Exhibit No. ___(LW-1T)
Docket No. UE-051090
Witness: Lincoln Wolverton

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of MIDAMERICAN ENERGY HOLDINGS COMPANY AND PACIFICORP d/b/a PACIFIC POWER & LIGHT COMPANY, For an Order Authorizing Proposed Transaction.	))))))))))	**Docket No. UE-051090**

DIRECT TESTIMONY OF LINCOLN WOLVERTON

ON BEHALF OF

THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

November 18, 2005

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Lincoln Wolverton. I do business through East Fork Economics, P.O. Box 620, La Center, WA 98629, where I am the owner and principal consultant.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am a consultant for the Industrial Customers of Northwest Utilities ("ICNU"). My qualifications are summarized in Exhibit No. __ (LW-2).

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. ICNU has asked me to examine MidAmerican Energy Holdings Company's ("MEHC") application to acquire PacifiCorp from ScottishPower, and discuss MEHC's proposals for providing capital for PacifiCorp's investments and in relation to the Revised Protocol, PacifiCorp's interstate allocation methodology. My testimony focuses on the issues related to infrastructure and resource investments.

Q. HAVE YOU REVIEWED MEHC'S PROPOSALS REGARDING CAPITAL INVESTMENT FOR PACIFICORP?

A. Yes. PacifiCorp has stated that its capital forecast indicate that the Company will require annual investment of at least $1 billion for the next five years.[1/] MEHC has stated that it is willing to deploy the capital necessary to accomplish the capital investments. In particular, MEHC has committed to certain specific transmission investments in PacifiCorp's system.[2/] For example, MEHC has

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1/ Exhibit No. __ (JAJ-1T) at 7.
2/ Exhibit No. __ (GEA-1T) at 4-6.

committed to pursuing the "Path C Upgrade," which consists of increasing Path C capacity from Southeastern Idaho to Northern Utah. MEHC estimates that this project will cost approximately $78 million. MEHC also has identified the "Mona-Oquirrh" project, which will "increase the import capability from Mona to the Wasatch Front" in Utah.[3/] MEHC estimates this project will cost approximately $196 million. Finally, MEHC proposes the "Walla Walla-Yakima or Mid-C" project, which is estimated to cost approximately $88 million.

Q. DO YOU HAVE ANY COMMENTS REGARDING THESE CAPITAL INVESTMENTS?

A. Yes. It appears that little, if any, or these investments are not already accounted for in PacifiCorp's plans. Regarding the transmission projects, PacifiCorp has indicated in responses to data requests that the Mona-Oquirrh project was included in the Company's 2004 Integrated Resource Plan ("IRP") and that it has plans to evaluate the other transmission projects identified by MEHC. In addition, the project was implicit in PacifiCorp's application for a certificate of convenience to construct its Currant Creek project and deliver power to the Wasatch Front.

MEHC also has stated a commitment to implement measures to reduce emissions from PacifiCorp's coal-fired generating facilities and greenhouse gas emissions will benefit customers by allowing the equipment to be installed in an orderly manner across PacifiCorp's system.[4/] MEHC also notes that these measures are likely to be *required* in the future.[5/]

3/ Id.
4/ Id. at 20.
5/ Id.

Q. ARE YOU FAMILIAR WITH PACIFICORP'S INTERJURISDICTIONAL ALLOCATION METHODOLOGY?

A. Yes. I have reviewed both the Original Protocol proposed by PacifiCorp and the Revised Protocol.

Q. HAVE THE ISSUES REGARDING THE REVISED PROTOCOL BEEN RESOLVED IN OREGON OR WASHINGTON?

A. The WUTC used the Original Protocol for interjurisdictional allocation purposes in PacifiCorp’s last rate case, but the WUTC is considering the issue as to whether to adopt Revised Protocol on a permanent basis in PacifiCorp’s current rate case in Washington.

The OPUC has adopted the Revised Protocol as its allocation methodology, but ordered workshops to continue to develop a fully functional “Hybrid” Method. The OPUC concluded that a fully functional Hybrid Method would be used to compare to the Revised Protocol and could be utilized as a structural protection mechanism for Oregon ratepayers.

PacifiCorp is required to file its proposed Hybrid Method with the OPUC on December 1, 2005. In my view, PacifiCorp’s draft Hybrid Method has been modified in order to turn the Hybrid Method into a version of the Revised Protocol. In the draft Hybrid Method, significant changes to the resource assignments in the original Hybrid method were made without adequate support. The result is to reduce the revenue requirement differences between the Hybrid Method and the Revised Protocol.

