

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter Of The Application of)
PacificCorp and ScottishPower PLC) Docket No. 98-2035-04
for an Order Approving the Issuance)
of PacificCorp Common Stock)

DESERET GENERATION & TRANSMISSION CO-OPERATIVE, INC.

DIRECT TESTIMONY
OF
CARL N. STOVER, JR.

June 17, 1999

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SUPPORTING EXHIBITS

Exhibit ____ (CNS-1)	Experience - Retail Rate Proceedings
Exhibit ____ (CNS-2)	Experience - Wholesale Rate Proceedings
Exhibit ____ (CNS-3)	Papers and Presentations
Exhibit ____ (CNS-4)	Consumer Protection Conditions
Exhibit ____ (CNS-5)	List of Deseret Delivery Points
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Exhibit ____ (CNS-7)	Service Interruptions
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**DIRECT TESTIMONY
OF
CARL N. STOVER, JR.**

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Carl N. Stover, Jr.; my business address is 5555 North Grand Boulevard,
4 Oklahoma City, Oklahoma 73112-5507.

5 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION WITH THE
6 FIRM?

7 A. I am employed by C. H. Guernsey & Company, Engineers • Architects • Consultants. I am
8 President and Chief Executive Officer of the firm. My consulting activities include rate and
9 financial analysis on behalf of our clients before state and regulatory commissions. I am also
10 involved in long range system planning and engineering feasibility studies related to power
11 supply planning.

12 Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL
13 BACKGROUND.

14 A. I have a Bachelor of Science degree in Electrical Engineering and a Master of Science degree
15 in Industrial Engineering. I am a Registered Professional Engineer, licensed in the states of
16 Oklahoma, Kansas, Colorado, Wyoming, Iowa, and Texas. I am a member of the Power
17 Engineering Society and the Engineering Management Society of the Institute of Electrical
18 and Electronics Engineers.

1 Q. HAVE YOU PREVIOUSLY APPEARED BEFORE STATE REGULATORY
2 COMMISSIONS ON MATTERS RELATED TO COST OF SERVICE, RATE DESIGN,
3 AND POWER SUPPLY PLANNING?

4 A. Yes. I have appeared before regulatory commissions in the states of Texas, Wyoming,
5 Colorado, Oklahoma, Kansas, Utah, New Mexico, and Arkansas. Exhibit ____ (CNS-1)
6 attached to this testimony is a summary of the retail rate proceedings in which I have been
7 involved.

8 Q. HAVE YOU BEEN INVOLVED IN WHOLESALE RATE PROCEEDINGS?

9 A. Yes. I have been involved in a number of proceedings before state and federal regulatory
10 agencies that involved cost of service and rate design issues related to wholesale rates. A
11 summary of the wholesale rate proceedings in which I have participated can be found in
12 Exhibit ____ (CNS-2).

13 Q. HAVE YOU BEEN INVOLVED IN GENERIC RATE PROCEEDINGS?

14 A. Yes. I have represented electric systems in generic hearings in the states of Texas and
15 Colorado.

16 Q. HAVE YOU PUBLISHED OR PRESENTED PAPERS CONCERNING PLANNING,
17 RATE DESIGN, COST OF SERVICE, ETC.?

18 A. Yes. Exhibit ____ (CNS-3) is a listing of my papers and presentations.

19 Q. HAVE YOU PREPARED ANY EXHIBITS IN SUPPORT OF YOUR TESTIMONY?

20 A. Yes. Exhibit ____ (CNS-4) to Exhibit ____ (CNS-9) were prepared in support of my direct
21 testimony.

1 Q. WERE THE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECT
2 SUPERVISION?

3 A. Yes.

4 Q. WHOM DO YOU REPRESENT IN THIS PROCEEDING?

5 A. I am appearing on behalf of Deseret Generation & Transmission Co-operative, Inc. and its
6 Member Systems ("Deseret").¹

7 Q. PLEASE DESCRIBE DESERET.

8 A. Deseret is a wholesale electric generation and transmission cooperative that provides electric
9 generation, transmission and related services to its six members: Bridger Valley Electric
10 Association; Dixie-Escalante Rural Electric Association, Inc.; Flowell Electric Association,
11 Inc.; Garkane Power Association, Inc.; Moon Lake Electric Association, Inc.; and Mount
12 Wheeler Power, Inc. (collectively, "Members"), each of which is a rural electric cooperative
13 that provides electric services at retail to its members/owners in the States of Utah,
14 Wyoming, Arizona, Colorado and/or Nevada.

15 Deseret owns and operates the Bonanza Power Station, a coal-fired generating facility
16 located near Vernal, Utah together with transmission facilities in various parts of Utah.
17 Much of Deseret's power is transmitted for use by in-state utilities over PacifiCorp's
18 transmission facilities. In addition, Deseret owns an interest in the Hunter II generating
19 facility located in Emery County. PacifiCorp operates and maintains the Hunter II facility
20 by contract with Deseret. Under the terms of the Hunter II Operating and Maintenance

¹ Bridger Valley Electric Association, Inc., Dixie-Escalante Rural Electric Association, Inc., Flowell Electric Association, Inc., Garkane Power Association, Inc., Moon Lake Electric Association, Inc., and Mount Wheeler Power, Inc.

1 Agreement, PacifiCorp passes certain costs on to Deseret related to the operation of Hunter
2 II and to PacifiCorp's corporate expenses. These costs are, in turn, passed through to
3 Deseret's members and to the consumers and ratepayers served by each of the Member
4 Systems.

5 **II. PURPOSE AND RECOMMENDATIONS**

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. The purpose of my testimony is to address two issues related to the proposed PacifiCorp and
8 ScottishPower merger that will have an impact on Deseret:

- 9 1. The adverse impact that the proposed merger will have on customers in rural Utah
10 in terms of reduced service reliability.
- 11 2. The adverse impact that the proposed merger will have on the allocation of cost to
12 Deseret related to the Hunter II Operation and Maintenance Agreement with
13 PacifiCorp. The increase in allocation of cost to Deseret will have a direct impact on
14 the retail rates paid by rural customers in Utah. Unless particular care is taken in the
15 allocation of merger related cost, Deseret will be allocated cost disproportionate to
16 the benefits that the parties claim will exist.

