PHOTOGRAPHER: ROGER HARRIS

A Scottish power

ADRIAN COATS, DIRECTOR OF TREASURY AT SCOTTISH POWER, TELLS **JULIA BERRIS** HOW WORKING FOR JUST ONE COMPANY CAN OFFER A BROADER RANGE OF EXPERIENCE THAN WORKING FOR MANY.

Since Spanish power company Iberdrola announced its £11.6bn takeover bid for Scottish Power in November 2006, life has changed for the company's Glasgow-based treasury team.

While the takeover appears imminent, it is not yet certain and this has left Scottish Power's Director of Treasury Adrian Coats and his staff in limbo.

Coats said: "It's not changing what we do on a daily basis because we don't know whether the transaction is going through for certain. Because it could all fall through, we have to carry on as normal."

The power group was the subject of a bid from German energy company E.ON in 2005, and local rival Scottish & Southern Energy is also rumoured to have made an offer.

Scottish Power shareholders are expected to have voted on the Iberdrola bid in March, after this issue of *The Treasurer* has gone to press, with all regulatory hurdles cleared by the beginning of May.

Coats said: "As we get closer to the conclusion there are certain issues we will need to address. We have a dollar convertible bond which is used in part to hedge US assets. If the transaction goes through, it will convert, so we need to be mindful of the implications for both foreign exchange and interest rate risk management."

Despite preparing themselves for the seemingly unknown, the treasury team at Scottish Power continues to take on the challenges of everyday tasks.

The group has operations in the US and UK and all treasury functions are performed at the centre, currently Glasgow.

Coats says that the group currently holds £1.4bn worth of cash and £3.42bn of debt and carries out around £5bn of foreign exchange (FX) in a year, enough to keep the team of seven busy.

Coats explains: "We have three people in the front-office and four people in the back, but we allocate more general tasks to those who may have time available. For example, someone dealing with sterling in the front-office might complete the bulk of their transaction-based work in the morning so they might work on the administration of letters of credit in the afternoon."

Having been through a number of significant changes since its privatisation as South of Scotland Electricity Board (SSEB) in 1991, Scottish Power has certainly provided more than enough to keep the treasury team working hard every day.

A DECADE OF DIVERSIFICATION In 1995 the group bought electricity company Manweb, and later diversified when it bought Southern Water in 1996. In 1999 US electricity company, PacifiCorp, based mainly in Oregon and Utah, was acquired. Southern Water and Scottish Power's remaining stake in telecommunications company Thus were sold in early 2002.

Coats says: "2001/2 was the most challenging year. We were selling Southern Water, or demerging it or securitising it, all at the same time. We were also selling the second half of Thus and doing a large amount of balance sheet hedging for currency protection for PacifiCorp. We were working on three transactions relating to Southern Water and we had to speak to so many different legal advisors, all asking the same questions. It was a nightmare."

During his 17 years at Scottish Power, Coats feels he has benefited from the wide range of issues he has had to deal with. Since it was established in 1990, the group has seen many changes, which has been a plus point for his career.

He says: "The changes in the group have provided me with the variation in career. People ask me why I don't want a change of job after working here for so long. I ask them if it's really the same working for a company that has just been privatised and has debt of £284m as working for a company which has debt of over £3bn and is five times the size. I feel a lot has happened and it has been very exciting."

Coats started his career in accounting and worked for KPMG before branching out into the corporate world and joining GrandMet (now Diageo) as accountant in the treasury department.

He says: "Like many people who go into the accounting profession, I always intended to leave it after qualification and do financial work

Company history

Scottish Power's rich history began in 1990, one year before the Scottish electricity industry was privatised in 1991. Scottish Power owns US company PPM Energy and is listed on the London Stock Exchange (LSE) and the New York Stock Exchange.

In 1995 the group acquired the English regional electricity company Manweb.

Southern Water was bought in 1996 and sold in 2002.

Scottish Power also set up the telecommunications company Thus, formerly known as Scottish Telecommunications, which was floated on the LSE with the group retaining a 50% stake until 2002 when it sold its remaining interest.

