Witness CCS-1
Exhibit CCS-1

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

	)	Docket No. 98-2035-04
In the Matter of the Application	)	
of PacifiCorp and ScottishPower plc	)	PRE-FILED DIRECT TESTIMONY OF
for an Order Approving the Issuance	)	DANIEL E. GIMBLE
of PacifiCorp Common Stock	)	FOR THE
	)	COMMITTEE OF CONSUMER SERVICES

June 18, 1999

TABLE OF CONTENTS

I. Introduction

Q: **PLEASE STATE YOUR NAME, JOB POSITION AND QUALIFICATIONS TO APPEAR AS A WITNESS ON BEHALF OF THE COMMITTEE OF CONSUMER SERVICES IN THIS PROCEEDING.**

A: My name is Daniel E. Gimble. I am presently employed in the position of Energy Group Manager with the Committee of Consumer Services ("Committee" or "CCS"). My qualifications are included in Appendix 1 to this testimony.

Q: **PLEASE STATE THE PURPOSE OF YOUR TESTIMONY.**

A: As the Committee's Energy Group Manager, I provide the Committee's recommendation on ScottishPower's proposal to acquire PacifiCorp ("the proposed merger"). My testimony is structured as follows:

- Recommendation
- Background
- Merger Review Standard
- Merger Base Line
- "Applicants' Case"
- Committee "Response"
- Rate Plan

II. Committee Recommendation

Q: **WHAT IS THE COMMITTEE'S RECOMMENDATION REGARDING THE APPLICANTS' MERGER PROPOSAL?**

- The Utah Commission should deny the Applicants' proposal to merge the two companies. The Applicants have yet to put forward tangible and verifiable evidence showing that the proposed merger is in the public interest. Thus, we are compelled to recommend against approving the proposed merger at this time.

.

III. Background

Q: **PLEASE BRIEFLY DESCRIBE THE "INTERNATIONAL CONTEXT" ACCOMPANYING THIS PROPOSED MERGER.**

A: Over the past decade there has been a trend toward ever-greater diversification in energy markets; a development that increasingly transcends national borders as energy companies seek profitable opportunities abroad. Stated succinctly, a globalization of energy markets. For example, many U.S. energy companies have an international presence on continents ranging from Asia to South America to Europe.

In the United Kingdom (U.K.) alone, U.S. companies have acquired eight of the twelve regional electricity companies. And all of these transactions have occurred since 1995; a period of only three years. The prospect of incredibly high earnings attracted many U.S. companies to the U.K. electricity market, including PacifiCorp in its failed bid to acquire The Energy Group. Earnings levels became so high in the U.K. utilities industry that Her Majesty's Treasury levied a 5.2 billion pound windfall profits tax on all utilities to return some of the "excess profit" to U.K. citizens.[1] Moreover, recent news reports suggest that OFFER (the U.K. Regulator) will further tighten the rein on profits through significant rate reductions.[2] This is in addition to new regulations requiring the "ring-fencing" or separation of the supply part of the business from the "wires" part of the business–a transition that U.K. electric companies say will cost them 1.6 billion pounds over six years, with ongoing annual costs of 325 million

[1]Interestingly enough, the U.K. Company with the largest tax liability was the ScottishPower Group (ScottishPower, Manweb and Southern Water). Their tax liability totaled nearly $320 million pounds.

[2]According to Power Marketer: "Standard and Poor's current ratings on the U.K. RECs (regional operating companies) reflect the expectation that initial price reductions will be between 6% and 10%, with an ongoing 'X' factor of 2%. OFFER has indicated that these rate re-sets will be effectuated by April 2000.

pounds.[3] Consequently, some U.S. companies foresee a profit squeeze and are thinking about exiting the U.K. energy market.[4]

The context, therefore, is the emergence of a global energy market that is increasingly dynamic, but also potentially volatile. PacifiCorp's recent woes on the global front attest to an inconstancy that can have deleterious financial repercussions. To wit: PacifiCorp's stock price sharply declined from $27 per share on January 2nd, 1998, to approximately $18 3/4 per share by November 30th, 1998.

Q: **WHY IS SCOTTISHPOWER INTERESTED IN ACQUIRING PACIFICORP?**

- ScottishPower has been exploring the possibility of acquiring a U.S. energy company for some time. In addition to PacifiCorp, recent merger candidates have included Florida Progress and Cinergy.[5] ScottishPower finds PacifiCorp an appealing merger target for a variety of reasons.

- PacifiCorp has a large cash balance on its books of over $583 million stemming primarily from the sale of non-core assets during 1997 and 1998. PacifiCorp has also sold, or is in the process of selling, its equity interest in the Centralia and Hazelwood (Australia) generation plants and its service territories in Montana and California. Net revenues from those sales will increase the present cash balance. Thus, the large cash balance could be used for further acquisitions or to underwrite

---

[3] In response to CCS Data Request 14.1, ScottishPower estimates separation costs at 23 million pounds for ScottishPower and 20 million pounds for Manweb.

[4] The Scotsman, "The New World Power," June 2nd, 1999.

[5] See Company response to CCS 9.9 which includes various financial reports prepared by investment firms on the proposed merger. Specifically, see page 6, of the Warburg Dillon Read Report.

ScottishPower's stock buyback program.[6]

- PacifiCorp has low cost generation assets with no nuclear exposure.
- PacifiCorp has a diverse and growing customer base.
- According to the financial community's assessment of the proposed merger, PacifiCorp has a poor earnings record associated with its regulated operations that can be reversed through a confluence of cost-cutting programs and rate increases. The financial community bluntly refers to this as "sweating the assets."
- PacifiCorp provides ScottishPower with a "U.S. platform" for further multi-utility expansion into electricity, natural gas and telecommuncations; industries where services are increasingly open to competition.
- The current disconnect between PacifiCorp's low stock price and its solid asset base. Financial analysts consistently refer to PacifiCorp as an undervalued asset with "classic turnaround potential."

Q: **WHEN DID SCOTTISHPOWER AND PACIFICORP ("THE APPLICANTS") FILE AN APPLICATION AND TESTIMONY WITH THE UTAH COMMISSION PROPOSING TO COMBINE THE TWO COMPANIES? IN ADDITION, WHAT IS THE FOCUS OF THE APPLICANTS' TESTIMONY IN THIS MATTER?**

- On December 7th, 1998, ScottishPower publicly announced its proposal to acquire PacifiCorp. ScottishPower and PacifiCorp ("the Applicants") filed an application with the Utah Commission on December 31st, 1998, proposing to merge the two companies. On February 26th, the Applicants submitted an initial round of testimony supporting the application. That testimony is largely centered on a "benefits-commitment package" encompassing the areas of network reliability, customer service, low

---

[6] According to ScottishPower's response to CCS 13.6, the buy-back will be through on-market purchases up to a total amount of 500 million pounds. ScottishPower states that the buy-back will occur prior to closing the merger transaction. They also convey that it will be funded from ScottishPower's own current resources. However, whatever resources are used to buy back stock will be replenished from the cash funds ScottishPower obtains in acquiring PacifiCorp.

income initiatives, community service and renewable resources. On April 16th, ScottishPower filed supplemental testimony in an attempt to sharpen certain aspects of their initial testimony.