17 My testimony will discuss why Deseret believes each issue is germane to this proceeding
18 and the remedy proposed by Deseret.

19 Q. ARE OTHER PARTIES APPEARING ON BEHALF OF DESERET IN THIS
20 PROCEEDING?

1 A. Yes. Mr. Carl R. Albrecht and Mr. R. Leon Bowler provide testimony specific to two of the
2 Member systems.

3 Q. WHAT IS THE STANDARD BY WHICH YOU HAVE ADDRESSED EACH ISSUE?

4 A. The Commission’s March 31 Memorandum stated that “All parties agree that the approval
5 standard is net positive benefits.” The Commission went on to say that they recognize that
6 PacifiCorp’s argument that the proper standard is not net positive benefits but rather what
7 I would characterize as “no harm ” to ratepayers. My testimony will consider both the “net
8 positive benefit” test and the “no harm” test. In addition, I have evaluated the issues using
9 a third test dealing with customer protection. The “customer protection” test is satisfied if
10 PacifiCorp is willing to put in place mechanisms to protect the customer should the promised
11 benefits not occur.

12 Q. IS THERE ANY PRECEDENT FOR PROPOSING CONDITIONS TO PROTECT THE
13 CUSTOMER IF THE MERGER IS APPROVED?

14 A. Yes. The Federal Energy Regulatory Commission (“FERC”) has stated that:
15 “Rather than requiring estimates of somewhat amorphous net merger benefits and
16 addressing whether the applicant has adequately substantiated those benefits, we will
17 focus on ratepayer protection. Merger applicants should propose ratepayer protection
18 mechanisms to assure that customers are protected if the expected benefits do not
19 materialize. The applicant bears the burden of proof to demonstrate that the customer
20 will be protected. This puts the risk that the benefits will not materialize where it
21 belongs — on the applicants.”²

22 **III. CONCLUSIONS AND RECOMMENDATIONS**

23 Q. WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS?

² Order No. 592, *Policy Statement Establishing Factors the Commission Will Consider in Evaluating Whether a Proposed Merger is Consistent With the Public Interest*, FERC Stats. & Regs 31,044,61 Fed Reg 68595 (1996).

1 A. I do not believe that the Commission should approve the merger if the standard is a “net
2 benefit” to the customer. PacifiCorp has not demonstrated that there will be net benefits to
3 Deseret and the retail customers in rural Utah. I do not believe that the Commission should
4 approve the merger if the standard is a “no harm” to Deseret and the retail customers in rural
5 Utah. PacifiCorp has not demonstrated that Deseret and the retail customers in rural areas
6 will not be harmed. Deseret is willing to support the merger if the PacifiCorp is willing to
7 commit to the “customer protection” standard and to conditions that have been identified.

8 Q. WHAT ARE THE SPECIFIC CUSTOMER PROTECTION CONDITIONS THAT
9 PACIFICORP MUST COMMIT TO?

10 A. Exhibit ____ (CNS-4) is an initial list of conditions PacifiCorp should agree to in order for
11 the Commission to consider approval of the merger. This list is not intended to be all
12 inclusive. The preferred approach is to expand the list to include issues and concerns raised
13 by other parties. I think it is important that the Commission establish an inclusive list of
14 customer protection requirements if the Commission approves the proposed merger.

15 Q. DO YOU BELIEVE THAT THE CUSTOMER PROTECTION CONDITIONS ARE
16 REQUIRED EVEN IF THE COMMISSION FINDS THAT PACIFICORP SATISFIES THE
17 NET BENEFIT AND NO HARM TEST?

18 A. Yes, definitely. Because absent such conditions, there are no safeguards for consumers.
19 Both the net benefit test and the no harm test are criteria used by the regulator(s) as the basis
20 for granting or denying merger applications. If expected outcomes don't develop, consumers
21 will bear the risk. Customer protection conditions correct this inequity by putting the risk on
22 the applicants.

1 Q. IS THE ALLOCATION OF RISK AN IMPORTANT ISSUE IN THIS PROCEEDING?

2 A. Yes. Based on my review of the proposal, the suggested benefits are very vague and ill-
3 defined. The proposal places essentially all of the risk on the ratepayer. By conditioning the
4 merger to include specific customer protection criteria, there is a more equitable assumption
5 of risk.

6 **IV. IMPACT ON RURAL UTAH**

7 Q. WHAT IS THE ISSUE WITH REGARD TO THE IMPACT ON RURAL UTAH?

8 A. The customers in both the urban and rural areas of Utah should expect to be provided low
9 cost reliable electric service. Portions of the Deseret system are not currently receiving
10 reliable electric service from PacifiCorp. Based on information provided in this proceeding
11 there is reason to conclude that service reliability in the rural areas will not improve, and in
12 fact will become worse if the merger is approved.

13 Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN PACIFICORP AND DESERET IN
14 RELATION TO RELIABILITY OF SERVICE ISSUES.

15 A. Deseret's Member distribution cooperatives serve over 39,000 retail customers,
16 predominantly rural, with approximately 26,000 residing in Utah. Over 25% of the total
17 capacity and energy consumed by the Members' retail customers is delivered over PacifiCorp
18 transmission and distribution facilities. Exhibit ____ (CNS-5) is a list of the Members'
19 wholesale delivery points. The list shows the delivery points directly connected to the
20 PacifiCorp transmission and distribution system. For three of the systems, Dixie-Escalante
21 Rural Electric Association, Inc., Flowell Electric Association, Inc., and Garkane Power

1 Association, Inc., the PacifiCorp transmission facilities are particularly critical in providing
2 reliable power supply service. In order to provide reliable electric service, it is necessary that
3 PacifiCorp construct, operate and maintain adequate transmission facilities to serve the retail
4 customer's load requirements.

