17567

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter Of The Application of	)	
PacifiCorp and Scottish Power plc	)	Docket No. 98-2035-04
for an Order Approving the Issuance	)	
of PacifiCorp Common Stock	)	

SCOTTISHPOWER

REBUTTAL TESTIMONY OF ROBIN MACLAREN

JULY 16, 1999

Q. Please state your name, responsibilities, and qualifications.

A. My name is Robin MacLaren. I have an Honors degree in Electrical Engineering from the University of Strathclyde in Glasgow, Scotland, and am a member of the Institution of Electrical Engineers and Institute of Directors in the U.K. I have over 24 years experience in all aspects of the electric utility business. As Chief Engineer, Power Systems, my responsibilities include engineering, capital investment, and network performance improvement in all transmission and distribution networks owned by ScottishPower.

Q. What is the purpose of your rebuttal testimony?

A. My testimony will address the issues raised by DPU witness Mr. Robert Maloney and comment on the proposed merger conditions contained in Exhibit No. DPU 1.2 ("Conditions") which relate to ScottishPower's proposed Performance Standards and Customer Guarantees. I will also address the positions taken by Mr. Paul Chernick, consultant to the Committee of Consumer Services (CSS). In addition, I will respond to specific concerns raised by the witnesses for Utah Associated Municipal Power Systems (UAMPS), Deseret Generation & Transmission Co-Operative, Inc. (Deseret), Nucor Steel (Nucor), and the Utah League of Cities and Towns (ULCT).

I. RESPONSE TO THE MERGER CONDITIONS PROPOSED BY THE COMMISSION AND UAMPS

Q. Mr. Maloney's proposed Condition No. 29 would require the Company to "continuously meet performance standards." Does the Company have concerns regarding the wording of that Condition?

A. We have concerns regarding the wording of Condition No. 29, but not, we believe, with the intent of the Condition, which confirms existing Commission authority. The Company has voluntarily committed to meet certain specified Performance Standards and has agreed to pay specified penalties in the event it does not meet those standards. We take those commitments seriously and will use all reasonable efforts to meet those standards on a day-by-day basis. However, read literally, Condition No. 29 would require errorless compliance with the Performance Standards. In addition, each error could, based on the discussion in Mr. Maloney's testimony, result in penalties under Section 54-7-25. This would not be a reasonable result, and we do not believe that this is the intent of Condition 29. This belief is based on Mr. Maloney's response to ScottishPower Data Request No. 1-11, which is attached to my testimony as Exhibit SP __ (RM-1). ScottishPower would recommend eliminating the word "continuously" from Condition No. 29, to avoid any confusion about the intent of the Condition. This modification would not limit the Commission's ability to monitor and enforce the Company's compliance with its Performance Standards.

Q. UAMPS (Daniel, p. 23) has recommended that the Commission substantially increase financial penalties for ScottishPower's failure to comply with targeted reliability improvements. Please respond.

A. Although UAMPS has testified it is supportive of our proposed Performance Standards pertaining to reliability, it also expressed concerns about whether ScottishPower can achieve its service goals. Again, I would direct Mr. Daniel to ScottishPower's track record on customer service and system reliability. In addition, our reporting proposals ensure visibility of our progress in achieving our proposed service goals. Increased penalties are not necessary to ensure that ScottishPower fulfills its commitments to improve service.

Q. Condition No. 38 would require the Company to make quarterly reports to the Commission showing credits to customers for failures to meet Customer Guarantees. Is this necessary to ensure that ScottishPower improves its service quality?

A. ScottishPower is committed to providing all reasonable reports to the DPU and the public to demonstrate all aspects of our service standards and considers the additional reports and targets it has proposed to be a real benefit of the transaction. Quarterly reports will be provided to the DPU on a number of performance criteria, including the Performance and Customer Guarantees. An annual report will be published, as more fully described in Mr. Moir's direct testimony. Each report will contain an overview of ScottishPower's standards, targets and guarantees and describe the performance results for that year. However, ScottishPower is prepared to work with the Commission to audit any aspect of our operations to ensure service does not deteriorate. ScottishPower considers that overdetailed reporting is onerous and will simply take resources away from the Company focus on improving performance and customer service. ScottishPower considers this approach to be in the spirit of Title 54-4a-6(3) which requires the process to be "as simple and understandable as possible."

In the same vein, UAMPS suggests that ScottishPower should be required to provide a detailed action plan 120 days after the Commission issues an order approving the merger (Daniel, p. 22) This would be overly burdensome, and is not necessary at this early stage in our five-year program.

Q. Mr. Daniel has suggested a number of additional requirements be included in the action plan (p.23). Are these requirements necessary?

A. No. Mr. Daniel is recommending that the action plan encompass

- reliability improvements on the system for all Utah electric consumers on a non-discriminatory, non-preferential basis
- incorporate ongoing participation by Commission Staff and consumer representatives

In response to the first point, the Commission already has a process in place to address complaints against the Company, and there are statutes that prohibit discriminatory or preferential treatment of customers, which apply to PacifiCorp now, and will apply after the merger. As for the second point, ScottishPower does not believe this type of process is necessary unless the Company's actions after the merger cause the Commission to be concerned about the Company's ability to deliver our service package and maintain a reliable system. We recommend that ScottishPower be judged on (1) its ability to deliver what it has committed to provide; and (2) its track record for service reliability.

Q. In Condition No. 30 the DPU has requested that PacifiCorp report funding sources and expenditures against the $55 million estimate. Will the Company provide this information to the Commission?

A. ScottishPower has committed to spend $55 million to implement the proposed service standards package outlined in Mr. Moir's direct testimony. This funding will be derived from achieving efficiencies within existing programs and will not result in an incremental expense to customers. ScottishPower will report on these expenditures and the source of funds within the existing Results of Operations semi-annual report. This should respond to Commission concerns that ScottishPower will fund network expenditures from PacifiCorp's existing budget.

Q. How will ScottishPower demonstrate that outage levels will not deteriorate after the merger given that the current outage reporting system understates outages (Condition Nos. 31, 32 and 34)?

A. PacifiCorp has committed to bring Prosper on line within 12 to 18 months. To address concerns that outage levels are not increasing, ScottishPower will share its audit process with the Commission to ensure that agreed-on baselines are established within 18 months of the transaction. It is ScottishPower's intention that setting correct baselines would involve submitting the details to the DPU for agreement. ScottishPower will work with the DPU and CCS to establish the baselines. The DPU, upon request, may audit the Prosper system in order to determine actual outage levels. This should also allay any concerns expressed by Deseret witness Stover (p. 15) as to whether ScottishPower is setting appropriate baselines from which benchmarks can be set and improvements measured. ScottishPower will use its reasonable endeavors to bring Prosper on line 12 to 18 months after the merger, but it would be unrealistic for ScottishPower to agree to a Commission requirement commit to having Prosper fully installed no later than 12 months after the merger when it cannot guarantee this timescale.

Q. Why did ScottishPower propose the IEEE definitions in defining an extreme event (Condition No. 33)?

A. ScottishPower proposed the IEEE definitions because they are recognized standards. Mr. Maloney has testified that two of the definitions, "exceeds the design limits of the power system" and "extensive damage to the electric power system" (p. 19) may require engineering judgment. We agree with Mr. Maloney's observation, but do not agree that we eliminate the definitions, since they are based on the IEEE, but intend that we would only apply these two definitions after agreement with the DPU over specific events. This also addresses Mr. Chernick's recommendation that the definition should be objective (p. 33).

Q. Mr. Maloney has recommended that PacifiCorp report on internal targets for call-handling during wide-scale outages and report the results to the Commission. What is the Company's position regarding this recommendation (Condition No. 37)?

A. Extreme situations vary so much that targets would be difficult to establish and monitor. The Company's preferred approach would be to submit a report to the Commission on call-handling statistics after each wide-scale outage.

Q. Do you agree with Mr. Maloney that tracking outage levels on district, circuit, and individual customer bases will help demonstrate to customers that they receive reliable service (Condition No. 35)?

A. ScottishPower agrees with Mr. Maloney that tracking outage levels at more disaggregated levels is preferable. It is a longer term plan to track customer service at the individual customer level. We would ask the Commission to recognize that this goal requires a period of overall system improvement and monitoring, as well as additional accurate historical data.

II. THE MERGER BETWEEN SCOTTISHPOWER AND PACIFICORP WILL PRODUCE BENEFITS TO CUSTOMERS

Response to Mr. Chernick's Testimony on Behalf of Committee of Consumer Services

Q. Mr. Chernick (p. 5) questions whether there is a connection between improving PacifiCorp's performance and the merger with ScottishPower. Please comment.

A. The connection could not be clearer. The proposals to improve PacifiCorp's performance are ScottishPower's proposals. PacifiCorp had no independent plans for substantial system improvements prior to entering into the Merger Agreement as discussed by Mr. O'Brien. Further, ScottishPower can achieve any gains more quickly and at lower cost than PacifiCorp can on its own. ScottishPower has already demonstrated its ability to achieve significant gains in performance, through its accomplishments at ScottishPower and Manweb.

Q. Mr. Chernick states that PacifiCorp's performance in most areas is not particularly problematic (p. 5) and both Mr. Chernick and Mr. Brubaker, who is testifying on behalf of Utah Industrial Energy Consumers, contend that PacifiCorp should be able to improve performance, with or without the aid of ScottishPower (Brubaker, p. 14). Please respond.

A. Customers will benefit from improvements in service. ScottishPower does not believe in providing merely adequate or average performance, and believes PacifiCorp performance improvement can be achieved cost-effectively. Mr. Chernick concedes, later in his testimony, that PacifiCorp's performance in answering the telephone when customers call is "poor." (Chernick, p. 13) He acknowledges that ScottishPower's proposed standard for telephone service would be a "significant improvement over current practice." (Chernick, p. 26) He also notes that this Commission has initiated a proceeding (Docket

No. 99-2035-01) to investigate quality of service for PacifiCorp. (Chernick, p. 13) All these statements are evidence that improvements in PacifiCorp's performance can be made, and ScottishPower has the track record and skills to achieve these for the benefit of customers.

Regarding his comment that PacifiCorp should be able to obtain the skills necessary to improve performance with or without the aid of ScottishPower, we do not contest PacifiCorp's ability eventually to achieve improvements on its own. What ScottishPower brings, and what is most beneficial to PacifiCorp's customers, is the experience and skills to achieve improvements faster, more fully and with greater efficiency and certainty than PacifiCorp could achieve alone.

Q. Do you agree with Mr. Chernick's claim that ScottishPower's proposed improvements are vague and minor (p. 5)?

A. No. Our service performance commitments certainly are not vague; they are quite specific. Nor are they minor. Individually, they represent measurable and significant improvements over current levels of performance. As a whole, they represent the most comprehensive set of service commitments in the United States.

Q. Mr. Chernick contends that ScottishPower has not clearly defined portions of its proposal (p. 5). Please comment.

A. Mr. Chernick introduces ambiguity into proposals that are quite straightforward. The objectives and levels of performance improvement in the proposals are clearly specified. Any ambiguity rests in the fine details which will be resolved in the course of implementation. ScottishPower's own interest in achieving improvements and efficiencies in customer service combined with the Commission's continuing jurisdiction ensure that customers will benefit from these proposals.

Q. Next, Mr. Chernick states that some of the improvement targets cannot be set meaningfully until PacifiCorp has improved its data collection system and determined the baseline from which improvements will be made (p. 5). How do you respond?

A. It is for the reasons Mr. Chernick indicates that ScottishPower is committed to improving the reporting systems in PacifiCorp. Nevertheless, the magnitude of the targeted improvements can be set.

Q. Mr. Chernick criticizes ScottishPower's service proposals as not well thought through, because ScottishPower has promised improvements without knowing the baseline performance levels from which the improvements will be measured (p. 5). How do you respond?

A. It is true that PacifiCorp's actual baseline performance levels are unclear, and this is one of the first areas ScottishPower will improve. It is not correct, however, to claim that ScottishPower's service proposals are not well thought through. ScottishPower has already implemented programs such as these in its own service territory and in the service territory of Manweb from similar initial baseline uncertainty. ScottishPower has a very thorough understanding of its proposals and the benefits they bring to customers. Any differences between electric service in the U.K. and electric service in the United States are not sufficient to overcome the value of these experiences.

Q. How do you respond to Mr. Chernick's assertion that ScottishPower's proposal to correct PacifiCorp's historical reliability data is vague (p.18)?

A. ScottishPower is committing to doing something positive to address the current deficiencies in reliability data. ScottishPower's/PacifiCorp's commitment to collect and correct the baseline reliability data is in itself a benefit to customers and will improve the Commission's ability to monitor service reliability in the state of Utah.

Q. What protections are in place to ensure the cost-effectiveness of ScottishPower's investments in improved reliability?

A. Our transition planning process is designed specifically to identify cost-effective investments, that is, those that provide net benefits to customers. In addition, we are committing to fund the service standards improvements out of existing budgets, so there will be no incremental cost for these programs. Finally, the prudence of our expenditures will be subject to investigation in rate cases.

Q. Do you agree with Mr. Chernick's conclusion that reliability and customer service are not important issues to commercial and industrial customers (p. 15)?

A. No. We are convinced that commercial and industrial customers do value reduced outages. Our experience in the U.K. and involvement with U.S. utilities and industrial organizations, indicates that most industrial customers place significant value on the reduction of outages. Our pro-active commitments to improve service are intended to reduce outages and the resulting system disturbances that would, if experienced, cause significant operational problems for commercial and industrial customers.

ScottishPower's analysis of the benefits to customers from improved System Performance demonstrates that the majority of the benefit accrues to commercial and industrial customers. (See Exhibit SP ___ (AVR-2 (Supplemental Testimony), p. 10 Table 2).

Q. Mr. Chernick is critical of the five-year time frame within which PacifiCorp/ ScottishPower commit to make improvements in the SAIDI, SAIFI and MAIFI indices. (p. 41) Please respond.

A. Sustainable improvement in electricity networks does not happen quickly. ScottishPower believes in a methodical and thorough approach to strengthening the network and introducing improved techniques and systems. Such an approach is especially necessary for a geographically extensive system such as PacifiCorp's.

Q. Mr. Chernick raises a number of questions regarding ScottishPower's proposal to annually improve PacifiCorp's five worst performing circuits in the state of Utah. First, he asks whether the achievement of a greater than 20 percent reduction in the Circuit Performance Indicator ("CPI") in one circuit can be credited to another circuit that may have not achieved the goal (p. 20). Does ScottishPower's proposal include such a transfer of credit?

A. No. Each one of the selected circuits will be measured on its own.

Q. What happens if ScottishPower/PacifiCorp fail to achieve the 20 percent reduction on CPI for more than one year (Chernick, p. 20)? Can a selected circuit be reselected in a later year?

A. If we fail to achieve the 20 percent reduction in a circuit for more than one year, we will seek to identify the underlying reasons for the failure. However, if a circuit's CPI falls 20% for a year or two and then rises in a later year, we would consider our goal for that circuit achieved. A reduction as significant as 20 percent in the first instance would indicate that the network improvements were performing as expected. Under these circumstances, we do not expect to see the CPI rise significantly in subsequent years. If it does, we would want to determine the causes before taking any further action. ScottishPower will not reselect a circuit for five years after its initial selection. This is to ensure that improvements are not concentrated on only a few circuits. If we fail to improve a selected circuit we will determine the reason for the failure, and based on this information we will formulate a plan to improve circuit performance.

Q. How long would ScottishPower have to achieve the 20 percent improvement in a worst performing circuit?

A. We would have two years following the year in which the circuit is selected as one of the five worst performing circuits.

Q. Will the selection of the worst performing circuits be based only on data for the three years before the merger?

A. No. For each year the selection of five worst performing circuits is made, we will use data from the most recent three-year period.

Q. What will happen if ScottishPower/PacifiCorp are unable to obtain the appropriate planning consents to improve a selected circuit?

A. ScottishPower/PacifiCorp would do its best to obtain the necessary consents. ScottishPower's experience in this area is that obtaining appropriate planning consents has not been a significant problem. If the appropriate planning consents cannot be obtained, however, ScottishPower/PacifiCorp would select another circuit, consistent with improving service to worst served customers.

Q. Do you agree with Mr. Chernick's statement that "it is not clear that ScottishPower is actually proposing any improvement over existing conditions?" (p. 23, footnote 18)

A. No. ScottishPower's proposed decreases in SAIFI, SAIDI and MAIFI represent clear improvements from current levels of performance. The value to customers of improvements in these measurements, calculated on the basis of a study performed by the Electric Power Research Institute for the Bonneville Power Administration, is approximately $60 million annually, or about $600 million on a net present value basis. (Richardson Supp. Test., p. 5) In addition, failure to improve performance in the five network performance standards will lead to penalty payments.

The $60 Million Figure Is A Reasonable Estimate Of Customer Benefits

Q. Is the $60 million annual customer benefit estimate unreliable because it is based upon outage cost estimates from an 1990 EPRI survey for the Bonneville Power Administration?

A. No, for at least four reasons. First, Mr. Chernick claims that the estimate is unreliable because ScottishPower did not adjust for differences in the size of commercial and industrial customers or changes in technology over time (p. 34). We do not agree. The outage cost estimates from the BPA survey are the best data available for estimating the value to PacifiCorp's customers from improvements in system reliability. The retail customers included in the BPA survey were drawn from customers of the following utilities: Puget Sound Energy, Portland General Electric, Benton County PUD, Clallum County PUD, Clark County PUD, Salem Electric, Lower Valley PUD and Tacoma Electric. These utilities are representative of the Pacific Northwest and are a good proxy for PacifiCorp's customer base, given the lack of survey data available specifically for the PacifiCorp system.

Second, the purpose of the study was to determine whether the level of benefits to customers from ScottishPower's proposed reductions in SAIFI, SAIDI and MAIFI are significant. The precise magnitude of these benefits is not particularly important for the purpose of this proceeding. Even if, for the sake of argument, the benefits were only half of the $60 million annual figure, the net benefits to customers would still be substantial given the relatively modest estimated cost required to achieve these improvements.

Third, without the raw BPA survey data, which could not be obtained, there is no way to accurately adjust for differences in size between the customers surveyed and PacifiCorp's customers. ScottishPower has evaluated outage estimates contained in surveys performed by Puget Sound Energy, Duke Power and Southern California Edison. A review of those empirical studies confirms the fact that ScottishPower's commitment to improve system reliability will provide customers with substantial quantifiable benefits, irrespective of differences in customer size or other issues that make comparisons between utilities difficult.

Exhibit SP __ (RM-2) to my rebuttal testimony shows the estimated benefit from ScottishPower's system performance standards using outage cost estimates from these three surveys results. Estimates of customer benefits from ScottishPower's proposed reliability improvements to the PacifiCorp system range from $31 million to $61 million, compared to the estimate of $60 million for the BPA study. It is important to point out that the estimates of $31 million and $50 million based on the Puget Sound Energy and Southern California Edison data exclude the effect that large commercial and industrial customers have on the average outage cost estimates.[1] In the case where large customers were included in the survey, for Duke Power, the results are virtually identical to those derived using the BPA outage cost estimates. Relying on outage cost estimates from either the BPA or Duke Power studies results in the same estimate of $60 million in customer benefits from ScottishPower's proposed reliability improvements. Even with the differences between the BPA and Duke Power studies in terms of the size and type of customers surveyed, the application of the study results to PacifiCorp's system yields similar results. This supports the finding that ScottishPower's promised service quality improvements represent a substantial benefit to PacifiCorp's customers.

Fourth, the only example cited by Mr. Chernick regarding changes in technology over time would have the effect of increasing, not decreasing, the benefit estimate. The fact that ScottishPower did not attempt to adjust for the likely increase in the cost of momentary outages since 1990, due to greater reliance on electronics and computer based technologies sensitive to such outages, simply makes ScottishPower's $60 million benefit estimate conservative.

---

[1] Large customers over 1 MW were excluded from the Southern California Edison and Puget Sound Energy surveys. Since large customers have significantly higher outage costs, it is not surprising that the estimate of benefits from reliability improvements is substantially less using the Southern California Edison and Puget Sound Energy data compared to the BPA data.

Q. Do you agree with Mr. Chernick's assertion that ScottishPower's assumed value of momentary outages for residential customers is too high (p. 34)?

A. No. The assumed value of momentary outages for residential customers is not too high. The estimated value of a momentary interruption for residential customers used in the ScottishPower study is corroborated by a more recent survey of residential customers of Puget Sound Energy.[2] This survey, made public since the preparation of the benefit study, estimates the value of a momentary interruption for residential customers to be about $4 compared to the estimate of $3.41 used in ScottishPower's benefit study.

Q. Do you agree with Mr. Chernick's observation that the benefit estimate contained in AVR-7 incorporates the value of the 10% reduction in SAIFI (p. 34)?

A. Yes. The benefit of the 10% reduction in SAIFI is incorporated in the $37 million estimate of the cost of an extended outage and illustrates the value to customers of the proposed reductions in both SAIDI and SAIFI.

Q. Do you agree with Mr. Chernick's conclusion that commercial and industrial customers should primarily bear the costs of improvements in transmission and distribution reliability, since those improvements primarily benefit these customers (p. 37)?

A. No. All customers benefit from improvements in transmission and distribution reliability. The benefits to commercial and industrial customers may be more apparent, but one cannot generalize about the value of reliability to customers. Some commercial or industrial customers may not value reliability highly, while certain residential customers may be highly dependent on a reliable power supply. Indeed, power quality and reliability are becoming ever more important to residential customers as the use of computers and microprocessors in the home expands. It is clear from the BPA/EPRI

---

[2] See presentation by Michael Sheehan and Michael Sullivan, Value of Service: A Customer Perspective, IEEE T&D Expo, April 13, 1999.

study and the experiences of ScottishPower and PacifiCorp that customers place a high value on reliability of the electric power system. Overall, the complete package of service standards is balanced and provides benefits to all customers.

Response to Specific Service Reliability Issues

Q. How do you respond to Nucor's assertion that if ScottishPower does not realize its projected costs savings it may elect to cut back on expenditures for system performance improvements, resulting in less reliable service? (Goins, p. 12)

A. This is simply conjecture by Mr. Goins. There is no evidence that ScottishPower would take this course of action. In any event, this course of action would be contrary to ScottishPower's track record. ScottishPower has committed to spend $55 million on its proposed service package. ScottishPower is committed to providing reliable service to its customers, and will make expenditures as required.

Q. Please respond to ULCT's contention that ScottishPower has not proposed any specific solution to mini-outages. (Dolan, pp. 3-4)

A. ScottishPower's network Performance Standards include a reduction in MAIFI by 5% from an accurate baseline for PacifiCorp's system. The Company has committed to achieve this reduction by 2005.

Q. ScottishPower has focused five of its Performance Standards on improvement to the distribution system. Does this mean that the Company, as UAMPS (Daniel, p. 17) and Deseret (Stover, p. 14) have implied, will not invest in transmission or in areas of the network that need improvement over the next five years?

A. No. The network Performance Standards focus on the distribution system, but any part of the network demonstrating poor performance will be examined and improvements will be made if necessary. The expenditures outlined in Mr. Moir's direct testimony are those identified for reliability improvement.

ScottishPower agrees with Mr. Daniel's point that where additional expenditure is deemed necessary, that the expenditure should not be capped. The $55 million is earmarked for ScottishPower's proposed service standards package. However, where ScottishPower identifies areas in the system where improvements can be made it will evaluate those and make necessary improvements in the normal course of its business. Given that the $55 million does not represent a cap for all transmission and distribution expenditures over the next five years, Mr. Daniel's comparison of the expenditures for ScottishPower's proposed service package with the necessary expenditures to build and operate a transmission and distribution system is not a useful comparison.

Q. Mr. Daniel has recommended that ScottishPower direct its commitments to both transmission and distribution facilities (as warranted) as part of its reliability improvements and that ScottishPower establish reliability indices for measuring its Performance Standards on a state-by-state basis (p.23). Would ScottishPower agree to these requirements?

A. Yes.

Q. Please comment on Mr. Stover's testimony on behalf of Deseret that the proposed merger will have an adverse impact on customers in rural Utah in terms of reduced service reliability (p. 7).

A. There is no basis for Deseret's claim that the merger will result in reduced service reliability for rural customers. In fact, ScottishPower's proposal to improve the five worst performing circuits in each state by twenty percent demonstrates the Company's commitment to rural areas. In addition, the Company does not believe it is necessary to account separately for rural and urban regions. Mr. Stover's method to divide rural and urban customers is not robust and would not be considered by ScottishPower. Furthermore, the examples provided in the table on page 17 of Mr. Stover's testimony are not an accurate representation of urban and rural characteristics. It does not address the length of circuits and typical fault rates. ScottishPower is dedicated to customer service and believes a reasonable approach is to make investments which ensure the maximum advantage to all of its customers. ScottishPower and Manweb's track record demonstrate the Company's commitment to make improvements in rural areas.

Q. Mr. Stover's testimony seems to imply that ScottishPower will not address the transmission reliability concerns of its wholesale customers. Is that the case?

A. No. ScottishPower is committed to providing an adequate and reliable network to its customers. The Company is not going to ignore the transmission component of its network. In addition, Deseret, and its members, have a forum at FERC to raise these issues which are jurisdictional to FERC.

Q. Does this conclude your rebuttal testimony?

A. Yes.

[PA991900.087]

STATE OF OREGON)
) ss.
COUNTY OF MULTNOMAH)

I, Robin MacLaren, hereby declare under penalty of perjury under the laws of the State of Oregon that the foregoing testimony was prepared under my direction and supervision and that all testimony and exhibits thereto are true and correct to the best of my knowledge.

Robin MacLaren

SUBSCRIBED and SWORN to before me this 16 day of July, 1999.

OFFICIAL SEAL
ELAINE JAUREGUIZAR
NOTARY PUBLIC-OREGON
COMMISSION NO. 303054
MY COMMISSION EXPIRES JULY 15, 2001

Print Name: Elaine Jaureguizar
Notary Public in and for the State of Oregon,
residing at Beaverton, OR
My commission expires: 7/15/01

98-2035-04/Application of PacifiCorp and Scottish Power plc for an Order approving the Issuance of PacifiCorp Common Stock.
First Set of Scottish Power Data Requests (6-25-99). DPU Response (7-12-99)

SCOTTISH POWER DATA REQUEST 1-11

Regarding Mr. Maloney's testimony at page 13, lines 12-15, please describe the witness' understanding of how the Title 54-7-25 provisions would operate in practical terms to ensure Mr. Maloney's desired outcome under Condition #1.

RESPONSE TO SCOTTISH POWER DATA REQUEST 1-11 (Bob Maloney)

Mr. Maloney's desired outcome is to shift some of the failure risk from customers to shareholders. This desired outcome is specified on page 12, lines 6 – 8 of Mr. Maloney's testimony, which states "Formally agreeing to meet each of the eleven conditions shifts some of the risk ScottishPower will not meet approved merger conditions from customers to shareholders."

Title 54-7-25 indicates a utility violating an order is subject to a penalty of not less than $500 nor more than $2,000 for each offense.

Condition #1 involves holding PacifiCorp accountable for:

- Assuring underlying outages do not increase above current levels during any of the next five years.
- Achieving each of the five network and two customer service performance standards specified in the performance package.

Under Condition #1, PacifiCorp is also accountable for tariffing its proposed service package, updating its service package in 2004, and crediting a customer when not providing one of the eight guaranteed services.

PacifiCorp is entitled to due process. It is my understanding that Title 54-7-25, Violations by utilities – Penalty, could operate as follows:

1 The Division would, through initiating its own action or receiving feedback, identify a possible violation of Condition #1. What would constitute an "offense" in violation of Condition #1 would depend upon the circumstances.

2 Pursuant to Title 54-4a-1, the Division would:

a) Request that the Company explain the violation and/or provide a copy of its corrective-action plan.

b) Upon receipt, determine whether the Company's initial explanation and/or action plan effectively addressed the possible violation.

3 If, based upon the Company's initial explanation and/or action plan, the Division concluded a possible violation existed or would continue, the Division would then prepare to conduct an audit. Preparing to audit would include:

a) Providing the Company with advance notice of the upcoming audit.

b) If the Company required such, petitioning the Commission to institute a formal proceeding prior to the audit.

The purpose of the audit would be to gather evidence to be presented at a possible show cause hearing before the Commission. The Commission could schedule such a hearing if the audit evidence showed a possible violation of Condition #1.

4 If the Commission instituted a formal proceeding for the audit, conduct the audit. Subsequently provide the Commission with audit evidence and recommendations.

5 If the audit evidence substantiated that the Company violated Condition #1 or was not addressing the violation, request that the Commission take agency action. That is, pursuant to 54-4-1 and 54-4-2 U.C.A., request that the Commission issue an order to show cause why the Company should not pay penalties (under 54-7-25) for violating merger Condition #1.

(RESPONSE TO SCOTTISH POWER DATA REQUEST 1-11 (Bob Maloney), continued).

ScottishPower
Utah PSC Docket No. 98-2035-4
Robin MacLaren
Exhibit SP _ (RM-2)

Illustrative Application of Other Survey Results

Source of Survey Data	Customer Class	Momentary Interruption Cost ($)	Seventy-Eight Minute Outage Cost[1]	Total System Cost of Outages ($ million)	Estimated Benefit from 5% and 10% Reductions ($ million)	Comments
Bonneville Power Admin						
	Residential	$3	$4	$32		Survey includes large C&I customers
	Commercial	$126	$1,243	$344		
	Industrial	$4,217	$13,501	$475		
	Total				$61	
Puget Sound Energy						
	Residential	$4	$10	$44		Survey excluded customers larger than 1 MW
	Comm/Ind Ave.	$109	$1,194	$317		
	Comm/Ind Ave	$109	$1,194	$22		
	Total				$31	
Duke Power						
	Residential	$1	$6	$15		Survey includes large C&I customers
	Commercial	$167	$1,520	$434		
	Industrial	$3,473	$10,853	$388		
	TOTAL				$61	
Southern California Edison						
	Residential	$4	$4	$37		Survey excluded customers larger than 1 MW
	Comm/Ind. Ave.	$209	$1,896	$541		
	Comm/Ind Ave.	$607	$1,896	$68		
	Total				$50	

[1] Outage cost estimates for Duke are for a 60 minute outage

17565

RECEIVED
JUL 19 9 42 AM '99
SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter Of The Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	) Docket No. 98-2035-04

SCOTTISH POWER

REBUTTAL TESTIMONY OF ANDREW MACRITCHIE

JULY 16, 1999

[29754-0001/PA991890.026]

INTRODUCTION

Q. Please state your name.

A. My name is Andrew MacRitchie. I previously submitted direct testimony in this docket.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. My testimony is submitted in response to the testimony submitted by Bruce E. Biewald and Paul Chernick on behalf of the Committee of Consumer Services (CCS), Dr. Richard M. Anderson on behalf of the Large Customer Group (LCG), and Maurice Brubaker on behalf of the Utah Industrial Energy Consumers (UIEC).

Q. Please summarize your testimony.

A. Based upon our review of the referenced testimony, I will clarify and expand some points regarding the ScottishPower/PacifiCorp proposals contained within our direct testimony. In addressing these points, my testimony will:

- Introduce our commitment to provide our transition plan for transforming PacifiCorp. This transition plan will be supplied to the Commission within six months of closure of the merger, consistent with the recommendation of the Division of Public Utilities in its proposed condition 15. We believe that this commitment responds to CCS's, LCG's, and UIEC's concerns regarding the lack of specificity associated with the proposed cost savings likely to be realized in the future as a result of a transformed PacifiCorp.
- Address CCS's and UIEC's critique of the yardstick benchmark analysis.
- Respond to criticisms leveled by CCS, LCG, and UIEC concerning the relevance of our Manweb experience to this transaction.

TRANSITION PLAN AND FUTURE COST SAVINGS

Q. The testimonies of Mr. Biewald, Dr. Anderson, and Mr. Brubaker criticize the fact that ScottishPower cannot be more definite as to the magnitude and nature of the cost savings that will be forthcoming over time. Is this criticism valid?

A. No, I do not believe so. These testimonies seem to misunderstand the process by which ScottishPower successfully transforms utility businesses. As described in my direct testimony, ScottishPower starts with the development of a detailed transition plan. At both Manweb and Southern Water, the transition plan was formulated following consummation of the transaction by gaining in-depth knowledge of each company's practices.

Q. Can a transition plan be developed before the merger is completed?

A. No, it cannot. Production of a transition plan would involve significant "intervention" in PacifiCorp. This level of intervention would be inappropriate before consummation of the merger because it involves a significant amount of time and resources. It may therefore be counter-productive to ongoing operational performance. Furthermore, our experience shows that such a process works best once all players have the incentive to deliver on a common goal of improved operation and performance. This can only take place once all of the key players are part of the same organization, in other words, subsequent to the closure of the transaction.

Q. Would ScottishPower be willing to provide the Commission or other parties with this transition plan as a way of satisfying regulatory concerns regarding the lack of specificity with respect to future cost savings potential?

A. Yes, we would. No later than six months after the closing date of the merger, ScottishPower and PacifiCorp will file the merger transition plan with the Commission. This plan will include the anticipated time lines, actions anticipated necessary to implement the merger and realize the proposed benefits (including expected cost savings), and the estimated associated capital and expense expenditures and anticipated workforce changes. This commitment is identical to the DPU's proposed condition 15.

Q. How will the Commission be able to identify cost savings that result from the merger?

A. PacifiCorp will continue to make its regular, semi-annual earnings reports to the Commission that will reflect savings in both corporate costs and operating costs. In this way, the cost savings attributable to ScottishPower's transformation of PacifiCorp will be identified for this Commission and reflected in the results of PacifiCorp's operation. For this reason, and for the additional reasons discussed in the rebuttal testimony of Alan Richardson, condition 14 proposed by the DPU is not necessary.

Q. Mr. Brubaker testifies that the Commission should hold hearings on the transition plan, and that final merger approval should follow Commission approval of the plan. (Brubaker, p. 52.) Please respond.

A. This is neither a necessary nor appropriate course of action. It is not necessary because ScottishPower's commitment to file its transition plan and regularly report its earnings, combined with the Commission's authority to set cost-based rates, provides assurance that the cost savings ScottishPower achieves can be reflected in rates. It is also not possible because the plan practically cannot be developed until after the transaction closes, for the reasons discussed above. Moreover, the transition plan is essentially a business decision, which is not appropriate to subject to the Commission approval process. The plan relates to how the business will be run, and ScottishPower and PacifiCorp have the experience to make these decisions. The Commission also needs to recognize that the transition plan could change as the company begins to implement it. For all of these reasons, the Commission should not accept Mr. Brubaker's suggestion. Having said that, it is of course in ScottishPower's interest to discuss the content of the transition plan with the Commission in order to gain support for its recommendations.

Q. Mr. MacRitchie, can you provide the Commission with an example of the process of developing a transition plan and the elements that are included in one?

A. Yes, I can. I have attached to this testimony as Exhibit SP __ (AM-1) a copy of a timeline for developing a transition plan. Included in this timeline are the major tasks that are undertaken to develop the transition plan and the activities that are necessary to begin to implement the plan.

Q. Please describe Exhibit SP __ (AM-1).

A. Exhibit SP __ (AM-1) shows the activities undertaken in developing a transition plan. The activities are segregated between those necessary to be undertaken at a high level to initiate plan development (Phase I) and those necessary to develop the detailed implementation plan (Phase II).

Q. Please describe the activities undertaken in Phase I.

A. The Phase I Activities are as follows:

1. Benchmarking

Once ScottishPower has full access to PacifiCorp information, one of the key initial activities will be to validate the benchmark information and put in place a benchmark framework that will evaluate, at a high level, the potential levels of performance improvement available within PacifiCorp. Key activities within this process will include:

- Production of a PacifiCorp benchmarking framework;
- Verification of PacifiCorp's current operational performance levels;
- Standardization of process and functional costs between PacifiCorp and ScottishPower where appropriate; and
- Establishment and quantification of internal and external benchmarks for PacifiCorp.

2. Transition Planning

The transition team planning will be the precursor to the implementation planning. Building on the directional outputs of the PacifiCorp benchmarking exercises and

ScottishPower's experience of transition planning from Manweb and Southern Water, this exercise will put in place a framework that will support the delivery of detailed implementation plans. This planning framework will include:

- Agreement on combined PacifiCorp/ScottishPower transition teams and senior management sponsors;
- Timescales and accountabilities for final delivery;
- Identification of key performance indicators, high level targets and format for implementation plans; and
- Identification of key high level enablers.

3. Organizational Review

This is primarily concerned with ensuring that there is an interim organizational structure in place that will ensure current PacifiCorp operations are maintained while the transition plans are developed. The tasks in this section are:

- Undertake a strategic review of all PacifiCorp regulated and non-regulated operations;
- Establish a post-merger interim management structure;
- Define interim accountabilities for PacifiCorp operations; and
- Develop an interim management control framework.

4. Communications Planning

A comprehensive communications plan will be developed that will manage the communication to all relevant parties following the outcome of the high level organizational review and during the detailed implementation planning stage. The main audiences will consist of both internal and external parties including employees, unions, customers, shareholders, elected officials and regulators. Key communication areas will include:

- The business rationale for change;
- Interim management structure;

- Overall transition and implementation plan timetables; and
- Staffing changes.

Q. Please describe the activities undertaken in Phase II.

A. The activities in this Phase emphasize the development of detailed integration plans and associated enabling strategies.

Project teams consisting of individuals from both ScottishPower and PacifiCorp will be responsible for developing detailed functional and process plans that will deliver performance improvements and ensure delivery of the testimony commitments. Spanning across all activities will be a set of "enablers" that will need to be integrated into plans. These will include human resources, communications, technology, information systems and finance. The output of this process will be a consolidated implementation plan with efficiency targets, accountabilities and delivery dates.

Q. What role does Program Management play in the development of the transition plan?

A. Program Management is part of each phase of the planning process. It will involve a small team to facilitate and project manage the transition and integration planning process. Key activities will include:

- Specification of the main tasks to deliver the transition plan;
- Identification of key enablers and dependencies;
- Identification of key milestones and accountabilities for delivery of the transition plan; and
- Tracking of progress against plan for management reporting purposes.

RESPONSE TO THE CRITIQUE OF THE SCOTTISHPOWER BENCHMARKING ANALYSIS

Q. Mr. Biewald, Dr. Anderson, and Mr. Brubaker testify that ScottishPower's benchmarking study has "very limited" value in predicting the potential for cost savings in PacifiCorp's operations. (Biewald, p. 9; see also Anderson, p. 34; Brubaker, p. 20.) Please comment.

A. As stated in my direct testimony, the benchmarking study was used as a directional tool by ScottishPower senior management to confirm at a high level that cost savings opportunities are available at PacifiCorp. These witnesses presume incorrectly that ScottishPower will continue to rely solely upon the benchmarking study to identify cost savings within PacifiCorp. Preliminary discussions that ScottishPower is currently undertaking with PacifiCorp indicate that real opportunities for cost savings exist, and these will be confirmed and developed as part of the transition planning process that will take place following closure.

Q. In their testimony, Mr. Biewald and Dr. Anderson refer to reports purporting to show that PacifiCorp is one of the most efficient and lowest cost U.S. electric utility operators. (Biewald, pp. 10-11; Anderson, p. 33.). Please comment.

A. These benchmark comparisons are fundamentally different from the yardstick analysis undertaken by ScottishPower. The studies mentioned above combine *all* of PacifiCorp's costs, including production, on a per kWh or per MWh basis. Within any electric utility, production constitutes the largest cost element. ScottishPower would expect PacifiCorp to appear in a favorable position based on such comparisons, since PacifiCorp has low generation and purchase power costs and supplies or trades high volumes of electricity. Accordingly, ScottishPower deliberately focused on PacifiCorp's non-production costs. Moreover, ScottishPower's analysis of non-production costs confirmed that PacifiCorp is out of step with leading U.S. utilities in this area. ScottishPower's yardstick comparison of these costs is based on its experience in the U.K., as adopted by the U.K. regulator, that the closest correlation for unit cost comparison purposes is between customer numbers and operating costs.

Q. CCS claims that ScottishPower has not fully accounted for efficiency programs PacifiCorp may undertake on its own. (Biewald, pp. 11-12.) How do you respond?

A. ScottishPower has never stated that PacifiCorp is not capable of achieving savings on its own. What ScottishPower has stated is that it believes that PacifiCorp can achieve savings of a greater magnitude, faster, and with more certainty as a result of the combination with ScottishPower. Moreover, Mr. O'Brien has testified that PacifiCorp has no current plans for additional cost-savings initiatives.

Q. LCG also claims that ScottishPower's benchmarking study does not count for the future effect of PacifiCorp's cost-reduction initiatives. (Anderson, pp. 34-35). What is your reaction to this assertion?

A. Mr. Anderson refers to PacifiCorp's Refocus Program that is designed to save PacifiCorp $30 million in costs annually. With regard to the $30 million Refocus Program, ScottishPower is aware of these savings which we understand will be substantially delivered by the end of 1999. We therefore believe that the potential for double-counting of the savings in the Refocus Program within the transition plan does not exist and, in any event, will be specifically excluded.

