

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of
PACIFICORP and PACIFICORP,
WASHINGTON, INC. for an Order
Approving (1) the Transfer of Distribution
Property from PacifiCorp to an Affiliate,
PacifiCorp, Washington, Inc.,
(2) the Transfer by PacifiCorp of Certain
Utility Property to an Affiliate, the Service
Company, and (3) the Proposed Accounting
Treatment for Regulatory Assets and
Liabilities, and an Order Granting an
Exemption under RCW 80.08.047 for the
Issuance or Assumption of Securities and
Encumbrance of Assets by PacifiCorp,
Washington, Inc. and/or PacifiCorp

Docket No. UE-00____

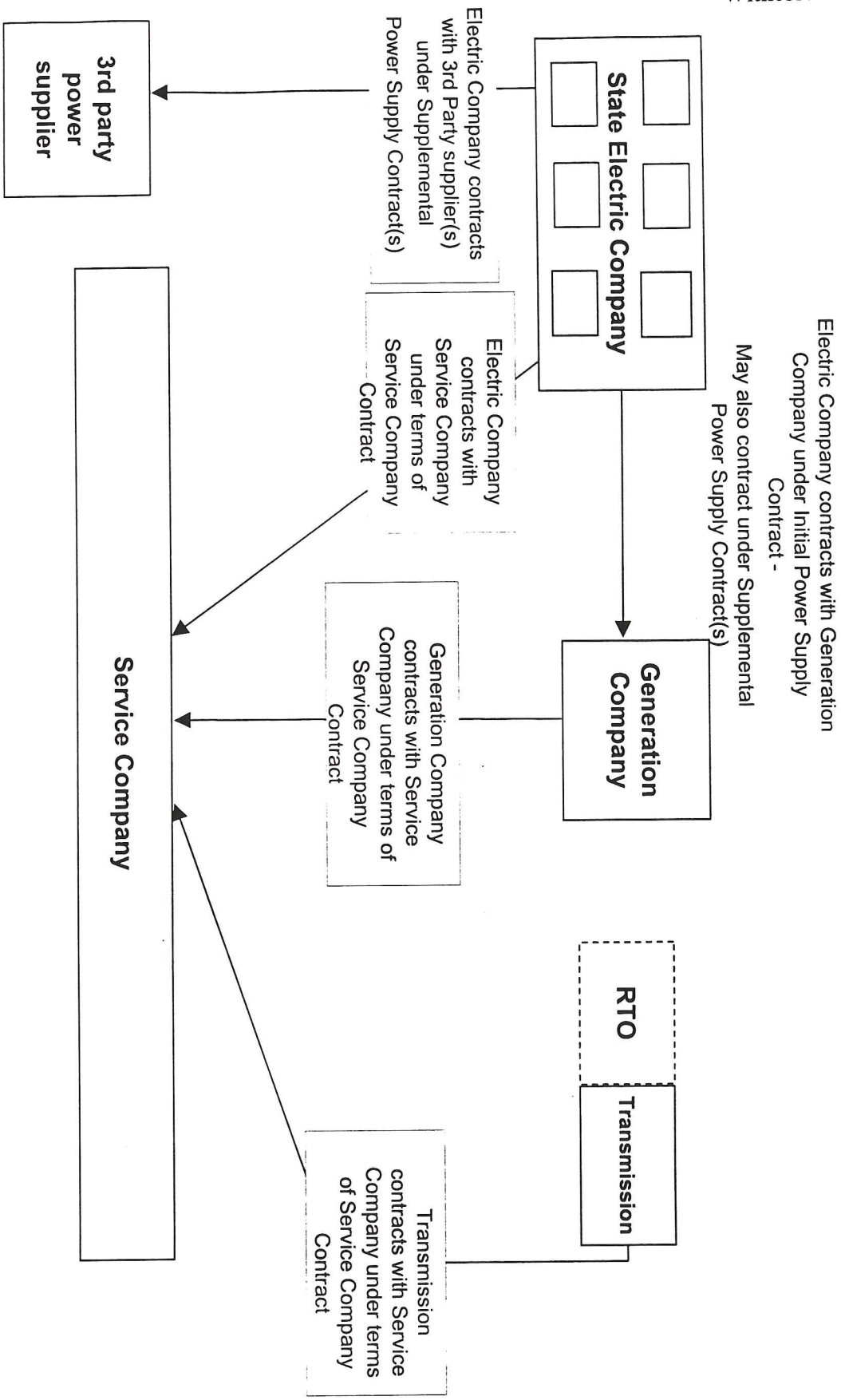
PACIFICORP

EXHIBIT TO DIRECT TESTIMONY OF
C. ALEX MILLER

December 2000

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

Contract Flows across the Restructured Organization



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1 Q. Please state your name, business address and present position with PacifiCorp (the
2 Company).

3 A. My name is C. Alex Miller. My business address is 825 N.E. Multnomah, Suite 2000,
4 Portland, Oregon 97232, and I am employed as Vice President of PacifiCorp.

5 **Qualifications**

6 Q. Please summarize your education and business experience.

7 A. I graduated from the University of Oregon in 1980 with a B.S. in Economics. I
8 received an M.B.A. from Claremont Graduate School in 1984.

9 I joined PacifiCorp as Business Unit Vice President in 1997. I have been
10 responsible for managing major projects such as the sale of the Centralia Plant
11 and Mine. I am currently managing the Company's direct access policy
12 development and other special projects.

13 Prior to joining PacifiCorp, I worked for Edison International for 15 years.
14 Most of that time was spent at Southern California Edison where I worked in the
15 Revenue Requirements Department and Treasurer's Department. My last position
16 at SCE was Vice President and Treasurer.

17 **Purpose of Testimony**

18 Q. What is the purpose of your testimony?

19 A. My testimony focuses on four general areas. I describe:

- 20 • the corporate structure that will result from the proposed restructuring of
21 PacifiCorp,
22 • the contractual relationships among the entities within the new corporate
23 structure,

