

1 **Introduction**

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

3 A. My name is Brent E. Gale. My business address is 666 Grand Avenue, Suite
4 2600, Des Moines, Iowa 50309.

5 **Q. By whom are you employed and in what position?**

6 A. I am Senior Vice President, Legislation & Regulation, for MidAmerican Energy
7 Company (“MEC”), a subsidiary and business platform of MidAmerican Energy
8 Holdings Company (“MEHC”).

9 **Q. Please describe the responsibilities of your current position.**

10 A. My primary responsibilities for MEC include U.S. regulatory and legislative
11 strategic planning, state legislative relations, federal and state regulatory relations,
12 rates, regulated cost of service, rate design, utility acquisitions, representation of
13 MEC’s interest in North America regarding electric and gas industry
14 restructuring, and providing advice and assistance to MEHC regarding federal
15 legislative policy.

16 **Q. Please describe your background.**

17 A. I received a B.A. degree from Drake University in 1972 and a J.D. degree, also
18 from Drake, in 1976. After graduation I joined one of MEC’s predecessor
19 companies, holding positions of attorney, general counsel and vice president-
20 general counsel. After the formation of MEC, I held the positions of vice
21 president-regulatory law & analysis and vice president-legislation & regulation.

22 I am licensed to practice law in all state courts of Iowa, before the federal
23 court for the Southern District of Illinois and before the District of Columbia

1 Circuit. I am a member of the Iowa State Bar Association, the EEI Legal
2 Committee, the EEI Energy Delivery and Public Policy Executive Advisory
3 Committee, the boards of the Illinois Energy Association, the Illinois Institute for
4 Regulatory Policy Studies, and the New Mexico State Center for Public Utilities.

5 During my career, I have spoken before numerous consumer, industry, and
6 national and international regulatory conferences, most recently upon the topics of
7 renewable energy, alternative regulation, electric restructuring, and generation
8 portfolio diversity.

9 I have also participated extensively in the negotiation and drafting of
10 electric and gas legislation in several states and at the federal level. I have
11 previously testified before the Iowa Utilities Board, Illinois Commerce
12 Commission and in the courts of Iowa and Illinois.

13 **Summary of Testimony**

14 **Q. What is the purpose of your direct testimony in this proceeding?**

15 A. The purpose of my testimony is as follows:

- 16 • to provide evidence that the transaction will be in the public interest and to
17 sponsor some of the commitments that are being offered to protect the
18 interests of consumers;
- 19 • to identify the similarities between PacifiCorp and MEC;
- 20 • to discuss the experience of MEC as evidence of how a regulated utility can
21 be expected to operate as a subsidiary of MEHC; and
- 22 • to discuss the various shareholder, state and federal approvals required for
23 completion of the transaction.

1 **Q. Please summarize your testimony.**

2 A. My testimony provides evidence that the transaction is in the public interest and
3 will not harm the ability of PacifiCorp to provide adequate and reliable service to
4 its customers in all states that it is privileged to serve. This evidence includes the
5 pro-active offer by MEHC and PacifiCorp to adopt a uniform set of transaction
6 commitments based upon the commitments in all states from PacifiCorp's prior
7 transaction. My testimony also includes a detailed discussion of MEC's
8 experience as an MEHC subsidiary and the similarities between MEC and
9 PacifiCorp.

10 **The Transaction is in the Public Interest**

11 **Q. You have said that MEHC's acquisition of PacifiCorp will be in the public**
12 **interest and that commitments will be undertaken to ensure that customers**
13 **are protected. What is the basis for your statement?**

14 A. My reasoning is based upon the following:

- 15 • As part of my testimony, MEHC and PacifiCorp will adopt a uniform set
16 of commitments that are based upon the commitments undertaken by
17 PacifiCorp as a part of the prior merger transaction; these uniform
18 commitments will be extended to all six states, not just the states that
19 requested a particular commitment in the previous PacifiCorp transaction.
20
- 21 • Also as part of my testimony, in recognition of the differences among the
22 states, MEHC and PacifiCorp will offer to continue several state-specific
23 commitments undertaken by PacifiCorp in the previous transaction.
24
- 25 • As part of MEHC witness Mr. Abel's testimony, MEHC and PacifiCorp
26 will offer numerous new commitments involving generation options,
27 transmission investment, clean air investment, energy efficiency, customer
28 service and other important matters.

- 1 • PacifiCorp will become a separate business platform under MEHC, with
2 its own business plan, its own management, its own state policies, and the
3 responsibility for making decisions that achieve the objectives identified
4 in the testimony of MEHC witness Mr. Abel (i.e., customer satisfaction,
5 reliable service, employee safety, environmental stewardship, and
6 regulatory/legislative credibility).
7
- 8 • The many similarities between MEC and PacifiCorp will facilitate an easy
9 transition of PacifiCorp as a separate subsidiary of MEHC.
- 10
- 11 • MEC’s operations, as a subsidiary of MEHC, provide demonstrable
12 evidence that PacifiCorp will have the ability to continue its emphasis on
13 key utility performance areas such as: customer service; safety; integrated
14 resource planning; a balanced mix of generating resources, including
15 renewable generation; use of energy efficiency and demand-side
16 management (“DSM”); investment in environmental emission control
17 technology; and collaborative processes.
18

19 **MECH and PacifiCorp Commitments**

20

21 **Q. Please explain the uniform set of commitments you referenced.**

22 A. MEHC and PacifiCorp have reviewed the commitments required by the six states
23 in the Scottish Power plc (“ScottishPower”) transaction. We have also met with
24 numerous groups that may have an interest in this transaction and asked them to
25 identify the risks and concerns that they have at this time.

26 Exhibit No.__(BEG-2) responds to the risks and concerns addressed in the
27 previous PacifiCorp transaction and to many of the risks and concerns that have
28 been raised in the meetings with interested groups. This Exhibit identifies
29 MEHC’s and PacifiCorp’s commitments to address these risks and concerns. The
30 new commitments sponsored by MEHC witness Mr. Abel address other concerns
31 expressed in the meetings with interested groups. MEHC and PacifiCorp propose
32 that the commitments in this Exhibit and those in MEHC witness Mr. Abel’s
33 Exhibit No.__(GEA-2), supersede prior commitments and apply upon the close of

1 the transaction.

