

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter Of The Application of)
PacifiCorp and Scottish Power plc) Docket No. 98-2035-004
for an Order Approving the Issuance)
of PacifiCorp Common Stock)

SCOTTISH POWER

DIRECT TESTIMONY OF ALAN V. RICHARDSON

FEBRUARY 26, 1999

INTRODUCTION

- Q. Please state your name and business address.
- A. My name is Alan V. Richardson, and my business address is 500 N.E. Multnomah St., Suite 900, Portland, Oregon, 97232.
- Q. By whom are you employed and in what capacity?
- A. I am employed by Scottish Power plc. Prior to announcement of the transaction, I was Managing Director of the Power Systems Division. I will become an Executive Director and a member of ScottishPower's Board of Directors effective April 1, 1999.
- Q. What are your current responsibilities for the company?
- A. My current responsibilities are to manage the issues regarding the transaction between ScottishPower and PacifiCorp. These include regulatory affairs, communications, community interface, and strategic and business planning.
- Q. What position will you hold with PacifiCorp after the transaction is closed?
- A. I will be the Chief Executive Officer of PacifiCorp after the transaction is completed.
- Q. Where will you be located?
- A. In Portland, as I have been since the transaction was announced on December 7 of last year.
- Q. Please summarize your education and business experience.
- A. I earned a degree in electronics and electrical engineering from Sunderland Polytechnic. I am a member of the Institute of Electrical Engineers. For most of my career, I have been engaged in the power/electrical engineering business. I spent a large part of my career with A. Reyrolle and Company and later with the Bushing Company, where I became Director and General Manager. Later, I joined Reyrolle Switchgear as Director and General Manager. In 1990, I left Reyrolle to join ABB Power for one year before joining ScottishPower as managing director of the transmission business. In 1995, I became managing director of the Power Systems division of ScottishPower, including the distribution businesses in Scotland and in Manweb. I am also a Visiting Professor at the University of Strathclyde in Glasgow, and a member of the board of the Glasgow Development Agency, which is responsible for investment and development in Glasgow. In November 1997, I was honored for my contribution to the electricity supply industry, receiving a "Lifetime Achievement Award" sponsored by Transmission & Distribution World magazine.

TESTIMONY SUMMARY

- Q. What is the purpose of your direct testimony in this proceeding?
- A. I will establish that this transaction will serve PacifiCorp's customers in the public interest. On some topics, I will give an overview of the testimony to be provided by other ScottishPower witnesses.
- Q. How is your testimony organized?
- A. My testimony addresses the following topics:
- Background of ScottishPower
 - ScottishPower's record in transforming businesses
 - The transaction with PacifiCorp
 - Benefits of the transaction

- System performance and customer service improvement
- Commitment to communities
- Commitment to the environment

How PacifiCorp will be managed

- Commitment to employees
- Cost savings
- Competition and restructuring

Q. Why do you believe this transaction is in the public interest?

A. The combination with ScottishPower will enable PacifiCorp to become one of the top ten electric utilities in the U.S. ScottishPower's skills and experience will allow PacifiCorp to achieve substantial improvements in network performance and customer service and provide tangible benefits to all of PacifiCorp's stakeholder groups. All this will be achieved more quickly, more economically, and with greater certainty than by PacifiCorp acting alone. In addition, ScottishPower's proven track record in transforming utility businesses and running them efficiently will mean that, over time, prices for customers will be lower than they would be without the merger.

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

A. Mr. Bob Moir will testify about our plans for improving system performance and customer service, including the introduction of guaranteed service standards. Mr. Jack Kelly will testify about planned commitments to the community and employees. Mr. Robert Green will be testifying about financial and ratemaking policy issues. Finally, Mr. Andrew MacRitchie will testify about potential operating cost reductions as a result of introducing ScottishPower's experience and expertise in operating regulated utilities.