RELEVANCE OF THE MANWEB EXPERIENCE

Q. Mr. Biewald, Dr. Anderson, and Mr. Brubaker all assert that ScottishPower's experience in transforming Manweb is of limited value in determining the level of cost savings that ScottishPower can be expected to achieve at PacifiCorp. (Biewald, pp. 14-16; Anderson, pp. 17-25; Brubaker, pp. 26-27.) Please comment.

A. We have always been very clear that we will *not* use Manweb as a template for identifying potential savings that might be available in PacifiCorp. There are differences in operating conditions and historical factors, unique to both companies, that make accurate comparisons regarding either the amount or type of cost savings inappropriate. The point of my direct testimony, and that of Alan Richardson's Supplemental Testimony, is to demonstrate that our experience at Manweb confirms a proven track record of business transformation that delivers sustainable customer benefits. What we *will* draw from the

Manweb model is the experience gained in how to manage and deliver successful change within a complex utility organization.

Q. CCS suggests that PacifiCorp could hire some ScottishPower managers in lieu of completing the merger to obtain the same experience. (Chernick, p. 39). Does ScottishPower's ability to transfer its Manweb experience to PacifiCorp depend on utilizing the individuals who were involved in that transition?

A. Not entirely. While ScottishPower does intend to draw upon the experience of several people, such as myself, who were involved in planning and executing the Manweb and Southern Water transformations, the relevance of ScottishPower's experience in transforming three U.K. companies goes much deeper. ScottishPower as a business has a culture and philosophy that embodies the principles, values, and skills that are essential to effectively transforming a utility business. We intend to transfer this culture and philosophy to PacifiCorp to enable the management and workforce here to implement the successful practices about which I have testified. That is how PacifiCorp will be able to achieve both improvements in customer service and lower costs more quickly and with greater certainty as a result of the merger than it would as a standalone company.

Q. These witnesses also attempt to draw some distinctions between the situation at Manweb in 1995 and that at PacifiCorp today. (Biewald, pp. 14-15; Anderson, pp. 22-26; Brubaker, pp. 26-27.) Are these distinctions valid?

A. Although, naturally, Manweb in 1995 and PacifiCorp today do not present entirely identical circumstances, they are not as dissimilar as he testifies, for the reasons discussed below.

Q. Mr. Biewald states that in 1995 the "distribution companies in the U.K. had been government organizations with well known inefficiencies, and were in the process of being privatized." (Biewald p. 14; see also Brubaker, pp. 26-27.) Is this statement accurate?

A. No, it is not. Manweb was actually privatized in 1990. By the time ScottishPower acquired Manweb in 1995, Manweb had had the opportunity to reduce its costs, and indeed it had done so quite aggressively during the five-year period, within the context of the incentive-based U.K. regulatory framework. This framework is designed to reward efficiency so Manweb had every incentive to reduce its cost base during this time.

Q. Mr. Biewald also attempts to contrast geographic differences between the service territories of Manweb and PacifiCorp, stating "Manweb serves a fairly small and densely populated area in England while PacifiCorp serves a sprawling area . . . ." (Biewald p. 14.) Are these distinctions accurate?

A. No, they are not. Manweb serves both densely populated urban areas, such as the City of Liverpool, and much more remote rural areas, such as parts of north Wales. Likewise, PacifiCorp's service territory includes both types of areas.

Q. Mr. Biewald testifies that ScottishPower's achievements at Manweb and ScottishPower in terms of price reductions are not superior to the results of other U.K. electric companies. (Biewald, pp. 15-17.) Please comment.

A. During the period in question, electricity rates in the U.K. were set under the price control mechanism dictated by the U.K. regulator. Manweb customers experienced similar reductions to the England and Wales average. We believe that, currently, our prices to consumers are extremely competitive. This is supported by the fact that ScottishPower and Manweb were two of the first four companies in the U.K. to open up their franchise markets to competition. Since the market opening in September 1998, we have lost just 5 percent of our franchise customers, all of whom have the opportunity to choose an alternative supplier if they are not content with either the price or the level of service offered by ScottishPower. In turn, these losses have been more than offset by the gain in customers ScottishPower has achieved in other parts of the U.K.

Q. Does this conclude your rebuttal testimony, Mr. MacRitchie?

A. Yes, it does.

STATE OF IDAHO)
) ss.
COUNTY OF ADA)

I, Andrew MacRitchie, hereby declare under penalty of perjury under the laws of the State of Idaho that the foregoing testimony was prepared under my direction and supervision and that all testimony and exhibits thereto are true and correct to the best of my knowledge.

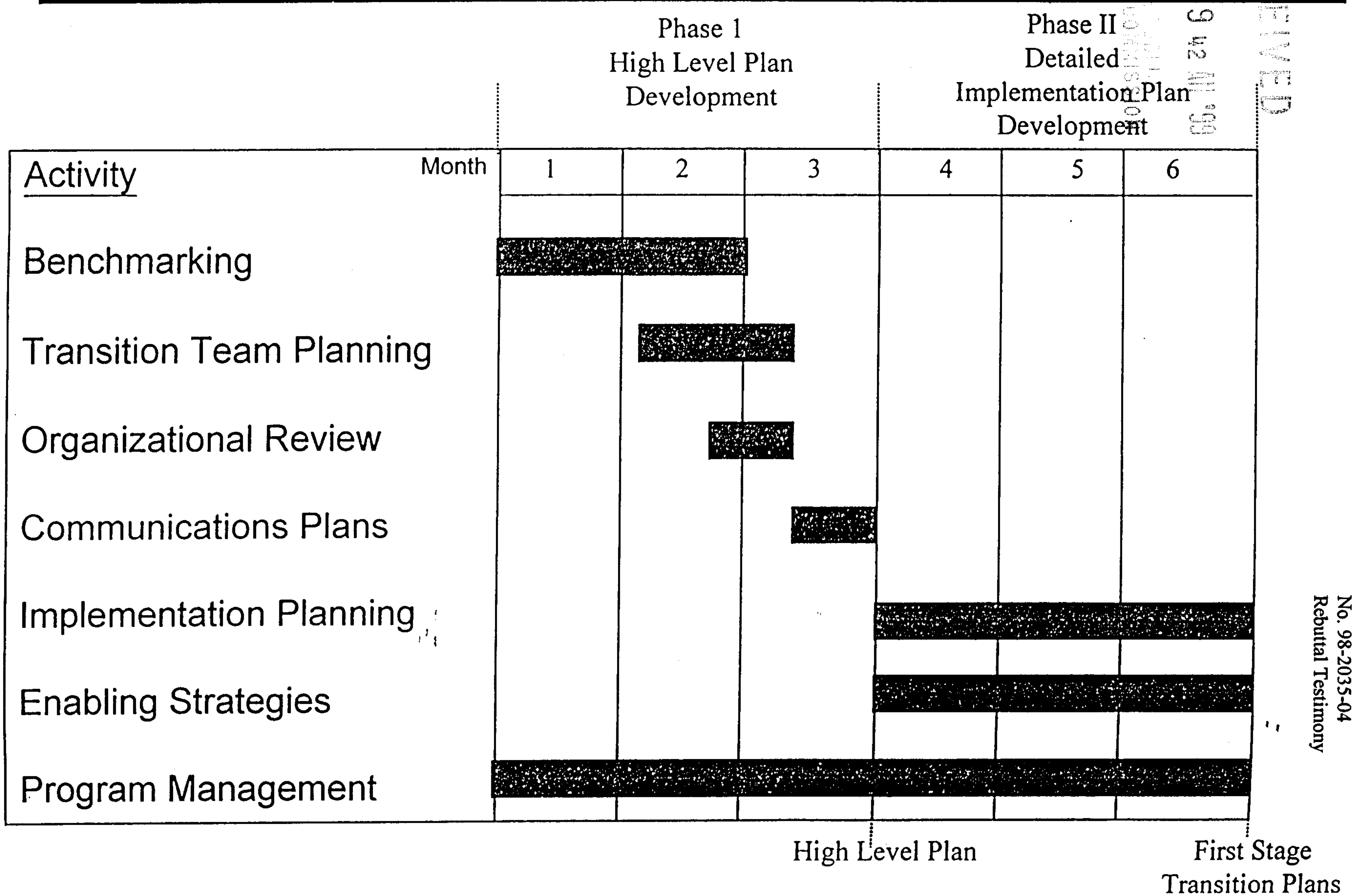
Andrew MacRitchie

SUBSCRIBED and SWORN to before me this 15 day of July, 1999.

KELLY Y. NICKEL
NOTARY PUBLIC
STATE OF IDAHO

Print Name: Kelly Y Nickel
Notary Public in and for the State of Idaho,
residing at Caldwell
My commission expires: 10/17/2000

PROPOSED PLAN



17566

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter Of The Application of	)	
PacifiCorp and Scottish Power plc	)	Docket No. 98-2035-04
for an Order Approving the Issuance	)	
of PacifiCorp Common Stock	)	

SCOTTISH POWER

REBUTTAL TESTIMONY OF BOB MOIR

JULY 16, 1999

Q. Please state you name.

A. My name is Bob Moir.

Q. Have you testified previously in this docket?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. My testimony will confirm that ScottishPower's Customer Guarantees as offered by the Company will provide a positive benefit to customers and I will respond specifically to two of the conditions proposed by BPA witness in Mr. Maloney. I will also discuss points raised by Committee of Consumer Services witness Paul Chernick relating to Performance Standard 6 (telephone response time) and the report prepared by JBS Energy, Inc. regarding our customer service standards and guarantees. This report, entitled "Customer Service Standards and Guarantees: a Nationwide Survey and Comparison to the ScottishPower/PacifiCorp Offer," by Gayatri Schilberg (the "Schilberg Report") is included as Exhibit SP __ (BM-1) to my rebuttal testimony.

Q. Mr. Maloney's proposed Condition No. 29 would require the Company to "continuously . . . provide service guarantees." Does the Company have concerns regarding the wording of that Condition?

A. We have concerns regarding the wording of Condition No. 29, but not, we believe, with the intent of the Condition. Mr. MacLaren's rebuttal testimony explains the Company's concerns with reference to the Performance Standards. Since the same concerns exist with the application of Condition No. 29 to Customer Guarantees, Mr. MacLaren's rebuttal testimony provides the Company's response to this question.

Q. If the Commission does not adopt Condition No. 29 will the Customer Guarantees provide positive benefits to the Customer?

A. Yes. Exhibit 6.2 to Mr. Maloney's testimony demonstrates that the Customer Guarantees proposed by ScottishPower exceed both the Commission regulations and PacifiCorp's internal targets. After the merger, PacifiCorp's customers will know exactly what standard of service they should expect from the Company. In addition, Mr. Maloney agrees that there are key benefits associated with the Customer Guarantees. He recognizes that they have value because they acknowledge customer inconvenience and can be used by management as a tool to improve service quality. He also recognizes that, since each guarantee is quantified, it is possible to determine whether the Company is meeting its guarantee requirements. (Maloney, p. 9)

Q. How do you respond to Mr. Maloney's concern that there is a risk ScottishPower/ PacifiCorp will achieve its standards package at the expense of services it did not consider important enough to include in its standard package (Condition No. 36)?

A. Mr. Maloney's concern can be addressed by ScottishPower/PacifiCorp's continued use of meter set and meter test internal field response targets in Northern Utah after the merger. PacifiCorp will establish internal field response targets where none currently exist, and will continue to report performance against all targets on a quarterly basis. ScottishPower is committed to providing standards that meet the needs of customers and views customer service as an evolving process. However, these additional targets would be for internal use only and would not be subject to publication or any penalty regime.

Q. Is ScottishPower willing to implement and tariff a dispute resolution process to deal with customer guarantee failures (Condition No. 39)?

A. Yes, PacifiCorp will implement and include in its tariff a dispute resolution process for dealing with claims regarding Customer Guarantee failures on a fair and consistent basis.

Q. Deseret has recommended that ScottishPower extend the Customer Guarantees to the retail customers of distribution cooperatives (Stover, p. 22). Please respond.

A. ScottishPower would not be willing to offer Customer Guarantees to the retail customers of distribution cooperatives. ScottishPower has no control over the service and reliability standards that PacifiCorp's wholesale customers provide to their own retail customers. It does make sense for ScottishPower/PacifiCorp to be held accountable for service other than to its own customers.

Q. Committee of Consumer Services witness Chernick addresses implementation of ScottishPower's/PacifiCorp's proposed Performance Standard 6, which commits to improving telephone service (p. 26), and the proposed Customer Guarantees (pp. 27-28). What is your response to his recommendation that the Commission impose these standards outside of the context of this merger?

A. Mr. Chernick recognizes the "significant improvement" over current practice that will result from Performance Standard 6 (p. 26), as well as the value created by the proposed Customer Guarantees (p. 27). He admits that the decline in payments under the Customer Guarantees in the U.K. suggests there is some incentive effect from these payments. That is, of course, one of the principal purposes of these payments and proof that they are effective in improving service. Mr. Chernick then recommends that the Commission order PacifiCorp to implement Performance Standard 6 and the Customer Guarantees, or similar standards, regardless of the outcome of this case (pp. 27-28).

Clearly, Mr. Chernick recognizes the benefits to customers of Performance Standard 6 and the Customer Guarantees. He seems to discount these benefits, however, by suggesting that the Commission should order that they be put into place without the merger. Mr. Chernick fails to appreciate the significance of voluntarily adopted standards as opposed to standards imposed by regulation. Voluntary standards can incorporate stretch goals, as we have done in this case, and are much more likely to be implemented enthusiastically.

Mr. Chernick also overlooks the point that ScottishPower has experience in implementing Performance Standards and Customer Guarantees and understands the planning, investments and programs required to achieve the standards. With this experience, ScottishPower/PacifiCorp will be able to implement the necessary system and customer service improvements more quickly and more efficiently than PacifiCorp would be able to implement on a standalone basis.

Mr. O'Brien states in his rebuttal testimony that without the merger PacifiCorp could not implement Performance Standards and Customer Guarantees as extensively as the package proposed by ScottishPower, nor could PacifiCorp implement them on the schedule ScottishPower is proposing. Furthermore, PacifiCorp had no intention of implementing the service standard package that Scottish Power is proposing.

Q. Please respond to Mr. Chernick's criticisms of the Schilberg Report.

A. Mr. Chernick first criticizes the Schilberg Report because it does not address SAIFI, SAIDI or MAIFI (p. 41). There is a legitimate reason for not including these indices in a national study. These three performance measures do not readily lend themselves to meaningful comparisons among utilities. There are a number of factors that vary from utility to utility that affect each index:

- geography/topography: service territories may be mountainous, swampy, flat, prone to landslides, densely or sparsely populated;
- climate: some utilities regularly experience snow or ice storms, some are located in more temperate zones; and
- definitions: variations on what is or is not included as inputs to the calculation of the measures.

These factors undermine the relevance of comparing performance across utilities in these areas. Notwithstanding this, ScottishPower's proposal to reduce SAIDI, SAIFI and MAIFI represents a meaningful and significant commitment to improve network reliability in PacifiCorp's service territory.

Q. Mr. Chernick dismisses five of the eleven elements addressed in the Schilberg Report because, as Customer Guarantees, they "are not related to the merger." (p. 41) Do you agree with this contention?

A. I strongly disagree. ScottishPower has proposed the introduction of Customer Guarantees as part of its merger commitments. As Mr. O'Brien's testimony shows, any contention that PacifiCorp could have made these service improvements as quickly, as fully or with as high a probability of success without the merger is incorrect. (O'Brien Direct Testimony, p. 7) Since the Customer Guarantees are a merger benefit which ScottishPower has proposed, a comparison of the five Customer Guarantees with other U.S. utilities' service offerings is wholly justified.

Q. Mr. Chernick also dismisses the validity of including the telephone response and complaint response Performance Standards because neither is "associated with any consequence for the utility." (p. 41) Please respond.

A. The purpose of these Performance Standards is to use external service targets to spur improvements in business practices and to define clearly the level of service customers have a right to expect. The result will be that service in the targeted areas will improve measurably. The value of these Performance Standards lies in the improved service that will result from well publicized targets and customer expectations, not in any penalty payments that might be applied.

Q. Mr. Chernick concludes his characterization of the Schilberg Report by asserting that "the praise in the report must be read as faint in many areas, if not outright damning." (p. 42) Do you agree?

A. Not at all. In fact, I am astonished that he can reach such a conclusion. The Schilberg Report states:

> "In summary, the proposed customer service performance targets and guarantees can be held up as a leading or "best practices" set of customer service commitments. If adopted, they will provide benefits of manifest value to

customers and should be recognized as a concrete and valuable benefit that customers will gain from the transaction." (Schilberg Report, Summary.)

* * *

"The proposed ScottishPower customer commitments are clearly among the best customer service commitments offered by U.S. utilities. In fact, the proposal is arguably the most comprehensive set identified. No other U.S. utility's customer service commitments addressed as complete a range of customer concerns or issues as the proposed set. The importance of comprehensiveness lies in the inherent trade-off between various customer service operations and issues. By including both a SAIFI standard and a customer supply restoration standard, the proposed standards focus the company on a balanced approach to maintaining the overall system and responding quickly to outages. Similarly, by including a wide range of customer responsiveness guarantees as well as system performance targets, the company maintains incentives and measurability across the full range of customer service concerns." (Schilberg Report, p. 7.)

* * *

"The proposed customer guarantees address a more complete range of customer service attributes than any major U.S. utility's customer guarantees we have been able to identify. In several important measures, the proposed ScottishPower guarantees are the most rigorous offered by any U.S. utility." (Schilberg Report, p. 8.)

It is difficult to see how this can constitute faint praise.

Q. Does this conclude your rebuttal testimony?

A. Yes.

[PA991900.089]

STATE OF IDAHO)
) ss.
COUNTY OF ADA)

I, Bob Moir, hereby declare under penalty of perjury under the laws of the State of Idaho that the foregoing testimony was prepared under my direction and supervision and that all testimony and exhibits thereto are true and correct to the best of my knowledge.

Bob Moir

SUBSCRIBED and SWORN to before me this 15 day of July, 1999.

Print Name: Kelly Y Nickel
Notary Public in and for the State of Idaho,
residing at Caldwell
My commission expires: 10/17/2000

KELLY Y. NICKEL
NOTARY PUBLIC
STATE OF IDAHO

RECEIVED

JUL 19 9 41 AM '99

SERVICE COMMISSION

Customer Service Standards and Guarantees: a Nationwide Survey and Comparison to the ScottishPower/PacifiCorp Offer

Prepared by
Gayatri M. Schilberg

JBS Energy, Inc.
311 D Street
West Sacramento
California, USA 95605
tel. 916.372.0534

on behalf of
Scottish Power Inc.

May 13, 1999

Customer Service Standards and Guarantees: a Nationwide Survey and Comparison to the ScottishPower/PacifiCorp Offer

Prepared by
Gayatri M. Schilberg

JBS Energy, Inc.
311 D Street
West Sacramento
California, USA 95605
tel. 916.372.0534

on behalf of
Scottish Power Inc.

May 13, 1999

I. Executive Summary

To evaluate the "Service Standards Package" presented by ScottishPower and PacifiCorp (SP/P), research was conducted to determine what customer service standards and guarantees are currently in place within electric utilities nationwide. These may be due to requirements of state regulatory Commissions and/or commitments of individual utilities. Information was gathered from 43 regulatory Commissions and on 30 individual utilities.

The SP/P package is clearly broader than that presented by any other electric utilities in the U.S. Although there were three areas offered by other utilities that were not included in the 15 areas covered by the SP/P package, the overall SP/P offer is more comprehensive than that available elsewhere in the U.S. While the content of the SP/P package is of high quality in each area, SP/P's offer in the areas of reporting and auditing is clearly superior, with reporting both to the Commission and customers along with automatic auditing to ANSI standards.

Elements, which differentiate the proposal, are:

- It is the only utility committing to a standard of 80% restoration within 3 hours.
- It is the only utility that has committed to improvement in poorly performing circuits and backed it by a financial penalty.
- While individual utilities may match SP/P's standard of a two day notice for planned interruptions, none combine it with such a generous dollar credit if the standard is not met.
- SP/P offers the most stringent target for installation commitment (24 hours) as well as a financial guarantee matched by only one other utility (for installation excluding setting the meter).
- For setting the meter, SP/P's target (24-hours) is superior to the 5-14 days (or unspecified time commitment) offered by other utilities.
- SP/P's initial goal for telephone answering time classes it among the top three electric utilities in this area, and its long-term goal is better than that offered by any known utility.
- No other utility provides a tighter standard than SP/P's 3 days' response to Commission complaints.

SP17824

- The SP/P appointment guarantee is similar to the other utilities in terms of the target (meeting the appointment commitment) but financially more generous than the others.
- SP/P's financial guarantee for responding to billing inquiries within a specified time is more generous than other utilities. The guarantees for responding to problems with the customer's meter and power quality complaints are not matched in other utilities.
- SP/P's commitments to service quality are made without any financial reward available to the company, and its penalty-only structure is preferable to one in which the utility receives rewards.
- The SP/P offer would be Commission-approved, which provides a more secure program for customers than a voluntary one which can be withdrawn without Commission notice.

No other utility has such a consistently high quality customer service program covering so many areas, accompanied by unequaled reporting and auditing commitments. The package presented by SP/P is thus "best in class," and promises to customers a high level of performance on a very broad range of measures of customer service. The package is unmatched by the offerings of other U.S. utilities.

II. Purpose

The purpose of this study was to undertake a review of the "Service Standards Package" presented by ScottishPower and PacifiCorp. This review evaluates whether this package is unmatched and 'best in class' among electric utilities in the United States in terms of its range and content. The investigation comprised the following steps:

- Research customer service standards and guarantees mandated throughout each state by state regulatory Commissions
- Procure information on other customer service standards and guarantees offered by large utilities.

As used in this study a "standard" or "guarantee" is a purposeful and public attempt by the utility or Commission to maintain or improve service, which is

SP17825

acknowledged or even advertised as such.[1] Industry standards, state laws, and Commission codes defining tolerances for meter accuracy and voltage levels were not included. Enforcement of such standards or guarantees can run the gamut from simple reporting, to financial consequences for performance, such as paying customer credits or receiving monetary rewards/penalties. Standards that are purely internal to the management of the utility were generally not included.

III. Method

Statewide regulatory Commissions and individual utilities were contacted via telephone, Internet search, email and fax to answer a set of questions regarding standards and guarantees. These questions covered the areas of reliability, installation, and customer contact. Utilities were selected which are investor-owned with at least 150,000 customers.[2] (No utilities met those criteria in Alaska, Nebraska and Tennessee, which are largely served by public power.) Contacts were made via the Regulatory Affairs branch of the utility. Information was also solicited from state Commissions. The research was undertaken by a team of four associates from April 19-May 5, 1999.

IV. Results

Responses were received from 43 regulatory Commissions. Half of these states have no statewide standards, apart from a reporting requirement on major outage events.[3] Standards were created in several states as part of moving from cost-of-service to incentive-based ratemaking (e.g., California utilities, Central Maine Power), or as a condition imposed on approving a merger (e.g., Puget Sound Energy).

---

[1] General guidelines buried deep in the utility's tariff, or statewide legislation outside the purview of the Commission (for example the Civil Code), are not included in this definition.

[2] Customers in 1996, according to data available from the Energy Information Administration.

[3] States have varying criteria for what constitutes such a significant outage.

SP17826

Despite contacting over 70 utilities and holding companies, fewer responses were received from utilities (11). Eleven utilities declined to respond to the questions,[4] and many others were suspicious or feared the information might be used against them in a competitive environment. This reluctance to provide information may indicate "worst in class" performance. A reticence on the part of the utility to advertise the service guarantee means that customers cannot learn about it and be assured of promised service levels.

An inventory of service quality measures resulting from this research is found in Appendix 1. Information from an earlier study by ScottishPower (SP/8)[5], which has been independently verified, appears in Appendix 1 by reference.

Information from Appendix 1 is summarized in Table 1 for the utilities contacted, where standards, guarantees, and reporting requirements are denoted simply with S, G, and R respectively. Service quality measures applicable statewide appear for utilities within the state. Standards apply generally to overall performance (affecting many customers) and guarantees apply to individual customers. The standards and guarantees may or may not be accompanied by financial consequences, such as rewards and penalties in the case of standards, or bill credits in the case of service guarantees. (Such details appear in Appendix 1.) Reporting requirements generally do not have financial consequences.

V. The ScottishPower/PacifiCorp Offer

The service standards package, proposed for a period of five years, comprises seven Performance Standards and eight Customer Guarantees as follows:

A. Network performance

- Improving System Availability (SAIDI)
- Improving System Reliability (SAIFI)
- Reducing momentary Interruptions (MAIFI)

---

[4] Only a few utilities claimed they did not have enough time to complete the survey. Several declined without giving a reason, or replied they don't respond to surveys. One holding company claimed the information was proprietary.

[5] Exhibit ScottishPower/8 to the Testimony of Bob Moir on February 26, 1999, before the Public Utility Commission of Oregon, In The Matter of Reorganizing PacifiCorp as a Subsidiary of ScottishPower.

SP17827

- Achieving a 20% improvement in the 5 least reliable circuits in each state
- Improvements in Supply restoration

At the end of the five-year period, SP/P will pay $1 per customer in each jurisdiction for each of the network performance standards that has not been achieved.

B. Service performance

- Improvements in telephone response time
- Commission Complaint resolution

C. Customer Guarantees

- Restoring supply
- Appointments
- Switching on Power
- Estimates for providing a new supply
- Response to bill inquiries
- Problems with the customer's meter
- Planned interruptions
- Power quality complaints

Failure to meet the customer guarantee will result in a payment of at least $50 ($100 to a commercial or industrial customer for certain guarantees).

The program of ScottishPower/PacifiCorp forms the first line in Table 1.

VI. Comparison on Range

The customer service commitments made by SP/P were divided into three main areas: reliability, installations, and customer contact. The comparison in Table 1 shows the service quality measures found by this research to be applicable to 94 utility territories for each component of these three areas.

On a general basis, SP/P has a more comprehensive proposal (in terms of numbers of areas covered) than any other utility surveyed. SP/P offers standards/guarantees covering 15 areas of customer service, most of which are backed up by financial consequences. As discussed below, only four other utilities have either standards or guarantees in more than seven areas.

SP17828

Only three areas have been identified where a number of utilities offer service guarantees or standards which are not part of the SP/P package.

First, six utilities have standards or guarantees for timely repair of streetlights. Nationwide, the responsibility for streetlight repair may lay with the local government or the utility, depending on the jurisdiction. In cases where streetlights are maintained by the local government, a utility standard would not be appropriate. While such repairs have not received a high degree of regulatory review in the past, there may be more publicity surrounding this issue after a plaintiff won a Court of Appeals decision (May, 1999) allowing Southern California Edison to be sued for an accident at an unrepaired streetlight.

Second, seven utilities offer guarantees or standards with respect to billing accuracy. Such a standard is probably more important for large customers, where the billing calculations are more complex, than for small customers. While SP/P does not directly offer a standard in this area, its package includes a standard for prompt processing of billing inquiries.

The third area involves use of customer satisfaction surveys to measure performance. The fact that SP/P's package does not include a customer satisfaction survey should not be considered a detriment of its proposal. Organizations representing energy utility consumers have typically viewed customer satisfaction surveys as an inferior basis for setting standards[6], and favor using concrete service indicators like those proposed by SP/P.[7] Many of the utilities that use surveys employ them as a surrogate for a wide range of customer service issues which are more accurately measured by objective indicators.

---

[6] Diffuse questions asking whether the customer is generally satisfied with the utility's overall performance are less preferable for standards than specific questions such as whether service personnel showed up on time.

[7] See Barbara Alexander, "How to Construct a Service Quality Index in performance-Based Ratemaking", *The Electricity Journal*, April 1996. See also "Analysis of Aspects of the Performance Based Ratemaking Mechanism Proposed by Southern California Gas Company," Prepared testimony of Gayatri M. Schilberg on behalf of TURN, California Public Utilities Commission, A. 95-06-002, October 25, 1996.

SP17829

A. *Reliability*

Fifty utilities studied have standards or reporting requirements on overall duration of outages (such as SAIDI[8]) and almost as many have a similar requirement on the overall frequency of outages. (Most such measurements exclude performance during major events). Nine also have standards or reporting on momentary interruptions of a few minutes duration. Close to half of the utilities have reporting or standards on their poorly performing circuits. Many Commissions require reporting of large outages, and five utilities are offering guarantees to restore power within a given time after outages (excluding major interruptions). With respect to planned interruptions, only six have a standard or guarantee regarding the notice provided.

With respect to these various measures of reliability, SP/P is the only utility providing a measure in <u>each</u> of these areas.

B. *Installations*

Roughly 16 utilities offer a standard or guarantee regarding turning on existing service. Seventeen have a similar measure regarding setting the meter. SP/P offers a guarantee in both of these areas. In addition the SP/P package contains a unique guarantee for prompt appointments to estimate costs for new service.

C. *Customer Contact*

SP/P offers six separate standards and guarantees with respect to customer contact, including telephone response time, Commission complaint resolution, keeping appointments, responding to bill inquiries, meter problems, and power quality complaints. Only 15 utilities offer more than two such standards or guarantees in this category, and most provide none.

One customer service measure which is offered by several utilities but which does not appear in SP/P's program is a customer satisfaction survey. SP/P is wise to have left out such an indicator in favor of its system of concrete measurements. The results of such surveys are subjective, and can be biased against customers with low incomes or poor language skills.

In summary, with respect to these three areas of customer service-- reliability, installations, and customer contact-- the SP/P offer is wider in scope than other

---

[8] System average interruption duration index. The average outage duration experienced by all customers.

SP17830

utilities in the U.S. The SP/P offer covers more areas (15) than any other utility. Only three areas not offered in the SP/P package, streetlighting, bill accuracy, and satisfaction surveys, are covered by standards or guarantees in more than one U.S. utility.

VII. Comparison on Content

A. *Reporting and Audits*

The reporting and auditing commitments in the SP/P program exceed what is available in other utilities. As shown in Appendix 1, most performance standards are reported annually to the Commissions.[9] Service guarantees, especially if they are voluntary, may not be reported at all. SP/P, however, plans to disclose its performance on all 15 measures (including service guarantees) not only to the Commissions but also to its customers.

SP/P's auditing standards also far exceed what is available elsewhere. Of the Commissions and utilities surveyed, the most stringent level of examination of performance is investigation or auditing on a case by case basis on request, probably if a participant questioned a result.[10] Under SP/P's program, however, the performance results are automatically audited, to International Standards Organization (ISO) 9002 or ANSI accreditation standards. No other utility or Commission has even mentioned such a feature.

SP/P's offer in the areas of reporting and auditing is clearly "best in class" in the U.S.

---

[9] An exception is the quarterly reporting required of Northern States Power, and semi-annual reporting of Entergy Gulf States, both resulting from Commission investigations into service quality issues. Puget Sound Energy reports both to the Commission (twice per year) and to its customers.

[10] For example, a California intervenor questioned whether Southern California Edison properly defined "major events" excluded from its SAIDI standard under its PBR rules, and Edison agreed to modify its filing as a result.

B. Targets

1. Outages

SP/P is one of only four other utilities nationwide who have a standard on all three reliability indicators -- SAIDI (duration), SAIFI (frequency), and MAIFI (momentaries). It is not possible to directly compare reliability targets among utilities, because their system architecture and weather challenges vary so much. SP/P has not yet articulated a quantitative target for these indicators, because measurement improvements may cause an increase in reported values for the indicators. While the lack of a baseline could be of concern, SP/P has committed to an audit of the reporting systems.

The goal of substantial improvement over historical reliability is part of SP/P's package. Only a few other jurisdictions have committed to such reliability improvement: California (some utilities), Louisiana, and New Jersey.

2. Poorly Performing Circuits

Most jurisdictions require only reporting on poorly performing circuits, if that. Texas is an exception, where a standard applies that a feeder cannot be in the worst 2% (based on SAIDI or SAIFI) for two years in a row (no financial consequences). SP/P is offering a different standard, improving the five worst circuits by 20%. SP/P's offer is backed up by its financial penalty, the only utility surveyed which does so.

3. Restoration After an Outage

SP/P offers both a performance standard of 80% restored within 3 hours (backed by a financial penalty at the end of five years), as well as a service guarantee to compensate customers ($50 for residential, $100 for non-residential) if they are not restored in 24 hours due to a fault in the utility system. Although many state Commissions maintain a reporting requirement for significant outages, very few customers benefit from any restoration guarantee. Only five other utilities cover this issue with a guarantee. Some utilities offer shorter restoration commitments than SP/P's 24 hours (for example Arizona Public Service's 4 hours, or Entergy Mississippi's 2 hours excluding storms) but these are accompanied by smaller financial consequences than under SP/P's offer (no compensation from Arizona Public Service, $25 for Entergy[11]). No utility has a commitment similar to restoration of 80% in 3 hours.

---

[11] Entergy's $25 payment is triggered when the outage has been more than two hours and the customer complains. This is part of a voluntary program to

SP17832

4. Planned Interruptions

While individual utilities may match SP/P's standard of a two day notice for planned interruptions, they do not combine such notice with dollar credits for failure to perform. None of the utilities surveyed had credits exceeding $25 per incident, compared with SP/P's $50 minimum for residential customers ($100 for non-residential).

5. Installation Commitments

SP/P offers to activate the power supply within 24 hours provided no construction is required or pay $50.[12] This guarantee is applicable to simple turn-ons (for a new customer in an existing service), to new hookups where the meter is already set, as well as to setting the meter.[13] SP/P's target in this area is the most stringent offered, in several respects. For the task of turning on existing service if no meter set is required, several other utilities offer a 24 hour guarantee, but only one (Consolidated Edison of NY) also matches SP/P's $50 compensation. Other utilities with a 24-hour guarantee offer $25 (for situations excluding the meter set). Several utilities offer to meet their commitment to turn on power, but with no time commitment, or they specify a longer time period (5-14 days). Thus for turning on the power supply when no meter set is required, SP/P's offer is best in class.

Four other utilities have a guarantee to set the meter within a given time frame, but none meet SP/P's 24-hour commitment. Two promise to set the meter in 5 days, one in 7, and one in 14.[14] Other utilities promise simply to meet their commitment (time unspecified) for new service installation.[15] The 24-hour target SP/P undertakes for setting the meter is clearly superior to that offered by other

---

increase customer satisfaction. The payment is not applicable during National Weather Service warnings, catastrophic events, or outages caused by vandalism.

[12] SP/P's offer pays an additional $25 for each 12 hour period the power supply is not activated.

[13] Based on confirmation from ScottishPower.

[14] Commonwealth Electric (MA), Public Service Electric & Gas of NJ, Pennsylvania Power & Light, and Commonwealth Edison (IL) respectively.

[15] The definition of new service installation also varies among utilities, as the process of new service installation often involves installation of wires early in the development process (even before a new home is built in many cases) and setting the meter at the end of the process.

SP17833

utilities. SP/P's $50 compensation is also more generous than most for residential customers.[16]

SP/P's guarantee to schedule an appointment with an estimator for new supply is unique among the utilities. Research did not show any other utility that covered this situation with a guarantee.

6. Telephone Response Time

SP/P is offering to answer 80% of the customer calls in 30 seconds, with a goal of moving toward 80% in 10 seconds. The initial goal is already better than that offered by most utilities. Previous nationwide research studies showed a median of roughly 40-45 seconds average seconds to answer (ASA) among electric and combined electric and gas utilities.[17] SP/P's initial goal is higher than all the utilities except Pacific Gas & Electric (PG&E) (20 second ASA)[18] and Entergy Gulf States (85% in 30 seconds).

Thus SP/P's initial goal for telephone answering time classes it among the top three utilities in this area, and its long-term goal is better than that offered by any known utility.

7. Complaints

The SP/P performance standard regarding complaint resolution is expressed in terms of days to response or resolution. No other utility provided a tighter standard than SP/P's 3 days' response. Many utilities measure instead the number of complaints received (per 100,000 customers) as a standard or target, accompanied by sizeable penalties under incentive ratemaking. SP/P's

---

[16] Commonwealth Electric waives the first month's bill (up to $100) if it fails to install the meter in 5 days. For business customers, Public Service Electric and Gas (NJ) pays $100 per day (up to $500) for failure to set the meter within 7 days).

[17] See "Customer Service Aspects of the Proposed Merger of Pacific Enterprises and Enova Corporation," Prepared Testimony of Gayatri M. Schilberg on behalf of TURN and UCAN, before the California Public Utilities Commission, A. 96-10-038, August 6, 1997., p. 10.

[18] A 20 second ASA is close to 80% of calls answered in 20 seconds, but because the ASA incorporates the distribution of call wait times, there is not an exact equivalent between the two measurements.

commitment, however, is made outside of an incentive ratemaking program, and this standard carries no financial consequences in the SP/P package.

8. Appointment Guarantee

The SP/P appointment guarantee pays the customer $50 if the utility cannot keep the appointment. In addition SP/P promises a choice of morning or afternoon appointments beginning in 2001. The majority of utilities offer no appointment guarantees at all. The few who do agree to keep their appointments (usually within a commitment window) and pay either a credit or cash payment to the customer if they fail to do so. The SP/P offer is similar to the other utilities in terms of the target (meeting the appointment commitment) and financially more generous than the others ($50). San Diego Gas & Electric Company also offers a maximum of $50,[19] but restricts the payment to when the utility doesn't give at least a 4 hour notice of the missed appointment. SP/P's credit is valid unless the utility gives 24-hours' notice.

9. Problems with Billing, Metering, and Power Quality

SP/P commits to respond to the customer within 15 business days for billing and meter problems, or credit the customer with $50. Two other utilities also offer a time commitment on answering billing questions--by the next day, but their financial guarantees ($20 and $25)[20] are smaller than SP/P's. Seven utilities offer a standard or guarantee formulated in terms of billing accuracy, a feature which is not directly addressed by SP/P's guarantee. Such a feature is probably more important for large customers, whose bill calculations are more complex, than for small customers.

SP/P's guarantee on investigating problems with the customer's meter is not matched in other utilities. Accuracy of meter reads is promised by several.[21] Only the new Ohio standards include a requirement for meter testing within 30 days of a request. SP/P's credit of $50 is unmatched.

No other utilities offer a guarantee or anything similar regarding investigation of power quality problems.

Some problems with meters and power quality, while not specifically addressed with individual guarantees by other utilities, may be covered by their general

---

[19] For appointments to turn-on service, the credit will be smaller, $10 or $30.

[20] For Rochester Gas & Electric (NY) and Commonwealth Electric (MA) respectively.

[21] Utility tariffs also usually cover tolerances for meter accuracy.

SP17835

commitment to resolve inquiries or complaints. For example, Rochester Gas & Electric promises to resolve billing problems within 1 day, or visit within 5 days if the billing resolution requires a site investigation. Such a guarantee could be assumed to apply to meter and power quality problems, but only those that impacted billing.

10. Summary of Targets

In each customer service area the SP/P program is of very high quality. Only a small number of utilities nationwide have even articulated a target for the various aspects of customer service. In each area, compared to other utilities SP/P's targets are among the highest, and/or its financial guarantees are the largest offered.

C. Financial Consequences

SP/P's commitments to service quality are made without any financial reward available to the company. Yet most commitments are backed up by a financial consequence. SP/P's service standard package contains five performance standards relating to the network (SAIDI, SAIFI, MAIFI, improving poorly performing circuits, and restoring 80% of customers within 3 hours after an outage). To back up these commitments, SP will pay a penalty of $1 per customer in each jurisdiction where a standard is not achieved at the end of the five-year period. The eight customer guarantees are also backed by bill credits to customers where service levels are not met. This form of "penalty only" service commitment is generally preferred by consumer representatives.[22]

Some other utilities who have financial consequences for poor service are under incentive ratemaking, where either a reward is available for high customer service (such as for some utilities in California), or minimum performance on customer service is a one of the conditions before utilities can participate in incentives. (Performance-based ratemaking mechanisms apply in Colorado, Maine, and New York).

D. Commission Approval

Some utilities offer service guarantees, particularly guarantees that apply to individual customers, on a voluntary basis (for example Southern California Edison, Central Maine Power, Georgia Power), or as part of a trial program

---

[22] See Barbara Alexander, op.cit., p. 51.

SP17836

(Commonwealth Edison (IL) and Commonwealth Electric (MA)). Such voluntary programs, which are not Commission approved, can later be withdrawn without Commission notice. A voluntary program is less secure for customers than one, such as that offered by SP/P, which would require Commission approval to withdraw from or change the terms of the program.

VIII. Comparison of the Whole Package

No other utilities in the nation have performance standards and service guarantees covering as many areas as the program of SP/P. Indeed, half of the utilities examined appear to have no special efforts in the area of customer service apart from a few reporting requirements.

As evident from Table 1, several utilities have performance standards or service guarantees in at least eight areas: Central Maine Power (ME), Orange & Rockland (NY), Rochester Gas & Electric (NY), and Puget Sound Energy (WA). The program of SP/P however includes even more areas of customer service, covering in addition specific commitments for momentary interruptions, poorly performing circuits, prompt outage restoration, notice for planned interruptions,[23] and response to problems with meters and power quality. While a few utilities offer service standards or guarantees in other areas (for example, streetlighting) the breadth of the SP/P program is greater than offered by any other utilities.

