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; see also 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.