

**Witness CCS-1R  
Exhibit CCS-1R**

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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<b>In the Matter of the Application</b>	)	<b>Docket No. 98-2035-04</b>
<b>of PacifiCorp and ScottishPower plc</b>	)	
<b>for an Order Approving the Issuance</b>	)	<b>PREFILED REBUTTAL TESTIMONY OF</b>
<b>of PacifiCorp Common Stock</b>	)	<b>DANIEL E. GIMBLE</b>
	)	<b>FOR THE</b>
	)	<b>COMMITTEE OF CONSUMER SERVICES</b>

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**July 16, 1999**

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I. Introduction

**Q: ARE YOU THE SAME DANIEL E. GIMBLE THAT FILED DIRECT TESTIMONY ON BEHALF OF THE COMMITTEE OF CONSUMER SERVICES (“COMMITTEE” OR “CCS”) ON JUNE 18, 1999, RELATING TO THE PROPOSED MERGER BETWEEN SCOTTISHPOWER AND PACIFICORP?**

A: Yes I am.

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

A: In my rebuttal testimony I respond primarily to certain issues raised in the direct testimony of various large customer witnesses and Division of Public Utilities’ (“DPU”) witnesses Alt and W.A. Powell. Specifically, my testimony addresses the following:

- Rate proposals;
- The list of merger-related conditions advanced by the DPU;
- Stranded costs;
- Regional Transmission Organizations (RTOs);
- ScottishPower’s proposed method for allocating corporate costs;
- Committee recommendation.

II. Rate Proposals

**Q: PLEASE BRIEFLY SUMMARIZE THE RATE PROPOSALS DELINEATED BY WITNESSES ALT (DPU), BRUBAKER (UIEC), ANDERSON (LCG), AND GOINS (NUCOR).**

A: As a first order condition, Mr. Alt recommends that rates (revenue requirement) in Utah be capped for a maximum period of three years. He proposes to limit annual rate increases during that time period to some general measure of inflation such as the Gross Domestic Product (GDP). In the alternative, he proposes to “limit rate increases above current levels such that the rate of return on equity in Utah would not exceed that resulting from rates set in proceedings in any other PacifiCorp state.” [Alt, Direct, page 9]

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As a condition of merger approval, Dr. Anderson recommends that there should be a five-year period “to convert [ScottishPower’s] claimed efficiencies and cost reductions into price stability or price reduction guarantees.” [Anderson, Direct, page 62]

Dr. Goins recommends that merger approval be conditioned on a five-year rate freeze for PacifiCorp’s retail and special contract customers in Utah. He also proposes an immediate, across-the-board rate decrease for retail customers prior to implementing the rate freeze. [Goins, Direct, page 15]

Mr. Brubaker recommends that merger approval be conditioned on a five-year rate cap. Regarding special contract customers, he proposes that “[such] customers should be permitted, at their option, to renew existing contracts on terms no less favorable to the customer than the terms of the current special contracts, or (if an RTO with non-pancaked rates is in place) be allowed to seek alternative supplies if PacifiCorp/ScottishPower is not willing to agree to renewal and extension on such terms.” [Brubaker, Direct, page 5]

**Q: WHAT IS THE COMMITTEE’S POSITION ON THESE PROPOSALS TO CONDITION MERGER APPROVAL ON SOME FORM OF RATE PLAN DESIGNED TO CAP, FREEZE OR DECREASE CURRENT RETAIL RATE LEVELS IN UTAH?**

A: While we would strongly oppose any condition to freeze retail rates at current levels, the Committee believes that a constructive rate plan calling for rate caps or rate decreases is absolutely necessary to:

- (1) ensure the proposed merger fosters a positive net benefit for residential and small business customers in Utah that is significant and sustainable; and
- (2) ensure management and shareholders have a pecuniary stake in merger-related outcomes so that there is an appropriate sharing of the benefits and the risks.

1 Thus, common ground exists between the DPU, CCS and large customer  
2 interveners on the need for a credible rate plan—at least for retail customers.

