

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of)
Excess PacifiCorp) Docket No. 05-035-98
Income Tax Cost Monies)
Collected in Rates) TRANSCRIPT OF
) PROCEEDINGS

April 3, 2006 * 8:30 a.m.

Location: Public Service Commission
 160 East 300 South
 Hearing Room, 4th Floor
 Salt Lake City, Utah

Richard M. Campbell, Chairman
 Ted Boyer
 Ron Allen

1 A P P E A R A N C E S

2 FOR PACIFICORP:

3 Edward A. Hunter, Jr., Esq.
4 STOEL RIVES, LLP
Attorneys at Law
5 201 South Main, Suite 1100
Salt Lake City, Utah 84111
6 Tel: 801.328.3131

7 FOR QUESTAR GAS CO.:

8 C. Scott Brown, Esq.
180 East 100 South
9 P.O. Box 45360
Salt Lake City, Utah 84145-5172
10 Tel: 801.324.5172

11 FOR DIVISION OF PUBLIC UTILITIES:

12 Patricia E. Schmid, Esq.
ATTORNEY GENERAL'S OFFICE
13 160 East 300 South, 5th Floor
Salt Lake City, Utah 84114
14 Tel: 801.366.0353

15 FOR COMMITTEE OF CONSUMER SERVICES:

16 Reed T. Warnick, Esq.
ATTORNEY GENERAL'S OFFICE
17 160 East 300 South, 5th Floor
Salt Lake City, Utah 84114
18 Tel: 801.366-0353

19 FOR UTAH INDEPENDENT ENERGY CONSUMERS:

20 F. Robert Reeder, Esq.
Vicki M. Baldwin, Esq.
21 PARSONS, BEHELE & LATIMER
Attorneys at Law
22 201 South Main, #1800
Salt Lake City, Utah 84111
23 Tel: 801.536.6769

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E X H I B I T S

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EXHIBIT NO.	OFFERED	ADMITTED
UP&L 1	6	6
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1 P R O C E E D I N G S

2 COMMISSIONER CAMPBELL: All right. Let's
3 go on the record in Docket Number 05-035-98 In The
4 Matter of Excess Pacificorp Income Tax Cost Monies
5 Collected in Rates.

6 Let's take appearances for the record,
7 please.

8 MR. HUNTER: Edward Hunter and Mike Mount
9 for PacifiCorp.

10 MS. SCHMID: Patricia E. Schmid of the
11 Attorney General's Office for the Division of Public
12 Utilities.

13 MR. WARNICK: Reed Warnick with the
14 Attorney General's Office for the Committee of
15 Consumer Services.

16 MR. REEDER: I'm Robert Reeder for a group
17 of industrial customers whose name and identity are
18 in this record known as UIEC. I appear with Vicki
19 Baldwin of the firm of Parsons, Behle & Latimer.

20 MR. BROWN: Scott Brown with Questar Gas
21 Company.

22 COMMISSIONER CAMPBELL: All right. Thank
23 you.

24 Mr. Hunter?

25 MR. HUNTER: Mr. Chairman, we prepared and

1 prefiled with the Commission this morning some brief
2 written testimony and an attached exhibit. We would
3 prefer to offer that exhibit and testimony and have
4 Mr. Specketer do a brief summary, but we're at the
5 direction of the Commission.

6 COMMISSIONER CAMPBELL: All right. We'll
7 so proceed.

8 MR. HUNTER: Mr. Specketer, would you
9 stand and be sworn?

10 THOMAS B. SPECKETER,
11 being first duly sworn, was examined and testified as
12 follows:

13 DIRECT EXAMINATION

14 BY MR. HUNTER:

15 Q. Can you please state your name and
16 business address for the record?

17 A. Thomas B. Specketer, 6666 Grand Avenue,
18 Des Moines, Iowa.

19 Q. By whom are you employed?

20 A. MidAmerican Energy Company.

21 Q. And did you participate in the settlement
22 negotiations that led to the document that's at issue
23 before the Commission this morning?

24 A. Yes, I did.

25 Q. And in connection with this proceeding

1 have you prepared prefiled direct testimony that
2 consists of seven pages of narrative?

3 A. Yes, I have.

4 Q. And it has one exhibit attached to it?

5 A. That's correct.

6 MR. HUNTER: We would request that the
7 prefiled direct be marked UP&L Exhibit 1 and that the
8 attached exhibit be marked as UP&L 1.1.

