the U.S. on measured by nonproduction costs per  
19 customer?

20 A ScottishPower has a stated intention of

21 bringing PacifiCorp to the top ten in many areas of  
22 its business. Part of that is to look at the costs  
23 of PacifiCorp and attempt to move PacifiCorp into top  
24 ten position in terms of its cost efficiency.  
25 Q And that includes in nonproduction costs?

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1 A It does.

2 Q And your chart shows that as of 1996, to be  
3 in the top ten performing utilities in the country,  
4 those costs would have to be reduced to approximately  
5 \$205 per customer; is that right?

6 A 210.

7 Q Okay. Thank you. Approximately \$210. Do  
8 you know what the comparable number is for 1998 for  
9 the top ten?

10 A We don't know specifically because we  
11 haven't been able to get the full range of all the  
12 utilities in the U.S. for that, but we have looked at  
13 the top ten as they were in 1996 and we've seen that  
14 they have improved their efficiency by some 2 percent  
15 in nominal terms over that period, so where we can't  
16 absolutely say that these top ten are still the top  
17 ten, they certainly have -- they certainly serve the  
18 best line of what the top ten will be.

19 Q In the transition plan that I guess we've  
20 mystified or whatever, can this Commission expect to

21 see a plan that will reduce PacifiCorp's cost from  
22 roughly \$352 to roughly \$210 per customer?  
23 A We would certainly hope that it is a  
24 significant -- the transition plan will be a  
25 significant impact on PacifiCorp's cost base over

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1 what we found in the UK. Experience says that the  
2 improvement or the ability to improve businesses  
3 requires a number of different attempts at it, and  
4 the first attempt will be our transition plan. I  
5 would hope that that transition plan will  
6 substantially move us towards that goal, but probably  
7 after a two-year period or two or three-year period  
8 we would want to repeat a similar exercise, maybe  
9 more focused on particular areas to further take that  
10 business, so it's not a one off activity that would  
11 not be further taken forward, so in terms of whether  
12 that first transition plan will equate to the level  
13 that we bring it to top ten position, I would  
14 certainly hope so, but if it doesn't, there will be  
15 other opportunities during the five-year period that  
16 we've set ourselves to actually establish further  
17 plans that would take the business to that position.

18 Q If you were able to meet your goal of  
19 bringing it within the top ten, the range of savings  
20 could be estimated by taking, what, roughly 1.4

21 million customers of PacifiCorp times the roughly

22 \$140 that you hope to reduce those costs?

23 A That's right.

24 MR. DODGE: Thank you. No further

25 questions.

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1 CHAIRMAN MECHAM: Mr. Mattheis?

2 MR. MATTHEIS: No questions, your Honor.

3 Thank you.

4 CHAIRMAN MECHAM: Mr. Reeder?

5 CROSS EXAMINATION

6 BY MR. REEDER:

7 Q Good morning.

8 A Good morning.

9 (Discussion off the record.)

10 Q Let's speak for a moment or two, if we  
11 might, about your transmission plan.

12 (Discussion off the record.)

13 Q Let's speak of transition plans for a  
14 moment if we might, Mr. MacRitchie. Have you been  
15 involved in the transition plans prepared by  
16 ScottishPower in connection with Manweb and Southern  
17 Water?

18 A My role was as project manager for the  
19 Manweb transition as part of a team of some 12 people  
20 who were moved into Manweb on the deal, the closure



21 of the transaction, and undertook a transition  
22 planning process. My responsibility was project  
23 managing that overall plan. In terms of the Southern  
24 Water plan, I didn't have a direct responsibility  
25 within that plan, but subsequent to that I did get

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1 involved in implementation of some of the initiatives  
2 within that.

3 Q And it was your experience based on the  
4 development of those plans that it would take about  
5 six months to do the plans?

6 A It will take six months to come up with a  
7 plan which gives sufficient detail to be something  
8 that we would want to put forward for information to  
9 regulatory commissions. There will -- I think, as  
10 part of the discovery request, we did put forward a  
11 timetable which showed essentially two three-month  
12 periods. Our first three-month period will be a real  
13 focus on getting a high level view of what might be  
14 available. The three-month period following on from  
15 that really getting more substance behind and  
16 confirming the high level numbers and putting in  
17 place implementation plans as to how we would deliver  
18 the savings that are identified.

19 Q How long did it take to do the transition  
20 plan at Manweb?

21       A    We came out with the high level plan, which  
22    was the -- which was communicated to the city about  
23    three months after the closure, around December. The  
24    closure was about the beginning of October.  
25       Q    So you could do a plan and you have done a

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1 plan in three months?