No other utility has such a consistently high quality customer service program covering so many areas, accompanied by unequaled reporting and auditing commitments. The package presented by SP/P is thus "best in class," and promises to customers a high level of performance on a very broad range of measures of customer service. The package is unmatched by the offerings of other U.S. utilities.

---

[23] Rochester Gas & Electric guarantees notice for planned interruptions, but does not commit to a specific number of hours of notice.

SP17837

Table 1

			Reliability							Installations				Cus:omer Contact								
nvestor-Owned Electric Utilities	Statewide	States Served	Duration of outages	Frequency of outages	Momentary interruptions	Poorly performing circuits	Restoration after an Outage	Planned interruptions	Other	Turn-on existing service	Set meter	Providing a new service estimate	Other	Telephone response time	Complaints	Appointments	Bill inquiries/ bill accuracy	Problems with the customer's meter	Power quality complaints	Customer Satisfaction Survey	Other	Comments
icottishPower			S	S	S	S	S, G	G		G	G	G		S	S	G	G	G	G	none		
lorthern States Pwr Co.	NS	ND SD																				
'ublic Service Co of NH.	NS	NH	R	R			R															
:onnectiv (Atlantic City Electric Co.)		NJ	S	none	none	none																
3PU (Jersey Central Power&Light Co)		NJ	S	none	none	none																
'ublic Service Electric&Gas Co.		NJ	S	none	none	none	G			S	G		G			G	G					Street light installation guarantee
'ublic Service Co of NM	NS	NM					R															
levada Power Co.		NV	R	R	R																	
ierra Pacific Power Co.		NV CA	R	R	R																	
entral Hudson Gas & Elec Corp		NY	S	S												G				S		
onsolidated Edison Co-NY Inc		NY	S	S										S	S		S	S		S		
ew York State Elec & Gas Corp		NY	S	S						G												declined to respond
iagara Mohawk Power Corp.		NY	S	S					S	G					S					S	S	
range & Rockland Utils Inc.		NY	S	S									G		S	G		G		S	G	street light repair
ochester Gas & Electric Corp.		NY	S	S				G	S				G	S	S	S, G	S, G					street light repair and installation
inergy (Cincinnati Gas & Electric Co).		OH	S			R	R			S	S			S	S			S			S	
merican Electric Power (was Columbus Southern Power Co. merging with Central & Southwest)		OH	S			R	R			S	S			S	S			S			S	declined to respond
ayton Power & Light Co.		OH	S			R	R			S	S			S	S			S			S	declined to respond
rst Energy (Ohio Edison Co)		OH	S	none	none	R	R	none		S	S			S	S	none	none	S	none	none	S	
klahoma Gas & Electric Co.	NS	OK AR																			G	
entral & Southwest Corp (Public Service Co of Oklahoma).	NS	OK																				
ortland General Electric Co		OR	S	S	S				S						S							
uquesne Light Co.		PA	S	S							G					G	G				G	
PU (Metropolitan Edison Co, Pennsylvanie Electric Co.)		PA	S	S																		
ennsylvania Power & Light.		PA	S	S	S					G	G					G						
ECO Energy Co.		PA	S	S																		
legheny Power (West Penn Power Co)		PA	S	S																		
arragansett Electric Co	NS	RI																				
outh Carolina Electric&Gas.	NS	SC																				
entral & Southwest (Southwestern Electric Power Co & Central Power & Light Co., merging with American Electric Power)		TX LA AR	S	S		R, S	R, R	S	S		S					S						relamping commitment
ntergy Operations (Entergy Gulf States)		TX	S	S		S	R		S		S		S	S			S			S		relamping
eliant Energy (was Houston Lighting & Power Co.)		TX	S	S		S	R	none			S					none						
ew Century Energies (Southwestern Public Service Co.)		TX NM OK KS	S	S		S	R				S											declined to respond
exas Utilities Electric Co.		TX	S	S		S	R				S											
acifiCorp		OR	S	S	S	none	none			none		none		none	S	none	none	none	none	none		
acifiCorp	NS	UT, WY, ID	none	none	none	none	none			none		none		none	none	none	none	none	none	none		
acificorp		CA	R	R	R	R	none	none		none		none		none	none	none	none	none	none	none		
ppalachian Power Co	NS	VA WV					R															
irginia Electric & Power Co	NS	VA NC					R															
entral Vermont Pub Serv Corp.	NS	VT					R															
uget Sound Energy	NS	WA ID MT	S	S	none	none	none	none		G	G	none		S	S	G, S	none	none	none	S	S	Disconnects
orthern States Pwr Co-WI	NS	WI MI																				
isconsin Electric Power Co.	NS	WI MI																				
liant Energy (Wisconsin Power & Light Co.)	NS	WI																				
isconsin Public Service Corp.	NS	WI MI																				
onongahela Power Co	NS	WV OH																				

Key: S=Standard, G=Guarantee, R=Reporting requirement, NS=no statewide standards, none=verified no standard

Table 1

Investor-Owned Electric Utilities	Statewide	States Served	Reliability: Duration of outages	Frequency of outages	Momentary interruptions	Poorly performing circuits	Restoration after an Outage	Planned interruptions	Other	Installations: Turn-on existing service	Set meter	Providing a new service estimate	Other	Customer Contact: Telephone response time	Complaints	Appointments	Bill inquiries/ bill accuracy	Problems with the customer's meter	Power quality complaints	Customer Satisfaction Survey	Other	Comments
cottishPower			S	S	S	S	S, G	G		G	G	G		S	S	G	G	G	G	none		
outhern Company (Alabama Power Co)	NS	AL																				
ntergy Operations (Entergy Arkansas Inc)	NS	AR	none	none	none	none	none	none	none	none		none	none	none	none	none	none	none	none	none	none	
rizona Public Service Co.		AZ					G, R	G		S					S	S						
ucson Electric Power Co		AZ					R	S							S							
acific Gas & Electric Co		CA	S	S	R	R	none	none	S	none		none	none	S	none	S	none	none	none	S	S	proposed
an Diego Gas & Electric Co		CA	S	S	S	R	none	none		G	none	none		S	none	G	none	none	none	S		
outhern California Edison Co		CA	S	S	R	R	G	none		G	G		none	S	none		none	none	none	S		guarantee is voluntary
ew Century Energies (Public Service Co of Colorado)	NS	CO	S	none	none	none	none	none		none		none		S	S	none	none	none	none			
onnecticut Light & Power Co		CT	R	R		R																
nited Illuminating Co		CT	R	R		R																
onnectiv (Delmarva Power & Light Co.)	NS	DE MD VA																				
onda Power & Light Co		FL	R	R		R																
orida Power Corp		FL	R	R		R																
uthern Company (Georgia Power Co.)	NS	GA							G	G			G				G					street lights, this information is
awaiian Electric Co	NS	HI	none	none	none	none	none	none		none		none		none	none	none	none	none	none	none	none	
liant Energy (IES Utilities Inc)	NS	IA																				
dAmerican Energy Co	NS	IA IL SD																				
aho Power Co	NS	ID OR NV																				
nerenCIPS		IL	S	S		R	R													R		declined to respond
ntral Illinois Light Co		IL	S	S		R	R													R		
mmonwealth Edison Co.		IL	S	S		R	G, R	G		G (trial)			G							R		
nois Power Co.		IL	S	S		R	R													R		declined to respond
nerican Electric Power (Indiana Michigan Power Co)		IN MI					R								R						R	
P (Indianapolis Power & Light Co)		IN					R								R							
P (Northern Indiana Pub Serv Co)		IN					R								R							
ergy (PSI Energy Inc).		IN					R								R						R	
stern Resources (Kansas Gas & Electric Co.)	NS	KS	R	R																		merger standards proposed
ergy (Kentucky Utilities Co).	NS	KY VA TN																				
isville Gas & Electric Co	NS	KY																				
tergy Operations (New Orleans, Louisana, Gulf States)		LA	S	S	none	R	R	none		none		none		none	none	none	none	none	none	none		
ston Edison Co		MA	S				R		S											S		declined to respond
mmonwealth Electric Co.		MA	none	none	none	none	R	G		S	G	none		none	none	G	G	G	none	internal		
stern Edison Co.		MA	S	none	none	none	R	none		none		none		none	none	none	none	none	none	S		
ssachusetts Electric Co.		MA	S	none	none	none	R	none		none		none		none	none	none	none	none	none	S		
tomac Electric Power Co	NS	MD DC					R															
imore Gas & Electric Co.	NS	MD					R															
gheny Power (Potomac Edison Co.)	NS	MD WV VA					R															
ntral Maine Power Co.		ME	S	S						G, S	G			S	S	G	G			S		Guarantees are voluntary
troit Edison Co.		MI																				
thern States Pwr Co- (merging with New Century Energies)	NS	MN													R		S				G	Meter reading and estimated bills
renUE	NS	MO IL					R															
sas City Power & Light Co	NS	MO KS					R															declined to respond
Corp United Inc.	NS	MO KS CO WV					R															
rgy Operations (Entergy Mississippi Inc)	NS	MS	S				G													S		
ssissippi Power Co	NS	MS	S																	S		
ntana Power Co	NS	MT WY							G		G		G			G						declined to respond; yard light
olina Power & Light Co.	NS	NC SC				R	R															Reporting in South Carolina
e Energy	NS	NC SC				R	R															Reporting in South Carolina
J Resources Group Inc.	NS	ND MT WY SD																				declined to respond

Key: S=Standard, G=Guarantee, R=Reporting requirement, NS=no statewide standards, none=verified no standard

SP17839

ScottishPower, Moir
Ex. SP__ (BM-1), p. 18
No. 98-2035-04
Rebuttal Testimony

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Alaska						
Alaska Public Utilities Commission						
Service Outages	>5% of customers, discrete community, or 3 hours or more	none	Commision approved	Annual reporting		
Customer Complaints	respond in 10 working days	none	Commision approved			
Alabama						
Alabama Public Service Commission						
Arizona						*No Standards*
Arizona Corporation Commission						
Respond to billing inquiries, problems with meters, power quality issue	5 business days	none	Commission Approved			
Outages > 100 customers	none	none	Commission Approved	Per incident reporting		
Planned outages - 24 hour notification	none	none	Commission approved			
Arkansas						
Arkansas Public Service Commission						
California						*No Standards*
California Public Utilities Commission						
Performance Standards						
Reliability reporting: SAIDI, SAIFI, MAIFI	NA	NA	Commission approved	Annual report to Commission	none	
Least Reliable Circuits with more than one 5-min outage per month	NA	NA	Commission approved	Annual report to Commission	none	
Pacific Gas & Electric Co. (proposed)						
Performance Standards	**Targets may be revised depending on outcome of GRC requests**					
SAIDI	144.98 minutes	up to $15 million (reward or penalty); roughly $846,000 per minute	PBR	Annual report to Commission	on request	excludes outages caused by transmission or generation, planned outages, or major events
SAIFI	1.48 outages	up to $15 million (reward or penalty); roughly $8.7 million per system average interruption	PBR	Annual report to Commission	on request	excludes outages caused by transmission or generation, planned outages, or major events
Outages per mile of line	0.1444/mile	up to $5 million (reward or penalty)	PBR	Annual report to Commission	on request	Unplanned, sustained outages caused by equipment; weather; trees; or overload
% of first visit problem resolution	82.80%	up to $3 million (reward or penalty)	PBR	Annual report to Commission	on request	Includes gas and electric

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
% of on-time field performance	95.40%	up to $3 million (reward or penalty)	PBR	Annual report to Commission	on request	includes gas and electric
% of first time contact resolution	80.90%	up to $3 million (reward or penalty)	PBR	Annual report to Commission	on request	includes gas and electric; weighted field and phone service
average speed to answer phones	20 seconds	up to $3 million (reward or penalty)	PBR	Annual report to Commission	on request	includes gas and electric; monitored monthly
employee safety -- OSHA recordables	7.92	up to $3 million (reward or penalty)	PBR	Annual report to Commission	on request	includes gas and electric
Southern California Edison Co.						
Performance Standards						
SAIDI (2-year average, declining target	55 minutes in 1999	$1 million per minute, up to 18 (reward or penalty)	PBR	Annual report to Commission	on request	excludes events>5 minutes
Circuit interruptions (2-year average)	10,900	up to $18 million (reward or penalty) ($1 million per 183 interruptions)	PBR	Annual report to Commission	on request	excludes events>5 minutes of SAIDI
Employee injuries & illnesses per 200,000 hours worked	13	up to $5 million reward or penalty	PBR	Annual report to Commission	on request	
Customer satisfaction survey (average of satisfaction in 4 areas: in-field service & meter reading; in-person service; telephone center; service planning)	64% completely satisfied or delighted	up to $ 10 million reward or penalty	PBR	Annual report to Commission	on request	no reward if 10% in the lowest 2 categories, or if any component below 56%.
Telephone Answering time	75% of calls to be answered within 50 seconds, for 90% of the weeks.	none	Commission approved	none	none	
Service Guaranties						
New meter installation and service initiation	meet commitment	$50	Voluntary	none	none	Requires access and completed permitting; guarantee paid only when customer is without electricity
Response to service interruptions	fixing within 4 hours or informing when restoration of outages within their control	$50	Voluntary	none	none	requires a phone number; excludes major storms
Restoring service within 24 hours		$50	Voluntary	none	none	excludes serious emergencies
Other Customer Service						
Closure of business offices			subject to advice letter			
San Diego Gas & Electric Co.						
Performance Standards						
SAIDI	52 minutes, 1999 to 2001;	up to $3.75 million (reward or penalty)	PBR	Annual report to Commission	on request	prior to 2002 excludes underground cable failures; 73 minutes in 2002 (including underground cable failures); excludes planned outages and major events

ScottishPower, Moir
Ex. SP__ (BM-1), p. 21
No. 98-2035-04
Rebuttal Testimony

[illegible] Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
SAIFI	0.90 outages	up to $3.75 million (reward or penalty)	PBR	Annual report to Commission	on request	excludes planned outages and major events
MAIFI (momentaries)	1 28 outages	up to $1 million (reward or penalty)	PBR	Annual report to Commission	on request	excludes planned outages and major events
OSHA reportable frequency	8.8	up to $3 million (reward or penalty)	PBR	Annual report to Commission	on request	lost time and non-lost time
Customer survey	92.5% very satisfied	up to $1.5 million (reward or penalty)	PBR	Annual report to Commission	on request	
Telephone Answering time	80% of calls answered in 60 seconds	up to $1.5 million (reward or penalty)	PBR	Annual report to Commission	on request	
Service Guarantees						
Missed appointments	meets commitment	$50, or service establishment charge ($10 or $30 for turn-on orders).	PBR	Annual report to Commission and settling parties	on request	Credit not paid if customer notified 4 hours in advance; not applicable in natural disasters; strikes, or emergencies
New Installations	meets commitment for new service turn-on	service establishment charge ($10 or $30)	PBR			Credit not paid if customer given 24 hours' notice; requires completed inspections and access; paid only if the customer is without service.
Complaint resolution -develop a central tracking system	none	none	PBR	Annual report to Commission and settling parties	on request	
Other						
Survey questions: Convenience of timeframe arranged; time for completion of gas service; time waiting for electric service troubleman	none	none	PBR	Annual report to Commission and settling parties	on request	quarterly data
Average response time to electric and gas emergencies (separately)	none	none	PBR	Annual report to Commission and settling parties	on request	quarterly data
Level of busies in the call center; number of abandoned calls	none	none	PBR	Annual report to Commission and settling parties	on request	quarterly data
Shortest number of minutes between call connection to the first menu and the menu choice for a customer service rep	none	none	PBR	Annual report to Commission and settling parties	on request	quarterly data

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; Investigation on request; automatic; to standards)	Comments
The number of 4-hour window appointments scheduled versus non-window appointments.	none	none	PBR	Annual report to Commission and settling parties	on request	quarterly data
Colorado						
Colorado Public Utility Commission						
New Century Energies (Public Service Company of Colorado)						No Standards
Performance Standards						
SAIDI	79 minutes for regional	Bill credit up to $3 million	PBR	Annual reporting to Commission.	Commission will review and verify	
Telephone Response	70% within 45 seconds	Bill credit up to $1 million	PBR	Annual reporting to Commission.	Commission will review and verify	
Customer complaints	0.8 complaints per 1,000 customers	Bill credit up to $1 million	PBR	Annual reporting to Commission.	Commission will review and verify	
Connecticut						
Connecticut Department of Public Utility Control						
Performance Standards						
SAIDI, SAIFI, cause of outages	none	none	Commission approved	Annual reporting		
Worst circuits	none	none	Commission approved	Annual reporting		
Delaware						
Delaware Public Service Commission						No Standards
Florida						
Florida Public Service Commission						
Poorly performing circuits	Identify the 3% with highest number of feeder breaker interruptions	none	Commission approved	Annual reporting		
Distribution Reliability for duration, frequency, poorly performing circuits	none	none	Commission approved	Annual reporting		Report includes total number of service interruptions by cause, average length of service interruptions.
Georgia						
Georgia Public Service Commission		No Standards				
Georgia Power Company						
Service Guarantees						
Service connections	Connect by date promised	$100 per day up to $500	Voluntary standard			
Street light install	Install as promised	amount equal to one month's service, plus prorated bill	Voluntary standard			

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Street light repair	3 calendar days	amount equal to one month's service, or $5 credit for public light	Voluntary standard			
Bill accuracy	100% accurate bill	Overbilled = Correction plus 10% credit Underbilled = Correction plus 10% credit. Minimum $3 Maximum $500, Not to exceed amount of error.	Voluntary standard			
Property damage		Replace damaged property up to $1000	Voluntary standard			
Hawaii						
Hawaii Public Utilities Commission						
Hawaii Electric Company						*No Standards*
Idaho						*No Standards*
Idaho Public Utility Commission						
Illinois						*No Standards*
Illinois Commerce Commission						
Service Standards						
Major outages: > 10,000 customers for 3 hours or more	none	none	Commission approved	Telephone or facsimile. Two hour updates. Annual report	Submitted under oath; verified by individual responsible for reliability.	Annual reporting includes plans for increased reliability.
Customer satisfaction survey	none	none	Commission approved	Annual report in June		Includes results of survey, reliability, customer service, customer understanding of services and prices.
Reliability reporting: SAIFI, CAIDI CAIFI	none	none	Commission approved	Annual report in June	Submitted under oath; verified by individual responsible for reliability.	Reporting on three reliability indices of each operating area, number of customers experiencing interruptions by number of interruptions.
Worst performing circuits	none	none	Commission approved	Annual report in June		Explanation planned improvements to worst performing circuits of worst performing circuits.

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Service standards based on customer voltage	At 69,000 volts, <= 3 controllable interruptions and <= 9 hours of total interruption duration for the last 3 consecutive years At 15,000 volts, <= 4 controllable interruptions and <= 12 hours of total interruption duration for the last 3 consecutive years Below 15,000 volts, <= 6 controllable interruptions and <= 18 hours of total interruption duration for the last 3 consecutive years			Records showing service interruptions by each customer for most recent 5 years.		
Commonwealth Edison Company - ComEd						
Performance Standards						
Service interruptions >= 30,000 customers	none	none	Commission approved	Maintain service records detailing interruptions.		Must design and implement an administrative procedure to resolve and pay claims for actual damages and replacement value to minimize need of formal complaint proceedings at ICC.
Service Guarantees						
Service Interruptions > 12 consecutive hours	no interruptions >12 consecutive hours	Amount equal to Monthly Customer Charge	Commission approved	none		
Service interruptions > 24 consecutive hours or more than one 12 hour period per month	no interruptions >24 consecutive hours	Monthly Customer Charge times the number of increments of 12 hours minus first 12 hours.	Commission approved	none		
New service installations	completed within 14 days of customer notification	$25 credit	Voluntary	none		
Planned service interruption notice	24 hour notice	$25 credit	Voluntary	none		
Indiana						
Indiana Utility Regulatory Commission						
Major outages	none	none	Indiana Administrative Code	To Commission		
Number of complaints	none	none		To Commission		
Iowa						
Iowa Utilities Board						No Standards

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Kansas						
Kansas Corporation Commission						
No current standards						No Standards Proposed standards for the Western Resources / KCPL merger include: normalized SAIDI, SAIFI, and CAIDI. Annual reporting ,unanswered call standards, annual violations performance standards. Penalties are also proposed.
Kentucky						
Kentucky Public Service Commission						No Standards
Louisiana						
Louisiana Public Service Commission						
Performance Standards						Standards for a utility with >100,000 customers. Less than 100,000 adjusted.
Sustained interruptions			Commission approved	Annual reporting of each major event		$25,000 fine for failure to maintain information
SAIDI	1998 = 3.58% with 5% increase by 2001 25% Increase by 2005	up to $500,000	Commission approved	Annual reporting for service territory and region		Excludes events beyond utility's control. These are reported separately.
SAIFI	1998 = 2.84%	up to $500,000	Commission approved	Annual reporting		Excludes events beyond utility's control. These are reported separately.
Worst performing circuits	improvement	none	Commission approved	Annual reporting		
Entergy Louisiana						
Maine						
Central Maine Power			PBR			ScottishPower/8: verified. Voluntary guarantees.
Maryland						
Maryland Public Service Commission						
Major outages	none	none	Commission	notify by telephone or telegraph	none	Interruption >1 hour
Massachusetts						
Massachusetts Department of Public Utilities						
Department of Telecommunications and Energy						
Major outages > 50 customer hours	none	none	Commission approved	Per incident reporting		
Boston Edison Company						ScottishPower /8 verified
Commonwealth Electric Company						ScottishPower / 8 verified

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Performance Standards						
Poorly performing circuits > 20 incidents	none	none	Internal voluntary standards	No reporting		Poorly performing circuits are identified and resources allocated for justified improvements.
Service Guarantees				No reporting	Investigation on request	
Missed appointments	30 minutes late w/o notifying customer	Credit $25 to customer	Voluntary	No reporting	Investigation on request	
New Service installations	5 business days	First bill free (up to $100)	Voluntary	No reporting	Investigation on request	
Accurate meter readings	accurate	$25 credit			Investigation on request	
Service interruption notification	before interruption	$25 credit			Investigation on request	
Direct Payment / Pay by phone billing accuracy	accurate	$25 credit			Investigation on request	
Unanswered billing questions	by next day	$25 credit			Investigation on request	
Telephone answering time	80% of calls within 30 seconds	none	Voluntary	No reporting	Investigation on request	Standard applicable annually
Other						
Customer service surveys	none	none	Internal voluntary	none	Internal auditing	
Eastern Edison Company						
Performance Standards						
SAIDI	not reported	not reported				Excluded are extraordinary events such as severe storms and load shedding
Customer Satisfaction Level	not reported	not reported		conduct annual surveys		annual surveys
Massachusetts Electric Company						
Performance Standards						
SAIDI	105 minutes	penalty to $1 million				Excluded are extraordinary events such as severe storms and load shedding
Customer Satisfaction Level	85%	penalty up to $1 million		conduct annual surveys		annual surveys
Western Massachusetts Electric Company						
Michigan						
Michigan Public Service Commission						*Declined to respond*
Minnesota						
Minnesota Public Utilities Commission						

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Customer complaints	Contact the customer within 5 business days, additional contact of at least once every 14 days thereafter.	none	Commission approved	Annual reporting	investigation upon request	
New service	provided within 90 days of request	none	Commission approved	Annual reporting		
Northern States Power						
Performance Standards						
Meter Reading	April-November: >90% December-March: 4 month average > 80%	Penalty				
Consecutively estimated bills (3-6 months)	Jan thru April < 3% May thru December <= 1.4% or customers billed	Penalty				
Consecutively estimated bills (>= 7 months)	estimate bills <=1% of customers billed in any one month	Penalty				
Service Guarantees						
Consecutive Estimates	see above	Bill credit	Commission approved	Quarterly reporting		
Bills not rendered monthly	NA	Bill credit	Commission approved	Quarterly reporting		
Budget Helper Accuracy	NA	Bill credit	Commission approved	Quarterly reporting		
Tenant Change Readings	NA	Bill credit	Commission approved	Quarterly reporting		
Mississippi						
Mississippi Public Service Commission						
Entergy Mississippi						
Service Quality Guarantees						
Outages	<2 hours	$25 per customer	Commission approved			Standard excludes storms classified as major by the National Weather Service
Performance standards						
Service Interruptions Index (similar to SAIDI)		reward / or up to $1.3 million total annual penalty				
Customer Service		reward / or up to $1.3 million total annual penalty				Baseline driven
Missouri						
Missouri Public Service Commission						*No Standards*

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; Investigation on request; automatic; to standards)	Comments
Major outages	none	none	Voluntary	Informal reporting per incident		Report outages of one hour or more, substation outage or major facility, events of high interest or concern.
Montana						
Montana Public Service Commission						*No Standards*
Montana Power Company						*ScottishPower / 8: verified*
Nebraska						
Nebraska Power Board						*No Standards. Board mainly concerned with capital construction issues*
Omaha Public Power District						
Nevada						*No Standards*
Nevada Public Service Commission						
SAIDI, SAIFI, MAIFI	none	none	Commission approved	Annual reporting		Annual reporting only. Standards have been proposed as part of restructuring.
New Hampshire						
New Hampshire Public Service Commission						*No Standards*
Outages	none	none	Commission approved	Reporting of outages		Duration and speed of restoration.
Public Service of New Hampshire						
SAIDI, CAIDI, SAIFI	yes	none	Commission approved	Quarterly reporting		
New Jersey						
New Jersey Board of Public Utilities						
CAIDI, SAIDI	Utility specific, based on 10 years of historical data, 3 worst years removed	Penalties. No rewards.				To be released in June of 1999. Provision for establishing improved performance standards.
Public Service Electric and Gas						ScottishPower/8: Verified
New Mexico						
New Mexico Corporation Commission		*No Standards*				
Major outages	none	none	Commission approved	Per incident reporting		A major outage = <= 1MW; or loss of load to municipality
New York						
New York Public Service Commission						
Consolidated Edison Co-NY Inc						
Performance Standards						
Service Guarantees			PBR			ScottishPower / 8: verified
RG&E - Rochester Gas & Electric Corp.						ScottishPower / 8: verified

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Performance Standards						ScottishPower / 8: verified
Service Guarantees						ScottishPower / 8: verified
Central Hudson Gas & Electric Corp						
Performance Standards						
Customer Satisfaction Index	10 Basis Points		PBR	Monthly reporting to Commission Staff Annual Report.		Basis point has the same value as after tax return on equity. The parties agree to reconvene after 1/31/2000 to consider whether Service Quality as defined in this Incentive Plan continue to be warranted.
Missed Appointments	$20 credit		PBR	Letter of apology to customer.		Does not include emergency matters
SAIFI >1.20	<1 20 annually	incentive penalty of 2.5 Basis Points	PBR			No reward for improved performance.
SAIFI > 1 40	<= 1 40 annually	incentive penalty 5.0 Basis points	PBR			No reward for improved performance
CAIDI >2.27	<= 2.27	incentive penalty 2.5 Basis points	PBR			No reward for improved performance
CAIDI >2.50	<= 2.50	incentive penalty 10 Basis points	PBR			No reward for improved performance.
Niagara Mohawk Power Corp.						
Performance Standards						ScottishPower / 8: updated
PSC complaints	< 10 compliants per 100,000 customers	<10=$0, 10.0-10.9=$220K, 11.0-11.9=$660K, 12.0 and above=$1100K	PBR			
Corporate Residential Transaction Satisfaction Index	80.0 CSI	CSI# <80.0=$0, 78.0<CSI#<80.0=$220K 76.0<CSI#<78.0=$660K CSI#<76.0=$1100K	PBR			
System Interruption Frequency (SIF)	< 0.93 SIF	$1,32 million	PBR			
Customer Interruption Duration (CID)	<2.07 CID	$1,32 million	PBR			
Power Quality	Varies by kV	Up to $220 for each of three ranges	PBR			
Service Guarantees						
Respect of Property	NA	Restore to prior condition				
Service connection	5 business days	$25 credit				
Gas conversion guarantee	satisfied customer	Will restore previous service				If customer is not satisfied with natural gas conversion, within one year will restore old service and replace equipment.
Orange & Rockland Utilities, Inc.						*ScottishPower / 8: verified*

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
North Carolina						
North Carolina Utilities Commission						
North Dakota						*No Standards*
North Dakota Public Service Commission						
Ohio						*No Standards*
Public Utilities Commission of Ohio						
Performance Standards						
New Service installation requests (no construction)	99% within 3 business days	none	Commission approved			
New service installation (construction required)	90% within 10 business days	none	Commission approved			
Customer service answer time	60 seconds	none	Commission approved			
Meter tests	within 30 days	none	Commission approved	Report to customer		Written report within 10 days of test
Customer complaints	3 business days	none	Commission approved	Report to customer		Interim report within 3 business days
Service outages >2500 customers for a projected 4 hours	none	none	Commission approved	Report to Commission		
Service outages > 100 for 24 hours or more	none	none	Commission approved	Report to Commission		
Service reliability performance		none	Commission approved	Annual reporting		
Poor performing circuits	lowest 3% from previous 12 month period	none	Commission approved	Annual reporting		Report any remedial action taken or planned.
Reliability Indices: SAIDI, SAIFI, ASAI, CAIDI	Performance Targets are based on historical system performance	none	Commission approved	Annual and semi-annual reporting.		Excludes the effects of major storms.) Semiannual reporting of SAIFI and CAIDI indices for each distribution circuit.
First Energy (Ohio Edison)						
Oklahoma						*No Additional Standards*
Oklahoma Corporation Commission						
Other Standards						
Major outages	none	none		timely per event		
Oklahoma Gas & Electric Co.						
Oregon						ScottishPower / 8: verified
Oregon Public Utility Commission						
Portland General Electric						
PacificCorp						ScottishPower / 8 verified
Pennsylvania						ScottishPower / 8 verified

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Pennsylvania Public Utility Commission						
CAIDI, SAIFI, SAIDI	Standards based on 5 year history.	none	Commission approved	Annual reporting		Benchmarks. Major events are excluded.
MAIFI	none	none	Commission approved	Annual reporting		
PP&L, Inc.						
Duquesne Light						ScottishPower / 8: verified service guarantees
Rhode Island						ScottishPower / 8: verified
Rhode Island Public Service Commission						Temporary standards during 2 year restructuring were deemed unnecessary.
South Carolina						
South Carolina Public Service Commission						
Major Outages	none	none	Commission approved	Monthly reporting		Report only outages effecting a "large number" of customers. "Large number" is undefined.
South Dakota						
South Dakota Public Utilities Commission						No Standards
Texas						
Texas Public Utility Commission						
Performance Standards						
Significant Outages			Commission approved	Reporting as soon as reasonably possible per instance. Summary report within five days if outage exceeds 24 hours	Auditing on request	
System-wide Standards						
SAIFI	2000 = <10% of system-wide standard 2001 = < 5% of system-wide standard		Commission approved	Annual reporting	Auditing on request	Interim standards are system-wide average of 1998 and 1999 reporting years.
SAIDI	2001 = <10% of system-wide standard 2001 = < 5% of system-wide standard		Commission approved	Annual reporting	Auditing on request	
Distribution Feeder Standards						
SAIFI	2000 = 92% of distribution feeders meet or exceed SAIFI standard. 2001 = 96%		Commission approved	Annual reporting	Auditing on request	Distribution feeder standards are the average of the 1998 and 1999 reporting years for each index at the value represented by the 10% of the distribution feeders with the highest value.

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
SAIDI	2001 = 92% of distribution feeders meet or exceed SAIDI standard. 2001 = 96%		Commission approved	Annual reporting	Auditing on request	
Worst circuits	No feeder shall sustain 12-month SAIDI or SAIFI that are among the worst 2% of utility feeders for two or more reporting years		Commission approved	Annual reporting	Auditing on request	
Other Standards						
New electric service	seven working days				Auditing on request	Not involving new facilities
Line Extension	90 days				Auditing on request	Unless unavailability of materials causes unavoidable delays
Entergy Gulf States Inc.						
Performance Standards						
10% Worst performing feeders			Commission approved	Semi-annual reporting		Exclusive of major events
Frequency and Duration of Interruptions						
Minimum Performance Benchmark for feeders with >5 meters (1998) >? meters (1999)						
SAIFI	3.8 interruptions		Commission approved			
SAIDI	315 minutes / 5.25 hours		Commission approved			
Target Performance Benchmark						
SAIFI	2.6 interruptions	Incentive pool $800,000	Commission approved	Annual reporting		1998 - achieve 85% compliance of Texas distribution feeders with > 5 meters. 1999 and beyond - achieve 90% compliance
SAIDI	158 minutes / 2.63 hours	Incentive pool $800,000	Commission approved	Annual reporting		1998 - achieve 95% compliance of Texas distribution feeders with > 5 meters. 1999 and beyond - achieve 98.5% compliance
Major weather event restoration	Complete within 120 hours / 5 days	Incentive pool $800,000	Commission approved			All five
Customer Service Performance Benchmarks						
Billing error rate	Average monthly rate of customer over-billing errors<5 per 1000 customers or 0.5%	Incentive pool $800,000	Commission approved	Semi-annual reporting		All five Customer Service Benchmarks must be met in order to receive Customer Service portion of incentive pool.
Calls answering	85% of all calls answered within 30 seconds	Incentive pool $800,000	Commission approved	Semi-annual reporting		For every 7 day period within any month at any call center
Service installation	90% of applications filled within 5 working days	Incentive pool $800,000	Commission approved	Semi-annual reporting		For every distribution substation service area
Line extension	85% of requests completed within 60 working days	Incentive pool $800,000	Commission approved	Semi-annual reporting		For every distribution substation service area

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Light replacement	90% of customer reports of light outages corrected within 48 hour	Incentive pool $800,000	Commission approved	Semi-annual reporting		For every distribution substation service area
Other						
Internal customer service surveys		employee bonuses	Voluntary			
Central & Southwest Corporation						ScottishPower / 8: verified
Reliant Energy - Houston Power & Light						*No Additional Standards*
Utah						
Utah Division of Public Utilities						*No Standards*
Outages	none	none	Commission approved	Quarterly reporting to Division	Auditing on request.	
Vermont						
Department of Public Service						
Major outages	none	none	Commission	per incident		New Initiatives are being proposed on reliability, installations, and complaint resolution.
Virginia						
Virginia State Corporation Commission						
Major Outages	none	none	Commission approved	Per incident reporting	auditing upon request	Major outages affect more than 5,000 customers
Washington						
Washington Utilities and Transportation Commission		*No Standards*				No Standards
Puget Sound Energy						*ScottishPower / 8: verified*
				Semi-annual reporting to Commission, annually to customers		
West Virginia						
Virginia State Corporation Commission						*No Standards*
Service Outages	none	none	Commission	Report if Greater than [illegible]000 customers	none	State is starting to track outages and reliability data for baseline
Wisconsin						
Wisconsin Public Service Commission						
Wisconsin currently has no service quality reporting requirements.						In 2000-2001 Wisconsin will implement reliability index, poor performing circuits, telephone answering times, number of complaints, and new service delay reporting standards.

Appendix 1: Inventory of Service Quality Measures

Service Quality Measure	Target	Consequences	Approval (PBR, Commission approved, Voluntary)	Reporting	Auditing (none; investigation on request; automatic; to standards)	Comments
Wyoming						
Wyoming Public Service Commission						*No Standards*

17568

RECEIVED

SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

* * *

In The Matter Of The Application of PacifiCorp And Scottish Power plc For An Order Approving the Issuance of PacifiCorp Common Stock	)	Docket No. 98-2035-04

SCOTTISH POWER

REBUTTAL TESTIMONY OF GRAHAM L. MORRIS

JULY 16, 1999

INTRODUCTION

Q. Please state your name.

A. My name is Graham L. Morris. I am testifying on behalf of ScottishPower in lieu of Robert D. Green, who is leaving ScottishPower to pursue other opportunities. My educational background and experience is attached as Exhibit SP _ (GLM-1). Mr. Green had previously filed Direct Testimony in this proceeding, which I hereby adopt.

Q. Please summarize your rebuttal testimony in this proceeding.

A. My rebuttal testimony addresses many of the issues raised by the Division of Public Utilities ("DPU") concerning ratemaking and cost allocation issues, financial impacts of the transaction, and access to books and records, and addresses the DPU's corresponding proposed conditions. My testimony also responds to testimony submitted by witnesses on behalf of the Committee of Consumer Services ("CCS"), Large Customer Group ("LCG"), Utah Industrial Energy Consumers ("UIEC"), Emery County ("Emery County"), Utah Department of Community and Economic Development ("DCED") and Nucor Steel ("Nucor"). Included in my testimony are the following points:

Inclusion of Cost Savings in Rates: The corporate cost savings to which we are committed, and the other savings which we expect to achieve, will lead over time to prices for customers that are lower than they would have been without the transaction. ScottishPower commits to ensuring that cost savings resulting from the transaction are reflected in a timely fashion in the results of operations for Utah and can be captured for customers in future rate proceedings. A rate cap or rate freeze is not necessary in this case to establish that there are net positive benefits for Utah customers that will result from this merger. Any rate condition would pre-judge the outcome of many issues that are properly considered by the ratemaking process.

Corporate Structure: My testimony clarifies the basis for the new ScottishPower/PacifiCorp corporate structure after the transaction, and describes how the DPU's proposed Conditions address the corporate structure issues.

Cost Allocations: To provide assurances about our commitment to make available our proposed methodology for allocating corporate overheads, we agreed with the DPU to file a proposal earlier, rather than waiting until after the transaction is complete. We fulfilled our commitment by filing our proposal on June 18; a copy is included as Exhibit SP _ (GLM-2) to this testimony.

Transaction Costs: We confirm our commitment to record costs of the transaction below the line. My testimony also clarifies the ratemaking treatment of certain post-merger transition costs.

Financial Impacts of the Transaction: We are confident that the transaction will have a positive impact on PacifiCorp's financial strength. In any event, PacifiCorp's Utah customers will be protected if any adverse financial impacts arise through existing Commission authority, certain conditions proposed by the DPU, and by our Direct Testimony, Mr. Alan Richardson's Supplemental Testimony, and the commitments in this Rebuttal Testimony.

Access to Books and Records: The proposed conditions which we would agree to include a number of provisions to ensure that the Commission will have the necessary access to books and records for it to perform its regulatory oversight role. These adopt and extend the commitments proposed in Mr. Green's Direct Testimony.

Cost Savings and Their Inclusion in Rates

Q. Some witnesses have questioned the basis and magnitude of cost savings that ScottishPower has outlined and how those savings would be incorporated into rates. How do you respond?

A. First, as noted in Mr. Green's Direct Testimony, the $10 million of guaranteed, annual corporate cost reductions, and the other cost savings we expect to achieve, will lead to rates that are lower than they otherwise would be without the transaction. Second, the investment which ScottishPower will be making in PacifiCorp's system to improve service quality will not increase overall costs, since the investment will constitute a re-direction of existing budgeted expenditures, as described in Mr. Richardson's Supplemental Testimony. Third, ScottishPower is not proposing to recover the transaction costs from Utah customers, but rather will bear these costs itself. Based on these three factors, a net positive benefit has been demonstrated even before accounting for the other benefits of the transaction. Through general rate cases, the Commission has the necessary tools to ensure that the cost savings achieved by ScottishPower will be reflected in rates. It must be stressed that nothing about this transaction will affect the ratemaking authority of the Public Service Commission ("PSC") with respect to PacifiCorp.

Q. Some witnesses have been critical of ScottishPower's inability to quantify cost savings and how the transaction will impact rates. How do you respond?

A. ScottishPower is committed to reflecting a $10 million net reduction in corporate costs in PacifiCorp's annual cost of service at the end of the third year following completion of the transaction. Moreover, as stated in Mr. MacRitchie's Rebuttal Testimony, we will commit to filing a transition plan with the Commission no later than six months after the closing date of the transaction. This filing will include anticipated time lines, actions necessary to implement the transition plan and the proposed benefits (including anticipated cost savings), the estimated associated capital and expense expenditures and anticipated workforce changes. Mr. MacRitchie's Rebuttal Testimony provides a more complete description of the transition plan. Implementing this plan will provide cost savings more quickly and with greater certainty than PacifiCorp could have achieved on its own.

Q. What will be the base from which the $10 million in corporate cost savings will be measured?

A. The achievement of the $10 million guaranteed savings will be measured from PacifiCorp's 1999 actual corporate costs, with an inflation escalation, and normalized and adjusted so as to reflect only those costs that would be included in rates. The $10 million savings will also incorporate an inflation escalation. This commitment is similar to that proposed in DPU condition 3.

Q. How do you respond to the suggestion of LCG witness Anderson that the $10 million annual corporate savings commitment is "inconsequential"? (Anderson, p. 12).

A. This $10 million in savings is guaranteed and recurring, and therefore has a net present value of approximately $100 million. If the actual amount of PacifiCorp corporate savings exceeds $10 million on an annual basis, the higher amount of actual savings will be used. The commitment is to achieve these savings in above-the-line activities; any savings achieved in areas not allowed for ratemaking purposes will not count toward the $10 million figure. These annual savings will be tracked for Utah customers in the semi-annual financial reports provided to the Commission and can be captured in rate proceedings thereafter.

