

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application)	Docket No. 05-035-54
Of MidAmerican Energy Holding)	TESTIMONY IN SUPPORT OF
Company dba Utah Power & Light)	AQUISITION STIPULATION
Company for an Order Authorizing)	DANIEL E. GIMBLE
Proposed Transaction)	FOR THE UTAH COMMITTEE
)	OF CONSUMER SERVICES
)	

2 December 2005

1 Introduction

2 **Q: PLEASE STATE YOUR NAME, POSITION AND PARTY YOU**
3 **REPRESENT FOR THE RECORD.**

4 A: My name is Dan Gimble. My position is Chief of Technical Staff for the
5 Utah Committee of Consumer Services (Committee).

6 **Q: HAVE YOU PREVIOUSLY PREPARED AND FILED TESTIMONY IN**
7 **PROCEEDINGS BEFORE THE UTAH COMMISSION?**

8 A: Yes. I have submitted testimony on behalf of the Committee to the
9 Commission in numerous energy and telecommunications dockets over
10 the past 14 years.

11 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

12 A: My testimony explains the Committee's position on the Acquisition
13 Stipulation filed with the Commission on November 18, 2005. I also
14 generally discuss the Committee's evaluation of MidAmerican Energy
15 Holdings Company's (MEHC) application for the Commission's approval of
16 MEHC's acquisition of PacifiCorp.

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18 Net Positive Benefit Standard

19 **Q: IN DETERMINING WHETHER THE APPLICATION IS IN THE PUBLIC**
20 **INTEREST, DID THE COMMITTEE RELY ON A REVIEW STANDARD**
21 **OF NET POSITIVE BENEFIT?**

1 A: Yes. Committee staff, with the assistance of a diverse and experienced
2 team of independent experts, analyzed the proposed transaction from the
3 standpoint of whether or not it produced net benefits to residential and
4 small business customers over and above what could have been expected
5 from the current owner, ScottishPower.

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7 Merger Commitments

8 **Q: WHAT WAS THE COMMITTEE'S INITIAL REACTION TO THE**
9 **APPLICATION AND THE SUPPORTING MEHC TESTIMONY?**

10 A: In recent PacifiCorp dockets, the Committee has expressed concerns
11 relating to the lack of new investment/upgrades to PacifiCorp's
12 transmission and distribution system, and what appears to be an
13 uneconomic preference of new gas resources over new coal resources.
14 Consequently, the Committee's initial assessment was favorable in that
15 MEHC committed to substantially increase the level of investment in the
16 transmission and distribution (T&D) system.

17 However, the application lacked sufficient commitments in a
18 number of areas, including: a rate plan; access to accounts and records;
19 customer service; future resource decisions (coal versus gas); greater
20 corporate presence in Utah; and so forth.

21 **Q: DID THE COMMITTEE DEVELOP AND ASSERTIVELY PURSUE**
22 **ADDITIONAL COMMITMENTS?**

1 A: Yes. The Committee proposed the following enforceable commitments
2 addressing specific Committee concerns: a rate plan; the preference for a
3 clean coal resource in PacifiCorp's next RFP; greater corporate presence
4 and decision-making in Utah; the treatment of the acquisition premium for
5 ratemaking purposes; and a "most favored nation" provision connected to
6 specific conditions included in Commission orders in other PacifiCorp
7 jurisdictions.

8 **Q: DID MEHC RESPOND TO THE COMMITTEE'S CONCERNS?**

9 A: Yes. The Committee's staff, expert witnesses and attorneys participated
10 in numerous and lengthy settlement talks with MEHC, PacifiCorp and
11 other parties regarding the company's generic commitments and
12 commitments specific to Utah. As stated in the Stipulation:

13 The Commitments are comprised of several separate categories of
14 commitments; specifically, extensions of existing commitments
15 previously entered into by PacifiCorp and /or ScottishPower, new
16 commitments entered into by the Applicants applicable to all the
17 states in which PacifiCorp's service territory extends and, finally,
18 Utah-specific commitments which apply only to the activities and
19 operations of Applicants within Utah.