Q: **IN DEVELOPING A RECOMMENDATION IN THIS PROCEEDING, WHAT STEPS DID THE COMMITTEE TAKE IN EXAMINING THE APPLICANT'S PROPOSAL?**

A: The Committee retained a consulting firm, Synapse Energy Economics, to assist Staff in analyzing the merits of the proposed merger. Members of the "Synapse team" (Bruce Biewald, Neil Talbot, Paul Chernick and Peter Bradford) have testified in a considerable number of recent merger cases involving electric utilities and, therefore, bring a wide range of experience and expertise to this proceeding. Specifically, Mr. Biewald, Mr. Talbot and Mr. Chernick are filing expert testimony underpinning the Committee's recommendation in this matter. Mr. Biewald's testimony addresses ScottishPower's cost savings estimates; Mr. Talbot's testimony addresses mainly financial issues; and Mr. Chernick's testimony addresses customer service and reliability issues. In addition, sections of their testimony are devoted to analyzing ScottishPower's U.K. track record (e.g., rates, earnings, customer service and reliability).

The Committee also submitted 16 sets of discovery, reviewed the discovery responses to data requests submitted by parties in Utah and other PacifiCorp states, met with the applicants several times to discuss various facets of the proposed merger, made contact with OFFER to obtain information relating to ScottishPower's U.K. operations and performance record, and discussed merger-related issues with regulatory staffs in other PacifiCorp states. Lastly, we reviewed testimony filed by parties in Oregon, Idaho and Wyoming.

Q: **ARE PARTIES IN THOSE STATES UNANIMOUSLY IN FAVOR OF THE PROPOSED MERGER?**

A: No. Support for the proposed merger in those states is mixed. For example, in Oregon, the PUC Staff, the Citizens Utility Board, and industrial customers all filed direct testimony opposing the merger. The lack of an explicit "rate plan" ensuring either rate stability or rate decreases, appears to be a key issue in Oregon. In Wyoming, the Consumer Advocate Staff (whose statutory mandate is in line with the Utah DPU's) filed direct testimony which conditionally supports the proposed merger. Two interlocking stipulations are attached to Staff's testimony that specify merger-related conditions and limit the magnitude of future rate increases to $12 million in 1999 and $8 million (plus any change in depreciation rates ordered by the Wyoming PSC) in 2000. Conversely, Wyoming industrial customers oppose the proposed merger. Idaho is also divided with Staff endorsing the proposed merger and industrial and irrigation customers opposing it.

IV. Merger Review Standard

Q: **WHAT MERGER REVIEW STANDARD DID THE COMMITTEE RELY ON TO DETERMINE WHETHER OR NOT THE APPLICANTS' MERGER PROPOSAL IS IN THE PUBLIC INTEREST?**

A: The Committee relied on the positive net benefits standard.

Q: **ON WHAT BASIS DID YOU RELY ON THAT STANDARD?**

A: The Order regarding "Standard of Approval For Merger" issued by the Utah Commission on November 20th, 1987. That Order was one of a series of orders issued in the Pacific Power-Utah Power merger case, Docket No. 87-035-27. In my view the Order establishes a strong precedent for applying the standard of net positive benefit to the current merger application. I have included a copy of the Order as CCS Exhibit 1.1 (DEG).

Q: **WHAT UNDERLYING REASONS DID THE COMMISSION GIVE IN ADOPTING THE NET POSITIVE BENEFITS STANDARD?**

A: On page 2 of the Order the Commission plainly states its rationale:

> " Here, as in Re CP National Corp.,43 PUR 4th 315 (Utah PSC 1981) Case No. 80-023-01, we are of the view that the necessary predicate for a determination that the proposed merger is "in the public interest" is some net positive benefit to the public in this State. Applicants seek strict adherence to the Utah decision, Collett v. Public Service Commission, 116 Utah 413, 211 p.2d 185 (1949) which they cite in favor of the "no harm" standard. We rejected this argument in CP National as we do now. Such a standard is too narrow for use in a fixed utility situation such as that before us. Also, we believe Applicants acknowledged this fact in their oral arguments and application wherein they have voluntarily offered to accept the burden of showing a positive benefit."

In short, the Commission gave a clear signal that the importance of the Pacific Power-Utah Power merger case required a more exacting merger review standard. ScottishPower and PacifiCorp should likewise be held to the standard of net positive benefits.

Q: **IN THE CONTEXT OF THE NET POSITIVE BENEFITS STANDARD, SHOULD THE COMMISSION GIVE WEIGHT TO THE "MATERIALITY" OF NET BENEFITS?**

A: Yes. I believe that the Applicants shoulder a heavy burden to demonstrate that the positive net benefits are both *significant* and *sustainable* over time.

Q: **DO YOU HAVE ANY COMPELLING EVIDENCE TO POINT TO WHICH SUPPORTS YOUR POSITION THAT POSITIVE NET BENEFITS SHOULD BE SIGNIFICANT AND SUSTAINABLE?**

A: Yes I do. In the Pacific Power-Utah Power merger case, cost-benefit studies were prepared detailing five-year merger benefit estimates by area. Those merger benefit estimates were not singularly limited to cost savings flowing from resource deferral and power supply, but included approximately <u>$250 million</u> in cost savings in the areas of manpower and administration. A summary of those merger benefit estimates are provided in the chart below (excludes resource deferral cost savings which were estimated, on a 19-year NPV basis, at $352 million).

Five-Year Merger Benefit Estimates

Area	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Totals**
Labor	**$10 M**	**$20 M**	**$30 M**	**$42 M**	**$53 M**	**$155 M**
Admin	**$19 M**	**$20 M**	**$20 M**	**$20 M**	**$20 M**	**$99 M**
Constr	**$1 M**	**$3 M**	**$5 M**	**$8 M**	**$11 M**	**$28 M**
Econ Dev	**$1 M**	**$2 M**	**$6 M**	**$11 M**	**$17 M**	**$37 M**
NPC**	**$18 M**	**$23 M**	**$36 M**	**$42 M**	**$43 M**	**$162 M**
Total	**$49 M**	**$68 M**	**$97 M**	**$123 M**	**$144 M**	**$481 M**

*Source: Utah Commission Report and Order in Docket 87-035-27 issued on September 28th, 1988, page 19.

**NPC =Net Power Cost.

In that case, Pacific Power and Utah Power witnesses were firmly convinced the merger would produce net benefits and they proffered a “merger rate guarantee” to reduce rates in Utah by a minimum of 5% within four years after the merger. In fact, they testified that rate reductions in this period would likely fall between

5%-10%.[7]

Q: **DID HISTORY BEAR OUR THEIR MERGER BENEFITS ESTIMATES?**

A: Yes. In addition to the 5% rate reduction stemming from the merger rate guarantee, rates in Utah were further reduced by approximately 3.7% as the outcome of the 1990 rate case (Docket No. 90-035-06). Thus, the total rate decrease in the five-year period totaled about 8.7% – a decrease within the expected range.