9 COMMISSIONER CAMPBELL: All right.

10 MR. HUNTER: And we would offer those
11 exhibits.

12 COMMISSIONER CAMPBELL: Are there any
13 objections?

14 MS. SCHMID: None.

15 MR. WARNICK: No objections.

16 COMMISSIONER CAMPBELL: All right. We'll
17 admit it.

18 Q. (BY MR. HUNTER) Mr. Specketer, would you
19 please briefly summarize your testimony?

20 A. Sure. The purpose of my testimony was to
21 describe the provisions of the Settlement Agreement.
22 There are really three provisions that I address in
23 the testimony, and that being, one, the contribution
24 of the stock of Intermountain Geothermal Company to
25 PacifiCorp from MidAmerican Energy Holdings Company,

1 to the expansion of the existing Blundell Geothermal
2 Generating Facility as a result of that contribution.
3 And then third, the negotiations for reduction in the
4 cost of the West Valley lease between PacifiCorp and
5 PPM Energy, which is a subsidiary of Scottish Power.
6 And if I might just briefly describe each of those
7 elements.

8 First off, as a result of the settlement
9 agreement, MEHC has agreed to contribute the stock of
10 Intermountain Geothermal Company, which I will refer
11 to as IGC throughout this discussion, to PacifiCorp
12 at no cost. IGC owns approximately or has rights to
13 approximately 70 percent of the steam resources that
14 serve the Blundell facility today and as a result of
15 that contribution there is -- it entitles PacifiCorp
16 or allows PacifiCorp to expand generation resources
17 at the Blundell Generating Facility.

18 That's the second part of the testimony
19 where it addresses -- where we address the expansion
20 of the facilities and the potential net benefits to
21 the PacifiCorp customers as a result of that
22 expansion. We view the expansion in really two
23 separate phases. One, an 11-megawatt expansion to
24 the existing facilities that exist there today, and
25 in addition to that a 25-megawatt addition, plus an

1 additional 11 megawatts on that for a total of 47
2 megawatts being added to the generating capacity at
3 Blundell.

4 And then third, as a result of the
5 Settlement Agreement we agree to continue to
6 negotiate with Scottish Power a reduction in the West
7 Valley lease. As most of you probably are aware,
8 West Valley is a generating facility, 200-megawatt
9 simple-cycle combustion turbine located in West
10 Valley, Utah. PacifiCorp has an existing PPA with
11 West Valley for a 15-year term. As a result of those
12 ongoing negotiations, the option price at which
13 PacifiCorp could acquire those resources at the end
14 of the lease term was reduced by \$500,000.

15 The benefits that we quantified as a
16 result of the contribution and expansion of the
17 facilities for the 11 megawatts of expansion was in
18 excess of \$17 million, and these are total system
19 numbers. The further expansion of the 25-megawatt
20 facility at Blundell would benefit customers by
21 another \$50 million. And then by adding another 11
22 megawatts on top of that there was an additional
23 \$17 million benefit to customers. That was kind of
24 the quantification of the total benefits.

25 The expansion of the second 25-megawatt

1 unit plus the 11 megawatts is subject to further
2 study and analysis to determine the economic
3 feasibility of it, but based on the analysis that
4 we've performed to date it appears to be economically
5 viable and would provide significant benefits to the
6 Utah customers of PacifiCorp.

7 Q. Does that complete your summary?

8 A. That completes my summary.

9 MR. HUNTER: Mr. Specketer is available
10 for questions.

11 COMMISSIONER CAMPBELL: All right. Any
12 questions for the parties?

13 MS. SCHMID: No.

14 MR. WARNICK: No.

15 MR. REEDER: No questions.

16 CHAIRMAN CAMPBELL: All right. We'll hold
17 our questions until we've heard from all the
18 witnesses.

19 Mr. Warnick.

20 MR. WARNICK: Mr. Chairman, the Committee
21 has two witnesses, if you could swear them both in at
22 this time, Mr. Dan Gimble and on the phone we have
23 Mr. Phil Hayet.

24 COMMISSIONER CAMPBELL: All right. Mr.
25 Hayet, we're going to swear you in with Mr. Gimble.

1 DAN GIMBLE AND PHILIP HAYET,
2 called as witnesses, being first duly sworn, were
3 examined and testified as follows:

4 MR. WARNICK: Thank you, Mr. Chairman.

5 DIRECT EXAMINATION

6 BY MR. WARNICK:

7 Q. Mr. Gimble, would you please state your
8 name, position, and the party you represent for the
9 record.

10 A. My name is Dan Gimble. My position is
11 Chief of Technical Staff for the Committee of
12 Consumer Services.

13 Q. And what is the purpose of your testimony
14 here today?

15 A. Along with Committee witness Phil Hayet, I
16 provide the Committee's perspective regarding the
17 income tax settlement filed with the Commission on
18 March 24, 2006.

