

1 August 9, 1999

2:25 p.m.

2

3 PROCEEDINGS

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5 CHAIRMAN MECHAM: Let's go back on the  
6 record. I should note that we received this morning  
7 a letter from Representative Carl Duckworth who  
8 apparently represents the area in which Kennecott  
9 Copper does its business.

10 And he says this in the last paragraph: If  
11 our industry cannot negotiate reasonable contracts  
12 for our power combined with market problems with  
13 their product, we stand to put this industry in  
14 danger. If our industries close up shop, we not only  
15 lose jobs, but the power loss will force PacifiCorp  
16 or ScottishPower to make up those losses from other  
17 segments of consumers.

18 Please take into consideration these concerns  
19 as you decide the acquisition of our electrical power

20 company. This letter, like the others, will be

21 available on the file.

22 Okay. Mr. Van Nostrand.

23 MR. VAN NOSTRAND: Thank you, Mr. Chairman.

24

25 ///

1 DIRECT EXAMINATION

2

3 BY MR. VAN NOSTRAND:

4 Q Mr. MacRitchie, after a week of hearings,  
5 are you satisfied that the necessary showing has been  
6 made that there are net positive benefits flowing  
7 from this transaction?

8 A Yes. We believe very strongly that the  
9 merger is emphatically in the public interest. Even  
10 industrial witnesses have accepted that the  
11 stipulation provides benefit for customers.

12 We believe all customers will receive benefit  
13 over time, both the 622,250 residential, commercial  
14 and industrial customers of PacifiCorp, as well as  
15 the eight special contract customers represented here  
16 today.

17 Q What other benefits would you describe as  
18 flowing from this transaction?

19 A The benefits are wide and cover most

20 aspects of the utilities business. We're providing  
21 the most comprehensive set of performance standards  
22 and customer guarantees for any U.S. electric utility  
23 customer base, providing around \$20 million of annual  
24 benefit to Utah customers. That's Utah's share of  
25 the \$60 million network performance benefits.

1           Commitments to low income customers and the  
2 community at large are now covered by stipulation and  
3 having great customer support. Commitments on the  
4 environmental management of the company, including a  
5 commitment on 50 megawatts of additional renewable  
6 generation, which will be subject to the Commission's  
7 determination of prudence, is also included.  
8 Commitments in education and training are also within  
9 our application and testimony.

10          And we are providing in conjunction with the  
11 stipulation, indeed with the DPU and CCS, \$48 million  
12 of guaranteed and advanced merger savings paid from  
13 the completion of the merger for four years.

14          This underlines our commitment laid out in  
15 our application that rates will be lower than they  
16 otherwise would be.

17       Q    Are there other benefits which have not  
18 been reflected in the stipulation?

19       A    Additionally, we have committed to applying

20 ScottishPower's proven capability in transforming  
21 utility businesses to deliver improved efficiency and  
22 customer service to all of PacifiCorp's customers.  
23 This is arguably one of the most valuable benefits,  
24 and it will be more lasting.

25 We've also committed through Alan

1 Richardson's testimony to provide a senior  
2 ScottishPower executive to relocate to Salt Lake City  
3 and focus on Utah, reporting directly to the chief  
4 executive officer.

5 Q You described the benefits from this  
6 transaction that flow to Utah customers. What about  
7 the risks which this transaction may present?

8 A We, the DPU and CCS believe the perceived  
9 risks in this transaction have been effectively dealt  
10 with in the 51 conditions within the stipulation.

11 Q What about the costs of this transaction?  
12 How are they treated?

13 A There will be no incremental costs of this  
14 transaction to customers. Condition 44 ensures no  
15 increased revenue requirement will result. We have  
16 committed not to pass-through transaction costs, nor  
17 any premium, either now or in the future.

18 We expect we will incur costs related to  
19 bringing the companies together, but we expect to

20 show net benefits of such activities before they can

21 be recovered in rates.

22 Q Mr. MacRitchie, what do you understand the

23 issues of the large industrial customer

24 representatives in this case to be?

25 A Interestingly, there's been a large number



1 of issues raised by the large industrial customer  
2 representatives here. We believe many are irrelevant  
3 to the assessment of this transaction.

4 These include the RTO issue, which we have  
5 showed effectively that there is no competitive  
6 issues, and a process is in place to deal with these  
7 through FERC.

8 They have asked for the waiver of stranded  
9 costs. This contention has been effectively  
10 discredited, from our position, and we've never known  
11 a merger to be conditioned on this.

12 There was the issue of the special U.K.  
13 government share, which effectively is no different  
14 from the authority that U.S. state regulators have  
15 over future transactions of the business.

16 They raised the consolidated tax issue, which  
17 we have argued is very much a matter for rate cases.  
18 And we have not waived any of the rights of ourselves  
19 or other parties at this time to argue that at a

20 future time.

21       Also, the U.K. merger conditions, which were  
22 more related to the competitive nature of the U.K.  
23 market and not specifically related to this merger,  
24 were raised as an issue.

25       It's not clear how strongly they feel about

1 these issues, since it appears to us that all these  
2 will go away if we agree to extensions of their  
3 special contracts until the end of 2003. We've heard  
4 extensive testimony that this is not within our gift  
5 to provide.

6 Q Is ScottishPower resisting the extension of  
7 the special contracts?

8 A Absolutely not. We are not in a position  
9 to resist such extensions.

10 Q What is ScottishPower's position regarding  
11 the extension or renegotiation of the special  
12 contracts?

13 A Throughout different testimonies in this  
14 case, we've said a number of things that we will do  
15 to deal with special contract customers.

16 First, we will honor existing contracts.  
17 This will provide stability to these customers for at  
18 least two years until the first of these contracts,  
19 or those represented here, will be needing to be

20 renewed.

21 As committed by Dick O'Brien and confirmed by

22 Alan Richardson on the stand last week, PacifiCorp

23 will allow ScottishPower representatives to join the

24 PacifiCorp negotiating team ahead of completion of

25 this transaction if the customers so wish.

1           The third area that we've committed to is  
2 that ScottishPower and PacifiCorp will, A, negotiate  
3 all contracts in good faith; B, commence negotiations  
4 as early as practical and complete such negotiations  
5 promptly, understanding the possible need for  
6 customers to pursue alternatives; C, negotiate  
7 contracts recognizing the contribution these  
8 customers have to the economic well-being of Utah;  
9 and D, negotiate in accordance with Commission rules  
10 in effect at the time.

11           We believe this is as far as either we or,  
12 indeed, we believe the Commission, can go at this  
13 time. And we further believe that this addresses all  
14 of the industrial customers' genuine concerns.

15       Q   Is the merger condition necessary before  
16 ScottishPower will agree to extend or renegotiate  
17 these special contracts?

18       A   No, I don't believe it is.

19       Q   And why not?

20     A   Essentially, it's good business for a  
21 utility to work with its customers in whatever aspect  
22 that might be. Whether it's in terms of price or  
23 reliability or other service issues.

24         We clearly have a track record of doing so in  
25 the U.K. competitive market, and we will bring these

1 same disciplines and approaches to business to

2 PacifiCorp.

3 However, it's got to be understood, and I

4 think there was confusion over this, that they will

5 essentially be the same PacifiCorp people who will be

6 negotiating the contracts with customers. Changes in

7 personnel and the input of ScottishPower personnel

8 will be in the final authorization of such contracts,

9 which will involve new people.