Q. How will cost savings lead to rates that are lower than they otherwise would be without the transaction?

A. In order to improve PacifiCorp's financial performance, ScottishPower will be striving to earn a reasonable rate of return in each of the jurisdictions in which PacifiCorp operates. If PacifiCorp is underearning, the cost savings which ScottishPower is able to achieve will result in a need for rate relief of a smaller magnitude. On the other hand, to the extent that cost savings allow PacifiCorp to exceed a reasonable return, a reduction in rates may be warranted. In either event, the cost savings will be captured in rates and lead to prices lower than they otherwise would be.

Q. Some witnesses have advocated rate conditions as part of the merger approval. DPU witness Alt advocates a 3-year rate cap, and CCS witness Gimble advocates either a rate reduction or a rate cap to lock in savings from the merger. Nucor witness Goins proposes an immediate base rate reduction for non-special contract customers and a post-reduction 5-year rate freeze for all customers. (Alt, p. 9), (Gimble, p.30), (Goins, p. 15). How do you respond?

A. ScottishPower fundamentally disagrees with any rate cap or rate reduction conditions. A general rate case, not a merger proceeding, is the proper process in which to incorporate in rates cost savings that have been achieved, and for the Commission to evaluate at the same time a whole host of other legitimate issues and considerations. Any rate condition would pre-judge the outcome of many issues that are properly considered by the ratemaking process. Normal ratemaking procedures are sufficient to flow-through merger benefits to Utah customers. Mr. Richardson addresses this issue in greater detail in his testimony.

Corporate Structure

Q. Please discuss DPU witness Cleveland's questions about the new corporate structure, her recommendation relating to Commission approval of the sale or divestiture of assets, and DPU witness Artie Powell's concerns regarding the implications of the Public Utility Holding Company Act, or PUHCA, and the consequences of oversight by the Securities and Exchange Commission ("SEC"), on cost allocation issues. (Cleveland, pp. 5, 26), (Artie Powell, pp. 14-18).

Corporate Structure

Our June 18 cost allocation filing, attached as Exhibit SP _ (GLM-2) to this testimony, clarifies the new corporate structure, with a new holding company as a parent and without a new separate entity to provide corporate services. The new holding company was approved at the ScottishPower stockholder meeting on June 15. This corporate structure best assists the Commission in monitoring transactions and cost allocations between PacifiCorp and ScottishPower UK plc and ScottishPower plc (Holdco).

Asset Transfers and Divestiture

ScottishPower disagrees with condition 10 because it is unnecessary in light of condition 9. Condition 9 provides for reporting to the Commission prior to the construction, purchase, acquisition, sale, transfer or disposition of utility and non-utility assets, all as currently provided for in the Commission's rules as set forth in Utah Admin. Code § R746-401. Condition 10 seeks to impose a pre-approval process which is an extension of the current situation and is unnecessary and cumbersome. ScottishPower agrees to comply with current regulations regarding this issue which sufficiently provide the Commission with the information it needs to regulate the utility.

PUHCA and SEC Related Issues

ScottishPower would agree to additional reporting and consultation requirements, as proposed in conditions 22-26, with some exceptions. The principal exceptions are: (1) for condition 22, the detailed report should be provided as soon as possible after the approval of the merger; (2) for condition 23, PacifiCorp will maintain separate debt, but not preferred stock as this will be eliminated pursuant to the merger agreement; (3) for condition 24, we believe this is unnecessary because this issue is addressed by Utah Code Ann. § 54-4-31; and (4) for condition 25, ScottishPower would not assert in any future Utah proceeding that the Commission's jurisdiction over affiliated interest transactions is preempted. ScottishPower agrees with condition 26 related to providing the Commission with a copy of any SEC filed lobbying reports.

Q. Some witnesses have raised concerns that the proposed corporate structure would enable ScottishPower to diversify into other potentially riskier endeavors. Are there adequate safeguards to address this potential risk?

A. Yes. Most importantly, the DPU already has at its disposal sufficient authority to monitor PacifiCorp's activities. Utah Admin. Code § R746-401, as described above, provides for reporting to the Commission a variety of dispositions of company assets. Utah Code Ann. §§ 54-4-28 through 54-4-31 also provide safeguards regarding mergers, acquisitions and the issuance of securities. ScottishPower would readily comply with these provisions. The DPU in condition 5 has also suggested that any diversified holding and investments (e.g., non-utility business or foreign utilities) of ScottishPower and PacifiCorp be held in company(ies) separate from PacifiCorp, with ring-fence provisions for each of these diversified activities. We would agree to this, provided that existing holdings may remain and that affiliates of PacifiCorp are not prohibited from holding investments. In total, these items provide the Commission with sufficient regulatory oversight to mitigate any potential diversification risk.

Cost Allocation Issues

Q. Some witnesses have raised concerns about the allocation of corporate costs to PacifiCorp and affiliate relationships. (Talbot, pp. 42-45), (Cleveland, pp. 10, 21-24). What is ScottishPower proposing with respect to these issues?

A. We had originally proposed to wait until after the transaction to provide our corporate cost allocation proposals. However, to eliminate any uncertainty in this area, and to provide assurances about our commitment to make this proposed methodology available, we accelerated to June 18 the filing date for our proposal. This filing includes our proposal on the treatment of affiliate transactions, corporate cost allocation methodology, and a statement of where each of the ScottishPower principal corporate departments will sit in the new corporate structure.

On the issue of corporate cost allocations, our June 18 filing addresses many of the concerns raised by DPU witness Cleveland in her testimony. On the issue of affiliate transactions, both our June 18 filing and our commitment to comply with DPU condition 7, PacifiCorp's Transfer Pricing Policy, as it relates to transactions with PacifiCorp, should adequately address concerns regarding the perceived risk of cross-subsidization to and from of other members of the ScottishPower group. It should also be noted that our June 18 filing contains a written procedure which proposes a process for coordination and conflict resolution between and among U.S. and U.K. regulators concerning cost allocation and affiliate transaction issues.

Based on these commitments, conditions 2 and 8 need to be modified. Condition 8 (1), (2) and (3) are acceptable as they relate to PacifiCorp and notifying the Commission prior to starting or stopping affiliate transactions with PacifiCorp. Condition 8(4) is unnecessary relating to creating or expanding business ventures as it is covered in condition 6, which relates to Commission notification by ScottishPower/PacifiCorp of the public announcement of the acquisition of regulated or non-regulated business representing 5% or more of the market capitalization of ScottishPower. Condition 8(5) is unnecessary because of the statutory provisions in Utah Code Ann. §§ 54-4-28 through 54-4-31 dealing with the mergers, acquisitions, and the issuance of securities.

Q. Do you agree with the last sentence of condition 2, and condition 46, particularly the recommendation that ScottishPower bear the risk of the inability of state regulators to agree to allocation methodologies?

A. ScottishPower agrees that it bears the risk relating to the possibility that the Commission may adopt an allocation methodology that differs from those adopted by OFFER and OFWAT. However, relating to the differences in allocations between the states, allocation issues should be resolved during PITA group discussions which must start with the expectation that a mutually agreeable solution can be reached by all parties. This will aid the resolution of all issues. If ScottishPower bears all of the risk, then there is no incentive for any party to try to reach a reasonable solution with other state staff members. This may, in turn, put at risk the financial viability of the company.

Costs of the Transaction Will Not be Recovered from Customers

Q. Some witnesses have expressed concern over the treatment of transaction costs. LCG witness Anderson states that ScottishPower has reserved the option of attempting to recover transaction costs from customers. (Anderson, p. 39). CCS witness Talbot and UIEC witness Brubaker also imply that ScottishPower will be under pressure to overcome the impact of the premium on earnings. (Talbot, p. 26-27), (Brubaker, pp. 2, 24-25). How do you respond?

A. A detailed breakdown of costs, and proposed ratemaking treatment, is included in my testimony as Exhibit SP _ (GLM-3), which is responsive to the DPU's condition 4 concerning merger-related costs. ScottishPower has committed to excluding transaction costs for the purpose of setting rates in Utah. ScottishPower will also disregard for ratemaking purposes any premium paid for PacifiCorp stock and will set rates based upon original, not revalued, costs, as provided in condition 28. Having excluded these items from the calculations, we then expect to earn a reasonable rate of return from the regulated business, which will generate sufficient funds to provide for capital and operating expenditures and provide shareholders with a reasonable return on their investment. ScottishPower shareholders would expect to recover any premium associated with the merger through the earning of a reasonable return on their investment in PacifiCorp.

Q. Are the costs of the executive severance plan part of the transaction costs that will be excluded for ratemaking purposes?

A. With respect to existing executive severance packages, we would propose to include them above-the-line for ratemaking purposes because they will result in lower salary costs going forward. We also propose to include the bonus pool as recoverable, to the extent these costs are not related to the merger. With respect to enhanced severance and the merger-related portion of the bonus pool, such costs will be accounted for below-the-line. In any event, our treatment of severance payments and bonus incentives is subject to review in any general rate proceeding.

Q. How will certain transition costs, as illustrated in Mr. Anderson's testimony be treated for ratemaking purposes? (Anderson, pp. 41-45).

A. ScottishPower should be able to recover transition costs since they will deliver offsetting savings of a greater magnitude going forward. The transition plan will demonstrate this where applicable.

Financial Impacts of the Transaction

Q. Some witnesses have raised the issue that the transaction creates additional financial risk for PacifiCorp. For example, CCS witness Talbot mentions the risks to PacifiCorp arising from the "financial vicissitudes" of ScottishPower. (Talbot, p. 6). How can these concerns be addressed?

A. There is no evidence to support a claim that this transaction imposes increased risk on PacifiCorp. The most important point here is that the Commission retains its authority in rate proceedings to protect PacifiCorp's Utah customers from any adverse impacts. We would agree to the DPU's condition 21 related to capital structure. Through the use of a hypothetical capital structure, the cost of equity, for example, has traditionally been set by reference to U.S. companies comparable to PacifiCorp. This practice insulates customers from external risks. Also, the operations of ScottishPower in the U.K. will not have any impact on our U.S. operations. The regulators in the U.K., like regulators in the U.S., must set rates at a level that is adequate to permit us to finance the expenditures necessary to maintain our operations and provide safe and adequate utility service. The capital spending to which we have committed in our U.K. operations will be recovered in rates set by our U.K. regulators, and will have no financial effect on PacifiCorp. Moreover, any "continued expansion by the ScottishPower group" (Talbot, p. 6) will not adversely affect PacifiCorp customers. ScottishPower's history shows a consistent record of successful acquisitions based on a defined strategy, focused planning up to and beyond completion of the transaction, and the establishment of clear plans and accountabilities following the acquisition.

Q. Please describe the proposal for PacifiCorp to be authorized to increase its debt to $5 billion, as referenced in Mr. Anderson's testimony. (Anderson, pp. 52-53).

A. The proposal to increase PacifiCorp's debt is not merger-related. The requirement to obtain consent from preferred shareholders is not dependent on the merger being approved. As stated in the Proxy Statement at page 136, the reason for seeking consent is that the increase in the unsecured debt facility is "key to meeting the objectives of flexibility and favorable cost structure" required to "operate effectively in the new competitive environment."

Q. Please comment on DPU witness Burrup's recommendation (DPU condition 18) that asset revaluation resulting from the merger should not be used as a basis to increase property taxes or other taxes or existing contract costs for ratemaking purposes. (Burrup, p.11).

A. We agree with Emery County witness Malko, who recommends that the Commission defer rulings or findings relating to the merger that concern valuation and assessment issues of PacifiCorp property, to the jurisdiction of the Utah State Tax Commission. (Malko, p. 10). PacifiCorp has always participated in Tax Commission proceedings which affect the company with the object of keeping property and other taxes as low as possible. Property and other taxes may arise for a variety of reasons and it will be difficult to determine whether such taxes are attributable to the merger. Once the Tax Commission has ruled, however, ScottishPower would expect a potential adjustment to be reflected in rates, as PacifiCorp has always done in the past.

Q. Please respond to Mr. Brubaker's proposed condition that "special contract customers should be permitted, at their option, to renew existing contracts on terms no less favorable to the customer than the terms of the current special contracts . . . " (Brubaker, p. 5).

A. The Commission has established a Task Force to examine the special contract issue. PacifiCorp has participated in this process and will add its resources to the Task Force. Prior to completion of the transaction and until the Commission's Task Force has finished its work, however, the discussion regarding special contracts is premature and should not be an issue in this docket.

Q. Please address DCED witness Winder's concern that any transfers of money or other assets from PacifiCorp to the new holding company or any affiliates may pose a risk of detrimentally impacting PacifiCorp plant, equipment and infrastructure. (Winder, pp. 7-8).

A. Existing Commission rules and procedures relating to asset transfers and affiliate transactions provide sufficient assurance that the assets of the Utah Division of PacifiCorp will not be adversely impacted by the transaction. The loan note from the partnership to the new holding company, which Mr. Winder mentions, was established in consideration for the transfer of ownership of PacifiCorp and does not involve the actual transfer of funds. This arrangement will have no impact on PacifiCorp's Utah operations.

Q. Has the DPU raised other issues related to the financial aspects of the transaction?

A. Yes. The DPU has proposed conditions related to intra-company loans, payment of dividends, foreign currency and exchange risk, and capital structure. Regarding these issues, ScottishPower proposes the following:

- The existing Umbrella Loan Agreement between PacifiCorp and its affiliates would continue to govern the terms for loans between PacifiCorp and its affiliates, and could be extended to include ScottishPower UK plc as an affiliate. (<u>Compare</u>, DPU condition 16).

- Regarding dividend payments, PacifiCorp would continue to comply with the provisions of Utah Code Ann. § 54-4-27. (Compare, DPU condition 17).
- ScottishPower would also follow FASB 52, for the purpose of U.S. financial reporting, to mitigate the effects of foreign currency and exchange risk. (Compare, DPU condition 20).
- We propose that a hypothetical capital structure using a group of A-rated electric utilities comparable to PacifiCorp be used to determine the correct cost of capital for ratemaking purposes in Utah. (Compare, DPU condition 21).

Access to Books and Records

Q. Some witnesses have raised the issue of adequate access to books and records. (Cleveland, pp. 28-30), (Chernick, p. 17, fn. 13). How will ScottishPower ensure the Commission has sufficient oversight in this area?

A. As an initial matter, ScottishPower is committed to comply with the Commission's existing rules and requirements in this area. Additionally, we would agree to other conditions that would provide the Commission with reasonable and sufficient access to books and records. We would make available holding company personnel to provide information relevant to matters within the jurisdiction of the Commission. We would also agree to establish with the DPU procedures for providing access to documents related to costs charged to PacifiCorp. ScottishPower would also pay for reasonable expenses incurred by Utah regulatory personnel in accessing corporate records and personnel located outside of Utah, provided such expenses would be recoverable for ratemaking purposes. These commitments are in addition to those made in my Direct Testimony and are similar to the DPU's conditions 11-13. Regarding the filing of general and financial reports, as proposed in condition 19, ScottishPower would provide information as it relates to PacifiCorp, with the exception of (g), which requires further clarification, and (i.), which would be available for DPU inspection. Taken in total, these ScottishPower commitments provide adequate assurance to the Commission that its regulatory oversight will not be diminished after the transaction.

Q. In your opinion, will the ScottishPower/PacifiCorp merger provide a net benefit to PacifiCorp's Utah customers?

A. Yes. ScottishPower's proposal in connection with appropriate conditions discussed above demonstrates a net positive benefit for PacifiCorp's ratepayers in Utah.

Q. Does this conclude your rebuttal testimony, Mr. Morris?

A. Yes, it does.

PA991960.049

STATE OF IDAHO)
) ss.
COUNTY OF ADA)

I, Graham L. Morris, hereby declare under penalty of perjury under the laws of the State of Idaho that the foregoing testimony was prepared under my direction and supervision and that all testimony and exhibits thereto are true and correct to the best of my knowledge.

Graham Morris

SUBSCRIBED and SWORN to before me this 15th day of July, 1999.

KELLY Y. NICKEL
NOTARY PUBLIC
STATE OF IDAHO

Print Name: KELLY Y NICKEL
Notary Public in and ~~for the~~ State of Idaho,
residing at Caldwell
My commission expires: 10/17/2000

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter Of The Application of	)	
PacifiCorp and Scottish Power plc	)	Docket No. 98-2035-04
for an Order Approving the Issuance	)	
of PacifiCorp Common Stock	)	

BACKGROUND AND QUALIFICATIONS

OF GRAHAM L. MORRIS

BACKGROUND AND QUALIFICATIONS OF GRAHAM L. MORRIS

Q. Please state your name and business address.

A. My name is Graham L. Morris, and my business address is 500 NE Multnomah, Suite 900, Portland, Oregon.

Q. By whom are you employed and in what capacity?

A. I am employed by Manweb plc ("Manweb"), a Chester-based subsidiary of Scottish Power plc in the United Kingdom ("U.K."). My title is Head of Finance (Chief Financial Officer).

Q. What are your responsibilities in your current position?

A. I am responsible for the finance function at Manweb, including Statutory and Regulatory reporting, monthly reporting to the Executive Committee and Manweb Board, Cash office, etc.

Q. Please summarize your education and previous business experience.

A. I was educated at Overleigh Secondary School in Chester. I then attended Manchester Metropolitan University, where I studied for my accountancy qualification. I am a U.K. qualified Certified Accountant.

I joined Manweb in 1972 and have held a number of senior positions within the finance, regulation and strategy departments at Manweb (a company that ScottishPower acquired in 1995 that sells and distributes electricity in England and Wales) and within ScottishPower.

In 1989, I was secretary to the Cost Allocation Group, an inter-company entity that developed rules on separating distribution and supply functions in U.K. energy organizations, a critical step in opening up the U.K. market to competition. I also produced guidelines for regulatory accounts, itemized profit and loss listings that are provided to regulators annually. At privatization, I directly negotiated Manweb's value when the company's shares were issued at its initial public offering. Since then, I have been involved in the integration of Manweb into ScottishPower and was involved in all Regulatory reviews of the Supply and Distribution businesses.

ScottishPower, Morris
Ex. SP__ (GLM-2), p. 1
No. 98-2035-04
Rebuttal Testimony

RECEIVED
JUL 19 9 42 AM '99
SERVICE DIVISION

SCOTTISH POWER PLC

PROPOSED POST-MERGER TREATMENT OF AFFILIATE TRANSACTIONS, CORPORATE COSTS ALLOCATION AND LOCATION OF SCOTTISH POWER CORPORATE COSTS

SCOTTISH POWER plc

CORPORATE STRUCTURE

The proposed corporate structure for the combined ScottishPower Group, post-merger is provided in Appendix 1 and includes the following companies:

a) **Scottish Power plc**
In order to maintain the appropriate separation of ScottishPower's subsidiary businesses, it is proposed to establish a corporate structure to include a separate holding company that will provide common corporate services for the combined ScottishPower Group.

b) **Scottish Power UK plc**
Scottish Power UK plc will incorporate existing ScottishPower businesses of Generation, Transmission, Distribution, Supply, Second Tier Supply and Wholesale. Its subsidiaries will be existing Scottish Power plc subsidiaries, the principal ones being Manweb, Southern Water and Scottish Telecom.

c) **NA1 Ltd. and NA2 Ltd.**
NA1 Ltd. and NA2 Ltd. are the partners in the NA General Partnership. They provide Scottish Power plc with liability protection in respect of its ultimate ownership of the NA General Partnership. Both companies are investment holding companies only and will not contain any cost centers.

d) **NA General Partnership**
NA General Partnership is Scottish Power plc's acquisition vehicle for US investments that shall enable them to be made in a financial and tax efficient manner. Again this shall be an investment holding entity without cost centers.

e) **Nevada Holdco**
Nevada Holdco it is an investment holding company, without cost centers, that can be used as the vehicle for further investments in the US, if and when required.

f) **PacifiCorp**
This is the PacifiCorp group as it presently exists.

LOCATION OF COMMON CORPORATE COSTS

Since privatization, ScottishPower has organized its group-wide activities through a small Corporate Office and has devolved all operational activities to business level under the control of the relevant business Managing Director. This structure has remained in place with the acquisitions of Manweb and Southern Water, which also operate as separate businesses within the ScottishPower Group. It is our intention to continue applying this principle to the enlarged ScottishPower Group, but with common corporate costs being incurred by Scottish Power plc.

Such costs will comply with agreed definitions of common corporate costs that will apply to both existing ScottishPower corporate functions and to existing PacifiCorp corporate functions. Appendix 2 provides the description of ScottishPower common corporate functions that will reside in Scottish Power plc. Since these functions relate to complete departments and are consistent with the current UK Company structure, they are readily identifiable and easily audited.

A detailed analysis of PacifiCorp common corporate functions, mirroring those of ScottishPower, will be carried out prior to the conference on allocation methodology planned for October. It is expected that, as a minimum, this analysis will produce the amount currently allocated across PacifiCorp using the Three-Factor Formula. Only those costs meeting the common definitions will be so applied.

The remaining current UK corporate functions are set out in Appendix 3 and relate exclusively to the UK. They will be costed to Scottish Power UK plc rather than Scottish Power plc. Similarly non-common US corporate costs will remain in PacifiCorp.

CORPORATE COST ALLOCATION METHODOLOGY

<u>Scottish Power plc Common Corporate Costs</u>

Initially, it is proposed that the common corporate costs for each corporate department charged into Scottish Power plc be charged back in full to the company where they originated. Therefore, ScottishPower costs will be charged to Scottish Power UK plc and PacifiCorp costs charged to PacifiCorp. As the integration activities occur and departments are merged, the combined costs will continue to be allocated between Scottish Power UK plc and PacifiCorp in the established baseline proportion for that department. It is proposed to use 1999 normalized department results as the base year for establishing this relationship. Hence, if the 1999 normalized department costs were \$4m and \$8m in ScottishPower and PacifiCorp respectively, and a subsequent savings of \$3m were made when the departments were merged, then the revised department costs would be allocated \$3m to Scottish Power UK plc and \$6m to PacifiCorp.

Where project work of a significant nature is undertaken, e.g. on a new major equity investment, then the direct costs involved will be directly allocated to this project.

Allocation of Corporate Costs within PacifiCorp and ScottishPower UK plc

The methodology proposed above is for the allocation of costs from Scottish Power plc to the top levels of Scottish Power UK plc and PacifiCorp respectively. It is not proposed to change the methodologies currently in use in the UK and US for allocation of these costs further within Scottish Power UK plc and PacifiCorp. Thus, allocation of these costs within PacifiCorp will continue to be on the basis of direct charging and the Three-Factor Formula.

AFFILIATE TRANSACTIONS

ScottishPower is required under its UK licenses to ensure that no regulated business gives any cross-subsidy to, or receives any cross-subsidy from, any other business of the Company, or of an affiliate or related undertaking of the Company. If a service available in the market place is provided by any business within the enlarged ScottishPower Group at a price different to the prevailing market price, then this would be a cross-subsidy either to or from the regulated business. Thus, ScottishPower would be in breach of its UK license. All such transactions must therefore take place at market rate and this process currently used within ScottishPower will be continued in relation to any transactions between Scottish Power UK plc and PacifiCorp for UK regulatory purposes.

For US rate making purposes however, we will apply the more advantageous of cost or market value as the pricing standard. For services provided into the US regulated business at a market rate that is higher than cost, the difference would be charged 'below the line' in the accounts of the regulated business.

Information on all such transactions between Scottish Power UK plc and PacifiCorp will be made available, together with a full audit trail, to enable regulation staff and/or external auditors to report on compliance with the obligations relating to cross-subsidy.

AUDITING

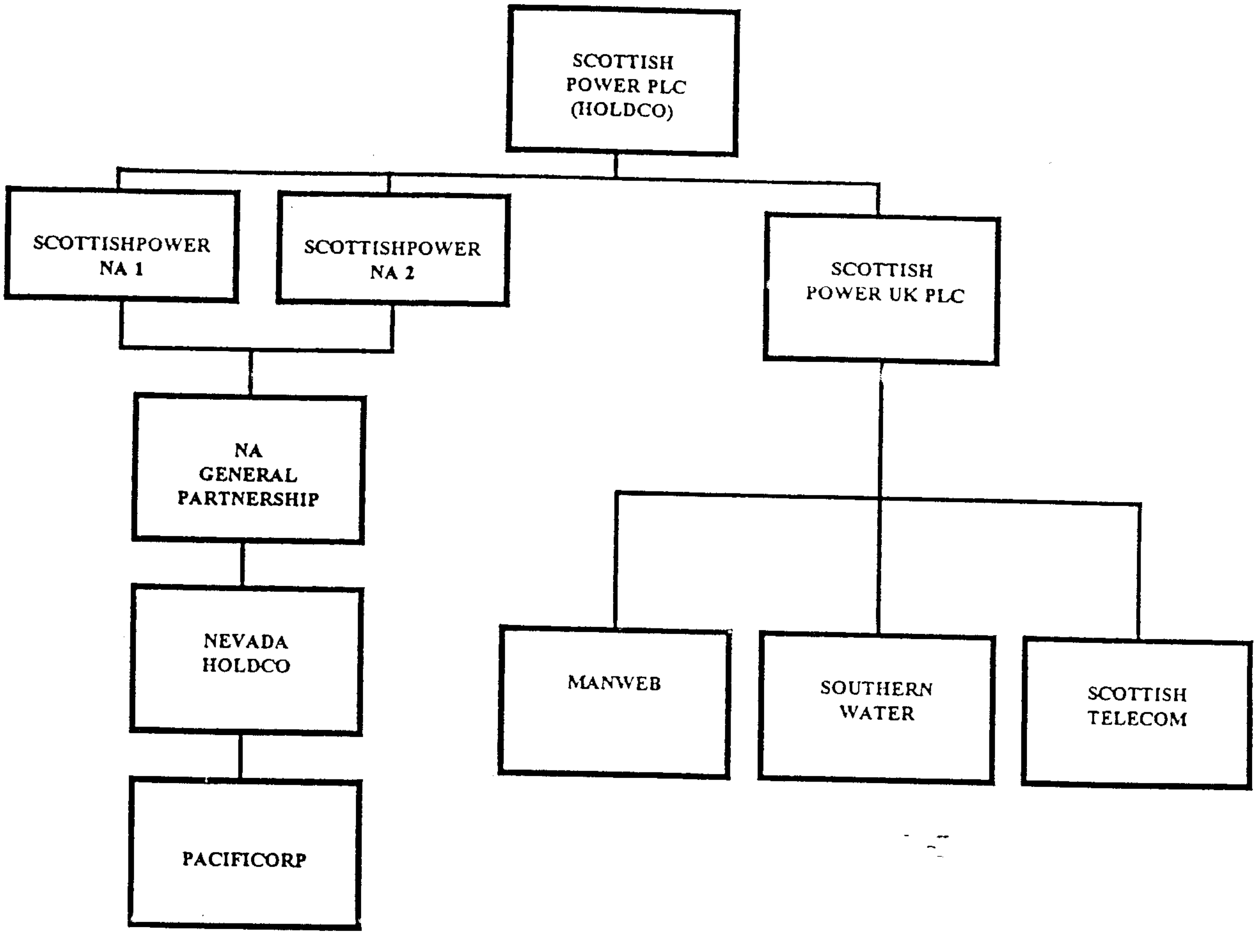
All transactions between PacifiCorp and Scottish Power UK plc will be treated on the same basis as current affiliate transactions within PacifiCorp. An audit trail will exist with respect to all transactions between the regulated entity and its affiliates that relate to jurisdictional services and products. The regulator will have access to necessary affiliate records to ensure that cost allocations and affiliate transactions are conducted in accordance with regulatory requirements and that no cross-subsidy exists.

REVIEW

This allocation methodology will be reviewed in collaboration with regulators during the year 2004 to determine its continued suitability. If, for whatever reason, its continued use becomes inappropriate then we will jointly agree a revised suitable methodology. This will coincide with the next Price Review in the UK by UK regulators.

Appendix 1

Proposed ScottishPower Group Corporate Structure



APPENDIX 2

SCOTTISH POWER PLC COMMON CORPORATE FUNCTIONS CURRENTLY LOCATED IN SCOTTISHPOWER

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

This includes the direct costs, including premises and administrative support, of executive and non-executive directors. The executive directors are:

- The Chief Executive who has responsibility for the entire ScottishPower Group.
- The Deputy Chief Executive & Finance Director who has responsibility for the Southern Water, ScottishTelecom and Information Systems businesses, as well as corporate responsibility for finance, strategy and corporate affairs.
- The Executive Director, UK Power Operations who has responsibility for the Generation, Power Systems, Manweb, Contracting and Technology businesses, as well as corporate responsibility for gas, safety and environmental issues.
- The Executive Director, Customer Sales & Services who has responsibility for the Energy Supply and Retail businesses, as well as corporate responsibility for electricity trading, multi-utility and regulation issues.
- The Executive Director and CEO Designate of PacifiCorp.

SAFETY & ENVIRONMENT

The Corporate Safety Manager is responsible for coordinating the Group's activities to meet the requirements of safety legislation.

The Corporate Environment Director is responsible for coordinating the Group's environmental activities, focusing heavily on environmental improvements, encouraging energy efficiency and developing renewable energy.

REGULATION

The Director of Regulation is responsible for coordinating all regulatory activities of the ScottishPower businesses at group level by liaising with regulatory staff within each business, and interfacing with regulatory bodies at local, national and international level. The department also provides advice on regulatory and competition issues to Executive Directors and businesses within the ScottishPower Group.

Interfaces with Government departments on regulatory and competition issues are also the responsibility of the Regulation Department.

FINANCE

The Corporate Finance Department is responsible for all financial activity at group level and consolidation and co-ordination of financial reporting and control at business level. The functions included are:

- Group Accounting which produces consolidated budget, forecast and management accounts for the main Board and financial accounts for external publication. The group also produces the relevant consolidated regulatory accounts and the consolidated business plan. Other external accounts prepared by Group Accounting include the Form 20-F required under the rules of the New York Stock Exchange, where ScottishPower's shares are also listed.

- Internal Audit which is an independent review function set up as a service to the Board of Directors and management. Its remit involves reviewing and reporting on the systems of internal control across the Group.

- Group Taxation which handles all tax compliance, administration, advice and planning for the ScottishPower Group.

- Treasury which has responsibility for managing the Group's debt and cash balances, protecting the Group's interest charge from movements in interest rates and protecting earnings from movements in exchange rates.

- Insurance Department which is responsible for the formulation, implementation and management of the Group's insurance and risk financing program. It also provides a claims-handling and advisory service to the rest of the Group.

- Cash Department which provides the Corporate Office with a full banking and cash services facility.

STRATEGY

The department provides support to the Executive Directors relating to business development and corporate strategy. The four main areas include:

- Strategic Objectives to assist the Board in setting the key business objectives and provide the strategy to implement these.

- Business Planning involving the review and consolidation of Group business plans.

- Project Management provision and specialist input for corporate and business projects.

- Business Review of major capital investments and the monitoring of business performance.

CORPORATE AFFAIRS

Corporate Affairs are responsible for managing corporate image and reputation for the ScottishPower Group. This includes communications with all key stakeholder groups covering investor relations, national and international media, crisis planning, political liaison, sponsorships and community programs, internet/intranet and internal communications.

HUMAN RESOURCES

The Group Human Resources Director's team includes HR specialists who provide support to HR teams within Group businesses. In addition to specialists, the HR team provides services to Corporate Office employees. It also supplies group wide strategy in other areas such as payroll, pensions and occupational health. Other services provided by the department to the ScottishPower Group include employee relations, management development, compensation and benefits and support for the international assignments.

LEGAL

The Group Legal Director's team provides strategic advice to the Group's various businesses on contractual and commercial matters. In addition, the corporate Legal team advises on special projects including corporate mergers, joint ventures, acquisitions, divestments and material construction projects.

CORPORATE SECRETARIAL

The Corporate Secretarial Department is responsible for corporate governance within the ScottishPower Group. This includes the administration of the Board and Committee Meetings of the Group, the Group's statutory compliance and compliance with Stock Exchange/SEC and Companies House regulations. Other areas of responsibility include the administration of the employee share schemes, shareholder services, Data Protection and maintenance of central records/registers such as trademarks.

STRATEGIC MARKETING

Strategic Marketing is responsible for major Group wide marketing initiatives covering all aspects of the Group's activities.

SCOTTISHPOWER LEARNING (Corporate)

ScottishPower Learning provides a group-wide strategy and coordination function to support a range of initiatives aimed at improving education and opportunities for employees and people of all ages within the communities in which ScottishPower works.

APPENDIX 3

LIST OF EXISTING SCOTTISHPOWER DEPARTMENTS TO REMAIN IN SCOTTISH POWER UK PLC

PAYROLL

The Payroll Department is custodian of the integrated Human Resources/Payroll System and processes all remuneration, salary and expenses for all ScottishPower Group staff and pensioners. Liaison with various Government bodies relating to remuneration and employee data is also carried out by the Department.

GROUP PENSIONS

The Pensions Department is responsible for all aspects of the development and administration of the various pension schemes throughout the existing ScottishPower Group.

OCCUPATIONAL HEALTH

The Occupational Health service for ScottishPower employees is staffed by a team of health professionals who work in three key areas – ill-health prevention, health promotion and coping strategies.

In delivering a wide range of services, the core Occupational Health team is supported by a range of specialists from different disciplines, including physiotherapy and ergonomics, chiropody, ophthalmic services, dentistry and complementary health therapies.

SCOTTISHPOWER LEARNING (Business)

Specific initiatives currently taking place in the UK are as follows:

- ScottishPower's New Deal program, an initiative within the Welfare to Work scheme, offers 250 places for unemployed people aged between 18 and 24 across the Group.
- Open Learning facilities offer around 700 different learning programs in 46 Open Learning Centers across the UK. Primarily, these facilities are offered to help employees fulfill their potential in a variety of fields, but in addition they are made available to employees' families, pupils, teachers and community groups.

- Community Initiatives to support school leavers, unemployed and disabled people build their level of skills and self-confidence, in order that they can join or re-join the workforce. For example, employees join in community projects in conjunction with the Princes Trust and the Outward Bound Trust.

ScottishPower/PacifiCorp
Proposed Treatment of Merger Related Costs (See Note 1)

Cost Item	$	Above the line	Below the line	Ref.	Comment
Goodwill	1,800m (£1124.7m)		X	SP Listing Particulars page 107	Goodwill represents the difference between the purchase price and fair value of the net assets of PacifiCorp. Goodwill is sometimes referred to as the acquisition adjustment for accounting purposes. The calculation of goodwill varies with fluctuations in ScottishPower share price.
Acquisition Costs 1)Share Issue Costs 2)Preferred Stock Redemption 3)Investment, legal, accounting etc **Total Acquisition Cost**	 104m (£65m) 26m (£15m) 109m **239m**		 X X X X	SP Listing Particulars pages 107 & 145	This is an estimate only. However, all such costs incurred directly in completing the acquisition will be charged below the line.
Preferred Stockholder Merger Approval Payments	2.5m (maximum)		X	PC Proxy Statement page 138	Special payments made to preferred Stockholders of 1% to obtain merger approval.
Payments to Directors	0.4m		X	SP Listing Particulars page 166	$50,000 payment made to non-executive directors.
Change in Control 1)Enhanced Executive Severance 2)PacifiCorp Stock Plans 3)Supplemental Executive Retirement Plan (SERP)	 8.3m (maximum) minimal cost 2.6m		 X X X	SP Listing Particulars page 163-165	Only enhanced payments resulting from the application of change in control conditions are included. To the extent that a net benefit in costs going forward can be demonstrated then such costs will be treated above the line. Final change in control costs can only be determined 24 months after closure. Numbers quoted are upper limit amounts if all eligible employees receive maximum amounts due. They include payments due to two executives who have already retired. There is no material cost associated with PacifiCorp employee stock option provisions.
Retention Incentive Payments	7m (maximum)		X	SP Listing Particulars page 166, WIEC 3.5	Payments to retain key employees during period prior to merger completion.
Bonus Pool- Merger related portion	Not known		X	SP Listing Particulars page 166	To the extent that any such payments are made in connection with "extraordinary efforts" to accomplish the successful completion of the merger only. No quantification of this portion can be determined at this time.
Transition Plan Development	1-2m	X			This is an estimate only. In the highly unlikely event that no net savings arise as a result of the plan, then any net cost would be disallowed for ratemaking purposes.

Note 1

The proposed treatment of the items identified reflects our best judgment as to their treatment when presented for review in a subsequent general rate proceeding having regard to commitments made in testimony. The actual treatment of these costs will be determined by the Commission in such a general rate proceeding. This is true for both merger related costs and business as usual costs referred to below.

CALLISTER NEBEKER
& McCULLOUGH
A PROFESSIONAL CORPORATION
ATTORNEYS AT LAW
GATEWAY TOWER EAST SUITE 900
10 EAST SOUTH TEMPLE
SALT LAKE CITY, UTAH 84133
TELEPHONE 801-530-7300
FAX 801-364-9127

RECEIVED
JUL 19 9 43 AM '99
UTAH PUBLIC
SERVICE COMMISSION

July 16, 1999

TO CALL WRITER DIRECT
(801) 530-7428
brianburnett@cnmlaw.com

HAND DELIVERED

Public Service Commission of Utah
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84111

Re: PacifiCorp/ScottishPower - Docket No. 98-2035-04

Dear Commissioners:

Enclosed please find for filing an original and 15 copies of PacifiCorp/ScottishPower's Rebuttal Testimony and Exhibits in the above-referenced docket. I am also providing an electronic copy of the testimony and the exhibits as required by the Commission's rules.

Thank you for your cooperation in this regard. If you have any questions, please feel free to contact me.

Sincerely yours,

CALLISTER NEBEKER & MCCULLOUGH

Brian W. Burnett

Brian W. Burnett

BWB:ias
Enclosures
cc: Service List

256967.1

CERTIFICATE OF SERVICE

I hereby certify that I caused the foregoing ***PacifiCorp/ScottishPower's Rebuttal Testimony and Exhibits*** to be served upon the following persons by Federal Express or by mailing a true and correct copy of the same, postage prepaid, to the following on July 16, 1999:

Michael Ginsberg
Assistant Attorney General
Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Service
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Peter J. Mattheis (via FedEx)
Matthew J. Jones
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Bill Thomas Peters
David W. Scofield
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, UT 84111

F. Robert. Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street
P.O. Box 45898
Salt Lake City, UT 84145-0898

Roger O. Tew
60 South 600 East, Suite 200
Salt Lake City, UT 84102

Lee R. Brown
Vice President
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, UT 84111-1536

Eric Blank
Law Fund Energy Project
2260 Baseline Road, Suite 200
Boulder, CO 80302

Matthew F. McNulty, III
Van Cott Bagley Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Steven W. Allred
Salt Lake City Law Department
451 South State Street, Suite 505
Salt Lake City, UT 84111

Paul T. Morris
3600 Constitution Boulevard
West Valley City, UT 84119

Stephen R. Randle
Randle Deamer Zarr Romrell & Lee P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1169

Brian L. Farr
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, UT 84114-0857

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Boulevard, Suite 134
Salt Lake City, UT 84108

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, UT 84107

251391-1

17569

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In The Matter Of The Application of	)	
PacifiCorp and Scottish Power plc	)	Docket No. 98-2035-04
for an Order Approving the Issuance	)	
of PacifiCorp Common Stock	)	

SCOTTISH POWER

REBUTTAL TESTIMONY OF ALAN V. RICHARDSON

JULY 16, 1999

INTRODUCTION

Q. Please state your name.

A. My name is Alan V. Richardson. I previously submitted Direct and Supplemental Testimony in this docket.

Q. What is the purpose of your Rebuttal Testimony in this proceeding?

A. I will restate the benefits of this transaction to establish that approval of this application is in the public interest. My testimony also discusses the new commitments and clarifications that ScottishPower makes to respond to issues raised by other parties so as to leave no doubt about the benefits of the transaction. I will address the issues raised, and conditions proposed, by the Division of Public Utilities (DPU) and other parties. My testimony also responds to a number of other issues raised by the Committee of Consumer Services (CCS), the Large Customer Group (LCG), the Utah Industrial Energy Consumers (UIEC), Nucor Steel (Nucor), Deseret Generation & Transmission Co-operative, Inc. (DGT), and the Utah Department of Community and Economic Development. Finally, I will comment on the stipulation ScottishPower has reached with Salt Lake Community Action Program (CAP) and Crossroads Urban Center (Crossroads).

Q. Who else will be providing rebuttal testimony on behalf of ScottishPower?

A. Mr. Graham Morris will discuss financial, accounting, and ratemaking policy issues. He will also introduce ScottishPower's commitments regarding the methodology to be used for allocating corporate costs prior to closing of the transaction. Mr. Andrew MacRitchie will discuss ScottishPower's methodology for achieving cost savings at PacifiCorp, which will be set out in ScottishPower's transition plan to be filed with the Commission six months after the transaction closes. Mr. Robin MacLaren and Mr. Bob Moir address ScottishPower's commitments on network reliability, safety and customer guarantees.

Their testimony also responds to a number of issues raised by various parties regarding our service quality proposals.