19 Q. Were you involved on behalf of the
20 Committee in the settlement talks among the parties
21 that resulted in this stipulated settlement?

22 A. Yes. The Committee Director and attorneys
23 and two of our IRP experts, Nancy Kelly and Phil
24 Hayet, were also involved in extensive discussions
25 that culminated in this Stipulation.

1 Q. In its Request for Agency Action, the
2 Committee estimated that an income tax recovery
3 adjustment could amount to \$50 million in this case.
4 Based on further discovery and review of tax
5 documents relating to the SEC audit period, has the
6 Committee made a more precise estimate of the value
7 of that adjustment?

8 A. Yes, we have. Tax information relating to
9 the SEC audit period was reviewed by a Committee
10 expert, Ms. Ellen Blumenthal, in January 2006. Using
11 that information, she estimated the tax adjustment on
12 a Utah basis of about \$39 million.

13 Q. Would you agree that the Phase 2 expansion
14 of the Blundell Geothermal Plant made possible by the
15 12.2 million stock transfer of steam to field rights
16 from MEHC to PacifiCorp is the major feature of the
17 proposed settlement in this docket?

18 A. Yes.

19 Q. Do you believe that the potential benefits
20 associated with the Blundell Plant expansion provide
21 adequate settlement compensation for Utah customers
22 in this case?

23 A. Yes. The estimated \$32 million net
24 present value benefit on a Utah basis associated with
25 a Phase 2 Blundell expansion is a fair and reasonable

1 settlement of issues in this case. Relying on MEHC's
2 market price forecast, which we believe is a
3 conservative market price forecast, the expansion
4 required to replace 36 megawatts of relatively
5 expensive future market purchases, what PacifiCorp
6 sometimes refers to as front office transactions,
7 with power generated from a renewable resource.

8 Q. What was Mr. Phil Hayet's involvement in
9 this case on behalf of the Committee?

10 A. On behalf of the Committee, Mr. Hayet
11 performed a mini kind of assessment of MEHC's cost
12 benefit analysis relating to the Blundell expansion
13 to ascertain whether or not the estimated benefits
14 were reasonably derived. At this time Mr. Hayet is
15 available to briefly discuss his independent review
16 of the proposed Blundell expansion.

17 Q. Mr. Hayet, do you have a statement that
18 you could provide at this time, please?

19 A. Yes, I do.

20 Q. Please proceed.

21 A. As Dan already mentioned, I was asked to
22 conduct an independent evaluation of the costs and
23 benefits associated with MEHC's settlement offer.
24 First, I should mention that I had no role in the
25 consideration of the merits of the tax case. I was

1 only asked to determine whether MEHC had conducted a
2 fair and reasonable evaluation of the net benefits of
3 expanding the Blundell geothermal resource.

4 I began by reviewing the existing
5 23-megawatt Blundell unit contract documents that the
6 Committee supplied to me. Next, I evaluated MEHC's
7 cost-benefit analysis. It consists of an Excel-based
8 revenue requirement analysis that compares the cost
9 of expanding the existing Blundell facility and
10 operating it as a PacifiCorp resource to the cost of
11 acquiring energy from the market.

12 The new facility adds about 36 megawatts
13 of capacity as part of Phase 2 of the expansion to
14 the PacifiCorp system, and MEHC assumes that it will
15 operate as a base load resource with a 90 percent
16 annual average capacity factor. This is similar to
17 the operation of a coal unit. The expanded facility
18 will provide the system with approximately 300,000
19 megawatt hours of additional energy on an annual
20 basis.

21 The capital costs associated with the
22 expansion include the cost of drilling new steam
23 production wells, steam gathering equipment, piping
24 infrastructure, steam processing equipment and the
25 steam turbine generator. Capital costs for

1 geothermal projects are highly site specific. Based
2 on a literature search for geothermal project capital
3 costs, I conclude that MEHC's capital cost estimate
4 appears to be a conservative assumption as it seems
5 to be a little on the high side. Should the capital
6 cost turn out lower than MEHC's assumption, the
7 project benefits would correspondingly be higher.
8 MEHC's estimate does not seem unreasonable to me. As
9 a cost of building, geothermal plants has gone up
10 over the past year similar to the cost of building
11 wind projects. These higher costs are due to
12 increases in drilling costs, higher costs of steel,
13 and potentially higher permitting costs compared to
14 the past.