10 So we do not believe that there is any new

11 risk brought about by them, by ScottishPower's

12 takeover of PacifiCorp, and believe that special

13 contract customers can enjoy the same level of

14 response from PacifiCorp as they have in the past.

15 Q The industrial customers have also brought

16 up the issue of a possible rate cap. Do you believe

17 this is an appropriate condition?

18 A We don't believe that a rate cap is

19 appropriate for dealing with the required financial

20 benefit or the perceived risks of this transaction.  
21 We discussed rate caps with the DPU and CCS in  
22 developing the stipulation and all agreed a merger  
23 credit, accompanied with certain conditions, was more  
24 appropriate compared with the blunt instrument of a  
25 rate cap.



1 Condition 44 ensures that rates, or more  
2 specifically the revenue requirement, will not go up  
3 by reason of the merger.

4 Imposing an all-encompassing rate cap  
5 prejudices the underlying business economics of  
6 PacifiCorp, which assumes that all costs of the  
7 business are frozen in time.

8 Q There's been some question about how costs  
9 and savings related to the merger will be identified  
10 in future rate proceedings. Can you describe how the  
11 merger transition plan will be used to track merger  
12 costs and savings?

13 A The transition plan, as I testified, will  
14 essentially be a list of initiatives showing costs  
15 and benefits over the transition period. For  
16 example, in the Manweb transition plan, there were  
17 some 70 different initiatives which were identified.

18 There are basically four categories of  
19 initiatives which will be identified by the

20 transition plan. The first category is duplicate  
21 functions. The area where there is a function in  
22 ScottishPower, which is similar to a function in  
23 PacifiCorp, and the merging of the companies allows  
24 an efficiency to be derived from removing  
25 duplication.

1       Such examples are things like shareholder  
2 services, where there were clearly one set of  
3 shareholders to deal with; public relations; and  
4 corporate strategy.

5       We've already undertaken a desktop exercise  
6 to assess the opportunity of duplicate functions and  
7 established that there is a \$15 million per annum  
8 saving to be achieved from these functions with an  
9 additional cost of some \$5 million, producing a net  
10 cost saving of \$10 million per annum.

11       The second area or category of transition  
12 initiatives are best practice transfers. To give an  
13 example, in Manweb when we undertook the transition  
14 plan there, we identified the opportunity to bring  
15 technology which had been developed in the company to  
16 the benefit of the other company.

17       One example of that is a technology for -- it  
18 was called a horizontal bowling machine, which was  
19 essentially a facility that allowed passing cabled

20 underneath motorways and under rivers and across  
21 fields without having to lay a trench.

22       Now, that clearly provided benefits in terms  
23 of the avoided cost of diversionary works, the  
24 ability to undertake work during normal course of  
25 business as opposed to over weekends and nights,

1 which would normally be the case. And project by  
2 project, we were able to identify the savings of that  
3 particular transfer of best practice to Manweb.

4       There's another example which is probably --  
5 was also applicable in Manweb but we believe will  
6 also be applicable in PacifiCorp, and that's a  
7 technology that's been developed in the call centers  
8 to aid customer representatives in answering calls.  
9 It's a call scripting technology which basically  
10 walks the customer representative through the  
11 appropriate question and answer routine, depending on  
12 what the question is that's coming in from customers.

13       That allows us to reduce the training in  
14 terms of specific training on extraordinary events.  
15 It also speeds up the answering speed, and it reduces  
16 rework. It reduces the requirement for customer  
17 representatives to have to phone back and call back  
18 customers, because they're not equipped to deal with  
19 the complaint or the query on the first answering of

20 the phone.

21       So we've already identified a number, very  
22 high level of best practices. And that would be a  
23 second category of transition initiative which will  
24 be detailed in the transition plan.

25       Both these categories are very easily

1 identifiable as merger related.

2 Q What are the remaining two categories of  
3 activities that will be included in the transition  
4 plan?

5 A The other two categories are firstly  
6 synergies. Synergies is quite often difficult to  
7 identify and explain, but one example would be the  
8 ability to bring together the procurement of IT and  
9 IS services and technology. PCs are essentially the  
10 same the world over. The desktop equipment such as  
11 the Windows software, the processing software,  
12 spreadsheet software, are essentially the same. So  
13 is a lot of the back-end technology and systems that  
14 run the network.

15 All of these will benefit from a larger  
16 procurement contract. And we firmly believe that  
17 bringing together the requirements of PacifiCorp and  
18 ScottishPower will reduce the overall cost to the  
19 benefit of both sets of customers.

20 The fourth category is just better management  
21 focus and practices. We've made quite a bit in our  
22 testimony and my particular testimony on transition  
23 plan about ScottishPower's approach to the management  
24 of a utility business, our approach to performance  
25 management and our approach to efficiency and



1 customer service.

2 We believe that this renewed focus will  
3 assist PacifiCorp in achieving efficiency and  
4 performance improvements that it would not otherwise  
5 achieve.

6 Q Mr. MacRitchie, as to these last couple of  
7 categories of activities, including the transition  
8 plan, is it relatively easy to identify which of  
9 those are merger related?

10 A Unlike the first two categories, which are  
11 very clearly merger related and would not be a  
12 problem to identify as merger savings, these last two  
13 categories are more difficult to assess, whether they  
14 are merger related or not.

15 Q In that situation, how would you propose  
16 that the Commission determine whether or not they are  
17 merger related?

18 A If the Commission have any doubt about the  
19 validity of such savings as being merger related, it

20 will be the company's burden of proof and the risk of

21 exclusion of the costs of such initiatives.

22 Q How often will this issue arise of what's

23 merger related and what isn't?

24 A This wouldn't be an ongoing issue. This

25 essentially will only become an issue when or if

1 PacifiCorp, ScottishPower, file a rate case in the  
2 final two years of the merger credit to seek removal  
3 or mitigation of the merger credit.

4       So it's unlikely to be an issue in more than,  
5 say, one case. And therefore will not be lasting  
6 in -- as an issue and basically goes away when the  
7 merger credit goes away.

8       Q Finally, Mr. MacRitchie, there was some  
9 discussion when Mr. Richardson was on the stand  
10 regarding the returns on equity that were reported in  
11 his exhibit entitled Investing for Growth. Do you  
12 recall those questions and answers?

13       A I do.

14       Q Is it a fair comparison to examine these  
15 figures reported for U.K. operations alongside the  
16 returns on equity reported for U.S. electric utility  
17 companies?

18       A No. This is an apples with oranges  
19 comparison. There are three main reasons why you

20 cannot compare the two.

21 Firstly, there is a difference in the

22 calculation of these figures between the U.S. and the

23 U.K. in terms of what's included in them and what's

24 not. And these are defined by U.S. and U.K. GAAP

25 rules.

1           Secondly, the comparison is using U.K.  
2 historical figures, which certainly all investors in  
3 the U.K. appreciate as not being representative of  
4 those going forward.

5           And thirdly, this compares consolidated  
6 actual company returns with regulated business  
7 returns.

8           Sufficient to say that shareholders of both  
9 companies are acutely aware of the prospective  
10 returns of the businesses which make up the expanded  
11 group. And in fact have been provided with pro forma  
12 figures as part of the proxy to determine their  
13 voting, which was undertaken in June.