BASIS FOR APPROVAL OF THE TRANSACTION

Benefits of the Transaction

Q. Please summarize the benefits of this transaction for PacifiCorp's customers in Utah.

A. ScottishPower has committed to transform PacifiCorp into a leading U.S. electric utility. We will introduce an unmatched package of system performance and customer service standards that will significantly raise the level of service provided to PacifiCorp's customers. ScottishPower will also achieve efficiencies and cost savings in PacifiCorp that will lead to prices lower than they would have been without the merger. ScottishPower has also made significant commitments to environmental programs, including developing an additional 50 megawatts of renewable resources and introducing a "green tariff." In addition, ScottishPower has made substantial commitments to the communities PacifiCorp serves. These include: adding $5 million to the PacifiCorp Foundation; developing educational programs; and providing new funding to develop programs for conservation efforts and to assist low-income customers.

Q. How can the Commission be assured that these benefits will be delivered to Utah customers?

A. We committed to providing these benefits to Utah customers in our direct testimony in this proceeding. In their direct testimony, witnesses for the DPU have identified several issues and proposed a number of conditions that they recommend the Commission adopt in order to minimize perceived risks of the transaction and to ensure that the benefits ScottishPower has proposed to bring to Utah customers are realized. In our rebuttal testimony, ScottishPower will comment on these issues, the proposed conditions, the necessity of these and the extent to which some of them may provide additional measures to ensure the tracking and delivery of these benefits and additional protections to reinforce our commitments.

Additional Commitments

Q. What new commitments are PacifiCorp/ScottishPower making in their rebuttal testimony?

A. In our direct testimony, we had proposed to deliver, after closing of the transaction, our proposed methodology for the allocation of corporate and affiliate investments, expenses and overheads. To provide assurances about our commitment to make this methodology available, we accelerated that filing to June 18, 1999. This item is further discussed in Mr. Morris's rebuttal testimony.

Q. How do you address concerns regarding the uncertainty that ScottishPower will be able to achieve cost savings in the future? (Goins, pp. 13-14; Anderson, p. 64; Brubaker, p. 20.)

A. We intend to produce our plan to achieve these savings, which should serve to reduce this uncertainty. Our "transition plan" will be filed with the Commission within six months of the closing of the merger. It will identify the areas in which ScottishPower expects to achieve cost savings, the plan for achieving them, and the expected cost and benefits of such initiatives. This commitment is discussed further in the rebuttal testimony of Andrew MacRitchie.

Standard for Approval of the Transaction

Q. Has PacifiCorp/ScottishPower made the necessary showing to warrant approval of the transaction?

A. We believe we have surpassed the standard for approval of the transaction. As I am advised, the Commission has adopted a net positive benefit standard; the transaction should be approved if we demonstrate net positive benefit to the public interest in Utah. We have demonstrated that Utah will receive substantial net positive benefits upon approval of the transaction.

Q. How do you respond to CCS's claims that ScottishPower's service proposals, "while superficially attractive, are not well thought through." (Chernick, p. 5.)

A. These service proposals are more than just "superficially attractive." ScottishPower's package of performance standards and customer guarantees will bring tangible, measurable improvements in the service received by PacifiCorp's customers. As discussed in Mr. MacLaren's testimony, customers value the improvements in reliability and service quality planned by ScottishPower. Moreover, ScottishPower's commitments are clear and their achievement is guaranteed; if ScottishPower fails, it will pay penalties or make payments to affected customers. As discussed in Mr. MacLaren's testimony, ScottishPower has implemented programs such as these in our own service territory and in the service territory of Manweb, so we have a very thorough understanding of our proposals and the benefits they bring to customers. The suggestion that our proposals are not "well thought through" may be based on the fact that we have made refinements in the various jurisdictions to accommodate the particular circumstances and interests of each jurisdiction. For example, in stipulations with Commission Staffs in Oregon and Washington, we have revised our service proposals in response to specific concerns identified by the Staffs. Our willingness to develop customized provisions to accommodate the needs of each jurisdiction should be viewed favorably, and not as an indication that our proposals were not fully developed.

Q. CCS witness Chernick testifies that PacifiCorp should be able to improve its levels of system performance and customer service as a stand-alone company, without the merger. (Chernick, pp. 12-14.) Please comment.

A. What Mr. Chernick fails to appreciate is that, in the absence of the merger, it is only a matter of speculation as to what level of improvements, if any, PacifiCorp would achieve. As Mr. O'Brien has testified, absent the merger PacifiCorp has no specific plans to improve its levels of system performance or customer service.

Q. How do you address Mr. Talbot's concern that PacifiCorp will "delay the re-setting of rates" to retain the benefits of cost savings? (Talbot, p. 5; see also Goins, p. 12; Brubaker, pp. 20-21.)

A. As discussed in Mr. Morris's testimony, we are committed to reflecting the corporate cost savings that we achieve in PacifiCorp's results of operations in PacifiCorp's regular, semi-annual earnings reports to the Commission. These operating results can be expected to show cost savings in other areas as well, as these savings materialize. The necessary information will thus be available on a timely basis to enable the benefits from these cost savings to be passed through to customers.

CONDITIONS PROPOSED BY THE DPU

Q. The DPU recommends approval of the merger with conditions. How does ScottishPower respond to this recommendation?

A. Naturally, we are pleased that the DPU has recommended approval of the merger. Witnesses for the DPU have also proposed a total of 46 conditions for the Commission to adopt. Many of these conditions are acceptable to ScottishPower; indeed, some of these are derived from ScottishPower's own commitments in this proceeding and elsewhere. Some of the proposed conditions are acceptable in principle; however, additional work is needed on the precise wording for them to be acceptable to ScottishPower. We do believe, however, that a few of the conditions are not appropriate or necessary for adoption in this case and these would not be acceptable to ScottishPower.

Q. Which conditions does the DPU propose to address certain financial and corporate concerns?

A. DPU witness Cleveland sponsors conditions 2 through 13, and 25. ScottishPower generally agrees with these proposed conditions with some exceptions. The principal exceptions are: (1) for condition 2, the cost allocation methodologies should address only corporate costs; and (2) for condition 4, only merger transaction costs should be treated below the line. The conditions proposed by Ms. Cleveland are addressed in the rebuttal testimony of Mr. Graham Morris.

Q. Which conditions does the DPU propose to deal with cost savings and other financial issues?

A. DPU witness Burrup sponsors proposed conditions 14 through 19. ScottishPower agrees with some of these conditions, with the exception of conditions 14, 16, and 18. The DPU recommends condition 14, requiring a 2001 Informational Filing, to address the perceived risk that the $10 million in corporate cost savings guaranteed by ScottishPower will not be realized in rates. We believe that this condition would not address this issue, given that Utah uses historical test years in rate cases, and ScottishPower has not committed to achieve this level of corporate cost reductions until 2002. Condition 14 is based upon a term in the stipulation ScottishPower and PacifiCorp entered with Wyoming Consumer Advocate Staff, and is appropriate there given that Wyoming sets rates on a different basis from Utah. ScottishPower believes that its regular, semi-annual earnings reports to the Commission will provide timely and adequate information to the Commission on this point. These conditions are further addressed in the rebuttal testimonies of Andrew MacRitchie and Graham Morris.

Q. Does the DPU propose any other conditions to deal with accounting and other ratemaking issues?

A. Yes. DPU witness William A. Powell sponsors proposed conditions 20-24 and 26-28. In general, we agree with these conditions. We do not believe that condition 27 is fair or appropriate in the context of this proceeding. Issues regarding cost of capital are more appropriately addressed in a general rate case. We also do not agree with condition 24. These conditions are addressed by Mr. Morris in his rebuttal testimony.

Q. Which conditions does the DPU propose to deal with system performance and customer service guarantees?

A. DPU witness Maloney sponsors proposed conditions 29 through 39, suggesting modifications to the performance standards and customer guarantees that ScottishPower has proposed to implement. Robin MacLaren and Bob Moir address these proposed conditions in their rebuttal testimony.

Q. Does the DPU propose any conditions addressing ScottishPower's commitment to develop renewable resources and employee benefits?

A. Yes. DPU witness Kenneth Powell sponsors proposed conditions 40 through 42. I will address the reasons that condition 42 is not acceptable to ScottishPower.

Q. DPU witness Alt also sponsors condition 44 providing that Utah shall also receive all conditions or benefits agreed to by ScottishPower or PacifiCorp in other jurisdictions. How do you respond to that?

A. I do not believe that is an appropriate condition. As we have advanced through the approval process in six states, parties have raised issues that are germane to each state. We have also learned that what is important to parties in one state may not be important or relevant in other states. Thus, ScottishPower and PacifiCorp have made agreements along the way to address the concerns that have been raised in each state. Each of these agreements represents a balance of the issues raised in a given state and an effort to ensure a comparable level of benefits to each state. Thus, it would distort the balance we have sought to achieve by simply importing into Utah -- lock, stock, and barrel -- all of the agreements that ScottishPower and PacifiCorp make in every other state. Instead, our focus has been on satisfying the legitimate and relevant issues and concerns in the State of Utah.

Q. Please comment on DPU proposed condition 46.

A. DPU witness Alt also sponsors proposed condition 46, under which ScottishPower and PacifiCorp would accept the risk of less than full recovery of costs based on the treatment of costs that Utah may order differently from other jurisdictions. We do not believe that this is fair. As I am advised, under U.S. law, a public utility is entitled to have rates set at a level sufficient to recover all of its allowed costs plus earn a reasonable return on its investment. The result should not be different if a company happens to serve more than one state. We would therefore prefer that all states agree to resolve inter-jurisdictional cost allocation issues and adopt common practices when there is clear financial harm associated with adopting any given methodology.

Rate Cap

Q. Several parties testify that the Commission should impose a rate cap or rate freeze as a condition to merger approval. (Alt, p. 9; Brubaker, pp. 47-50; Anderson, p. 62; Goins, pp. 15-16.) Do you believe a rate cap is necessary or appropriate in this case?

A. Absolutely not. A rate cap or freeze is not necessary in this case to establish that there are net positive benefits for Utah customers that will result from this merger. ScottishPower has committed to deliver substantial, quantifiable improvements in system performance and customer service that will bring benefits to Utah customers at no incremental cost to PacifiCorp's existing budgets. ScottishPower has also been quite clear regarding its plan to identify and pursue operational efficiencies and cost reductions through its detailed transition planning process. Our proven track record of transforming utilities should provide assurance to the Commission that ScottishPower will be able to achieve rates lower than they would be absent the merger, without the need to order a rate cap or freeze. Our guarantee of a minimum of $10 million in corporate cost savings alone ensures that. Moreover, ScottishPower has made commitments to the environment, employees, and communities that will bring additional benefits to Utah.

Q. Is a rate cap necessary to protect customers from risks associated with the transaction?

A. No, it is not. Any legitimate risks that have been identified are adequately addressed by commitments ScottishPower has already made or in the conditions proposed by the DPU which are acceptable to ScottishPower, such that a rate cap is not required to compensate for any residual risks.

Q. Is a rate cap necessary to guarantee that cost savings will be achieved and passed on to customers?

A. No. ScottishPower has provided substantial credible evidence of its intent and ability to reduce operating costs at PacifiCorp. We have also committed to a mechanism to identify those savings by filing our transition plan. The savings attributable to ScottishPower's initiatives will be incorporated in PacifiCorp's regular earnings reports to the Commission, and will be reflected in rates through the normal ratemaking process. We believe it is inappropriate to cut rates in anticipation of achieving these savings, particularly in Utah which uses a historical test year in rate cases and does not base rates on projections or forecasts of costs or revenues. A general rate case, not a merger proceeding, is the proper process in which to incorporate in rates cost savings that have been achieved, and for the Commission to evaluate at the same time a whole host of other legitimate issues and considerations. For these reasons, DPU's proposed condition 43 and the similar conditions proposed by other witnesses are neither necessary nor appropriate in this case.

OTHER ISSUES

Basis for This Transaction

Q. CCS witness Chernick notes that this transaction does not present "opportunities for the usual magnitude of cost reductions," and further claims that "there is no clear connection between improving PacifiCorp performance and the merger." (Chernick, pp. 4-5; see also Anderson, p. 47-48; Brubaker, pp. 9-10.) Along these lines, UIEC suggests that the Commission should reject this merger so that PacifiCorp could merge with a geographically proximate electric utility. (Brubaker, pp. 44-45.) How do you respond to this testimony?

A. It is pure speculation to suggest that there is another merger candidate capable of delivering benefits to PacifiCorp customers greater than those offered in this transaction. In that regard, no potential suitor has emerged in the seven months since this transaction was announced in December 1998. A merger can be justified on grounds other than the obvious cost savings that can be produced by eliminating duplicative operations. The efficiencies we are striving to create go far beyond the mere elimination of redundancies, and stem from doing things better, by transforming PacifiCorp through employing best practices and streamlining operations. These efficiencies will produce cost savings that, over time, will lead to rates lower than they otherwise would be. We are also committing to providing improved service to PacifiCorp customers. ScottishPower's unprecedented package of performance standards and customer guarantees will bring tangible, measurable improvements in the service received by PacifiCorp's Utah customers. Mr. O'Brien's rebuttal testimony discusses other reasons why the Commission should not reject this merger in favor of another, hypothetical transaction.

Q. UIEC also testifies that the Commission should not approve this merger because, if it does, any future acquisition of PacifiCorp which could achieve the efficiencies of a merger between geographically proximate utilities could be blocked by the Scottish Government through its "special share." (Brubaker, pp. 44-45.) Please comment.

A. Mr. Brubaker delves into even more remote speculation about future opportunities by raising this point. This is just another attempt by UIEC to deflect attention from the real issues in this case. The Commission should evaluate the benefits of the specific transaction that is presented, and not engage in speculation about the potential for a future merger and what the Scottish Government may or may not do if presented with an opportunity down the road. Indeed, the "special share" would offer a measure of protection against an improvident acquisition of ScottishPower and, hence, PacifiCorp, as described in my Supplemental Testimony at p. 18.

Q. How do you respond to Mr. Talbot's claim that the objective for acquiring PacifiCorp is to use the regulated business as a "base for expansion into mostly unregulated businesses" (Talbot, p. 4) or to pursue a "partial sale of PacifiCorp" (Talbot, p. 20)?

A. This misses the point of the transaction entirely. Ninety-five percent of the ScottishPower business is regulated, and our expertise is in the regulated "poles and wires" business. PacifiCorp was attractive to ScottishPower precisely because of its position as a regulated utility. It is a commitment by ScottishPower and PacifiCorp to improve the regulated operations that motivates this transaction. Contrary to Mr. Talbot's assertions, there is no strategy to move away from our core business as a regulated utility.

Q. Dr. Anderson claims that the transaction may cause PacifiCorp to lose its focus on core electric utility operations, given ScottishPower's "expansive strategic goals." (Anderson, p. 48.) Mr. Talbot also claims that there is a "risk of management distraction" associated with the transaction. (Talbot, p. 5.) Is this a risk of the transaction?

A. No. ScottishPower's international aspirations are focused on the U.K. and the U.S., and not on "flag planting" around the globe. Moreover, the combination enhances the ability of PacifiCorp to focus on its core business. ScottishPower's reputation for sticking very closely to its core utility skills was an important consideration for PacifiCorp in deciding on this being the right transaction, as discussed by Mr. O'Brien in his direct and rebuttal testimonies. Both organizations focus on the regulated utility business, possess the same core competencies and depend upon these competencies to succeed in their efforts to operate an electric utility. By merging the two companies, PacifiCorp receives the opportunity to benefit from ScottishPower's best practices and both companies benefit from the reduced risk through geographical diversification of regulated utility operations. The diagram which Dr. Anderson includes as his Exhibit __ (RMA-9) is entirely consistent with our commitment to transform and strengthen PacifiCorp. Only after we have established the necessary foundation and progress toward achieving our objectives of transforming PacifiCorp, and thereby establishing a strong base, will we be in a position even to consider pursuing a plan to further develop our interests in the U.S. Our track record since 1992 confirms that we do not proceed to the next phase of a strategy until we have substantially accomplished our objective with respect to existing operations.

Q. Nucor, UIEC, and CCS suggest that the acquisition may put pressure on ScottishPower to divest generation and transmission assets. (Goins, p. 18; Anderson, p. 50; Talbot, p. 30). Is there a strategy to divest non-distribution assets, as suggested by their testimony?

A. No. As stated in my direct testimony, we are not merging with PacifiCorp for purposes of divesting any assets of the regulated utility business, including generation assets. The exhibit upon which Dr. Anderson relies for his statement (Exhibit __ (RMA-10)) was not prepared by or at the request of ScottishPower, nor did we have any input into it. The document represents only the view of a particular analyst at HSBC, and even those views do not relate to this transaction.

Q. Dr. Anderson states that ScottishPower's "silence" on issues relating to electric restructuring is "very troubling." (Anderson, p. 49.) Mr. Brubaker also suggests that the Commission should "extract" from ScottishPower in this case a commitment on restructuring. (Brubaker, pp. 42-43; <u>see also</u> Goins, pp. 17-18.) Is this issue appropriate for consideration in this proceeding?

A. No. We have consistently maintained that issues relating to industry restructuring involve considerations and parties that are much broader than those properly presented in this case and, thus, are not appropriate for consideration in this proceeding. ScottishPower is prepared to contribute to the debate on restructuring, including participating in the Task Force established by the legislature to examine restructuring in Utah. For this reason, we have moved to strike certain testimony of Mr. Brubaker and Mr. Goins on these issues, including stranded cost recovery and the separation of transmission assets. Mr. O'Brien testifies further as to why such issues are not relevant to this case.

Q. Mr. Brubaker testifies that this Commission should impose similar conditions on PacifiCorp to those imposed by U.K. regulators on ScottishPower regarding this transaction, including the separation of PacifiCorp's generation and transmission assets. (Brubaker, pp. 37-40.) Please respond.

A. While we agree that some of the conditions imposed by the U.K. regulators may be appropriate for U.S. regulators to impose -- such as ensuring no cross-subsidies take place between companies in the ScottishPower group -- a condition regarding separation of transmission and generation assets is not appropriate. The U.K. regulators are operating in an entirely different environment, where the government has already ordered restructuring of the electric industry and open access. These conditions do not exist in Utah today, and this sort of condition is simply not applicable at this time.

Effect on Operations and Investment

Q. LCG and DGT suggest that the premium paid by ScottishPower to acquire PacifiCorp "will exert additional pressure for significant cost reductions" (Anderson, p. 39; Stover, p. 19). Will the magnitude of the premium cause ScottishPower to operate PacifiCorp in a manner that is actually detrimental to customers?

A. There is no basis for this concern. ScottishPower takes a long-term view of its investment in this business. The actions postulated by these witnesses would likely cause an adverse effect on the levels of customer service, and we have committed to move in the opposite direction in terms of the quality of customer service. ScottishPower has proposed the most comprehensive service quality package of any U.S. utility, as described in Mr. Moir's testimony. This service package guarantees that ScottishPower will make appropriate levels of investment in PacifiCorp and that service to Utah customers will not be adversely affected by the merger. Indeed, it will be substantially improved. This sort of risk is further minimized by the decentralized approach that ScottishPower takes to managing its businesses. ScottishPower gives each of its businesses a great deal of autonomy. Given the local control that PacifiCorp will have in planning its operations, there should be no serious concern that they will degrade in any manner. To the contrary, ScottishPower is committed to improve the level of operations and customer service at PacifiCorp.

Q. Have any of these risks identified by Dr. Anderson and Mr. Stover been realized in ScottishPower's other utility acquisitions?

A. No. I could understand this concern if ScottishPower had a history of acquiring utility businesses and then reducing capital investment and allowing service quality to deteriorate. ScottishPower's track record, however, is quite to the contrary. Not only has ScottishPower maintained or increased the level of capital investment in Manweb and Southern Water, customer service has also improved in both of these businesses since they were acquired by ScottishPower.

Q. UIEC, CCS, and Nucor testify that the premium paid by ScottishPower to acquire PacifiCorp will cause PacifiCorp's rates to increase. (Brubaker, p. 47; Talbot, pp. 26-30; Goins, p. 10). Is there any validity to this concern?

A. No. The transaction will not increase rates. First, as noted in Mr. Green's testimony, the corporate cost reductions to which we are committed, and the other cost savings we expect to achieve, will lead to rates that are lower than they otherwise would be without the transaction. The transition plan, discussed in Mr. MacRitchie's rebuttal testimony, will identify the areas in which these cost savings will be achieved. Second, the investment which ScottishPower will be making in PacifiCorp's system to improve service quality will not increase overall costs, as described in my Supplemental Testimony. Finally, ScottishPower is not proposing to recover the transaction costs from Utah customers, but rather will bear these costs itself. Indeed, this issue can be fully addressed by the DPU's proposed condition 45, which is acceptable to ScottishPower. There is thus no basis for the statement that the transaction will likely result in higher rates for Utah customers.

Costs of Implementing the Improvements

Q. Nucor witness Goins claims that the Company has not demonstrated the cost-effectiveness of the service quality improvements it is proposing. (Goins, pp. 8-9.) Is this true?

A. Several points need to be made in this regard. First, the estimated $55 million, to be spent over a period of five years, will not cause PacifiCorp's overall capital and revenue budgets to increase, as discussed in detail in my Supplemental Testimony at pages 7-8. Rather, ScottishPower will seek other efficiencies in capital and operating expenditures, make investments which lead to operational efficiencies, and modify capital projects in PacifiCorp's existing budget. This refocusing of investment will not have an impact on the rates of Utah customers. Second, the study included as Exhibit __ (AVR-7) with my Supplemental Testimony suggests that the value of only two of these improvements is approximately $60 million per year, far outweighing the costs of implementing the entire package. This study, which is discussed in Mr. MacLaren's rebuttal testimony, quantifies the economic benefits of only a portion of our package of service quality improvements. Third, the Commission always retains jurisdiction over PacifiCorp's rates, and has remedies available in rate proceedings if it determines that expenditures are unnecessary or imprudent. For these reasons, the costs required to achieve the service improvements are clearly outweighed by the benefits.

Environmental Issues

Q. How have the other parties responded to ScottishPower's environmental initiatives, such as the commitments to develop additional renewable resources and implement a "green tariff"?

A. This part of ScottishPower's proposal is supported by several parties, who recognize this as a merger benefit, viz.: The Land and Water Fund of the Rockies; The Southern Utah Wilderness Alliance; The Wasatch Clean Air Coalition; The Grand Canyon Trust; The Utah Office of Energy and Resource Planning; and the Utah Department of Natural Resources. Like these other parties, ScottishPower believes that developing renewable resources is not only good for the environment, it is also good for customers.

Q. Mr. Burks testifies that the absence of a specific commitment in ScottishPower's testimony to continue or enhance investments in energy-efficiency programs is a "gap" in the filing. (Burks, p. 4.) How does ScottishPower address this comment?

A. While ScottishPower supports conservation efforts, we also know that issues such as conservation are strongly responsive to local conditions and concerns. ScottishPower was not sufficiently familiar with the local issues or needs to make a specific proposal regarding conservation in its direct testimony filed in February. ScottishPower has now convened working groups of interested parties to identify existing needs and opportunities for energy savings. Through this process, we plan to establish partnership arrangements that will identify additional conservation programs that can be delivered cost-effectively. Such arrangements will become part of ScottishPower's plans in the future.

Q. With regard to ScottishPower's commitment to develop additional renewable resources, DPU witness Kenneth Powell sponsors condition 41 that would provide that ScottishPower's commitment is conditioned on the resources meeting the cost-effectiveness standards of the IRP at the time. (K. Powell, p. 6.) How do you respond?

A. ScottishPower's commitment to develop these resources is not conditioned by only considerations regarding recovery of the investment. This proposed investment reflects our commitment to the environment, and we believe it represents a sound decision to diversify PacifiCorp's resource portfolio. Thus, we think that there are additional considerations beyond simple cost-effectiveness that should be factored into a decision regarding recovery of the investment. ScottishPower will make a showing in a rate proceeding that additional renewable resources included for the first time in the rate base or revenue requirement are a prudent investment.

Q. Nucor testifies that this commitment is not a merger benefit because PacifiCorp should undertake the investment absent the merger if it is cost-effective. (Goins, p. 14.) Please respond.

A. As Mr. O'Brien has testified, PacifiCorp has no plan to make this level of investment. PacifiCorp could meet its energy needs by making a variety of investments or purchases. ScottishPower's commitment is real, and is a benefit that would not be realized absent this merger.

Commitments to Employees and Communities

Q. In your Direct Testimony, you outlined a number of commitments ScottishPower would make to PacifiCorp employees. How have the other parties addressed these issues?

A. No party has disputed the value of ScottishPower's proposals in this area. The DPU has proposed condition 42, providing that for two years following approval of the merger, PacifiCorp's Utah employee benefits will be held stable. This term is consistent with the ScottishPower/PacifiCorp merger agreement, and is acceptable to ScottishPower.

Q. Mr. Winder, testifying for the Utah Department of Community and Economic Development, recommends that the Commission impose conditions regarding a strong corporate presence in Utah. How do you respond?

A. It is certainly my intention that PacifiCorp will demonstrate in many ways its commitment to and support of employees, citizens, businesses, and economic development in Utah. ScottishPower's commitment to those interests permeates our testimony in this case. Moreover, I have personally met with employees, business leaders, and elected officials in Utah, including the Governor, to communicate our determination to bring significant benefits to the State of Utah through this merger. Having displayed this commitment and initiative, I do not believe it is necessary or appropriate to try to reduce these intentions to conditions ordered by this Commission. I especially do not agree with Mr. Winder's suggestion that all of the "unfulfilled conditions" from the merger of Utah Power and Pacific Power should be reimposed. This merger needs to be reviewed in light of today's circumstances and this transaction. I am, however, open to the suggestion of Mr. Davis that we continue to discuss and arrive at mutually agreeable solutions to the issues raised so as to enhance ScottishPower and PacifiCorp's ability to be a beneficial influence in the State of Utah.

Low-Income Initiatives

Q. ScottishPower has committed to double the commitment, from $1.5 million to $3 million, for expenditures for low-income energy services. CCS witness Gimble is dismissive of this commitment, stating that PacifiCorp could match this commitment independent of the merger. (Gimble, p. 27.) How do you respond?

A. PacifiCorp has no plans to increase these expenditures, thus this benefit would not be achieved absent the merger with ScottishPower. Mr. Gimble also refers to the task force the Commission has established to study low-income issues. ScottishPower believes that our commitment to low-income customers will deliver assistance with more certainty than simply relying on the task force. Indeed, as indicated in the direct testimony of Jeffrey Fox on behalf of CAP and Crossroads, ScottishPower and PacifiCorp have already entered a stipulation with those parties specifying commitments that address issues important to these organizations.

Q. Does this conclude your rebuttal testimony, Mr. Richardson?

A. Yes, it does.

STATE OF IDAHO)
) ss.
COUNTY OF ADA)

I, Alan V. Richardson, hereby declare under penalty of perjury under the laws of the State of Idaho that the foregoing testimony was prepared under my direction and supervision and that all testimony and exhibits thereto are true and correct to the best of my knowledge.

Alan V. Richardson

SUBSCRIBED and SWORN to before me this 15th day of July, 1999.

KELLY Y. NICKEL
NOTARY PUBLIC
STATE OF IDAHO

Print Name: KELLY Y NICKEL
Notary Public in and ~~for the~~ State of Idaho,
residing at Caldwell
My commission expires: 10/17/2000

17205

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	))))	Docket No. 98-2035-04

DIRECT TESTIMONY
OF
STEPHEN PAGE DANIEL
ON BEHALF OF
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS

RECEIVED

June 18, 1999

110\193510.V1

TABLE OF CONTENTS

BEFORE THE
PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	**))))**	**Docket No. 98-2035-04**

DIRECT TESTIMONY
OF
STEPHEN PAGE DANIEL
ON BEHALF OF
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS

June 18, 1999

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephen Page Daniel. My business address is 1850 Parkway Place, Suite 720, Marietta, Georgia 30067.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am Executive Vice President and a founding principal of GDS Associates, Inc. ("GDS Associates"), a multi-disciplined engineering and consulting firm.

Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.

A. I received a Bachelor of Industrial Engineering degree from Georgia Institute of Technology in 1970. I received a Master of Business Administration degree with a major in finance from Georgia State University in 1978.

Q. TO WHAT PROFESSIONAL ORGANIZATIONS DO YOU BELONG?

A. I am a member of the Institute of Electrical and Electronics Engineers.

Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES WITH GDS ASSOCIATES?

A. My primary responsibilities involve providing rate and regulatory services related to electric utility industry matters and consulting services with regard to electric system power supply planning, including strategic planning for transmission resources and electric industry restructuring/deregulation matters.

Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. Prior to founding GDS Associates in early 1986, I worked for approximately fifteen (15) years with another consulting engineering firm. During that time my positions and responsibilities changed from initially a rate analyst to Assistant Vice President, Rate and Analytical Services.

As an engineering consultant over the last twenty-nine (29) years, I have had primary responsibility for assignments pertaining to wholesale rates, retail rates, financial planning, power supply planning for electric utilities, transmission access, and electric industry restructuring/deregulation policy development and implementation. My various assignments have been on behalf of more than one hundred and fifty (150) cooperative and municipal electric systems, several industrial clients, several investor-owned utilities, and regulatory commissions in thirty-four (34) states. My responsibilities have included the preparation of allocated cost-of-service studies, retail and wholesale rate design studies, financial forecasts, revenue requirements evaluations, and analyses of alternative power supply resources. These activities have also involved the negotiation of bulk power contracts and transmission service arrangements.

I also have analyzed cost-of-service studies filed by others with the Federal Energy Regulatory Commission and various state regulatory commissions.

My responsibilities also have included assignments in the specialized areas of rate design for unusual loads, evaluation of financing alternatives, acquisition and merger feasibility and market power related issues, and regulatory rulemaking.

I have attached a copy of my current resume as Exhibit (SPD-1) for further reference to my professional experience.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY COMMISSIONS?

A. Yes. I have testified before the Federal Energy Regulatory Commission (the "Commission" or "FERC") and its predecessor – the Federal Power Commission – in numerous proceedings. I have also filed affidavits before the FERC and have filed testimony in other FERC proceedings which ultimately were settled before the trial phase.

I also have testified before the Alabama Public Service Commission, Alaska Public Utilities Commission, Arizona Corporation Commission, Arkansas Public Service Commission, Colorado Public Utilities Commission, Florida Public Service Commission, Georgia Public Service Commission, Public Service Commission of Indiana, Kansas Corporation Commission ("KCC"), Louisiana Public Service Commission, Mississippi Public Service Commission, North Carolina Utilities Commission, Pennsylvania Public Utility Commission, South Carolina Public Service Commission, Public Utility Commission of Texas, Utah Public Service Commission ("UPSC" or "Commission"), Virginia State Corporation Commission, and West Virginia Public Service Commission.

Q. HAVE YOU TESTIFIED AS AN EXPERT IN COURT PROCEEDINGS?

A. Yes. I have testified or filed affidavits in several Federal District Courts, Federal Bankruptcy Court, and several state courts.

Q. DO YOUR JOB RESPONSIBILITIES REQUIRE YOU TO CONSULT IN THE AREAS OF POWER SUPPLY PLANNING, POWER SUPPLY FEASIBILITY, AND POWER SUPPLY ECONOMICS IN GENERAL?

A. Yes. Periodically I assist clients with evaluating the feasibility of power supply alternatives. On several occasions I have participated as part of a project team on power supply economic studies and power supply negotiations. Examples of these power supply areas are: evaluation of alternative power sources for public power systems such as municipals, generation and transmission cooperatives, and distribution cooperatives; negotiation of bulk power purchases and sales contracts; negotiation of joint ownership agreements for generating plants; negotiation of interconnection and interchange agreements; negotiation of transmission service contracts, including ancillary services, and joint transmission participation arrangements; and development of generation support services arrangements. Work on rate cases before state commissions and the FERC requires a varying intensity of power supply evaluation for purposes such as cost allocation and rate design.

Q. DO YOU CONSULT WITH REGARD TO TRANSMISSION ARRANGEMENTS ON BEHALF OF YOUR CLIENTS?

A. Yes. Because transmission facilities and/or transmission access are vital to the development of comprehensive power supply plans, I am involved on a regular basis in the assessment of transmission needs and the determination of appropriate terms, conditions, and pricing (including cost allocation) of transmission access arrangements. My activities in this area include the negotiation of transmission tariffs, complex transmission service contracts, service agreements and operating agreements under open access transmission tariffs, and joint participation arrangements on behalf of a number of clients across the country.

I have been involved in various merger proceedings before the FERC which focused extensively on transmission access and pricing. In each of these instances, my role involved, among other things, assessment of the appropriate transmission access tariffs for the combined systems and the appropriate pricing of transmission services. I have also participated in various activities related to policy making considerations on transmission access and pricing issues. These activities have included advising certain groups on such policy issues and assisting a number of groups in preparing comments, filed with the Commission, in various notice of inquiry and rulemaking proceedings pertaining to transmission access and pricing.

Q. ARE YOU FAMILIAR WITH THE NATURE, PURPOSES, AND USES OF TRANSMISSION SYSTEMS AND THEIR RELATIONSHIPS TO TRANSMISSION SERVICES PROVIDED BY UTILITIES?

A. Yes. Consulting assignments related to power supply planning require an understanding of the operation of utility systems, including planning and operation of power supply resources, the interrelationship between power supply resource planning/operations and transmission facilities, and the planning and operational aspects of transmission facilities.

An understanding of transmission system purposes and uses goes beyond just the technical and operational aspects of transmission facilities. Understanding the cost of providing and the pricing of transmission services requires an understanding of functionalization and allocation issues related to both the direct costs of transmission facilities investments and the expenses and indirect costs related to transmission facilities and services. Routinely over the last fifteen years, I have been involved in the evaluation of costing and pricing of transmission services and the negotiation of transmission service arrangements.

These activities range from developing charges for the transmission components of bundled requirements services to the establishment of network-type transmission service arrangements. I have also been involved in the preparation of Good Faith Requests for transmission services pursuant to Sections 211-213 of the Federal Power Act ("FPA") and applications for transmission services pursuant to open access transmission tariffs on file with the Commission.

Q. HAVE YOU TESTIFIED IN OTHER MERGER PROCEEDINGS OR BEEN INVOLVED IN THE EVALUATION OF OTHER MERGERS?

A. Yes. I was involved in evaluating three proposed mergers which ultimately were abandoned: (i) San Diego Gas & Electric Company ("SDG&E") and Tucson Electric Power Company ("TEP"); (ii) Kansas City Power & Light Company ("KCPL") and Kansas Gas & Electric Company ("KG&E"); and (iii) UtiliCorp and KCPL. I testified before the FERC in the Northeast Utilities merger with Public Service Company of New Hampshire. I participated in negotiations that led to a settlement in the FERC merger proceeding involving the Kansas Power & Light Company and KG&E, now known as Western Resources, Inc. ("WRI"). Currently, I am involved in the proposed merger between WRI and KCPL before both the KCC and the FERC. Other merger/acquisition-related experience includes the following: (i) feasibility analysis of Tideland Electric Membership Corporation acquiring Pamlico Power & Light Company; (ii) participation in other merger feasibility analyses among certain clients; (iii) valuation of a number of systems for potential sale (including one system which was sold); and (iv) reorganization or dissolution of assets under bankruptcy.

II. REPRESENTATION

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. Utah Associated Municipal Power Systems ("UAMPS").

Q. HAVE YOU REPRESENTED UAMPS IN OTHER MATTERS INVOLVING PACIFICORP?

A. Yes. I have provided consulting services to UAMPS in the following matters related to or involving PacifiCorp: (i) a number of transmission service proceedings before the FERC; (ii) negotiations pertaining to a number of matters involving the Transmission Service and Operating Agreement between PacifiCorp and UAMPS; (iii) matters regarding UAMPS and PacifiCorp transmission facilities in the Washington County area; and (iv) matters involving the possible formation of several different regional transmission arrangements (*e.g.*, IndeGO).

Q. IS UAMPS A CUSTOMER OF PACIFICORP?

A. Yes, UAMPS is a wholesale transmission customer.

Q. PLEASE EXPLAIN THE TERM "WHOLESALE TRANSMISSION CUSTOMER."

A. UAMPS purchases firm transmission service from generation sources not owned by PacifiCorp and relies on PacifiCorp's transmission system for firm delivery of that energy to its members' distribution systems.

Q. HOW DOES UAMPS PAY FOR THE FIRM TRANSMISSION SERVICE IT RECEIVES FROM PACIFICORP?

A. UAMPS has a network transmission agreement with PacifiCorp, and its rates and charges for this agreement are determined and approved in "cost based" regulatory procedures before the FERC.

Q. DOES UAMPS CONTEMPLATE OR PROPOSE A CHANGE IN HOW IT PAYS FOR FIRM TRANSMISSION SERVICE?

A. No, UAMPS expects to continue to pay cost-based rates.

III. PREPARATION FOR TESTIMONY

Q. WHAT MATERIALS AND INFORMATION DID YOU REVIEW AS PART OF THE PREPARATION FOR DEVELOPMENT OF YOUR DIRECT TESTIMONY?

A. In preparation for submittal of this direct testimony, I reviewed the following materials and information:

- The Direct Testimony and Exhibits of Messrs. O'Brien, Richardson, Moir, and MacRitchie filed by PacifiCorp and Scottish Power plc ("ScottishPower") (collectively, "Applicants") on February 26, 1999;

- The Supplemental Testimony of Mr. Richardson filed by the Applicants on April 16, 1999;

- The Applicants' Issues Memorandum submitted on April 12, 1999;

- UAMPS' Amended Petition for Intervention and Statement Regarding Issues submitted on February 17, 1999;

- The responses of various entities to the Applicants' Issues Memorandum;
- A compendium of various responses by the Applicants to merger data requests by various entities.

IV. UAMPS CONCERNS ABOUT THE MERGER

Q. DOES UAMPS OPPOSE THE PROPOSED MERGER?

A. Based on the various representations and promises made to the Commission regarding protections for Utah's citizens, UAMPS is not opposed to the merger.

Q. WHAT IS UAMPS' CONCERN REGARDING THE PROPOSED MERGER?

A. UAMPS is concerned about the current reliability of the PacifiCorp transmission system. UAMPS believes improvements in reliability, as warranted, would benefit all affected customers, both wholesale and retail. Protection against deterioration in reliability as a result of the proposed merger of PacifiCorp and ScottishPower must be insured by the Commission.

Q. WHY IS RELIABILITY OF THE PACIFICORP TRANSMISSION SYSTEM OF CONCERN TO UAMPS?

A. All electric consumers within Utah that are dependent upon the PacifiCorp transmission system for the delivery of their power needs are impacted by the reliability of the PacifiCorp transmission system. This would include UAMPS and its members and the retail customers served by its members, as well as the retail customers served by PacifiCorp. It is in the public interest for Utah for all customers to receive reliable delivery of their power requirements.

Q. HAS SCOTTISHPOWER MADE RELIABILITY OF THE PACIFICORP SYSTEM A MATTER RELEVANT TO THE PROPOSED MERGER?

A. Yes. ScottishPower has generally proposed to improve service to PacifiCorp's customers by proposing a package of service standards, which includes both Performance Standards and Customer Guarantees. (*See*, *e.g.*, Richardson Direct Testimony, page 8, line 10 - page 10, line 4 and Exhibits (BM-1), (BM-2), and (BM-3).) These general service standards are discussed by Messrs. Richardson and Moir, among others.

I would like to focus on the Performance Standards related to system reliability proposed by ScottishPower. Specifically, ScottishPower is proposing to implement programs which will achieve the following:

- Improve system availability and system reliability by ten (10) percent from PacifiCorp's current performance and reduce momentary interruptions by five (5) percent from PacifiCorp's current performance; and

- Improve the five (5) worst performing circuits in each state on an annual basis.

(*Id.*, page 9, lines 8-13.) ScottishPower is offering to make a commitment to improve system reliability in return for approval of the proposed merger.[1]

Q. DOES UAMPS SUPPORT A COMMITMENT BY SCOTTISHPOWER TO IMPROVING SYSTEM RELIABILITY?

A. Yes. UAMPS and its members have an interest in, and will be affected by, the implementation of such reliability improvement programs. UAMPS, therefore, supports, as laudable goals, the general, yet loosely defined, proposals by ScottishPower to improve system reliability.

Q. DOES UAMPS HAVE CONCERNS ABOUT SCOTTISHPOWER'S OFFERS REGARDING IMPLEMENTATION OF SPECIFIC PERFORMANCE STANDARDS PERTAINING TO SYSTEM RELIABILITY?

A. Yes. UAMPS, while supportive of such programs, has an overriding concern that effective implementation of such programs may not occur. UAMPS is equally concerned that the stated goals will not be achieved, and as a result, the proposed improvements may become hollow promises after the merger is consummated.

For reasons I will discuss later, UAMPS also is concerned whether the proposed penalties, for failure to achieve the Performance Standards, are sufficient inducements to assure compliance with the promises.

Q. WHY IS UAMPS CONCERNED ABOUT SCOTTISHPOWER'S ABILITY TO ACHIEVE ITS PROPOSED PERFORMANCE STANDARDS?

A. UAMPS' concerns are relative to the obvious competing-interest aspects of mergers and with regard to the transitional environment of the electric industry as

---

[1]Throughout my testimony, when I refer to Performance Standards, I am speaking specifically about the above noted items.

it moves from a wholly regulated industry to, at the very least, a partially deregulated industry.