Q: **DO YOU HAVE ANY ADDITIONAL EVIDENCE TO PRESENT ALONG THESE LINES?**

A: Yes. In recent mergers involving U.S. energy companies, many of those companies have offered rate plans which include rate decreases or rate caps for customers.

Q: **HAVE THE APPLICANTS DELINEATED A RATE PLAN SIMILAR TO THAT DEVISED BY PACIFIC POWER-UTAH POWER OR APPLICANTS IN RECENT U.S. ENERGY MERGERS?**

A: No, they have failed to delineate a credible rate plan in Utah that would either reduce or cap existing rates over a specified period of time.

Q: **WHY HAS SCOTTISHPOWER FAILED TO OFFER A CONSTRUCTIVE RATE PLAN IN UTAH?**

A: ScottishPower has indicated that they have not performed detailed cost-benefit analyses relating to the proposed combination. ScottishPower has asserted that

[7] See pages 72-73, point 7 in the Utah Commission's Pacific Power-Utah Power Merger Order issued on Sept. 28th, 1988.

they have not yet had full access to PacifiCorp's books and records.[8] They maintain that the potential cost savings (merger benefits) will only be known after transition teams are assembled and begin a fastidious, department-by-department review. In his Oregon Rebuttal Testimony, Mr. Richardson commits to "develop and share our transition plan within six months after closing of the merger, identifying the specific areas in which ScottishPower expects to achieve cost savings, the plan for achieving them, and the expected costs and benefits of such initiatives." [Richardson, Oregon Rebuttal, pg. 4, lines 10-13.] I will have further remarks on the lack of a constructive rate plan for Utah later in my testimony.

V. <u>Merger Base Line</u>

Q: **GIVEN THE MERGER REVIEW STANDARD OF POSITIVE NET BENEFITS, WHAT IS THE APPROPRIATE BASE LINE OR BENCHMARK TO MEASURE THE PROPOSED MERGER AGAINST?**

A: PacifiCorp as a stand-alone, ongoing business. The materials I have examined indicate that PacifiCorp has made significant strides in rebounding from its past ventures into the sargasso sea of energy diversification–ventures that turned out to be extremely dicey and unprofitable. PacifiCorp's financial future appears to be reasonably sound as long as management sticks to its "new western strategy."

Q: **PLEASE EXPLAIN IN GREATER DETAIL WHY YOU BELIEVE THAT THIS IS THE PROPER BASE LINE. AS PART OF YOUR EXPLANATION PLEASE DESCRIBE THE MAJOR FEATURES OF PACIFICORP'S "NEW WESTERN STRATEGY."**

[8] In response to CCS DR 15.1, PacifiCorp states: "Until the transaction closes, ScottishPower is not entitled under the Merger Agreement to unrestricted access to PacifiCorp's books, records or personnel, nor is PacifiCorp entitled to such access to ScottishPower's books, records, or personnel. Providing ScottishPower with sufficient access to books, records and personnel for transition planning would interfere with PacifiCorp's day-to-day operations..."

A: Only two-and-half years ago, PacifiCorp's corporate philosophy mirrored that of ScottishPower: PacifiCorp aspired to morph into a prominent multi-utility with a considerable global presence. PacifiCorp's failed bid to acquire The Energy Group (TEG), along with mounting losses in other ventures, led PacifiCorp management to embark on a retrenchment strategy. The new business strategy is to focus on its core western retail and wholesale electricity business and is comprised of the following major features.

First, PacifiCorp's senior management was reorganized. For example, Keith McKennon supplanted Fred Buckman as CEO, Richard O'Brien assumed the post of chief operating officer and Rich Walge was assigned to oversee Utah operations. Under the direction of Mr. O'Brien, new management teams were formed to address critical areas such as customer service and to begin the process of reshaping the Company's organizational structure to fit the new western strategy.[9]

Second, management quickly moved to streamline PacifiCorp by shedding the vast majority of its non-core business holdings and operations. The following is a list of companies sold and operations discontinued during 1998:[10]

- PPM's eastern U.S. electric trading operation;
- The natural gas marketing and storage operations of TPC Corp.;
- EnergyWorks (a joint venture with Bechtel); and
- Business interests in Turkey.

---

[9]In response to CCS Data Request 9.25, PacifiCorp provided a series of internal correspondence written by Mr. O'Brien. Some of these "memos" were generally circulated among PacifiCorp employees and others were specifically designated to managers. Organizational change to comply with the new western strategy is the prime topic of these memos.

[10]Sources: PacifiCorp's SEC Form 10-K for the fiscal year ending December 31st, 1998; and a Company Press Release issued March 31st, 1999 which is entitled, "PacifiCorp Makes Early Progress on Refocused Strategy."

Third, management decided to sell its regulated service territories in Montana and California. Flathead Electric Cooperative purchased the Montana service territory for $89 million (pre-tax) and Nor-Cal Electric Authority has offered to buy PacifiCorp's California service territory for $174 million (pre-tax). As indicated in a April 9th, 1999, press release issued by PacifiCorp, these sales would allow management to "better focus on states where it had a larger customer base and more significant investment in assets."

Fourth, management advanced cost-cutting initiatives. In the first and fourth quarters of 1998, PacifiCorp implemented work force reduction programs that eliminated 926 positions, or approximately 10% of its U.S.-based employees.[11] This fostered cost savings of about $48 million (pre-tax) in 1998.[12] According to PacifiCorp, the $48 million (pre-tax) cost savings associated with work force reductions are <u>in addition</u> to the $30 million (pre-tax) annual cost savings target announced by Keith McKennon in an October 1998 press release.[13]

Fifth, there is a renewed commitment by management to improve customer service and reliability. As CCS Exhibit 1.2 (DEG) shows, PacifiCorp has spent in excess of $100 million over the past five years to upgrade its customer service and reliability systems.[14] These include two new customer service centers and a

---

[11] Sources: same as footnote 10. In particular, see pages 18 and 31 of PacifiCorp's SEC Form 10-K for year-end 1998.

[12] Source: PacifiCorp's December 1998 Results of Operations (i.e., Semi-annual Report) filed with the Utah Commission May 1999.

[13] Source: PacifiCorp's response to CCS Data Request 9.8. Refer also to the attachment included in PacifiCorp's response to CCS Data Request 9.22. This attachment is a presentation on "The New Strategic Direction" given to financial analysts/investment firms in New York on Oct. 28th, 1998. The presentation includes a cost savings estimate of $30 million (pre-tax).

