

Exhibit No. ____ (TBS-4T)
Docket No. UE-051090
MEHC Acquisition of PacifiCorp
Witness: Thomas B. Specketer

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**IN THE MATTER OF THE JOINT)
APPLICATION OF MIDAMERICAN)
ENERGY HOLDINGS COMPANY AND)
PACIFICORP DBA PACIFICORP POWER &)
LIGHT COMPANY FOR AN ORDER)
AUTHORIZING PROPOSED)
TRANSACTION)**

Docket No. UE-051090

Rebuttal Testimony of Thomas B. Specketer

December 2005

1 **Q. Please state your name and business address.**

2 A. My name is Thomas B. Specketer. My business address is 666 Grand Avenue,
3 Suite 2900, Des Moines, Iowa 50309.

4 **Q. Are you the same Thomas B. Specketer who previously submitted prepared**
5 **direct and revised direct testimony in this docket?**

6 A. Yes, I am.

7 **Q. What is the purpose of your rebuttal testimony?**

8 A. The purpose of my rebuttal testimony is to respond to the direct testimony of Staff
9 witness Ken Elgin, Public Counsel witness James R. Dittmer, and Mr. Michael P.
10 Gorman representing the Industrial Customers of Northwest Utilities (“ICNU”).

11 **Q. Please identify the topics that are addressed in your rebuttal testimony.**

12 A. My rebuttal testimony addresses the direct testimony of the witnesses mentioned
13 above regarding shared services/corporate cost assignment, affiliate transactions,
14 and certain commitments made by MidAmerican Energy Holdings Company
15 (“MEHC”) in my direct testimony.

16 **Q. Staff witness Elgin and ICNU witness Gorman state that MEHC has not**
17 **established whether its proposed service company fees are lower than those**
18 **built into PacifiCorp’s retail rates and thus the claim that retail ratepayers**
19 **will benefit through reduced service company fees has not been clearly**
20 **established, and the claimed benefit for PacifiCorp’s retail customers is**
21 **without merit. Do you agree with their assertion?**

22 A. No, I do not. They attribute this conclusion to the fact that MEHC has not
23 established the amount of service company charges that have actually been

1 permitted to be recovered in retail rates. It is not necessary to quantify the amount
2 permitted to be recovered in retail rates to establish that the charges to PacifiCorp
3 will be at least \$6 million per year less under MEHC ownership than such similar
4 costs under ScottishPower ownership today.

5 **Q. Please explain.**

6 A. PacifiCorp estimated net cross-charges from ScottishPower to be \$15 million for
7 FY 2006 (actual FY 2005 amounts were \$15.3 million). The amount
8 MEHC/MidAmerican Energy Company (“MEC”) has committed to bill for
9 similar services will not exceed \$9 million for five years following the close of
10 the transaction. Our commitment is expressed in terms of the *cost* savings, not the
11 *rate treatment* of such costs (over which we have no control). While the entire
12 \$15 million may not currently be reflected in retail rates, we cannot say for certain
13 that the entire \$9 million to be billed by MEHC/MEC will ultimately be reflected
14 in rates either. Relatively speaking, customers should realize a savings from the
15 reduction in corporate service costs based on the \$6 million reduction in net
16 billings.

17 **Q. Mr. Gorman also makes a claim that MEHC has not factored in the portion**
18 **of charges that would be attributed to PPM. Do you agree?**

19 A. No. The \$15 million in net cross-charges from ScottishPower represents only
20 PacifiCorp’s share of such costs. Amounts billed or allocated to PPM and other
21 affiliates from ScottishPower have been excluded from the calculation.

22 **Q. Witness Gorman states that retail rates in Oregon were based on \$11.4**
23 **million in service company fees, which is only approximately 20% higher**

1 **than MEHC's estimated corporate service cost of just under \$9.5 million. In**
2 **addition, he states that the \$11.4 million is not a net number, excluding the**
3 **revenue PacifiCorp received from ScottishPower. Do you agree?**