2 Section I of Exhibit No.__(BEG-2) identifies commitments that address
3 customer service, regulatory oversight, financial integrity, revenue requirements
4 impact, the environment, communities, employees and planning. The
5 commitments in Section I will be applied uniformly to all six states. We are
6 applying these commitments uniformly to simplify administration for everyone
7 involved, including PacifiCorp, and to ensure equitable treatment of customers in
8 all six states. The pro-active adoption of these commitments by MEHC is
9 important evidence that there will be no harm to the public interest from the
10 transaction.

11 Moreover, MEHC believes the uniform application of the commitments in
12 Exhibit No.__(BEG-2) to all states also provides evidence of benefits from the
13 transaction. MEHC understands that no single state was previously provided all
14 of these commitments. Thus, with the uniform application of these commitments
15 in all states, each state will be receiving commitments that previously were not
16 applicable to it. In other words, each state is receiving new benefits and
17 protections for customers and the public.

18 While I am sponsoring all of the commitments in Exhibit No.__(BEG-2),
19 MEHC witnesses Mr. Goodman and Mr. Specketer in their testimony discuss
20 some of the regulatory oversight, revenue requirements and the financial
21 commitments in greater detail. The commitments that they discuss are identified
22 in my Exhibit No.__(BEG-2).

1 **Q. Where do you address the state-specific commitments by MEHC and**
2 **PacifiCorp related to the prior transaction?**

3 A. These state-specific commitments are in Section II of Exhibit No.__(BEG-2).
4 These commitments reflect MEHC’s understanding of commitments previously
5 made by PacifiCorp that reflect unique or state-specific issues.

6 **Q. What is the purpose of the provisions in Section III of that Exhibit?**

7 A. These are administrative provisions that previously applied in one or more states.
8 We believe these should be applied uniformly in all states to simplify
9 administration and to ensure equitable application of the commitments in all
10 jurisdictions.

11 **Similarities between PacifiCorp and MEC**

12 **Q. Why do you believe the similarities between PacifiCorp and MEC provide**
13 **evidence that the proposed transaction will be in the public interest and not**
14 **harm the interests of consumers?**

15 A. There are several reasons. First, the existence of these similarities means that
16 MEHC has experience with the types of issues and risks that confront PacifiCorp.
17 Second, the existence of the similarities means that MEC and PacifiCorp have
18 experiences and advice that can be shared to enable them to better pursue the
19 objectives of customer satisfaction, reliable service, employee safety,
20 environmental stewardship and regulatory/legislative credibility. Third, the
21 similarities suggest compatible corporate cultures that should facilitate
22 PacifiCorp’s transition to a business platform of MEHC. Fourth, in meetings with
23 interested parties prior to the filing of this testimony, one of the most frequently

1 offered comments was to the effect that it was one thing to “talk the talk” but
2 most were interested in whether PacifiCorp, under MEHC, would “walk the
3 walk.” MEC’s operation as a business platform under MEHC provides
4 demonstrable evidence of how that company has “walked the walk.”

5 **Q. What are some of the similarities between PacifiCorp and MEC that you**
6 **deem significant?**

7 A. The most significant of the similarities are as follows:

- 8 • The utilities operate in contiguous states.
- 9 • Wholesale transactions, interconnections and positive relationships with
10 non-jurisdictional (public power and cooperative) utilities are important to
11 the conduct and financial health of the business.
- 12 • The presence of the non-jurisdictional utilities creates unique challenges
13 and opportunities for transmission planning, coordination and operation.
- 14 • A demonstrable focus upon customer satisfaction is indicated by
15 independent survey results.
- 16 • A willingness to utilize renewable energy technologies has been
17 demonstrated where the utilization is cost-effective for customers and
18 there is an opportunity for a fair return to shareholders.
- 19 • A willingness to make significant investments in infrastructure
20 improvements has been demonstrated where the investments are cost-
21 effective for customers and there is an opportunity for a fair return to
22 shareholders.
- 23 • Investments in DSM and energy efficiency programs are made to the full
24 extent determined to be cost-effective by applicable state standards.
- 25 • Collaborative processes are employed to develop environmental, DSM
26 and energy efficiency programs.
- 27 • Low-sulfur, Western-basin coals are the only coals used for generation
28 and provide more than 80% of the energy serving bundled retail
29 customers.
- 30 • Coal shipping options are the Burlington Northern and Union Pacific
31 railroads.
- 32 • The delivered cost of coal is among the lowest in the United States.
- 33 • Wind, natural gas and hydro are included in the regulated generation
34 portfolio, with the percentage of wind capacity projected to comprise a
35 significant portion of the portfolio by 2010, if cost-effective.
- 36 • There is a demonstrable commitment to employee safety.
- 37 • There is a need to plan for and deal with adverse weather conditions
38 impacting the reliability of the delivery systems to the extent economical

1 and practicable; such conditions include ice, floods, tornados, storms and
2 snow.

- 3 • Regulated delivery and electric supply services are provided in multiple
4 state jurisdictions, with at least one state having competitive retail electric
5 supply access.
- 6 • The economy of the service area is significantly tied to the land
7 (agriculture, forestry, and mining).
- 8 • On the whole, the area served has a comparatively low-density population
9 except for a few major population centers.

10
11 The maps attached to Exhibit No.__(BEG-3) provide some additional information
12 regarding the similarities.

MidAmerican Energy Company

13 **Q. Please provide some historical background on MEC.**

14 A. MEC and its predecessor corporations (e.g., Iowa Power Inc., Iowa-Illinois Gas
15 and Electric Company, Iowa Public Service Company and their respective
16 predecessors) have electric service in Iowa, Illinois and South Dakota for
17 approximately 100 years. MEC is the product of a merger between Midwest
18 Power Systems Inc. and Iowa-Illinois Gas and Electric Company in 1995.
19 Midwest Power Systems Inc., in turn, was the result of a prior merger between
20 Iowa Power Inc. and Iowa Public Service Company¹ in 1992. In 1999, MEC was
21 acquired by CalEnergy Company Inc. (subsequently known as “MidAmerican
22 Energy Holdings Company” or “MEHC”), and in 2000, MEHC and an investor
23 group comprised of Berkshire Hathaway Inc, Walter Scott, Jr. (a director of
24 MEHC), David Sokol (Chairman and Chief Executive Officer of MEHC), and

¹ The utilities’ parent holding companies (non-registered, exempt holding companies), Iowa Resources Inc. and Midwest Energy Company, were previously merged in 1990 creating a new holding company (also a non-registered, exempt holding company) called Midwest Resources Inc.