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4 In my direct testimony I invited the Applicants to develop and file a credible rate  
5 plan as part of their Rebuttal Testimony. It is my understanding that the  
6 Applicants intend to provide such a plan prior to the start of hearings. The  
7 Committee, therefore, reserves the right to respond to the Applicants' proposed  
8 rate plan and comment on the reasonableness of any rate plan at the time of  
9 hearings.

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11 **Q: WHAT IS THE COMMITTEE'S POSITION ON SUCH A RATE PLAN BEING**  
12 **EXTENDED TO SPECIAL CONTRACT CUSTOMERS IN UTAH?**

13 **A:** The Utah Public Service Commission ("Utah Commission" or "Commission") has  
14 established a task force to study what criteria and ratemaking treatment should  
15 be applied to special contracts in Utah. The recommendations issued from that  
16 task force will likely guide the Commission in setting policies relating to its formal  
17 review of future special contracts. To extend a rate plan to special contract  
18 customers that, for example, caps special contract prices at existing levels,  
19 would undermine the efforts of the task force and hinder the Company's ability to  
20 effectively negotiate with such customers. In short, the salient features of any  
21 rate plan should not be extended to special contract customers.

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1 III. DPU Merger Conditions2 Q: **HAVE YOU REVIEWED THE LIST OF FORTY-SIX MERGER CONDITIONS**  
3 **ATTACHED AS EXHIBIT NO. DPU 1.2 TO MR. ALT'S DIRECT TESTIMONY?**4 A: Yes.  
56 Q: **IN YOUR OPINION ARE THEY ADEQUATE TO ENSURE THAT A MERGER**  
7 **REVIEW STANDARD OF POSITIVE NET BENEFITS IS MET?**8 A: The DPU has given considerable thought to merger-related conditions and has  
9 put together an impressive list. In the absence of a credible rate plan, however,  
10 these conditions are not sufficient to assure that a positive net benefits "test" is  
11 met. Mr. Alt appears to concur with this opinion when he states:12 "We believe that a rate cap is needed to sufficiently lock in savings from  
13 the merger so that a net positive benefit is more assured. This proposed  
14 merger...is expected to bring very small assured benefits and large  
15 uncertainties and risk. A rate cap allows the risk of future merger benefits  
16 to ratepayers to be shared with PacifiCorp shareholders who will receive a  
17 merger benefit up front with the stock premium. The three year term would  
18 allow a sharing of risks until merger savings begin to occur. Other Division  
19 conditions should help mitigate this risk, but we felt that a rate cap was  
20 necessary for us to assure net positive benefits and therefore allow us to  
21 recommend approval of the merger." [Alt, Direct, page 9]  
2223 Q: **AT THIS TIME DOES THE COMMITTEE PROPOSE ANY ADDITIONS, OR**  
24 **MODIFICATIONS, TO THE LIST OFFERED BY THE DPU?**25 A: No. Over the past two weeks, the Applicants and the DPU have been discussing  
26 the DPU's list of conditions. We have been informed that a revised list of DPU  
27 conditions will be circulated among the parties no later than July 20, 1999. We  
28 anticipate that this revised list will serve as the basis for settlement talks. The  
29 Committee will respond to the revised list at the appropriate time with proposed  
30 additions and/or changes.  
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1 IV. Stranded Costs2 Q: **WHAT IS THE NEXUS BETWEEN STRANDED COSTS AND THIS MERGER**  
3 **PROCEEDING?**4 A: In their respective testimonies, a number of witnesses --Brubaker (UIEC), Goins  
5 (Nucor) and W.A. Powell (DPU)-- duly note that ScottishPower is paying a  
6 premium for PacifiCorp assets that exceeds both the depreciated book value and  
7 the market value (i.e., PacifiCorp's stock price) of those assets. Since  
8 ScottishPower is paying a premium above both "book" and "market" value for all  
9 PacifiCorp assets, Mr. Brubaker and Dr. Goins generally argue that, as a  
10 condition of merger approval, ScottishPower forego any claim to future stranded  
11 cost recovery relating to generation and transmission plant. Dr. Powell simply  
12 suggests: "...the willingness of ScottishPower to pay an acquisition premium may  
13 be an indication that PacifiCorp would not face any stranded costs if the electric  
14 industry were restructured." [W.A. Powell, Direct, page 28]

