

**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)

**DIRECT TESTIMONY
OF
STEPHEN PAGE DANIEL
ON BEHALF OF
UTAH ASSOCIATED MUNICIPAL POWER SYSTEMS**

June 18, 1999

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17

18 **June 18, 1999**
19

20
21 **I. INTRODUCTION**

22 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

23 A. My name is Stephen Page Daniel. My business address is 1850 Parkway Place,
24 Suite 720, Marietta, Georgia 30067.

25 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

26 A. I am Executive Vice President and a founding principal of GDS Associates, Inc.
27 (“GDS Associates”), a multi-disciplined engineering and consulting firm.

28 **Q. PLEASE OUTLINE YOUR FORMAL EDUCATION.**

29 A. I received a Bachelor of Industrial Engineering degree from Georgia Institute of
30 Technology in 1970. I received a Master of Business Administration degree with
31 a major in finance from Georgia State University in 1978.

32 **Q. TO WHAT PROFESSIONAL ORGANIZATIONS DO YOU BELONG?**

33 A. I am a member of the Institute of Electrical and Electronics Engineers.

1 **Q. WHAT ARE YOUR DUTIES AND RESPONSIBILITIES WITH GDS**
2 **ASSOCIATES?**

3 A. My primary responsibilities involve providing rate and regulatory services related
4 to electric utility industry matters and consulting services with regard to electric
5 system power supply planning, including strategic planning for transmission
6 resources and electric industry restructuring/deregulation matters.

7 **Q. PLEASE BRIEFLY DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

8 A. Prior to founding GDS Associates in early 1986, I worked for approximately
9 fifteen (15) years with another consulting engineering firm. During that time my
10 positions and responsibilities changed from initially a rate analyst to Assistant
11 Vice President, Rate and Analytical Services.

12 As an engineering consultant over the last twenty-nine (29) years, I have
13 had primary responsibility for assignments pertaining to wholesale rates, retail
14 rates, financial planning, power supply planning for electric utilities, transmission
15 access, and electric industry restructuring/deregulation policy development and
16 implementation. My various assignments have been on behalf of more than one
17 hundred and fifty (150) cooperative and municipal electric systems, several
18 industrial clients, several investor-owned utilities, and regulatory commissions in
19 thirty-four (34) states. My responsibilities have included the preparation of
20 allocated cost-of-service studies, retail and wholesale rate design studies, financial
21 forecasts, revenue requirements evaluations, and analyses of alternative power
22 supply resources. These activities have also involved the negotiation of bulk
23 power contracts and transmission service arrangements.

24 I also have analyzed cost-of-service studies filed by others with the Federal
25 Energy Regulatory Commission and various state regulatory commissions.

26 My responsibilities also have included assignments in the specialized areas
27 of rate design for unusual loads, evaluation of financing alternatives, acquisition
28 and merger feasibility and market power related issues, and regulatory
29 rulemaking.

30 I have attached a copy of my current resume as Exhibit (SPD-1) for further
31 reference to my professional experience.

32 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE REGULATORY**
33 **COMMISSIONS?**

34 A. Yes. I have testified before the Federal Energy Regulatory Commission (the
35 “Commission” or “FERC”) and its predecessor – the Federal Power Commission
36 – in numerous proceedings. I have also filed affidavits before the FERC and have
37 filed testimony in other FERC proceedings which ultimately were settled before
38 the trial phase.

39 I also have testified before the Alabama Public Service Commission,
40 Alaska Public Utilities Commission, Arizona Corporation Commission, Arkansas
41 Public Service Commission, Colorado Public Utilities Commission, Florida
42 Public Service Commission, Georgia Public Service Commission, Public Service
43 Commission of Indiana, Kansas Corporation Commission (“KCC”), Louisiana
44 Public Service Commission, Mississippi Public Service Commission, North
45 Carolina Utilities Commission, Pennsylvania Public Utility Commission, South

1 Carolina Public Service Commission, Public Utility Commission of Texas, Utah
2 Public Service Commission (“UPSC” or “Commission”), Virginia State
3 Corporation Commission, and West Virginia Public Service Commission.

4 **Q. HAVE YOU TESTIFIED AS AN EXPERT IN COURT PROCEEDINGS?**

5 A. Yes. I have testified or filed affidavits in several Federal District Courts, Federal
6 Bankruptcy Court, and several state courts.