1 Greg Abel (President and Chief Operating Officer of MEHC), closed on a
2 definitive agreement and plan of merger whereby the investor group, together
3 with certain of Mr. Scott's family members and family trusts and corporations,
4 acquired all of the outstanding common stock of MEHC.

5 **Q. Where and how does MEC provide electric service?**

6 A. MEC provides electric service in Iowa, Illinois and South Dakota, and is the
7 largest utility in Iowa. It provides service to more than 690,000 electric
8 customers and more than 670,000 natural gas customers in a 10,600 square-mile
9 area from Sioux Falls, South Dakota to the Quad Cities area of Iowa and Illinois.
10 The largest communities served by MidAmerican are Des Moines, Cedar Rapids,
11 Sioux City, Waterloo, Iowa City and Council Bluffs, Iowa; the Quad Cities area
12 of Iowa and Illinois; and Sioux Falls, South Dakota. I have provided a map of the
13 areas served by MEC in my Exhibit No.__(BEG-3).

14 After MEC's 360.5 MW wind project is completed in 2005, and its 790
15 MW Council Bluffs Energy Center Unit No. 4 is also completed in 2007, the
16 company will meet the needs of its electric customers with more than 6,100
17 megawatts of generating capability: approximately 59 percent fueled by coal; 26
18 percent by natural gas and oil; 8 percent by wind, hydroelectric and biomass; and
19 7 percent by nuclear. MEC has majority ownership in four of the five jointly-
20 owned coal-fueled generating stations in Iowa, and a forty percent ownership in
21 the fifth. Exhibit No.__(BEG-4) shows the locations of MEC's base-load
22 generating facilities. In Exhibit No.__(BEG-5), I have provided some basic facts
23 and figures related to MEC's performance.

1 **Customer Service**

2 **Q. Would it be reasonable for the Commission to expect no diminution in**
3 **PacifiCorp's performance in the area of customer service as a consequence of**
4 **the transaction?**

5 A. Based on MEC's experience, the transaction will not diminish PacifiCorp's
6 performance in this area. MEC has a strong track record of success in satisfying
7 its customers. In both 2004 and 2005, MEC's electric business customers ranked
8 MEC first in the Midwest for overall customer satisfaction, according to the J.D.
9 Power and Associates study. In 2004, the J. D. Power and Associates residential
10 electric study results placed MEC in a tie for first place in the Midwest on overall
11 customer satisfaction, and the residential gas study placed MEC in a tie for second
12 place in the Midwest on overall customer satisfaction.

13 The following performance factors were included in the respective
14 customer satisfaction studies: Communications with Customers (Business Study);
15 Power Quality and Reliability (Business and Residential Studies); Billing and
16 Payment (Business and Residential Studies); Customer Service (Business and
17 Residential Studies); Company Image (Business and Residential Studies); Price
18 (Business Study); and Price and Value (Residential Study).

19 **Q. Please describe MEC's relationship with its major customer stakeholders.**

20 A. Our largest 800 customers are assigned energy consultants who are capable of
21 assisting customers with unique needs such as energy efficiency, power quality,
22 gas transportation and metering. MEC's interruptible credit program, which
23 offers customers an opportunity to achieve price reductions, has been popular

1 among larger customers, with 197 MW of load control currently enrolled. MEC
2 also works constructively with its largest customers to ensure the rates they pay
3 are based on their costs of service and appropriately reflect any benefits that the
4 customers bring to the retail system (e.g., interruptibility, co-generation). In
5 2004, our large commercial and industrial customers rated us second in the nation
6 on overall customer satisfaction in the TQS Research Inc. study.

7 **Energy Efficiency and DSM**

8 **Q. Please discuss MEC's experience with energy efficiency programs and DSM**
9 **programs.**

10 A. MEC and its predecessors have offered cost-effective, energy efficiency and DSM
11 programs in Iowa for more than fifteen (15) years. MEC is represented on the
12 boards of the Consortium for Energy Efficiency and the Peak Load Management
13 Alliance and is a member of the Midwest Energy Efficiency Alliance. Similar to
14 PacifiCorp, MEC has received numerous state and federal awards for its
15 programs. MEC estimates that customer demand has been reduced by some 220
16 MW through DSM programs and some 180 MW from energy efficiency
17 programs. Further, customer annual energy requirements have been reduced by
18 some 500,000 MWh as a result of the DSM and energy efficiency programs.
19 These impacts are taken into account in MEC's resource planning analyses.

20 **Q. Does MEC have state approved energy efficiency plans?**

21 A. Yes. MEC's plans are reviewed and approved by Iowa regulators, usually every
22 three to five years. Through the review and approval process, the Iowa regulators
23 determine which programs proposed by MEC meet the tests for cost-

1 effectiveness, as discussed below. MEC's actual plan expenditures have
2 exceeded budget for several years due to the success of and demand for the
3 programs. For example, in 2004 MEC's actual plan expenditures compared to
4 budgeted plan expenditures were \$35.1 million (actual) and \$31.3 million
5 (budgeted), respectively. In 2003, MEC's actual versus budgeted expenditures
6 were \$31.2 million versus \$20.1 million, respectively. A comparison, on a
7 program-by-program basis, for these same years is provided in my Exhibit
8 No.__(BEG-6).

9 MEC utilizes a collaborative process to determine which energy efficiency
10 and DSM programs it will offer for consideration by regulators. The company's
11 most recent collaborative process involved roughly a dozen different parties. In
12 order to be included in MEC's plan, programs must pass a feasibility screening
13 process that incorporates a societal test. The societal test is an economic test that
14 compares the present value of the costs and the benefits over the useful life of an
15 energy efficiency program or DSM program from a societal perspective.
16 Exceptions to the requirement to pass the cost-benefit tests are provided by rule
17 for low-income and tree-planting programs. MEC's plans have included all
18 programs that were identified as feasible and cost effective.

19 **Q. You mentioned MEC's Iowa programs. What about Illinois and South**
20 **Dakota?**

21 A. These states previously have not been as interested as Iowa in energy efficiency
22 and DSM programs being offered by regulated utilities. However, that may
23 change in Illinois as regulators, at the Governor's request, are considering

1 whether to allow such programs. MEC is an active participant in the Illinois
2 process and is encouraging the state to allow it to extend its Iowa programs to
3 Illinois consumers.