BACKGROUND ON SCOTTISHPOWER

Q. Please explain who ScottishPower is.

A. The ScottishPower Group is a leading multi-utility business in the U.K. with approximately 5 million customers across Scotland, England, and Wales. The Group's activities span the generation, transmission, distribution, and supply of electricity; water and wastewater services; gas supply; telecommunications; selling of electrical appliances; and technology and contracting services. The ScottishPower group comprises one of the largest industrial groups in the U.K. and has its headquarters in Glasgow, Scotland. At its roots, ScottishPower is a very old company. ScottishPower's predecessors have been supplying electricity to the central belt and the south of Scotland for over 100 years. Prior to 1989, the company was known as the South of Scotland Electricity Board, which was renowned world-wide for its engineering excellence. Until 1991, the company was government owned and operated. It was privatized in 1991. Additional information about ScottishPower is contained in ScottishPower's Annual Report and Accounts 1997-98, which is an Appendix to the Application in this proceeding, and in Exhibit SP __ (AVR-1).

Q. ScottishPower has expanded its operations into other utility businesses in the U.K. Could you briefly describe this growth?

A. At the time of privatization in 1991, the strategy of ScottishPower was very clear. ScottishPower was a medium-sized utility, and we decided that the prime tasks were to reduce our operating costs in all our areas of business and to raise customer service

standards to the highest practical level. The company focused on these tasks for the first three years of its existence as a privatized utility, to the exclusion of any overseas activity or major projects outside Scotland. We continued these efforts through benchmarking and additional investments in training and information technology to reduce operating costs and raise service levels. In 1994, we had a clear view that we were achieving our goals of low-cost operation and high customer service across the breadth of the business, and that we could continue to move forward with our business strategy. In 1995, we acquired, for over \$1.7 billion, a regional electricity company, Manweb, serving 1.3 million customers in the northwest of England and north Wales, consisting of both urban (the City of Liverpool) and very rural areas. In 1996, we acquired, for over \$2.5 billion, a water and wastewater company in the south of England, Southern Water, with 1.7 million customers for wastewater service, and 900,000 customers for potable water service.

Q. What has been the experience of these companies under ScottishPower's management?

A. Both of these companies have been transformed as a result of renewing the emphasis on core business activities. This has led to substantial improvements in customer service and operational performance in both companies.

Q. What types of improvements have been achieved?

A. Some of the key improvements at Manweb since the time of the acquisition are: (1) customer minutes lost have been reduced by nearly 30 percent; (2) guaranteed standards failures have been reduced by approximately 75 percent; and (3) complaints to OFFER have been reduced by nearly 40 percent. Some of the key improvements at Southern Water since the time of that acquisition are: (1) leakage from pipes has been reduced by over 50 percent; (2) there has been a substantial improvement in wastewater treatment compliance; and (3) the number of properties at risk of flooding has been reduced by over 25 percent.

Q. Have these improvements been recognized by the regulators of these companies?

A. Yes. We have been recognized by both our U.K. regulators, the Office of Electricity Regulation ("OFFER") and the Office of Water Regulation ("OFWAT"), for these improvements. Indeed, Ian Byatt, Director General of Water Service for OFWAT, stated in 1998: "I am pleased to see the improvement in operating efficiency made by Southern Water under its new management" Additionally, we have received the Charter Mark from the U.K. government for excellent customer service at both companies. Southern Water is one of the few major U.K. water and wastewater companies to be awarded the Charter Mark. More information about these Charter Mark awards is contained in the testimony of Bob Moir.

Q. Is there a basic philosophy that underpins the way ScottishPower does business?

A. Yes, there is. The ScottishPower Values are the heart of the way we deal with employees, customers, our communities, shareholders and other stakeholders. You will see them posted on the wall in every ScottishPower office, supply depot and retail shop. The ScottishPower Values are as follows:

- Well earned customer loyalty
- Enhanced shareholder value
- Positive working environment
- Trust of communities
- Teamwork and leadership

Further information regarding the ScottishPower Values is included in Exhibit SP ____ (AVR-2).

Q. How are these Values incorporated into your business?

A. We measure ourselves, our company and our employees' performance in the context of these Values. Additionally, we report to the public on an annual basis about our performance against targets in key areas, including quality of supply (customer service), community, environment, and employees. Annual reports for the year 1997-98 are Exhibit SP ____ (AVR-3).