14       Q   What was the outcome of that voting in  
15 June?

16       A   It was overwhelming support from both sets  
17 of shareholders for this transaction to go ahead.

18           MR. VAN NOSTRAND: Thank you, Mr.  
19 MacRitchie. I have no further questions, Mr.

20 Chairman.

21 CHAIRMAN MECHAM: Thank you. Mr. Tingey,

22 do you have anything further for Mr. MacRitchie?

23 MR. TINGEY: No.

24 MR. GINSBERG: Nothing.

25 CHAIRMAN MECHAM: Mr. Dodge.

1                   CROSS EXAMINATION

2

3 BY MR. DODGE:

4     Q   Mr. MacRitchie, in your statement, you  
5 indicated that certain issues that had been raised  
6 by -- I think you said special contract customers,  
7 and you listed several and then said in your view,  
8 those will go away with the contract extension.

9           First of all, I guess I'm anxious to  
10 understand whom you understand the attorneys are  
11 representing. Do you understand that other than  
12 special contract customers are represented here?

13     A   I do.

14     Q   So it's not just special contract issues;  
15 these are also tariff customers, large customer  
16 tariff issues? Large tariff customer issues? Is  
17 that right?

18     A   I'm not sure which of the issues refer to  
19 which sets of shareholders. Sorry, which set of

20 customers.

21 Q So you don't have a sense of which

22 customers are primarily concerned about which issues?

23 A No. And as I believe I said, I said the

24 large industrial customer representatives raised

25 these issues, not just the special contract



1 customers.

2 Q You made again the statement something to  
3 the effect that the first list of issues that you  
4 consider irrelevant in your mind will go away if the  
5 contracts are extended. And I'm asking you, what's  
6 the basis for that belief?

7 A We believe that's the issue which has been  
8 raised consistently from the beginning of our  
9 discussions. We met with all the large customers  
10 back in -- I think it was March. We met with  
11 certainly all the special contract customers and had  
12 discussions with them.

13 And this was consistently the issue which  
14 they raised, a renewal of the special contracts that  
15 they had. There were other issues discussed, but  
16 that was the consistent one.

17 Q Again, that's with the special contract  
18 customers, not the other customers?

19 A That's correct.

20 Q So will you accept that the other issues in  
21 fact are relevant, and are there whether or not  
22 contracts are extended?

23 A If that's what you're telling me, I'll  
24 accept that.

25 Q You used -- turning now to the contract

1 extensions relating to the special contract customers  
2 exclusively, you indicated that the company doesn't  
3 resist contract extensions and indicated that in your  
4 view, there's no new risk because the same people  
5 will be negotiating.

6 Which do you think is more important in the  
7 ultimate negotiation of an agreement? The party  
8 who's doing the negotiating or the boss who  
9 ultimately calls the shot?

10 A I believe there's a lot more to the special  
11 contract than a chief executive or a board who will  
12 be able to assess, and therefore, I believe that the  
13 real people who are important for the negotiation of  
14 an acceptable contract are those that are actually  
15 involved in the day-to-day discussions with  
16 customers.

17 Q I think it was indicated earlier in the  
18 hearing that those sitting down to negotiate will be  
19 given certain parameters within which they can try

20 and strike a deal. Who will set the parameters?

21 A The parameters should be set essentially by  
22 the management of the sales task force, which is in  
23 existence just now. The economics of the contracts  
24 will be put forward in the overall proposal once the  
25 contract has been negotiated.

1 Q Are you saying that PacifiCorp will agree  
2 to be bound by parameters set by a task force as  
3 opposed to what its management may choose to say?

4 A Maybe you misinterpreted what I said.

5 Q Perhaps.

6 A What I was referring to was the current  
7 management of the sales force.

8 Q Excuse me. The sales force. Ultimately,  
9 it will be up to new management of ScottishPower --  
10 excuse me, of PacifiCorp -- to set the parameters  
11 that its employees will negotiate under. Isn't that  
12 accurate?

13 A It depends who you're referring to as the  
14 new management. We have no intention, ScottishPower,  
15 that is, have no intention of bringing large numbers  
16 of ScottishPower management across to PacifiCorp.

17 We estimate that initially, there will be  
18 around about 20 managers from ScottishPower involved  
19 in all aspects of PacifiCorp's business. It is

20 currently not our intention of involving large  
21 numbers of ScottishPower people in the sales teams.  
22       So I'm not entirely sure that the management  
23 that you refer to will be actually new. It's very  
24 likely that the existing management who define and  
25 develop the terms of reference for the sales teams

1 will be the same people before and after the merger.

2 Q So your position is the fact that there's a  
3 new CEO, new board of directors, new management;  
4 whatever philosophies they have will be irrelevant to  
5 those out negotiating the contracts?

6 A I believe they will largely be irrelevant.  
7 At the end of the day, there is still a need to  
8 authorize and agree contracts once they come forward.  
9 What I said before is most certainly not the case in  
10 ScottishPower currently, that board members or even  
11 the chief executive are intimately involved or  
12 understanding of all aspects of the contracts with  
13 large customers that are developed.

14 At the end of the day, you have to have faith  
15 in the management of the business and the people who  
16 are out there working. That's the way we operate in  
17 ScottishPower is devolved responsibility.

18 If a contract comes forward, we look at it  
19 and the senior management of ScottishPower would

20 certainly look at it in broad terms. But very much  
21 taking the advice and recommendations from the sales  
22 force as to whether this is an appropriate contract  
23 to go forward with.

24 Q Given the \$66 million in annual revenue  
25 from the six special contract customers -- I think it



1 was just the six listed on the exhibit submitted  
2 earlier -- it will be more than just a passing  
3 interest taken at the high levels of the company,  
4 will it not?

5 A It certainly is an important decision, but  
6 there's many important decisions. As I think has  
7 been identified before, there is some \$400 million of  
8 operating costs, some \$400 million of capital costs  
9 per year. At PacifiCorp, there are a lot of  
10 significant areas of the business which at the end of  
11 the day it would never be expected that the board  
12 would have intimate knowledge of or influence in.

13 Q If you were prepared to assure the special  
14 contract customers that they will face no new risks  
15 as a result of this takeover, are you prepared to  
16 support extension of the contracts under current  
17 terms subject to the Commission and the parties' cost  
18 analysis that's been discussed here?

19 A ScottishPower currently does not own

20 PacifiCorp, and we're not sure when the merger would  
21 close. We have asked and received from PacifiCorp a  
22 confirmation that they would allow a ScottishPower  
23 person to be at the negotiating table when  
24 negotiations take place. But at the end of the day,  
25 we don't have any power in that respect.

1       We're also very conscious that before this  
2 merger is complete, there will be findings from a  
3 task force that will come forward. I would also be  
4 understanding of the fact that there are certain  
5 rules in place just now which may restrict certain  
6 extensions of individual contracts.

7       We're not in a position to commit in that  
8 respect, and neither do we believe that we need to,  
9 that we have made a very firm and solid confirmation  
10 of the way in which we will approach negotiations  
11 when it's appropriate that we do so, and we believe  
12 that's sufficient at this stage.

13       There's nothing else, there is no additional  
14 risk associated with industrial customers than if  
15 PacifiCorp had appointed a new chief executive as  
16 they would need to do going forward.