4 **Environmental Actions**

5 **Q. What has been the experience of MEHC and MEC regarding environmental**
6 **stewardship?**

7 A. MEHC is committed to responsible stewardship of the environment and, in 2000,
8 adopted a policy of “Environmental RESPECT” that guides its corporate
9 commitment to the environment. MEHC is a world leader in geothermal energy
10 development and believes that good environmental management is a good
11 business practice. Once again this is revealed in MEC’s performance.

12 **Q. Does MEC have a plan to address future air emission reduction**
13 **requirements?**

14 A. Yes. MEC in 2001 helped the state of Iowa develop and adopt an energy and
15 environmental policy reflected in House File 577. Pursuant to that law, regulated
16 utilities such as MEC develop, through a collaborative process, a multi-year plan
17 and budget for managing regulated emissions from their coal-fueled facilities in a
18 cost-effective manner. Mandatory participants in the review and approval process
19 for that plan and budget are the Iowa Utilities Board, the Iowa Office of
20 Consumer Advocate and the Iowa Department of Natural Resources. To be
21 approved, the plan and budget must: (1) meet applicable state environmental
22 requirements; (2) be expected to achieve cost-effective compliance with
23 applicable state environmental requirements and federal ambient air quality

1 standards; and (3) reasonably balance costs, environmental requirements,
2 economic development potential, and reliability of the electric generation and
3 transmission systems. The state agencies concerned with environmental matters
4 and utility rates are involved in the collaborative process with the result that the
5 reasonableness and prudence of the environmental plan is determined prior to its
6 implementation.

7 **Q. Does MEC have an approved environmental plan?**

8 A. Yes. MEC filed its first multi-year environmental plan and budget with the Iowa
9 Utilities Board and the Iowa Department of Natural Resources in April 2002.

10 That plan addressed MEC's projected air emission reductions considering
11 legislative and regulatory proposals at the time, and described a coordinated long-
12 range plan to achieve those air emissions reductions. The plan proposed specific
13 actions to be taken at each MEC coal-fueled facility and related costs and timing
14 for each action through the year 2010. The Iowa Utilities Board approved the
15 plan on July 17, 2003, covering the period April 1, 2002 to April 1, 2004, and
16 adopted a process to review the plan every two years. MEC filed its most recent
17 plan on April 1, 2004, and that plan was approved by the Iowa Utilities Board on
18 October 4, 2004. This plan covers the period from April 1, 2004 through
19 December 31, 2006.

20 **Q. Did the plan approved by the Iowa Utilities Board include the addition of**
21 **emissions controls?**

22 A. Yes. MEC's approved initial plan (2002 – 2004) called for installing six neural
23 networks at Council Bluffs Energy Center Unit No. 3, George Neal Energy Center

1 Unit Nos. 1-4, and Riverside Generating Station Unit No. 5 during the period
2 ending March 31, 2004. All six neural networks were installed during the 2002-
3 2004 plan period. The current approved plan (2004-2006) continues the addition
4 of NO_x controls with the installation of low NO_x burners and overfire air at
5 Council Bluffs Energy Center Unit Nos. 1-3, George Neal Energy Center Unit
6 Nos. 1-4, and Louisa Generating Station. Low NO_x burners have been installed
7 so far at the Neal 3 and Louisa units, with work continuing on the remaining units
8 through 2007.

9 **Q. Was MEC required to make these reductions in NO_x emissions?**

10 A. No. MEC has voluntarily moved forward to reduce the NO_x emissions from its
11 facilities. Doing so voluntarily, in advance of required reductions, affords MEC
12 the advantages of (1) being able to appropriately plan the installation of
13 equipment during the respective units' normal outage time and duration; (2)
14 achieving cost savings by aggregating the projects into a single contract to take
15 advantage of volume discounts; and (3) achieving NO_x reductions earlier,
16 allowing impacted states to begin realizing benefits sooner than a just-in-time
17 installation would provide.

18 **Q. Will these voluntary NO_x reductions make a significant difference in the**
19 **MEC NO_x emissions?**

20 A. Yes. Prior to this voluntary initiative, the MEC coal-fueled facilities had an
21 average rate of NO_x emissions of 0.41 lbs/mmbtu. By the latter part of 2007,
22 with the completion of the low NO_x burner installations, MEC is projected to be
23 at an average NO_x emissions rate from the coal-fired facilities of 0.21 lbs/mmbtu.

1 This is a 49 percent reduction in NO_x emissions that will benefit all impacted
2 states.

3 **Q. In addition to the NO_x controls, do you anticipate any near-term reductions**
4 **in SO₂ and mercury?**

5 A. Yes. MEC has analyzed the Clean Air Interstate and Clean Air Mercury rules as
6 promulgated by EPA, and MEC will seek approval in July 2005 for an
7 environmental plan that includes the installation of a scrubber and baghouse at
8 Louisa Generating Station. In addition, in 2003 MEC was the first company to
9 commit to the installation of an activated carbon injection system for the control
10 of emissions at the new Council Bluffs Energy Center Unit No. 4, which is
11 scheduled to come on-line in June 2007.

12 **Q. Do you anticipate seeking approval for additional emission controls as a part**
13 **of the environmental plan process?**

14 A. Yes. Although compliance with the reduction requirements can be achieved by
15 installing controls or meeting the emission reduction obligations by obtaining
16 sufficient allowances to cover the annual emissions or some combination of the
17 two compliance mechanisms, I anticipate that MEC as a part of the environmental
18 planning process will seek approval for significant investments in controls
19 between now and 2018.

20 **Q. Is equivalent environmental planning required of MEC in other states where**
21 **it provides service?**

22 A. There are no equivalent requirements in MEC's other states, but all impacted
23 states benefit from MEC's Iowa-approved environmental activities.

1 **Renewable Generation**

2 **Q. How do you expect the transaction to affect PacifiCorp's commitment to**
3 **renewable generation resources?**

4 A. I expect that PacifiCorp's commitment in this area will be undiminished and
5 perhaps even strengthened by MEC's experience with owning and operating wind
6 energy facilities and MEHC's experience owning and operating geothermal
7 facilities. MEHC and MEC are leaders in the ownership of renewable resources,
8 particularly geothermal (MEHC) and wind in a regulated portfolio (MEC).

