BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application for	)	**DOCKET NO. 05-035-54**
MidAmerica Energy Holdings Company	)	**Exhibit No. DPU 2.0**
and PacifiCorp dba Utah Power & Light	)	
Company for an Order Authorizing	)	**Direct Testimony of**
Proposed Transaction	)	**Carolyn G. Roll**
	)	

FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH

December 2, 2005

CONTENTS

Testimony of Carolyn G. Roll

December 2, 2005

INTRODUCTION:

Q: Please state your name, business address, and title.

A: My name is Carolyn G. Roll; my business address is 160 East 300 South, Salt Lake City, Utah 84114; I am a Utility Analyst in the Division of Public Utilities ("Division").

Q: On whose behalf are you testifying?

A: The Division.

Q: Please summarize your educational and professional experience.

A: I attended the University of Utah and earned a B.S. in accounting in 1978. I have over 20 years experience in the natural resources and energy industries. My positions have included financial analyst, contact analyst, controller, gas accountant, and marketing services manager. Since July, 2005 I have been employed at the Division as a Utility Analyst in the energy section. A resume is attached to this testimony.

PURPOSE AND SCOPE OF TESTIMONY:

Q: What is the purpose of your testimony in these proceedings?

A: My testimony will address the audit issues including corporate overhead charges, Intercompany Administrative Services Agreement ("IASA"), access to books and records, and affiliate transactions.

CORPORATE OVERHEAD CHARGES:

Q: What are the total estimated corporate overhead charges?

A: MidAmerican Energy Holdings Company ("MEHC") commits that the corporate charges to PacifiCorp from MEHC and MidAmerican Energy Company ("MEC") will not exceed $9 million annually for a period of five years after the closing on the proposed transaction.[1]

Q: What are some of the functions that will be included in these costs?

A: The shared services contemplated in the testimony of MEHC witness Mr. Specketer are for executive management, and executive support of MEHC's portfolio of companies and assets.[2] Additionally the corporate charge can be used to cover any matter or expense that is of a corporate nature, such as charges from MEC to PacifiCorp in the areas of budgeting, forecasting, human resources, tax compliance, etc., for coordination efforts on behalf of MEHC.

Q: Will these costs be in included in rates?

A: Not necessarily; as stated in Commitment U22 "applicants are not requesting in this proceeding a determination of the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions referenced in the Commitments, and the Parties in appropriate proceedings may take such positions regarding the prudence, just and reasonable character, rate or ratemaking treatment, or public interest of the investments, expenditures or actions as they deem appropriate."[3] Also, in response to a data request from the Oregon Public Utility Commission ("OPUC"), MEHC responded that "the testimony of Mr. Abel and Mr. Specketer pertaining to overhead costs does not speak to the rate treatment of such costs, but merely the billing from MEHC to PacifiCorp. We believe the rate treatment of such costs should be addressed in rate proceedings."[4]

[1] Refer to Settlement Document Commitment 38.
[2] Revised Direct Testimony of Thomas B Specketer, pp. 3-4.
[3] Refer to Settlement Document Commitment U22.
[4] MEHC's Response to OPUC Data Request 51.

Q: What has been the experience with Scottish Power with respect to corporate overhead charges?

A: In the most recent rate case, Docket No. 04-035-042, approximately $10.7 million in corporate overhead charges from Scottish Power was accepted by Division auditors as allowable in rates. The corporate overhead charge that was included in the application totaled $15.7 million, this was reduced by PacifiCorp to $14.4 million by removing costs that would relate to non-regulated activities and charged below the line.[5] In its case Rebuttal Testimony, PacifiCorp accepted the Division's testimony to exclude charges for Strategic Planning ($1.4 million) and Group Long Term Incentive Plan ($2.3 million) from the corporate cross charges that were allowable in rates.[6]

Q: Since MEHC is proposing to charge PacifiCorp less for corporate overhead, are there services that are going to be foregone in order to make up the difference?

A: Yes. MEHC will not provide shareholder services and executive management training services that Scottish Power provided.[7] This reduces costs to PacifiCorp by approximately $4 million and $1 million respectively. Shareholder services are unnecessary given that MEHC is a privately held company, and executive training will simply no longer be provided.

