

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 the
Company and PacifiCorp dba Utah	:	Acquisition Stipulation
Power & Light Company for an	:	Cheryl Murray
Order Authorizing Proposed	:	For the Committee of
Transaction	:	Consumer Services

2 December 2005

1 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT**
2 **POSITION.**

3 A. My name is Cheryl Murray. My business address is 160 East 300 South
4 Salt Lake City, Utah. I am a utility analyst for the Committee of Consumer
5 Services (“Committee”).
6

7 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THIS**
8 **COMMISSION?**

9 A. Yes. I have testified regarding PacifiCorp’s (“Company”) requests for
10 certificates of convenience and necessity for the Gadsby Plant Addition
11 (Docket No. 02-035-34), the Currant Creek Power Project (Docket No. 03-
12 035-39), and the Lake Side Power Project (Docket No. 04-035-30), and in
13 PacifiCorp’s request for a tariff rider for Demand Side Management
14 (Docket No. 02-035-T12). I have also testified in Questar Gas Company’s
15 application for an increase in rates and charges (Docket No. 02-057-02).
16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. My testimony addresses certain acquisition commitments made by
19 MidAmerican Energy Holding Company (“MEHC”) and PacifiCorp
20 (together the “Applicants”) which, in the Committee’s view, provide
21 benefits to the PacifiCorp customers that we represent.
22

23 **Q. WHAT ARE THOSE COMMITMENTS?**

24 A. Those commitments are in the areas of transmission investment, coal
25 generation technology, pension funding and the “Most Favored Nation”
26 provision. MEHC has indicated that the “chief benefit from the proposed
27 transaction is MEHC’s willingness and ability to deploy capital to meeting
28 PacifiCorp’s significant infrastructure needs.”¹ The Committee agrees that

¹ Joint Application, page 19.

29 infrastructure investment will provide considerable benefits for Utah
30 customers.

31

32 **Q. PLEASE DESCRIBE MEHC'S AND PACIFICORP'S COMMITMENTS**
33 **REGARDING TRANSMISSION INVESTMENT.**

34 A. MEHC has identified three transmission projects that it states will enhance
35 reliability, facilitate the delivery of renewable resources, or enable system
36 optimization. With several caveats such as permitting, availability of
37 materials, equipment and rights-of-way, MEHC and PacifiCorp have
38 committed to use their best efforts to construct those three identified
39 improvements to the transmission system infrastructure.

40

41 **Q. WHAT ARE THE THREE TRANSMISSION IMPROVEMENTS THAT**
42 **HAVE BEEN IDENTIFIED?**

43 A. The transmission improvements include: the Path C Upgrade; Mona to
44 Oquirrh; and Walla Walla to Yakima or to Mid-C.

45

46 **Q. PLEASE DESCRIBE EACH TRANSMISSION IMPROVEMENT AND THE**
47 **EXPECTED BENEFITS TO BE DERIVED.**

48 A. Commitment Number 34 describes three specific transmission projects
49 that MEHC proposes to undertake if the application for acquisition is
50 approved.

51 1. Path C Upgrade. This transmission upgrade from South East Idaho
52 to Northern Utah would increase Path C capacity by 300 MW. The
53 project is expected to cost ~\$78 million and be completed by 2010.

54

55 Expected benefits of this project include: enhanced system
56 reliability through increased transfer capability between the east
57 and west control areas; ability to accept power delivery from wind
58 projects in Idaho; and the potential to add other generation capacity
59 options.

60

61 2. Mona to Oquirrh. This new transmission line would increase import
62 capability into the Wasatch Front from resources delivered at or to
63 Mona. It would also provide an option to import power from

64 Southern California. The projected cost is ~\$196 million with a
65 completion date in 2011.

66
67 MEHC contends that the anticipated benefits of this project are:
68 enhanced reliability due to the ability to import power from Southern
69 California; facilitation of adding renewable resources; and
70 enhanced ability to purchase or exchange seasonal resources
71 thereby increasing optimization of the system.
72

73 3. Walla Walla to Yakima or to Mid-C. The selected project will either
74 establish a new link or reinforce an existing link. The ability to
75 accept output from wind generators should be enhanced by either
76 project. Anticipated cost is ~\$88 million with a completion date of
77 2010.
78