9 **Q. How much geothermal generation does MEHC own?**

10 A. Worldwide, MEHC has 14 geothermal facilities in California and the Philippines.
11 It also owns and operates an innovative hydro-electric and irrigation project in the
12 Philippines and is evaluating the development of one of the largest geothermal
13 projects (215 MW) in the world in California.

14 **Q. What is MEC's experience with wind and renewable resources?**

15 A. MEC is in the midst of constructing a 360.5 MW wind project, one of the largest
16 land-based wind projects in the world. This project was undertaken without a
17 state mandate. The project will occupy two sites in Iowa to obtain wind resource
18 diversity. In 2004, MEC placed 160.5 MW of the project into service, and
19 another 200 MW will be placed into service by the end of 2005. The sites were
20 developed in coordination with two developers, enXco, Inc. and Clipper
21 Windpower Development Company, Inc. MEC owns and operates the project as
22 part of its regulated portfolio. The all-in cost of the wind energy, with the federal
23 production tax credit, is projected to be about three (3) cents per kWh over the life

1 of the facilities.

2 In addition, MEC purchases or owns another 127.6 MW of capacity from
3 renewable energy sources, including: wind (112.5 MW purchased capacity),
4 hydro (3.6 MW of owned capacity), and biomass (11.5 MW of purchased
5 capacity). MEC and another utility are also owners of Ottumwa Generating
6 Station where supplementing Powder River Basin coal with switch grass is being
7 tested.

8 Once MEC's wind farm construction is completed, and after completion
9 of its new Council Bluffs Energy Center Unit No. 4, renewable energy in MEC's
10 generation portfolio will equal approximately 8 percent of nameplate capacity and
11 5 percent of energy production, assuming a 34 percent annual average capacity
12 factor at the MEC-owned wind project.

13 **Resource Selection**

14 **Q. Based on MEC's experience, how can the transaction be expected to affect**
15 **PacifiCorp's resource planning process?**

16 A. MEHC expects its energy business platforms to follow the planning method
17 preferred in the states where it operates. Obviously, there are limitations to such
18 an approach. For instance, if the preferred resource planning methods, state-to-
19 state, become so incompatible as to make efficient resource planning infeasible,
20 some effort would need to be undertaken to harmonize the various methodologies.

21 I have some familiarity with PacifiCorp's resource planning process, and I
22 am aware that it has received acclaim for its level of stakeholder input.

23 PacifiCorp's process is recognized as a good, sound approach to resource

1 planning. MEHC supports PacifiCorp's continued use of this process for its state
2 jurisdictions.

3 **Q. Do MEHC and MEC prefer one variety of generation resource above others?**

4 A. No. In recent years, MEHC business platforms have invested in a broad range of
5 generation technologies, including coal, gas, geothermal and wind. As explained
6 below, MEC is completing its investments in gas combined-cycle generation,
7 super-critical western-coal-fired generation and wind generation, all pursuant to a
8 state policy encouraging a diverse portfolio of generation. MEC also utilizes the
9 wholesale market when prudent and cost-effective, as demonstrated by its multi-
10 year power purchase agreements (e.g., a 250 MW purchase from the Nebraska
11 Public Power District).

12 **Q. Does MEC utilize integrated resource planning?**

13 A. Yes, in Iowa. As I have testified, energy efficiency and DSM programs are
14 reviewed and approved by the Iowa Utilities Board. All programs determined to
15 be cost-effective must be implemented before supply options are considered. The
16 supply options are reviewed in separate siting and rate-making principles
17 proceedings before commencement of construction. Integrated planning occurs in
18 the sense that supply options are only considered after taking into account the
19 effects of the utility's energy efficiency and DSM programs. I recognize,
20 however, that there are varying degrees of integration used in different
21 jurisdictions within the United States, and the meaning of "integrated resource
22 planning" may vary significantly.

1 **Generation and Transmission Operations**

2 **Q. Please provide some insight into MEHC's philosophy regarding operation of**
3 **a utility's generation facilities.**

4 A. Again, I will point to our experience at MEC. MEC has decades of experience
5 operating traditional generation facilities and owning such facilities jointly with
6 other utilities, including investor-owned, municipal and cooperative utilities.
7 Refer for example to Exhibit No.__(BEG-7). MEC has some of the lowest cost
8 coal-fueled plants in the nation. *Power* magazine, a publication for the electric
9 generation industry, recently named MEC's Iowa-based electric plants among the
10 best in the nation. *Power* annually ranks the country's top plants, and MEC had
11 four among the top 22 coal-fueled plants in the category of lowest-cost producers.

12 MEC's experience in cooperative relationships with other utilities, public
13 and private, and in the safe and efficient operation of base-load generating plants
14 matches well with that of PacifiCorp. Again, our MEC experience attests to the
15 fact that MEHC's ownership of PacifiCorp will result in a continuation of the
16 good practices for which PacifiCorp is known.

17 **Q. Has MEC invested in nuclear generation?**

18 A. By virtue of a predecessor corporation's investment, MEC has a 25 percent
19 ownership interest in both units at Quad Cities Nuclear Power Station, for a total
20 of 437 MW of accredited capacity. The units are operated by the owner of the
21 remaining 75 percent of the units, Exelon Generation Company, LLC ("Exelon").
22 In 2004, Exelon obtained license renewals from the Nuclear Regulatory
23 Commission, permitting operation of both Quad Cities units through December

1 14, 2032. These two units represent MEC's only ownership interest in nuclear
2 generation.

3 **Q. Will PacifiCorp be exposed to any additional risk as a consequence of MEC's**
4 **ownership of nuclear facilities and nuclear decommissioning obligation?**

5 A. No. MEC is ring-fenced. PacifiCorp will be ring-fenced as well.

6 **Q. PacifiCorp will need to construct transmission infrastructure as well as**
7 **generation infrastructure. What does MEHC's track record suggest with**
8 **respect to such endeavors?**

9 A. MEHC has recent experience with the construction of transmission facilities
10 through its MEC operations. This experience demonstrates a commitment to
11 working well with regulators and the public in siting and locating vital
12 transmission assets. I believe this to be consistent with PacifiCorp's approach.