7 **Q. DO YOUR JOB RESPONSIBILITIES REQUIRE YOU TO CONSULT IN**
8 **THE AREAS OF POWER SUPPLY PLANNING, POWER SUPPLY**
9 **FEASIBILITY, AND POWER SUPPLY ECONOMICS IN GENERAL?**

10 A. Yes. Periodically I assist clients with evaluating the feasibility of power supply
11 alternatives. On several occasions I have participated as part of a project team on
12 power supply economic studies and power supply negotiations. Examples of
13 these power supply areas are: evaluation of alternative power sources for public
14 power systems such as municipals, generation and transmission cooperatives, and
15 distribution cooperatives; negotiation of bulk power purchases and sales contracts;
16 negotiation of joint ownership agreements for generating plants; negotiation of
17 interconnection and interchange agreements; negotiation of transmission service
18 contracts, including ancillary services, and joint transmission participation
19 arrangements; and development of generation support services arrangements.
20 Work on rate cases before state commissions and the FERC requires a varying
21 intensity of power supply evaluation for purposes such as cost allocation and rate
22 design.

23 **Q. DO YOU CONSULT WITH REGARD TO TRANSMISSION**
24 **ARRANGEMENTS ON BEHALF OF YOUR CLIENTS?**

25 A. Yes. Because transmission facilities and/or transmission access are vital to the
26 development of comprehensive power supply plans, I am involved on a regular
27 basis in the assessment of transmission needs and the determination of appropriate
28 terms, conditions, and pricing (including cost allocation) of transmission access
29 arrangements. My activities in this area include the negotiation of transmission
30 tariffs, complex transmission service contracts, service agreements and operating
31 agreements under open access transmission tariffs, and joint participation
32 arrangements on behalf of a number of clients across the country.

33 I have been involved in various merger proceedings before the FERC
34 which focused extensively on transmission access and pricing. In each of these
35 instances, my role involved, among other things, assessment of the appropriate
36 transmission access tariffs for the combined systems and the appropriate pricing
37 of transmission services. I have also participated in various activities related to
38 policy making considerations on transmission access and pricing issues. These
39 activities have included advising certain groups on such policy issues and
40 assisting a number of groups in preparing comments, filed with the Commission,
41 in various notice of inquiry and rulemaking proceedings pertaining to
42 transmission access and pricing.

43 **Q. ARE YOU FAMILIAR WITH THE NATURE, PURPOSES, AND USES OF**
44 **TRANSMISSION SYSTEMS AND THEIR RELATIONSHIPS TO**
45 **TRANSMISSION SERVICES PROVIDED BY UTILITIES?**

1 A. Yes. Consulting assignments related to power supply planning require an
2 understanding of the operation of utility systems, including planning and
3 operation of power supply resources, the interrelationship between power supply
4 resource planning/operations and transmission facilities, and the planning and
5 operational aspects of transmission facilities.

6 An understanding of transmission system purposes and uses goes beyond
7 just the technical and operational aspects of transmission facilities.

8 Understanding the cost of providing and the pricing of transmission services
9 requires an understanding of functionalization and allocation issues related to both
10 the direct costs of transmission facilities investments and the expenses and
11 indirect costs related to transmission facilities and services. Routinely over the
12 last fifteen years, I have been involved in the evaluation of costing and pricing of
13 transmission services and the negotiation of transmission service arrangements.
14 These activities range from developing charges for the transmission components
15 of bundled requirements services to the establishment of network-type
16 transmission service arrangements. I have also been involved in the preparation
17 of Good Faith Requests for transmission services pursuant to Sections 211-213 of
18 the Federal Power Act (“FPA”) and applications for transmission services
19 pursuant to open access transmission tariffs on file with the Commission.

20 **Q. HAVE YOU TESTIFIED IN OTHER MERGER PROCEEDINGS OR**
21 **BEEN INVOLVED IN THE EVALUATION OF OTHER MERGERS?**

22 A. Yes. I was involved in evaluating three proposed mergers which ultimately were
23 abandoned: (i) San Diego Gas & Electric Company (“SDG&E”) and Tucson
24 Electric Power Company (“TEP”); (ii) Kansas City Power & Light Company
25 (“KCPL”) and Kansas Gas & Electric Company (“KG&E”); and (iii) UtiliCorp
26 and KCPL. I testified before the FERC in the Northeast Utilities merger with
27 Public Service Company of New Hampshire. I participated in negotiations that
28 led to a settlement in the FERC merger proceeding involving the Kansas Power &
29 Light Company and KG&E, now known as Western Resources, Inc. (“WRI”).
30 Currently, I am involved in the proposed merger between WRI and KCPL before
31 both the KCC and the FERC. Other merger/acquisition-related experience
32 includes the following: (i) feasibility analysis of Tideland Electric Membership
33 Corporation acquiring Pamlico Power & Light Company; (ii) participation in
34 other merger feasibility analyses among certain clients; (iii) valuation of a number
35 of systems for potential sale (including one system which was sold); and (iv)
36 reorganization or dissolution of assets under bankruptcy.