- 1 • the regulatory oversight of the new corporate entities, and
- 2 • the regulatory approvals that PacifiCorp is seeking and the expected next steps
- 3 in the approval process.

4 **Description of Corporate Structure**

5 Q. Please summarize the Company's proposal.

6 A. For the reasons discussed in the testimony of Messrs. MacRitchie, Wright and
7 Furman, PacifiCorp proposes to change its existing corporate structure. Under the
8 proposed restructuring, the existing PacifiCorp would retain ownership and
9 operation of its generating and mining assets and be renamed "PacifiCorp
10 Generation Company." PacifiCorp also would retain ownership of its transmission
11 assets but would transfer the control over these assets to a regional transmission
12 organization, RTO West. Depending upon how RTO West is ultimately
13 structured, control of some low voltage transmission assets may remain with
14 PacifiCorp, in which case these facilities would be operated and maintained in a
15 separate business unit consistent with applicable codes of conduct. Under the
16 Company's proposal, PacifiCorp would distribute its remaining utility assets
17 among six state electric companies and a service company. Above all of these
18 companies in the proposed corporate structure would be a newly formed, non-
19 operating U.S. holding company. Application Exhibit 1 provides a simple
20 depiction of the proposed structure.

21 Q. What steps will PacifiCorp need to take to accomplish the proposed restructuring?

22 A. The restructuring will be accomplished in the following steps:

1 As an outgrowth of the ScottishPower merger, ScottishPower is separately
2 seeking to create a U.S. non-operating holding company above PacifiCorp,
3 "PacifiCorp Holdings, Inc." that will hold the stock of PacifiCorp and PacifiCorp
4 Group Holdings Company. Approval for the formation of this domestic holding
5 company is presently before the Securities and Exchange Commission ("SEC").
6 The Company will also seek other necessary approvals from state commissions
7 and the Federal Energy Regulatory Commission ("FERC") for the domestic
8 holding company formation. We expect this to occur separately and well in
9 advance of the restructuring that is proposed in this docket.