15 Operation and maintenance costs make up
16 the other expenses MEHC considered. These include
17 the costs of labor, chemical treatment, equipment
18 maintenance and steam field maintenance costs. O&M
19 expenses are significantly higher for geothermal
20 plants compared to other conventional thermal
21 resources.

22 I believe that MEHC fairly estimated O&M
23 costs when compared to other estimates that I found.
24 MEHC's revenue requirement model was used to derive a
25 net present value revenue requirement over the

1 30-year life of the project. For purposes of
2 comparison, MEHC compared the present value revenue
3 requirement to the revenue requirement associated
4 with acquiring the same amount of energy each year
5 through market purchases.

6 MEHC assumed that the forward market price
7 projection would stand as a proxy for PacifiCorp to
8 acquire firm capacity and energy from the market over
9 the next 30 years. I compared MEHC's forward price
10 projection to one of PacifiCorp's recent projections
11 and found that over the short term the two price
12 projections were very close. However, over the long
13 term PacifiCorp's rejection escalated at a much
14 higher rate than MEHC's. This represented a
15 conservative assumption on MEHC's part because the
16 lower the costs of the market purchases, the less
17 attractive the Blundell expansion would have
18 appeared.

19 The result of the Committee's analysis,
20 which were very similar to MEHC's, showed that the
21 net present value revenue requirement associated with
22 the Blundell geothermal expansion Phase 2 will cost
23 approximately \$76 million, less on a systemwide
24 basis, than the cost of purchasing an equivalent
25 amount of energy via market purchases. That

1 translates to roughly \$32 million on a Utah basis.

2 Based on the assumptions that were used, I
3 consider this to be a reasonable, if not conservative
4 evaluation of the project benefits. I also performed
5 additional analyses to assess project risk such as
6 evaluating the significant underlying drivers of the
7 benefits. I found that two significant drivers
8 include the production tax credits and accelerated
9 depreciation. Production tax credits benefit
10 renewable resources by reducing the annual project
11 costs by approximately \$20 a megawatt hour over the
12 first ten years of the project life, which is
13 significant. Accelerated tax depreciation takes
14 place over a five-year period for geothermal projects
15 and allows for much faster tax write-offs of the
16 project cost.

17 The Committee concluded that both of these
18 assumptions are reasonable and both will be available
19 over the next few years. But even if production tax
20 credits expire, the Committee is confident that
21 Congress will extend them once again as it has done
22 several times in the past.

23 Another evaluation was performed comparing
24 the costs of the expansion to the cost of acquiring
25 energy from a geothermal project developer such as

1 the Cove Fort developer who recently signed a
2 geothermal PPA agreement with PacifiCorp. While the
3 benefits under this case are lower than the benefits
4 obtained when comparing the costs of expanding
5 Blundell to market purchases, substantial benefits
6 are still available.

7 I would also mention that several
8 ratepayer protections have been built into the
9 agreement, including a requirement that PacifiCorp
10 conduct an additional detailed economic evaluation
11 before committing to go forward with the project.

12 Second. If for any reason capital and O&M
13 costs exceed those in MEHC's original economic
14 evaluation, yet the economic benefits remain
15 substantially similar, then PacifiCorp has a right to
16 petition the Commission to recover the costs it can
17 prove are reasonable exceedances. The value of any
18 renewable energy credits will be assigned to
19 PacifiCorp's customers for ratemaking purposes.

20 Next, MEHC will hold PacifiCorp harmless
21 from any liabilities caused by the transfer of the
22 stock of IGC to PacifiCorp and any liabilities
23 arising from operation prior to the date of the
24 transfer of the stock. In other words, MEHC commits
25 that PacifiCorp's customers will not be harmed from

1 the contribution to PacifiCorp of the IGC stock.

2 Overall, I conclude that MEHC's evaluation
3 of expanding the Blundell geothermal project has been
4 conducted fairly and is a reasonable evaluation of
5 the project's net benefits. I believe that the
6 transfer agreement has been designed in such a way to
7 protect the ratepayers' interests and at the same
8 time to provide economic value to PacifiCorp's
9 customers.

10 This concludes my remarks.

11 MR. WARNICK: Thank you, Mr. Hayet.

12 Q. (BY MR. Warnick) Mr. Gimble, the
13 Stipulation also addresses the Committee's claim
14 about the treatment of income taxes. It contains a
15 release provision that says that the parties
16 prospectively are not limited to address the proper
17 rate and regulatory treatment of income taxes. Is
18 that correct?

19 A. Yes. The language in the release is very
20 clear on this point.

21 Q. Does this Stipulation result in a fair and
22 reasonable settlement of issues in this docket and is
23 it in the public interest, in the view of the
24 Committee?