2 A The transition plan itself. What we came  
3 out with was a view of the highest level numbers. I  
4 should say that we probably pushed ourselves -- I  
5 speak personally on this point -- a bit to the limit  
6 in terms of trying to achieve these time scales, and  
7 we wanted to come out with a plan, high level,  
8 particularly for staff ahead of Christmas, and we  
9 wanted to ensure that we got some of the uncertainty  
10 of the weaker staff ahead of Christmas so that kind  
11 of dictated when we undertook the planning process,  
12 but I should say it was not from the people involved  
13 in the process. It was a very quick affair and it  
14 would not be something that we would want to do  
15 again. Certainly not me.

16 Q Does that suggest a September 30 approval  
17 for this merger?

18 A I'm sorry? What was the question?

19 CHAIRMAN MECHAM: He's tweaking you.

20 MR. BURNETT: We'll take it when we can get

21 it.

22 Q (BY MR. REEDER) The Manweb takeover was a  
23 hostile takeover, was it not?

24 A The takeover process was, yes.

25 Q So the ability to start a transition plan

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1 really was impaired until you could gain access to  
2 the books and records in the company?

3 A Yes.

4 Q It isn't quite so impaired with PacifiCorp,  
5 is it?

6 A Not quite so, but it still is impaired.

7 Q You do have fairly decent access to the  
8 personnel and books and records of PacifiCorp, do you  
9 not?

10 A We have a certain degree of access. That  
11 access is restricted by the merger agreement which  
12 was negotiated with PacifiCorp. The merger agreement  
13 has a restriction on the access to confidential  
14 information and a restriction on the -- what's called  
15 the interference with operations, and I think you had  
16 Mr. O'Brien testifying yesterday to the fact that he  
17 has a very clear requirement to ensure that the  
18 transaction does not interfere with ongoing  
19 operations, and that was very much a significant  
20 consideration for PacifiCorp when negotiating the

21 merger agreement since a transaction such as this,  
22 which is a first in the U.S., and with PacifiCorp,  
23 which is six different states, was always a  
24 transaction with a significant degree of uncertainty  
25 about the closure.

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1           So in terms of that, that was the reason  
2   that these particular clauses were agreed with  
3   PacifiCorp to ensure that they could get on and run  
4   their business and would not be impaired by the flaw  
5   of the transaction. That's the legal reason why we  
6   can't do a transition plan before closure. I should  
7   say, though, that in terms of our approach to  
8   transition planning, and I think both Matthew Wright  
9   and Alan Richardson have testified to this fact, that  
10  transition planning is a hugely intrusive process in  
11  the organization. It requires a total focus over a  
12  short period of time by particularly management in  
13  the development of the plans. If there is any  
14  uncertainty as to whether the transition plan would  
15  ever have to be enacted within management, that  
16  undoubtedly minimizes the opportunity and the degree  
17  of certainty that we would come out with a  
18  significant transition plan. It undermines the  
19  reliability of the conclusions. We fail to get sign  
20  on from managers who may not be fully supportive or



21 fully convinced that the merger will take place, and  
22 throughout it will be full of compromise and, as  
23 such, it would be, to a certain extent, a waste of  
24 time and we would need to repeat the exercise, so  
25 there are reasons why to ensure that the transition

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1 plan is significant and will deliver a significant  
2 value. There are reasons why we would want to delay  
3 that till after the merger. However, there are also  
4 legal constraints on our ability to do so before the  
5 merger conclusion.

6       What we have done, though, is, from a desk  
7 top exercise, we have looked at opportunities to  
8 remove duplication in the corporate activities, and  
9 we assessed -- and it really was a desk top exercise,  
10 looking at what was the cost of our shareholder  
11 services department, what was the cost of  
12 PacifiCorp's shareholder services department, what  
13 was the cost of the consolidated accounting activity  
14 in ScottishPower and also in PacifiCorp, and by going  
15 down a list of -- I think it was around ten -- ten or  
16 12 different areas, which were clearly opportunities  
17 to remove duplication, we identified 50 million of  
18 savings across that with probably an increase of  
19 about 5 million in costs to bring the activities  
20 together, so where we have been able to do a desk top

21 exercise, we did so.

22           The real difference in this transaction  
23 from others is the value of the transition plan will  
24 not be about consolidating generation or  
25 consolidating operations. It's really about driving

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1 efficiency and best practice into the business, and  
2 that is a much more involved and difficult process  
3 and is not something you can do at a desk top, and  
4 that's the reason why we have been firm.