10 After obtaining necessary regulatory approvals, PacifiCorp will organize
11 six new subsidiaries, PacifiCorp, Washington, Inc. ("PacifiCorp Washington");
12 PacifiCorp, Oregon, Inc.; PacifiCorp Wyoming, Inc.; PacifiCorp, Utah, Inc.;
13 PacifiCorp, Idaho, Inc. and PacifiCorp California, Inc. (collectively referred to in
14 the balance of my testimony as "state electric companies"). At the time of the
15 closing of the restructuring, PacifiCorp will transfer all its distribution assets to
16 the state electric company serving the state in which the assets are located.
17 PacifiCorp will also form a central service company (to be named PacifiCorp)
18 (the "service company"). At the time of the closing of the restructuring,
19 PacifiCorp will transfer to the service company those of its assets needed to
20 supply central services to the state electric companies and other PacifiCorp
21 affiliates. These transfers will result in the existing "PacifiCorp" (renamed
22 PacifiCorp Generation Company) retaining only generation, mining and
23 transmission assets. Finally, at the time of the closing of the restructuring, the

1 existing PacifiCorp will transfer the stock of the state electric companies and the
2 service company to PacifiCorp Holdings, Inc.

3 Q. How does the Company propose to deal with its existing regulatory assets such as
4 deferred taxes?

5 A. Regulatory assets associated with PacifiCorp's distribution function are proposed
6 to be transferred to the respective state electric companies. Regulatory assets
7 associated with the generation and transmission functions will be allocated among
8 the states with appropriate shares transferred to the state electric companies for
9 recovery in retail rates.

10 Q. Why are the regulatory assets related to generation and transmission being
11 transferred out of PacifiCorp?

12 A. The regulatory assets related to generation and transmission represent an
13 obligation of our retail customers who will be served in the future by the state
14 electric companies. We believe that the quantification and allocation of these
15 regulatory assets is one of the critical steps necessary to permit each state to
16 pursue (or not pursue) direct access in its own way and at its own pace without
17 impacting customers in other jurisdictions or unfairly burdening our shareholders.

18 Q. How will the restructuring be financed?

19
20 A. PacifiCorp will transfer its distribution assets to the state electric companies in
21 exchange for all the common stock of the state electric companies and, except as
22 discussed below, notes secured by the distribution assets being conveyed. These
23 notes will be payable in full less than one year after issuance and all payments of
24 principal and interest will be used to service existing indebtedness of PacifiCorp.

1 The transfer of assets to the service company will be accomplished on a
2 comparable basis.

3 Instead of receiving notes from the new subsidiaries, PacifiCorp may
4 incur long-term debt from external lenders that would be secured by the assets
5 being conveyed. PacifiCorp would receive the proceeds of any such external debt.
6 Such external debt would be assumed by the state electric companies and the
7 service company. Alternately, the external debt may be issued during the first
8 year after the restructuring, with the proceeds used to retire the notes referenced
9 above. As part of its application in this proceeding, PacifiCorp and PacifiCorp
10 Washington are seeking alternate authority under which: (a) PacifiCorp would be
11 authorized to incur long-term debt that would be assumed by PacifiCorp
12 Washington (as well as the other state electric companies and the service
13 company), and (b) PacifiCorp Washington would be authorized to incur short-
14 term debt to PacifiCorp and external long-term debt (which would be used to
15 refinance any internal debt). Authority is also being sought for the issuance of
16 short-term debt to provide working capital to PacifiCorp Washington. Additional
17 detail concerning the financing arrangements and necessary approvals is
18 contained in our Application.

19 Q. How is the amount of debt proposed for each of the state electric companies and
20 the service company being calculated?

21 A. Our intent is to initially capitalize each of these companies with a 50 percent
22 equity ratio. The dollar estimates contained in the Application are preliminary
23 and will be updated based on future analysis.