17     Q   Easy to say, but you're not prepared to  
18 stand behind that statement?

19     A   We don't have either an understanding of

20 Commission rules or an understanding of special  
21 contracts to be able to commit to that. Neither do  
22 we have a crystal ball to be able to see into the  
23 future and understand business economics that will be  
24 relevant in two years' time when these contracts will  
25 start to expire.

1 Q The lack of a crystal ball, Mr. MacRitchie,  
2 might suggest a rate cap is the best way to protect  
3 all customers from risks, if they exist, of this  
4 merger. Do you disagree?

5 A Absolutely. I think I covered that  
6 earlier.

7 Q You don't agree that would be a way to  
8 mitigate risks to customers?

9 A I don't believe it's necessary. I believe,  
10 as has been said before, it's a blunt instrument. It  
11 takes no account of the underlying business  
12 economics.

13 There are substantial number of costs which  
14 are inherent within a business such as PacifiCorp.  
15 There's the cost of power, there's the cost of  
16 overseas power markets, there's fuel costs, there's  
17 the overall cost of capital going forward in terms of  
18 equity and debt, there's the cost of environmental  
19 controls, there are revenue impacts in terms of

20 demand and customer growth.

21       There are clearly many areas which are  
22 outside of the company's control. And to freeze  
23 these at a point in time is not appropriate.

24       Neither is it required. Because as I've said  
25 before, and as both the CCS and DPU have testified,

1 the risks, if there are any in this transaction, are  
2 effectively dealt with in the stipulation. The  
3 benefits are very clear for those to see. And the  
4 costs are excluded.

5 Q I understand that's your position. You  
6 understand many people disagree with that, don't you?

7 A I understand you disagree with it.

8 Q I'm not the only one. I didn't submit  
9 testimony. You've heard the testimony of many  
10 witnesses in this case disagreeing with that  
11 analysis, haven't you?

12 A I heard the testimony of a number of the  
13 industrial witnesses, which I believe were  
14 effectively dealt with in cross examination, to show  
15 that the issues that they originally raised were no  
16 longer there.

17 Q Without using specific numbers, Mr.  
18 MacRitchie, documents in this record that are  
19 confidential reflect a belief that there will be

20 fairly significant levels of tax savings resulting  
21 directly from the merger beginning in the first year  
22 after the merger is approved. Is that accurate?  
23 A No. I believe there has been a view taken  
24 that there is a potential for tax efficiency of the  
25 structure going forward. There is no clear



1 understanding that these tax savings will be  
2 achievable.

3 Q My statement was an expectation. There's  
4 an expectation, is there not?

5 A Certainly, yes.

6 Q And then the company has tantalized the  
7 Commission and customers with potential cost savings  
8 of 130 to \$190 million a year starting several years  
9 into the future. Is that fair to say?

10 A I'm not sure I would accept the way you  
11 phrased it.

12 Q I didn't expect you to. You this morning  
13 used a confidential exhibit to reflect a very high  
14 level of potential cost savings that your own  
15 analyses suggested may be available?

16 A We may have provided under non-confidential  
17 cover a view of looking at yardstick assessments,  
18 comparisons, that there is expectation that  
19 PacifiCorp can be more efficient. That level cannot

20 at this stage be determined accurately. And we will

21 determine these as we go forward.

22       And it wouldn't be in six months' time

23 necessarily that we'll identify all of them. It will

24 be an ongoing process as we go forward to identify

25 all the potential efficiencies and service

1 improvements that can be made in PacifiCorp.

2       The yardstick comparison is a fairly broad  
3 brush first stab of what the upside, total upside  
4 could be. But in no way is it an absolute.

5       Q   In your mind, with the level of potential  
6 tax savings to the companies and the level of cost  
7 savings that at least have been hinted at to try and  
8 get the Commission to approve the merger, you still  
9 believe \$12 million a year for four years with no  
10 further guarantees as to rate reductions is adequate?

11       A   My interpretation of the standard is not to  
12 extract every benefit from the company of the  
13 transaction going forward. My interpretation is that  
14 the transaction itself should be in the public  
15 interest. I believe that we have shown that through  
16 the benefits that we've offered and the credit that  
17 we have developed with the CCS and DPU.

18       Going forward, there are going to be many  
19 aspects of this business that are going to change,

20 and it's appropriate as we go forward to deal with

21 these.

22 Q You would agree that absent the ability of

23 this Commission to look at your transition plan in

24 advance of approving it, a rate cap would be a means

25 of putting the risks of the merger on the

1 shareholders as opposed to the ratepayers?

2 A I'm sorry? I thought I'd talked about that  
3 before.

4 Q You talked at extreme length on the  
5 transition plan --

6 A I think I talked about rate cap before.

7 Q You did. I'm saying, in light of the lack  
8 of a transition plan that they can look at in  
9 advance, you agree that a rate cap would be a means  
10 of shifting the risk from the ratepayers to the  
11 shareholders?

12 A At the risk of repeating myself, no, I do  
13 not believe a rate cap is appropriate. I believe  
14 it's a blunt instrument. I believe there are many  
15 costs in the business which will change over time  
16 which are out of the company's controls --

17 Q Excuse me, Mr. MacRitchie. You're  
18 answering the question you answered before. My  
19 question --

20 A It's the same question.

21 Q No. The question is, you agree that a rate  
22 cap is a means of transferring risk? It's not  
23 whether you think it's appropriate or not. Do you  
24 agree it's a means of transferring risk from one set  
25 of people to another, from the shareholders --

1     A   You asked me whether it was relevant in the  
2   context of not having a transition plan. I believe  
3   it is not relevant in that respect, because I believe  
4   that the case in terms of the standard has been met  
5   from the quantifiable benefits that have been put on  
6   the table and the commitments that have been made,  
7   and the conditions have covered risk.

8         So no, I don't believe a rate cap is  
9   necessary.

10    Q   Obviously, depending on how one views the  
11   standard, one could argue a lot of different things  
12   may or may not meet it. You're not trying to argue  
13   that if you meet the standard by dollar, there's a  
14   net positive \$1 benefit here, that other benefits  
15   resulting from the merger shouldn't also be shared  
16   with ratepayers?

17    A   We've never contended that future benefits,  
18   as and when they are realized, should be available to  
19   the customers should these benefits push the company

20 into an overearning position, which is inconsistent

21 with the Commission's view of where the utility

22 should be.

23       What we're saying is that the level of

24 benefits that we have proposed and are committed to

25 in our application and in the stipulation is, in our



1 opinion, and the CCS and the DPU, consistent with  
2 meeting, and I believe quoting one of the DPU  
3 witnesses, has significantly cleared the bar in terms  
4 of achieving the standard appropriate in Utah.

5 MR. DODGE: No further questions.

6 CHAIRMAN MECHAM: Thank you.

7 MR. MATTHEIS: No questions.

8 CHAIRMAN MECHAM: Mr. Reeder?

9 MR. REEDER: Good afternoon.

10 CHAIRMAN MECHAM: Let me just suggest that  
11 I don't think either one of you will change the other  
12 one's mind. So to the degree that there are some new  
13 things or clarifications, that would be great.