25 A. Yes.

1 Q. Does this conclude your testimony on the
2 proposed Stipulation?

3 A. Yes, it does.

4 Q. Thank you.

5 MR. Warnick: Mr. Chairman, I would just
6 add, as made clear in the motion submitting the
7 settlement to the Commission, the Committee has asked
8 that its Request for Agency Action be dismissed with
9 prejudice in light of the settlement that we have
10 agreed to in this case.

11 Thank you.

12 COMMISSIONER CAMPBELL: All right. Are
13 there any questions for the Committee witnesses?

14 MR. HUNTER: Just a couple to clear up the
15 record.

16 COMMISSIONER CAMPBELL: Mr. Hunter?

17 CROSS-EXAMINATION

18 BY MR. HUNTER:

19 Q. Mr. Gimble, you mentioned that the CCS's
20 valuation of their claim in this case was \$39
21 million. Do you remember that testimony?

22 A. Yes.

23 Q. And do you understand that the other
24 parties to this case continue to have different views
25 about the merits of the Committee's claim in this

1 case?

2 A. Yes.

3 Q. And PacifiCorp has not agreed that there
4 is a \$39 million -- that your claim is worth \$39
5 million; is that correct?

6 A. I agree with that statement.

7 MR. HUNTER: Thank you. That's all I
8 have.

9 COMMISSIONER CAMPBELL: Any other
10 questions?

11 MR. REEDER: I'm tempted, but I shall not.

12 MS. SCHMID: No.

13 COMMISSIONER CAMPBELL: Now, do we have
14 any other witnesses that were parties to the
15 Stipulation?

16 MR. REEDER: We have no witnesses. We're
17 prepared to present argument at an appropriate time.

18 MR. BROWN: And we have no witnesses.

19 COMMISSIONER CAMPBELL: Do you have a
20 witness, Ms. Schmid?

21 MS. SCHMID: I do.

22 COMMISSIONER CAMPBELL: Ms. Schmid.

23 MS. SCHMID: The Division was planning on
24 putting on two witnesses, Mr. Charles Peterson and
25 William Powell to present statements concerning the

1 Division's assessment of the Settlement Agreement.
2 Unfortunately, both of the Division's planned
3 witnesses are stuck in traffic due to an unfortunate
4 accident which apparently has closed the entire
5 freeway southbound.

6 Ms. Constance B. White, Division Director,
7 has volunteered to step in and present the testimony
8 of Mr. Peterson and of Dr. Powell. I have a few
9 questions to introduce Ms. White and then she will
10 present the testimony.

11 COMMISSIONER CAMPBELL: Let's swear her in
12 first.

13 CONSTANCE B. WHITE,
14 called as a witness, being first duly sworn, was
15 examined and testified as follows:

16 COMMISSIONER CAMPBELL: Thank you. Ms.
17 Schmid.

18 DIRECT EXAMINATION

19 BY MS. SCHMID:

20 Q. Could you please state your full name and
21 business address for the record?

22 A. My name is Constance White. My business
23 address is 160 East 300 South, Salt Lake City, Utah.

24 Q. By whom are you employed and in what
25 capacity?

1 A. I'm employed by the State of Utah. I am
2 the Director of the Division of Public Utilities.

3 Q. Have you worked with Mr. Charles Peterson
4 and Dr. Powell in this, the docket that has given
5 rise to the Settlement Agreement before us?

6 A. Yes. They prepared extensive analysis,
7 there was a lot of consultation, and what they
8 prepared was under my direction and with my approval
9 and it represents the Division position.

10 Q. Thank you.

11 Could you please read the statement that
12 Mr. Peterson prepared under your direction? Could
13 you please read that into the record?

14 A. Yes. So I will use the first person
15 because it was Mr. Peterson who prepared this.

16 On or about March 2006 MidAmerican Energy
17 Holdings Company, MEHC, the Committee of Consumer
18 Services and the Utah Industrial Energy Consumers,
19 apparently along with the Utah School Boards
20 Association, collectively the parties, entered into a
21 Settlement Agreement to settle the issues in this
22 docket. The parties were joined by PacifiCorp in a
23 motion before the Commission to approve the
24 agreement.

25 The primary features of the agreement are:

1 (A) MEHC will make a cost-free transfer of
2 its 100 percent interest in Intermountain Geothermal
3 Company to PacifiCorp;

4 (B) a commitment by MEHC/PacifiCorp to
5 expand the existing generating capacity of the
6 Blundell Plant by 11 megawatts through the addition
7 of a heat recovery unit;

8 and (C), a commitment by the company to
9 study and a feasible expanded Blundell Plant by 25
10 megawatts, plus an additional 11-megawatt heat
11 recovery unit. In return, the parties agree that the
12 issues resulting from the SEC audit regarding income
13 taxes are resolved.