20 **Q: PLEASE SUMMARIZE THE CATEGORIES OF COMMITMENTS**
21 **RESULTING FROM THE SETTLEMENT NEGOTIATIONS.**

1 A: The list of commitments address issues raised by all parties involved in
2 settlement negotiations. Among the enforceable commitments MEHC has
3 made are:

4 - customer service guarantees and performance standards

5 - access to all books of account, as well as all documents, data,
6 and records of their affiliated companies

7 - PacifiCorp and MEHC will not cross-subsidize between the
8 regulated and non-regulated businesses

9 - MEHC will file a cost allocation methodology (IASA) for the
10 allocation of corporate and affiliate investments, expenses, and
11 overheads

12 - MEHC and PacifiCorp guarantee that the customers of PacifiCorp
13 will be held harmless if the transaction between MEHC and
14 PacifiCorp results in a higher revenue requirement for PacifiCorp
15 than if the transaction had not occurred

16 - PacifiCorp will continue a Blue Sky tariff offering in all states.

17 - PacifiCorp will continue to produce Integrated Resource Plans

18 -MEHC and PacifiCorp have identified incremental transmission
19 projects that enhance reliability, facilitate the receipt of renewable
20 resources, or enable further system optimization.

21 - MEHC commits that over the next five years it will demonstrate
22 that PacifiCorp's incremental long-term debt issuances will be at
23 least a spread of ten basis points below its similarly rated peers.

1 - MEHC supports and affirms PacifiCorp's commitment to consider
2 utilization of advanced coal-fuel technology such as super-critical or
3 IGCC technology when adding coal resources.

4 - The premium paid by MEHC for PacifiCorp will be recorded in the
5 accounts of the acquisition company and not in the utility accounts
6 of PacifiCorp.

7 - MEHC will file a corporate management plan by September 1,
8 2007 that explicitly sets forth senior management positions and
9 associated personnel targeted for location in Utah and the
10 timeframe for implementing the plan.

11 **Q. WHAT PARTICULAR COMMITMENTS DO YOU ADDRESS IN YOUR**
12 **TESTIMONY?**

13 A. I discuss commitments relating to rate plan (U23), corporate presence (U6
14 & U7); and acquisition premium (U4). Cheryl Murray will primarily address
15 commitments in the areas of transmission and distribution investment,
16 coal resources (IGCC technology) associated with PacifiCorp's next base
17 load RFP (RFP 2012), pension funding levels, and the "most favored
18 nation" provision.

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1 Rate Plan

2 **Q: PLEASE BRIEFLY EXPLAIN THE RATE PLAN (U23) THAT IS**
3 **INCLUDED IN THE UTAH-SPECIFIC LIST OF COMMITMENTS.**

4 A: According to the stipulation approved by the Commission in PacifiCorp's
5 last rate case (Docket No. 04-035-42), PacifiCorp has the ability to file its
6 next rate case on March 1, 2006, which is prior to the expected close of
7 the pending merger transaction. The Committee and other parties were
8 concerned that if a future test period is requested by PacifiCorp, it would
9 be based on an "unadjusted" business plan that lacked a full review and
10 input from the new owner, MEHC.

11 The parties negotiated language that requires MEHC to file
12 supplemental testimony within 15 days of closing to "update PacifiCorp's
13 revenue requirement...to incorporate any additional adjustments that are
14 appropriate as a result of that transaction." To afford parties time to
15 analyze information contained in the "MEHC update," PacifiCorp agrees to
16 extend the Rate Effective Date stemming from a March 1, 2006 rate case
17 filing date by six weeks beyond the 240 day time limit for granting or
18 revising a revenue increase under Utah code section 54-7-12(3)(b)(i).
19 Thus, the earliest a new rate increase could be implemented is December
20 11, 2005.

21 In addition, if MEHC delays in filing its supplemental testimony,
22 then parties have the ability to petition the Commission to further extend
23 the December 11, 2005 Rate Effective Date.

1 **Q: IS THERE A POTENTIAL MONETARY BENEFIT OF EXTENDING THE**
2 **RATE EFFECTIVE PERIOD TO DECEMBER 11, 2005?**

3 A: Yes. Assuming for illustrative purposes that PacifiCorp secured a \$50
4 million rate increase resulting from its next rate case filing, then the
5 delayed implementation of that increase would benefit customers by
6 approximately \$4.2 million per month or about \$6.3 million over 45 days.