14 MR. REEDER: I'll try.

15

16 CROSS EXAMINATION

17

18 BY MR. REEDER:

19 Q You suggested there were GAAP rules that

20 covered the reporting of equity in your report to  
21 shareholders in answers to questions. Do you recall  
22 those answers?

23 A No, you'd have to refresh my memory.

24 Q In your testimony, did you not say that

25 there were GAAP rules that --

1 A In the earlier testimony, yes.

2 Q Can you tell me which rules they are?

3 A There are rules in terms of what's included  
4 in the assessment of return and what's not. I don't  
5 have the details, but I can get them at the break if  
6 you want.

7 Q Is it your understanding GAAP rules require  
8 reporting of equity in a particular way in your  
9 report to shareholders?

10 A Yes. What's included in the return of  
11 equity calculations is different between the U.K. and  
12 the U.S.

13 Q That report that's required in your report  
14 to shareholders it's your testimony is different than  
15 what's calculated in the U.S.?

16 A That's correct.

17 Q All right. Now, in terms of the tax  
18 benefits that you and Mr. Dodge were talking about,  
19 you were speaking with your counsel about a few

20 minutes ago, assume on this record -- assume that the  
21 Commission should choose to allow PacifiCorp to earn  
22 10 percent return and that it earned that 10 percent  
23 return, and assume further the Commission allowed you  
24 to keep the tax benefits. What rate of return would  
25 you generate from U.K. operations?

1 A I have no idea.

2 Q Could you calculate for us, please?

3 A Not in my head, I couldn't.

4 MR. VAN NOSTRAND: I object. This is a  
5 back doorway of getting into confidential  
6 information. From that calculation, he can easily  
7 back into what's subject to the confidential  
8 document.

9 Q (BY MR. REEDER) What information do you  
10 need to calculate that?

11 A I have all the information I need. I  
12 just --

13 Q You're just declining to do so because to  
14 do so would reveal confidential information?

15 A No. I'm reluctant to do so because my  
16 brain wouldn't be able to do it on the stand.

17 Q Oh, I don't think that of you. Not for a  
18 moment. Without disclosing confidential information,  
19 can you give us some range of what the increase in

20 your rate of return on equity would be if you were

21 allowed to keep those tax benefits? Without

22 disclosing confidential information, can you give a

23 range?

24 MR. VAN NOSTRAND: Are ratepayers also

25 going to share in the tax losses which are shown on

1 the consolidated statement? Is that going to be part  
2 of the calculation of the return on equity?

3 MR. REEDER: Sounds like a good redirect  
4 question to me, but let's stick with mine.

5 THE WITNESS: I don't know. And consistent  
6 with what counsel says, it's very hard to see -- I  
7 assume if we're looking at consolidated tax benefits,  
8 that we look at all consolidated tax benefits and not  
9 just the ones which we believe are the most  
10 advantageous --

11 Q (BY MR. REEDER) You're arguing the case  
12 whether or not they're being included. I'm simply  
13 asking, shouldn't this Commission know how much you  
14 goose up your rate of return on equity by keeping the  
15 tax benefits on this record? That's the question I'm  
16 asking you, sir. What return will you report to your  
17 U.K. investors if you keep those tax benefits versus  
18 the 10 percent this Commission would allow?

19 MR. VAN NOSTRAND: I'm going to object, Mr.

20 Chairman. The record has sufficient information and  
21 the document has been provided on a confidential  
22 basis that shows the amount of the potential tax  
23 savings, the conditions about how long they possibly  
24 will last, and the uncertainty about their duration.

25 And if the Commission chooses to make that



1 calculation, I believe it certainly has the means of  
2 doing so without burdening Mr. MacRitchie with the  
3 duty of doing it now and possibly revealing  
4 confidential information.

5 MR. REEDER: I would agree with counsel on  
6 the condition that we keep the record open until the  
7 Commission calculates that amount so the Commission  
8 is certain that it gets the information necessary to  
9 make that calculation.

10 I am not convinced on this record that there  
11 is the information that you can do that with  
12 sufficient precision to avoid criticism by my friends  
13 from ScottishPower. I'd like you to be able to do it  
14 free of criticism.

15 Let's just keep the record open until we get  
16 all the relevant information. I'll accept your  
17 stipulation, counsel, for them to do it on that  
18 condition.

19 THE WITNESS: To do so will require you to

20 be very specific about all the assumptions that

21 you've got in your hypothetical example.

22 MR. REEDER: 10 percent rate of return.

23 Your calculation of saved taxes.

24 THE WITNESS: I don't believe it can be

25 done with that information.

1           MR. HUNTER: I was going to suggest so we  
2 not feel shorted, at least we get the authorized rate  
3 of return in Utah. I was under the impression it was  
4 10 and a half.

5       Q (BY MR. REEDER) I'll take that number.

6 It's a mathematical number that you can do --

7       A No, it's not, actually. Let me just  
8 quickly think about it in my head. There's no way  
9 with the information that you've provided to me with  
10 your hypothetical situation could I attempt to make a  
11 stab at that number.

12      Q It's true that you've made on this record a  
13 forecast of what those tax savings might be, haven't  
14 you?

15      A There is -- yes.

16      Q Can this Commission take those dollars and  
17 treat those dollars as revenue available for  
18 calculating return on equity to arrive at that  
19 calculation?

20 MR. VAN NOSTRAND: Objection. Are you

21 talking can the Commission as a matter of

22 mathematical exercise do that or as a matter of law?

23 MR. REEDER: A matter of mathematical

24 calculations.

25 MR. VAN NOSTRAND: Perhaps Mr. Brubaker

1 could have performed the calculation and testified to  
2 it?

3 MR. REEDER: If he'd had access to the  
4 confidential information.

5 CHAIRMAN MECHAM: Let's do it this way. If  
6 you think there's information for us to do that and  
7 we take a stab at it and can't get it done, we'll ask  
8 for the information. But I'm not sure that we need  
9 to push on Mr. MacRitchie right now.

10 MR. REEDER: Fair enough. As long as we  
11 have a commitment by the company to provide the  
12 information. I'm satisfied with the Commission  
13 making the calculation in such a way that's beyond --

14 CHAIRMAN MECHAM: I'm not promising that  
15 we'll do it either.

16 UNIDENTIFIED: Oh, come, now.

17 (Laughter.)

18 CHAIRMAN MECHAM: If it appears to be  
19 necessary in order to make an ultimate decision, we

20 very well may. But if it doesn't, we may leave that.

21 MR. REEDER: Very well.

22 Q Mr. MacRitchie, you've been the key

23 spokesman on the topic of transition plans, have you

24 not?

25 A Yes.

1 Q You've explained to us several times it  
2 will take you some period of time to do a transition  
3 plan?

4 A Yes.

5 Q You've also been present in the hearing  
6 room when there's been discussion about rate caps,  
7 have you not?

8 A I have.

9 Q If this Commission should view this record  
10 as creating sufficient uncertainty about the cost  
11 direction and magnitude of that direction and left  
12 with a choice of either capping rates or awaiting a  
13 transition plan, what advice would you give them?

14 A I would advise them to accept the  
15 stipulation, which covers all risks and provides  
16 benefit to customers.

17 Q Okay. Assume that they're faced with a  
18 choice. They say, Mr. MacRitchie, we'd like your  
19 opinion on this question. Which choice shall we

20 make?