THE TRANSACTION WITH PACIFICORP

Q. Could you describe the reasons for the transaction with PacifiCorp?

A. ScottishPower has a clear strategy of delivering high quality customer service and shareholder value. As you would expect in well-run businesses, we have evaluated our strategic capabilities and our abilities to deliver further value from our core competencies. We believe that we have a proven capability to understand and manage electric utility operations, to understand electric utility markets, and to transform average-performing businesses into ones that set the industry standard. The reason for the transaction is to exercise these transformational capabilities in the U.S. market and to position PacifiCorp for a strong future.

Q. How did ScottishPower determine that PacifiCorp was an ideal partner?

A. Over the past two years, ScottishPower evaluated the U.S. market and a number of possible combination partners. We believe we have found an ideal partner in PacifiCorp. The company combines an attractive asset base and customer profile with a core utility business that offers substantial scope for improved performance in customer service and system operations, as well as improved efficiency. Although PacifiCorp is a sound business with good assets, it has recently suffered from financial under-performance. Key strengths of PacifiCorp, upon which ScottishPower intends to build, include:

- Extensive customer base in an economically attractive region of the U.S.;
- Low-cost generating resources;
- Knowledgeable and dedicated work force; and
- Experienced operational management.

Q. Could you describe briefly the transaction?

A. The transaction is essentially a simple one. It involves only a change in the shareholders of PacifiCorp. PacifiCorp would be an indirect wholly owned subsidiary of ScottishPower and would operate on a stand-alone basis, headquartered in Portland, Oregon, with operations in substantially the same structure as they are today.

Q. Will the type of transaction that you're proposing change in any way the degree of regulatory oversight this Commission will have over PacifiCorp?

A. No. The Commission will continue to exercise precisely the same degree of regulatory oversight over PacifiCorp as it does today. We are experienced operators of regulated businesses. The majority of ScottishPower's income is from regulated businesses. We intend to work positively and continuously with regulators in the U.S., as we do in the U.K., as businesses and markets develop.

Q. So you would anticipate no change in the ability of this Commission to look out for the interests of customers located in this state?

- A. None whatsoever. Indeed, our goal is to raise the standards of their service. The service standards that ScottishPower intends to introduce, with more accurate performance measurements and reporting of results, should actually increase this Commission's ability to monitor PacifiCorp's performance.

BENEFITS OF THE TRANSACTION

- Q. Please describe the benefits of the transaction for PacifiCorp's customers.
- A. We have an objective to position PacifiCorp as one of the top 10 investor-owned electric utilities in the U.S. across a broad range of measurements. Focusing on customer service, we will introduce a broad range of system performance standards and individual customer guarantees. We will also make specific commitments to communities, the environment, and employees.

System Performance and Customer Service Improvements

- Q. Why are high levels of service important to ScottishPower?
- A. Because good service is good business. We know this because we listen to our customers. Since the announcement of this transaction, I have had numerous discussions with PacifiCorp customer groups and have listened to their concerns and preferences. I am hearing the same message in the U.S. as I have heard in U.K. As levels of service have improved across all types of businesses, there is an increased expectation from customers for even better service. One of the things I notice is that electricity is taken for granted, and perhaps the only time you appreciate it is when it is not there and you expect it to be. We drive our businesses to understand the issues surrounding system performance and improve them by focused investment and focused operations. We have chosen to lead the creation of standards for customer service rather than being told that we have to do it. We think it should be no different in the U.S. In fact, as part of our work in developing the standards package we are now proposing, we looked at what was being provided by other U.S. utilities. This confirms that our package is very much best in class.
- Q. How is ScottishPower going to improve service to PacifiCorp's customers?
- A. Based upon my discussions with customer groups and our experience in the U.K., we have decided to introduce an unprecedented package of service standards. They address both overall company standards, designed to improve the performance of PacifiCorp in its general service activities (we refer to these as "Performance Standards"), and individual customer guarantees, relating more to the quality of service interaction with individual customers (we refer to these as "Customer Guarantees"). Together, they address the key deliverables for electric service providers, namely high levels of customer service and system performance.
- Q. What overall Performance Standards will ScottishPower introduce?
- A. ScottishPower will introduce a series of measurable Performance Standards, including:
- Improving system availability and system reliability by 10 percent from PacifiCorp's current performance, and reducing momentary interruptions standards by 5 percent from PacifiCorp's current performance.
 - Improving the five worst performing circuits in each state on an annual basis. The improvements will occur within two years of selection, subject to receiving any required government approvals.
 - Improvements in restoring system supply, and improving the timeliness of both

answering calls to the PacifiCorp Business Center and resolving complaints submitted to the Commission.