37 **II. REPRESENTATION**

38 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

39 A. Utah Associated Municipal Power Systems (“UAMPS”).

40 **Q. HAVE YOU REPRESENTED UAMPS IN OTHER MATTERS**
41 **INVOLVING PACIFICORP?**

42 A. Yes. I have provided consulting services to UAMPS in the following matters
43 related to or involving PacifiCorp: (i) a number of transmission service
44 proceedings before the FERC; (ii) negotiations pertaining to a number of matters
45 involving the Transmission Service and Operating Agreement between PacifiCorp

1 and UAMPS; (iii) matters regarding UAMPS and PacifiCorp transmission
2 facilities in the Washington County area; and (iv) matters involving the possible
3 formation of several different regional transmission arrangements (*e.g.*, IndeGO).

4 **Q. IS UAMPS A CUSTOMER OF PACIFICORP?**

5 A. Yes, UAMPS is a wholesale transmission customer.

6 **Q. PLEASE EXPLAIN THE TERM “WHOLESALE TRANSMISSION
7 CUSTOMER.”**

8 A. UAMPS purchases firm transmission service from generation sources not owned
9 by PacifiCorp and relies on PacifiCorp’s transmission system for firm delivery of
10 that energy to its members’ distribution systems.

11 **Q. HOW DOES UAMPS PAY FOR THE FIRM TRANSMISSION SERVICE
12 IT RECEIVES FROM PACIFICORP?**

13 A. UAMPS has a network transmission agreement with PacifiCorp, and its rates and
14 charges for this agreement are determined and approved in “cost based” regulatory
15 procedures before the FERC.

16 **Q. DOES UAMPS CONTEMPLATE OR PROPOSE A CHANGE IN HOW IT
17 PAYS FOR FIRM TRANSMISSION SERVICE?**

18 A. No, UAMPS expects to continue to pay cost-based rates.

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III. PREPARATION FOR TESTIMONY

25 **Q. WHAT MATERIALS AND INFORMATION DID YOU REVIEW AS PART OF THE PREPARATION FOR DEVELOPMENT OF YOUR DIRECT TESTIMONY?**

26 A. In preparation for submittal of this direct testimony, I reviewed the following materials and information:

- 27 ● The Direct Testimony and Exhibits of Messrs. O'Brien, Richardson, Moir, and MacRitchie filed by PacifiCorp and Scottish Power plc ("ScottishPower") (collectively, "Applicants") on February 26, 1999;
- 28 ● The Supplemental Testimony of Mr. Richardson filed by the Applicants on April 16, 1999;
- 29 ● The Applicants' Issues Memorandum submitted on April 12, 1999;
- 30 ● UAMPS' Amended Petition for Intervention and Statement Regarding Issues submitted on February 17, 1999;
- 31 ● The responses of various entities to the Applicants' Issues Memorandum;
- 32 ● A compendium of various responses by the Applicants to merger data requests by various entities.

IV. UAMPS CONCERNS ABOUT THE MERGER

25 **Q. DOES UAMPS OPPOSE THE PROPOSED MERGER?**

26 A. Based on the various representations and promises made to the Commission regarding protections for Utah's citizens, UAMPS is not opposed to the merger.

27 **Q. WHAT IS UAMPS' CONCERN REGARDING THE PROPOSED MERGER?**

28 A. UAMPS is concerned about the current reliability of the PacifiCorp transmission system. UAMPS believes improvements in reliability, as warranted, would benefit all affected customers, both wholesale and retail. Protection against

1 deterioration in reliability as a result of the proposed merger of PacifiCorp and
2 ScottishPower must be insured by the Commission.

3 **Q. WHY IS RELIABILITY OF THE PACIFICORP TRANSMISSION**
4 **SYSTEM OF CONCERN TO UAMPS?**

5 A. All electric consumers within Utah that are dependent upon the PacifiCorp
6 transmission system for the delivery of their power needs are impacted by the
7 reliability of the PacifiCorp transmission system. This would include UAMPS
8 and its members and the retail customers served by its members, as well as the
9 retail customers served by PacifiCorp. It is in the public interest for Utah for all
10 customers to receive reliable delivery of their power requirements.