Q. EXPLAIN WHAT YOU MEAN BY THE COMPETING-INTEREST ASPECTS OF THE MERGER.

A. When regulated electric systems are acquired or merged into other systems, whether those other systems are regulated or not, the affected stockholders and the ratepayers of the electric utility often have differing interests. Those differing interests can often be in conflict. The surviving stockholders of the combined entity are concerned about overall returns, especially return on equity, and the ability of the combined entity to recoup any acquisition premium paid as part of the merger or acquisition (such as the substantial premium to be paid by ScottishPower). Ratepayers, on the other hand, are concerned with whether the merger will result in increased costs of power, deterioration in service, potential anticompetitive effects, and other related issues.

Q. IS THERE ANYTHING SIGNIFICANT ABOUT THIS MERGER AS COMPARED TO MOST OTHER MERGERS OF ELECTRIC UTILITIES WHICH HAVE OCCURRED IN THE UNITED STATES?

A. Yes. Most mergers and acquisitions within the U.S. electric industry have involved two operating utilities, generally neighbors, and often directly interconnected. When such utilities combine their operations, it is normally anticipated that there will be economies of scale, diversity benefits, and other opportunities to achieve savings not obtainable by the two systems operating alone. Some of these savings may even come from the elimination of duplicate personnel and functions within the merging organizations.

In the case of the PacifiCorp-ScottishPower merger, the parties are not neighboring operating utilities that can expect to achieve substantial savings through the normal benefits of combined operations. ScottishPower's own filing acknowledges this distinction. (O'Brien Direct Testimony, page 1, line 20 - page 10, line 13.) In fact, Mr. O'Brien acknowledges that the promised improvements in service reliability, operational efficiencies, and customer service proposed by ScottishPower will require significant up-front investment with associated cost reduction benefits being realized over a longer term. (*Id.*, lines 5-8.) ScottishPower does not suggest that the merger should be expected to produce any significant savings to ratepayers. Rather, ScottishPower promises improvements in certain targeted service standards. It is unclear whether ScottishPower proposes to require the ratepayers to foot the bill for the investments and other expenditures required to achieve the targeted service standards. This is especially true if, in order to meet the targeted service standards, significantly greater expenditures are required than are currently anticipated.

These aspects of the proposed merger, including the service-standard improvements being proposed, simply highlight some of the uncertainties as regards the consumer benefits touted and promised by ScottishPower.

Q. EXPLAIN WHY THE TRANSITIONAL ENVIRONMENT WITHIN THE ELECTRIC UTILITY INDUSTRY IS AN ISSUE FOR CONCERN WITH REGARD TO EVALUATING MERGERS, SUCH AS PROPOSED.

A. The U.S. electric utility industry has been undergoing a significant transition from a highly-regulated monopoly environment to a partially deregulated environment. The primary target for deregulation is the production (or capacity and energy) function of electric supply. Generally, the transmission and distribution (or wires) functions have remained regulated. In addition, there are a host of other services which have been or may be deregulated (*e.g.*, metering and billing), and electric utilities are now engaged in a plethora of unregulated businesses (*e.g.*, telecommunications and energy services). Given that these regulated and non-regulated elements of the utility operate under the same umbrella parent, there is a real need to be vigilant to insure that the non-regulated businesses are not somehow subsidized by the regulated businesses. As this transition progresses, the pressures mount to profitably compete. Such pressures could lead to efforts to cross-subsidize non-regulated businesses through regulated services. To the extent the potential return on capital investments is greater in non-regulated businesses, there will be a natural tendency to favor deployment of capital to such non-regulated businesses. If regulated businesses are perceived as "cash cows", or could be made to become so through capital and operating expenditure reductions without concomitant rate adjustments, there is a very real possibility that capital may be diverted from regulated operations to non-regulated businesses. If this were to occur, it might jeopardize continued reliability of service, or needed improvements in reliability. These pressures to compete must be considered carefully with regard to whether a proposed merger will result in the types of consumer benefits being promised.

Q. WHAT IS YOUR UNDERSTANDING OF SCOTTISHPOWER'S PLANS WITH REGARD TO EXPENDITURES TO ACHIEVE THE SERVICE STANDARDS IT HAS PROMISED?

A. Mr. Richardson succinctly summarizes ScottishPower's planned expenditures in his April 16, 1999 Supplemental Testimony at page 7, lines 5-23.

Q. DO YOU HAVE ANY OBSERVATIONS CONCERNING SCOTTISHPOWER'S PLANNED EXPENDITURES?

A. Yes. First, ScottishPower estimates that it will spend $55 million, or about $11 million annually, during the proposed five-year implementation period. The amount, as I understand, is for the entire PacifiCorp system, not just the Utah Power & Light Company ("UP&L") Division. Of the $55 million, only about $32 million of this expenditure is for capital investments, of which ~~only~~ $31.1 million is planned for the Performance Standards. The remaining $23 million will be for operating expenses. These amounts, at best, are very modest relative to the size of the PacifiCorp system and the promised improvements in reliability.

Second, the $31.1 million capital investment over five years earmarked to achieve the proposed Performance Standards, or approximately $6.2 million per year, is approximately one-tenth (0.1) percent of the total transmission and distribution system investment of PacifiCorp, which was $5.422 billion as of December 31, 1998. PacifiCorp, in response to the Utah Industrial Energy Consumers ("UIEC") Data Request 2.8 indicated that UP&L's transmission capital expenditures for the last five years were as follows:

Year	Capital Expenditures ($000's)
1998	$12,842
1997	$11,870
1996	$10,822
1995	$12,237
1994	$28,296

By comparing these levels of expenditures, just in the UP&L Division, to the ScottishPower proposal, it is obvious the amount of capital expenditures being proposed by ScottishPower, which presumably will not increase PacifiCorp's overall capital budget according to ScottishPower (Richardson Supplemental Testimony, page 7, lines 11-12), is very small. Even if the proposed expenditures (which are not segregated by division) were in addition to both transmission and distribution capital improvements over the same five-year period, the extra dollars of expenditures being proposed by ScottishPower are still relatively small.

Third, to avoid increasing PacifiCorp's overall capital and revenue budgets, ScottishPower is expecting other programs, that are only generally discussed, to create operational and other efficiencies that will mitigate upward cost pressures associated with the $55 million expenditure. (*Id.*, lines 12-21) While these other, only generally undescribed, efficiencies may be achievable so as to permit ScottishPower to achieve its promised service standards, the Commission must place these promises and the expected results in perspective. While UAMPS has not prepared any detailed analyses to determine whether the programs outlined by ScottishPower are achievable under the capital and operating expenditure limits which it maintains that it will achieve, the magnitudes of the numbers do raise questions which the Commission should address.

Q. DOES UAMPS HAVE OTHER CONCERNS REGARDING SCOTTISHPOWER'S PROPOSED PERFORMANCE STANDARDS AND THE PLANNED EXPENDITURES TO ACHIEVE THOSE STANDARDS?

A. Yes. First, there is no indication as to whether the program of targeted reliability improvements is to be directed at both transmission and distribution facilities. Inadequate maintenance expenditures or facilities upgrades at either the transmission or distribution level can cause, or contribute to, reliability problems. Presumably, the proposed programs would be directed to maintenance expenditures and facilities upgrades for both transmission and distribution facilities where warranted, and this should be clarified.

Second, the proposals by ScottishPower do not specify whether the efforts, at reliability improvement, will be directed toward facilities primarily serving PacifiCorp retail customers, or whether the programs will examine specific facilities serving wholesale and retail customers and even those facilities which may be serving only wholesale customers. Utah's citizens are represented in all of these customer groups, therefore, all programs should be implemented on a state-wide, non-discriminatory basis for the benefit of all ultimate electric consumers in Utah.

Q. DOES UAMPS HAVE CONCERNS ABOUT THE SPECIFIC RELIABILITY IMPROVEMENT TARGETS PROPOSED BY SCOTTISHPOWER AND HOW THEY WILL BE MEASURED?

A. Yes. The proposed Performance Standards are based upon targeted reductions in the following reliability indices: (i) System Average Interruption Duration Index ("SAIDI"); (ii) System Average Interruption Frequency Index ("SAIFI"); (iii) Momentary Average Interruption Frequency Index ("MAIFI"); and (iv) Circuit Performance Index ("CPI"). (Moir Direct Testimony, page 6, lines 4-14.) ScottishPower's proposal, however, is vague as to the "base-line data" from which the improvements in these reliability indices will be measured. Mr. Moir notes that "ScottishPower recognizes that base-line data may change from PacifiCorp's current, historical outage data because of uncertainty regarding the accuracy of the historical performance to date." (*Id.*, lines 24-26.) He goes on to note that ScottishPower will implement new monitoring and reporting information systems that may cause a "...change in measurement and monitoring accuracy [that] may by itself cause an increase in the reported (but not actual) reliability indices." (*Id.*, page 6, line 26 - page 7, line 3.) Mr. Moir also notes that "[i]n the event that improved measurement techniques cause meaningful changes in reliability indices, ScottishPower proposes to modify the historical base-line data to reflect the new measurement technique." (*Id.*, page 7, lines 3-5.)

These comments raise questions as to why PacifiCorp's current reliability indices data are, or may be, inaccurate and, therefore, unreliable for establishing the base-line from which to benchmark any improvements. There is also a question as to how new base-line data will be established. For example, will such information only be available on a current and going-forward basis as the new monitoring and reporting systems are deployed? Another obvious question is whether such current information is the most appropriate base-line from which to measure reliability improvements. For example, if there has been a deterioration in system reliability in recent years, only by knowing the level of that deterioration can one determine whether the proposed improvements in the reliability indices are sufficient to restore reliability to historically acceptable levels. At a minimum, PacifiCorp's historical data for the last 10 years should be carefully analyzed to determine trends in reliability as measured by the targeted indices.

Q. DOES UAMPS HAVE CONCERNS REGARDING SCOTTISHPOWER'S COMMITMENT REGARDING THE IMPROVEMENT TO THE FIVE WORST PERFORMING CIRCUITS IN EACH STATE?

A. Yes. Many of the earlier observations I offered also apply here as~~with~~ regards concerns as to this commitment. Specifically, this Performance Standard appears to be directed more toward distribution circuits than transmission lines. Given the uncertain generalities of the ScottishPower proposal, it conceivably could lead to areas of the system serving UAMPS' members' customers not receiving any of the benefits of this particular element of the proposed program because they are served from a distribution substation or transmission line that might not be identified as a "circuit" targeted for improvement. Again, UAMPS simply suggests that ScottishPower's commitment should focus on the public interest as broadly defined by all of Utah's electric consumers whose reliability of service is dependent upon and impacted by the PacifiCorp system.

Q. DOES SCOTTISHPOWER'S PROPOSED PERFORMANCE STANDARDS ENVISION COMMISSION AND CONSUMER INVOLVEMENT?

A. The extent and level of Commission and consumer involvement in the process are not discussed. It appears to be a case more of ScottishPower proceeding based upon the general representations made with annual reporting as to its activities and the results of its various programs.

Q. HAS SCOTTISHPOWER PROPOSED FINANCIAL PENALTIES IF IT FAILS TO MEET THE PROPOSED PERFORMANCE STANDARDS?

A. Yes. Mr. Moir describes these penalties as follows:

> For each of the standards not achieved in any jurisdiction at the end of the five-year period, we will pay a financial penalty equal to $1.00 for every customer in such jurisdiction. In the event that ScottishPower fails to meet its Performance Standards relating to the network in all jurisdictions this would equate to a total penalty of some $7 million.

(Moir Direct Testimony, page 9, lines 5-9.) Mr. Moir goes on to note that "[t]he monies should be visibly returned to the community, and not diluted through the rate base or divided up amongst customers as a rebate." (*Id.*) He suggests "[o]ne possibility is to have the proceeds paid into the PacifiCorp Foundation." (*Id.*, lines 12-13.)

Q. PLEASE COMMENT ON SCOTTISHPOWER'S PROPOSED FINANCIAL PENALTIES FOR FAILURE TO MEET THE PERFORMANCE STANDARDS REGARDING SYSTEM RELIABILITY.

A. Several basic observations regarding the suggested financial penalties are important. First, if ScottishPower fails to meet all of the proposed targets and pays the full $7 million penalty, this penalty is negligible when viewed in the context of the annual revenues from sales of electricity for PacifiCorp (*i.e.*, $3.497 billion for 1998). The level of penalties also is modest relative to the transmission and distribution plant investment of PacifiCorp (*i.e.*, $5.422 billion as of December 31, 1998) and its annual transmission and distribution operation and maintenance expenditures. Likewise, the penalty is small relative to the acquisition premium at stake with the proposed merger. Finally, the penalty is less than the $31.1 million ScottishPower indicates it plans to expend to achieve the targeted system reliability improvements. If ScottishPower did nothing to improve upon the system reliability, at the end of the five-year period it would be exposed to paying $7 million in lieu of having expended a projected $31.1 million to achieve the targeted improvements.

Overall, the proposed financial penalties do not appear to offer a realistic inducement for ScottishPower to insure it achieves the proposed targeted system reliability improvements. In addition, taking these penalty monies and returning them to the community would not directly compensate the affected parties – namely, Utah ratepayers relying upon the PacifiCorp system. Neither would this approach address the targeted issue – namely, system reliability improvements. Finally, allowing ScottishPower to control the distribution of such penalty proceeds would give it an opportunity potentially to assuage certain sectors of the Utah community with indirect benefits, as opposed to the intended direct benefits to all Utah electric consumers dependent upon PacifiCorp's transmission and distribution systems.

The Commission either should specify its own meaningful financial penalties for failure to meet the targeted reliability improvements, or at a minimum, require ScottishPower to propose meaningful penalties as part of any detailed plan of action which the Commission would require ScottishPower to develop and file for approval as a condition of merger approval. As an example, a penalty of $1.00 per consumer per percentage point by which ScottishPower fails to meet the targeted percentage improvements in the reliability indices could provide serious inducement to achieve the promised objectives. The Commission also should make clear that any penalties ultimately approved and assessed, if warranted, will not be recoverable from ratepayers. Of course, paying such penalties should not relieve ScottishPower of its obligations to maintain acceptable reliability in accordance with good utility practices.

V. CONCLUSIONS AND RECOMMENDATIONS

Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING SCOTTISHPOWER'S PROPOSED PERFORMANCE STANDARDS?

A. ScottishPower has promised to deliver significant improvements to system reliability without increasing capital and operating budgets and rates. The starting point for measuring such improvements appears to be in doubt, given expressed concerns about the possible accuracy of historical base-line statistics maintained by PacifiCorp. Commission and consumer involvement in determining whether merger promises are kept is unclear. The suggested penalties for failure to achieve the proposed improvements are nominal and unlikely to be sufficient inducement to meet the targeted reliability improvements.

Q. IN LIGHT OF THESE CONCERNS, WHAT RECOMMENDATIONS DO YOU HAVE FOR THE COMMISSION REGARDING SCOTTISHPOWER'S PROPOSED PERFORMANCE STANDARDS?

A. In addition to the periodic reporting proposed by ScottishPower, UAMPS recommends that the Commission order the following as part of the approval of the proposed merger.

- ScottishPower should be required to submit a detailed action plan to the Commission within 120 days of the issuance of an order approving the merger for public comment and Commission review, amendment, if necessary, and approval.

- The Commission should require the action plan to encompass reliability improvements on the PacifiCorp system for all affected Utah electric consumers on a non-discriminatory, non-preferential basis.

- The action plan to be submitted by ScottishPower should include specific features to incorporate ongoing participation by the Commission's Staff and a cross section of consumer representatives (both retail and wholesale) in the development and implementation of improvement programs, including identification of specific facilities requiring attention.

- The expenditures promised by ScottishPower to achieve the promised Performance Standards are not to be viewed by ScottishPower, the Commission or the public at large as a cap on ScottishPower's expenditures to maintain and upgrade system reliability.

- ScottishPower should be required to direct its commitments to both transmission and distribution facilities, as warranted, as part of its reliability improvement initiatives.

- ScottishPower should be directed to immediately establish reliability indices for measuring the Performance Standards on a state-by-state basis.

- Within one year of any order by the Commission approving the merger, ScottishPower should be required to submit a preliminary report indicating its findings, conclusions, and plans with regard to the accuracy of the historical reliability statistics maintained by PacifiCorp.

- The Commission should substantially increase the financial penalties for ScottishPower's failure to comply with the targeted reliability improvements.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, at this time.

Stephen Page Daniel
Executive Vice President

EDUCATION: Master of Business Administration in Finance, Georgia State University
Bachelor of Industrial Engineering, Georgia Institute of Technology

PROFESSIONAL MEMBERSHIP: Institute of Electrical and Electronics Engineers

EXPERIENCE:

2/86-Present Executive Vice President and principal of GDS Associates, Inc.

1/71-2/86 Mr. Daniel served as rate analyst (1971-1974), project manager (1975-1981), Group Manager - Rate and Analytical Services (1982-1984), and Assistant Vice President - Rate and Analytical Services (1985-1986) with Southern Engineering Company. Mr. Daniel was also Coordinator - Load and Energy Management Services from 1978 to 1981.

During his more than twenty-nine (29) years experience in the electric utility industry, Mr. Daniel has consulted with utilities, government agencies, and industrial clients in thirty-four (34) states in the following areas:

Policy evaluations regarding electric industry restructuring and retail competition.

Mergers and Acquisitions, including market power related issues.

Power supply planning for generation and transmission utility systems and distribution systems.

Transmission access/pricing issues:

- Negotiation of transmission arrangements (including OATT service)
- Policy advocacy/rulemaking
- Open-access transmission implementation/compliance
- Transmission rate case litigation
- Strategic Planning

Negotiation of wholesale (sales-for-resale) power supply contracts on behalf of cooperative and municipal electric power systems involving:

- Full and partial requirements services
- Interchange services
- Generation support services
- Joint ownership arrangements

Preparation of pooling rates for cooperative generation and transmission systems. Preparation of financial forecasts and forecasts of operations for rural electric distribution and generation and transmission systems.

Preparation of cost-of-service studies and sales-for-resale rate studies for cooperative generation and transmission systems.

Preparation of retail rate studies and cost-of-service studies for rural electric distribution systems and municipal electric systems.

Analysis of cost-of-service studies filed by others with the Federal Energy Regulatory Commission (formerly Federal Power Commission) and various state regulatory commissions.

Preparation of revenue requirements studies for cooperative and municipal power systems.

Facilities valuation studies for property sales and condemnations.

Assignments in specialized areas of:

- Industrial Restructuring/Wholesale Competition/Retail Competition
- Rate design for special loads
- Financial requirements analyses
- Evaluation of financing alternatives
- Acquisition, merger and divestiture evaluations
- Regulatory rulemaking
- Public Utility Regulatory Policies Act of 1978
- Cogeneration and Small Power Production
- Territorial Integrity

REGULATORY EXPERIENCE:

Federal Energy Regulatory Commission (formerly Federal Power Commission) [1/]
Alabama Public Service Commission [3/]
Alaska Public Utilities Commission [1/]
Arizona Corporation Commission [1/]
Arkansas Public Service Commission
Public Utilities Commission of the State of Colorado
Florida Public Service Commission [2/]

1/ Including Regulatory Rulemaking
2/ Including Generic Hearings
3/ Including Restructuring and Deregulation Proceedings

Georgia Public Service Commission
Indiana Regulatory Commission (formerly Public Service Commission of Indiana)
Kansas Corporation Commission
Louisiana Public Service Commission
Mississippi Public Service Commission 2/ 3/
North Carolina Utilities Commission
Pennsylvania Public Utility Commission
South Carolina Public Service Commission
Texas Public Utility Commission 1/
Utah Public Service Commission
Virginia State Corporation Commission
West Virginia Public Service Commission 2/

1/ Including Regulatory Rulemaking
2/ Including Generic Hearings
3/ Including Restructuring and Deregulation Proceedings

EXPERT TESTIMONY IN COURT PROCEEDINGS:

(1) Clay County Superior Court, Clay County, Florida
(2) United States Federal District Court, District of Nebraska
(3) United States Federal District Court, Anderson, South Carolina
(4) United States Bankruptcy Court, Opelousas, Louisiana

AFFIDAVITS IN COURT PROCEEDINGS:

(1) United States Federal District Court, Middle District – Alabama, Northern Division
(2) Supreme Court of New York, Niagara County

OTHER EXPERT APPEARANCES:

(1) Kansas Legislature Electric Industry Restructuring Task Force

PUBLICATIONS

"Joint Ownership of Transmission" - CFC Power Review - Spring 1989 (with Robert M. Gross)

"Long-Term Transmission Access Strategy - Do You Have One?" – TransActions, Vol.

LECTURES/SEMINARS:

- Retail Competition/Restructuring: Framing the Debate
  Florida Utility Industry Restructuring Task Force, June 9, 1998
- NRECA Restructuring Forum
  Technical Advisor to Roundtable Discussion (January 28, 1998)
- Missouri Retail Competition
  Missouri REC Managers' Conference, June 5, 1997
- Southeast Power Markets Outlook
  Southeast Power Markets, Atlanta, GA, May 21, 1997
- Open-Access Transmission: A Key to Competitive Bulk Power Markets
  1996 Strategic Planning Program, Strategic Planning Process for 1997 and Beyond, Alabama Electric Cooperative, Inc., July 2, 1996
- Open-Access Transmission: A Key to Competitive Bulk Power Markets
  1996 Annual Engineers Conference
  Florida Electric Cooperatives Association, May 15, 1996
- The Future: Transmission Open-Access Update; Industry Restructuring; and Strategic Planning
  SMEPA Board of Trustees Forum (1996)
  Open-Access Transmission -- The Path to Competitive Bulk Power Markets
- Status of Utility Restructuring in the U.S. and Implications for Georgia
  Georgia Public Service Commission Staff Meeting, December 18, 1995
- Unbundling Services and Rates: A Choice or a Necessity?
  Public Power: Preparing for Competition
  Infocast, Washington, D.C., November 17, 1995
- Trends in Power Supply: What's All the Change About?
  The FERC MEGA-NOPR, Privatization & Regulatory Jurisdictional Issues
  15th Annual Southeastern Electric & Natural Gas Conference, October 10, 1995
- Transmission Access: The Path to Competition
  The Electric Cooperatives of South Carolina, Engineering & Purchasing Association Meeting, May 1995
- Transmission Access: The Path to Competition
  SMEPA Board of Trustees Forum (1994)
- The Changing Structure of Electric Utilities
  G&T Accounting and Finance Association 1994 Annual Meeting
- Surviving and Thriving as Rural (Cooperative) Energy Systems in the 90's and Beyond,
  Southeastern Power Administration Integrated Resource Planning Conference (1993)

- Transmission Access and Pricing Policies of the FERC
  National G&T Managers Association Meeting (1993)
- G&T Rate Theory: Competitive Positioning
  NRECA G&T Rate Seminar (1993)
- Transmission Strategies In A Changing Regulatory And Access Environment
  Electric Systems Planning and Operations Conference (1992)
- A Wholesale Rate Case: The Consultant's Role
  Seminole Electric Cooperative, Inc., June 1992 Employee Meeting
- The Economic Impact of Annexation On Rural Electric Systems: The Technical Perspective; and Price Alone May Not Be Good Enough! (Workshop)
  NRECA Territorial Integrity Conference (1990)
- Regulation After Refunding: Life At The FERC
  National G&T Managers Association Meeting (1989)
- Joint Ownership: A Transmission Access Alternative
  Executive Enterprises Third Annual Transmission Access And Pricing Conference (1989)
- FERC, IPPS, Etc.
  NRECA Transmission Forum (1989)
- FERC Regulation of G&Ts: Prospect and Impact
  NRECA G&T Legal Seminar (1989)
- A Review of Reality -- Cooperative/Creative Ratemaking
  NRECA 1985 Directors' Update (1985)
- Electric Rates: The Impact on Load and Energy Management
  NRECA Load Management Workshop (1980)
- AEPCO Rates: Past, Present & Future
  Grand Canyon State Electric Cooperative, Inc. Annual Meeting (1979)
- Fuel Adjustment Clauses and Rates
  Georgia Rural Electric Managers Association (1979)
- How to Distribute the Benefits of Load Management
  NRECA Load Management Conference (1979)
- Fuel Adjustments and Power Rates
  South Carolina Electric Cooperative Managers Association (1979)
- Load Management and Rates
  Indiana Statewide REC, Inc. (1978)
- The Philosophy of Setting Rates
  Cooperative Power Association (1978)
- Strategies For Load and Energy Management
  Northwest Public Power Association 1978 Directors Conference (1978)
- Capital Budgeting to Meet System Planning Needs
  APPA Accounting & Finance Workshop (1974)

VAN COTT, BAGLEY, CORNWALL & McCARTHY
Matthew F. McNulty, III (3828)
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333
Facsimile: (801) 534-0058

Attorneys for UAMPS

RECEIVED
JUN 18 8 47 AM '99
SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PACIFICORP and SCOTTISH POWER PLC for an Order Approving the Issuance of PACIFICORP Common Stock	**UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS' CERTIFICATE OF SERVICE RE: DIRECT TESTIMONY OF STEPHEN PAGE DANIEL** Docket No. 98-2035-04

I hereby certify that I caused true and correct copies of the **DIRECT TESTIMONY OF STEPEN PAGE DANIEL ON BEHALF OF UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS** regarding Docket No. 98-2035-04, to be mailed by first class mail, postage prepaid, this 18th day of June, 1999 to the following:

Michael Ginsberg
Assistant Attorney General
Utah Division of Public Utilities
160 East 300 South
Salt Lake City, Utah 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Peter J. Mattheis
Dean S. Brockbank

293\193424.V1

Brickfield Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Stephen R. Randle
Randle Deamer Zarr Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Eric Blank
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, Colorado 80302

Glen F. Davies
Bill Thomas Peters
Parsons Davies Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Boulevard, Suite 134
Salt Lake City, Utah 84108

Lee R. Brown
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 200 West
Salt Lake City, Utah 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer

201 South Main Street, Suite 1800
Salt Lake City, Utah 84145

Roger O. Tew
Utah League of Cities and Towns
50 South 600 East
Salt Lake City, Utah 84102

Robert Green
Group Controller
Scottish Power plc
121 SW Morrison, Suite 1800
Portland, Oregon 97204
Phone: (503) 224-9040
Fax: (503) 223-9081
Email: bob.green@scottishpower.plc.uk

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple Street
Salt Lake City, Utah 84133
Phone: (801) 530-7428
Fax: (801) 364-9127
Email: brianburnett@cnmlaw.com

Lawrence H. Reichman
Perkins Cole LLP
1211 SW Fifth Avenue, Suite 1500
Portland, Oregon 97204-3715
Phone: (503) 727-2019
Fax: (503) 727-2222
Email: reicl@perkinscole.com

Anne E. Eakin
Vice President, Regulation
PacifiCorp
825 NE Multnomah Street
Portland, Oregon 97332
Phone: (503) 813-6065
Fax: (503) 813-6060
Email: anne.eakin@pacificorp.com

D. Douglas Larson
Director, Regulatory Policy
PacifiCorp
One Utah Center, Suite 2200
201 South Main
Salt Lake City, Utah 84140-2000
Phone: (801) 220-2190
Fax: (801) 229-3116
Email: doug.larson@pacificorp.com

Edward A. Hunter
Stoel Rives LLP
One Utah Center, Suite 1100
201 South Main
Salt Lake City, Utah 84111-4904
Phone: (801) 578-6936
Fax: (801) 578-6999
Email: eahunter@stoel.com

Steven W. Allred
Salt Lake City Legal Department
451 South State, Suite 505
Salt Lake City, Utah 84111

Paul T. Morris
3600 Constitution Boulevard
West Valley City, Utah 84119

____

17232

Before the
PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	))))))	Docket No. 98-2035-04

RECEIVED
JUN 10 4 09 PM '99
UTAH PUBLIC SERVICE COMMISSION

Direct Testimony of

Maurice Brubaker

On Behalf of

Utah Industrial Energy Consumers

Note: This Version of the Testimony <u>excludes</u> Confidential Information

June 1999
Project 7094

Brubaker & Associates, Inc.
St. Louis, Missouri 63141-2000

Before the
PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock)	**Docket No. 98-2035-04**

Direct Testimony of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and a principal with the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of the Utah Industrial Energy Consumers (UIEC). Members of UIEC purchase substantial quantities of electricity from PacifiCorp both under tariff schedules and under separate contracts.

Q **HAVE YOU REVIEWED THE JOINT APPLICATION AND TESTIMONY AND EXHIBITS FILED IN THIS PROCEEDING BY PACIFICORP AND SCOTTISH POWER (JOINTLY, APPLICANTS)?**

A Yes. I have reviewed the Application, the testimony and exhibits, and responses to numerous data requests by both PacifiCorp and Scottish Power.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

A The purpose of this testimony is to report the results of my analysis and investigation into whether the proposed combination of the two Applicants is likely to be in the public interest, and to express my view with regard to additional conditions that may be required in order to mitigate the exposure of PacifiCorp's customers to the potential for higher energy costs if the combination proposed by Applicants is approved.

Q **PLEASE SUMMARIZE THE CONCLUSIONS AND RECOMMENDATIONS FROM YOUR TESTIMONY.**

A My fundamental conclusion is that, for a variety of reasons stated herein, the proposed merger is not in the public interest as it will likely cause the customers of PacifiCorp to face higher rates. This risk flows primarily from the following circumstances:

1. Scottish Power is proposing to pay a substantial premium for PacifiCorp, which will result in incurrence of approximately $2 billion of Goodwill. Amortization of this Goodwill has a significant impact on earnings. Simply offsetting the expected premium would require annual expense reductions over 20 years, of $160 million per year, or over $300 million per year if the time value of money is considered.

2. PacifiCorp/Scottish Power have not even attempted a credible demonstration that significant costs could be removed from PacifiCorp's operations.

3. It is admitted by Scottish Power that there is little or no basis for assuming that there will be synergies as a result of this merger.

4. The proposed performance standards are not well supported because even Scottish Power admits that current data is not sufficient to define PacifiCorp's actual performance. Further, no specific plan of action is provided to detail how improvements would be made; and the only evidence submitted with respect to the benefit to consumers is highly speculative.

5. A merger with a global company that is on the acquisition trail, like Scottish Power, can dilute management and capital resources and interfere with PacifiCorp's attempts to "refocus" on its "core electricity business in the western United States."

6. A merger with an entity such as Scottish Power may well foreclose the opportunity for PacifiCorp to merge with another western utility, where the combination of geographically proximate territories could well result in the achievement of significant cost reductions and synergies that more typically justify electric utility mergers.

Following the analysis which leads to this conclusion, I continue to review the proposed transaction and to develop conditions that, if properly applied, may be sufficient to allow the proposed transaction to go forward on a basis which will sufficiently mitigate the exposure of PacifiCorp's customers to higher prices.

The following conditions should be required, and should be addressed in the transition plan which is described following Condition No. 11. These are in addition to, or modifications of, those conditions already proposed or accepted by the Applicants:

1. Scottish Power should make an explicit commitment to achieve an actual capital structure for PacifiCorp that is equivalent to that of comparable A-rated electric utilities in the U.S., and to maintain a common equity ratio of not less than 47%. It should commit to reducing dividend payouts and/or contributing equity capital as necessary to achieve this result. In this regard there should be appropriate limits placed on the amount of outstanding short-term debt that can be excluded from the calculation of the capital structure, and the common equity balance included in the capital structure calculation must be free of any "enhancement" as a result of any acquisition premium.

2. PacifiCorp and Scottish Power should formally commit not to request the inclusion of transaction costs, transition costs or acquisition premium in any revenue requirement filing, or to contend that a higher rate of return or some form of earnings sharing mechanism would be appropriate to allow for the opportunity to recover either these costs or the acquisition premium.

3. Some of the conditions imposed in connection with mergers in the U.K. (including on Scottish Power) should be imposed here as well. They include:

   a. Prohibit cross default provisions in the borrowing agreements among the various companies which constitute the overall enterprise.

   b. Make dividend payments conditional on the directors of PacifiCorp and Scottish Power being convinced and formally certifying to the Commission that PacifiCorp has adequate capital to meet all of its commitments and to carry out its public service obligations.

   c. Maintain investment grade ratings for PacifiCorp's outstanding debt.

   d. In conjunction with the declaration of any dividend, PacifiCorp not only comply with U.C.A. 54-4-27, but also certify to the Commission that the declaration of such dividend will not violate its capital structure commitment.

   e. PacifiCorp not assume any obligation or liability as guarantor, endorser, surety or otherwise for any parent, affiliate, or other entity without the express prior approval of the Commission. This should include an agreement that Scottish Power will not pledge any of PacifiCorp's assets as backing for any securities which Scottish Power or affiliated entities may issue. (The Commission already has the authority–with certain limited exceptions–under U.C.A. 54-4-31 to require pre-approval of any security issued directly by PacifiCorp.)

   f. Provide management and financial resources adequate to enable PacifiCorp to meet its commitments, carry out its authorized activities and to comply with all of its public service obligations.

   g. Separate PacifiCorp's transmission assets from its generation assets and subject them to independent operation.

4. Provide a specific written plan and detailed proposal for the allocation of corporate overheads and other costs among affiliated entities.

5. Require that Scottish Power/PacifiCorp strengthen their commitment concerning access to books, records and other documents to include making available the records of Scottish Power and any affiliates which pertain to any transactions between PacifiCorp and the affiliated entities, or any allocation of costs from these entities to PacifiCorp by making all such documents available to the Commission at a United States location.

6. Strengthen the commitment by Scottish Power/PacifiCorp concerning compliance with Commission regulations regarding affiliated interest transactions to clearly encompass not only existing rules and requirements, but also any changes which may be made to those statutes and regulations in the future.

7. Scottish Power/PacifiCorp have committed not to assert in any Commission proceeding that the provisions of the Public Utility Holding Company Act of 1935 preempts the Commission's jurisdiction over affiliated interest transactions. Require this commitment to be broadened to include an agreement not to assert lack of jurisdiction by the Commission with respect to regulation or jurisdiction by the Securities and Exchange Commission, whether or not the Public Utility Company Holding Act remains as is, is amended, or is repealed; and also not to assert lack of Commission jurisdiction in any court proceeding.

8. Require that Scottish Power/PacifiCorp agree that if there is a failure to uphold any of the guarantees, conditions or commitments, that the Commission may make adjustments to rates in order to achieve for customers the benefits which they would have received had the commitments, conditions, etc. been fulfilled.

9. Within 24 months following merger approval, separate the transmission portion of PacifiCorp's operations from the remainder and commit to place the transmission function in an RTO that meets Federal Energy Regulatory Commission (FERC) criteria; or if such an RTO does not exist, file within 18 months following merger approval, a plan detailing how PacifiCorp will arrange with other entities to conduct an independent operation of these transmission facilities.

10. Require that Scottish Power/PacifiCorp agree not to make any claim for "stranded cost" in connection with the movement to retail competition.

11. Require that Scottish Power/PacifiCorp agree to cap rates at current levels for a five-year period. Further, special contract customers should be permitted, at their option, to renew existing contracts on terms no less favorable to the customer than the terms of the current special contracts, or (if an RTO with non-pancaked rates is in place) be allowed to seek alternative supplies if Pacifi-Corp/Scottish Power is not willing to agree to renewal and extension on such terms.

Further, I recommend that the Commission require Applicants to file a formal transition plan which will contain the necessary draft agreements and other forms of implementation and which will express the required commitments and guarantees. This transition plan should also indicate, in detail, how Scottish Power plans to reduce costs and increase efficiencies throughout the existing PacifiCorp organization. The transition plan should be filed for Commission review, and acceptance by the Commission, after hearings, of a satisfactory transition plan should be a prerequisite of merger consummation. In other words,

the merger approval process should be a multi-step process. The first step would be issuance of an order by this Commission specifying required conditions and directing PacifiCorp/Scottish Power to file a transition plan. The second step is the filing of and hearings on the transition plan that conforms with the conditions in the Commission's initial order. The third step would be permission to consummate the merger based on a Commission order finding that the transition plan adequately addresses the required conditions and contains enforceable commitments. The final step would be the completion of the merger.

Standard for Merger Approval

Q WHAT STANDARD SHOULD BE APPLIED TO DETERMINE WHETHER THE PROPOSED MERGER IS IN THE PUBLIC INTEREST?

A The standard should be a requirement that the Applicants clearly demonstrate a high probability that consumers will achieve net positive benefits as the result of the combination. The net positive benefits concept has been generally applied by this Commission, including in the 1989 merger of Pacific Power & Light Company and Utah Power & Light Company to form PacifiCorp. (See Orders dated November 20, 1987 and September 28, 1988 in PSCU Docket No. 87-035-27.) The Commission's guidance memo of March 31, 1999 in this case specifically indicated that this would be the standard used for evaluating the merger.

Q ARE THERE ANY OTHER APPLICABLE STANDARDS OR GUIDELINES WHICH LEND SUPPORT TO OR PROVIDE GUIDANCE WITH RESPECT TO THIS DETERMINATION?

A Yes. The 1992 (as amended in 1997) U. S. Department of Justice/Federal Trade Commission (DOJ/FTC) horizontal merger guidelines are also instructive. In viewing proposed mergers to determine whether there are benefits which offset potential increases in market power, the DOJ/FTC guidelines look to three basic factors. First, the guidelines look to efficiencies that are generated as a result of the proposed merger, and which are unlikely to be accomplished absent the merger. Second, the guidelines also indicate that efficiency claims will not be considered if they are vague or speculative or otherwise cannot be verified by reasonable means. Third, DOJ/FTC look both to the expected benefits as well as the cost to achieve those benefits–in other words, the expected net savings or net benefits.

Although the proposed PacifiCorp/ Scottish Power merger does not increase horizontal market power, the basic guidelines published by DOJ/FTC are much broader in application than just to the inquiry concerning additional horizontal market concentration. After all, the overall purpose of the guidelines is to determine whether the benefits outweigh the detriments–and what we face with the PacifiCorp/Scottish Power merger is a similar cost-benefit analysis. Thus, the particular factors and considerations contained in the DOJ/FTC guidelines should be applied to the asserted benefits of this proposed merger in determining if the potential benefits outweigh the detriments.

Q **WHAT IS THE SIGNIFICANCE OF THE CONCEPT OF "NET" BENEFITS?**

A In a merger, it is possible that some costs will increase, or that there will be some costs incurred as a result of the merger that would not have been incurred absent the merger. The concept of "net" benefits allows for a finding of positive benefits, and a public interest determination, even though some costs may increase–PROVIDED that other costs decrease by an amount more than sufficient to offset these increases. More simply, it means that the pluses and minuses must be tallied to determine if the pluses are larger.

Q **HOW LARGE OF A MARGIN SHOULD THERE BE BETWEEN EXPECTED COST INCREASES AND EXPECTED COST DECREASES?**

A Recognizing that there are no perfect projections, and that there is some risk of error, I believe it is important that the reasonably expected decreases should offset the reasonably expected increases by a large enough margin that the Commission can have a high degree of confidence that the net effect will be positive benefits, i.e., a net reduction in costs. If there is not a large margin, then consumers clearly run the risk that the net result will be higher prices than they would have experienced absent the merger.

For example, if it were projected that the merger would bring benefits of $50 million, but additional costs of $40 million, the anticipated net benefit would only be $10 million. This would be a relatively small amount of expected benefit in light of the overall cost structure of PacifiCorp, and would not provide a high degree of assurance of realizing net positive benefits. On the other hand, if expected benefits were $250 million, while expected costs were $50 million, then a substantial margin would exist and the Commission could be much more confident about the outcome. It is not possible to specify a mathematical relationship which defines the necessary margin between expected benefits and expected costs. This is the situation because we cannot quantify the projection errors. Therefore, the net benefit must be large enough that the Commission can be confident of the result.

Q HOW CAN THE COMMISSION MAKE AN ACCURATE ASSESSMENT OF THE LIKELIHOOD THAT THERE WILL BE NET BENEFITS?

A Because so much is at risk, I believe it is essential that the Applicants in a merger proceeding provide comprehensive, detailed evaluations which support their assertions that there are positive benefits to be had for consumers. Absent such a showing by Applicants, claims of merger savings are just that–claims, which cannot be relied upon.

Applicants might be able to show, for example, that there are significant expected cost savings in a particular area by detailing the practices or procedures that are currently undertaken and describing what changes could be made, how they could be made, what the cost would be, and what benefits would be expected. A specific analysis of this type can be evaluated, the assumptions tested and an appraisal made of the validity of the contentions. Vague references to the ability to transfer management skills or to reproduce savings that were created in different environments under different circumstances simply do not pass muster.

<u>Cost Savings Potential</u>

Q IS IT LIKELY THAT THE PROPOSED MERGER WILL PRODUCE SIGNIFICANT SYNERGIES OR THE OPPORTUNITIES FOR IMPROVED EFFICIENCIES?

A No, it is not. To state the obvious, Scottish Power's operations are located in Europe, while PacifiCorp's are located in North America and in Australia. Given the physical separation of the properties, it is unlikely that any significant amount of cost reductions can be achieved by the merger that could not be achieved without the merger. In fact, this is rather explicitly acknowledged by PacifiCorp witness Richard T. O'Brien at Page 10 of his direct testimony, where he states:

> "The present transaction does not involve consolidation of two operating companies and is not principally motivated by potential operating improvements and savings."