These commitments are further detailed in the testimony of Bob Moir.

Q. What are the specific Customer Guarantees that ScottishPower will introduce?

A. ScottishPower will improve customer service with guaranteed service standards backed by payments to customers for failures to perform. These Customer Guarantees are in the areas of:

- Restoring individual customer supply;
- Keeping appointments;
- Activating power supply for individual customers;
- Providing estimates for establishing service to new customers;
- Improving response time to bill inquiries;
- Faster turnaround on resolving meter problems;
- Notification of planned interruptions; and
- Improving handling of power quality complaints.

These guaranteed standards are also further detailed in the testimony of Bob Moir.

Q. Will investments be required in PacifiCorp's system to achieve these service improvements?

A. Absolutely. ScottishPower knows that an important element of successfully transforming a business is a commitment to invest in systems, improved processes, and employees.

Q. What will be the focus of these investments?

A. Our investment focus will be on addressing the real issues that affect customers, improving customer service and system performance. We will focus on investing in the network to reduce the number and duration of service interruptions, improving the responsiveness of our employees and the training of our staff towards customer service, and upgrading information technology in our business centers.

Q. Has ScottishPower been successful in achieving some of these increases in service quality and customer satisfaction in the businesses it has acquired in the U.K.?

A. Yes. In fact, the level of some customer service indicators at Manweb has been superior even to that in ScottishPower's own territory. We have been able to transform that business and its customer service performance while still achieving cost reductions and efficiencies. At Southern Water, we have taken the company from being simply a technically good company into a high performing business in many respects. For example, in several key service measures, Southern Water now holds a leading position among U.K. water and wastewater companies.

Q. What is the time-frame in which you plan and implement your investments?

A. We intend to achieve the specific Performance Standards described above within five years. Even after these results have been achieved, we will continue to improve system performance and customer service. We recognize that these are long-term businesses and that a business cannot be transformed overnight. Our investments are made with the view that we are committed to the business for the long-term. Customers, regulators, and shareholders expect us to take such a long-term view, and we come prepared for that.

Commitment to Communities

- Q. In the application for approval of this transaction, ScottishPower talks about its commitments to the communities it serves. Why are these types of commitments important to ScottishPower?
- A. As well as being driven by our business plan, we're guided by our Values, which include gaining the respect and trust of the communities in which we work. This is essentially about behaving corporately in a caring, sensitive way in the environment in which we work. On January 26, 1999, The Times of London measured us as being the best in the U.K. of all companies on ten measures of corporate innovation, business attitudes, etc. Exhibit SP ___ (AVR-4). I believe that reflects the values that we try to live in the company. So it is part of the natural thrust of the company to care for the environment, to care for the things that our communities care for. We live in those communities. We have a definite social responsibility. Some of the awards and recognition that we received in 1997 and 1998 are detailed in Exhibit SP ___ (AVR-5).
- Q. What commitments will ScottishPower make in the area of community programs?
- A. As mentioned in our Application, ScottishPower has already committed to contribute \$5 million to the PacifiCorp Foundation at the closing of the transaction. We will also commit to maintain the level of PacifiCorp's other community-related contributions, both in terms of monetary and in-kind contributions. The additional community commitments that ScottishPower proposes to make to improve the quality of life in PacifiCorp's service territories will emphasize education, and are based on initiatives we have already implemented in the U.K. These will include an effective "School to Work" program for use by the communities, developed with the appropriate authorities. We will also maintain the existing Regional Advisory Boards, recognizing the valuable work they do in surfacing the issues that are relevant to local communities. These commitments are detailed further in the testimony of Jack Kelly.
- Q. What other commitments is ScottishPower making with regard to the broader area of customer care?
- A. ScottishPower will commit to more than double, to \$3 million per year, funds for programs that encourage the economic well-being of communities. These include:
- Heat assistance funding for those customers who qualify under the Federal Low Income Energy Assistance Program;
 - Debt counseling service for those customers who have difficulty in paying their monthly electric bills; and
 - Education on energy efficiency and electricity safety to reduce high energy bills for customers with payment difficulties and to promote electricity safety for all customers.