[14] It must be noted that in PacifiCorp's 1997-1998 rate case in Utah, the partial revenue requirement stipulation adopted by the Utah PSC includes a disallowance of 1/3rd of the costs attendant to

new computer software system. Further, Dick O'Brien has repeatedly emphasized customer service in his directives to PacifiCorp managers and employees.[15] In a "Priority Actions Update" circulated on September 4th, 1998, Mr. O'Brien states:

> "Within the distribution business, a single customer care organization for the U.S. regulated business will be formed. This organization will provide account services for all retail customers served by the U.S. regulated business and will not be involved in competitive business activities. The primary advantage of a single customer care organization is focus: on customer satisfaction and on low cost high-leverage improvement of processes to deliver satisfaction in key areas.
>
> The customer care organization will include the current account management, sales support, and marketing functions of GSMET, as well as the general business managers and the energy efficiency representatives from Electric Operations. I have chosen 'customer care' rather than sales and marketing to specifically take into account the valuable contribution this organization can make to the customers and communities we serve..."[16]

Customer service and reliability are clearly important components of the new western strategy.

Q: **ARE THERE OTHER BENCHMARKS THE UTAH COMMISSION COULD USE TO MEASURE SCOTTISHPOWER'S PROPOSAL AGAINST?**

A: If there was a competing bid to win PacifiCorp, another point of reference would be available against which to evaluate ScottishPower's proposal. At this time, however, there are obviously no other offers on the table.

VI. Merger Benefits and Costs

PacifiCorp's new computer software system. The CCS concluded that a substantial portion of those costs were incurred for purposes of positioning the Company for the opening of retail competition.

[15] Source: PacifiCorp response to CCS Data Request 9.25.

[16] Source: Same as footnote 15.

A. The Applicants' Case

Q: **STARTING WITH PACIFICORP'S SHAREHOLDERS, WHAT DO THEY STAND TO GAIN FROM THE PROPOSED MERGER?**

A: ScottishPower's offer to PacifiCorp shareholders totals $11.1 billion in shares and assumed debt. The offer includes a sizable premium that has ranged between about $800 million and $1.6 billion since the merger was announced. The premium tends to fluctuate daily because the amount is correlated to changes in relative share prices and the number of shares in circulation. The wider the disparity between ScottishPower's and PacifiCorp's respective share prices, the greater the premium. Thus, the actual size of the premium will not be determined until the proposed deal closes.

Q: **TURNING TO UTAH RATEPAYERS, WHAT ARE THE MAIN MERGER-RELATED BENEFITS AND COSTS IDENTIFIED BY THE APPLICANTS' IN THEIR TESTIMONY?**

A: The principal benefits of the merger are set forth in Alan Richardson's Exhibit SP (AVR-1), pgs. 1-10, which is attached to his Utah Supplemental testimony filed April 16th, 1999. I have included it as CCS Exhibit 1.3 (DEG) for reference purposes. In his Oregon Rebuttal Testimony filed June 2nd, 1999, Mr. Richardson provides the following capsule summary of the alleged merger benefits:

> "ScottishPower has committed to transform PacifiCorp into a leading U.S. electric utility. We will introduce an unmatched package of system performance and customer service standards that will significantly raise the level of service to PacifiCorp customers. ScottishPower will also achieve efficiencies and cost savings in PacifiCorp that will lead to prices lower than they would have been without the merger. ScottishPower has also made significant commitments to environmental programs, including developing an additional 50 megawatts of renewable resources and introducing a 'green tariff.' In addition, ScottishPower has made substantial commitments to the communities PacifiCorp serves. These include: adding $5 million to the PacifiCorp Foundation; developing educational programs; and providing new funding to develop programs for conservation efforts and to assist low-income customers." [Page 2, lines

11-21]

The principal costs associated with the merger are provided by the Applicants in response to Oregon Staff's DR SP 34. I have included the response in CCS Exhibit 1.4 (DEG). The five major areas where the Applicants identify merger-related benefits and costs are illustrated in the matrix on the next page. A brief description of the Committee's assessment of merger-related benefits and costs is provided in the matrix.

Benefit Area	$ (Millions) Benefit	$ (Millions) Cost	Benefit-Cost Result
Non-Generation: Testimony lacks specificity on areas.	"External Benchmarking" places benefits at $140 M annually. Not a figure that SP is committed to.	N/A	Net Benefit: Not quantified or assured. Not demonstrated to be incremental to PC cost reduction on stand-alone basis.
Financial: Cost-of-capital, taxes, etc.	No Cost-Benefit Study. SP testimony asserts lower capital costs for PC predicated on size.	Increased financial risk associated with multi-utility diversification.	Net Risk: Risks of multi-utility strategy exceed unquantified impact on PC cost-of-capital.
Corporate Overhead	$10 M ($15 benefit -$5 cost) within 3 years after closing.	$5 million cost included in the "netting."	Net Benefit: $10 M "guarantee." However, PC already reducing work force levels via "new western strategy."
Reliability and Customer Service	No cost-effectiveness study. $60 M Benefit extrapolating 1990 BPA Study to PC.	$55.5 M Total. $32 M capitalized. $23.5 M expensed.	Benefit: Not determined. Cost: $55.5 M Not shown to be incremental to PC improvements on a stand-alone basis

Renewable Resources (50 MW)	No RAMPP studies provided to support this commitment.	$60 million	Benefit: Not determined Cost: $60 M
Cost-Benefit Summary	$10 M	$115.5 M	$115.5 M Costs exceeds $10 M Benefits

B. The Committee's Response

<u>*Summary*</u>

- **WHAT OVERALL CONCLUSION DID THE COMMITTEE ARRIVE AT AFTER EXAMINING THE APPLICANTS' CASE?**

A: In terms of evaluating the Applicants' case, the absence of detailed and reliable cost-benefit studies has been problematic. The Applicants have yet to submit cost-benefit studies in key operational areas. In response to CCS DR S3.12, ScottishPower candidly admits that without "unfettered" access to PacifiCorp's books and records, "It is...not possible to quantify the impact of merger-related changes on PacifiCorp." ScottishPower's U.K. track record is an additional source of information, but this information has only limited relevance to the merger review at hand.

Based on our examination of the Applicants' case, the Committee concludes that the costs and risks of the merger outweigh the asserted benefits. As the table above shows, merger-related costs are at least $115.5 million and merger-related benefits are $10 million. While shareholder benefits are large ($750 million-plus), immediate and known, ratepayer benefits appear to be small ($10 million), distant and unverifiable.

Finally, we conclude that PacifiCorp, as a stand-alone company, has already implemented, or could develop and implement, programs to achieve benefits in the majority of "merger benefit" areas identified by the Applicants.