79 **Q. ARE THERE OTHER TRANSMISSION PROJECTS THAT HAVE BEEN**
80 **IDENTIFIED BY THE APPLICANTS?**

81 A. Yes. Commitment Number 35 identifies Other Transmission and
82 Distribution Matters. A reliable electric system is of vital importance to
83 ratepayers both from a business perspective and in their personal lives.
84 ScottishPower had made commitments and was taking steps to improve
85 the distribution system in Utah thereby increasing reliability. The
86 Commitments made by MEHC will continue, and improve upon, plans
87 already in place.
88

89 **Q. WHAT IS THE COMMITTEE'S OPINION REGARDING TRANSMISSION**
90 **INVESTMENT?**

91 A. The Committee views MEHC's commitments to transmission investment
92 as a benefit for PacifiCorp's customers. The Committee's comments
93 regarding PacifiCorp's Integrated Resource Plan ("IRP") 2003 (Docket No.
94 03-2035-01) stated, "The Committee does not believe the Company
95 adequately evaluated transmission alternatives in its portfolio
96 development. The Committee has three immediate areas of concern:
97 incremental transmission additions were not modeled; wheeling revenues
98 to offset the expense of the addition of major new lines were not modeled;

99 and alternative generation resources as part of the *East-West*
100 *Transmission* Portfolio were not modeled.”² The Committee recommended
101 that transmission options should be evaluated in a similar manner to
102 generation resources.

103

104 In its comments regarding PacifiCorp’s IRP 2004 the Committee reiterated
105 concerns regarding the Company’s evaluation of transmission. “In its last
106 IRP Order, the Commission directed the Company to ‘evaluate
107 transmission alternatives on a consistent and comparable basis with
108 generation alternatives, include analysis of transmission upgrades and
109 improve transmission analysis especially with respect to the RTO West
110 paradigm.’ While the Committee appreciates the improvement PacifiCorp
111 made by including transmission to integrate distant resources, the
112 Committee does not believe the Company has adequately or fully
113 responded to the Commission’s directive.”³

114

115 The Committee has clearly and vocally made known that it views
116 transmission investment as a viable option to be considered equally with
117 additional generation resources. Therefore, the Committee views MEHC’s
118 commitments to increase transmission investment as providing a benefit
119 for customers.

120

121 **Q. DOES THE COMMITTEE AGREE THAT THE THREE TRANSMISSION**
122 **PROJECTS IDENTIFIED IN THE COMMITMENTS ARE APPROPRIATE**
123 **AND PRUDENT INVESTMENTS?**

² Recommendations of the Committee of Consumer Services regarding the Matter of Acknowledgement of PacifiCorp’s Integrated Resource Plan 2003; Docket No. 03-2035-01, page 20.

³ Recommendations of the Committee of Consumer Services regarding the Matter of Acknowledgement of PacifiCorp’s Integrated Resource Plan 2004; Docket No. 05-2035-01, page 20.

124 A. Certain of the projects appear to facilitate the addition of coal and wind
125 resources to the system, which in the Committee's view are positive
126 aspects. However, the Committee questions the desirability of importing
127 from Southern California gas-fired generation. Furthermore, consultants
128 for the Committee have only been able to review limited available
129 documents dealing with the selected projects. MEHC has said that "...it is
130 possible upon further review a particular investment might not be cost-
131 effective, optimal for customers or able to be completed by the target date.
132 If that should occur, MEHC pledges to propose an alternative to the
133 Commission with a comparable benefit." In the course of the technical
134 conferences and settlement negotiations the Committee and other parties
135 made clear to the applicants that agreeing to the terms of the stipulation
136 did not constitute agreement that these were the appropriate projects or
137 give preauthorization of the transmission investment or other expenses
138 resulting from the list of commitments. Item 14 of the stipulation makes
139 clear that there is no prejudgment as to the prudence, just and reasonable
140 character, rate or ratemaking impact or treatment, or public interest
141 pertaining to any Commitment. Commitment U22 reiterates Utah parties'
142 concerns in this regard.