13 **Q. Please relate MEC's recent experience with transmission.**

14 A. MEC has decades of experience operating its transmission system. Again, MEC
15 jointly owns many such facilities with other utilities, both investor-owned and
16 publicly-owned. Most recently, MEC obtained franchise authority in December
17 2004 to construct a 122-mile, 345 kV transmission line to integrate its new
18 Council Bluffs Energy Center Unit No. 4 with the grid. The new generating plant
19 will be in service in 2007; the transmission line is due to be in service in 2006.
20 The capital investment in the interconnection facilities and the system additions
21 totals approximately \$170 million. The new line itself represents approximately
22 \$128 million of investment. MEC was required to use eminent domain authority
23 with respect to only one landowner, having reached voluntary accommodations

1 for over 430 easements required along the 122-mile route.

2 **Regional Transmission Memberships**

3 **Q. The Federal Energy Regulatory Commission continues to promote oversight**
4 **of utility transmission by an independent entity. What has MEHC's**
5 **approach been with respect to this subject?**

6 A. MEHC's approach has been similar to that of PacifiCorp, in that both companies'
7 efforts have focused upon trying to design solutions that accommodate private
8 and public utilities while balancing costs and benefits.

9 **Q. What has been MEC's experience?**

10 A. MEC's approach has been one of caution. MEC has determined that existing
11 RTO membership options (e.g., MISO and PJM) have not been in the best
12 interests of its customers due to the costs of such membership and the penalties
13 for ending membership. Given the existence of numerous publicly-owned
14 utilities in Iowa and states to the north and west of Iowa, MEC is particularly
15 concerned that unless those entities are also participants, the potential benefits
16 will be limited.

17 MEC previously sought to address this concern by joining the effort to
18 create TRANSLink, an independent transmission company that would encompass
19 both investor-owned and publicly-owned entities. Although the TRANSLink
20 proposal addressed many of the difficult issues surrounding regional operation
21 and pricing of transmission, the Minnesota Public Service Commission and the
22 Iowa Utilities Board in 2003 expressed concerns regarding costs and benefits.
23 The proposal was subsequently tabled. Since that time, MEC has continued to

1 monitor potential costs and benefits of other alternatives. I will outline the current
2 alternative that MEC is pursuing in my testimony regarding regulatory approvals
3 for this transaction.

4 **Regulatory Experience**

5 **Q. Based on MEC's experience, what will MEHC ownership mean for**
6 **PacifiCorp's regulatory relationships?**

7 A. As reflected in MEC's relationships, MEHC seeks positive, constructive working
8 relationships with the regulators who monitor its utility operations. MEHC will
9 be committed to the same kind of relationships with PacifiCorp's regulators.

10 **Q. How is MEC's relationship with its state regulators?**

11 A. MEC understands the role of the public utility commission and has decades of
12 successful experience working within the regulatory framework. MEC takes
13 seriously the need to maintain its regulatory credibility. For example, in Iowa, the
14 company has worked very cooperatively and successfully within the regulatory
15 process. Through settlements in the previous five years, MEC has sited and
16 received rate-making principles orders in advance of construction for roughly \$2
17 billion in energy infrastructure and environmental investment.

18 **Q. What is MEC's experience with regulatory treatment of affiliates?**

19 A. In Iowa, MEC makes an annual filing that reflects its affiliate transactions in the
20 prior year. This filing includes a copy of the written agreements that govern its
21 affiliate transactions. In Illinois, MEC is required to obtain prior approval of
22 affiliate transactions unless they fall within the "ordinary course of business" or
23 other enumerated exemptions. For several years, MEC has had an Intercompany

1 Administrative Services Agreement (“IASA”) that governs the provision of
2 routine services between MEC and its affiliates. This IASA has been reviewed
3 and approved by Iowa and Illinois regulators. MEHC witness Specketer provides
4 a copy of the IASA with his testimony and explains its operation.

5 On the whole, our experience with affiliate transactions has been
6 uncomplicated. I would note, however, that we have a pending proceeding in
7 Illinois wherein the Illinois Commerce Commission staff examined MEHC’s
8 transfer of two new gas turbines to MEC in 2001 for the Greater Des Moines
9 Energy Center (“GDMEC”). MEC did not seek prior approval of the transaction
10 because MEC believed the law and regulations exempted the transaction from the
11 need for approval. A hearing examiner for the Illinois Commerce Commission
12 determined the exemption was not available. In an effort to resolve the matter
13 without further litigation, MEC has proposed to Iowa and Illinois regulators that
14 the portion of GDMEC that would have been allocated to Illinois be allocated to
15 Iowa. The Iowa Office of Consumer Advocate supports this approach, and this
16 resolution is proceeding through the regulatory process.

17 **Operations in States with Retail Access**

18 **Q. PacifiCorp’s service territory includes both a state that operates on a model**
19 **of competitive electric supply (“retail access”) and states that operate on a**
20 **model of traditional regulated electric service. Based on MEC’s experience,**
21 **how will the transaction affect PacifiCorp’s view of this kind of mixed service**
22 **area?**

23 A. Based on MEC’s experience, the transaction should have no impact in that regard

1 since MEC also has experience serving in states with and without retail access.
2 MEHC and MEC support the right of a state to determine whether or not to
3 implement retail access.

4 Illinois has offered electric retail choice since 1999, following enactment
5 of a law in 1997. Thus, MEC operates in two states (Iowa and South Dakota) that
6 do not have electric retail access and one state (Illinois) that does. This makes
7 MEC's experience similar to PacifiCorp's in that both utilities need to be able to
8 conduct their utility businesses in states with varying positions regarding retail
9 choice.

10 **Q. Has MEC been supportive of retail access for electric customers?**

11 A. MEC has been supportive of retail access in Illinois and participated in drafting
12 the 1997 restructuring legislation in that state. Since the law's passage, MEC has
13 supported several implementation measures designed to promote effective
14 competition in Illinois.

15 In Iowa, MEC took a leadership role in advancing retail access legislation,
16 but Iowa elected not to pursue retail access. MEC's response was to work with
17 Iowa's Governor, lawmakers, regulators and consumers to develop an energy and
18 environmental policy for the state, using the regulatory model Iowa prefers.
19 Again, MEHC expects its energy business platforms to operate on either model,
20 regulated or competitive, depending on the state's preference.