Q: If services are being eliminated, isn't this a negative consequence of the merger?

A: No. These are expenses that would be no longer needed as a result of the proposed acquisition. This reduction in expenses is a net benefit to the average ratepayer and should help offset potential future rate increases. If Scottish Power keeps PacifiCorp, then the corporate overhead would remain at a higher level.

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[5] Rebuttal Testimony of Jeffrey K. Larsen Docket No. 04-035-42, pp. 38-39.
[6] Rebuttal Testimony of Jeffrey K. Larsen Docket No. 04-035-42, Exhibit UP&L_ (JKL-11R).
[7] MEHC's Response to Public Counsel, State of Washington Data Request 17.

Q: Are you able to quantify any other differences from the Scottish Power corporate overhead charges and the proposed MEHC corporate overhead charges?

A: In the application, $15.7 million is the estimated corporate overhead charges from Scottish Power. This amount excludes the charges for Strategic Planning and Group Long Term Incentive Plan, since they were disallowed for rates in Docket No. 04-035-042. The reason for the 46 percent increase over the similar amount of $10.7 million is unclear. Assuming an adjustment is made similar to the adjustment in the recent rate case (about 25 percent) and if the current exchange rate is used (1.7x), then the allowed Scottish Power corporate overhead charges would be approximately $11 million. Therefore, MEHC's commitment would potentially yield $10 million savings over the next 5 years. If no adjustment to the Scottish Power charges, were found to be warranted (i.e. no 25% reduction), then the 5 year savings could approach $30 million.

<u>INTERCOMPANY ADMINISTRATIVE SERVICES AGREEMENT ("IASA"):</u>

Q: How do PacifiCorp and MEHC propose to administer inter-affiliate transactions?

A: MEHC proposes to modify its currently existing procedure, known as the Intercompany Administrative Services Agreement or IASA, to include PacifiCorp as part of the agreement. Pursuant to Commitment 13 and Commitment U21, PacifiCorp will submit the IASA to the Commission for approval.

Q: Please briefly summarize the important points or aspects of the MEHC process contained in the IASA.

A: The IASA outlines the administrative services that shall be included under this agreement. These services include, but are not limited to, use of office facilities, use of airplane, personal services, and financial services. The IASA outlines the method that administrative services will be charged to affiliates: a) direct charges, b) service charges, and c) management fee and how these charges will be billed. The agreement also provides that the charges will be documented by the provider of the service and will be available for audit by the party receiving the charge. All records will be maintained for a period of seven years after expiration or termination of the agreement.[8]

Q: What method will be used to allocate corporate overhead charges?

A: The IASA will include the corporate and affiliate cost allocation methodologies. The current IASA between MEHC and MEC that is referenced in Mr. Specketer's testimony allocates charges based on a two-factor method. The two-factor method is comprised of assets and payroll, each equally weighted.[9] Commitment 13 states that the IASA will be filed with the Commission as soon as practicable after the closing of the transaction and will outline the proposed method to be used.

Q: What is the current cost allocation method used to allocate corporate overhead costs from Scottish Power UK to PacifiCorp?

A: Currently a three-factor method is used to allocate costs. This method allocates corporate overheads on the basis of: 1) historic cost net assets, 2) number of employees and, 3) operating expenses; giving equal weight to each.

Q: Will the two-factor method be used for allocation of costs from MEHC to PacifiCorp?

A: A decision has not been made at this time. Commitment U21 states that MEHC and PacifiCorp will request Commission approval, for cost allocation and affiliate transaction purposes, of the IASA and any amendments filed pursuant to Commitment 13. At that time

[8] Revised Direct Testimony of Thomas B. Specketer, Exhibit UP&L__ (TBS-1).
[9] Revised Direct Testimony of Thomas B. Specketer, pp. 9-10.

the Division staff will review the IASA and make recommendations to the Commission regarding approval and/or changes to the agreement.

ACCESS TO BOOKS AND RECORDS:

Q: What concerns does the Division have regarding access to relevant documents and responsible individuals?