143

144 **Q. WHAT IS THE COMMITTEE'S VIEW REGARDING COAL-FIRED**
145 **GENERATION?**

146 A. As in the case of transmission investment, the Committee has utilized the
147 IRP process to express its views that coal-fired generation is a cost-
148 effective resource that in the current environment provides more value to
149 customers than gas-fired generation. Increasing use of natural gas to
150 produce electricity adds a layer of competition for a resource that Utah
151 customers rely on heavily for home heating and operating industrial and
152 commercial facilities. This competition puts upward pressure on prices for

153 both the production of electricity and home heating. Committee comments
154 in IRP 2004 included the belief that the Company had not identified a
155 least-cost, least-risk portfolio because the Preferred Portfolio was
156 weighted too heavily with gas-fired resources. The Committee
157 encouraged the Company to evaluate alternative technologies such as
158 Integrated Gasification Combined Cycle (“IGCC”) in conjunction with wind
159 resources.

160

161 **Q. HOW DO THE COMMITMENTS IN THIS DOCKET ADDRESS THE**
162 **COMMITTEE’S CONCERNS WITH COAL-FIRED GENERATION?**

163 A. Commitment 41 assures that the applicants will consider advanced coal-
164 technologies such as super-critical or IGCC technology when coal-fueled
165 generation is the selected resource. Commitments U15 and U16 also
166 address the IGCC issue. U15 calls for the formation of a working group to
167 examine various policy and technological aspects associated with IGCC
168 technology. U16 commits to study the viability of an IGCC option to be a
169 potential resource alternative in the RFP process in Docket 05-035-47.
170 Additionally, for the 2014 resource identified in PacifiCorp’s October 2005
171 IRP Update, PacifiCorp will provide the necessary studies to be able to
172 include a self-build IGCC unit option in any RFPs for the 2014 and later
173 non-renewable resource needs. However, Commitment U16 is dependent
174 upon parties supporting recovery of PacifiCorp’s prudently incurred costs
175 associated with the studies and engineering work required to determine
176 the cost and feasibility of an IGCC resource in the identified timeframe.

177

178 **Q. DOES THE COMMITTEE HAVE OTHER ISSUES REGARDING**
179 **RESOURCE ACQUISITION?**

180 A. In its IRP 2003 comments, the Committee expressed concern that
181 management’s desire to minimize shareholder’s capital exposure may be
182 affecting the modeling and reducing the build requirement, thereby
183 increasing customers’ costs. In Commitment 39 regarding Future

184 Generation Options, MEHC commits that a utility own/operate resource
185 will be included in any Commission approved RFP for 100 MW or more.
186 Whether or not this option is selected as the best resource for customers
187 the Committee is encouraged that capital expenditures seem to be less of
188 a concern under MEHC ownership than under ScottishPower and this
189 option will provide a benchmark against which other proposals can be
190 evaluated.

191

192 **Q. WHAT IS THE “MOST FAVORED NATION” PROVISION OF THE**
193 **STIPULATION.**

194 A. The “Most Favored Nation” provision gives any party to this docket the
195 opportunity to request adoption of any condition in any other state either
196 imposed on or agreed to by the Applicants.

197

198 **Q. DO YOU ANTICIPATE THAT OTHER STATES WILL HAVE UNIQUE**
199 **CONDITIONS THAT MAY BE DIFFERENT FROM THOSE IN UTAH?**

200 A. Yes. Each state in PacifiCorp’s territory will likely have its own issues with
201 the acquisition based on the views and needs of the particular state.
202 Therefore, the value of the Consolidated List of Commitments to each
203 state, and stakeholder within the state, will likely be viewed differently.
204 Each state is on a different schedule for completion of the acquisition with
205 Utah being the first. The “Most Favored Nation” provision offers
206 protections and benefits to Utah customers.

207

208 **Q. PLEASE EXPLAIN HOW THE “MOST FAVORED NATION” PROVISION**
209 **WORKS.**

210 A. If the Applicants agree to or are required to accept conditions in other
211 jurisdictions, the Commission has the opportunity and authority to adopt
212 those commitments in Utah, even if an order has already been issued in
213 this docket. Parties have agreed to the following process for facilitating
214 implementation of those types of Commitments.