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16 Q: **HOW DO YOU RESPOND TO MR. BRUBAKER'S, DR. GOINS' AND DR.**  
17 **POWELL'S TESTIMONIES ON STRANDED COSTS?**18 A: The fact that ScottishPower is paying a merger premium significantly in excess  
19 of both the book and the market value of PacifiCorp's assets strongly suggests  
20 that ScottishPower's exposure to positive stranded costs is negligible. The real  
21 issue, therefore, is that of negative stranded costs and how to fairly compensate  
22 Utah's retail customers for the value of PacifiCorp's low cost generation assets  
23 should the Utah legislature decide to move forward with electric restructuring in  
24 Utah. We would certainly welcome and support a merger condition that limited  
25 future discussions of stranded costs to that of negative stranded costs and  
26 ratepayer compensation.

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1 V. Regional Transmission Organizations (RTOs)

2 Q: **AS ONE OF HIS MERGER CONDITIONS, MR. BRUBAKER PROPOSES THAT**  
3 **SCOTTISHPOWER BE REQUIRED TO SEPARATE OUT PACIFICORP'S**  
4 **TRANSMISSION ASSETS AND JOIN AN RTO WITHIN TWENTY-FOUR**  
5 **MONTHS AFTER MERGER APPROVAL. IN THE EVENT THAT AN RTO**  
6 **DOES NOT EXIST AT THAT TIME, HE RECOMMENDS THAT THE**  
7 **APPLICANTS FILE A PLAN EIGHTEEN MONTHS AFTER MERGER**  
8 **APPROVAL "DETAILING HOW PACIFICORP WILL ARRANGE WITH OTHER**  
9 **ENTITIES TO CONDUCT AN INDEPENDENT OPERATION OF THESE**  
10 **TRANSMISSION FACILITIES." WHAT IS THE COMMITTEE'S POSITION ON**  
11 **THIS PROPOSED MERGER CONDITION?**

12 A: PacifiCorp should not be required to split out its transmission plant from its  
13 vertically-integrated asset base as a condition of this merger. Nor should  
14 PacifiCorp be conditionally mandated to join an RTO or "conduct an independent  
15 operation of transmission facilities." Whether or not Utah proceeds down the  
16 restructuring path (and at what speed) is clearly a policy decision to be made at  
17 the Utah Legislature.

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19 VI. Method for Allocating Corporate Costs

20 Q: **HAS SCOTTISHPOWER SUBMITTED A METHOD FOR ALLOCATING**  
21 **CORPORATE COSTS?**

22 A: Pursuant to paragraph 21 of the Wyoming Stipulation, ScottishPower agreed to  
23 provide a proposed method for allocating corporate costs. A copy of  
24 ScottishPower's proposed method was filed in Utah on June 18, 1999.

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26 Q: **HAS A SCOTTISHPOWER WITNESS FILED TESTIMONY IN UTAH WHICH**  
27 **SUPPORTS AND EXPLAINS ITS PROPOSED METHOD?**

28 A: Not at this time. I expect ScottishPower will file supplemental testimony in  
29 support of its proposed method at some point in the Utah proceeding.

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31 Committee witness Talbot will respond to that testimony either prior to or during



1           hearings.

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3 VII. Committee Recommendation

4 Q:   **HAS THE COMMITTEE’S RECOMMENDATION ON THE PROPOSED**  
5       **MERGER BETWEEN SCOTTISHPOWER AND PACIFICORP CHANGED AS A**  
6       **RESULT OF REVIEWING THE TESTIMONY OF OTHER PARTIES TO THIS**  
7       **PROCEEDING?**

8 A:   No. The Committee continues to recommend that the Utah Commission should  
9       deny the Applicants’ proposal to merge the two companies.

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11 Q:   **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

12 A:   Yes it does.