11 **Q. HAS SCOTTISHPOWER MADE RELIABILITY OF THE PACIFICORP**
12 **SYSTEM A MATTER RELEVANT TO THE PROPOSED MERGER?**

13 A. Yes. ScottishPower has generally proposed to improve service to PacifiCorp's
14 customers by proposing a package of service standards, which includes both
15 Performance Standards and Customer Guarantees. (*See, e.g.*, Richardson Direct
16 Testimony, page 8, line 10 - page 10, line 4 and Exhibits (BM-1), (BM-2), and
17 (BM-3).) These general service standards are discussed by Messrs. Richardson
18 and Moir, among others.

19
20 I would like to focus on the Performance Standards related to system
21 reliability proposed by ScottishPower. Specifically, ScottishPower is proposing
22 to implement programs which will achieve the following:

- 23
- 24 ● Improve system availability and system reliability by ten (10) percent
25 from PacifiCorp's current performance and reduce momentary
26 interruptions by five (5) percent from PacifiCorp's current performance;
27 and
 - 28 ● Improve the five (5) worst performing circuits in each state on an annual
29 basis.
30

31
32 (*Id.*, page 9, lines 8-13.) ScottishPower is offering to make a commitment to

1 improve system reliability in return for approval of the proposed merger.¹

1 **Q. DOES UAMPS SUPPORT A COMMITMENT BY**
2 **SCOTTISHPOWER TO IMPROVING SYSTEM RELIABILITY?**

3 A. Yes. UAMPS and its members have an interest in, and will be affected by, the
4 implementation of such reliability improvement programs. UAMPS, therefore,
5 supports, as laudable goals, the general, yet loosely defined, proposals by
6 ScottishPower to improve system reliability.

7 **Q. DOES UAMPS HAVE CONCERNS ABOUT SCOTTISHPOWER'S**
8 **OFFERS REGARDING IMPLEMENTATION OF SPECIFIC**
9 **PERFORMANCE STANDARDS PERTAINING TO SYSTEM**
10 **RELIABILITY?**

11 A. Yes. UAMPS, while supportive of such programs, has an overriding concern that
12 effective implementation of such programs may not occur. UAMPS is equally
13 concerned that the stated goals will not be achieved, and as a result, the proposed
14 improvements may become hollow promises after the merger is consummated.

15 For reasons I will discuss later, UAMPS also is concerned whether the
16 proposed penalties, for failure to achieve the Performance Standards, are
17 sufficient inducements to assure compliance with the promises.

18 **Q. WHY IS UAMPS CONCERNED ABOUT SCOTTISHPOWER'S ABILITY**
19 **TO ACHIEVE ITS PROPOSED PERFORMANCE STANDARDS?**

20 A. UAMPS' concerns are relative to the obvious competing-interest aspects of
21 mergers and with regard to the transitional environment of the electric industry as
22 it moves from a wholly regulated industry to, at the very least, a partially
23 deregulated industry.

24 **Q. EXPLAIN WHAT YOU MEAN BY THE COMPETING-INTEREST**
25 **ASPECTS OF THE MERGER.**

26 A. When regulated electric systems are acquired or merged into other systems,
27 whether those other systems are regulated or not, the affected stockholders and the
28 ratepayers of the electric utility often have differing interests. Those differing
29 interests can often be in conflict. The surviving stockholders of the combined
30 entity are concerned about overall returns, especially return on equity, and the
31 ability of the combined entity to recoup any acquisition premium paid as part of
32 the merger or acquisition (such as the substantial premium to be paid by
33 ScottishPower). Ratepayers, on the other hand, are concerned with whether the
34 merger will result in increased costs of power, deterioration in service, potential
35 anticompetitive effects, and other related issues.

36 **Q. IS THERE ANYTHING SIGNIFICANT ABOUT THIS MERGER AS**
37 **COMPARED TO MOST OTHER MERGERS OF ELECTRIC UTILITIES**
38 **WHICH HAVE OCCURRED IN THE UNITED STATES?**

39 A. Yes. Most mergers and acquisitions within the U.S. electric industry have
40 involved two operating utilities, generally neighbors, and often directly
41 interconnected. When such utilities combine their operations, it is normally

'Throughout my testimony, when I refer to Performance Standards, I am speaking specifically about the above noted items.