A: PacifiCorp's corporate functions reside in the operating company. Thus, all corporate costs are readily available for our review and examination, as these costs are recorded as part of electric operations. Additionally we are able to interview corporate officers and employees regarding corporate expenditures and allocations as needed. The proposed acquisition will necessitate the need to audit transactions between PacifiCorp, MEHC, MEC and possibly other operating companies of MEHC, and perhaps the parent company, Berkshire Hathaway as well, so it will be necessary to have access to those records and individuals as needed.

Q: Are access provisions sufficiently delineated in the acquisition commitments?

A: As stated in Commitment 4, "MEHC and PacifiCorp will provide the Commission access to all books of account, as well as all documents, data, and records of their affiliated interests, which pertain to transactions between PacifiCorp and its affiliated interests or which are otherwise relevant to the business of PacifiCorp."[10] In Commitment U14 the definition is expanded to include the Division of Public Utilities and the Committee of Consumer Services to receive the filings, data, and documents provided to the Commission.[11] Commitment 5 "will make their employees, officers, directors, and agents available to testify before the Commission to provide information relevant to matters within the jurisdiction of

[10] Refer to Settlement Document Commitment 4.
[11]Refer to Settlement Document Commitment 5.

the Commission." Commitment 3 provides for access to PacifiCorp's books and records, regulatory filings and documents in accordance with current practice. Current practice includes, but is not limited to, that when books and records are maintained out of state, the utility pay the costs associated with the Division's accessing the books and records, including travel costs, lodging, and per diem. I believe these commitments provide for needed access by the Division staff to books and records, other relevant documents, data, records, and individuals.

Q: Does the access to relevant documents and responsible individuals apply to Berkshire Hathaway?

A: Commitment 4 is also applicable to the books and records of Berkshire Hathaway, which shall retain its books and records relevant to the business of PacifiCorp consistent with the Federal Energy Regulatory Commission's record retention requirements. At the time of the closing of the transaction, MEHC will provide a letter from Berkshire Hathaway committing to be bound to Commitment 4 and 5.[12]

Q: Are there additional legal protections that would allow the Commission, and/or the Division access to the records of MEHC or Berkshire Hathaway?

A: Yes. The Energy Act of 2005 in section 1265 gives a State commission access to any information it determines is relevant to its regulatory responsibilities.

Q: In sum, do you believe that there will be adequate access to books, records and other information following the closing of this proposed acquisition to facilitate regulation and to protect the public interest?

A: Yes.

[12]Refer to Settlement Document Commitment U20.

<u>AFFILIATE TRANSACTIONS AND INTERCOMPANY PROCUREMENT:</u>

Q: With the repeal of PUHCA, is the ability of the Division to audit affiliate transactions limited?

A: In response to a data request from CCS, MEHC and PacifiCorp agreed that the Commission and its staff shall have full access to PacifiCorp and MEHC books and records necessary to investigate in detail affiliated interest transactions between the two entities. Also, as previously stated, Commitments 4 and 5 grants access to all records and individuals which pertain to transactions between PacifiCorp and its affiliated interests or which are otherwise relevant to the business of PacifiCorp.

Q: Are there policies in place at PacifiCorp regarding procurement(s) from an affiliated interest?

A: PacifiCorp's corporate procurement policy was previously approved by the Commission and will remain in place until or unless the Commission approves a change. The procurement policy states that the affiliate transactions will follow company policies and the IASA provides for monthly billings that detail affiliate transactions. The company will need to review and determine if changes are needed to the procurement policy, so there are not contradictions with the IASA, when it is submitted for approval.

Q: Will the Division receive notification of the affiliate transactions?

A: Yes, MEHC will file an affiliated interest report annually, which will include transactions with each affiliate.[13] The Division will then review the transactions for reasonableness and prudence. At that the Division will determine if company policies have been adhered to as outlined in the IASA and Procurement Policy.

[13] Refer to Settlement Document Commitment 8.

RECOMMENDATIONS:

Q: Given your understanding of the audit needs of the Division, what are your recommendations in this matter?

A: I believe that the application and the commitments as outlined in the Confidential Settlement Document provide for the needed access to records and individuals to allow the Division to complete their audit responsibilities.

Q: Does this complete your testimony?

A: Yes.