1 Q. Describe PacifiCorp Washington.

2 A. PacifiCorp Washington will assume the obligation to serve and to continue to
3 provide safe and reliable service to the Company's customers in Washington.
4 PacifiCorp Washington will hold all state-specific distribution assets that are
5 fully allocated to Washington, such as distribution poles and wires, land, right-
6 of-ways, and meters. These assets are currently included in rate base in the
7 state of Washington. PacifiCorp Washington will contract with PacifiCorp
8 Generation Company for power supply to serve the existing requirements of its
9 cost-of-service customers and will contract with the service company for a
10 variety of administrative, management and support services.

11 Q. Describe the proposed service company.

12 A. PacifiCorp proposes to transfer to the service company those assets and associated
13 functions that are best shared among the state electric companies and PacifiCorp
14 Generation Company. Placement of these assets in a central service company
15 avoids unnecessary duplication and recognizes economies of scale. Traditionally,
16 these assets and functions have been maintained in a single corporation –
17 PacifiCorp – but allocated among the state jurisdictions based upon principles of
18 cost causation. This has not been a source of significant controversy and the
19 Company does not expect significant departures from past practices under a
20 service company format.

21 Examples of the assets that will be transferred into the service company
22 include: customer billing and accounting systems, call center technology, and

1 outage management systems. The service company will also be able to provide
2 the following functions: human resources, finance, asset management and
3 procurement, load and resource planning, and senior management. As I discuss
4 below, the service company will allocate its costs among the sister companies
5 pursuant to allocation factors and terms as defined by the contract between the
6 service company and all of the affiliated PacifiCorp entities.

7 Q. What impact does the proposed restructuring have on the generation and
8 transmission assets?

9 A. These assets will remain within the existing PacifiCorp. Control of all or most
10 transmission assets will be transferred to RTO West, but legal title to the assets
11 will not be transferred. To the extent that PacifiCorp retains responsibility for the
12 operations and maintenance of transmission facilities controlled by RTO West,
13 this will be done by personnel appropriately separated from the generation
14 function.

15 **Contractual Relationships**

16 Q. Now that you've introduced the corporate entities that sit under the holding
17 company, please discuss the contracts that will govern the relationships between
18 these sister companies.

19 A. Exhibit 1 to my testimony provides a depiction of the contractual relationships
20 between sister companies and external entities. I will focus my discussion on a
21 conceptual description of the contracts that involve PacifiCorp Washington,
22 namely: (a) the initial power supply contract; (b) the supplemental power supply
23 contracts; and (c) the service company contract.

1 Q. Describe the initial power supply contract.

2 A. PacifiCorp Washington will enter into a power supply contract with PacifiCorp
3 Generation Company for purposes of serving its existing level of cost-of-service
4 retail load. The contract will reflect Washington's cost-of-service customers'
5 share of the value of the Company's existing generation and will enable the
6 Company and its retail customers to retain the economic benefits of an integrated
7 system. The specific terms and conditions of the contract cannot be finalized until
8 the completion of the Resource Plan process in Oregon, and further input is
9 received from all of the states in which we serve. The Company intends to work
10 with parties to develop as much detail as possible in the interim. The Company
11 will also include a specific proposal in its future supplemental testimony.

12 Q. What principles will the Company apply in development of the initial power sales
13 contracts?

14 A. The Company believes that the following principles are appropriate:

- 15 • Each contract should initially require the provision of an amount of capacity
16 and energy approximately equal to the present requirements of retail
17 customers in the state served by the electric company, with such amount
18 declining over time to reflect the retirement of the Company's existing
19 resources.
- 20 • Each contract should provide the state electric company with the option to
21 meet its load growth requirements as it sees fit, but, at least initially, require
22 PacifiCorp Generation Company to be a "supplier of last resort" at the then-
23 prevailing market price.