21 Shall we await a transition plan so we have

22 some high level of certainty about what it is you're

23 going to do, after I give you the keys; or, shall we

24 cap your rates so that we have no uncertainty about

25 what you're going to do? Which would you prefer we



1 do, ScottishPower? What would be your advice to  
2 them?

3 A I'm afraid you haven't provided me with  
4 enough information to make that decision.

5 Q What information more would you ask of the  
6 Commission if they were faced with that dilemma?

7 A I would look for information to see whether  
8 there was alternative ways in which this could be  
9 covered through conditions and whether an alternative  
10 form of credit which was specifically associated with  
11 the transaction and didn't enforce the company to  
12 make decisions on your underlying business economics  
13 of the business, where clearly costs will arise and  
14 change without the control of the company.

15 I think there's a more equitable way of  
16 looking at it, and that's the information I'd be  
17 looking for.

18 Q If there were ways other than awaiting for  
19 a transition plan or capping the rates, can you tell

20 us on this record what that way might be?

21 A I think you've got it in the stipulation.

22 Q Assume that this Commission should decide

23 that there's sufficient uncertainty about the future

24 that they're left really on this record with two

25 choices. You said a moment ago that before

1 exercising one of those two choices you'd choose --  
2 you'd look for a third alternative. Can you give us  
3 help on what that third alternative might be?

4 A I'm sorry, I'm way lost in the  
5 hypotheticals here.

6 Q There's no third alternative you can give  
7 us on this record?

8 A I've given you the alternative which I  
9 believe is looking at the -- to ensure that  
10 conditions have covered all risks and that the merger  
11 credit is guaranteed and significant enough to ensure  
12 that anything -- that the standard is well and truly  
13 met.

14 Q What you're saying to me, in fact, is that  
15 you don't think they should face that dilemma. But  
16 put yourself in the shoes of the Commission. Assume  
17 they see there's a dilemma. What counsel could you  
18 give them?

19 MR. VAN NOSTRAND: Objection, Mr. Chairman.

20 Asked and answered. I suggest if there's a third  
21 alternative, perhaps Mr. Reeder can provide it in his  
22 brief.

23 MR. REEDER: I submit if the company wants  
24 us to consider a third alternative, they should put  
25 it on the record.

1 MR. VAN NOSTRAND: There's no alternative  
2 other than the stipulation Mr. MacRitchie has  
3 testified to several times.

4 MR. REEDER: It's clear the Commission has  
5 three choices: Take the risk, cap the rates, or  
6 await the transition plan.

7 CHAIRMAN MECHAM: I don't think that's what  
8 he said, Mr. Reeder.

9 MR. REEDER: That's precisely what he said.

10 THE WITNESS: No, it's not what I said,  
11 actually.

12 Q (BY MR. REEDER) Mr. MacRitchie, in answer  
13 to questions, you suggested the uncertainty that  
14 arises with enforcing this stipulation, the  
15 uncertainty that arises would be faced but once. Do  
16 you recall that testimony?

17 A No, that's wrong.

18 Q Can you correct me on where I'm wrong?

19 A It wasn't the stipulation that was the

20 issue, it was the assessment of what our merger

21 savings are or not.

22 Q Enforcing the "as a result" paragraph in

23 the stipulation, how often will they face the

24 question of enforcing the "as a result" condition in

25 the stipulation?

1 A When there is a rate case, which  
2 effectively looks towards removing the merger credit  
3 through the proof of merger savings.

4 Q Isn't it true that they'll face that in the  
5 rate case to be filed as soon as Mr. Larson decides  
6 it's the correct time to file it?

7 A No.

8 Q Isn't it true that they'll face it in the  
9 rate case immediately following that one?

10 A The one which immediately follows depends  
11 on when it immediately follows.

12 Q Do you have plans to file a rate case  
13 following the one Mr. Larson has?

14 A We have no plans in that respect.

15 Q Then why don't we cap rates?

16 A I think I've answered that.

17 Q It's true that you agreed to a rate cap in  
18 Wyoming, isn't it?

19 A No.

20 Q There is no rate cap in Wyoming?

21 A There is a rate cap which PacifiCorp agreed  
22 to in Wyoming.

23 Q And it's true that the rate cap agreed to  
24 by PacifiCorp in Wyoming caps the amount of rates  
25 that PacifiCorp can recover, even under management of



1 ScottishPower, for some time in the future, doesn't  
2 it?

3 A It caps the level at which PacifiCorp can  
4 ask for rate increases in Wyoming to five percent in  
5 1999 and -- sorry, in 2000, and three -- I think  
6 three and a half percent in the following year. And  
7 then after that, there is no restriction on  
8 PacifiCorp's ability to ask for rate increases if  
9 they are appropriate.

10 Q Can you give me one good reason this  
11 Commission should be less vigilant than the Wyoming  
12 Commission in protecting ratepayers?

13 A We believe and have continually said that  
14 this merger should be looked at as a standalone  
15 transaction. In PacifiCorp's history -- it shouldn't  
16 be looked at in the context of the history of  
17 PacifiCorp or the underlying economics of the  
18 business.

19 It's important for us to show that the merger

20 itself provides benefit, and we believe we've done  
21 that through the commitments that we've made and the  
22 merger credit which we have confirmed in Utah will be  
23 available. So no.

24 Q You cannot give me one good reason?

25 A Give you a good reason for what?

1 Q I was waiting for a description of a reason  
2 that this Commission shouldn't protect ratepayers in  
3 Utah as well as the Wyoming Commission protects  
4 ratepayers in Wyoming. Why?

5 A I believe they have -- if they accept the  
6 stipulation, have more than covered the issues -- in  
7 fact, probably in terms of the risks of this  
8 transaction, if there are such, I believe that the  
9 stipulation agreed with DPU and CCS is the most  
10 comprehensive in terms of any of the states in which  
11 PacifiCorp and ScottishPower have been looking for  
12 merger approval.

13 Includes some 51 conditions well in excess of  
14 any other conditions which are assessed. It has the  
15 most valuable of the merger credits that have been  
16 put forward. There is a proposal to involve that or  
17 provide that merger credit from day one when the  
18 transaction closes. As opposed to the Oregon one,  
19 which is a delay of one year.

20        So I believe by accepting the stipulation,  
21 the Commission will be addressing the best interests  
22 of its customers.

23        Q    Where in the stipulation have you mitigated  
24 the potential impact of the \$100 million rate  
25 increase Mr. Larson has promised or threatened,

1 depending how you take his view?

2 A We've provided a merger credit which will  
3 ensure our commitment, in terms of prices lower than  
4 they otherwise would be absent the merger, has been  
5 fulfilled.

6 Q So in Wyoming, you capped rates. And in  
7 Utah, you promised you'd take \$12 million off from  
8 \$100 million?

9 A No. We've not done anything like that in  
10 Wyoming. PacifiCorp through business as usual  
11 decision have decided on a rate plan in Wyoming.  
12 What we've superimposed on that is our merger  
13 commitments which will ensure that there is -- the  
14 amount for customers is consistent across all of  
15 PacifiCorp's territory.

16 Q Let's go to special share. In the Scottish  
17 government you described, it's just another  
18 regulator, if I recall your testimony?