Scottish Power witness Robert D. Green makes a similar statement at Page 4 of his direct testimony, noting:

> "The benefits to customers from this transaction takes the form of improvements in the quality of service and increased efficiency in operations, not rate adjustments. This transaction presents very limited opportunities for achieving immediate cost savings. Unlike most other US utility mergers, there are no significant, redundant corporate operations to be eliminated, nor are there synergies to be obtained in combining operating systems."

Q HAVEN'T APPLICANTS COMMITTED TO A $10 MILLION ANNUAL NET REDUCTION IN CORPORATE COSTS ALLOCATED TO PACIFICORP?

A Yes. Keep in mind, however, that no plan has been put forward to show how the $10 million savings will be achieved. Only broad generalities support this claim of cost reduction. Further, Applicants have not come forward with any specific plan of allocation of corporate costs that would allow parties to test the validity of these assertions. Applicants simply want the Commission and the parties to accept that this will be the result without detailing how it will be accomplished and without demonstrating that other costs will not increase.

Q HAVE APPLICANTS PUT FORWARD ANY PROJECTIONS OR ESTIMATES OF WHAT THE CORPORATE COSTS WOULD BE ABSENT THE MERGER?

A No, they have not. Without some kind of base line or starting point which indicates what the cost levels would be without the merger, it would be completely impossible to determine, in some future period of time, whether a $10 million "lower than before" cost item was the result of a combination of corporate functions and the introduction of efficiencies that resulted from the merger, or whether the $10 million reduction was the result of cost reductions that would have or could have occurred in the absence of the merger. Applicants have not shown that this asserted $10 million reduction is merger-related.

Q IF APPLICANTS CLEARLY DEMONSTRATED A $10 MILLION COST REDUCTION IN CORPORATE OVERHEADS, WOULD THAT BE SUFFICIENT, IN YOUR VIEW, TO DEMONSTRATE NET POSITIVE BENEFITS?

A No. $10 million is such a small percentage (0.2%) of PacifiCorp's total operating revenues as to be virtually meaningless in the overall context of PacifiCorp's operations. Moreover, the margin of error is too large to conclude that a $10 million reduction is merger-specific.

Q APPLICANTS HAVE PROPOSED TO IMPLEMENT CERTAIN PERFORMANCE STANDARDS AND CUSTOMER GUARANTEES. ARE THERE COSTS ASSOCIATED WITH THESE ACTIVITIES?

A Yes. At Page 15 of his direct testimony, Scottish Power witness Bob Moir describes a $55 million expenditure (<u>exclusive</u> of additional increases associated with potential investments in new information technology systems and also exclusive of costs of needed customer education and communication activities). Of this amount, approximately $30 million is described as capital investment for new infrastructure (mainly investments in the distribution network), and the remaining $25 million is characterized as additional maintenance, payments for failures to meet guarantees, employee costs and training. These are all in the nature of recurring expenses.

Q **ARE THESE COSTS OVER AND ABOVE CURRENT BUDGETED EXPENDITURES FOR PACIFICORP?**

A It depends on whose testimony you read. For example, in his direct testimony Mr. Moir (Page 15), in addressing the $55 million outlay, clearly states that they are:

> "These expenditures are in addition to the funding for which PacifiCorp had already planned without the transaction."

On the other hand, in his supplemental direct testimony, Scottish Power witness Alan V. Richardson (at Page 7 of his supplemental testimony), in addressing the same $55 million outlay, just as clearly states that they are not:

> "PacifiCorp's overall capital and revenue budgets will not increase as a result of these expenditures, however."

Q **HOW DOES MR. RICHARDSON SUPPORT THIS CONTENTION?**

A Mr. Richardson does not directly confront the conflict between his testimony and Mr. Moir's. However, in rationalizing his statement, he asserts that Scottish Power will seek to make offsetting performance-improving investments which also will lead to operational efficiencies and that it will simultaneously be seeking other efficiencies. Not only does he fail to quantify these offsetting benefits, but he does not even describe what they might be. These vague and unsupported claims do not support the ability to achieve these reductions.

His second rationalization is that a portion of the committed expenditures will be the result of modifying or accelerating projects which are already contained in PacifiCorp's budget. In particular, he mentions capital projects to improve the "worst performing circuits." If, in fact, these amounts are already budgeted by PacifiCorp, it is difficult to see how Applicants can claim merger-related benefits from these expenditures. To the extent that these actions were already planned by PacifiCorp, they are simply costs that would have been incurred in the ordinary course of business and the resulting benefits are not merger benefits at all.

Q **DO YOU HAVE ANY COMMENTS ON THE PROPOSED PERFORMANCE MEASURES AND CUSTOMER GUARANTEES?**

A I have concerns with respect to the base line or starting point, the proposed improvements and the attempted quantification of the value to the consumers of these changes.

Q **WHAT IS YOUR CONCERN WITH RESPECT TO THE STARTING POINT OR BASE LINE?**

A The main problem here is that PacifiCorp/Scottish Power do not know what the starting point or base line is. They have repeatedly stated a belief that the existing reporting systems are inaccurate, and that outages are under-reported. (See Testimony of Mr. Moir.) Furthermore, Applicants are unable to state how their performance under the specific criteria compare to performance of other electric utilities in the United States. (See PacifiCorp's Response to UIEC Request 6.19.) If they don't know where they are, and they don't know how they compare with their peers, it is difficult to understand how the existing performance can be determined to be in need of improvement, or by how much.

Q **WHAT CONCERN DO YOU HAVE WITH RESPECT TO THE PROMISED DEGREE OF IMPROVEMENT?**

A Similar to the above concerns, the specific 10% or 5% improvements that are described generally are without regard to a knowledge of the level of current performance and how that compares with the performance of peers. The 10% and 5% improvements appear to be just arbitrary, and are obviously not based on any studied consideration of the current level of performance or what level of performance is either desirable, acceptable or cost-effective. Furthermore, there is no demonstration that this degree of improvement could not be accomplished through a more concentrated effort by PacifiCorp, without the merger. Even setting aside the other concerns, which I just expressed, there is no showing that these benefits could not be achieved absent the proposed merger. Thus, they are not entitled to consideration as merger benefits.

Q **WHAT IS YOUR CONCERN WITH RESPECT TO THE EFFORT TO QUANTIFY THE POTENTIAL BENEFITS TO CONSUMERS AS A RESULT OF IMPROVED PERFORMANCE?**

A The quantification effort is based on extrapolating data from a 10-year old study of outage costs performed by the Bonneville Power Administration (BPA). The determination of outage costs is really an attempt to determine what benefits are foregone by, or what detriments are incurred by, consumers as a result of power outages of various durations. These types of studies tend to be very subjective and there has been little or no agreement in the industry as to what constitutes a valid measure or a valid quantification.

Furthermore, the asserted benefits do not show up in the form of reductions to utility rates, but are effects that would be experienced by consumers outside of the utility rates. It seems clear from PacifiCorp's testimony that rates will go up because of the carrying charges on additional investments and because of additional operating expenses. Other than vague assertions about the possibility of increased efficiencies, there is not even an attempted quantification of offsetting reductions in costs that might justify these additional expenditures.

Q WHEN WOULD APPLICANTS MAKE A DETERMINATION ABOUT WHETHER THEY HAVE MET THE IMPROVED PERFORMANCE LEVELS?

A I understand that this would not occur until the end of the fifth year following implementation. Since implementation could not occur at the time the merger would be approved, but only after further analysis has been conducted to accurately determine what the current level of performance is, this could be six or seven years after merger approval. This is a considerable amount of time for consumers to wait for a determination on whether performance is improved.

Q WHAT WOULD BE THE PENALTY TO APPLICANTS IF THEY FAIL TO ACHIEVE THE PROMISED IMPROVEMENTS?

A The promise is to pay each customer $1 for each standard that is not met. There are five such standards, and PacifiCorp has approximately 1.4 million electric utility customers, system-wide. Accordingly, failure to meet each and every one of these standards would result in a maximum penalty payment of only $7 million. This is an extremely small amount of money, even smaller than the promised benefits of reduced corporate cost allocation. Furthermore, more than $7 million might be saved by not implementing changes. Thus, there is no real incentive for performance improvement.

Q ARE THERE ANY ALTERNATIVE WAYS THAT PACIFICORP/SCOTTISH POWER COULD DEMONSTRATE ITS COMMITMENT TO QUALITY SERVICE?

A Yes. One way to do this would be to waive any tariff and other provisions that limit their liability to customers for failure to provide continuous and adequate service. The current tariffs provide certain liability limitations that shield the utility from damage claims by its customers. If these liability limits were removed then customers would have a direct avenue to enforce the supply of quality service because PacifiCorp would not be shielded from lawsuits and damage claims in the event of their failure to provide continuous and adequate service. I understand this is similar to the condition that Scottish Power faces in the U.K. (See Scottish Power's Response to UIEC Request 15.6.)

Q HAVE APPLICANTS UNDERTAKEN ANY SPECIFIC STUDY OF HOW PACIFICORP'S COSTS MIGHT CHANGE AS A RESULT OF THE PROPOSED MERGER?

A No. The response given by Scottish Power to Committee of Consumer Services Data Request S3.12 is both typical and instructive.

> "Based on the information provided in 3.11, please quantify the impact of merger-related changes on PacifiCorp's annual, total budget for domestic (regulated) electric operations. Please provide all supporting documents, workpapers, etc. [S&P]

> <u>Response</u>:
>
> ScottishPower has not yet had the opportunity to review PacifiCorp's domestic electrical operations business in detail, or indeed any other component of PacifiCorp's business. Such a review will only be completed once the transaction has closed and ScottishPower has free and unfettered access to the PacifiCorp business. At this time, ScottishPower, in conjunction with PacifiCorp staff, will develop a Transition Plan that will detail the precise impacts on all parts of PacifiCorp's business.
>
> It is therefore not possible to quantify the impact of merger-related changes on PacifiCorp. An account of the work that has been carried out to date, as well as details of the approach that ScottishPower will adopt to improve the efficiency of PacifiCorp's business in future, is contained within the direct testimony of Andrew MacRitchie that was filed with the Commission on February 26, 1999."

This is typical of the responses given by Applicants to all of the questions that have been asked seeking to determine more precisely how Scottish Power would propose to achieve cost reductions on the PacifiCorp system.

In a similar vein, the response of Scottish Power to the Committee of Consumer Services Data Request S9.77 is also illuminating.

> When Scottish Power suggests that prices for PacifiCorp's customers will be lower than they otherwise would have been without the transaction, what specific projections of PacifiCorp's prices are they using in each state? Who prepared these projections? [S]
>
> <u>Response</u>:
>
> The statement that prices will be lower than they otherwise would have been is not based on any specific projection of PacifiCorp's prices. Instead, it is based on the expected results of joint activities and initiatives, which will take place after completion of the transaction. The rate setting process provides the framework for the treatment of cost efficiencies, which might result following the completion of the transaction. So long as the regulated utility is earning its fair rate of return, efficiencies (i.e., cost reductions) would produce earnings in excess of this return level, which could lead to a reduction in rates. To the extent that the regulated utility is not

> earning its fair rate of return, those cost reductions would allow utilities some room to avoid or mitigate price increases.
>
> Once the transaction is completed, ScottishPower and PacifiCorp plan to undertake joint activities and initiatives that would improve PacifiCorp's operating performance and customer service. Based upon its prior experience, ScottishPower is confident that these sorts of initiatives will be successful and alleviate the pressure for price increases. These initiatives will ultimately keep PacifiCorp's cost of service from rising as rapidly as it otherwise could."

Q HAVE APPLICANTS PROMISED THAT RATES WILL NOT BE INCREASED IF THE MERGER IS PERMITTED TO OCCUR?

A No, they have not. In fact, at Page 9 of his direct testimony Mr. O'Brien explicitly rejects the notion that guaranteed price reductions should be a part of the merger conditions. Further, in response to UIEC Data Request No. 11.10, Scottish Power states as follows in response to a question concerning its expected return on investment:

> "ScottishPower as does PacifiCorp, seeks to earn its permitted return on equity. Cost reductions will be used to improve the rate of return. Returns in excess of the permitted level are subject to a rate review at the request of the Commission. Equally, ScottishPower reserves the right to seek justified rate increases if cost reductions are inadequate to generate required returns."

Q IS SCOTTISH POWER COMFORTABLE IN ITS CLAIMED ABILITY TO REDUCE COSTS FOR PACIFICORP'S CUSTOMERS?

A Scottish Power has more than one answer to this question. When it is attempting to convince the Commission and the parties that it is capable of removing significant costs from PacifiCorp's operations, it expresses the utmost confidence. When it is challenged as to whether it is willing to offer guarantees, its level of confidence is much lower.

Q WHAT LEVEL OF COST REDUCTION HAS SCOTTISH POWER INDICATED IT COULD ACHIEVE AT PACIFICORP?

A Scottish Power has indicated that it believes it could achieve savings of as much as $200 million per year. The basis for this was disclosed in response to Committee of Consumer Services Data Request S9.19.

> "ScottishPower has been reported as saying that PacifiCorp's annual costs could be reduced by as much as $200 million. Please provide the basis for this or any other estimates–however preliminary they may be–of PacifiCorp cost savings that ScottishPower believes might be achievable with better management. [S&P]
>
> Response:
>
> The yardstick comparison outlined within Mr. MacRitchie's testimony suggests that PacifiCorp's non-production costs would need to be reduced by around $140m from their current levels to move it to a top ten position. It is not therefore unreasonable for ScottishPower to speculate that if it was to look across the whole company, to also include all the previously excluded costs, then there could indeed be the potential to save up to $200m. However, until detailed planning is undertaken with PacifiCorp, ScottishPower cannot quantify what level of savings will actually be available from these indicative target ranges."

Q OBVIOUSLY, IN THIS RESPONSE, SCOTTISH POWER EXHIBITS GREAT CONFIDENCE IN ITS ABILITIES. WHERE HAS IT EXPRESSED A LOWER DEGREE OF CONFIDENCE?

A Among other places, in response to UIEC Data Request No. 6.159 to Scottish Power/ PacifiCorp. In answering a question requesting the preliminary estimates of potential cost savings, Mr. MacRitchie stated with respect to the yardstick analysis that was attached to his testimony that:

> "The yardstick analysis is shown in exhibit AM1 to the testimony of Andy MacRitchie. This indicates that a

> substantial amount of cost reduction would have to occur for PacifiCorp to be ranked as one of the top ten utilities within the US. ScottishPower believes that it can assist PacifiCorp in its drive to reach such a position. No detailed plans have been developed. It is important to understand that ScottishPower has found that the yardstick comparison, while directionally correct, can be misleading for a number of reasons:
>
> - Differences in overall operating environments for individual utilities may require them to invest in and then operate more expensive systems such as underground high-voltage transmission facilities.
> - Different cost allocation procedures or accounting conventions regarding the capitalization or expensing of certain items has the potential to distort results; and
> - Yardstick comparisons have inherent data problems and can mask best or worst practices in specific areas. Drawing too great a set of inferences about steps that should be taken to better manage the organization without knowing whether best practices are being employed in any or all areas could lead to erroneous recommendations.
>
> For these reasons, it is inappropriate to conclude actual values of cost savings using this approach."

Obviously, PacifiCorp/Scottish Power alternately embrace and disavow their own cost reduction claims and analyses depending upon whether they are attempting to persuade the Commission and the parties that they can take significant costs out of PacifiCorp, or whether the are attempting to avoid making corresponding cost reduction or rate reduction commitments.

Q ASSUME, FOR THE MOMENT, THAT SOME SIGNIFICANT LEVEL OF COST REDUCTION AT PACIFICORP WERE POSSIBLE. WOULD THE BENEFIT OF THESE COST REDUCTIONS GO TO CUSTOMERS UNDER THE PROPOSED MERGER PLAN?

A No. Scottish Power/PacifiCorp would need to try to retain the benefit of these cost savings for stockholders in order to fund the large merger premium. This means that customers are unlikely to see any part of these cost reductions, even if they do materialize.

The ability to reduce costs at PacifiCorp and hold the benefit of the cost reductions for shareholders has been mentioned in a number of analysts' reports which have addressed the merger. For example, a December 19, 1998 report by Warburg Dillon Read is clear about this concept. (The Warburg Dillon Read report notes that it has been produced independently of Scottish Power, but that Warburg Dillon Read is advising Scottish Power with respect to the PacifiCorp merger.) At Page 32 of its report, Warburg Dillon Read comments on this issue, stating as follows:

> "Scottish Power plans to increase PacifiCorp's actual regulatory rate of return toward the allowed rate of return via core cost reductions. In theory, Scottish Power has the management experience to achieve this and the <u>full benefit will flow to shareholders</u>. However–in practice–there is a careful balancing act to achieve with the state regulators in order to ensure that an increase in the actual rate of return is not clawed back by the state regulators via a regulatory reset to reduce the allowed rate of return. This will require diplomatic handling of the regulators and skillful management of the cost reduction process." (Emphasis supplied.)

Q ARE THERE ANY OTHER CONSIDERATIONS WITH RESPECT TO COST REDUCTIONS?

A Yes. To the extent that PacifiCorp is operating in ways that are inefficient, or could be improved, customers would be better off if PacifiCorp focused on its "core electricity business in the western United States," and took the steps necessary to effect these efficiency improvements and cost reductions. This way, customers would be able to directly experience the benefits of the cost reductions, and not have to see them extracted in order to pay for a merger premium that itself brings no value to the enterprise.

Q **PRIOR TO THE ANNOUNCEMENT OF THE PROPOSED MERGER, DID PACIFICORP ANNOUNCE ANY COST REDUCTION PROGRAMS?**

A Yes, it did. In January 1998 PacifiCorp implemented a significant workforce reduction, resulting in an after-tax charge against income of $113 million. This elimination of 700 positions should produce a substantial reduction in annual costs. In October 1998 PacifiCorp reported that it was undertaking steps to achieve further and significant cost reductions. These cost reductions included a number of items and were expected to result in an annual cost reduction of approximately $30 million before taxes.

Q **DO YOU BELIEVE THAT A COMBINATION WITH SCOTTISH POWER WOULD HELP PACIFICORP FOCUS ON ITS "CORE ELECTRICITY BUSINESS IN THE WESTERN UNITED STATES"?**

A No, I do not. Scottish Power has declared itself to be on a global acquisition path, and obviously has aspirations far beyond PacifiCorp. This will inevitably be a distraction for management, and will dilute other resources as well. In addition, as an entity within the Scottish Power group of companies, PacifiCorp will depend upon Scottish Power for equity capital. If Scottish Power experiences any impairment in its ability to raise equity capital–as a result of poor investment results in other currently operated or acquired properties, this would have a negative impact on PacifiCorp and its customers.

PacifiCorp has been down this route before. In large part the financial disappointments that have occurred recently have been the result of diversification, spreading management attention and resources too thin, and failing to adequately concentrate on the "core electricity business in the western United States." While Scottish Power may bring valuable management experience, Scottish Power itself is not focused strictly on PacifiCorp's "core electricity business in the western United States," and the tremendous cost pressure created by the acquisition premium associated with this proposed transaction significantly reduces the likelihood that PacifiCorp's electricity customers will see benefits as a result of the application of this management talent.

Q DO YOU FIND ANY SPECIFIC EVIDENCE THAT LEADS TO A CONCERN THAT SCOTTISH POWER MAY BE LOOKING TO PACIFICORP TO FUND OTHER ACQUISITIONS?

A Yes. In the May 6, 1999 document entitled "PacifiCorp Proxy Statement, Scottish Power plc Prospectus for up to 714,560,000 Ordinary Shares, New Scottish Power plc Prospectus for up to 714,560,000 Ordinary Shares" (proxy/prospectus) PacifiCorp revealed (at pages 136-137) a proposal to increase its unsecured debt limit by $5 billion, from approximately $2.2 billion currently, to $7.2 billion. (This is contained in the proxy/prospectus because PacifiCorp's preferred stockholders must approve this increase.)

The asserted reason for the increase in the unsecured debt limit is to achieve objectives of flexibility and favorable cost structure. No specific plan is set forth. This is a very substantial increase in unsecured debt for a company that has approximately $9 billion of permanent capital, and underscores the concern about the plans which Scottish Power may have for using PacifiCorp's borrowing capacity and cash generation to fund the acquisition of other companies or to finance affiliates.

<u>Additional Costs and Earnings Pressure</u>

Q ARE THERE SIGNIFICANT TRANSACTION COSTS INVOLVED IN THE PROPOSED MERGER?

A Yes. The proxy statement/prospectus dated May 6, 1999 reveals that the Applicants anticipate incurring substantial transaction costs in connection with the proposed merger. At Page 97, it is revealed that in connection with the merger the Applicants will incur fees and expenses of approximately £147 million, or approximately $240 million. This is a substantial cost which Applicants undoubtedly plan to recover in one fashion or the other–even if they do not propose explicitly to include it as a line item cost for rate-setting purposes.

Q ARE THERE OTHER IMPACTS ON THE COMBINED FINANCIAL RESULTS OF THE APPLICANTS THAT WOULD BE OF CONCERN?

A Yes. Referring again to the proxy/prospectus, the method of accounting for the transaction requires Scottish Power to establish a new accounting basis, to be based upon the fair market values of PacifiCorp's assets and liabilities and the purchase price for PacifiCorp, including the direct costs of the acquisition. This is discussed at Pages 96-98 of the proxy/prospectus.

For purposes of this presentation to investors, Scottish Power/PacifiCorp value PacifiCorp's regulated utility assets at essentially their historic net book value. The difference between that amount and the purchase price is attributed to "Goodwill" and is to be amortized to income over an expected 20-year useful life. Based on the stated assumptions concerning the relative common stock prices and the exchange ratio, the proxy/prospectus at Page 98 presents a Goodwill calculation amounting to approximately £1.2 billion, or $2 billion.

A 20-year amortization of this amount has an after-tax impact on combined operations of approximately £60 million per year, or almost $100 million per year. Since this is an after-tax amount, the reduction in expenses required to offset this amortization is approximately $160 million per year.

Recall also that the amounts discussed so far are strictly an amortization of the Goodwill premium, without regard to any return being earned on these funds. With a 20-year amortization period and an 8% interest rate, the annual burden essentially doubles from $100 million to $200 million on an after-tax basis, or to approximately $320 million on a before-tax basis. Scottish Power will be under severe pressure to cut costs in order to make this transaction economical for its shareholders.

Q IS ALL OF THE ACQUISITION COST AND ACQUISITION PREMIUM ATTRIBUTABLE TO PACIFICORP'S WESTERN U.S. ELECTRIC OPERATIONS?

A Almost all is. According to the response of Scottish Power to Emery County Data Request No. 2.10, approximately 80% of the overall value of the enterprise is attributed to the western U.S. electric operations. Thus, the annual cost reduction, before taxes, required to offset 80% of the total is approximately $250 million per year. This is a very substantial amount in comparison to PacifiCorp's annual operation and maintenance expense of approximately $1.4 billion (excluding purchased power transactions).

To the extent that it is unable to cut costs, PacifiCorp's electric customers are at substantial risk — facing requests for rate increases. And, as noted earlier,

Scottish Power has been clear that it will not hesitate to file for rate increases if it is failing to achieve its rate of return expectations.

<u>Experience Elsewhere</u>

Q **SCOTTISH POWER POINTS TO ITS TRACK RECORD IN REDUCING COSTS IN COMPANIES RECENTLY ACQUIRED IN EUROPE, MAINLY MANWEB AND SOUTHERN WATER. ARE THE CIRCUMSTANCES AT MANWEB AND SOUTHERN WATER SIMILAR TO THOSE AT PACIFICORP?**

A No, they are not.

Q **PLEASE EXPLAIN HOW CIRCUMSTANCES AT MANWEB AND SOUTHERN WATER ARE DIFFERENT.**

A The two primary differences are geography and history. With respect to geography, Manweb is physically proximate to Scottish Power. As Mr. Richardson testified at Page 16 of his Supplemental Testimony, this geographic proximity presented greater opportunities (than here) for cost savings by eliminating duplicative functions and combining electric operations. (This is the typical means by which merging electric utilities drive out costs and improve efficiencies.) The Southern Water acquisition is also similar in that the systems are geographically close.

In terms of historical differences, both Manweb and Southern Water were systems that had previously been government owned, and then been privatized. One of the primary drivers for privatization was the belief that privately operated enterprises subject to the profit motive would deliver better value to customers than did the bureaucratic entities then operating the utility systems. Taking costs out of these types of utilities is a different proposition than taking costs out of a utility that, like PacifiCorp, has a history of private ownership and which has already gone through a significant merger and cost reduction process.

Q **BUT, WASN'T SCOTTISH POWER PREVIOUSLY GOVERNMENT OWNED AS WELL?**

A Yes. And, its demonstrated successes would clearly indicate that it was more aggressive and better managed than either Manweb or Southern Water. The fact that circumstances are different in Utah does not at all diminish Scottish Power's accomplishments or capabilities. However, the geographic and historical differences between the proposed PacifiCorp/Scottish Power merger and the Scottish Power/Manweb and Southern Water merger cannot be overlooked. Despite the track record of Scottish Power, and its assurances that it can achieve improved quality of service while reducing costs, no specific showing has been made as to what will be done, or how it will be done.

<u>Public Interest Conclusion</u>

Q **BASED ON YOUR ANALYSIS, DO YOU BELIEVE THAT THE PROPOSED MERGER IS IN THE PUBLIC INTEREST?**

A I believe that it is not. As is clear from the above, Scottish Power must effect significant economies at PacifiCorp in order to make this transition economic for its shareholders. There is little evidence presented by Scottish Power as to how it would accomplish this result. And, there are no promises for rate reductions, or even rate caps which would provide some measure of protection to consumers.

Further, the potential exposure of PacifiCorp customers to the use of PacifiCorp's credit strength for additional financing and for acquisitions, as well as the management distraction that would be caused by the acquisition raise additional problems with respect to the proposed merger. Furthermore, there has not been a demonstration that there will be benefits in terms of cost reductions or increased efficiencies that will flow to customers; or if they do, that such benefits and increased efficiencies could not have been achieved absent the merger.

Given the substantial exposure to higher costs, and the limited amount of potential benefit indicated for customers, I believe that the proposed transaction is not in the public interest and that the Utah Public Service Commission should reject it.

Mitigation Conditions

Q IS IT POSSIBLE THAT THE PROPOSED MERGER COULD PRODUCE BENEFITS TO CONSUMERS, AND BE IN THE PUBLIC INTEREST?

A It is possible that, with enough conditions to mitigate risk and protect consumers from higher prices and impaired service, that the merger could be found to be in the public interest. These conditions should be designed to protect consumers from the possibility that net benefits are not produced by the transaction, and from increased risk resulting from the activities of the new global-minded parent corporation. To be effective, the conditions must address the particular risks to which customers are exposed, must mitigate those risks, and also be capable of implementation and enforcement by the Utah PSC.

This approach is consistent with that which was recently adopted by the FERC. In Docket No. RM-96-6; "Inquiry Concerning the Commission's Merger Policy Under the

Federal Power Act: Policy Statement," Order 592, issued December 18, 1996, the FERC indicated as follows at Page 38:

> "Rather than requiring estimates of somewhat amorphous net merger benefits and addressing whether the applicant has adequately substantiated those benefits, we will focus on ratepayer protection. Merger applicants should propose ratepayer protection mechanisms to assure that customers are protected if the expected benefits do not materialize. The applicant bears the burden of proof to demonstrate that the customer will be protected. This puts the risk that the benefits will not materialize where it belongs–on the applicants."

Q HAVE SCOTTISH POWER/PACIFICORP OFFERED ANY ASSURANCES OR MITIGATION MEASURES IN THIS REGARD?

A Some limited commitments have been proposed. They are summarized at Pages 6 and 7 of Exhibit AVR-1 which is attached to the supplemental testimony of Scottish Power witness Richardson.

Q THE FIRST SET OF COMMITMENTS IS DESCRIBED AS "ACCESS TO BOOKS AND RECORDS." PLEASE COMMENT ON THE ADEQUACY OF THIS COMMITMENT.

A This condition appears to be adequate as it pertains to the books and records of PacifiCorp. Essentially, there is an agreement for PacifiCorp to maintain its own accounting system, separate from Scottish Power's accounting system, and for all PacifiCorp financial books and records to be kept in Portland, Oregon, and to continue to be available to the Commission upon request at PacifiCorp's offices in Portland, Salt Lake City and elsewhere ". . . in accordance with current practice." As it pertains to PacifiCorp's specific books and records, this appears to be adequate. However, I would defer to the opinion of the Division with respect to the specific expression of this commitment and its adequacy.

Q THE SECOND COMMITMENT IS IN THE AREA OF "COST ALLOCATION, AFFILIATED INTEREST TRANSACTION." ARE THESE COMMITMENTS ADEQUATE?

A No. In this area, the first commitment is to a $10 million net reduction in PacifiCorp's corporate costs, by the end of the third year after the completion of the transaction. In connection with this, and the second commitment in this area, Scottish Power proposes to provide an analysis of the proposed allocation of corporate costs within 90 days after completion of the merger transaction. I find this to be inadequate.

As I testified previously, it is important that the Applicants come forward with a specific and detailed plan for allocation of costs before this Commission rules on the merger request. Leaving such important matters to be decided after the merger creates the opportunity for disagreement and possible litigation. The Commission should not condone this approach. Prior to merger approval the Commission should require the Applicants to file, as a part of its proposed transition plan, a specific, detailed and enforceable allocation plan. Accompanying this plan should be an illustration of the allocation of costs among the various corporate entities using actual data from a recent 12-month period.

The third and fourth commitments in this area pertain to the auditing of Scottish Power costs that are assigned to or allocated to PacifiCorp, and a commitment to make available the records of Scottish Power and any affiliates which pertain to any transactions between PacifiCorp and the affiliated interests. These commitments should be strengthened by requiring that all such books, records, documents and data be made available to the Commission at a United States location.

The fifth commitment in this area is an agreement for Scottish Power and PacifiCorp to comply with all existing Commission statutes and regulations regarding affiliated interest transactions. It should be clearly understood that "existing" means not only what is in place today, but also covers any changes which may be made to those statutes and regulations that pertain to affiliated interest transactions.

The sixth commitment is for Scottish Power not to subsidize its activities by allocating to or directly charging PacifiCorp expenses not authorized by the Commission to be so allocated or directly charged. This is consistent with the other provisions.

Finally, the seventh commitment in this area is that neither Scottish Power nor PacifiCorp will assert in any future Commission proceeding that the provisions of the Public Utility Holding Company Act of 1935 preempt the Commission's jurisdiction over affiliated interest transactions. This is fine as far as it goes, but it does not go far enough. It should be broadened to include regulation or jurisdiction by the Securities and Exchange Commission, whether or not the Public Utility Holding Company Act of 1935 remains as is, is repealed, or is amended. This provision should also be broadened to include agreement by Scottish Power and PacifiCorp that they also will not claim in any court proceeding that the Commission lacked jurisdiction over these transactions.

These broadened conditions are important because there can arise issues about whether this Commission has jurisdiction over particular agreements or contracts that may be filed with or approved by other agencies. The end result should be to ensure that this Commission has full authority to review, test the reasonableness of, and make decisions about the level of costs appropriate to be charged to Utah customers irrespective of the basic jurisdiction of the SEC. Furthermore, the agreement as proposed simply addresses assertions in Commission proceedings, and does not extend to court proceedings that might be triggered by appeals of the Commission's decisions. Inclusion of the same conditions–i.e., not to assert that the Commission's jurisdiction is preempted–at the court level is also required for this provision to be effective.

Q THE NEXT SET OF COMMITMENTS IS IN THE AREA OF "TRANSACTION COSTS." IS THIS AN ADEQUATE COMMITMENT?

A In this section Scottish Power and PacifiCorp simply state that they will exclude all costs of the transaction from PacifiCorp's utility accounts. They should also expressly commit not to request to include these costs in any revenue requirement filing, or to contend that a higher rate of return or some form of earnings sharing mechanism would be appropriate to allow for the opportunity to recover these costs.

In addition to the agreement not to include transaction costs, PacifiCorp and Scottish Power should explicitly agree not to include any transition costs or any part of the merger premium as an expense, or to contend that a higher rate of return or some form of earnings sharing mechanism should be implemented to allow for the opportunity to recover the acquisition costs. As previously discussed, the acquisition premium is substantially higher than transaction costs, and for the same reasons that it would be inappropriate to allow a recovery of transaction costs, recovery of the acquisition premium from Utah customers should similarly be prohibited.

Q THE NEXT SET OF COMMITMENTS IS IN THE AREA OF "FINANCIAL ISSUES." WHAT ARE THESE COMMITMENTS AND ARE THEY ADEQUATE?

A The first sub-point is a statement that Scottish Power "intends" to achieve an actual capital structure equivalent to that of comparable A-rated electric utilities in the U.S., with a common equity ratio for PacifiCorp of not less than 47%. I would describe this as an "intention" rather than a "commitment."

It would have much more value if Scottish Power would commit to "achieve and maintain an actual capital structure equivalent to that of comparable A-rated electric utilities in the U.S., with a common equity ratio for PacifiCorp of not less than 47%, unless a different common equity ratio is approved by the PSC after hearings. Scottish Power will adjust dividend payouts and/or contribute equity capital as necessary to achieve and maintain this result."

In addition, the commitments as now expressed do not define how capital structure will be calculated. For example, the treatment of short-term debt is not addressed, nor is the issue of merger premium–should part or all of the merger premium ultimately be recorded on the books of PacifiCorp.

Q WHAT IS THE CONCERN WITH RESPECT TO SHORT-TERM DEBT?

A As previously noted, PacifiCorp is requesting its preferred stockholders to approve a significant increase in the amount of unsecured debt, increasing the limit by $5 billion. Should Scottish Power/PacifiCorp determine to substitute a significant amount of short-term debt for long-term debt and common equity capital, the result would not show up in the capital structure if all short-term debt were excluded when the capital structure ratios were calculated.

To address this problem, I would recommend that the capital structure calculation made to determine whether the 47% equity ratio has been met include all short-term debt except that which is associated with the financing of construction work in progress (CWIP). Financing CWIP is a traditional use of short-term debt, but short-term debt in excess of that amount should be included as it is likely being used to support PacifiCorp's rate base.

Because this is a complex issue, PacifiCorp should be given the opportunity to demonstrate to the Commission, in an evidentiary hearing, if it so chooses, that this additional short-term debt is not being used to support rate base, and that its financial policy is in the best interests of its customers.

Q WHAT IS THE ISSUE WITH RESPECT TO THE ACQUISITION PREMIUM?

A The proxy/prospectus indicates in the pro forma financial statements that the effect of the merger premium would be to create an "intangible asset" on the asset side of the balance sheet, and an addition to the common equity balance on the liabilities side of the balance sheet. If all of the merger premium is recorded on the books of Scottish Power, this is likely not to be an issue. However, if any part of the merger premium ultimately is recorded on the books of PacifiCorp, the common equity balance would be inflated by this intangible investment, and could be an indirect way of recovering part or all of the acquisition adjustment. Since the acquisition adjustment is not to be recovered from customers, it is appropriate to require PacifiCorp/Scottish Power to commit not to include the effects of any merger premium in the common equity balance of PacifiCorp for its regulated operations.

Q **WHAT IS THE NEXT SUB-POINT?**

A The second sub-point is a commitment to maintain separate debt and preferred stock ratings. I would presume that so long as there is debt and/or preferred stock outstanding for PacifiCorp that they will be rated separately.

The third sub-point is that Scottish Power and PacifiCorp will provide the Commission with unrestricted access to all written information provided to common stock, bond or bond-rating analysts, which directly or indirectly pertains to PacifiCorp. I would assume this would also include transcripts of all telephone conferences, presentations and other briefings or interviews.

Q **ARE THERE OTHER KINDS OF COMMITMENTS OR CONDITIONS THAT WOULD BE APPROPRIATE?**

A Yes, there are. In determining what kinds of conditions or requirements would be appropriate, it is instructive to review how the U.K. has reacted to on-shore and off-shore acquisitions of its utilities, and how it has responded in light of the proposed acquisition of PacifiCorp by Scottish Power and the proposed acquisition of the New England Electric System by the National Grid Group plc.

Q **PLEASE EXPLAIN HOW THE U.K. HAS APPROACHED THESE ISSUES.**

A Relevant history begins with a February 24, 1998 publication of a "consultation paper" by the Office of Electricity Regulation (OFFER) concerning possible modifications to be made to the Public Electricity Supply Licenses (PES) of licensees that have been taken over by other owners. OFFER's stated intent was to strengthen the so-called "ring fence conditions" which had previously been established.

After taking comments, OFFER published its proposed further modifications on February 11, 1999. (This was provided in response to UIEC Data Request No. 12.3 to Scottish Power/PacifiCorp.) The adopted conditions include the separation of the generation business from the delivery service business, the requirement to maintain investment grade credit ratings, the prohibition of cross-default provisions in borrowing agreements, and limitations on dividend payments.

All of these conditions were intended to separate the business operations, to improve the assurance of availability of adequate capital and management resources, and the delivery of quality service. The document which memorializes these findings is fairly lengthy, but the press release which accompanied the publication is fairly succinct in its summary of the main points. They are as follows:

> "OFFER today published its response to a consultation on further modifications to the licences of public electricity suppliers (PESs) which have been subject to takeovers.
>
> The main points are:
>
> - where a PES has been taken over by another company having interests in generating plant, such that its own-generation limit would be breached, the generation business should be held by an affiliate which is not a subsidiary. In such cases, the generation business should be place outside the PES's financial ring-fence;
> - the present provision allowing PESs to carry on certain activities, provided they do not exceed 5 per cent of aggregate turnover, should be restricted further by introducing an additional test based on cumulative investment;
> - PESs should be required to seek and maintain investment grade credit ratings;
> - cross default provisions should be prohibited in any borrowing agreement; and
> - dividend payments should be conditional on the PES's directors being satisfied that the PES had complied with the ring-fencing conditions in its licence."

Q PLEASE CONTINUE WITH YOUR DISCUSSION OF THE ACTIONS TAKEN IN THE U.K. IN RESPONSE TO MERGERS.

A On February 4, 1999, just prior to the release of the general conditions noted above, OFFER released a consultation paper specifically directed toward the proposed acquisition of PacifiCorp by Scottish Power and the proposed acquisition of New England Electric System by the National Grid Group plc. In this release, OFFER succinctly expressed some of its concerns surrounding these transactions:

> "The proposed acquisition raises some of the same concerns as were raised in those cases where PES licensees were taken over by US utility groups. OFFER will need to be satisfied that the interests of customers of ScottishPower's public electricity supply businesses in England, Scotland and Wales, and its transmission business in Scotland, will continue to be properly protected and competition facilitated, in particular, that these businesses will continue to have available to them adequate management and financial resources to carry on their authorized activities and to comply with their obligations under their respective licences and the Electricity Act, and that adequate safeguards are in place to prevent such resources being diverted elsewhere.
>
> OFFER has made a number of modifications to the PES licences of licensees that have been taken over to provide continued protection of customers and to maintain regulatory effectiveness following take-over. These provisions have come to be referred to collectively as the "ring-fence". These modifications were made to Manweb's PES licence following its acquisition by ScottishPower. Similarly, the Director General of Water Services has introduced analogous protections in respect of Southern Water. However, no comparable modifications have yet been made to ScottishPower's licence to ensure protection of its Scottish distribution, PES supply and transmission businesses."

Obviously, OFFER was quite concerned about the ability of its domestic entities to stay focused on and provide adequate supplies in light of the distractions and obligations imposed by the foreign acquisitions.

Subsequently, after having received assurances from Scottish Power, the Department of Trade and Industry (DTI) approved the proposed merger of Scottish Power and PacifiCorp without referring it to the Competition Commission. According to the April 13, 1999 press release, the recommendation was made in accordance with the advice of the Director General of Fair Trading (DGFT) and with the views of the Director General of Electricity Supply (DGES).

Accompanying this release was an April 1, 1999 letter from Scottish Power to the Secretary of State for Trade and Industry, which contains Scottish Power's commitments. Notable among Scottish Power's commitments made in this letter are the following:

> "1) ensure that sufficient financial and management resources and other facilities are available to enable subsidiaries licensed under the 1989 Electricity Act to carry out their statutory and licence obligations;
>
> 2) ensure that the DGES is provided with such information from any company in the holding company group as he requires in relation to the exercise of his regulatory functions;
>
> 3) co-operate with the DGES in ensuring appropriate financial separation and financial independence for subsidiaries licensed under the 1989 Electricity Act;
>
> . . . .
>
> 6) restructure its business in Great Britain as soon as reasonably practicable and in any event within three years so as to place generation, and any non-electricity activities, in one or more separate group companies which would be affiliates but not subsidiaries or parent companies of the remaining electricity activities. In the meantime, it will ensure that any new investment in additional generation capacity or other significant diversification by group companies licensed under the 1989 Electricity Act will be undertaken by a separate group company or companies, and not by any company or by any subsidiary of any company holding any existing licences granted under the 1989 Electricity Act; and

> dealings between the holders of such licences and any such separate group company will be at arm's length and on normal commercial terms;
>
> 7) following restructuring, to accept a financial ring-fence around the public electricity supply and transmission businesses presently carried on by Scottish Power plc on similar terms to the standard ring-fence terms;"

Q DO YOU BELIEVE THAT PARALLEL ASSURANCES TO THE UTAH PSC AND TO THE CUSTOMERS OF PACIFICORP WOULD BE APPROPRIATE?