These commitments also are detailed in the testimony of Jack Kelly.

Commitment to the Environment

- Q. What is ScottishPower's view towards its corporate responsibility concerning the environment?
- A. Minimizing the impact of operations on the environment is important to ScottishPower. ScottishPower has consistently ranked among the top "green-friendly" companies in the U.K. ScottishPower's environmental record has been recognized in the Financial Times Business in the Environment Survey of FTSE 100 companies, where in 1997 we again

secured a position as one of the top five companies for environmental performance and communications in the U.K. One of ScottishPower's Executive Directors is charged with implementing ScottishPower's environmental policy, supported by an Advisory Committee. Each year, we set targets for environmental performance and issue a public report on ScottishPower's environmental policy and achievements. ScottishPower's Environmental Report for 1997-98 is included in Exhibit SP ____ (AVR-3).

Q. Scottish Power is a large fossil fuel generator. What steps have you taken to mitigate the effects of the emissions from these facilities?

A. We have a leading position in the U.K. on the emissions issue. The operation of our coal-fired power stations is a careful consideration for us. We purchase low-sulfur coal specifically. Another example is the "gas reburn" project at Scottish Power's Longannet power station, which involves reigniting unburned gasses at the top of the boiler. This leading edge \$45 million initiative, in conjunction with low NOx burners, is expected to reduce the production and emission of oxides of nitrogen from these units by 80 percent.

Q. What is your experience in windpower and renewable energy?

A. In terms of renewables, ScottishPower is a leading U.K. wind farm operator, with 92 megawatts of capacity. We have plans to invest in a further 30 megawatts. That, we think, is a significant contribution to renewables capability in Britain and obviously offsets emissions.

Q. What renewable pricing options have you made available?

A. We've recently introduced a "green tariff" where customers can pay approximately five percent more for "green energy." That extra amount is reinvested in renewables projects.

Q. What investments does ScottishPower make in energy efficiency?

A. We invest approximately \$5.1 million per year in energy-efficiency improvements under the current regulatory regime.

Q. How will ScottishPower expand and enhance PacifiCorp's environmental programs?

A. ScottishPower will support and maintain PacifiCorp's current and committed focus on environmental programs. Among the areas to which we will commit for expansion following approval of the transaction are:

- Include PacifiCorp operations in ScottishPower's comprehensive annual environmental report with appropriate specific goals.
 - Include a PacifiCorp officer on the Environmental Policy Advisory Committee.
 - Develop a process to gather outside input on environmental matters, such as the establishment of an Environmental Forum.
 - PacifiCorp will have environmental management systems in place that are self-certified to ISO 14001 standards at all PacifiCorp operated thermal generation by the end of 2000.
 - Within 60 days after the closing of the transaction, PacifiCorp will file applications in each state for a "green resource" tariff.
 - PacifiCorp will contribute \$100,000 to the Bonneville Environmental Foundation for use in the development of new renewable resources and fish mitigation projects.
 - PacifiCorp will develop an additional 50 MW of renewable resources (wind,

solar and/or geothermal) at an anticipated cost of approximately \$60 million within five years after the approval of the transaction.

This renewable resource commitment is in addition to resources the company would implement through other programs such as the green resource tariff. PacifiCorp will also move forward with the required studies necessary to evaluate the expansion of its Blundell geothermal project.

HOW PACIFICORP WILL BE MANAGED

Q. How will plans for improving the performance of PacifiCorp be developed?

A. Our plan is to raise the performance of PacifiCorp in all areas of its operation. We will do this by a close analysis of the business involving PacifiCorp employees and management from operations, commercial, human resources, communication, finance, and other areas of the business. Managers from ScottishPower with substantial experience in transition management will also be involved. In other words, we will use the approach that has been tried, tested, and refined with ScottishPower's transformation of Manweb and Southern Water.