19 A No, I didn't say that.

20 Q What did you say?

21 A I said that the -- what the special share

22 gives the U.K. government is no different from what

23 the conditions and licenses and agreements that

24 states -- state commissions have with PacifiCorp in

25 terms of providing an opportunity to influence the

1 major decisions which the company makes as they may  
2 affect customers.

3 Q Isn't it true that the Scottish government  
4 has a financial interest in the decisions they make?

5 A I believe all governments have an interest,  
6 both state and federal and national governments have  
7 an interest in what a utility undertakes, and that's  
8 probably why, one of the main reasons why we are in  
9 front of the Commission today.

10 Q Don't they hold shares that can be marketed  
11 to gain value?

12 A I'm not sure -- I'm not sure of that.

13 Q Would you during the break ask your counsel  
14 whether or not it's true that the Scottish government  
15 has a financial stake in the outcome?

16 MR. VAN NOSTRAND: I believe the record is  
17 sufficient on that point. There's a description and  
18 discussion in the proxy statement and the listing of  
19 particulars which describes in great detail what the

20 special share are and speaks for itself.

21 THE WITNESS: The special share has a  
22 nominal value of one pound and does not entitle  
23 the -- any voting rights and is not redeemable for  
24 anything other than the one pound.

25 MR. REEDER: I think we were promised a



1 copy of the new special share conditions on the lunch  
2 break on Thursday. It's past the lunch break on  
3 Monday.

4 THE WITNESS: We provided after the lunch  
5 break --

6 MR. REEDER: You provided me to the summary  
7 of those listing agreements.

8 THE WITNESS: We provided a summary of the  
9 existing special share and also the summary of the  
10 main changes that the new share would bring about.

11 MR. REEDER: I think your promise was to  
12 find the conditions. So far, I've seen a published  
13 promise.

14 Thank you. I have nothing further.

15 COMMISSIONER WHITE: Mr. MacRitchie, do you  
16 know if there will be any rate cases filed in Oregon  
17 or Washington by PacifiCorp?

18 THE WITNESS: My understanding is that  
19 PacifiCorp have spoken to all commissions, that their

20 intention to refocus strategy involves earning of

21 appropriate rate of return in all of their states.

22 My understanding from the past week when we

23 were in Oregon hearings is that, in fact, there has

24 been discussions with staff about filing of a case in

25 the very near future. There are some legal issues

1 that need to be cleared up before that's absolutely  
2 confirmed. But my understanding is PacifiCorp's  
3 intention is to do so.

4 As far as Washington, I have no information  
5 other than I know that PacifiCorp have filed for  
6 annual returns which show a significant underearning  
7 position in Washington. And therefore, I would  
8 assume that in terms of the normal course of business  
9 that they would intend to file there as well. But I  
10 have no detailed information on that.

11 COMMISSIONER WHITE: Okay.

12 CHAIRMAN MECHAM: Mr. MacRitchie, this is  
13 perhaps a question that should have been given to Mr.  
14 Richardson, but I'll ask anyway. With respect to the  
15 person who's coming to live in Utah, assuming the  
16 merger is approved, is it clear anywhere or has  
17 anyone filed anything that actually outlines the  
18 responsibilities that person will have and the  
19 authority that that person would have?

20 THE WITNESS: There is a letter which was  
21 sent and agreed with the economic development --

22 CHAIRMAN MECHAM: Right. Of course, we  
23 entered that as an exhibit.

24 THE WITNESS: Yes. In broad terms, that  
25 gives the detail of what that -- the responsibilities

1 will be. I don't believe the actual -- the level of  
2 detail that you might be looking for has yet been  
3 developed. And it might actually be more of an  
4 ongoing activity.

5 I think one of the things which -- well, I  
6 know that one of the things that Alan Richardson was  
7 keen to be able to do was to get the overall decision  
8 out into the open so that he could then have  
9 discussions with interested parties to assess their  
10 views to the appropriate levels of authority.

11 But essentially, the main focus will be on  
12 the communities in terms of representing Utah's  
13 position within the company and externally in terms  
14 of the -- ensuring that there is a focus on the  
15 economic development within Utah.

16 That person I believe will also be on the  
17 PacifiCorp board, and therefore will have executive  
18 powers in terms of the agreeing of major decisions  
19 that affect Utah.

20           CHAIRMAN MECHAM: Okay. At some point we  
21 may, in our deliberations, ask for even greater  
22 detail, though it sounds like you haven't developed  
23 it yet.

24           THE WITNESS: Sure.

25           CHAIRMAN MECHAM: Okay. Is there any

1 redirect?

2 MR. VAN NOSTRAND: Just a couple of  
3 questions, Mr. Chairman.

4

5 REDIRECT EXAMINATION

6

7 BY MR. VAN NOSTRAND:

8 Q Mr. MacRitchie, I'd like to refer back to  
9 these questions about the Wyoming rate plan. The  
10 rate cap that Mr. Reeder referred to in Wyoming is  
11 not really a rate cap to the extent that rates would  
12 be precluded from increasing, is it?

13 A The agreement as I understand it with  
14 PacifiCorp is that PacifiCorp will restrict their  
15 request for a rate rise to the level of five percent  
16 in the year 2000 and three or three and a half  
17 percent, I can't remember, in the year 2001.

18 Q Do you accept subject to check that it's  
19 five percent or \$12 million in 1999 and \$8 million or

20 three and a half percent in 2000?

21 A Yes. With rates effective 1st of January,

22 2000 and rates effective 1st of January, 2001.

23 Q The latter filing includes increases due to

24 depreciation as well, doesn't it?

25 A Yes. There is an explicit agreement that



1 should depreciation decisions -- sorry, a decision on  
2 the depreciation case, which I understand PacifiCorp  
3 currently have before the Wyoming Commission, result  
4 in an increased revenue requirement, then that would  
5 be flowed through as well. My understanding also  
6 that may be up to \$10 million per annum in Wyoming.

7 Q Given the relative difference in the sizes  
8 between the Wyoming and Utah jurisdictions, it's fair  
9 to say if that sort of approach were applied to Utah,  
10 there would be a substantially larger increase than  
11 12 and \$8 million respectively, wouldn't you say?

12 A It would be significantly more. I'm not  
13 sure I could actually calculate what that would be.  
14 But it would be significantly more.

15 Q So to the extent that particular rate plan  
16 allows for increases, it's not really a rate cap as  
17 that term has been used today, is it?

18 A That would be correct.

19 MR. VAN NOSTRAND: No further questions,

20 Mr. Chairman.

21 CHAIRMAN MECHAM: Thank you.

22 MR. REEDER: Can I reference Cross

23 Examination Exhibit 13, please.

24 CHAIRMAN MECHAM: Your microphone needs to

25 be turned on.

1 THE WITNESS: I'm sorry, did you speak?

2

3 RECROSS EXAMINATION

4

5 BY MR. REEDER:

6 Q Yes. Would you reference Cross Examination

7 Exhibit 13, please.

8 A I have it.

9 Q The pages are unnumbered, are they not?

10 A That's correct.

11 Q Would you turn to the page marked Rate of

12 Returns, ROE, Normalized near the back of the

13 document. About nine pages from the back. Are you

14 using a double-sided copy?

15 A Yes.

16 Q Do you have that page? The page that looks

17 like this.

18 A Yes, I have that.

19 Q There's a comparison of the rate of returns

20 earned by the various states, is it not?