5 Q. IS THE ISSUE OF SERVICE TO UTAH RURAL CUSTOMERS UNIQUE TO THE
6 RETAIL CUSTOMERS SERVED BY DESERET AND THE MEMBER SYSTEMS?

7 A. No. PacifiCorp directly serves retail customers in rural areas as well, approximately 92,000
8 out of a total 612,000 served state-wide. In the aggregate, Deseret and PacifiCorp are
9 responsible for approximately 118,000 rural consumers, which is roughly 18% of all retail
10 electric consumers in the state (excluding retail customers served by the municipal owned
11 electric systems). Questions of service reliability are equally important to retail customers
12 served by the cooperatives and by PacifiCorp. The testimony of Mr. Albrecht will show that
13 the rural reliability issues relate to both the Cooperative and PacifiCorp retail customers.

14 Q. YOU STATED EARLIER THAT PACIFICORP'S SERVICE TO PORTIONS OF THE
15 DESERET SYSTEM IS NOT ADEQUATE. PLEASE EXPLAIN THE NATURE OF THE
16 PROBLEMS.

17 A. The problems have been greatest in the southwest region of Deseret's system. A large
18 proportion of PacifiCorp's existing transmission and distribution system in rural Utah is a
19 radial system dating back to the 1940's. A radial transmission system is not as reliable as a
20 looped transmission system. Over the past decade a combination of population growth
21 associated with urbanization in the area and PacifiCorp's cutbacks in maintenance and
22 improvements to the system has resulted in reduced service reliability. Two Member

1 systems, Dixie-Escalante and Garkane Power Association, have been the most severely
2 affected. Direct testimonies provided by Mr. Albrecht and Mr. Bowler explain the
3 transmission service reliability in the southwestern portion of Utah.

4 Q. CAN YOU PROVIDE AN EXAMPLE OF SERVICE RELIABILITY CONCERNS?

5 A. Yes. Exhibit ____ (CNS-6) summarizes outages for Middleton and Pine Valley delivery
6 points for the period 1995 through 1998, and a log of events corresponding to select outages.
7 Outages at Middleton are associated with PacifiCorp's 138-kV transmission line from Cedar
8 City to the Escalante Valley, while Pine Valley's problems relate to a 34.5-kV line from
9 Cedar City. According to personnel at Dixie, several outages during this period were due to
10 PacifiCorp's poor maintenance and failure to make capital improvements to upgrade
11 facilities. The Exhibit shows 13 outages at Middleton between 1995 and 1998 ranging
12 between 20 minutes to 5 hours 15 minutes in duration, with a median of 90 minutes. There
13 were 11 outages at Pine Valley ranging between 10 minutes and 7 hours 30 minutes, with a
14 median of 2 hours 30 minutes.

15 Q. IS THE IMPACT ON RETAIL CONSUMERS MEASURABLE?

16 A. Yes. Exhibit ____ (CNS-7) is a comparison of service interruptions for Dixie-Escalante as
17 reported on RUS Form 7 and averages compiled by RUS. The comparison shows that
18 Dixie's 5-year average (1993 - 1997) due to power supply interruptions is 1.89 hours per
19 consumer, compared to 1.22 for Cooperatives in the Northwest and 0.98 for all Cooperatives
20 for the same period. In other words, on average, Dixie's retail consumers have experienced
21 power outages lasting 55% longer than the rural sector in the Northwest and 93% longer
22 than the national average for rural electric service. In 1998 Dixie's power supply outage was

1 9.25 hours per consumer which results in a six-year average of 3.12 hours per consumer.

2 Q. CAN ALL OF THE POWER SUPPLY INTERRUPTIONS BE ATTRIBUTED TO
3 UNSATISFACTORY RELIABILITY OF THE PACIFICORP TRANSMISSION SYSTEM?

4 A. No. The power supply outage statistics as reported by RUS reflect outage at the wholesale
5 point of delivery. Outages at the wholesale point of delivery could be a result of either
6 generation or transmission failures.

7 Q. IS THERE ANY WAY TO EVALUATE THE EXTENT TO WHICH THE OUTAGES FOR
8 THE DIXIE-ESCALANTE SYSTEM ARE RELATED TO TRANSMISSION SERVICE
9 RELIABILITY ISSUES?

10 A. Yes. One approach is to simply compare the outage data for Dixie-Escalante with the other
11 Deseret Member systems. Deseret is the power supplier for all of the Member systems and
12 the Members share a power supply resource that would include all of Deseret resources.
13 Differences in outage between systems can therefore be related to transmission reliability.

14 Q. WHAT DO YOU CONCLUDE FROM REVIEWING THE DATA?

15 A. Exhibit ____ (CNS-7) shows power supply outage data for all of the Deseret Member
16 systems. The five-year average outage due to power supply interruptions is:

<i>Member System</i>	<i>5-Yrs Ended 1997</i>	<i>6-Yrs Ended 1998</i>
BVEC	0.36	0.30
DEEA	1.89	3.12
FEA	1.60	1.33
GPA	1.27	1.06
MLEA	0.02	0.69
MWP	0.06	0.05

1 The Dixie-Escalante outage statistics are clearly very high compared to the other systems.

2 Q. CAN YOU PROVIDE EXAMPLES OF SERVICE RELIABILITY PROBLEMS FOR
3 GARKANE?

4 A. Yes. Garkane has interconnect agreements with PacifiCorp at Panguitch and Hildale delivery
5 points which allow the two utilities to pick up one another's load under outage or emergency
6 conditions. Mr. Albrecht testified as to reductions in personnel and the extent to which
7 PacifiCorp has not adequately maintained the 46 kV line from their Sigurd Substation to
8 Garkane's Northern System delivery point in the Garkane 46 kV to 69 kV substation.