5 Our previous offering in our original  
6 testimony was a guaranteed minimum level of savings.  
7 While that has been replaced by the merger credit,  
8 that level of savings is still there. It will be  
9 delivered, so the 10 million system wide will  
10 certainly be there. We obviously are looking for the  
11 transition plan to deliver significantly more.

12 Q Can you call to my attention the paragraph  
13 of the agreement that constrains your access?

14 A It may take me some time to find that, but  
15 I'll attempt --

16 Q Maybe your counsel can do that while we  
17 proceed. You suggested that you had provided a time  
18 line that shows the time line for developing a  
19 transition plan. What's the first item on that time  
20 line? What's the first activity you undertake in

21 transition planning?

22 A I see you have the exhibit before you.

23 Could I --

24 Q If it says benchmarking, would you accept

25 it?

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1 A Yes, I would.

2 Q And benchmarking is largely done external,  
3 is it not?

4 A It's done between the companies. Clearly a  
5 value from this transaction will be the ability to  
6 look at ScottishPower's practices and compare them  
7 with PacifiCorp and see where there are better  
8 practices employed within ScottishPower that could be  
9 transferred to the betterment of PacifiCorp, so the  
10 benchmark in between ScottishPower and PacifiCorp  
11 will be an area that we will undertake, but, where  
12 possible, we will look to try to benchmark  
13 PacifiCorp's operations externally with not just  
14 other utility companies but other companies which  
15 undertake similar activities, such as looking at the  
16 coal center, and there are many businesses who employ  
17 coal center activities, and there are clearly leaders  
18 in that field and we would intend to try to undertake  
19 benchmarking within that.

20 I should just say, if I can, just to

21 qualify, and I think certainly referring to the case  
22 in PacifiCorp and our discussions with PacifiCorp,  
23 there has been a misunderstanding of what we mean by  
24 benchmarking. Benchmarking is not about getting the  
25 management accounts of one company and comparing it

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1 with the management accounts of another company. Our  
2 approach to benchmarking is about getting underneath  
3 the numbers, understanding what the practices are,  
4 processes, the systems that are employed that really  
5 deliver the performance improvement, and so  
6 benchmarking -- and I led benchmarking going back  
7 with U.S. companies, actually, going back to 1994 and  
8 we've visited maybe ten or so U.S. companies over a  
9 five-year period and done detail benchmarking, and  
10 it's like a week with that company really getting  
11 underneath the numbers and understanding what they  
12 do, because sometimes the numbers don't necessarily  
13 give you an accurate understanding about where best  
14 practices are, and without understanding really the  
15 practices, you can't then decide how you can transfer  
16 them to the new company, to your own company, so  
17 benchmarking is -- and that's why we put down  
18 benchmarking in my testimony as a competence of the  
19 company. It's what is an area that we have developed  
20 over a period of time that really delivers value.



21 It's not just about setting targets based on a  
22 comparison of published numbers. It really is about  
23 getting under the skin of the company and  
24 understanding how processes are applied and  
25 implemented, staff culture, training activities that

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1 support best practices and so on.

2           So, just to be clear, benchmarking is more  
3 involved than just looking at a set of numbers.

4     Q   Benchmarking involves the evaluation of  
5 third parties, does it not?

6     A   Yes, it does.

7     Q   Have you begun the process of evaluating  
8 third parties?

9     A   What we started in a limited way is, on a  
10 fairly high level, getting management from PacifiCorp  
11 to visit ScottishPower for a couple of days, three or  
12 four different areas of the business, and vice  
13 versa. We've had some ScottishPower people over.  
14 We've had to moderate that activity, mainly, as I've  
15 said before about our agreement with PacifiCorp, that  
16 we would not disturb or intervene with their  
17 operations, so we've had to take these opportunities,  
18 and some of the opportunities are when staff have  
19 actually been on holiday in the UK and we've used  
20 opportunities to get them up to Scotland to see some

21 of the activities undertaken there.

22 Q The first two months to six months,

23 there's, nonetheless, benchmarking, are there not?

24 A Yes, but a detailed benchmarking.

25 Q And that's an activity that could begin

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1 now?

2 A No.

3 Q The external benchmarks could not be  
4 developed now? That's your testimony?

5 A The benchmarking which we're talking about,  
6 and I might have gone into more detail than I need  
7 to, but the benchmarking which I've been talking  
8 about is intrusive, it's time consuming, it will  
9 affect operations to a degree that will distract  
10 management, and we would not intend to do that  
11 until -- in fact, we'll be limited in doing that  
12 until the transaction is complete.

13 Q If it's so intrusive, why shouldn't I worry  
14 about you doing it when you get in control of the  
15 Company, if it will interfere with the day to day  
16 operation of the Company?