<u>Non-Generation Cost Savings</u>

• **PLEASE DESCRIBE THE BENEFITS DEPICTED BY SCOTTISHPOWER IN THE NON-GENERATION AREA.**

A: Based on an unsophisticated "external benchmarking" exercise comparing PacifiCorp's non-generation operating costs to other electric utilities, ScottishPower posits that annual cost savings in this area may be upwards of $140 million. As evidence that such efficiency gains are feasible, ScottishPower alludes to its management's capabilities in transforming underperforming companies and points to substantial cost reductions achieved at ScottishPower, Manweb and Southern Water. The "Manweb Experience" is particularly emphasized in Mr. Richardson's Utah Supplemental Testimony [Richardson, pages 9-17]. In a nutshell, ScottishPower plans to apply the Manweb "formula" to PacifiCorp and, over a five-year period, improve PacifiCorp's ranking in the area of non-generation operating costs to a position within the top ten of U.S. electric utilities. [MacRitchie Direct Testimony, pages 4 and 13.]

• **WHAT IS THE COMMITTEE'S ASSESSMENT OF ANY CLAIMS OF MERGER BENEFITS IN THE AREA OF NON-GENERATION OPERATIONAL COSTS?**

• Any benefit claims in this area are unsubstantiated and, therefore, unverifiable. The Commission should give little or no weight to benefits in this area. This assessment is supported by Mr. Biewald's testimony.

• **PLEASE BRIEFLY DESCRIBE THE CHIEF CONCLUSIONS REACHED BY MR. BIEWALD IN HIS TESTIMONY.**

• Mr. Biewald found the benchmarking exercise performed by ScottishPower to be unreliable for estimating merger benefits in the area of non-generation costs. As discussed in Mr. Biewald's testimony, it is riddled with significant problems that limit its value as an analytical tool.

He also concluded that the Manweb track record is unexceptional and that ScottishPower's own track record is below average. In comparing residential bill information among U.K. electric utilities over a five-year period, he found that Manweb's residential bills had declined by approximately 22%, which is in step with the industry average of 22%.[17] However, ScottishPower's residential bills had only decreased by 18% over the same period.

Q: **DO YOU HAVE ANY FURTHER COMMENTS IN THIS AREA?**

A: Yes, I would like to embellish a point made in Mr. Biewald's testimony that the Manweb experience may have only limited applicability to PacifiCorp. Specifically, Manweb was owned and operated by the British Government until privatization in 1991. There were likely greater opportunities to reduce costs at Manweb versus a utility such as PacifiCorp that had already implemented cost reduction programs shortly after the Pacific-Utah merger was consummated. Past cost reductions in the non-generation operational area underlie, in part, rate decreases in Utah totaling over 20% since the Pacific-Utah merger. Finally, as I discussed earlier in my testimony, PacifiCorp has unrolled a new western strategy that targets annual cost savings in excess of $75 million (pre-tax). It appears that a large slice of those cost savings are in the area of non-generation operations.

Corporate Overhead

- **PLEASE DESCRIBE THE MERGER BENEFIT IDENTIFIED BY SCOTTISHPOWER IN THE AREA OF CORPORATE OVERHEAD**

[17]Because company-specific cost information is unavailable, residential bill information was used as a surrogate for cost reductions.

COSTS.

- ScottishPower commits to reduce corporate overhead costs by $10 million by the end of the third year after the merger. [Richardson Utah Supplemental Testimony, pg. 2] ScottishPower also indicates that it will include the $10 million decrease in reported operational results at that time.

- **WHAT IS THE COMMITTEE'S ASSESSMENT OF MERGER BENEFIT ESTIMATES PERTAINING TO CORPORATE OVERHEAD?**

A: ScottishPower has provided no studies supporting the $10 million commitment. As discussed in Mr. Biewald's testimony [pages 7-8], it is also a commitment that will not have an immediate impact on rates.

- **DOES THE COMMITTEE HAVE ADDITIONAL CONCERNS REGARDING COST REDUCTIONS RELATING TO CORPORATE OVERHEAD?**

A: Yes, and they are enumerated below.

- First, we are mystified that it will take ScottishPower three years to effect cost reductions in the area of corporate overhead. A more reasonable commitment in this area would be to reduce rates by $10 million within one year.

1. Second, PacifiCorp has jettisoned a large portion of their non-core assets and operations, and simultaneously implemented programs to reduce work force levels. Common sense suggests that PacifiCorp is already trimming corporate overhead costs. Hence, the $10 million commitment should be over and above the manpower reductions in the corporate area attendant to PacifiCorp's new western strategy.[18]

---

[18] If the merger is approved, the "post-merger" cost savings in this area will have to be carefully documented to avoid double-counting.

2. Third, with regard to corporate management services, it is unclear at what level within the post-merger corporate structure those services would be performed and at what cost.

3. Fourth, ScottishPower has yet to propose a method for allocating corporate costs.

• **WHEN DOES SCOTTISHPOWER PLAN TO DEVELOP A METHOD FOR ALLOCATING CORPORATE COSTS?**

• ScottishPower initially proposed to develop a method for allocating corporate costs ("method") within three months after the merger closes. Oregon and Wyoming Staffs found that proposal to be unacceptable and ScottishPower is now committed to develop a method for consideration by June 18th, 1999. [Richardson, Oregon Rebuttal, pg. 14] Obtaining consensus among the states (and possibly OFFER) on any method will be a key issue for ScottishPower as it moves forward.

Financial Issues

Q: **WHAT ISSUES ARE ADDRESSED BY COMMITTEE WITNESS TALBOT IN HIS TESTIMONY?**

A: Mr. Talbot's testimony addresses primarily financial issues, including the potential effect of the merger on PacifiCorp's cost-of-capital, issues relating to taxes and currency exchange, corporate structure, affiliate costs, loss of local control and ScottishPower's earnings in the U.K.

Q: **PLEASE DESCRIBE THE MAIN FINANCIAL BENEFIT IDENTIFIED BY SCOTTISHPOWER STEMMING FROM THE PROPOSED MERGER.**

A: ScottishPower asserts that by folding PacifiCorp into the financially stronger ScottishPower Group, PacifiCorp will have access to cheaper sources of capital. [Richardson, Utah Supplemental, pg. 2, lines 22-26 and pg. 3, lines, 1-3]. Despite that claim, ScottishPower has produced no studies attempting to quantify the impact of the proposed merger on PacifiCorp's cost-of-capital.

Q: **WHAT IS MR. TALBOT'S ASSESSMENT OF THIS PURPORTED BENEFIT?**

A: Mr. Talbot notes that PacifiCorp is already one of the largest U.S. electric utilities and that the "size factor" is irrelevant. According to Mr. Talbot, what is relevant is the "financial risk factor" and he concludes that the merger poses increased financial risks and uncertainties that may negatively impact PacifiCorp's cost-of-capital.