9 Q. DID DESERET OR MEMBER SYSTEMS REPORT RELIABILITY PROBLEMS TO THE
10 PUBLIC SERVICE COMMISSION?

11 A. Yes. The examples cited above and others have been provided the Public Service
12 Commission through data responses submitted by the Utah Rural Electric Association in
13 connection with Docket No. 99-2035-01 investigating service quality complaints against
14 PacifiCorp.

15 Q. HAS THE COMMISSION DEVELOPED ANY CONCLUSIONS WITH REGARD TO
16 QUALITY OF SERVICE ISSUES IN THE RURAL AREAS?

17 A. Yes. In Docket No. 99-2035-01, the Division of Public Utilities report of an investigation
18 dated June 11, 1999 included the following statement (Ref. Exhibit____(CNS-10):

19 However, the Division does find indication that the quality of service and
20 reliability may have declined for PacifiCorp's wholesale municipal and
21 Cooperative customers who take wheeling and power supply electric service
22 from PacifiCorp at the transmission level. (Ref. Page 2)

1 Q. DID THE COMMISSION HAVE ANY FINDINGS WITH REGARD TO THE
2 COMMUNICATION AND COORDINATION BETWEEN PACIFICORP AND ITS
3 WHOLESALE CUSTOMERS?

4 A. Yes.

5 The Division also finds evidence of a lack of communication and
6 coordination between PacifiCorp and its municipal and cooperative agency
7 customers that appears to be serious enough to be affecting service quality
8 and reliability. (Ref. Page 2)

9 Q. HAVE EXPENDITURES FOR TRANSMISSION AND HIGH LEVEL DISTRIBUTION
10 FACILITIES IN UTAH BEEN ADEQUATE?

11 A. It is impossible to make that determination. PacifiCorp asserts it does not budget for repair
12 and maintenance by state and the information is not available (see response to data request
13 UIEC No. 2.4.). Transmission O&M costs for the last five years for the state of Utah were
14 provided, however. Annual totals, excluding wheeling costs, were reported as follows:

15	<u>Year</u>	<u>Expense (\$000)</u>
16	1998	\$8,020 (preliminary)
17	1997	\$9,452
18	1996	\$9,180
19	1995	\$9,342
20	1994	\$8,732

21 The preliminary estimates for 1998 reflect the reduction in the expenditures for transmission
22 O&M related activities. Given the comments in the testimony in support of the proposed
23 merger, I can only conclude that the decrease that is shown from 1997 to 1998 will likely
24 continue, given the commitment to reduce cost. Given the Commission's finding with regard
25 to the historical inadequacy of service in rural areas, a further reduction in O&M costs can
26 only exacerbate the situation.

1 Q. IS THERE ANY PARTICULAR TREND WITH REGARD TO INVESTMENT IN
2 TRANSMISSION PLANT?

3 A. As a part of its Docket 99-2035-01 findings, the Commission stated:

4 Transmission plant investment was \$64.8 million in 1989 and increased to a
5 high of \$105 million in 1993. After 1993, transmission plant investment has
6 declined steadily to its current level of \$13.1 million, 80% below its 1990
7 level. (Ref. Page 6)

8 Q. IS THERE ANY DATA TO SUPPORT THE COMMENTS THAT PACIFICORP
9 APPEARS TO BE REDUCING ITS STAFFING IN SUPPORT OF TRANSMISSION
10 FACILITIES?

11 A. Yes. The Commission in its Docket 99-2035-01 findings stated that:

12 Utah transmission distribution head count (only budgeted in 1995 through
13 1998 figures are available) decreased 13.5% over the last four years. (Ref.
14 Page 10)

15 Q. SCOTTISHPOWER HAS INDICATED THAT THEY INTEND TO IMPROVE SERVICE
16 RELIABILITY AS A PART OF THE MERGER PLANS. WHY DO YOU BELIEVE
17 THAT SERVICE RELIABILITY WILL DETERIORATE AFTER THE MERGER?

18 A. ScottishPower has committed to performance standards which it claims will improve system
19 reliability. Specifically, they are:

- 20
- 21 • On the five-year anniversary of completion of the transaction, reduce the System
 - 22 Average Interruption Duration Index (SAIDI) by 10%.
 - 23 • On the five-year anniversary of completion of the transaction, reduce the System
 - 24 Average Interruption Frequency Index (SAIFI) by 10%.
 - 25 • On the five-year anniversary of completion of the transaction, reduce the Momentary
 - 26 Average Interruption Index (MAIFI) by 5%.
 - 27 • The 5 worst performing circuits in each state will be selected annually based on
 - 28 Circuit Performance Indicator (CPI), as calculated over a 3-year average and
 - 29 corrective measures will be taken within 2 years of implementation of the

1 performance targets to reduce the CPI by 20% [for each circuit selected (response to
2 data request DPU 10th, S10.1)].

- 3 • For power outages because of a fault or damage on the system, PacifiCorp will
4 restore supplies on average to 80% of customers within 3 hours.
- 5 • For each of the standards not achieved at the end of the five-year period,
6 ScottishPower will pay a penalty equal to \$1.00 for every customer served by
7 PacifiCorp in Utah.
- 8 • Specified terms and conditions relating to implementation.

9
10 From Deseret’s perspective, there are several problems with these standards. First, the
11 improvements in SAIDI, SAIFI, and MAIFI measurements will be based on the overall
12 performance, broken down on a state-by-state basis. ScottishPower will make no distinction
13 between urban and rural circuits in compiling SAIDI, SAIFI, and MAIFI data. (see response
14 to data request DPU 7th P7.5.). Because of differences in population density, a separate
15 accounting for rural and urban regions would provide a much more accurate measure of
16 service reliability to ensure that the rural section is receiving service comparable to the urban
17 counterpart.