17 A I don't follow the question.

18 Q I'll withdraw it. Let's turn to Cross  
19 Examination Exhibit No. 4, and direct your attention  
20 to page 122. Do you have a copy of that document?

- 21 A I will in a minute.
- 22 Q Thank you.
- 23 A What page was it again?
- 24 Q Page 122.
- 25 A Yes.

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1 Q It's true, is it not, sir, that there is a  
2 special share held by the government of Scotland in  
3 ScottishPower?

4 A That is correct.

5 Q It's true, is it not, that that holding is  
6 described on this page 122?

7 A In the top paragraph, yeah.

8 Q In the second paragraph it says, "If the  
9 holding company structure is adopted, the special  
10 share in ScottishPower will be cancelled and replaced  
11 by an equivalent share." Has that occurred?

12 A The establishment of the holding company  
13 actually was only completed in the past -- I think it  
14 was only the past week, and I shall find it. Whether  
15 that actual transaction has taken place, I wouldn't  
16 be sure, but we could confirm with you at the break  
17 if you wanted.

18 Q Isn't it true the holding company was  
19 formed on the 19th of February, 1999?

20 A No.

21 Q If your listing particular says to the  
22 contrary, your listing particulars is wrong?

23 A You'd have to refer me to the point of the  
24 listing particulars.

25 Q We'll have to find it. Nonetheless, have

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1 you negotiated new conditions on the special share?

2 A I don't have that information.

3 Q Who in the Company would know whether or  
4 not you've negotiated new conditions on the special  
5 share?

6 A I guess it would be our corporate counsel.  
7 I would probably be guessing, but I'm pretty sure it  
8 was no different conditions associated with that, but  
9 we could check that up and get back to you.

10 Q When and how would you propose to present  
11 those conditions on the special share to this  
12 Commission to assure that the special share by the  
13 Scottish Government doesn't interfere with their  
14 administration and the future of this Company?

15 A We can provide them within the space of an  
16 hour.

17 Q By -- after the lunch hour you can provide  
18 us with a description of those conditions?

19 A I would have thought so, yes. I'm assuming  
20 that we still have people at work in the UK there.



21 Q Directing your attention to page 116 of the  
22 proxy, 116 describes the conditions imposed as a  
23 result of this special share on shareholders, does it  
24 not?  
25 A I couldn't say.

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1 Q Directing your attention to the second full  
2 paragraph on the page, please refer to that for a  
3 moment, if you would, please, and tell me whether or  
4 not that's limitations imposed on shareholders as a  
5 result of the existence of the current special share.  
6 We don't know what the conditions of the new special  
7 share might be.

8 A I don't see that in the second paragraph.

9 Q Is there not a limitation of 15 percent of  
10 the Company by single shareholder that the special  
11 share imposes?

12 A Yes. That's in the third paragraph.

13 Q And if we direct ourselves to the bottom --  
14 or second to the last paragraph, it says if one  
15 acquires more than 15 percent, they seize and sell  
16 the shares in excess of the 15 percent, doesn't it?

17 A I can't see the word "seize."

18 Q They do take the process -- the word  
19 "seizure" may be offensive to you, but they do,  
20 nonetheless, take and sell the shares, don't they?

21       A   I'm struggling to see the whole relevance  
22   of this, but I think you could -- the paragraph  
23   speaks for itself. I'm not going to paraphrase it  
24   for you.

25       Q   Okay. It's true that the provisions of

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1 this paragraph that I will refer to as seizure and  
2 sale rights create a substantial barrier to this  
3 Company ever becoming a -- or joining with another  
4 enterprise in the U.S., don't they?

5 MR. VAN NOSTRAND: Objection. Calls for a  
6 legal conclusion.

7 MR. REEDER: I think it's an economic  
8 barrier, not a legal barrier.

9 MR. VAN NOSTRAND: You stated it as a legal  
10 barrier.

11 Q (BY MR. REEDER) Isn't it true that, as a  
12 matter of fact, the ability of a company to acquire  
13 more than 15 percent is economically impaired by the  
14 ability of the Scottish Government to seize and sell  
15 the shares in excess of 15 percent?

16 MR. VAN NOSTRAND: Objection. Still  
17 requires a legal conclusion.

18 MR. REEDER: I asked it as an economic  
19 fact.

20 MR. VAN NOSTRAND: It still requires a

21 legal conclusion.

22 MR. BURNETT: Just because you say it's an

23 economic fact doesn't change it from being a legal

24 conclusion.