Q. Who will be responsible for delivering these operating improvements?

A. Going forward, the new PacifiCorp will be delivered largely by the PacifiCorp employees who are here today. There will be very few imports of U.K. personnel into PacifiCorp. Our experience at Manweb and Southern Water has proven to us that current employees -- with leadership, direction, and training -- can deliver superior results for customers and shareholders alike. Current PacifiCorp employees have been and will continue to be a key strength of the organization. We expect to work jointly with PacifiCorp, from line personnel to the President, with all managers and employees, to achieve these goals. As the CEO of PacifiCorp, I will lead and direct PacifiCorp's management team to meet its new objectives.

Q. Where will the decisions regarding the operation of PacifiCorp be made?

A. These decisions will be made in the U.S. ScottishPower's management style is that each business division has a business plan, an operating plan, and a budget that are developed locally and approved by the Board of Directors. I will be a member of ScottishPower's Board of Directors, as will three current PacifiCorp Board members. Decisions made within this framework are entirely within the scope of the chief executive of each business division. At PacifiCorp, appropriate decision-making authority will be delegated to managerial staff so that decisions can be made locally and as close to the customer as possible.

Q. How does the plan for operating PacifiCorp that you've described represent, in your mind, a change in the management style of PacifiCorp?

A. It represents a new emphasis and introduces a culture where the focus will be on customer issues which we will relate back directly to operations and investment planning. I've described ScottishPower as being an experienced and competent utility manager. We have views about the way utilities should be managed. We focus on delivery and on providing clear accountability, as close to customers as we can get it. We give our managers challenging, but practical, performance targets and they are empowered to act such that these targets are achieved.

Q. Will some of the efficiencies come from reductions in employee staffing levels?

A. It is likely that some staff reductions will occur. However, we intend to approach these situations positively, working with the staff involved and, as appropriate, with union representatives. Our experience in the U.K. has shown us that it can be done while maintaining a strong and motivated workforce, and a good relationship with the trade unions.

Commitment to Employees

Q. Do you anticipate changing the existing labor contracts?

A. We will honor existing labor contracts with all levels of staff, and work with those workers and union representatives to adjust contracts as needed. This is very similar to the approach we have used in our U.K. businesses. ScottishPower's approach to managing changes in employee relations has been to work in partnership with employees and staff representatives. Our good relations with employees and the unions representing them reflect the success of our approach.

Q. What role does training play in the ScottishPower approach to business transformation?

A. Training is a key component of our efforts to reduce costs, transform a business, and increase customer satisfaction. Training is not a single event. Continued training, derived from the goals and objectives of our business plan, is part of the ScottishPower approach. Key areas of training include use of information technology, customer service, team-working, as well as more technical and safety-related training.

Q. What level of training do you provide employees in your U.K. businesses?

A. ScottishPower has been awarded the Eagle Star Training Award in recognition of its commitment to and high levels of staff training. As an example, in our Power Systems business (transmission and distribution), our 4,300 employees receive an average of seven days each year in off-the-job training at one of our high quality training centers. This training covers a broad range of topics, including information technology, customer service, and engineering.

Q. Would you expect to implement similar training programs at PacifiCorp?

A. Employee training will be a key element of the transformation plan which we will be developing with PacifiCorp after the transaction is completed. ScottishPower also recognizes the importance of improving the overall well-being of its employees. Our experience in the U.K. leads us to believe that a successful commitment to our employees' well-being includes not only attending to the additional training that our employees need in an ever-changing economy, it also requires us to be conscious of their educational, and health and safety needs. Toward this end, ScottishPower proposes to introduce the following programs in the PacifiCorp service territory, subsequent to closing the transaction:

- ScottishPower proposes to develop one "best-in-class" training center in Oregon, and another one in Utah. These centers will provide our employees with opportunities to improve their work-related skills.
- A phase-in of the introduction of the ScottishPower Open Learning centers. At these Open Learning centers, employees will also be able to supplement their work-related skills with ones designed to enhance their overall knowledge.
- Establishing partnerships with local colleges and universities to develop management training programs.