1 anticipated that there will be economies of scale, diversity benefits, and other
2 opportunities to achieve savings not obtainable by the two systems operating
3 alone. Some of these savings may even come from the elimination of duplicate
4 personnel and functions within the merging organizations.

5 In the case of the PacifiCorp-ScottishPower merger, the parties are not
6 neighboring operating utilities that can expect to achieve substantial savings
7 through the normal benefits of combined operations. ScottishPower's own filing
8 acknowledges this distinction. (O'Brien Direct Testimony, page 1, line 20 - page
9 10, line 13.) In fact, Mr. O'Brien acknowledges that the promised improvements
10 in service reliability, operational efficiencies, and customer service proposed by
11 ScottishPower will require significant up-front investment with associated cost
12 reduction benefits being realized over a longer term. (*Id.*, lines 5-8.)
13 ScottishPower does not suggest that the merger should be expected to produce any
14 significant savings to ratepayers. Rather, ScottishPower promises improvements
15 in certain targeted service standards. It is unclear whether ScottishPower
16 proposes to require the ratepayers to foot the bill for the investments and other
17 expenditures required to achieve the targeted service standards. This is especially
18 true if, in order to meet the targeted service standards, significantly greater
19 expenditures are required than are currently anticipated.

20 These aspects of the proposed merger, including the service-standard
21 improvements being proposed, simply highlight some of the uncertainties as
22 regards the consumer benefits touted and promised by ScottishPower.

23 **Q. EXPLAIN WHY THE TRANSITIONAL ENVIRONMENT WITHIN THE**
24 **ELECTRIC UTILITY INDUSTRY IS AN ISSUE FOR CONCERN WITH**
25 **REGARD TO EVALUATING MERGERS, SUCH AS PROPOSED.**

26 **A.** The U.S. electric utility industry has been undergoing a significant transition from
27 a highly-regulated monopoly environment to a partially deregulated environment.
28 The primary target for deregulation is the production (or capacity and energy)
29 function of electric supply. Generally, the transmission and distribution (or wires)
30 functions have remained regulated. In addition, there are a host of other services
31 which have been or may be deregulated (*e.g.*, metering and billing), and electric
32 utilities are now engaged in a plethora of unregulated businesses (*e.g.*,
33 telecommunications and energy services). Given that these regulated and non-
34 regulated elements of the utility operate under the same umbrella parent, there is a
35 real need to be vigilant to insure that the non-regulated businesses are not
36 somehow subsidized by the regulated businesses. As this transition progresses,
37 the pressures mount to profitably compete. Such pressures could lead to efforts to
38 cross-subsidize non-regulated businesses through regulated services. To the
39 extent the potential return on capital investments is greater in non-regulated
40 businesses, there will be a natural tendency to favor deployment of capital to such
41 non-regulated businesses. If regulated businesses are perceived as "cash cows", or
42 could be made to become so through capital and operating expenditure reductions
43 without concomitant rate adjustments, there is a very real possibility that capital
44 may be diverted from regulated operations to non-regulated businesses. If this
45 were to occur, it might jeopardize continued reliability of service, or needed

1 improvements in reliability. These pressures to compete must be considered
2 carefully with regard to whether a proposed merger will result in the types of
3 consumer benefits being promised.

4 **Q. WHAT IS YOUR UNDERSTANDING OF SCOTTISHPOWER'S PLANS**
5 **WITH REGARD TO EXPENDITURES TO ACHIEVE THE SERVICE**
6 **STANDARDS IT HAS PROMISED?**

7 A. Mr. Richardson succinctly summarizes ScottishPower's planned expenditures in
8 his April 16, 1999 Supplemental Testimony at page 7, lines 5-23.

9 **Q. DO YOU HAVE ANY OBSERVATIONS CONCERNING**
10 **SCOTTISHPOWER'S PLANNED EXPENDITURES?**

11 A. Yes. First, ScottishPower estimates that it will spend \$55 million, or about \$11
12 million annually, during the proposed five-year implementation period. The
13 amount, as I understand, is for the entire PacifiCorp system, not just the Utah
14 Power & Light Company ("UP&L") Division. Of the \$55 million, only about \$32
15 million of this expenditure is for capital investments, of which ~~only~~ \$31.1 million
16 is planned for the Performance Standards. The remaining \$23 million will be for
17 operating expenses. These amounts, at best, are very modest relative to the size of
18 the PacifiCorp system and the promised improvements in reliability.