25 MR. REEDER: My friends at the bar would

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1 have all things made legal, and it's true we're one  
2 of the nation's largest unions and really prefer the  
3 monopoly that we have, but let me submit that not all  
4 questions, simply because they can be answered by a  
5 lawyer, are legal questions. They can also be  
6 answered by laymen, many times more competently. I  
7 submit this is one of those.

8 CHAIRMAN MECHAM: In many instances I would  
9 agree with you. I'm not sure this is one of them. I  
10 mean, he might have an opinion about it, but it does  
11 seem to require --

12 MR. REEDER: Let's ask what he knows.

13 MR. BURNETT: Perhaps the witness can  
14 describe what the special share is for the benefit of  
15 the Commission, if he knows.

16 THE WITNESS: The special share is what's  
17 sometimes referred to as the golden share which was  
18 retained -- a single share, nonvoting, was retained  
19 by the British Government on the privatization of the  
20 electricity companies back in 1990, '91. That share

21 has been withdrawn in many of the companies and  
22 there's a few companies that has been left with -- it  
23 has not impaired any takeover or discussion of  
24 takeover over in the past. It has not become an  
25 issue, and I don't -- from my perspective, which is

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1 limited in these areas, I don't perceive that there  
2 is any issue. We certainly have been very aware of  
3 ScottishPower's position, and at any point  
4 ScottishPower could become the subject of merger  
5 discussions or takeover or whatever, and certainly  
6 this golden share has never been something that we  
7 felt we could hide behind, so in that respect I don't  
8 think we personally see it as a barrier to any such  
9 transactions, so that's my personal view.

10 Q (BY MR. REEDER) Are you familiar with the  
11 surrebuttal testimony of Mr. Richardson?

12 A Yes.

13 Q Would you refer to his testimony with  
14 respect to the effect of the special share?

15 A Did you say the surrebuttal?

16 Q Yes, sir. The last testimony filed by Mr.  
17 Richardson. Would you refer to that, please? The  
18 last testimony, whatever it's nominated.

19 MR. BURNETT: It's Mr. Richardson's  
20 supplemental testimony, filed April 16th.



21 Q (BY MR. REEDER) Mr. Richardson suggests,

22 does he not, sir, that the share can act as the

23 prevention of an improvident takeover?

24 MR. BURNETT: I object to the

25 characterization of that question. It's only one

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1 paragraph long. Why don't we read it.

2 CHAIRMAN MECHAM: Go ahead, if you want to  
3 read it.

4 MR. BURNETT: Go ahead.

5 CHAIRMAN MECHAM: Just go ahead and read  
6 it if you can.

7 MR. REEDER: Give him the keys to the  
8 car --

9 MR. BURNETT: You know, I object to this  
10 characterization of the keys to the car.

11 CHAIRMAN MECHAM: Mr. Burnett, I promise  
12 you it won't have an impact.

13 MR. BURNETT: Can you promise me it will  
14 have a negative impact?

15 CHAIRMAN MECHAM: I can't promise you that,  
16 either.

17 MR. BURNETT: Just give me that, would you?

18 MR. REEDER: Have a sense of humor, Brian.

19 MR. BURNETT: You know, I'm starting to  
20 lose it. You know, I had it kind of like Monday,

21 Tuesday, Wednesday a little bit, but by last my wife

22 told me, your sense of humor is gone.

23 MR. REEDER: I agree with her.

24 THE WITNESS: Okay. The question is what

25 is the preference share or special share referred to

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1 in the issues list of the large customer group in the  
2 UIEC. I think they're the only ones that have raised  
3 this as an issue. I presume the reference is to the  
4 special share which was retained by the UK Government  
5 when ScottishPower was privatized.

6 This special share has a nominal value of  
7 one pound and prevents a person or persons acting in  
8 concert from owning or controlling more than 15  
9 percent of the voting rights of ScottishPower without  
10 the UK Government's consent. The practical effect of  
11 the special share is to require government approval  
12 before control of ScottishPower may be transferred,  
13 much like the regulatory statutes in many of the  
14 states which require utility commission approval  
15 before control of a regulated utility passes to  
16 another.

17 It comes into play only if a transfer of  
18 ownership of ScottishPower is involved and does not  
19 in any way impose any restrictions on the actions  
20 which ScottishPower may take with respect to its own

21 businesses or PacifiCorp.

22 MR. REEDER: Thank you, Mr. MacRitchie.

23 CHAIRMAN MECHAM: Let's go off the record

24 just a minute.

25 (Discussion off the record.)

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1 CHAIRMAN MECHAM: Let's come back at 2:00.

2 (Recess, 12:28 p.m.)

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