14 I have been asked to comment on the cost
15 and benefits of the items A, B and C above. In order
16 to prepare and make my comments, I have had meetings
17 and discussions with representatives of MEHC and
18 PacifiCorp, obtained information from the Geothermal
19 Energy Association in Washington, D.C. regarding
20 production tax credits and geothermal plant
21 construction costs, obtained information held
22 internally at the Division, including pricing
23 information on other projects, reviewed financial
24 information previously provided to the Division on
25 IGC, and reviewed the estimates made by MEHC

1 regarding certain present values that have received
2 notice in the news media.

3 The news media has published a \$12.2
4 million value for the common stock of IGC to be
5 transferred to PacifiCorp. After reviewing the
6 information available, I have no reason to dispute
7 that value, although I caution the Commission that
8 the Division has not performed an appraisal of the
9 common stock of IGC. However, since this is to be a
10 cost-free transfer, the actual value of the stock is
11 not a significant issue.

12 PacifiCorp is acquiring a valuable asset
13 at no cost to it or to ratepayers, thus making this a
14 net benefit to the company and to ratepayers. The
15 published systemwide net benefit of the 11-megawatt
16 addition of the heat recovery unit is \$17 million.
17 There are five major drivers to arrive at this niche.
18 The first is operating costs.

19 The Division has not been able to audit
20 the assumptions of the operating costs. The second
21 driver is financing, i.e., capital structure and the
22 cost of capital. After a review of the financing
23 assumptions, I concluded that for the purposes of the
24 MEHC calculations, the assumptions concerning capital
25 structure and capital costs are within the bounds of

1 reasonableness.

2 The third driver is the estimated cost to
3 purchase replacement power from a renewable source.
4 The use of costs from a renewable resource is
5 reasonable given PacifiCorp's commitment to acquire
6 1,400 megawatts of renewable generating capacity, and
7 the additions at Blundell would count towards that.
8 The indications from my inquiry supported that the
9 assumptions made by MEHC for replacement power costs
10 was within a reasonable range for this purpose.

11 The fourth major driver was the use of
12 production tax credits. These are tax credits
13 available for new geothermal capacity power capacity
14 that is put in service before July 1st, 2008.

15 Q. Pardon me, January?

16 A. Did I say January?

17 Q. That is January, you said July.

18 A. I'm sorry. I meant to say January 1st,
19 2008. They currently amount to almost 1.9 cents per
20 kilowatt of new capacity. The credit is an annual
21 credit against income taxes for the first ten years
22 of operations. There is an annual escalation in the
23 amount of the credit based upon an inflation factor
24 calculated by the U.S. Treasury Department. About
25 three-fourths of the net benefit is due from the

1 receipt of the production tax credit.

2 The last major driver is the capital cost
3 of the new facility. A recent report published by
4 the Geothermal Energy Association indicates that
5 range of current construction costs for geothermal
6 plants include the figures used by MEHC to do their
7 analysis.

8 MEHC and PacifiCorp have represented to
9 the Division that absent this agreement it would have
10 been difficult to implement construction of this heat
11 recovery facility given the need to convince minority
12 partners in the ownership of the geothermal field and
13 the fact that PacifiCorp would be entering into an
14 affiliate transaction which may not make economic
15 sense from an independent IGC viewpoint. The
16 economic constraints are represented as being even
17 more severe on the prospective expansion discussed
18 below.

19 Contingent on a feasibility study and the
20 successful negotiation with minority partners,
21 PacifiCorp and MEHC will embark on an expansion of
22 the plant by 25 megawatts, plus another 11-megawatt
23 heat recovery unit associated with a new 25-megawatt
24 expansion. The value of this expansion has the same
25 drivers as the initial 11-megawatt project. This

1 project is projected to come on line in 2009.

2 There is a substantial net present value
3 benefit estimated for the expansion project based
4 upon similar assumptions to the initial 11-megawatt
5 heat recovery plant. The value assumes that there
6 will be production tax credits available to this
7 expansion with the same terms as the current
8 production tax credits. However, at the present time
9 Congress has not approved an extension of these
10 credits. About 60 percent of the estimated net
11 present value is accounted for by these credits.
12 Based upon my preliminary analysis and assuming the
13 operating costs forecasts are reasonable there are
14 positive net benefits associated with the term of the
15 agreement.