18 Q. HAS SCOTTISHPOWER INDICATED WHY IT WILL NOT COMPILE DATA ON ANY
19 LEVEL OTHER THAN FOR THE ENTIRE STATE?

20 A. Yes. ScottishPower claims that tracking on a basis lower than state-by-state would not be
21 manageable (see response to data request DPU 7th, S7.1). Moreover, ScottishPower claims
22 that due to uncertainty in the accuracy of historical statistics, it is inappropriate to define
23 standard baselines at this time (see response to data request DPU 7th, S7.2). Consequently,
24 it appears that existing baseline levels have not been established for setting targets for
25 reduction by 2005 and that there is no intent to establish different standards to account for
26 different conditions in the rural sector versus the urban areas. Although ScottishPower
27 witness Alan Richardson indicates that ScottishPower will establish a benchmark “in

1 consultation with regulators” (Richardson rebuttal, P. 3, L. 17), because there will be no
2 comparable historical data to compare against, it will be difficult to accurately assess the
3 results of service improvements against the status quo at the time the program was
4 implemented.

5 Q. IN YOUR OPINION, IS SCOTTISHPOWER CORRECT IN ASSERTING THAT
6 TRACKING ON A LOWER BASIS IS UNMANAGEABLE?

7 A. No. There may be several simple ways to divide between urban and rural. For example, one
8 method is to assign the four counties Weber, Davis, Salt Lake, Utah as urban and the
9 remainder of the state as rural. If ScottishPower is truly dedicated to improving customer
10 service, then recognizing and responding to the differences of each segment — rural and
11 urban — should be a priority. The Commission’s own report of reliability shows the need
12 to improve reliability in the rural areas.

13 Q. GIVEN THAT THE RURAL SECTOR HAS MUCH LOWER DENSITY THAN THE
14 URBAN COUNTERPARTS, WILL THE URBAN CIRCUITS HAVE PRIORITY FOR
15 IMPROVEMENTS IN ORDER TO IMPROVE SAIDI, SAIFI, AND MAIFI?

16 A. Yes. The formulas for these statistics result in indices on a per customer basis. PacifiCorp
17 intends to identify the five worst circuits based on the SAIDI, SAIFI and MAIFI statistics.
18 PacifiCorp will then commit to an improvement in the reliability statistics. However, because
19 the number of customers on a rural circuit is typically less than the number of customers on
20 an urban circuit, and because ScottishPower will focus on system upgrades and
21 improvements in outage response times where the impact will be the greatest, it will favor
22 the urban areas over the rural sector. In fact, ScottishPower will not specify the threshold

1 levels for SAIDI, SAIFI, and MAIFI that will drive investments in particular territories (see
 2 response to data request DPU 7th, S7.28). Therefore, I conclude that promised improvements
 3 in these statistics are not indicators that service reliability in the rural area will improve.

4 Q. CAN YOU PROVIDE AN EXAMPLE TO ILLUSTRATE HOW THE URBAN AREA
 5 MAY BE FAVORED OVER THE RURAL?

6 A. Yes. For simplicity, assume an electric system has only four circuits, two in an urban setting
 7 and two rural, with the following characteristics:

<i>Line #</i>	<i>Circuit</i>	<i># Cust.</i>	<i># Circuit Int.</i>	<i># Cust. Int. (N_i)</i>	<i>Restoration Time (r_i)</i>	<i>N_i x r_i</i>
1	Urban-1	500	2	1,000	10	10,000
2	Urban-1	500	3	1,500	30	45,000
3	Urban-2	1,000	5	5,000	15	75,000
4	Urban-2	1,000	8	8,000	45	360,000
5	Rural-1	10	2	20	10	200
6	Rural-1	10	3	30	30	900
7	Rural-2	100	5	500	15	7,500
8	Rural-2	100	8	800	45	36,000
9	Total	1,610(N _T)	36	16,850	200	534,600

18 Indexing for the entire area results in 10.5 SAIFI (N_i/N_T) and 332 SAIDI ($N_i r_i/N_T$). Working
 19 backward, it is obvious that nearly 10% improvement in the indices is easily achieved by
 20 simply focusing on Urban-2. For example, the targets can be met by reducing the number
 21 of interruptions on line 4 in the table above from 8 to 7 and the restoration time from 45
 22 minutes to 43 minutes. The resulting indices would be 9.84 SAIFI and 295 SAIDI, and
 23 targets would be met without any improvement to the rural area. Although a simplistic

1 model, the concept is conveyed. If ScottishPower intends to improve the reliability statistics,
2 the focus will be in the urban and not the rural areas.

3 Q. PLEASE COMMENT ON THE REMAINING TWO PROPOSED STANDARDS.

4 A. ScottishPower proposes that within 2 years of implementation of the performance targets it
5 will reduce the Circuit Performance Indicator (CPI) by 20% by correcting the 5 worst circuits
6 identified annually. CPI is a weighted value comprised of MAIFI, SAIDI, SAIFI, number of
7 lockouts, and load factor (Moir direct, p. 7, l. 26). Application of the factors to determine
8 the CDI is not clear. In addition, although ScottishPower indicates,” that this particular
9 standard is not applied on a state-wide basis “ and “will try to accommodate relevant and
10 reasonable requests from the Division for other network data” (response to data request DPU
11 10th, S10.2), there is no assurance that all regions will receive equal attention. Finally,
12 ScottishPower claims that for power outages because of a fault or damage on the system, it
13 will restore supplies on average to 80% of customers within 3 hours. Again, these averages
14 are not sector-specific. Consequently, Deseret and Member systems have no assurance that
15 service to them will improve. In fact, they conclude that the emphasis on system-wide results
16 will result in harm to the rural sector.