- 1 • The initial contract price should generally reflect the level of power costs and
2 system efficiencies that would pertain in the absence of the restructuring,
3 including the economic benefits and costs associated with existing long-term
4 wholesale contracts.
- 5 • The initial contract price should afford PacifiCorp Generation Company with
6 a reasonable opportunity to recover its full costs of providing service.
- 7 • The contract price should increase or decrease going forward in a manner that
8 reasonably reflects changes in the cost of owning and operating generating
9 resources comparable to those currently serving the Company's retail
10 customers.
- 11 • Each contract should provide PacifiCorp Generation Company with incentives
12 to maximize efficiency.
- 13 • Each contract should clarify roles and responsibilities for providing new
14 generation to cover load growth.
- 15 • Each contract should provide flexibility for dealing with industry
16 restructuring/direct access initiatives to the extent a state wishes to pursue
17 such initiatives, while insulating customers in other states or a subset of
18 customers in the same state from the consequences of policy decisions that are
19 made.

20 Q. What will be the role of supplemental power supply contracts?

21 A. PacifiCorp Washington (and the other state electric companies) will enter into
22 supplemental power supply contracts to provide for load requirements in excess
23 of that provided under the initial power supply contract. In Oregon,

1 administrative rules require that all incremental load growth for cost-of-service
2 customers be served at a market rate. Therefore, while PacifiCorp Oregon may or
3 may not enter into supplemental power supply contracts based on market prices,
4 the price charged to cost-of-service customers for their new requirements will be
5 priced at market. In other states, the supplemental contracts may be cost-based
6 with prices tied to a single asset, a group of assets or an index. Each state electric
7 company will enter into its own supplemental power supply contracts with
8 PacifiCorp generation or with third parties enabling each state to follow its own
9 future resource acquisition strategy.

10 Q. Please describe the service company contract.

11 A. The service company contract will detail the service company functions and the
12 basis for allocation of the embedded cost (including a return on investment) of
13 performing these functions among the associated companies. These costs
14 currently are allocated on a system-wide basis and the service company contract is
15 not expected to significantly alter the cost allocations now in effect. The service
16 company contract will pass through the benefits of economies of scale to the
17 companies that share a need for its services. A proposed service company
18 contract will be filed with our supplemental testimony.

19 **Regulatory Oversight**

20 Q. What company will the Washington Utilities and Transportation Commission
21 (“WUTC”) regulate after the proposed restructuring takes place?

22 A. The WUTC will regulate PacifiCorp Washington, the state electric company.

23 The Company expects that the FERC and the SEC will be highly deferential to the

1 states with respect to the initial power sales contract and the service company
2 contract.

3 Q. What company will the FERC regulate?

4 A. The FERC will regulate the existing PacifiCorp (renamed PacifiCorp Generation),
5 which retains the generation and transmission assets.

6 Q. How will the service company be regulated?

7 A. The SEC will regulate the service company as part of its regulation of the entire
8 Scottish Power plc group under the Public Utility Holding Company Act.

9 **Description of Required Regulatory Approvals**

10 Q. Which regulatory agencies need to approve the proposed restructuring?

11 A. The Company will need to receive approvals from the state utility commissions in
12 California, Idaho, Oregon, Utah, Washington and Wyoming, the FERC and the
13 SEC.

14 Q. What approvals are you seeking from the WUTC in this Application?

15 A. In Washington, the Company seeks a WUTC Order authorizing:

16 (a) The transfer of distribution property exclusively used within the state of
17 Washington to PacifiCorp Washington,

18 (b) The transfer of certain of the Company's utility property which has
19 traditionally been allocated among the states to the service company,

20 (c) A transfer of regulatory assets associated with the Company's Washington
21 distribution activities and transfer of an allocated portion of the

22 Company's generation-related and transmission-related regulatory assets
23 to PacifiCorp Washington, and

1 (d) The authority for PacifiCorp and PacifiCorp Washington to issue stock
2 and forms of indebtedness as set forth in our Application.