16 Based upon its brief examination, the
17 Division believes that the assumptions underlying the
18 valuation of the steam plant appear reasonable. We
19 quantify the benefits to Utah at approximately
20 \$7 million based on the proposed construction of an
21 11-megawatt heat recovery unit at the existing plant.
22 This assumes Utah's share of 42 percent. Similarly,
23 if the 25-megawatt expansion is built, based upon the
24 MEHC assumptions, we estimate that the net Utah
25 benefit is an additional approximately \$21 million.

1 And that concludes Mr. Peterson's remarks.

2 Q. Do you have a statement from Dr. Powell
3 that you would like to present?

4 A. Yes. And I will summarize some of it. He
5 walks through the procedural details which have
6 already been entered on the record and are quite well
7 understood. I think the key of what Dr. Powell
8 stated is just that in the intervening time between
9 the Committee's initial request and now the Division
10 has met with the company, the Committee, and UIEC to
11 try and better understand the issues, the parties and
12 the requested relief in the initial petition. We
13 have reviewed the SEC audit report and submitted
14 several data requests to the company and Committee.
15 The Division also identified a potential consultant
16 who reviewed the various filings in the case and the
17 redacted SEC audit report. However, because the
18 Division was aware that the company, UIEC and others
19 were involved in settlement discussions, we did not
20 retain a consultant in this matter.

21 Based upon our preliminary review, the
22 Division has neither reached a definitive conclusion
23 nor been able to formulate a recommendation as to
24 whether the request for agency action has merit or
25 whether there is a remedy within the Commission's

1 authority. We recognize that this settlement
2 resolves a potentiality litigious issue with an
3 outcome that is likely to provide a net benefit to
4 Utah ratepayers and is thus likely in the public
5 interest. Therefore, the Division does not oppose
6 the Settlement Agreement as filed.

7 Q. Thank you.

8 MS. SCHMID: The Division would like to
9 request that substantive cross either be delayed
10 until which time as Dr. Powell or Mr. Peterson are
11 able to arrive, or better than that, that the parties
12 perhaps stipulate to the testimony given.

13 MR. REEDER: We would stipulate to the
14 testimony given and waive our right to cross-examine
15 either Ms. White or your witnesses when and if they
16 ever arrive.

17 MS. SCHMID: Thank you.

18 MR. HUNTER: We also have no questions.

19 MR. WARNICK: No questions.

20 MR. BROWN: We agree, we have no
21 questions.

22 COMMISSIONER CAMPBELL: All right.
23 Commissioner Allen.

24 COMMISSIONER ALLEN: Thank you. It
25 appears it's quite clear that the parties to the

1 stipulation all agree there's a substantial benefit
2 to our customers in the state. I just have one quick
3 question for MEHC.

4 Are you aware of any on-site potential or
5 existing environmental liabilities that might
6 transfer as a result of this transaction?

7 MR. SPECKETER: No, we are not. And I
8 would point to I think what several parties have
9 identified as the hold harmless provisions contained
10 in the Settlement Agreement where MEHC would hold the
11 Utah customers harmless from any operation of the
12 plant prior to the transfer of the steam resources.

13 COMMISSIONER ALLEN: Thank you.

14 COMMISSIONER BOYER: I just have a couple
15 of questions and Commissioner Allen asked one of
16 them. I guess this is for PacifiCorp or MEHC.

17 Is there sufficient transmission existing
18 at the site to accept the increased generation?

19 MR. SPECKETER: My understanding is that
20 for the 11-megawatt expansion, the first phase that
21 we talked about, the transmission is sufficient at
22 the site. I think to go beyond the 11 megawatts for
23 the additional 36 megawatts it would include
24 additional transmission, and the costs that we
25 contemplated in the analysis did include transmission

1 investment.

2 COMMISSIONER BOYER: Thank you.

3 And the timing of the expansion, I'm not
4 clear on the 11 megawatts, the 25 and the additional
5 11. I think we had testimony on the initial
6 11-megawatt expansion, but the other two expansions?

7 MR. SPECKETER: Right. The 11 megawatt
8 we've said would be done by the end of '07, and
9 that's critical based on the expiration of existing
10 production tax credits. So we've committed to the
11 fourth quarter of 2007 for that.

12 Subject to the further economic analysis
13 that we've agreed to do, we would contemplate the
14 additional expansion of the 25 megawatts would be
15 done the fourth quarter of 2009.

16 COMMISSIONER BOYER: Thank you.

17 Kind of tagging off Commissioner Allen's
18 question, I guess I'm understanding that in view of
19 the hold harmless agreement any additional risks of
20 ownership have already been accounted for and
21 considered in the analyses of the Stipulation? And I
22 don't know what those would be. I was thinking of
23 perhaps environmental or drilling costs and those
24 other kinds of things.