1 **Serving Communities**

2 **Q. What will MEHC's ownership of PacifiCorp mean for the communities that**
3 **PacifiCorp serves?**

4 A. Based on MEC's experience, they can expect a continued focus on good service
5 and good corporate citizenship.

6 **Q. What efforts does MEC's undertake in the area of community leadership?**

7 A. A key effort is MEC's Community Contact Program, which relies on the
8 volunteer efforts of some 170 MEC employees who represent MEC in
9 approximately 225 communities in Iowa, Illinois and South Dakota. These
10 employees advise MEC of community needs and represent MEC in the
11 community. Each of the 170 employees has a small discretionary budget from
12 which grants are awarded in their communities. In addition, these employees
13 participate in community meetings (e.g., city council) and relay community needs
14 that MEC may be able to satisfy (e.g., moving poles, digging holes, providing in-
15 kind contributions to volunteer fire departments, sponsoring floats in community
16 parades, sponsoring local events, etc.). These 170 employees also provide MEC
17 support for community activities such as local environmental clean-up efforts and
18 tree planting projects on Earth Day and Arbor Day. They also serve as channels
19 for communicating any community complaints about MEC's quality of service.
20 As a result, the city councils in these 225 communities know who to contact
21 regarding concerns with MEC.

22 MEC is also actively engaged in the annual United Way campaigns of the
23 twenty communities it serves that have such campaigns. MEC actively

1 encourages its employees to contribute to such campaigns and matches employee
2 contributions dollar for dollar, up to a maximum value of \$436,000. MEC also
3 promotes employee involvement in local Rotary, Chamber, Kiwanis and
4 economic development organizations.

5 In addition to MEHC's corporate gift-matching program, MEHC
6 shareholders fund an innovative program called Global Days of Service. This
7 program encourages employees to volunteer time for charitable and educational
8 organizations through a shareholder contribution to the organizations based upon
9 employee hours volunteered. Employees simply keep track of the number of
10 hours spent in volunteer work for charitable groups [501(c)(3) IRS designation]
11 and for educational institutions worldwide. Employees submit a form listing the
12 number of hours (over eight) they have volunteered. At the end of the program
13 year, the shareholder contribution amount is divided among qualifying
14 organizations based upon the volunteer hours worked.

15 **Q. Does MEC support economic development in the communities it serves?**

16 A. Yes. Refer to the letters in Exhibit No.__(BEG-7) for examples of confirmation.

17 **Delivery of Transaction Benefits**

18 **Q. Please describe how you envision the delivery of the benefits of the**
19 **transaction to PacifiCorp customers.**

20 A. MEHC expects the benefits of the transaction to be delivered to all customers in
21 all jurisdictions via rate case proceedings and using PacifiCorp's recently
22 established multi-state allocation protocol when appropriate.

1 **Q. What impact would the transaction have on the degree of regulatory**
2 **oversight this Commission has over PacifiCorp?**

3 A. It would have no impact. The Commission will continue to exercise the same
4 degree of regulatory oversight over PacifiCorp as it does today.

5 **Q. Will MEHC offer rate credits, rate reductions or rate freezes as a part of the**
6 **benefits of the proposed transaction?**

7 A. No. We believe the demonstrable benefits of the transaction discussed in the
8 testimonies should be more than sufficient to satisfy the standards for the
9 acquisition.

10 Moreover, rate credits are simply a proxy for capturing the costs and
11 benefits of a transaction between rate proceedings. In the case of PacifiCorp,
12 such a proxy is unnecessary given the planned rate proceedings. These rate
13 proceedings will incorporate new investment into rate base and any cost
14 reductions in cost-of-service.

15 Finally, PacifiCorp is currently failing to earn its allowed return.
16 Providing rate credits, reductions or freezes under such conditions would simply
17 worsen PacifiCorp's financial performance. This could precipitate ratings
18 downgrades and higher financing costs. Going forward, as PacifiCorp strengthens
19 the infrastructure, investment and rate treatment of that investment must be
20 implemented in a manner that is fair to customers, employees and shareholders.

21 **Q. What impact will the commitments made by MEHC and PacifiCorp have**
22 **upon the rate increases projected by PacifiCorp?**

23 A. We do not expect that the commitments that we are offering will cause an

1 increase in the percentage discussed in PacifiCorp witness Johansen’s testimony.
2 Please also note the commitment, Revenue Requirements Impacts B, of Exhibit
3 No.__(BEG-2).

4 **Review and Approval of the Transaction**

5 **Q. Please describe the various reviews and/or approvals of the transaction that**
6 **MEHC anticipates.**

7 A. Following are the shareholder and regulatory reviews anticipated with respect to
8 the proposed transaction:

- 9 • approval of the shareholders of ScottishPower;
- 10 • approval and/or waiver from the public utility commissions in the states of
11 California, Idaho, Oregon, Utah, Washington, and Wyoming;
- 12 • approval of the transfer of the Trojan spent fuel storage license by the U.S.
13 Nuclear Regulatory Commission;
- 14 • approval of the transfer of jurisdictional facilities by the Federal Energy
15 Regulatory Commission (“FERC”) under Section 203 of the Federal
16 Power Act;
- 17 • approval by FERC of revisions to the open access transmission tariffs of
18 PacifiCorp and MEC and approval of their joint operating agreement
19 under Section 205 of the Federal Power Act;
- 20 • authorization by the U.S. Securities and Exchange Commission (“SEC”)
21 of MEHC’s acquisition (and ScottishPower’s sale) of PacifiCorp;
- 22 • authorization by the SEC to enable MEHC and its subsidiaries to operate
23 as a registered holding company system and engage in ongoing financing

1 and investment activities and other transactions following registration of
2 MEHC as a public utility holding company under the federal Public Utility
3 Holding Company Act of 1935 (“PUHCA”);

- 4 • review of the proposed transaction by the U.S. Department of Justice
5 under the Hart-Scott-Rodino Act; and
- 6 • approval by the Federal Communications Commission of the change of
7 control with respect to certain communication licenses held by PacifiCorp.

8 **Q. Is this transaction contingent upon repeal of PUHCA?**

9 A. No.

10 **Q. Do you expect the proposed acquisition to be authorized by the SEC under**
11 **PUHCA?**

12 A. Yes. Based on discussions with SEC staff and the assessments of legal counsel,
13 we expect the transaction to be authorized by the SEC under the terms and
14 precedents of PUHCA. We believe we can demonstrate that the acquisition will
15 satisfy the standards under Section 10 of PUHCA that require a utility acquisition
16 to be for reasonable and fair consideration, to not unduly concentrate control of
17 public utilities, to not unduly complicate the capital structure of utility systems,
18 and to tend towards the development of an integrated public utility system.