3 When the details of RTO West are better developed, the Company will
4 also seek to transfer control over certain of the Company's transmission assets to
5 RTO West. In addition, PacifiCorp Washington will eventually file new tariffs in
6 the State of Washington that will establish rates, terms and conditions for service
7 and effectuate the transfer of the obligation to serve.

8 Q. How does this proceeding relate to the Resource Plan proceeding, Docket UE 119
9 in Oregon?

10 A. As discussed by Messrs. MacRitchie, Wright and Furman, SB 1149 and the
11 Oregon Resource Plan are the latest in a series of events that drive the need for the
12 proposed corporate restructuring. In the Resource Plan, the Company is required
13 to determine a permanent allocation of Company generating facilities to the state
14 of Oregon and a permanent allocation of the Oregon share of resources between
15 cost-of-service and direct access customers. PacifiCorp invited representatives
16 from other state regulatory staffs to participate in the Resource Plan public
17 process at which time it became clear that a more comprehensive solution was
18 necessary.

19 Through the proposed corporate restructuring, the Company seeks to
20 permanently allocate the benefits of PacifiCorp's existing generating facilities
21 among all of the states. There are still significant details to work through and the
22 Company acknowledges that this filing is the first of several that will be required.
23 However, the Company timed this initial filing to coincide with the Resource Plan

1 filing date in Oregon in order to initiate discussions in all states simultaneously.

2 We are absolutely mindful that a consensus among all our state commissions will
3 be required before we can move forward in implementing the Resource Plan and
4 restructuring the Company.

5 Q. What is the timing of the Resource Plan proceeding?

6 A. The Company filed its Resource Plan on December 1, 2000 with the Oregon
7 Public Utilities Commission ("OPUC"). It is Exhibit 5 to the Application. OPUC
8 rules require a contested case proceeding with a schedule set to produce a
9 decision by April 1, 2001. The OPUC may either approve, modify or reject the
10 Resource Plan in that decision. If the OPUC modifies the Resource Plan, the
11 Company has 30 days from the date of the OPUC Order to decide whether to
12 accept or reject the modifications. If the Company rejects the modifications, it
13 must file a second Resource Plan within 60 days of the Order. Also, if the
14 Commission rejects the Resource Plan, the Company has 60 days to file a new
15 plan. Because the Resource Plan results will impact the other jurisdictions in
16 which the Company operates, the Company has conditioned the implementation
17 of the Resource Plan on the acceptance of all of the other states.

18 Q. When does the Company expect the other states to decide on the proposed
19 restructuring?

20 A. It is the Company's hope that substantial work can be done among the parties in
21 all states in advance of the OPUC's decision on the Resource Plan so that the
22 Company would then have an initial reaction of the states to the conceptual
23 proposal. The Company will work with the other states to establish a reasonable

1 timetable for the evaluation of the details of the proposed restructuring.

2 PacifiCorp intends to continue discussions among stakeholders and will begin
3 scheduling workshops soon. With the benefit of these discussions, PacifiCorp
4 also intends to file supplemental testimony and exhibits to provide additional
5 details and analysis of the proposal.

6 Q. What approvals are needed from the FERC?

7 A. The Company will need approvals from the FERC with respect to the initial
8 power sales contracts and the transfer of control of its transmission facilities to
9 RTO. The Company will file initial power sales contracts with the FERC once the
10 Company has conducted discussions and negotiations with the state commissions
11 and other key stakeholders regarding the specific terms and conditions of each
12 state's contract. An accounting order may be sought from the FERC as well.

13 Q. What approvals are needed from the SEC?

14 A. The SEC will need to approve the proposed restructuring, associated accounting
15 and certain securities issuances, together with the form and terms of the contract
16 between the service company and all the sister companies, including PacifiCorp
17 Washington. The Company intends to develop the service company contract in
18 consultation with the state commissions and other key stakeholders, and will file
19 with the SEC in due course. Again, the Company would expect the SEC to be
20 highly deferential to the views of the state commissions regarding the
21 restructuring and the form of the service company contract.

22 Q. Does this conclude your testimony?

23 A. Yes.