19 Second, the \$31.1 million capital investment over five years earmarked to
20 achieve the proposed Performance Standards, or approximately \$6.2 million per
21 year, is approximately one-tenth (0.1) percent of the total transmission and
22 distribution system investment of PacifiCorp, which was \$5.422 billion as of
23 December 31, 1998. PacifiCorp, in response to the Utah Industrial Energy
24 Consumers ("UIEC") Data Request 2.8 indicated that UP&L's transmission
25 capital expenditures for the last five years were as follows:

26 Capital Expenditures

27 Year	28 (\$000's)
29 1998	\$12,842
30 1997	\$11,870
31 1996	\$10,822
32 1995	\$12,237
33 1994	\$28,296

34 By comparing these levels of expenditures, just in the UP&L Division, to the
35 ScottishPower proposal, it is obvious the amount of capital expenditures being
36 proposed by ScottishPower, which presumably will not increase PacifiCorp's
37 overall capital budget according to ScottishPower (Richardson Supplemental
38 Testimony, page 7, lines 11-12), is very small. Even if the proposed expenditures
39 (which are not segregated by division) were in addition to both transmission and
40 distribution capital improvements over the same five-year period, the extra dollars
41 of expenditures being proposed by ScottishPower are still relatively small.

42 Third, to avoid increasing PacifiCorp's overall capital and revenue
43 budgets, ScottishPower is expecting other programs, that are only generally
44 discussed, to create operational and other efficiencies that will mitigate upward
45 cost pressures associated with the \$55 million expenditure. (*Id.*, lines 12-21)

1 While these other, only generally undescribed, efficiencies may be achievable so
2 as to permit ScottishPower to achieve its promised service standards, the
3 Commission must place these promises and the expected results in perspective.
4 While UAMPS has not prepared any detailed analyses to determine whether the
5 programs outlined by ScottishPower are achievable under the capital and
6 operating expenditure limits which it maintains that it will achieve, the
7 magnitudes of the numbers do raise questions which the Commission should
8 address.

9 **Q. DOES UAMPS HAVE OTHER CONCERNS REGARDING**
10 **SCOTTISHPOWER’S PROPOSED PERFORMANCE STANDARDS AND**
11 **THE PLANNED EXPENDITURES TO ACHIEVE THOSE STANDARDS?**

12 A. Yes. First, there is no indication as to whether the program of targeted reliability
13 improvements is to be directed at both transmission and distribution facilities.
14 Inadequate maintenance expenditures or facilities upgrades at either the
15 transmission or distribution level can cause, or contribute to, reliability problems.
16 Presumably, the proposed programs would be directed to maintenance
17 expenditures and facilities upgrades for both transmission and distribution
18 facilities where warranted, and this should be clarified.

19 Second, the proposals by ScottishPower do not specify whether the efforts,
20 at reliability improvement, will be directed toward facilities primarily serving
21 PacifiCorp retail customers, or whether the programs will examine specific
22 facilities serving wholesale and retail customers and even those facilities which
23 may be serving only wholesale customers. Utah’s citizens are represented in all of
24 these customer groups, therefore, all programs should be implemented on a state-
25 wide, non-discriminatory basis for the benefit of all ultimate electric consumers in
26 Utah.

27 **Q. DOES UAMPS HAVE CONCERNS ABOUT THE SPECIFIC**
28 **RELIABILITY IMPROVEMENT TARGETS PROPOSED BY**
29 **SCOTTISHPOWER AND HOW THEY WILL BE MEASURED?**

30 A. Yes. The proposed Performance Standards are based upon targeted reductions in
31 the following reliability indices: (i) System Average Interruption Duration Index
32 (“SAIDI”); (ii) System Average Interruption Frequency Index (“SAIFI”); (iii)
33 Momentary Average Interruption Frequency Index (“MAIFI”); and (iv) Circuit
34 Performance Index (“CPI”). (Moir Direct Testimony, page 6, lines 4-14.)
35 ScottishPower’s proposal, however, is vague as to the “base-line data” from
36 which the improvements in these reliability indices will be measured. Mr. Moir
37 notes that “ScottishPower recognizes that base-line data may change from
38 PacifiCorp’s current, historical outage data because of uncertainty regarding the
39 accuracy of the historical performance to date.” (*Id.*, lines 24-26.) He goes on to
40 note that ScottishPower will implement new monitoring and reporting information
41 systems that may cause a “...change in measurement and monitoring accuracy
42 [that] may by itself cause an increase in the reported (but not actual) reliability
43 indices.” (*Id.*, page 6, line 26 - page 7, line 3.) Mr. Moir also notes that “[i]n the
44 event that improved measurement techniques cause meaningful changes in
45 reliability indices, ScottishPower proposes to modify the historical base-line data

1 to reflect the new measurement technique.” (*Id.*, page 7, lines 3-5.)