- 215 ● Within five calendar days after a stipulation with new or amended
216 commitments is filed by the Applicants with a commission in
217 another state jurisdiction, the Applicants will send a copy to the
218 Parties.
- 219 ● Within five calendar days after a commission in another state
220 jurisdiction issues an order accepting a stipulation to which the
221 Applicants are a party or imposes new or modified commitments or
222 conditions, that order with all commitments and conditions, will be
223 filed with the Commission and served on all parties to this docket.
- 224 ● Within ten calendar days after the last filing from the other states,
225 any party to this docket can file with the Commission its position as
226 to whether any of the covenants, commitments and conditions from
227 the other jurisdictions should be adopted in Utah.
- 228 ● Within five calendar days after such filing, any party to the docket
229 may file a reply with the Commission.

230

231 Section 10 of the Stipulation fully explains the “Most Favored Nation”
232 Provision.

233

234 **Q. PLEASE BRIEFLY DESCRIBE THE COMMITTEE’S CONCERN WITH**
235 **PACIFICORP’S PENSION FUND.**

236 A. In the course of investigating the proposed acquisition we found that
237 PacifiCorp has one of the most under-funded pension plans in the electric
238 utility industry. All things being equal, higher funding status equates to
239 lower net periodic pension cost (NPPC) under FAS 87. PacifiCorp’s 2005
240 Actuarial Report described its planned funding policy which if followed
241 would bring the plan closer to being fully funded over a period of five
242 years. Although PacifiCorp documents indicated its intent to continue that
243 level of funding there was no requirement and those plans were subject to
244 change. MEHC has committed to continue this funding policy for two
245 years following the close of the transaction.

246

247 **Q. ARE THERE OTHER ISSUES YOU WOULD LIKE TO ADDRESS THAT**
248 **THE COMMITTEE REVIEWED IN THIS DOCKET?**

249 A. Yes. The Committee is endorsing the acquisition because we believe that
250 considered as a whole it will provide benefits to customers as addressed
251 above and in Mr. Gimble's testimony. However, that does not mean we
252 view every commitment MEHC has made as a benefit to Utah ratepayers.
253 Some of the commitments merely continue PacifiCorp's current practice.
254 For example, based on discovery responses and research, we judged
255 PacifiCorp's current IRP public input process and its DSM advisory group
256 superior to similar processes in Iowa. However, we are confident that
257 under the Utah commitments to continue the collaboration in IRP and
258 DSM, the acquisition will not have a detrimental effect on those processes.

259

260 Another issue is corporate overhead charges. MEHC has committed that
261 for a period of five years its corporate overhead charges will not exceed
262 \$9 million (total Company) annually. They point to this as a benefit of the
263 acquisition because ScottishPower's FY2006 charges are projected at \$15
264 million (total Company). While this appears to provide a \$6 million benefit
265 it should be noted that it is unlikely that the full \$15 million would be
266 allowed in rates. Full recovery of the \$9 million is also not guaranteed
267 since in a general rate case parties are free to argue for recovery of a
268 lesser amount if they find the \$9 million is not justified.

269

270 Insurance costs are an area where customers may have benefited more
271 under ScottishPower ownership. Insurance costs potentially could rise
272 under MEHC's ownership due to the loss of the use of the captive
273 insurance company in Ireland. As part of their audit in the last PacifiCorp
274 general rate case, our consultants reviewed the Oregon documents in
275 which PacifiCorp requested approval to secure insurance coverage from
276 an affiliated interest (captive insurance company), Docket No. UI 233.

277 While it appeared that there would be savings under this scheme, their
278 judgment was that the projected savings were overstated with no concrete
279 evidence of those savings provided. However, because there are so
280 many unknowns regarding a future insurance plan we are unable to
281 quantify any potential cost difference at this time. As with corporate
282 overhead charges, this issue will be determined in a future rate case.
283 That being said, Condition Number 22 is a guarantee that the customers
284 of PacifiCorp will be held harmless if the transaction between MEHC and
285 PacifiCorp results in a higher revenue requirement than if the transaction
286 had not occurred.

287

288 **Q. IS THE COMMITTEE SATISFIED THAT THE ACQUISITION WILL**
289 **PROVIDE POSITIVE BENEFITS TO UTAH CUSTOMERS?**

290 A. Yes, the Committee believes that with the commitments made by MEHC
291 and PacifiCorp the acquisition will provide a positive benefit to Utah
292 customers.

293

294 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

295 A. Yes.