Specifically, in 1998, PacifiCorp management launched a relatively conservative, "back-to-basics" business plan that distances the Company from the inherent risks attendant to a multi-utility strategy on a global level. The proposed merger would make PacifiCorp a subsidiary within the greater ScottishPower Group–a "hyper-utility" that continues to demonstrate a penchant for fueling financial growth through acquiring underperforming companies, engineering the financial balance sheet, "sweating the asset base" and moving in the direction of unregulated activities. On this point, Mr. Talbot concludes that: "...continued expansion by the ScottishPower Group could bring increased debt or financial distress to the parent company, could distract management, and could affect such features of PacifiCorp management as dividend policy and the availability of capital for PacifiCorp's core operations."[19]

Q: **WHAT ARE MR. TALBOT'S VIEWS ON PACIFICORP'S BUSINESS RISK AND FINANCIAL RISK AS A STAND-ALONE COMPANY?**

A: Based on his analysis, he believes that (stand-alone) PacifiCorp's business risk is low and financial position is sound.

[19]Talbot, Direct Testimony, pg. 6.

Q: **ARE THERE POSSIBLE FINANCIAL IMPLICATIONS FOR PACIFICORP RESULTING FROM SCOTTISHPOWER'S CAPITAL STRUCTURE?**

A: Yes, and Mr. Talbot addresses those potential impacts at length in his testimony. In particular, he postulates that a "double-leveraged" capital structure may serve to "siphon off a financial subsidy from PacifiCorp to the parent company" in the form of a tax shield. For illustrative purposes, Mr. Talbot constructs a scenario showing a potential tax benefit that could be used to reduce PacifiCorp's overall revenue requirement by about $109 million.

Q: **IN ITS TESTIMONY, HAS SCOTTISHPOWER IDENTIFIED THE POTENTIAL TAX GAINS FROM A DOUBLE-LEVERAGED CAPITAL STRUCTURE AS A POTENTIAL MERGER BENEFIT?**

A: No. A confidential response to a Committee data request indicates that ScottishPower is not blind to the potential for merger-related tax gains. There also may be additional benefits <u>and risks</u> associated with "engineering the financial balance sheet" that have yet to be identified by the Company or discovered by regulators.

Q: **DID MR. TALBOT COMPARE SCOTTISHPOWER'S AND MANWEB'S EARNINGS RECORD TO COMPARABLE PUBLIC ELECTRICITY SUPPLIERS (PECs) IN THE U.K.?**

A: Yes. ScottishPower's earnings have been slightly higher than the average of comparable companies whereas Manweb's earnings have historically trailed behind the average. The high earnings levels (as compared to U.S. standards) imply that efficiency gains have disproportionately benefitted investors over ratepayers in the U.K.

<u>Network Reliability and Customer Service</u>

• **PLEASE PROVIDE AN OVERVIEW OF SCOTTISHPOWER'S PLANNED**

IMPROVEMENTS IN THE AREAS OF NETWORK RELIABILITY AND CUSTOMER SERVICE.

• As perhaps the most tantalizing feature of its merger proposal, ScottishPower plans to implement various new standards and measures designed to improve network reliability and customer service. Mr. Richardson's Exhibit SP (AVR-1), pgs. 1-5, identifies the major elements comprising this "package." ScottishPower also alleges that its network reliability and customer service package is "best-in-class" among U.S. electric companies and retained a consultant to confirm that opinion.

• **WHAT ARE THE COSTS ASSOCIATED WITH THE ABOVE INVESTMENT IN NEW SYSTEMS AND PROTOCOLS RELATING TO NETWORK RELIABILITY AND CUSTOMER SERVICE?**

• As Exhibit CCS 1.2 (DEG) indicates, ScottishPower has penciled the capital and operating costs at roughly $55 million over a five-year period.

• **IS SCOTTISHPOWER WILLING TO ASSUME RESPONSIBILITY FOR THE $55 MILLION COST OR IS THIS A COST THAT WILL BE EVENTUALLY BORNE BY RATEPAYERS?**

• ScottishPower initially inferred that these costs would be passed on to ratepayers as an "incremental" cost. In his Utah Supplemental Testimony, Mr. Richardson strives to clarify the Company's proposed "cost treatment" with the following:

> The $55 million...is <u>not</u> an incremental cost, but will be achieved through efficiencies within the existing spending plans of PacifiCorp. Overall costs will therefore not increase as a result of these expenditures, as they will be offset by efficiencies we will achieve in PacifiCorp's operations." [Richardson, Utah Supplemental Testimony, page 2, bullet 3]

Since ScottishPower has been unable to quantify merger-related cost savings in other areas, the $55 million must be viewed as a ratepayer cost.

- **HAS SCOTTISHPOWER MADE ANY ATTEMPT TO QUANTIFY BENEFITS ASSOCIATED WITH EXPENDITURES IN THE AREA OF NETWORK RELIABILITY AND/OR CUSTOMER SERVICE?**
- Relying on a1990 study prepared by BPA-EPRI for utility customers in the Pacific Northwest, ScottishPower extrapolated the results to PacifiCorp and submits that improvements to SAIDI and MAIFI engender customer benefits of about $60 million annually.

- **DID SCOTTISHPOWER PROVIDE A PACIFICORP-SPECIFIC STUDY DEMONSTRATING THAT THE $55 MILLION EXPENDITURE WAS COST-EFFECTIVE?**
- No. To my knowledge no such study was performed. Prior to undertaking such a study, ScottishPower would need reliable data upon which to establish PacifiCorp's historical baseline. And apparently there is a problem with PacifiCorp's data-collection system that prevents ScottishPower from accurately setting a baseline.[20]

- **DOES THAT GIVE YOU PAUSE FOR CONCERN?**
- Yes, I am deeply concerned about the prospect of Utah's residential and small business customers funding improvements in network reliability and customer service that may not pass cost-effectiveness tests. Even OFFER questions the cost-effectiveness of ScottishPower's and Manweb's projected expenditures on improving network reliability.[21]

Q: **WHAT CONCLUSIONS DID COMMITTEE WITNESS CHERNICK REACH AFTER ANALYZING SCOTTISHPOWER'S PROPOSAL TO IMPROVE NETWORK RELIABILITY AND CUSTOMER SERVICE?**

---

[20]See ScottishPower's response to CCS S11.2.

[21]OFFER Consultation Report, May 1999, pages 76-77.

- Mr. Chernick generally concluded:
- PacifiCorp's performance in most areas is satisfactory;
- PacifiCorp should be able to obtain the requisite skills to improve network reliability and customer service independent of the merger;
- ScottishPower's proposed improvements are somewhat nebulous and generally minor;
- ScottishPower has promised percentage improvements in performance, without establishing either the baseline performance level from which improvements will be measured, or the target level to be achieved;
- ScottishPower's U.K. record in these areas has been good, but not exceptional; and
- Network reliability and customer service issues could be examined more fully in the context of PacifiCorp's next general rate case or a separate proceeding. (On pages 44 and 45 of his testimony, Mr. Chernick lists a myriad of issues that could be explored in such a proceeding.)