17 Q. WHAT OTHER EVIDENCE TO YOU HAVE TO SUBSTANTIATE YOUR CLAIM?

18 A. First, there is concern regarding ScottishPower’s policy of categorizing expenditures on the
19 basis of investment output, quoting from ScottishPower’s response to OFFER’s business
20 plan questionnaire, “We have moved away from the traditional Electricity Supply Industry
21 approach of routinely replacing assets on a ‘like for like’ basis, and have categorized
22 expenditure on the basis of investment output.”. ScottishPower explains by stating:

1 For example our overhead lines are ranked by both condition and reliability.
2 The subsequent investment will replace, to a stronger construction, those
3 sections of the circuit supplying the most customers. Sections of the circuit
4 supplying small customer numbers will typically be refurbished (response to
5 data request DPU 4th, S4.3)

6 The concern is that investments based on the number of customers will bias PacifiCorp's
7 system improvements in favor of the urban areas. Second, there is concern that
8 ScottishPower's dramatic cost-cutting targets will override any potential benefits that may
9 appear to occur as a result of these performance standards.

10 Q. PLEASE EXPLAIN.

11 A. One of the stated reasons for the merger is to make PacifiCorp one of the leading utilities in
12 the U.S. In direct testimony Mr. Andrew McRitchie, witness for ScottishPower, has provided
13 a comparison of non-production cost per customer for U.S. Utilities and stated that the intent
14 is to move PacifiCorp into the top ten. Currently, PacifiCorp's average costs are \$300 per
15 customer and the target is \$200 or less, a minimum decrease of \$100 or 30%. ScottishPower
16 does not delineate how it will reduce costs (see response to data request DPU 4th, S4.1). The
17 rural area has already suffered as a result of restructuring following the PacifiCorp and
18 UP&L merger. The Commission's conclusion after reviewing comments on service
19 reliability clearly points out the deterioration of service reliability in the rural areas. Based
20 on a review of testimony and discovery, it appears that Deseret and Member Systems will
21 experience additional pressure, resulting in further deterioration of service.

22 Q. WHAT DO YOU MEAN BY ADDITIONAL PRESSURES THAT WILL RESULT IN
23 FURTHER DETERIORATION OF SERVICE?

1 A. I have already described the concern regarding the application of the CPI criteria and the fact
2 that the application as proposed by ScottishPower will be biased in favor of the urban areas
3 will result in a decrease in reliability in the rural areas. I think there are even greater
4 pressures involved that will result in a decrease in reliability of service. They primarily relate
5 to the overall economics of the merger. The total cost of merging the systems consists of
6 three components: the acquisition cost, the transaction cost, and the transition cost. The
7 acquisition premium is approximately \$1.6 billion based on stock prices at the time the
8 merger was announced. Based on current prices, the premium is approximately \$730
9 million.³ The transaction cost has not been completely defined but is estimated to be
10 approximately \$250 million. The transition cost is approximately \$135 million (see response
11 to data request DPU 10th S10.9). Approximately \$122 million of the transition cost will be
12 charged to ratepayers. The point is that given these costs, and in particular the premium that
13 ScottishPower is paying, there will be substantial pressure to reduce costs in order to provide
14 expected return to the stockholder. Deseret is concerned that a reduction in cost will be
15 translated into continued deterioration in service in the rural areas.

16 Q. IN YOUR OPINION, COULD PACIFICORP ACHIEVE THE SAME LEVEL OF
17 SERVICE RELIABILITY PROPOSED IN THE PERFORMANCE STANDARDS
18 WITHOUT THE MERGER?

³ As of June 16, 1999, *The Wall Street Journal* reports the closing share prices of PacifiCorp and ScottishPower ADS were \$19 and \$37, respectively. With the exchange rate of .58 ADS for one share of PacifiCorp, the value of the exchange is \$21.46 per ScottishPower ADS. This represents a market premium of \$2.46 per share above PacifiCorp's closing price on June 16, 1999. Considering that PacifiCorp has 297 million shares outstanding, the current premium of the acquisition is \$731 million.

1 A. Yes. I cannot identify any components of the proposed reliability standards which
2 PacifiCorp could not offer independently today.

3 Q. BASED ON THESE CONCERNS SHOULD THE COMMISSION REJECT THE
4 MERGER?

5 A. Yes. ScottishPower has not adequately demonstrated net benefits and has laid out a strategy
6 that will assuredly harm the customer in the rural area. Therefore, the merger would fail
7 based on both standards.

8 Q. ARE THERE OTHER CONCERNS ASSOCIATED WITH THE RELIABILITY ISSUE?

9 A. Yes. Because of the poor quality of transmission service provided by PacifiCorp, Deseret
10 is placed in a noncompetitive position. For example, Dixie-Escalante provides retail service
11 to customers in the St. George area. Other customers in the area are served by the municipal
12 electric system owned and operated by St. George. Because of the transmission outages, the
13 retail customers served by Dixie-Escalante experience poorer quality of service than the retail
14 customers served by the municipal system.

15 Q. IS THE LOSS OF A RETAIL CUSTOMER IN THE ST. GEORGE AREA A
16 SIGNIFICANT CONCERN FOR DIXIE-ESCALANTE?

17 A. Yes. The loss of any customer is a concern to a cooperative. However, the loss of customers
18 in the higher density areas, such as a municipal area, is of even greater concern.

19 Q. WHAT CUSTOMER PROTECTION STANDARD DOES DESERET PROPOSE TO
20 REMEDY THE SERVICE RELIABILITY ISSUE?

21 A. The following specific action items are required:

- 22 • Performance Standards — Separate the overall Performance Standards between the
23 rural and urban regions of the state, offering the same improvements to the rural area

1 as to the urban area. This will require separate tracking of indices and calculation of
2 five worst performing circuits for rural area and five worst for urban area. Whatever
3 level of improvement in indices (SAIDI, SAIFI, MAIFI) is ultimately selected in this
4 proceeding should be applied to the rural area and the urban separately.