25 Those are all covered in the analyses

1 already, I believe, aren't they?

2 MR. SPECKETER: Yes. I think that to the
3 extent that we're aware of any they've been accounted
4 for.

5 COMMISSIONER BOYER: Then my question on
6 tax credits was already answered by Mr. Hayet. So
7 thank you.

8 COMMISSIONER CAMPBELL: Help me
9 understand, what is the involvement of the partner in
10 any expansion? Is there some sort of agreement
11 required from the partner or can this be done
12 independently of the 30 percent owner?

13 MR. MOUNT: I'll address that.

14 MR. HUNTER: Please.

15 MR. MOUNT: The unit operating agreement
16 involves Intermountain Geothermal Company as the 70
17 percent owners of mineral resource and the other two
18 minority owners that involve Steam Reserve Company
19 and then another owner by the name of Robert Wright.
20 Those two minority owners have certain rights in that
21 unit agreement that require their consent to expand
22 the unit with additional drilling.

23 However, MidAmerican has committed to
24 negotiate with those parties to acquire their
25 interests or obtain their consents for an expansion

1 of the field to support the 25-megawatt expansions
2 and thereafter. We do not need their consent for the
3 initial 11-megawatt expansion, however.

4 COMMISSIONER CAMPBELL: And so if those
5 parties were not to grant their consent for the
6 expansion then it could not go forward?

7 MR. MOUNT: Potentially. There are legal
8 avenues that we would take at that point with the
9 BLM, who actually has put the unit together, to
10 attempt to force an expansion of the field which you
11 see in oil and gas environments as well. But we are
12 relatively optimistic that those parties will
13 recognize that since -- if they take a position that
14 we can't expand without their consent, by virtue of
15 that, then they don't have the ability to expand the
16 field either without our consent, and as a result
17 they would see no future value by blocking us. So we
18 think their own self interest from an economic
19 standpoint would motivate them to work out an
20 arrangement.

21 COMMISSIONER CAMPBELL: All right. Thank
22 you.

23 For the other two parties to the
24 Stipulation, I guess I just want to clarify that in
25 signing the Stipulation as it relates to the West

1 Valley lease, this in no way -- or let me ask you
2 this. Does this in any way affect the prudence
3 review that you will undertake in the rate case as it
4 relates to West Valley?

5 MR. GIMBLE: From the Committee's
6 standpoint it doesn't impact it at all. We'll still
7 do our due diligence in terms of reviewing the
8 reasonableness of that West Valley lease.

9 MR. REEDER: This does not create a
10 ceiling on what we might ask for on the West Valley.

11 COMMISSIONER CAMPBELL: All right. Thank
12 you. We're going to take a short recess.

13 MS. SCHMID: Pardon me.

14 COMMISSIONER CAMPBELL: Go ahead.

15 MS. SCHMID: Dr. Powell has joined us and
16 the Division is willing to make him available to
17 answer questions from the Commission or if the other
18 parties choose to change --

19 MR. REEDER: We have no questions for Dr.
20 Powell.

21 MS. SCHMID: Thanks.

22 COMMISSIONER CAMPBELL: I think we're done
23 with our questions. We'll take a short recess.

24 (Recess taken.)

25 COMMISSIONER CAMPBELL: All right. We as

1 a Commission have approved the Stipulation.

2 And, Mr. Hunter, would you be willing to
3 prepare a draft order for us?

4 MR. HUNTER: I will.

5 COMMISSIONER CAMPBELL: All right.
6 Anything else we need to do today? All right, we'll
7 adjourn.

8 (The hearing was concluded at 9:19 a.m.)

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C E R T I F I C A T E

STATE OF UTAH)
 : ss.
COUNTY OF SALT LAKE)

I, LANETTE SHINDURLING, a Registered Professional Reporter, Certified Realtime Reporter and Notary Public in and for the State of Utah, residing at Salt Lake City, Utah hereby certify;

That the foregoing proceeding was taken before me at the time and place herein set forth, and was taken down by me in stenotype and thereafter transcribed into typewriting;

That pages 1 through 36, contain a full, true and correct transcription of my stenotype notes so taken.

I further certify that I am not of kin or otherwise associated with any of the parties to said cause of action, and that I am not interested in the event thereof.

WITNESS MY HAND and official seal at Salt Lake City, Utah, this 4th day of April, 2006.

LANETTE SHINDURLING, RPR, CRR
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