- **WHAT IS THE COMMITTEE'S POSITION ON SCOTTISHPOWER'S PLAN TO SPEND $55 MILLION TO IMPROVE NETWORK RELIABILITY AND CUSTOMER SERVICE?**

A: ScottishPower has not adequately demonstrated that the $55 million outlay is cost-effective for Utah's residential and small business customers. Moreover, PacifiCorp could make improvements in these areas (if shown to be cost-effective) independent of the proposed merger. The Utah Commission may want to consider broadening the scope of PacifiCorp's next general rate case to include issues pertaining to network reliability and customer service.

Renewable Resources

- **PLEASE DISCUSS THE BENEFITS AND COSTS ASSOCIATED WITH THIS MERGER COMMITMENT.**

• As one of its environmental commitments, ScottishPower has pledged to develop an additional 50 MWs of renewable resources (wind, solar and/or geothermal) at an expected cost to PacifiCorp ratepayers of $60 million. [Richardson Utah Supplemental Testimony, Ex. SP (AVR-1), p.7]. These renewable resources will be developed within five years following the merger.

• **WHAT IS THE COMMITTEE'S POSITION ON THIS PURPORTED MERGER BENEFIT?**

• Whether or not 50 MW of renewable resources --at a $60 million pricetag-- should be developed is an issue for consideration in PacifiCorp's RAMPP integrated resource planning process. The Committee firmly believes that RAMPP is the proper forum to examine competing resource options–<u>not this merger</u>.[22] If rigorous economic analysis establishes that 50 MW of renewables are the most cost-effective resource options, then these generation technologies should be pursued. Moreover, there is no reason why PacifiCorp as a stand-alone company could not invest in renewables that are shown to be cost-effective. The Utah Commission should, therefore, dismiss any claimed merger benefit in the renewables area.

<u>*Green ResourceTariff and Low Income Initiatives*</u>

• **MR. RICHARDSON'S EXHIBIT SP (AVR-1) INDICATES THAT SCOTTISHPOWER COMMITS TO FILE A GREEN RESOURCE TARIFF WITHIN 60 DAYS AFTER THE MERGER IN EACH STATE AND COMMIT $1.5 MILLION TO ASSIST LOW-INCOME CUSTOMERS IN VARIOUS AREAS (HEAT ASSISTANCE PROGRAMS, DEBT COUNSELING, AND**

---

[22]ScottishPower's response to the Utah DPU's DR 8.2 implies that ScottishPower no longer views its pledge to develop renewables as a "merger benefit" per se. The response states: "ScottishPower's commitment to develop an additional 50 MW of new renewable resources is conditioned on resources meeting cost-effectiveness standards derived from PacifiCorp's integrated resource planning process."

ENERGY EFFICIENCY EDUCATION). WHAT IS THE COMMITTEE'S REACTION TO THESE COMMITMENTS?

A: The Utah Commission has established a task force to study a spate of environmental issues, including whether a green resource tariff makes sense for Utah. It is premature, therefore, for ScottishPower to commit to file a green resource tariff in Utah until the task force report is submitted to the Commission. In any event, PacifiCorp could develop and file a green resource tariff independent of the proposed merger.

ScottishPower's pledge of $1.5 million to assist low-income customers is a noble gesture. However, the Utah Commission has already established a task force to study a number of low-income issues. The Committee has allocated "professional and technical" funds to retain a consultant whose mission will likely be to: report on the "pros and cons" of low-income programs in other states; guide the task force's study efforts; and aid in the development of a viable low-income program for Utah. With a total retail revenue level eclipsing $2 billion, PacifiCorp could easily double its present systemwide commitment of $1.5 million to low-income programs, independent of the proposed merger.

Regulatory Costs

Q: **WILL THE PROPOSED MERGER POTENTIALLY INCREASE COSTS ASSOCIATED WITH EFFECTIVELY REGULATING PACIFICORP?**

A: Yes, I think regulatory costs will possibly increase as a result of the proposed merger.

Q: **PLEASE EXPLAIN WHY YOU BELIEVE REGULATORY COSTS MAY INCREASE.**

A: Utilities are generally in a position to attempt to control, and possibly manipulate, the quantity, quality and timing of information provided to regulatory agencies.[23] As the Utah Commission is keenly aware, adequate information is a cornerstone of effective regulation. Under the proposed corporate structure, PacifiCorp will become a subsidiary within the greater ScottishPower Group. Ready access to ScottishPower's books, records, strategic business plans, etc., is certainly a very real concern and there are early signs that obtaining information may prove to be difficult.

Q: **WHAT EVIDENCE CAN YOU POINT TO THAT INDICATES ACCESS TO INFORMATION MAY BE DIFFICULT OR EVEN BLOCKED?**

A: First, in response to DPU DR S.11.6, ScottishPower indicates it is willing to furnish its own records "to the extent that those records relate to transactions with PacifiCorp or affect the results of PacifiCorp." The Committee believes that the response exemplifies an initial attempt by ScottishPower to control the flow of information to U.S. state regulators. To the contrary, we think it is crucial that Utah regulators have easy access to <u>all information</u> at the ScottishPower Corporate Group level. For instance, ScottishPower's strategic business plan will likely include elements that directly, and indirectly, impact PacifiCorp.[24]

Second, in their respective responses to CCS DR 3.15, PacifiCorp furnished a detailed budget report by operational area whereas ScottishPower provided its annual reports to shareholders which has highly aggregated budget information.

---

[23]The Utah Commission has explicitly noted this concern in prior Orders addressing test year issues. In its May 24th, 1993 Order in Docket No. 92-049-05, the Commission stated: "...the Company has unequaled access to the financial and accounting information describing its operations. It could, therefore, propose adjustments strategically."

[24]Particularly as ScottishPower moves into unregulated activities to "grow the firm;" activities that pose potentially higher risks for PacifiCorp ratepayers. (See Section 5 of Committee witness Talbot's testimony for a deeper discussion.)

We re-submitted the request to ScottishPower in CCS DR 10.7 and asked them to put the budget information in the same format used by PacifiCorp. ScottishPower's response to CCS DR 10.7 is as follows:

> "ScottishPower objects to this data request as unduly burdensome to the extent it requires ScottishPower to create documents that compile information in a particular format...ScottishPower does not compile the data in the same manner as PacifiCorp and thus the information in the requested format is not available."

Does this response reflect a harbinger of what U.S. regulators can expect from ScottishPower or does it simply reflect cultural differences that need to be overcome?

Third, the Committee was unsuccessful in its attempt to acquire information from OFFER on ScottishPower's cost estimate to comply with OFFER's new "ring-fencing" requirement. In response to CCS DR 14.1, ScottishPower projects the transition costs to be roughly 23.1 million pounds. But we were unable to confirm that estimate with OFFER because such information is deemed to be confidential. If the merger is approved, U.K. and U.S. regulators will have to work together to ensure that confidential information is reasonably accessible.