After purchasing US-based PacifiCorp in 1999, the group sold the company to Berkshire Hathaway in 2005.

Scottish Power distributes electricity to central and southern Scotland, Merseyside and North Wales. It also provides energy to the national grid for the UK.

in industry. I think one of the reasons I got the job at GrandMet was because I had audited bullion and FX at Rothschilds. So I knew what the dollar was and I knew what the South African rand was."

Coats was able to gain important treasury experience at GrandMet because he joined the company at an interesting time. It had just bought Intercontinental Hotels and had fairly significant FX issues that had to be accounted for.

Working at GrandMet enabled him to move smoothly into a treasury role, which he found suited him and provided what he wanted out of his career.

Coats explains: "I like the fact that treasury is mainly outward-facing and forward-looking. I also enjoy the fact that you are in the middle of the organisation and therefore in the middle of what is going on. Treasury provides excellent intellectual challenges, yet it is relatively self-contained and can be viewed as a business in its own right. Everything you do is related but in a relatively small sphere. This suits some people and not others."

When the privatisation of the British utilities got under way in the early 1990s, Coats saw it as a good opportunity for a fresh treasury challenge and a chance to go back to his roots and return to Scotland.

"It was always my intention to escape from the South East if I could," he says. "When privatisation began, I realised that it could be a good opportunity to return to Scotland. There were two Scottish companies, so I waited to see if they would advertise for a treasurer. One day I opened the newspaper and the advert was there."

Coats jumped at the chance to work for Scottish Power and take on the challenges that working in a newly privatised sector was sure to bring.

Having stayed with the company through many exciting times, Coats is very passionate about what he does and about the value of the treasury profession.

He says: "It's very easy to measure the impact of what you are doing because you are dealing with money. You can easily measure yourself against what the market does. Treasurers make a lot of decisions that are designed to protect their company from risk. But we also make decisions that generate cash savings as well. This is very satisfying and interesting."

DANGER OF OVERCOMPLICATION Coats see treasury as a very straightforward discipline that can be overcomplicated by detail that often proves unnecessary for everyday treasury activity.

He explains: "One of the things I like about treasury is that you can make it very complicated but it is relatively straightforward. You will

"TREASURY PROVIDES EXCELLENT INTELLECTUAL CHALLENGES, YET IT IS RELATIVELY SELF-CONTAINED AND CAN BE VIEWED AS A BUSINESS IN ITS OWN RIGHT."

come across a lot of jargon and very often people will wrap things up in complicated terms that are simply not needed. More often than not there will be a simple solution or a simple explanation."

The Scottish Power treasury policies involve a risk-averse approach to treasury functions. Coats is keen to stress that the company is not a position taker and he considers the department to be a cost rather than a profit centre.

Coats says: "We have some strict policies in relation to interest rate hedging and for currency, both balance sheet and transaction-related. In a company that is US-listed, where we are subjected to Sarbanes-Oxley, everything has to be written down and documented."

Coats admits that the introduction of Sarbanes-Oxley and IAS 39 at the same time was a nightmare. The demands of both regulatory shifts put tremendous pressure on the treasury department at Scottish Power.

Coats explains: "IAS 39 is a rules-based standard but Sarbanes-Oxley means that all your rules have to be written down and understood completely. The combination of the two, particularly as IAS 39 continued to evolve, was very hard to deal with."

With regulatory pressures and the massive developments that Scottish Power has experienced since it was established in 1991, managing the treasury function at this energy company has not been a walk in the park for Coats.

While he prepares for the next change in the company's life, Coats admits it is hard to predict what lies ahead.

He says: "The challenge right now is definitely managing the uncertainty of being taken over. We've been through a number of cycles and it is hard to say where the next stage will take us."

Adrian Coats is chairman of The Treasurers' Conference to be held in Edinburgh 2-4 May 2007.

Julia Berris is a Reporter on *The Treasurer*.
editor@treasurers.org