2 These comments raise questions as to why PacifiCorp’s current reliability
3 indices data are, or may be, inaccurate and, therefore, unreliable for establishing
4 the base-line from which to benchmark any improvements. There is also a
5 question as to how new base-line data will be established. For example, will such
6 information only be available on a current and going-forward basis as the new
7 monitoring and reporting systems are deployed? Another obvious question is
8 whether such current information is the most appropriate base-line from which to
9 measure reliability improvements. For example, if there has been a deterioration
10 in system reliability in recent years, only by knowing the level of that deterioration
11 can one determine whether the proposed improvements in the reliability indices
12 are sufficient to restore reliability to historically acceptable levels. At a minimum,
13 PacifiCorp’s historical data for the last 10 years should be carefully analyzed to
14 determine trends in reliability as measured by the targeted indices.

15 **Q. DOES UAMPS HAVE CONCERNS REGARDING SCOTTISHPOWER’S**
16 **COMMITMENT REGARDING THE IMPROVEMENT TO THE FIVE**
17 **WORST PERFORMING CIRCUITS IN EACH STATE?**

18 A. Yes. Many of the earlier observations I offered also apply here as with regards
19 concerns as to this commitment. Specifically, this Performance Standard appears
20 to be directed more toward distribution circuits than transmission lines. Given the
21 uncertain generalities of the ScottishPower proposal, it conceivably could lead to
22 areas of the system serving UAMPS’ members’ customers not receiving any of
23 the benefits of this particular element of the proposed program because they are
24 served from a distribution substation or transmission line that might not be
25 identified as a “circuit” targeted for improvement. Again, UAMPS simply
26 suggests that ScottishPower’s commitment should focus on the public interest as
27 broadly defined by all of Utah’s electric consumers whose reliability of service is
28 dependent upon and impacted by the PacifiCorp system.

29 **Q. DOES SCOTTISHPOWER’S PROPOSED PERFORMANCE STANDARDS**
30 **ENVISION COMMISSION AND CONSUMER INVOLVEMENT?**

31 A. The extent and level of Commission and consumer involvement in the process are
32 not discussed. It appears to be a case more of ScottishPower proceeding based
33 upon the general representations made with annual reporting as to its activities
34 and the results of its various programs.

35 **Q. HAS SCOTTISHPOWER PROPOSED FINANCIAL PENALTIES IF IT**
36 **FAILS TO MEET THE PROPOSED PERFORMANCE STANDARDS?**

37 A. Yes. Mr. Moir describes these penalties as follows:
38 For each of the standards not achieved in any jurisdiction at
39 the end of the five-year period, we will pay a financial
40 penalty equal to \$1.00 for every customer in such
41 jurisdiction. In the event that ScottishPower fails to meet
42 its Performance Standards relating to the network in all
43 jurisdictions this would equate to a total penalty of some \$7
44 million.

45 (Moir Direct Testimony, page 9, lines 5-9.) Mr. Moir goes on to note that “[t]he

1 monies should be visibly returned to the community, and not diluted through the
2 rate base or divided up amongst customers as a rebate.” (*Id.*) He suggests “[o]ne
3 possibility is to have the proceeds paid into the PacifiCorp Foundation.” (*Id.*,
4 lines 12-13.)

5 **Q. PLEASE COMMENT ON SCOTTISHPOWER’S PROPOSED FINANCIAL**
6 **PENALTIES FOR FAILURE TO MEET THE PERFORMANCE**
7 **STANDARDS REGARDING SYSTEM RELIABILITY.**

8 A. Several basic observations regarding the suggested financial penalties are
9 important. First, if ScottishPower fails to meet all of the proposed targets and
10 pays the full \$7 million penalty, this penalty is negligible when viewed in the
11 context of the annual revenues from sales of electricity for PacifiCorp (*i.e.*, \$3.497
12 billion for 1998). The level of penalties also is modest relative to the transmission
13 and distribution plant investment of PacifiCorp (*i.e.*, \$5.422 billion as of
14 December 31, 1998) and its annual transmission and distribution operation and
15 maintenance expenditures. Likewise, the penalty is small relative to the
16 acquisition premium at stake with the proposed merger. Finally, the penalty is
17 less than the \$31.1 million ScottishPower indicates it plans to expend to achieve
18 the targeted system reliability improvements. If ScottishPower did nothing to
19 improve upon the system reliability, at the end of the five-year period it would be
20 exposed to paying \$7 million in lieu of having expended a projected \$31.1 million
21 to achieve the targeted improvements.