A Yes, I do. The financial conditions, the capital and managerial resource commitments and the separation of business activities all provide important assurances to consumers.

Q DO YOU HAVE SPECIFIC SUGGESTIONS WITH RESPECT TO THESE ADDITIONAL COMMITMENTS?

A Yes. I would suggest that Scottish Power/PacifiCorp be required to conform to the following:

1. Maintain investment grade ratings for PacifiCorp's outstanding debt.

2. In conjunction with the declaration of any dividend, PacifiCorp not only comply with U.C.A. 54-4-27, but also certify to the Commission that the declaration of such dividend will not violate its capital structure commitment.

3. PacifiCorp not assume any obligation or liability as guarantor, endorser, surety or otherwise for any parent, affiliate, or other entity without the express prior approval of the Commission. This should include a pledge that Scottish Power will not pledge any of PacifiCorp's assets as backing for any securities which it or its affiliates may issue. (The Commission already has the authority under U.C.A. 54-4-31 to approve the issuance of any security–with certain limitations–issued by PacifiCorp.)

4. Provide management and financial resources adequate to enable PacifiCorp to carry out its authorized activities and to comply with all of its public service obligations.

5. Separate PacifiCorp's transmission assets from its generation assets and subject them to independent operation, and agree to fund all (or its proportionate share) of necessary expansions.

Separation of Transmission Function

Q WHY DO YOUR RECOMMENDATIONS EXTEND TO THE SEPARATION OF THE TRANSMISSION ASSETS FROM THE GENERATION ASSETS?

A This is a very important consideration.

It is clear that the U.S. electric utility industry is moving to a competitive market both at the wholesale level and the retail level. A vibrant competitive market for generation depends heavily upon the ability of generation owners to have nondiscriminatory access to the transmission networks at fair and reasonable prices.

The FERC continues to underscore the importance of this concept. It was most recently addressed in the May 13, 1999 Notice of Proposed Rulemaking (NOPR), Docket RM99-2, on "Regional Transmission Organizations." In this NOPR, the Commission proposes to establish fundamental characteristics and functions for appropriate retail transmission organizations. In Section I the Commission provides a brief recitation of the recent history of promoting open access transmission systems, and at Pages 6 and 7 states as follows:

> "As a result, the traditional means of grid management is showing signs of strain and may be inadequate to support the efficient and reliable operation that is needed for the continued development of competitive electricity markets. In addition, there are indications that continued discrimination in the provision of transmission services by vertically integrated utilities may also be impeding fully competitive electricity markets. These problems may be depriving the Nation of the benefits of lower prices, more reliance on market solutions, and lighter-handed regulation that competitive markets can bring."

Thereafter, FERC finds (Pages 7 and 8) that appropriately structured regional transmission institutions can: (1) improve efficiencies in transmission grid management through improved pricing, congestion management, better estimates of available transmission capacity, improved parallel path flow management, more efficient planning and increased coordination between regulatory agencies; (2) improve grid reliability; (3) remove remaining opportunities for discriminatory transmission practices; (4) improve market performance; and (5) facilitate lighter-handed regulation.

The Commission goes on to discuss these issues and expresses the following conclusion at Page 8.

> "Thus, we believe that appropriate regional transmission institutions could successfully address the existing impediments to efficient grid operation and competition and could consequently benefit consumers through lower electricity rates resulting from a wider choice of services and service providers. There are likely to be substantial cost savings brought about by regional transmission institutions."

Nondiscriminatory access to the transmission network at reasonable prices is no less important to retail customers in a competitive environment than to wholesale customers in a competitive environment. Simply stated, unless there is an independent, effective organization to plan, maintain and operate the transmission system, competition will be an illusion rather than a reality.

In addition, a regional organization which brings together the transmission assets of a large number of utilities enhances competition by making available use of the entire transmission network of the combined group at a single transmission price. For example, if there are currently four separate transmission systems, each system might have a transmission rate of, for instance, $1 per kilowatt-month. To move power across all four entities, under today's pancaked rate arrangement, would cost a transmitter $4 per kW-month. If these transmission assets were folded into a single ISO or RTO structure with the typical postage stamp type of rate structure, then a transmitter could utilize all four systems by paying a single price of $1 per kW-month. This is a significant benefit of an ISO or RTO because it greatly enhances the number of generation resources that can be competitive for any given load. Developing region-wide transmission rates such as these is essential to the development of a robust competitive market.

Q WHAT IS THE ATTITUDE OF SCOTTISH POWER TOWARD THE SEPARATION OF TRANSMISSION ASSETS?

Confidential A ***Confidential***

[Confidential information redacted]

Confidential ***Confidential***

Given this expressed attitude by Scottish Power, the Utah Public Service Commission should do as OFFER did and take this opportunity to extract from Scottish Power/PacifiCorp a definitive restructuring commitment. The commitment should be to place PacifiCorp's transmission assets into an RTO that meets FERC's criteria (as stated in RM 99-2) within 24 months after the approval of the merger, or to file within 18 months after the approval of the merger a definitive plan outlining how PacifiCorp would place its transmission assets in the hands of an independent and capable third-party administrator.

If the Commission fails to extract this commitment as a condition of merger approval, it may have a difficult, if not impossible, time in requiring this action to be taken after the merger has been approved.

Q **WHY WOULD FAILURE TO EXTRACT THIS COMMITMENT AS A MERGER CONDITION MAKE IT DIFFICULT, IF NOT IMPOSSIBLE, FOR THE COMMISSION TO REQUIRE THIS ACTION TO BE TAKEN AFTER THE MERGER HAS BEEN APPROVED?**

A It is my understanding that this Commission may not have the authority to directly order a utility to create or join an ISO or RTO. However, this Commission could achieve the same results by imposing this as a condition of merger approval and requiring Scottish Power/PacifiCorp to accept this condition in return for merger approval. This approach has been applied in numerous instances by the FERC and by other regulatory commissions. (For example, see FERC Opinion No. 318, issued October 26, 1988, in Docket No. EC88-2-000. This was the FERC Opinion which conditionally approved the merger of Utah Power & Light Company and Pacific Power & Light Company. In it, the FERC expressly conditioned its willingness to approve the merger on the Applicants' undertaking an absolute obligation for the merged company to provide firm wholesale transmission service at cost-based rates to any utility requesting such service.This was the beginning of a series of actions which culminated in the Energy Policy Act of 1992 which opened transmission systems in general.)

Other Opportunities

Q ARE THERE ANY OTHER FACTORS ARISING FROM THE MERGER THAT SHOULD BE CONSIDERED BY THE COMMISSION IN DETERMINING WHETHER TO CONDITION MERGER APPROVAL ON THE SEPARATION OF TRANSMISSION ASSETS?

A Yes. Absent the merger with Scottish Power, PacifiCorp could merge with, acquire, or be acquired by another geographically proximate electric utility. This would result in a consolidation of transmission assets across the entire service territories of the combined utilities and would, at a minimum, result in the availability of transmission service across the entire region at a single, un-pancaked, rate. I also consider it likely that as a condition of the merger regulators would require the transmission assets to be placed into some form of ISO or RTO.

If the merger with Scottish Power is approved, PacifiCorp will no longer be a separate entity, but will be a part of Scottish Power. Therefore, in order to achieve a consolidation of transmission assets, it would be necessary for a geographically proximate utility to acquire Scottish Power in its entirety or for Scottish Power to acquire the other utility. Acquisition of post-merger Scottish Power in its entirety, given its capitalization and multiple holdings, is a far different proposition than acquiring PacifiCorp.

Even if a geographically proximate utility were interested in acquiring the entirety of Scottish Power, there is an impediment in the form of the "Special share" of Scottish

Power held by the Scottish Government. The purpose and function of the special share are described in more detail at Pages 109-110 and 122 of the proxy/prospectus. Essentially, no one may own or control 15% or more of the voting rights of Scottish Power without the explicit consent of the holder of the "Special share"–the U.K. Government. If anyone acquires 15% or more of the stock, the Directors of Scottish Power are entitled to give notice to such holder, and to require it to reduce its holdings to less than 15% within 21 days. Failure to comply with such notice will result in the Directors of Scottish Power disposing of the excess shares on terms that the Directors believe reasonable.

This "Special share" clearly gives the U.K. Government veto power over the acquisition of Scottish Power, and hence PacifiCorp and its electric operations and the transmission assets. This is an impediment that would not be faced but for the merger of PacifiCorp into Scottish Power, and is another factor that the Commission should consider in determining to require a separation and independent operation of PacifiCorp's transmission assets as a condition for the merger.

Stranded Costs

Q ARE THERE ANY OTHER CONDITIONS OR COMMITMENTS THAT THE COMMISSION SHOULD REQUIRE?

A Yes. As discussed previously, Scottish Power is proposing to pay a substantial premium for PacifiCorp's assets. This is purely a voluntary transaction on the part of Scottish Power. The willingness to pay this substantial premium clearly suggests that the market value of PacifiCorp's generation assets at least equal, and probably exceed, their book value. Otherwise, what would be the basis for paying a substantial premium to book value? Scottish Power operates in a competitive environment in the U.K. and is certainly well aware of the trends toward competition in the United States' retail markets.

Existing PacifiCorp stockholders, under the proposed transaction, would receive a substantial premium, not only to book value (basis for regulatory earnings), but also to the market price of the stock, which itself was in excess of book value. PacifiCorp's stockholders will receive shares in Scottish Power, which they may retain or are free to sell and convert into cash or invest in other enterprises.

Stranded cost claims are typically based on the argument that investors acted in "good faith" and committed their capital to a regulatory scheme where they would expect to receive fair compensation. Regulation, however, typically sets prices based on the actual book value of the prudently incurred costs for assets that are used and useful. The significant amount being paid for PacifiCorp's stock should certainly extinguish any claim that shareholders may have had to any additional compensation for stranded cost. And, the acquiring company, Scottish Power, certainly cannot be said to be naive or unaware of the potential for either no stranded cost recovery or less than full stranded cost recovery in a retail market that is made competitive.

Thus, an additional condition which should be placed on the merger is that when retail customers are allowed to purchase electricity competitively, Scottish Power/ PacifiCorp agree <u>not</u> to make any claim for stranded cost recovery. If the Commission does not impose this condition now, then Scottish Power could subsequently be requesting compensation for stranded costs, while at the same time arguing that it should be allowed to keep the benefit of cost reductions because they are necessary to compensate it for the merger premium, which it voluntarily paid for these "inflated" assets.

Rate Levels

Q **HAVE PACIFICORP OR SCOTTISH POWER MADE ANY COMMITMENTS WITH RESPECT TO RATE LEVELS?**

A No. In fact, as discussed previously in this testimony, they specifically have refused to make any commitments either to hold rates constant or to decrease rates.

Q **DOES THIS CREATE A SIGNIFICANT EXPOSURE FOR CUSTOMERS?**

A Yes, it does. As noted above, a substantial premium over book value is being paid for PacifiCorp, and the annual amortization of the merger premium created in this process has a significant impact on earnings.

Q **WHAT RATE-RELATED COMMITMENT WOULD BE REQUIRED IN ORDER FOR THE PROPOSED TRANSACTION TO BE CONSIDERED IN THE PUBLIC INTEREST?**

A In order to protect customers, it is necessary to shield them from exposure to the possibility that cost increases offset cost decreases. This is best done by transferring the risk for failure to achieve these cost reduction and efficiency goals to utility management and shareholders–who are making the promises and who have control over the Company. At a minimum, I believe that a five-year rate cap should be instituted. A rate cap means that rates cannot be increased above where they are currently, but they could be decreased. Also, a rate cap would not prohibit PacifiCorp from filing new or innovative rates or contracts, and tariff rates and contract rates could be reduced below their current levels.

Q PLEASE ELABORATE ON THIS FIVE-YEAR RATE CAP.

A First, a reasonable period of time is required in order to allow Scottish Power to effect the changes that it asserts it can implement. For example, it claims to need more than five years to benchmark and to achieve the improvements in system performance. It would presumably also take some period of time for Scottish Power to "get the PacifiCorp house in order" and effect the other reductions which it claims are possible.

In addition, PacifiCorp and Scottish Power will be incurring transaction costs and transition costs for an extended period of time. Since these costs are not to be included in developing rates charged to customers, imposing a rate cap for a reasonable period of time maximizes the incentive for PacifiCorp/Scottish Power to minimize these costs and avoids the need for the Division and other parties to rate proceedings to spend the resources required to ensure that all of these costs are extracted from any revenue requirement claim.

Third, to the extent that Scottish Power's earnings come under pressure because of the amortization of the merger acquisition premium, the mechanism of a five-year rate cap eliminates the temptation to use rate increases from PacifiCorp to cover these additional costs.

It is also instructive to note that in the proxy/prospectus, at Page 40 and at Page 51, it is reported that the investment bankers for both PacifiCorp and Scottish Power analyzed and adjusted projections of the earnings potential for PacifiCorp under various conditions. The advisors to PacifiCorp (Salomon Smith Barney) evaluated

PacifiCorp based on the base or "plan case," as well as under an "improvement case" forecast. The advisors to Scottish Power (Morgan Stanley) performed a parallel analysis, in which the base case was referred to as the "conservative case" and the alternative case was referred to as the "optimistic case." Both advisors produced substantially higher estimates of value for PacifiCorp using the more aggressive assumptions than under the base case assumptions. The Salomon Smith Barney analysis was based on a particular forecast that extended through 2003, while the Morgan Stanley analysis was based on a forecast that extended through the year 2007. These analyses not only indicate the potential for cost reductions, but also support the idea that several years will be required to achieve these potential savings, to the extent that they are present.

Q SHOULD THIS RATE PROTECTION EXTEND TO SPECIAL CONTRACT CUSTOMERS AS WELL AS TO TARIFF CUSTOMERS?

A Yes. PacifiCorp/Scottish Power have been less than definitive in stating their intentions with respect to renewal of special contracts. At Page 17 of his supplemental testimony, Scottish Power witness Richardson addresses the issue of special contracts, but states only that PacifiCorp will continue to honor existing contracts through the expiration of their current terms. Beyond that, he defers to the results of the Commission task force on special contracts established in the March 4, 1999 Order in Docket No. 97-035-01. This provides little or no assurances to current special contract customers. After existing special contracts expire, contract customers are exposed–to an even larger degree than are the tariff customers–to potential cost increase because they would face increases not only to the same extent as tariff customers, but also to the extent of the difference between the rates under the existing special contracts and the tariff rates.

Q WHAT DO YOU RECOMMEND WITH RESPECT TO SPECIAL CONTRACT CUSTOMERS?

A To afford these customers a measure of protection similar to that which would be afforded to tariff customers, I recommend that PacifiCorp be required to renew any existing special contracts that expire during the five-year rate cap period, at the option of the customer, on terms no less favorable to the customer than the terms of the current special contracts.

Alternatively, if PacifiCorp is resistant to renewing existing special contracts on these terms, then PacifiCorp should be required to release these customers from any commitment to purchase electricity from PacifiCorp and allow them, instead, to purchase electricity competitively on the open market and to deliver the power to their locations on the PacifiCorp system using the FERC-approved OATTs. PacifiCorp/ Scottish Power should not be allowed to refuse renewal of contracts unless customers have a viable transmission option in the form of an RTO or an ISO so that the pancaking problem is avoided.

Transition Plan

Q IF THE COMMISSION SHOULD DECIDE TO APPROVE THE MERGER, BUT WITH CERTAIN CONDITIONS, HOW SHOULD IT PROCEED?

A If the Commission decides to approve the merger, with conditions, then it should explicitly state in its order the conditions which it will require to be fulfilled along with any other specific requirements. PacifiCorp/Scottish Power should then be required to file with the Commission a transition plan which would contain the specific details of how the merger would be implemented along with copies of any documents such as allocation agreements and explicit acceptance of the required merger conditions by the management of Scottish Power and PacifiCorp.

In this transition plan, Applicants should be required to specify the exact form of corporate structure that will be used, including all subsidiary and affiliate relationships.

The transition plan should also contain Applicant's preliminary plans for achieving cost reductions and efficiencies in each major functional area of operations. This is necessary in order to provide some level of assurance that there are significant and reasonably verifiable benefits which will result from the merger.

As a part of the transition plan, and ultimately as a part of merger approval, Applicants should be required to certify their commitments to these conditions.

Q HOW WOULD THE TRANSITION PLAN RELATE TO FINAL MERGER APPROVAL?

A The Commission should make it clear in its initial order that filing an acceptable transition plan is a <u>precondition</u> to the merger. The Commission should not leave major conditions or details about post-merger organization or operations vague and unspecified. If the transition plan is not satisfactory, then the Commission should reject the merger proposal. If the Commission determines, after hearings, that the transition plan is acceptable, then the merger transaction can go forward.

Q **PLEASE SUMMARIZE THE STEPS TO MERGER APPROVAL.**

A The first step would be issuance of an order by this Commission, after hearings, stating the conditions that PacifiCorp/Scottish Power will be required to agree to in order to achieve merger approval, and requiring that a transition plan be filed to address these conditions.

The second step is for PacifiCorp/Scottish Power to file a transition plan that contains all of the necessary conditions, formal commitments and certifications, plans, programs and documentation which the Commission requires as merge conditions.

The third step would be to hold hearings on the transition plan. If the Commission finds that the transition plan is acceptable, then, as the final step, the merger can go forward.

Q **HAVE YOU REVIEWED THE REBUTTAL TESTIMONY OF SCOTTISH POWER/ PACIFICORP IN THE OREGON MERGER PROCEEDING, DOCKET UM 918?**

A Yes, I have.

Q **MR. MACRITCHIE STATES AT PAGE 3 OF HIS OREGON REBUTTAL TESTIMONY THAT SCOTTISH POWER WOULD BE WILLING TO PROVIDE A TRANSITION PLAN ADDRESSING HOW COST SAVINGS WOULD BE ACHIEVED. WOULD SCOTTISH POWER'S PROPOSAL OFFERED IN ITS OREGON REBUTTAL TESTIMONY BE SATISFACTORY?**

A It would not be satisfactory, but it is a step in the right direction. While acknowledging the need to come forward with more explicit plans concerning implementation of actions that will result in cost reductions and efficiencies, the transition plan is apparently limited to just these matters. Furthermore, the Company proposes that this transition plan would be offered six months after the closing date of the merger. This is totally unacceptable. By then the merger will be a done deal, and the Commission will not have an opportunity to unravel it. As I indicated earlier, the transition plan must be filed with the Commission prior to approval, and the preparation of an acceptable transition plan must be a precondition to the merger.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.

Qualifications of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business mailing address is P. O. Box 412000, 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and President of the firm of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section of the Engineering and Technology Division of Esso Research and Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

In the Fall of 1965, I enrolled in the Graduate School of Business at Washington University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of Master of Business Administration. My major field was finance.

From March of 1966 until March of 1970, I was employed by Emerson Electric Company in St. Louis. During this time I pursued the Degree of Master of Science in Engineering at Washington University, which I received in June, 1970.

In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis, Missouri. Since that time I have been engaged in the preparation of numerous studies relating to electric, gas, telephone and water utilities. These studies have included analyses of the cost to serve various types of customers, the design of rates for utility services, cost forecasts, cogeneration rates and determinations of rate base and operating income.

I have testified before the Federal Energy Regulatory Commission (FERC), various courts and legislatures, and the state regulatory commissions of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and Wyoming.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and assumed the utility rate and economic consulting activities of Drazen Associates, Inc., founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Our staff includes consultants with backgrounds in accounting, engineering, economics, mathematics, computer science and business.

We have prepared many studies relating to electric, steam, gas and water properties, including cost of service studies in connection with rate cases and negotiation of contracts for substantial quantities of gas and electricity for industrial use. In these cases, it was necessary to analyze property records, depreciation accrual rates and reserves, rate base determinations, operating revenues, operating expenses, cost of capital and all other elements relating to cost of service.

During the past five years, Brubaker & Associates, Inc. and its predecessor firm has participated in over 500 major utility rate cases and statewide generic investigations before utility regulatory commissions in 40 states, involving electric, gas, water and steam rates. Rate cases in which the firm has been involved have included more than 80 of the 100 largest electric utilities and over 30 gas distribution companies and pipelines.

In addition to our main office in St. Louis, the firm also has branch offices in Kerrville, Texas; Plano, Texas; Denver, Colorado; Chicago, Illinois; and Washington, DC.

Before the
Public Service Commission of Utah

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order approving the Issuance of PacifiCorp Common Stock	**)))))**	**Docket No. 98-235-04**

STATE OF MISSOURI	**)**	
	)	**SS**
COUNTY OF ST. LOUIS	**)**	

Affidavit of Maurice Brubaker

Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Utah Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony which was prepared in written form for introduction into evidence in Public Service Commission of Utah Docket No. 98-2035-04.

3. I hereby swear and affirm that the testimony is true and correct and shows the matters and things it purports to show.

Maurice Brubaker

Maurice Brubaker

Subscribed and sworn to before this 18th day of June, 1999.

Carol Schulz

Notary Public

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of June, 1999, I caused to be mailed, first class, postage prepaid, a true and correct copy of the foregoing Testimony of Maurice Brubaker on behalf of the Utah Industrial Energy Consumers to:

Michael Ginsberg **(Confidential Version)**
Assistant Attorney General
Utah Division of Public Utilities
160 East 300-South
Salt Lake City, Utah 84111

Edward A. Hunter **(Redacted Version)**
Stoel Rives Boley Jones & Grey
201 S. Main St., #1100
Salt Lake City, Utah 84111

Doug Tingey **(Confidential Version)**
Assistant Attorney General
Committee of Consumer Services
160 East 300 South
Salt Lake City, Utah 84111

Brian W. Burnett **(Confidential Version)**
Callister, Nebeker & McCullough
10 East South Temple, #800
Salt Lake City, Utah 84133

Peter J. Mattheis **(Redacted Version)**
Dean S. Brockbank
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson Street, N.W.
800 West Tower
Washington, D.C. 20007

Glen E. Davies **(Redacted Version)**
Parsons, Davies, Kinghorn & Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, Utah 84111

Stephen R. Randle **(Redacted Version)**
Randle, Deamer, Zarr, Romrell & Lee, P.C.
139 East South Temple, Suite 330
Salt Lake City, Utah 84111-1004

Charles E. Johnson **(Redacted Version)**
1338 Foothill Blvd., Suite 134
Salt Lake City, Utah 84108

Daniel Moquin **(Redacted Version)**
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, Utah 84116

Lee R. Brown **(Redacted Version)**
V.P. Contracts, Human Resources
Public & Government Affairs
238 North 2200 West
Salt Lake City, Utah 84116

Eric Blank **(Redacted Version)**
Land and Water Fund of the Rockies
2260 Baseline, Suite 200
Boulder, CO 80302

Gary A. Dodge **(Redacted Version)**
Parr Waddoups Brown Gee & Loveless
185 South State Street, Suite 1300
Salt Lake City, Utah 84111-1536

Matthew F. McNulty, III
(Redacted Version)
Van Cott, Bagley, Cornwall & McCarthy
50 South Main St., Suite 1600
P.O. Box 45340
Salt Lake City, Utah 84145

Douglas O. Hunter **(Redacted Version)**
General Manager
Utah Associated Municipal Power Systems
2825 E. Cottonwood Parkway, Suite 200
Salt Lake City, Utah 84121

David F. Crabtree **(Redacted Version)**
Deseret Generation & Transmission Co.
5295 South 300 West, Suite 500
Murray, Utah 84107

Brian L. Farr **(Redacted Version)**
Assistant Attorney General
160 East 300 South
P.O. Box 140857
Salt Lake City, UT 84114-0857

Steven Allred **(Redacted Version)**
Salt Lake City Corp. Law Dept.
451 South State St., Suite 505
Salt Lake City, Utah 84111

Roger O. Tew **(Redacted Version)**
60 South 600 East, Suite 200
Salt Lake City, Utah 84102

Paul T. Morris **(Redacted Version)**
3600 Constitution Blvd.
West Valley City, Utah 84119

Margie Dillman

Before the
Public Service Commission of Utah

RECEIVED
JUN 22 4 10 PM '99
UTAH PUBLIC SERVICE COMMISSION

In the Matter of the Application of PacifiCorp and Scottish Power plc for an Order approving the Issuance of PacifiCorp Common Stock	)))))	**Docket No. 98-235-04**

STATE OF MISSOURI	)	
	)	**SS**
COUNTY OF ST. LOUIS	)	

Affidavit of Maurice Brubaker

Maurice Brubaker, being first duly sworn, on his oath states:

1. My name is Maurice Brubaker. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000. We have been retained by Utah Industrial Energy Consumers in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my direct testimony which was prepared in written form for introduction into evidence in Public Service Commission of Utah Docket No. 98-2035-04.

3. I hereby swear and affirm that the testimony is true and correct and shows the matters and things it purports to show.

Maurice Brubaker
Maurice Brubaker

Subscribed and sworn to before this 18th day of June, 1999.

Carol Schulz
Notary Public

My Commission Expires February 26, 2000.

17218

RECEIVED

JUN 16 3 12 PM '99

SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the matter of the Application of PacifiCorp and Scottish Power plc for an Order Approving the Issuance of PacifiCorp Common Stock	Docket No. 98-2035-04

DIRECT TESTIMONY

OF

TOM DOLAN

ON BEHALF OF UTAH LEAGUE OF CITIES AND TOWNS

June 17, 1999

INTRODUCTION

Q. Please state your name and address.

A. Tom Dolan, 10000 Centennial Parkway, Sandy, Utah 84070

Q. What is your present elected position?

A. I am currently the mayor of Sandy, Utah. I was initially elected in 1993 and am serving my second term.

Q. What is your role with the Utah League of Cities and Towns.

A. I am the 1st Vice President. In that capacity I will become President of the ULCT next year. I am also Co-Chair of the League's Task Force on Electrical Utility Issues.

Q. Briefly explain the purpose and organization of the Utah League of Cities and Towns?

A. The ULCT is an association of 232 cities and towns in the State of Utah that represents the governmental, financial and political interests of its members. The leadership of the organization are all elected officials. The ULCT Board of Trustees has approved the actions the ULCT has taken during these proceeding.

Q. Why has the Utah League of Cities and Towns chosen to participate in these proceedings?

A. Because of municipalities unique status and ability to enter into franchise agreement, we have not historically involved ourselves in Commission matters. However, we believe that there are several significant matters facing our residents that may well be more economically and efficiently addressed in this forum. We believe that, by placing certain conditions upon the merger, the merger becomes a benefit to the residents of the State. Without those conditions, the proposed merger offers little incentive for our support. Those conditions will be more fully explored in the remainder of my testimony.

TESTIMONY OUTLINE

Q. What is the purpose of your direct testimony?

A. I will outline why electrical utility issues are critical to Utah's cities and towns and why municipal leaders are so concerned about the proposed merger. In addition, I will explain that, pursuant to the Utah Constitution, cities and towns are granted the power to furnish public utilities to their residents. Lastly, I will outline why the ULCT is making its specific proposal for PSC action.

MUNICIPAL CONCERNS AND PROPOSALS

Q. Aside from matters of obvious convenience and quality of life for municipal residents, why is important to Utah's cities and towns that the delivery of electrical power be done in a manner that meets the unique needs of each community?

A. Let's start with economic development. Every city wants to promote economic development in their community and, by doing so, provide a significant economic benefit to the entire State. That economic development may take many different forms depending upon the location, climate, workforce and a variety of other factors. However, to attract and, importantly, retain any type of commercial activity depends upon the availability of adequate electrical power. It is essential to these goals that municipalities not only have electric power but that they have electric power that is reliable. With modern technology and manufacturing that is heavily dependent upon uninterrupted electric service, the existing electric infrastructure appears to not meet many of those demands. This failing makes it difficult to attract and retain those electricity-dependent businesses. In addition, many areas of the existing system needs to be expeditiously upgraded to correct deferred improvements that are currently having adverse impacts upon our economic development efforts.

Q. Are there any other areas of concern?

A. People may feel that these discussions are really more about rates than merger and past history may prove them right. However, cities and towns see the issue much more broadly. The adequacy and delivery of electrical power is a critical element in the entire growth management and the physical planning of municipalities. These matters include zoning, aesthetics, safety, residential and commercial construction and an array of related matters.

Municipalities need to have adequate power supplies delivered that are consistent with the needs of those particular areas. While large transmission towers may be quite acceptable in industrial areas, the same are no longer acceptable in many residential or retail areas. Similarly, while overhead lines may be warranted in rural areas with small concentrations of population and development, those same lines, with the advent of the 21st century, are an anachronism that are contrary to sound planning and aesthetics in the more developed communities of our state. It is my view that Scottish Power's corporate and engineering philosophy is more attuned to the modernization of the system than we have experienced with PacifiCorp.

As our older communities engage in the necessary rebuilding of their crumbling infrastructure, it makes sound municipal and state strategy to promote flexibility in dealing with the vastly different problems and solutions within our municipalities. The population of this State does not expect, nor should it, that all communities look alike. Rather, they want the flexibility to reflect their cultural, economic, aesthetic and political diversity. These demands require the ability to work locally with the merged company to meet those local needs.

Q. Does the League have a proposal that would facilitate this flexibility?

A. Yes. One approach would be a local option tariff that would allow local government to implement that optional tariff either for broad-based electrical infrastructure and planning needs or for project-specific electrical infrastructure and planning needs. However, we would emphasize that any such tariff should only facilitate enhancements to the power system that are not considered part of the basic system.

Q. Scottish Power and PacifiCorp have highlighted improved performance as a primary objective. In fact, they have included such things as a payment for outages over 24 hrs. Will this help with economic development?

A. Obviously any focus on improved performance is good. I have no reason to doubt that these companies are sincerely interested in improving reliability. I have to say that it is my experience that 24 hr. outages are very rare. Even so, this is a residential solution to a residential problem.

Long, extended outages may not be the problem of businesses. It is often the mini-outages, often mere seconds that causes problems. While these outages may last for very short periods, they have the capacity to completely shut down computerized manufacturing processes and do, in fact, result in costly interruptions. The proposed service standards would have no impact in this very important area. To date, I have not been made aware that Scottish Power has proposed any specific solution to this significant problem.

Q. What do you propose?

A. First, we believe the merged company should be required to demonstrate its financial and technical commitment to resolving these recurrent outages. Further we believe the company should demonstrate its willingness and ability to work with new and existing businesses to provide review and comment upon the electrical services and infrastructure necessary to provide reliable service to these businesses.

Second, a major condition of the merger will be the determination of true performance standards. An initial decision will be the establishment of some type of performance baseline. In addition, there will be a need to decide which party or parties will be bear the costs of remedial work to the current system, maintenance of that system, and enhancements to the system. Clearly, we think that Utah's cities and towns should be part of the process. In fact, there should probably be two separate investigations and hearings undertaken - one to conditionally approve the merger and a subsequent one to establish performance standards.

Q. Are there other concerns regarding the merger?

A. The essence of the proposed merger is that of a stock transfer. Utah cities and towns see this as more than a simple paper transaction with significant operating changes. We hope that there are changes and that they are positive. Without demonstrable and material changes, we believe that the applicants would have failed to meet their burden in these merger proceedings. In our discussions with Scottish Power there are a number of items which Utah cities view as very positive. However, it is simply naïve to approach this process as anything other than the creation of a new company. Hopefully it will be a better company – but nonetheless a different one.

The dynamics of the last merger are precisely the reason why Utah's municipalities are involved this time around. In the UP&L merger there was concern about whether Utah would lose its power company; not just in terms of economics, but such things as local control, loss of jobs, etc. In other words, would the new PacifiCorp be an Oregon company with simply a Utah presence. It is my understanding that a number of statements were made that Utah would see no change in the operating style and commitment to Utah.

However, I know of very few people who would argue that today's PacifiCorp is anything like the former UP&L. Most of my constituents and others I speak with feel that PacifiCorp is an out-of-state corporation which increasing operates and functions with a diminished sensitivity to Utah concerns. There has been a gradual transfer of all operating and managerial responsibility to Portland. There has been diminished involvement with Utah communities. If the result of that merger could have been predicted, the Commission would have seen a much stronger municipal response to that merger without certain conditions. We should all learn from the problems associated with that merger.

Q. Do you have a proposal to mitigate that loss of local sensitivity?

A. Yes. We believe it is essential that some of the high level management be resident in Utah. That management needs to be well integrated into and knowledgeable about Utah. We believe that only in that way can the merged company have a comprehensive view of the economic, cultural and political dynamics that surround the relationship between the company and its customers and municipalities.

Q. Explain how you see Utah cities reacting to the merger in terms of current franchise agreements?

A. Utah cities have always held the position that under the Utah Constitution they are granted the authority to provide public utilities. This position has been further reinforced by Utah Supreme Court interpretations. Now, how cities choose to discharge this responsibility may vary from community to community.

Q. Do cities discharge that responsibility in different ways?

A. Some cities may choose to actually own and operate their own power systems. Other communities choose not to actually own their own system, but rather to provide for the public utility by granting a franchise to another entity to provide power. A majority of Utah cities now have a franchise agreement with Utah Power & Light/PacifiCorp. However, in each case that decision is, ultimately, the city's to make.

Q. Are these franchise agreements the same for every community?

A. The short answer is no. However, it is important to remember several important points. First, until fairly recently (the past 15 years) the primary concern of cities was to ensure a stable supply of electricity. There was really only one alternative to building your own system and that was to have Utah Power and Light provide electricity. As a result, many cities entered into long-term franchise arrangements with UP&L. Many of these agreements were almost copied from community to community and do not reflect the current state of the industry. In some larger cities, extensive negotiations resulted in substantial rights to the benefit of the residents in those cities. Lastly, there are some places where there has never been a written agreement. In other words, while there are similarities, these agreements vary greatly among Utah's municipalities.

Most franchises were entered into with Utah Power & Light. If the Scottish Power merger is approved that means Utah cities will now be dealing with a corporate entity that is now two times removed from the original agreement. We have gone from dealing with a Utah company managed by our friends and neighbors to the possibility of dealing with a company of international proportions. We have seen no reason why the new managers cannot become new friends and neighbors and we hope they do. However, we think that our residents expect us to engage in good business practices. Those practices dictate reviewing the current state of affairs and, when appropriate, modifying those relationships.

Q. Do you see the possibility that Utah cities would reopen current franchise agreements?

A. We not only see it as a possibility, we believe it is required. We are advised that applicants may have a different view. Accordingly, we believe that it would be an appropriate condition of approving the merger that Scottish Power be required to demonstrate that they are prepared to acquire municipal consent, franchise or permit to operate in the municipal rights-of way. Without that condition, I believe there is a very substantial likelihood that extensive, time-consuming and expensive litigation will follow.

Some cities have agreements that are due to expire, others require municipal consent as an express condition, and it can reasonably be argued that the remaining agreements are so changed from their original premise that they are no longer valid. What we are really offering by agreeing to submit to some PSC involvement is an orderly process. It is not in the applicants' interest nor those of the municipalities and their residents to engage in such conduct when it could easily be resolved as a condition of merger.

It is certainly possible that many, if not most municipalities will simply allow an assignment of Utah Power & Light/PacifiCorp's franchise, but that option must remain one solely within the province of an individual municipality.

Q. It has been suggested that there may be some alternative motivation for such action. For example, is there a concerted effort to have cities own and operate their own systems?

A. I know of no organized plan for municipalization of electrical systems. I do know that cities are interested in having reliable electrical power that is delivered in a manner that is consistent with their particular needs. To the extent that the merged company can provide those services, there is little impetus for municipalities to undertake the substantial economic burden associated with creating their own system. On the other hand, if the new company is not responsive to those needs, certainly, municipalities will be tempted, either singularly or in concert with other, to create municipal systems that reflect the needs of local residents and businesses.

The Commission should not be confused that our position is part of the debate between public and private power. Rather, we are here because we want an electrical supplier that will be responsive to our needs. If Scottish Power will do so, we endorse their application. However, we believe that it is essential that their willingness and ability be documented before the merger is approved rather than grant approval upon the hope that they will do so after the merger.

We do not want to face the same failing that resulted from the undocumented conditions of the last merger.

REACTION TO APPLICANT'S PROPOSAL

Q. Does the ULCT have a general reaction to the proposed merger?

A. My response is not that of an engineer or a public utility expert. Rather, it is the response of a community leader concerned about the future of his city and state. It is apparent that with or without this merger that there will be dramatic change in how PacifiCorp will operate in the future. It also appears likely that if this merger is not approved that eventually some other company will propose acquisition of PacifiCorp.

All indication to date show that Scottish Power is a credible company with an international reputation for performance. They have made considerable efforts to meet with representatives of municipal government and respond to our concerns. Based upon these efforts, ULCT believes that there is the real likelihood of a significant and positive shift in corporate attitude. This change will, I believe foster a better relationship between the merged company, municipalities and their residents. Early on, leaders of the ULCT indicated preliminary support for the merger and I would indicate that this position has not changed. At the same time, we have also stated that there are important conditions that need to be attached to the merger.

First, we are concerned that municipal rights and authorities not be negatively impacted. We have outlined an approach to protect these critical interests and at the same time ensure that there is an orderly process. Second, the ULCT lends its voice along with many others seeking performance and reliable standards to govern the activities of the new company.

Q. Would you comment further on the need for these standards?

I mentioned earlier that Scottish Power and PacifiCorp had attempted to develop performance standards, or better stated penalties for non-performance. I also indicated that while interesting they were really not too applicable to the type of matters that often cause us our main concerns. Another intervenor, the Utah Associated Municipal Power Systems (UAMPS) has also presented testimony which comments more directly on this issue. I should note that most of UAMPS members are also members of our organization as well. Their expert testimony outlines some performance conditions that we also believe are important. As such, I would refer you to their testimony for some details.

However, it is important to emphasize that I am neither an electrical engineer nor an expert in electrical power issues. Nor are most political and community leaders. As such, it is important that the PSC take adequate time and receive the necessary input to determine both the future standards of performance and the appropriate baseline for measuring that performance. Candidly, I believe that development of the performance standard requires a second set of hearings and investigations independent of the validity of the merger. I believe that the ULCT would support that additional effort to develop the performance baseline and future standards.

SUMMARY OF PROPOSAL

Q. Can you summarize the League's proposals?

A. If the following conditions are accepted by Scottish Power, the League supports the application:

1. adoption of a local option tariff for electric infrastructure and planning;

2. demonstration of the Company commitment to solve reliability issues and the creation of universal and meaningful service standards;

3. Utah-resident management; and

4. agreement of Scottish Power to obtain consent or franchises from municipalities.

Q. Does this conclude your testimony?

A. Yes

Dated this 17th day of June, 1999

Tom Dolan

Tom Dolan

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the application of PacifiCorp and Scottish Power plc for an Order approving the Issuance of PacifiCorp Common Stock	:	UTAH LEAGUE OF CITIES & TOWNS CERTIFICATE OF SERVICE RE: TOM DOLAN DIRECT TESTIMONY Docket No. 98-3025-04

I hereby certify that I caused to be mailed, postage prepaid this 18th day of June, 1999, true and correct copies of Direct Testimony of Tom Dolan on behalf of Utah League of Cities & Towns to the following:

Edward A. Hunter
Stoel Rives LLP
201 South Main, Suite 1100
Salt Lake City, UT 84111-4904

Michael Ginsberg
Assistant Attorney General
Division of Public Utilities
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Doug Tingey
Assistant Attorney General
Committee of Consumer Service
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Peter J. Mattheis
Matthew J. Jones
Brickfield, Burchette & Ritts, P.C.
1025 Thomas Jefferson St., N.W.
800 West Tower
Washington, D.C. 20007

Brian W. Burnett
Callister Nebeker & McCullough
Gateway Tower East, Suite 900
10 East South Temple
Salt Lake City, UT 84133

Lee R. Brown
Vice President
Magnesium Corporation of America
238 North 2200 West
Salt Lake City, UT 84116

Daniel Moquin
Assistant Attorney General
1594 West North Temple, Suite 300
Salt Lake City, UT 84116

Gary A. Dodge
Parr Waddoups Brown Gee & Loveless
185 South State, Suite 1300
Salt Lake City, UT 84111-1536

Bill Thomas Peters
David W. Scofield
Parsons, Davies, Kinghorn
& Peters, P.C.
185 South State Street, Suite 700
Salt Lake City, UT 84111

F. Robert Reeder
William J. Evans
Parsons Behle & Latimer
201 South Main Street
P.O. Box 45898
Salt Lake City, UT 84145-0898

Stephen R. Randle
Randle Deamer Zarr Romrell &
Lee P.C.
139 East South Temple, Suite 330
Salt Lake City, UT 84111-1004

David F. Crabtree
Deseret Generation & Transmission
Co-operative
5295 South 300 West, Suite 500
Murray, UT 84107

Eric Blank
Law Fund Energy Project
2260 Baseline Road, Suite 200
Boulder, CO 80302

Matthew F. McNulty III
Van Cott Bagley Cornwall & McCarthy
50 South Main Street, Suite 1600
P.O. Box 45340
Salt Lake City, UT 84145

Dr. Charles E. Johnson
The Three Parties
1338 Foothill Blvd., Suite 134
Salt Lake City, UT 84108

Chris Allred