- 5 • Customer Guarantees — In addition to overall performance standards, ScottishPower
6 has proposed specific Customer Guarantees to retail customers. ScottishPower
7 should extend those same guarantees to the aggregated retail customers who receive
8 service from PacifiCorp’s wholesale customers through PacifiCorp’s wholesale
9 delivery points.
- 10 • Repairs/Upgrade to Middleton Delivery Point — PacifiCorp should commit to a
11 four-phase program to improve service reliability at Middleton delivery point:
 - 12 1. Install automatic transfer backup switch at Middleton.
 - 13 2. Add a breaker on the 138-kV line at New Castle.
 - 14 3. Tie in to PacifiCorp’s 345kV line at UAMP’s Red Butte substation.
 - 15 4. Rebuild 19 miles of outdated 138 kV line between Red Butte substation and
16 Middleton.
- 17 • Require PacifiCorp to enter into discussions with Deseret to evaluate the potential
18 benefits of Deseret providing service in the rural areas presently served by
19 PacifiCorp.

20 Q. WHY DO YOU BELIEVE IT IS APPROPRIATE FOR THE COMMISSION TO REQUIRE
21 PACIFICORP TO EXTEND THE SAME GUARANTEES TO THE WHOLESALE
22 CUSTOMERS THAT ARE PROVIDED TO THE RETAIL CUSTOMERS?

23 A. There are two reasons. First, the wholesale customers are dependent upon PacifiCorp’s
24 transmission facilities for providing reliable electric service to their retail customers. By its
25 own admission, ScottishPower asserts that the proposed performance standards are system
26 indices designed to address the overall performance and that the “customer guarantees have
27 been introduced to address individual customers” (see response to data request DPU 7th,
28 S7.3). Service reliability should be transparent, i.e. at the same level with the same
29 guarantees and penalties regardless whether the recipient is a retail customer of PacifiCorp

1 or of another utility: the common denominator is delivery. Both are equally dependent upon
2 PacifiCorp's transmission facilities and both should receive comparable treatment.

3 The second reason relates to competition. As the industry deregulates and utilities
4 vie for customers, it will be essential to remove barriers which may create unfair advantages.
5 The situation between Dixie-Escalante and City of St. George is an excellent example. In
6 a customer choice environment, Dixie would risk losing customers because of PacifiCorp's
7 inadequate transmission service. Extending customer guarantees to retail consumers served
8 through PacifiCorp's wholesale delivery points would help remedy this problem. At this
9 point, I wish to reiterate that the customer guarantees would be limited to only the retail
10 customers who are dependent upon PacifiCorp's delivery system, not all retail consumers of
11 PacifiCorp's wholesale customers.

12 Q. WHY DO YOU BELIEVE IT IS APPROPRIATE FOR THE COMMISSION TO REQUIRE
13 PACIFICORP TO SEGREGATE THE PERFORMANCE STANDARDS BETWEEN THE
14 RURAL AND URBAN AREAS?

15 A. All consumers expect reliable electric service, regardless whether they live in the city or in
16 the country. ScottishPower has proposed a program which it claims will improve reliability.
17 However, the proposed process is flawed and will harm residents in the rural sector. By
18 splitting the state between urban and rural residents and setting performance standards for
19 each sector, PacifiCorp can more accurately track and respond to system needs.

20 Q. WHY DO YOU BELIEVE IT IS APPROPRIATE FOR THE COMMISSION TO REQUIRE
21 PACIFICORP TO MAKE IMPROVEMENTS IN THE DIXIE-ESCALANTE AREA?

1 A. The MDD24 Middleton circuit ranks among PacifiCorp's five worst performing feeders for
2 the southern system (see response to data request UPSC P2.1). This circuit is located at St.
3 George, in the Dixie-Escalante service area, and has been a problem for a number of years.
4 The Customer Service Standards report for the 3rd Quarter 1998 indicates 27 miles of line
5 rebuilt beginning in 1998 as corrective action. However, management at Dixie reports that
6 no improvements have been made. Although PacifiCorp has acknowledged that the line
7 needs repair, the job seems to be continuously delayed. By including the upgrade as a
8 condition of the merger, a significant factor in Dixie's problems regarding reliability will be
9 resolved.

10 Q. IS THERE A CONCERN THAT EVEN THOUGH THE CIRCUIT MAY BE ON THE LIST
11 OF WORSE CIRCUITS THAT NOTHING WILL BE DONE TO CORRECT THE
12 SITUATION?

13 A. Yes. This is why it is important to require PacifiCorp to correct the service problem on
14 Middleton immediately.

15 Q. WHY DO YOU BELIEVE IT IS APPROPRIATE FOR THE COMMISSION TO REQUIRE
16 PACIFICORP TO ENTER INTO DISCUSSION WITH DESERET CONCERNING THE
17 BENEFITS OF DESERET PROVIDING SERVICE IN THE RURAL AREAS?

18 A. I believe that it is appropriate because there are potential benefits to all parties. For example:
19 1. The cooperatives have an established presence in the rural areas and are better able
20 to provide service in the rural areas. PacifiCorp has indicated that in order to offset
21 the \$122 million transition cost, it will be necessary to realize greater efficiencies and
22 reduce cost. As described by Mr. Albrecht and Mr. Bowler, service in the rural areas

1 is already unsatisfactory; further staff and cost reductions will only make the service
2 even worse. Because of the cooperatives presence and commitment to customers in
3 the rural areas, service by the cooperatives would reverse the adverse trend. This will
4 provide benefits to not only the rural retail customers served by the cooperatives, but
5 also the rural retail customers served by PacifiCorp.

- 6 2. The rural areas are generally less profitable than urban areas for the investor owned
7 utilities to serve. ScottishPower may be paying a substantial premium for the
8 PacifiCorp assets, they will incur a transaction cost that may exceed \$250 million,
9 and they will incur a \$135 million transition cost.

10 There will be enormous pressure on ScottishPower to maximize earnings and
11 eliminate the least profitable service areas in order to satisfy the return objectives of
12 the stockholders. If the least profitable areas were transferred to the Cooperatives,
13 then the shareholders would benefit and there would be less pressure to reduce costs
14 that would affect reliability in the urban areas.

15 Q. IF THE RURAL AREAS WERE SERVED BY THE COOPERATIVES DOES THIS
16 MEAN THAT THERE COULD BE STRANDED GENERATION ASSETS BECAUSE
17 THE LOAD SERVED FROM PACIFICORP GENERATION WOULD BE REDUCED?