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8 Corporate Presence

9 **Q. PLEASE DISCUSS THE COMMITMENTS THAT MEHC AND**
10 **PACIFICORP HAVE MADE IN THE AREA OF CORPORATE**
11 **PRESENCE?**

12 A. In Commitment U7, MEHC and PacifiCorp agree to increase the number
13 of senior management positions (and associated personnel) in Utah to
14 comport more closely with the size of Utah's retail load. Specific positions
15 that will be examined for relocation include: engineering; purchasing;
16 information technology; land rights; legal; commercial transactions and
17 asset management and others as appropriate. By Sept 1, 2007 MEHC
18 and PacifiCorp will file a plan that identifies: (1) senior management
19 positions and associated corporate personnel that have been identified for
20 location in Utah; (2) the timeframe for implementing the plan; (3) and the
21 supporting economic analysis.

22 In Commitment U6, PacifiCorp and MEHC agree to authorize
23 senior executives and managers in Utah to make decisions locally

1 regarding specific Utah tariff, customer service and reliability issues
2 including: tariff interpretation; line extensions; service additions; DSM
3 program implementation; adequate investment in and maintenance of the
4 Utah sub-transmission and distribution network; and outage response.
5 Furthermore, senior executives and managers will have the autonomy to
6 negotiate terms for special contracts and Qualifying Facilities (QFs).

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8 **Q. IS CORPORATE PRESENCE AN IMPORTANT ISSUE FOR THE**
9 **COMMITTEE?**

10 A. Yes. At the August 2, 2005 Committee Meeting, Committee members
11 indicated to MEHC representatives that the lack of an effective corporate
12 presence in Utah has been an increasing concern for the Committee.
13 Despite the fact Utah is PacifiCorp's largest and fastest-growing retail load
14 center (over 40% of overall retail load), the Committee expressed
15 concerns regarding the conspicuous absence of senior executives working
16 in Utah and the migration of company departments, managers and
17 employees from Utah to Oregon since the Utah Power-Pacific Power
18 merger in 1988.

19 **Q. PLEASE EXPLAIN HOW COMMITMENTS U6 and U7 BENEFIT UTAH**
20 **RESIDENTIAL AND SMALL BUSINESS CUSTOMERS.**

21 A: Living and working in a community provides corporate executives a better
22 understanding of the needs and desires of the residents than being
23 channeled information by subordinates either second or third hand.
24 Having to interact more directly with utility customers, Utah regulators, and

1 special interest groups who may be concerned about rising electricity
2 prices, inadequate levels of service, emissions levels, low income
3 programs, etc will likely make corporate executives more responsive and
4 pro-active in dealing with Utah-specific matters. The Committee believes
5 that fulfillment of Commitments U6 and U7 will provide a benefit to
6 residential and small business customers.

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8 Acquisition Premium

9 **Q: PLEASE DESCRIBE HOW THE ACQUISITION PREMIUM WILL BE**
10 **TREATED FOR RATEMAKING PURPOSES.**

11 A: As plainly stated in Commitment U4: “The premium paid by MEHC for
12 PacifiCorp will be recorded in the accounts of the acquisition company and
13 not in the utility accounts of PacifiCorp.” Thus, for ratemaking purposes
14 the acquisition premium will be treated “below the line” and excluded from
15 PacifiCorp’s Utah revenue requirement.

16 **Q: HAVE MEHC AND PACIFICORP RESERVED THE RIGHT TO**
17 **RECOMMEND THAT SOME AMOUNT OF THE ACQUISITION**
18 **PREMIUM BE INCLUDED IN PACIFICORP’S UTAH REVENUE**
19 **REQUIREMENT IF IN A FUTURE UTAH RATE PROCEEDING A PARTY**
20 **PROPOSES AN ADJUSTMENT THAT IS DERIVED FROM BENEFITS**
21 **ORIGINATING UPSTREAM?**

1 A: Yes. However, no party to the stipulation, including the Commission, is
2 being asked to accept such a ratemaking theory. MEHC and PacifiCorp
3 are simply preserving the right to present their theory.

4 **Q: IS THE STIPULATION AND ATTACHED CONSOLIDATED LIST OF**
5 **COMMITMENTS IN THE PUBLIC INTEREST?**

6 A: Yes.

7 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

8 A: Yes it does.

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