19 The consideration for the transaction was the result of arms-length
20 bargaining. The acquisition does not create an unduly large utility company,
21 compared to many others in the U.S., particularly in terms of number of
22 customers served. The transaction does not result in a complicated capital
23 structure, since the capital structure is one already accepted for MEHC.

1 **Q. How do you plan to satisfy PUHCA's requirement that PacifiCorp and MEC**
2 **must be capable of interconnection and coordinated operations and be within**
3 **a single area or region?**

4 A. As discussed in MEHC witness Gust's testimony, the companies plan to obtain a
5 contract path that will permit them to transfer power between themselves. Mr.
6 Gust also explains the joint operating agreement that will allow coordinated
7 operations.

8 We believe the integrated system also will satisfy the so-called single area
9 or region requirement of PUHCA. The utilities operate in contiguous states, in
10 contrast to many approved and pending transactions involving PUHCA registered
11 holding companies. Refer to my Exhibit No.__(BEG-8). The PacifiCorp/MEC
12 states form a region characterized by relatively low population density and local
13 economies tied to the land (agriculture, forestry, and mining). The region is also
14 characterized by a preponderance of public power entities and large transmission
15 systems relative to load. See Exhibit No.__(BEG-3). There are other factors
16 which support our opinion, and these will be set forth in our SEC filing which will
17 be made available to the parties in this Docket.

18 **Q. If PUHCA is repealed, will MEHC continue to pursue the acquisition of a**
19 **transmission path between PacifiCorp and MEC?**

20 A. MEHC would continue to pursue acquisition of a transmission path if it were
21 economically justified.

1 **Q. How will the costs of the transmission services associated with the path be**
2 **treated by MEHC and PacifiCorp for ratemaking?**

3 A. MEHC and PacifiCorp commit not to seek to include PacifiCorp's share of the
4 costs of the transmission services associated with the path in PacifiCorp's rates
5 except to the extent that benefits to customers can be shown to offset the costs.

6 **Q. MEHC's organization as a registered holding company under PUHCA will**
7 **mark a change in MEHC's status. Please explain the implications of this**
8 **change in status for PacifiCorp.**

9 A. After the transaction, MEHC will be a registered holding company, subject to the
10 full regulatory regime of PUHCA. MEHC will form a shared services company
11 ("ServCo") that will perform a small number of management services for MEHC
12 subsidiaries. MEHC witness Specketer addresses the ServCo in greater detail in
13 his testimony. Otherwise, MEHC's status as a registered holding company will
14 have minimal impact on PacifiCorp, which will operate as a stand-alone business
15 platform.

16 **Market Monitor and Transmission Services Coordinator**

17 **Q. Please describe the Market Monitor Proposal that MEHC has put forward in**
18 **connection with its proposed acquisition of PacifiCorp.**

19 A. Under the proposal, MEC and PacifiCorp would each contract with a market
20 monitor to assure nondiscrimination in the management of each company's
21 transmission systems commencing on the day of the closing of the acquisition. A
22 market monitor is an independent organization retained to review, on an after-the-
23 fact basis, transmission system operations necessary to ensure the transmission

1 provider does not favor its wholesale merchant function or any energy affiliate.
2 The market monitor would review and report to the FERC on such matters as the
3 utility's performance of the following transmission functions:

- 4 • generation dispatch and potential impacts on constrained facilities,
- 5 • actions to relieve constrained facilities,
- 6 • derating of transmission facilities, and
- 7 • ratings and other data used for total transfer capability calculations.

8 **Q. What are the expected costs to PacifiCorp of the market monitor?**

9 A. Bids for the market monitor services have not yet been solicited. However, we
10 estimate that the on-going costs to PacifiCorp will be about \$200,000 annually.

11 **Q. Does the market monitor proposal impact the development of Grid West?**

12 A. No. The efforts are complementary. For example, it is possible that some market
13 monitor services may be provided as an early service by Grid West. When Grid
14 West is fully operational it should obviate the need for a market monitor for
15 PacifiCorp, since Grid West would be providing non-discriminatory transmission
16 services to multiple parties including PacifiCorp.

17 **Q. Will Grid West also serve MEC?**

18 A. No, at least not for the foreseeable future. Subject to regulatory approval, MEC is
19 planning to enter into a contract with an outsource provider of transmission
20 services to be known as the transmission service coordinator ("TSC"). The TSC
21 initially will administer or oversee only MEC's transmission assets. However,
22 MEC is working with other utilities located to its west that currently are not part
23 of any regional transmission organization to consider having them also use the

1 TSC. Ultimately, the TSC may provide transmission services to an area abutting
2 that of Grid West. At such time, it may be appropriate to put into place a seams
3 agreement between the TSC and Grid West to enhance transmission system
4 coordination among transmission users in the states served by PacifiCorp and
5 MEC.

6 **Proposed Schedule**

7 **Q. When does MEHC expect to complete the process of obtaining all of the**
8 **foregoing approvals and reviews?**

9 A. We very much want to complete all of the state approvals by February 28, 2006,
10 in time to close on the transaction on or before March 31, 2006. This is an
11 important transaction for PacifiCorp customers, employees and communities. In
12 order to mitigate the ill effects of uncertainty and expedite the delivery of
13 important benefits, we respectfully request that the Commission act in a manner
14 that will facilitate an order by February 28, 2006.

15 Closing on that date will also facilitate the transition of PacifiCorp's
16 financial reporting from a fiscal year ending March 31 as used by Scottish Power
17 to a calendar fiscal year consistent with how MEHC companies report their
18 financial statements. Such calendar year reporting is also consistent with
19 regulatory reporting, which should enable regulators to utilize a single year's
20 audited financial statements rather than have regulatory reporting span two fiscal
21 years.

22 In connection with this request, I would note that the SEC has told us that
23 it will not act in advance of approvals from the respective state public utility

1 commissions. The SEC's policy in this respect is founded on their desire to avoid
2 pressuring the states to act in a particular manner, to avoid rendering decisions on
3 theoretical transactions, and to avoid impacting share prices and value by having
4 an extended period between its approval and closing. Thus, I would respectfully
5 ask the Commission not to delay its ruling on the acquisition in the hope that the
6 SEC will rule first.

7 **Q. Does this conclude your testimony?**

8 **A. Yes, it does.**