Issues related to a structural protection mechanism to address the costs associated with Utah load growth were not resolved in the Revised Protocol.

These issues are being debated in multi-state process workgroup meetings sponsored by PacifiCorp. PacifiCorp filed a load growth report on October 20, 2005 with the OPUC. PacifiCorp's load growth report has not proposed a structural protection mechanism that would protect slower growing states from cost shifts associated with Utah load growth.

Q. HOW DO THE INTERSTATE ALLOCATION ISSUES RELATE TO THE CAPITAL INVESTMENTS PROPOSED BY MEHC?

A. Given the substantial capital investments that MEHC intends to make, it is important that an allocation methodology be put in place to protect customers from the costs of Utah load growth and the cost of projects that are necessary to serve Utah customers.

Q. HOW DOES THE ALLOCATION ISSUE RELATE TO THE MERGER PROPOSAL?

A. It appears that some of the capital investments identified by MEHC are primarily related to infrastructure needs in Utah. Indeed, PacifiCorp has stated that such investments are necessary in Utah, where growth has "outpaced all forecasts."[6/] Developing an appropriate allocation methodology or providing other conditions that will protect customers from additional costs incurred primarily to serve Utah load are necessary to ensure that customers suffer no harm as a result of MEHC's commitments. This, any MEHC capital "benefits" should be properly attributed to the appropriate states. Attributing "benefits" to Oregon or Washington based on an allocation methodology that does not account for Utah load growth overstates the value of the merger.

Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING INTERSTATE ALLOCATION ISSUES AS THEY RELATE TO THIS PROCEEDING?

Yes. In July 1988, the OPUC and the WUTC issued orders approving the merger of Pacific Power & Light ("PP&L") and Utah Power & Light ("UP&L") (the "Merger"). In approving the Merger, each Commission expressed concern about the impact of merging the higher-cost UP&L system with the lower-cost PP&L system. The WUTC stated:

> Staff witness Folsom correctly points out the discrepancy in average system cost between Pacific Power and Utah Power. The Commission continues to be concerned about the effects on Pacific's ratepayers of merging with a higher cost system, and believes that any integration of the power supply function for the two companies should be done in a manner consistent with Pacific's least-cost planning process, now getting under way. In the meantime, the Commission views Pacific's current average system costs as the appropriate basis for rates.[7/]

The OPUC commented:

> Second, the stipulation provides that pre-merger generation and transmission facilities of Pacific and Utah Power shall remain the responsibility of the Pacific and Utah divisions, respectively. This will ensure that the higher cost facilities located in Utah will not have a negative impact on Oregon ratepayers.
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> * * *
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> Applicants have committed indefinitely that Pacific's customers will not be harmed by the merger and will not subsidize benefits to Utah Power customers. Applicants recognize that if the merger results in higher costs, those costs will be borne by the merged company's shareholders. Applicants further agree that shareholders will assume all risks that may result from less than full system cost

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6/ Martin Rosenberg, The Scots Retreat – ScottishPower Sells PacifiCorp to MidAmerican, Energybiz Magazine, Sept.-Oct. 2005.

7/ Re PacifiCorp, WUTC Docket No. U-87-1338AT, Second Suppl. Order at 13 (July 13, 1988).

> recovery if interdivisional allocation methods differ among the various jurisdictions.[8/]

These statements plainly reflect the concerns of the WUTC and the OPUC regarding the impact of higher Utah costs harming customers in PacifiCorp's other states.

Q. WHAT IS YOUR SUGGESTION FOR THE COMMISSION IN THIS PROCEEDING?

If the Commission is inclined to approve the proposed transaction, I suggest that it adopt a condition that is similar to the commitment made by PacifiCorp in the PP&L-UP&L Merger. Specifically, there should be a condition that shareholders will bear the cost responsibility of differing allocation methodologies. As I have noted above, the issues surrounding the interjurisdictional cost allocation are unresolved and it is important that such a commitment be in place if the proposed transaction is approved.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. MEHC is proposing significant capital investments as a "benefit" of the proposed merger. This proposed "benefit" may actually be a significant risk to Oregon and Washington ratepayers, in part because issues related to interjurisdictional cost allocation have not been resolved. To address this concern, I recommend that MEHC be required to assume all risks that may result from less than full system cost recovery if interdivisional allocation methods differ among the various jurisdictions.

8/ Re PacifiCorp, OPUC Docket No. UF 4000, Order No. 88-767 (July 15, 1988).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.