Q: **HAS THE COMMITTEE ESTABLISHED A WORKING RELATIONSHIP WITH OFFER AND, IF SO, HOW WOULD YOU DESCRIBE THAT RELATIONSHIP?**

A: I am happy to report that the Committee has established a very cooperative and productive working relationship with OFFER. Kelly Francone of Committee Staff has established links to exchange information with OFFER representatives. We have found representatives of OFFER to be highly professional and competent. With the exception of commercially-sensitive documents, OFFER has provided a considerable amount of information on the ScottishPower Group and developments in the U.K. energy market.

VII. Rate Plan

• **EARLIER IN YOUR TESTIMONY YOU RECOMMENDED THAT THE UTAH COMMISSION SHOULD DENY THE PROPOSED MERGER BETWEEN SCOTTISHPOWER AND PACIFICORP. WHAT STEPS COULD THE APPLICANTS TAKE TO REMEDY THE DEFICIENCIES IN THEIR CASE?**

• There are at least two courses of action available to the Applicants. PacifiCorp could allow complete access to their books so that the Applicants could prepare and file meaningful cost-benefit analysis supporting the proposed merger. This would likely delay the schedule by months. Alternatively, the Applicants could develop and file a constructive rate plan.

• **WHAT PRINCIPAL FEATURE SHOULD BE INCLUDED IN A RATE PLAN FOR UTAH?**

A: A credible rate plan should ensure either rate reductions or cap current rates in Utah over a specified period of time.

• **HAS A SIMILAR RATE PLAN BEEN FILED IN OTHER STATES?**

• No. In his Utah supplemental direct testimony, Mr. Richardson merely offers vague and unsubstantiated assurances that the merger “will lead to rates lower than they would have been without the transaction.”[25] In his June 2nd Oregon Rebuttal testimony, Mr. Richardson only “commit[s] to file a general rate case in Oregon, with rates to be effective no later than July 1, 2001 [that] will reflect cost savings achieved as a result of the merger...including at a minimum the guaranteed amount of corporate cost savings.”[26] Once again, what is conspicuously absent in Mr. Richardson’s

[25] Richardson, Utah Supplemental Direct Testimony, page 2.

[26] Richardson, Oregon Rebuttal Testimony, page 4..

testimony is a firm commitment, on the part of ScottishPower, to reduce or cap current rates for a time certain.

• **DO YOU HAVE ANY FINAL REMARKS?**

A: Yes I do. A stark asymmetry presently exists between what ScottishPower is offering PacifiCorp's shareholders (a premium in excess of $750 million) and executive management (prospective "golden handshakes" totaling $7 million for PacifiCorp's top executives)[27], and what ScottishPower is offering PacifiCorp's ratepayers ($10 million in corporate overhead and "soft promises" in other areas). The lack of a credible rate plan shifts the lion's share of merger-related risks to ratepayers while channeling benefits to shareholders and management. The Committee concludes that such risk-shifting is unacceptable. Specifically, management should have a stake in merger-related outcomes and there should be an appropriate sharing of the benefits and the risks. In its Utah Rebuttal Testimony, the Committee invites ScottishPower to develop and file a constructive rate plan for Utah. Such a rate plan should provide for rate reductions or rate caps over a specified time period.

• **DOES THIS CONCLUDE YOUR TESTIMONY?**

• Yes it does.

[27] The shareholder proxy statement indicates that 26 PacifiCorp executives have severance packages. According to a May 11th, 1999 article in The Independent, PacifiCorp's top executives will receive severance payments worth $7 million, in addition to their stock options, if they are terminated within two years. The Committee has submitted a discovery request to PacifiCorp to ascertain the exact amount of severance payments to these 26 PacifiCorp executives.

Qualifications

June 1999

Name: Daniel Edmund Gimble

Work Address: 160 E. 300 S. Heber Wells Bldg., Room 408
Salt Lake City, Utah

Work Telephone: (801) 530-6798

Education: Ph.D. Program in Economics, 1981 - 1984; University of Utah, Salt Lake City, Utah.

<u>Fields of Specialization</u>
--Economics of Industrial Organization;
--Labor Economics;

M.A. Degree in Economics, 1980; Western Michigan University, Kalamazoo, Michigan.

<u>Areas of Specialization</u>
–Economic Development;

–Institutional Economics

B.S. Degree in Economics and History, 1978 (cum laude); Western Michigan University, Kalamazoo, Michigan.

Professional Experience:

<u>Energy Group Manager</u>, Utah Committee of Consumer Services, Heber Wells Bldg. 160 E. 300 S., SLC, Utah: March 1998-Present.

<u>Utility Economist</u>, Utah Committee of Consumer Services, Heber Wells Bldg. 160 E. 300 S., SLC, Utah: October 1990 - February 1998.

<u>Utility Analyst</u>, Utah Public Service Commission, Heber Wells Bldg. 160 E. 300 S., SLC, Utah: January 1987 - September 1990.

<u>Intern Economist</u>, Utah Public Service Commission, Heber Wells Bldg. 160 E. 300 S., SLC, Utah: July 1985 - December 1986.

<u>Instructor</u>, Department of Economics, University of Utah: Academic years 1983 - 1986.

Course Responsibilities
--Economics as a Social Science
--Principles of Microeconomics
--Principles of Macroeconomics
--Intermediate Microeconomics

<u>Co-editor</u> of the **Economic Forum**, Graduate School of Economics, University of Utah: January 1983 - August 1983.

Expert Witness Testimony In Regulatory Proceedings:

(1) In The Matter Of The Investigation Into The Reasonableness Of Allocations And Rates And Charges For Utah Power & Light Company, Docket No. 90-035-06.

(2) In The Matter Of The Application Of Mountain Fuel Supply Company For An Increase In Rates And Charges , Docket No. 93-057-01.

(3) In The Matter Of The Application Of Mountain Fuel Supply Company For An Increase In Rates And Charges, Docket No. 95-057-02.

(4) In The Matter Of The Application Of PacifiCorp To Establish Avoided Cost Prices For The 50 MW ACME Qualifying Facility Project, Docket No. 95-2035-05.

(5) In The Matter Of The Application Of Mountain Fuel Supply Company to Adjust Rates For Natural Gas Service in Utah, Docket Nos. 97-057-11, 96-057-12, 95-057-30.

(6) In The Matter Of the Investigation Into The Reasonableness of the Rates and Charges of PacifiCorp, dba Utah Power & Light Company, Docket No. 97-035-01.

Regulatory Seminars: During my tenure with the Utah Commission and the CCS, I have attended various national, regional and local regulatory seminars on ratemaking, integrated resource planning, electric and gas restructuring, energy efficiency, marginal cost pricing, etc.

Publications: "Institutionalist Labor Market Theory and the Veblenian Dichotomy." The paper was presented at the Western Social Science Association's Annual Conference, April 1990. The paper was published as the lead article in the **Journal of Economic Issues**, September 1991.

"The PURPA Paradox." The paper was presented at **Solar '89: The Proceedings of the 1989 Annual Conference on Solar Energy**, American Solar Energy Society (ASES). The paper was published as part of conference proceedings, Editor: M.J. Coleman, Denver, Colorado.