18 A. No. The transfer of the rural areas to the cooperative could be conditioned on a transfer of
19 power supply obligations if there is a concern about power supply issues. For example, the
20 rural areas could be served by Deseret Member systems however, the power requirements
21 could continue to be supplied by PacifiCorp. Deseret would simply enter into a contract to
22 purchased the required wholesale power from PacifiCorp and Deseret would then deliver the

1 power to the Member systems. The important point is that the transfer of service in the rural
2 areas would only occur if it is in the best interest of the PacifiCorp retail customers, Deseret
3 and the retail customers served by the Members, and the PacifiCorp stockholders.

4 **V. HUNTER II A&G COST ALLOCATION**

5 Q. WHAT IS THE ISSUE WITH REGARD TO THE HUNTER II A&G COST
6 ALLOCATION?

7 A. The proposed merger will result in an increase in the A&G cost allocated to Deseret. Because
8 of the increase in allocated cost, the proposed merger is not acceptable under either a net
9 benefit or no harm standard. Therefore, the merger should not be approved.

10 Q. PLEASE EXPLAIN THE A&G COST ALLOCATION ISSUE.

11 A. Deseret is a party to an Ownership and Management Agreement dated October 24, 1980 with
12 PacifiCorp. The agreement establishes the terms and conditions under which Deseret has an
13 undivided interest in Hunter II generation unit and associated common facilities. As a part
14 of that agreement, Deseret is allocated a portion of the PacifiCorp administrative and general
15 expenses. Exhibit ____ (CNS-8) is a copy of Exhibit E to the Ownership and Management
16 Agreement showing how administrative and general expense is allocated to Deseret. The
17 process begins with the total O&M expense (Line 1). Fuel, purchased power, and A&G
18 expense is then subtracted to establish an adjusted O&M (Line 6). The A&G allocation
19 factor (Line 7) is equal to the A&G expense divided by the adjusted O&M (Line 5/Line 6).
20 The A&G allocated to Deseret is equal to the A&G allocation factor times the Deseret share
21 of the Hunter O&M expense.

1 Q. PLEASE EXPLAIN WHY THERE WILL BE NO NET BENEFIT AND WHY DESERET
2 WILL HARMED IF THE COMMISSION APPROVES THE MERGER.

3 A. The reason there is no benefit and in fact Deseret will be harmed by the merger is that the
4 allocation of merger related cost does not track the allocation of merger related benefits. The
5 transition cost associated with the merger are estimated to approximately \$135 million. It
6 appears that PacifiCorp intends to charge approximately \$122 million to the ratepayers.
7 PacifiCorp claims that benefits will exist that will offset the increase in cost. The benefits
8 are reflected in increased efficiencies and increased service reliability. Even if we assume
9 that the benefits as claimed can in fact be realized, the majority of the benefits will flow to
10 the retail customers served from transmission and distribution facilities.

11 Q. WHY WILL THERE BE A MISMATCH BETWEEN THE ALLOCATION OF COST AND
12 ALLOCATION OF BENEFITS?

13 A. A portion of the transition cost will be charged to A&G accounts. These costs will directly
14 increase the A&G allocation factor ratio. The benefits, if they exist, will be reflected
15 primarily in non-A&G accounts. Because of the nature of the services provided under the
16 Hunter II contract, the benefits will not offset the increase in cost.

17 Q. ARE THERE OTHER REASONS WHY DESERET WILL BE HARMED IF THE
18 MERGER IS APPROVED?

19 A. Yes. It is clear that ScottishPower intends to be very aggressive in a number of areas. Their
20 stated objective is to expand their business opportunities particularly in non-regulated
21 business environments. The Hunter II A&G allocation formula will potentially result in

1 Desert customers paying for these business ventures while not realizing any economic
2 benefit.

3 Another consideration is that whereas PacifiCorp does not intend to charge the
4 transaction cost to rate payers as an “above the line” expense to Utah ratepayers, there is no
5 such guarantee with regard to the allocation of A&G cost in the Hunter II Agreement.

6 Inclusion of a any portion of the transaction cost as a part of the A&G expense for the
7 purposes of the Hunter II allocation process will be harmful to Deseret and the retail
8 customers.

9 Q. HAS THE A&G ALLOCATION FACTOR DEFINED BY THE HUNTER II AGREEMENT
10 REFLECTED ANY TREND OVER THE LAST FEW YEARS?

11 A. Yes. Exhibit ____ (CNS-9) shows the A&G allocation factor for the period 1994 to 1998.
12 During the initial period of the contract,. the factor was typically 30%. By 1998 the factor
13 has increased to 41%. If the merger is approved, I would expect the allocation ratio to
14 steadily increase. I would expect the allocation factor to steadily increase because of the
15 increased allocation of cost to the A&G accounts.

16 Q. BASED ON THIS RESULT SHOULD THE COMMISSION REJECT THE MERGER?

17 A. Yes. There is clearly no net benefit and there is clearly harm to the customer. Therefore, the
18 merger would fail based on both standards.

19 Q. WHY IS THIS AN ISSUE THAT THE COMMISSION SHOULD ADDRESS AS A PART
20 OF THE MERGER PROCEEDING?

21 A. The Commission has authority over the approval or disapproval of the proposed merger.
22 Approval of the merger has the impact on Deseret that I have described, i.e., there is no net

1 benefit and it is in fact harmful. By disapproving the merger, the adverse impacts are
2 avoided.

3 Q. WHAT REMEDY IS PROPOSED BY DESERET IF THE COMMISSION APPROVES
4 THE MERGER?

5 A. The proposal is to fix the the A&G factor at a value equal to the average of G&A fators for
6 the period 1994 to 1998. The average net A&G factor for this period is 34.2%. The
7 development is shown on Exhibit ____ (CNS-8).

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9 A. Yes.