22 Overall, the proposed financial penalties do not appear to offer a realistic
23 inducement for ScottishPower to insure it achieves the proposed targeted system
24 reliability improvements. In addition, taking these penalty monies and returning
25 them to the community would not directly compensate the affected parties –
26 namely, Utah ratepayers relying upon the PacifiCorp system. Neither would this
27 approach address the targeted issue – namely, system reliability improvements.
28 Finally, allowing ScottishPower to control the distribution of such penalty
29 proceeds would give it an opportunity potentially to assuage certain sectors of the
30 Utah community with indirect benefits, as opposed to the intended direct benefits
31 to all Utah electric consumers dependent upon PacifiCorp’s transmission and
32 distribution systems.

33 The Commission either should specify its own meaningful financial
34 penalties for failure to meet the targeted reliability improvements, or at a
35 minimum, require ScottishPower to propose meaningful penalties as part of any
36 detailed plan of action which the Commission would require ScottishPower to
37 develop and file for approval as a condition of merger approval. As an example, a
38 penalty of \$1.00 per consumer per percentage point by which ScottishPower fails
39 to meet the targeted percentage improvements in the reliability indices could
40 provide serious inducement to achieve the promised objectives. The Commission
41 also should make clear that any penalties ultimately approved and assessed, if
42 warranted, will not be recoverable from ratepayers. Of course, paying such
43 penalties should not relieve ScottishPower of its obligations to maintain
44 acceptable reliability in accordance with good utility practices.

45 **V. CONCLUSIONS AND RECOMMENDATIONS**

1 **Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING**
2 **SCOTTISHPOWER’S PROPOSED PERFORMANCE STANDARDS?**

3 A. ScottishPower has promised to deliver significant improvements to system
4 reliability without increasing capital and operating budgets and rates. The starting
5 point for measuring such improvements appears to be in doubt, given expressed
6 concerns about the possible accuracy of historical base-line statistics maintained
7 by PacifiCorp. Commission and consumer involvement in determining whether
8 merger promises are kept is unclear. The suggested penalties for failure to
9 achieve the proposed improvements are nominal and unlikely to be sufficient
10 inducement to meet the targeted reliability improvements.

11 **Q. IN LIGHT OF THESE CONCERNS, WHAT RECOMMENDATIONS DO**
12 **YOU HAVE FOR THE COMMISSION REGARDING**
13 **SCOTTISHPOWER’S PROPOSED PERFORMANCE STANDARDS?**

14 A. In addition to the periodic reporting proposed by ScottishPower, UAMPS
15 recommends that the Commission order the following as part of the approval of
16 the proposed merger.

- 17
- 18 ● ScottishPower should be required to submit a detailed action plan to the
19 Commission within 120 days of the issuance of an order approving the
20 merger for public comment and Commission review, amendment, if
21 necessary, and approval.
- 22
- 23 ● The Commission should require the action plan to encompass reliability
24 improvements on the PacifiCorp system for all affected Utah electric
25 consumers on a non-discriminatory, non-preferential basis.
- 26
- 27 ● The action plan to be submitted by ScottishPower should include specific
28 features to incorporate ongoing participation by the Commission’s Staff
29 and a cross section of consumer representatives (both retail and wholesale)
30 in the development and implementation of improvement programs,
31 including identification of specific facilities requiring attention.
- 32
- 33 ● The expenditures promised by ScottishPower to achieve the promised
34 Performance Standards are not to be viewed by ScottishPower, the
35 Commission or the public at large as a cap on ScottishPower’s
36 expenditures to maintain and upgrade system reliability.
- 37
- 38 ● ScottishPower should be required to direct its commitments to both
39 transmission and distribution facilities, as warranted, as part of its
40 reliability improvement initiatives.
- 41
- 42 ● ScottishPower should be directed to immediately establish reliability
43 indices for measuring the Performance Standards on a state-by-state basis.
- 44
- 45 ● Within one year of any order by the Commission approving the merger,

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ScottishPower should be required to submit a preliminary report indicating its findings, conclusions, and plans with regard to the accuracy of the historical reliability statistics maintained by PacifiCorp.

- The Commission should substantially increase the financial penalties for ScottishPower's failure to comply with the targeted reliability improvements.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, at this time.