The start-up costs for these efforts will be approximately \$3 million, and the annual expenditures to offer these programs will be approximately \$1 million. Further detail regarding these programs is in the testimony of Jack Kelly.

Cost Savings

- Q. In the Application, ScottishPower and PacifiCorp suggest the possibility of prices for PacifiCorp's customers that are lower than they otherwise would have been without the transaction. Are you suggesting that PacifiCorp's rates will be lower than current rates after the transaction is completed?
- A. No, I am not suggesting that. ScottishPower is committed to assist PacifiCorp in its efforts to improve customer service and system performance while keeping rates low. ScottishPower's previous experience in the U.K. in transforming regulated utility businesses gives us the confidence that we can replicate the experience with PacifiCorp. Our commitment to investments in systems and staff, along with implementing the process improvements that we found were successful in the U.K., gives us every reason to believe that we can mitigate the upward cost pressures inherent in this business. In addition, we expect to keep rates low in the long-term through our ability to implement these measures in a way that will be more timely, more efficient, and more certain because of our experience, than PacifiCorp could have accomplished alone. This issue is addressed in more detail in the testimony of Andrew MacRitchie.
- Q. How have you achieved efficiencies and cost savings at Manweb and Southern Water?
- A. We achieved efficiencies through continual examination of the way the business operates. A key contributor in this achievement has been benchmarking. Internal and external benchmarking has enabled us to deliver high levels of operational excellence and customer service at low cost. In identifying benchmarking partners, our thoughts have not been restricted to just other utility companies, with significant benefits being derived from reviewing practices within such world-wide leading class companies as Compaq, Xerox, Shell Expro, BP and Nissan.
- Q. What are the steps that you would take to develop and achieve these customer service and system performance improvements that you've described?
- A. We would begin by understanding just what levels of customer service are being achieved today. We can do that from internal measures, such as supply interruptions, call response times, or post-call activities to finish the work. We would also use opinion polls and focus groups accessing customers' opinions in a structured way about the performance of PacifiCorp in its service territory. From those inputs, we can understand just what level of service we're providing today. We will then work to understand where improvements could or should be made. Of course, we seek to prioritize them whenever possible. Those areas which would receive highest priority could be safety related areas, areas of poorest performance, and areas where improvements can be made expeditiously. Those areas that require significant training or systems investment would still remain a priority; however, implementation would be scaled over a longer time-frame.
- Q. Was this process used at Manweb and at Southern Water?
- A. Yes, and I would emphasize that it does take time. For example, we acquired Manweb in 1995. We've made significant improvements to customer service performance in the four years since then. But even now, we are continuing to invest, installing information

technology which will improve performance and service still further. Details regarding the approach and achievements at Manweb and Southern Water in terms of achieving efficiencies while improving service performance are contained in the testimony of Andrew MacRitchie.

COMPETITION AND RESTRUCTURING

Q. Will this transaction have any effect on other utilities in this state?

A. No, this transaction will have no effect on any other utility in this state. This transaction does not involve a combination of operating utilities, nor are we proposing any change in the regulatory environment. We are simply focused on improving PacifiCorp's performance.

Q. Was the status of restructuring activities a key factor in choosing to merge with PacifiCorp?

A. No. We accept that the timing of competition will be different from region to region and state to state. We have embraced competition in the U.K., since those are the rules of the market. We haven't come here with a banner saying: "You must deregulate." However, we are prepared to contribute to the debate with the benefit of our experience, and if policy makers decide to open up electricity markets, we intend to be a quality provider of competitive services. As the rules are determined in each state, we will compete vigorously within those rules.

Q. Will you please summarize your testimony?

A. ScottishPower intends to apply its successful experience in transforming utility businesses in the U.K. to elevate PacifiCorp into the top ten electric utilities in the U.S. If this transaction is approved, PacifiCorp's customers will enjoy substantially improved service. Accordingly, this transaction most emphatically is in the public interest.

Q. Does this conclude your testimony?

A. Yes, it does.