4 A. No, I do not. It is my understanding that the stipulation in the Oregon proceeding
5 to which he refers (UE 170) included \$11.7 million in ScottishPower cross-
6 charges rather than the \$11.4 million cited by Mr. Gorman. The \$11.7 million
7 amount in UE 170 was an Oregon Public Utility Commission ("OPUC") Staff-
8 derived value and was not one that PacifiCorp agreed to in any testimony
9 pertaining specifically to cross-charges. While the \$11.7 million was indeed
10 listed among various adjustments included in the computation of the revenue
11 requirement stipulation for UE 170, the reduction in cross-charge expense from
12 the amount originally filed by PacifiCorp in that proceeding could just as easily
13 have been applied to another item of cost of service to achieve an overall revenue
14 requirement that was acceptable and reasonable to the parties involved in that
15 proceeding. The fact that the stipulated revenue requirement was achieved, in
16 part, from the reduction of net cross-charge expense from ScottishPower is not
17 relevant in this proceeding. In fact, in accordance with the partial stipulation in
18 UE 170, parties are prohibited from using any part of the settlement in resolving
19 issues in other proceedings. Regardless of how such costs are ultimately reflected
20 in future rate proceedings, net cross-charges are estimated to be \$15 million for
21 FY 2006 and, for purposes of the costs savings evaluation in this proceeding, that
22 amount is the relevant cost to use. Therefore, the annual savings of \$6 million

1 quantified in my direct testimony is an appropriate estimate of savings to consider
2 in evaluating this transaction.

3 **Q. Staff witness Elgin likewise uses an \$11.6 million number as a comparator.**
4 **Is this correct?**

5 A. No. Mr. Elgin’s reference to \$11.6 million does not reflect billings but rather the
6 amount Staff believes is appropriate to allow in rates. MEHC has pledged to
7 reduce billings. Thus, the projected net billing amounts provide the proper point
8 of reference for determining benefits.

9 **Q. Public Counsel witness Dittmer suggests that the MEHC commitment**
10 **regarding corporate cost allocations be eligible for review and challenge,**
11 **based upon relevant facts and circumstances at the time of future rate**
12 **proceedings. Specifically, he states that the adoption of the two-factor**
13 **formula should not be binding upon the Commission in future rate**
14 **proceedings. Do you agree?**

15 A. Yes. While it is certainly debatable whether the two-factor allocation basis
16 proposed by MEHC or the three-factor allocation basis currently used by
17 PacifiCorp is more appropriate, that discussion is better left for either a
18 proceeding to specifically approve MEHC’s intercompany administrative services
19 agreement or a general rate case. It should be noted that in the context of
20 PacifiCorp’s cost of service, the difference between the three-factor and two-
21 factor methodologies is not material.

22 **Q. Mr. Dittmer has proposed that asymmetrical pricing be applied to affiliate**
23 **transactions such that charges to PacifiCorp are priced at the lower of cost**

1 **or market, and charges from PacifiCorp are priced at the higher of cost or**
2 **market. Do you have any comments on this proposal?**

3 A. Yes. MEHC and PacifiCorp will comply with the applicable affiliate pricing
4 requirements of each state. But, as Mr. Dittmer notes, for many of the executive
5 management services that MEHC/MEC will provide to PacifiCorp, there is no
6 comparable market, so it will be necessary to use fully distributed cost in these
7 instances. Moreover, the new rules that will be promulgated soon by the Federal
8 Energy Regulatory Commission, in lieu of the Public Utility Holding Company
9 Act of 1935, may also address this issue.

10 **Q. Mr. Dittmer suggests that positive time reporting be required for MEHC or**
11 **MEC employees working for the benefit of PacifiCorp. Do you have any**
12 **objections to that requirement?**

13 A. No. As indicated in revised commitment 14, attached as Exhibit No. ___(BEG-10)
14 to MEHC witness Gale's rebuttal testimony, MEHC and its subsidiaries will have in
15 place positive time reporting systems adequate to support the allocation and
16 assignment of costs of executives and other relevant personnel to PacifiCorp.

17 **Q. Please summarize your rebuttal testimony.**

18 A. Contrary to the assertions of Staff, ICNU, and Public Counsel witnesses, MEHC
19 continues to expect that the transaction will result in cost savings for PacifiCorp
20 customers compared to costs incurred today under ScottishPower ownership.
21 While actions necessary to ensure achievement of cost savings are progressing,
22 they cannot be completed until the closing of the acquisition. However, I believe
23 that the achievement of these cost savings will be demonstrated in PacifiCorp's

1 next general rate case, resulting in benefits to PacifiCorp's retail customers from
2 the transaction.

3 Q. **Does that conclude your rebuttal testimony?**

4 A. Yes, it does.