21 A Yeah, I'm not sure what years they refer

22 to.

23 Q It would appear from the information

24 available for Wyoming for this year that it had a

25 very low ROE?

1 A As I say, I'm not sure whether these are  
2 returns of the current year or which year.

3 Q I think you made clear what you don't know.  
4 What I'm asking you is to confirm that this exhibit  
5 shows that Wyoming had a very low ROE.

6 A Wyoming has a low ROE, yes. I'm not sure  
7 what year that refers to.

8 Q And Utah has a very high ROE?

9 A I'm not sure whether that's consistent in  
10 terms of the year that they're looking at.

11 Q It's true that, nonetheless, in spite of  
12 the low ROE in Wyoming, PacifiCorp and ScottishPower  
13 agreed to a rate cap in Wyoming, didn't they?

14 A No.

15 Q I'll argue that "no" another day.

16 A ScottishPower did not agree --

17 Q There's no question in front of the house.  
18 You've answered the question that there was a no.  
19 There's no question.

20 CHAIRMAN MECHAM: Okay. Can someone point

21 to me the condition that addresses access to books

22 and records?

23 UNIDENTIFIED: It's on 11.

24 CHAIRMAN MECHAM: Okay, I see what that

25 condition says. Obviously, Mr. Alt, you're satisfied

1 that this will give the Division what it needs in  
2 order to make certain determinations with respect to  
3 ScottishPower's performance? I mean, access to the  
4 books and records of ScottishPower and all its  
5 entities?

6 MR. ALT: I'm sorry, I don't have a copy in  
7 front of me. That's my understanding.

8 CHAIRMAN MECHAM: That is what it says. I  
9 guess I'm just trying to ensure that ScottishPower  
10 retains the records necessary to be reviewed to make  
11 the sorts of determinations you're going to want to  
12 make.

13 And that, perhaps, Mr. MacRitchie, you can  
14 help me with. There was discussion earlier about  
15 retention of documents, and that was actually in an  
16 in camera session, so I won't refer to specific sorts  
17 of things.

18 But the reference -- actually, I guess that  
19 Cross Examination Exhibit 28 is not a proprietary

20 document. But it looks as though, at least in  
21 certain instances, there are documents which  
22 ScottishPower has used but perhaps not relied upon to  
23 make presentations to its board but doesn't retain  
24 the documents?

25 THE WITNESS: Just to be absolutely clear,



1 the documents that will be necessary for the  
2 Commission to undertake its areas of authority will  
3 obviously be made available. I think this refers to,  
4 my understanding, normal practice in the U.S., that  
5 what you might refer to as pencil copies or draft  
6 copies of documents are not retained, and it's only  
7 the final documents which are retained. My  
8 understanding is that's normal practice in the U.K.

9 We were under fairly strict instructions in  
10 terms of the merger and acquisitions group of Morgan  
11 Stanley and our advisers there in terms of what  
12 should and should not be retained.

13 In the normal course of business, it would  
14 not be the case that we would be doing anything other  
15 than retaining appropriate documents which will --  
16 are necessary for the regulatory commissions to do  
17 their jobs.

18 So I think it's -- we certainly will adopt  
19 PacifiCorp's retention policy and will be quite happy

20 to adhere to it. As long as you're happy with that

21 currently, then I guess we should be okay.

22 CHAIRMAN MECHAM: Okay. Any further

23 redirect?

24 MR. VAN NOSTRAND: No.

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

1 the record.

2 (Whereupon a discussion was held off the  
3 record.)

4 CHAIRMAN MECHAM: Let's go back on the  
5 record and memorialize some of this. Mr. Hunter,  
6 we'll go to you to give us the headquarters of the  
7 special contract customers.

8 MR. HUNTER: Commissioner White asked Mr.  
9 Powell a question using Cross Exhibit 27 regarding  
10 where the Utah customers listed in the left column of  
11 that exhibit were located. Mr. Powell indicated he  
12 didn't know.

13 We'd like to make a representation that  
14 Geneva Steel is headquartered in Utah. Kennecott  
15 Utah Copper, as Mr. Reeder specified, is  
16 headquartered in Utah but is a subsidiary of a  
17 London-based corporation. And the rest of these  
18 corporations are also headquartered outside of the  
19 state of Utah.

20 CHAIRMAN MECHAM: Okay. Thank you. Then  
21 also, while off the record, Mr. Hunter supplied us  
22 with a new copy of Cross Examination Exhibit 2 which  
23 is the same as that which we admitted several days  
24 ago in this proceeding. We are simply going to  
25 substitute that version in as Cross Examination 2.

1           Also, while off the record, we discussed a  
2 briefing schedule. We set the following schedule.  
3 We said that the initial briefs in this matter will  
4 be filed on or before September 3rd and set a 50 page  
5 limit, noting, however, that it's not required to  
6 reach the limit if you can do it in fewer pages.

7           Then we established September 17th as the  
8 date by which the reply briefs will be due, and there  
9 we established a 20 page limit.

10          Insofar as any additional information to be  
11 exchanged between and among parties, ScottishPower  
12 agreed to supply to Mr. Reeder the full document  
13 containing conditions with respect to the Scottish  
14 share. And if Mr. Reeder concludes that there's  
15 something in there that needs to be made part of this  
16 record, he can submit it as a late-filed exhibit to  
17 the Commission.

18          Do we need to do anything else?

19          MR. HUNTER: One additional thing. I've

20 been informed that I was insufficiently articulate.  
21 That Mr. Reeder can do a much better job of  
22 describing the status, Kennecott Utah status in the  
23 state of Utah as he did off the record a little while  
24 before. So if you'd prefer to do that, we'd be happy  
25 to have him do it.

1           CHAIRMAN MECHAM: Apparently it was  
2 sufficient.

3           MR. REEDER: Counsel, I'll accept your  
4 statement about the headquarters of these entities.

5           MR. HUNTER: Thank you.

6           CHAIRMAN MECHAM: For some reason, that  
7 reminded me that insofar as the briefs are concerned,  
8 we agreed if there is proprietary information that  
9 needs to be used that a proprietary brief will be  
10 filed along with one that can be used by the public.

11          And there was an agreement reached, one of  
12 the few throughout the entire proceeding, that all  
13 counsel can have copies of the so-called pink  
14 proprietary documents for the writing of the briefs,  
15 and then they will submit them to the appropriate  
16 parties when briefs are done.

17          MR. HUNTER: Thank you.

18          CHAIRMAN MECHAM: If there's nothing  
19 further, we'll adjourn.

20 (Whereupon the proceedings were

21 adjourned at 4:00 p.m.)

22

23

24

25



1 STATE OF UTAH )  
 ) SS.  
2 COUNTY OF SALT LAKE )

3

I, MARY D. QUINN, Certified Shorthand Reporter,  
4 Registered Professional Reporter and Notary Public  
5 in and for the State of Utah do hereby certify:

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That the foregoing transcript pages were  
7 stenographically reported by me at the time and  
8 place hereinbefore set forth;

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10 typewritten form;

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And that the foregoing is a true and correct  
12 transcript of those proceedings.

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16 DATED this \_\_\_\_\_ day of \_\_\_\_\_,

17 19\_\_\_\_.

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MARY D. QUINN CSR, RPR

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My Commission Expires 1/5/2002

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