BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

-------------------------------------------------------------------------------x

| | |
|---|---|
| Joint Petition of IBERDROLA, S.A.,<br>Energy East Corporation, RGS Energy Group, Inc.,<br>Green Acquisition Capital, Inc.,<br>New York State Electric & Gas Corporation and<br>Rochester Gas and Electric Corporation for<br>Approval of the Acquisition of<br>Energy East Corporation by IBERDROLA, S.A. | Case 07-M-0906 |

-------------------------------------------------------------------------------x

# REBUTTAL TESTIMONY OF
# EUGENE T. MEEHAN

January 31, 2008

# EUGENE T. MEEHAN

## I. QUALIFICATIONS, PURPOSE, AND CONCLUSIONS

Q. Please state your name and business address.

A. My name is Eugene T. Meehan. I am Senior Vice President at National Economic Research Associates ("NERA"). My business address is 1255 23 St. NW, Washington, DC 20037.

Q. Please summarize your professional qualifications.

A. I have over twenty-five years of experience consulting with electric and gas utilities. That work has involved examination and advice on many issues related to power markets, power contract design, fuel and purchased power procurement and hedging, competitive bidding and contract evaluation. For the past ten years, I have been extensively involved in advising clients on restructuring-related issues, including risk analysis, risk management, power plant and power contract valuation, and post-transition regulatory issues.

I have been involved in power procurement activities for a variety of utilities and regulatory agencies. I have advised utilities in developing and implementing evaluation processes for new generation, with the objective of achieving the best portfolio evaluation. I have helped regulators in Ireland and Canada design and implement portfolio evaluation processes.

I have performed many assignments that require financial and economic analysis. I have advised electric utilities on economic evaluations of generation and transmission expansion, testifying on the economics of particular investments, the prudence of planning processes, and the prudence of particular investment decisions. I have advised utilities and utility Boards of Directors with respect to merger evaluations and assessment of merger candidates.

In the past few years, I have advised several utilities with respect to the acquisition of power from third parties. These assignments have involved the review of power contract offers made by competitive power marketers and owners of generation assets. Additionally, I have testified several times with respect to the prudence of utility planning and power procurement.

I have testified on utility regulatory matters before a variety of state commissions, including numerous appearances before the State of New York Public Service Commission (the "Commission"). I have also testified before the Federal Energy Regulatory Commission, arbitration panels, and Federal District Courts. My curriculum vitae is attached as Exhibit___(ETM-1).

Q. Will you briefly describe the nature of NERA's business?

A. NERA is a firm of over 500 professional economists located in offices throughout the United States, Europe, Asia and Australia. NERA provides consulting advice in litigation and regulatory settings, as well as strategic and planning advice to clients in the energy, telecommunications, television and broadcasting, securities, transportation, health and banking industries.

Q. What is the purpose of your testimony?

A. IBERDROLA, S.A. ("Iberdrola") has announced its offer to acquire Energy East Corporation ("Energy East") (this transaction is referred to as the "Proposed Transaction"). Energy East is the parent company of two public utility companies in New York—New York State Electric & Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E")—both of which are regulated by the Commission with respect to their electric and gas utility operations.

The purpose of this rebuttal testimony is to respond to the prepared testimony submitted by Commission Staff, and, in particular, the testimony of the Staff Policy Panel,[1] and to explain that the Proposed Transaction provides net benefits to ratepayers in New York.

Q. Does your testimony address Staff's responses to information requests related to the Policy Panel's direct testimony addressing the issues discussed in your testimony?

A. Yes, but not specifically. I have received and reviewed several responses by Staff to information requests related to the Staff Policy Panel Testimony, but I have not specifically addressed any of these responses in my rebuttal testimony. Additional analysis will be required to review and possibly specifically address many of Staff's responses as there was insufficient time to complete my review in the time provided to submit my testimony. I further note that in certain responses, Staff has indicated

[1] Prepared Testimony of Thomas A. D'Ambrosia, Patrick J. Barry, Maynard Bowman, Michael Salony, and Stephen A. Berger on behalf of the State of the New York Department of Public Service, Case 07-M-0906, (Jan. 2008) ("Staff Policy Panel Testimony").

## EUGENE T. MEEHAN

that it intends to revise certain exhibits, and I will be prepared to modify my rebuttal testimony at hearing to address any changes to Staff's exhibits.

Q. What conclusions have you drawn?

A. I conclude that:

- § The Proposed Transaction is a first-mover, geographic extension merger and therefore the typical sources of merger savings—*e.g.*, reductions in officers, staff and administrative expenses—are not present. This is not to say that the merger will not bring real benefits to New York and New York customers; it is only to say that these benefits are not quantifiable or immediate.
- § In New York, a number of non-synergy mergers have been found to be in the public interest without the imposition of up-front rate concessions that are not related to the net benefits provided by the merger. This transaction should be held to a comparable standard.
- § A close analogue to the Proposed Transaction was the acquisition of United Water Resources ("UWR") by Lyonnaise American Holding, Inc. ("LAH"), which is now part of the Suez Environment division of the Suez Group ("Suez"). This was a first-mover, non-synergy transaction in which a local utility was acquired by a foreign holding company. Like this Proposed Transaction, the UWR/LAH case did not involve synergies, and yet the conditions imposed in that case were determined to be sufficient to protect consumers without requiring up-front rate decreases or write-offs, or requiring

## EUGENE T. MEEHAN

rate reductions that were not based on synergies achievable within the regulated utility.

- The financial, technical and managerial resources that Iberdrola and Energy East bring together would provide benefits to utility customers in New York over the longer term. These benefits would become apparent over time and could be taken into account in future rate cases. The Proposed Transaction can also be expected to enhance economic development in the State of New York, and thereby benefit the entire State, not just utility customers.
- The Staff Policy Panel alleges that there are various harms that might flow from the merger. Dr. Makholm, Mr. Fetter, and the Joint Petitioners' Policy Panel ("JPPP"), as well as other Iberdrola and Energy East witnesses, address allegations of risk (harm) from the merger and explain that these concerns are misplaced.
- While the Staff Policy Panel ascribes $1.68 billion of merger benefits to Iberdrola and others (Exhibit___(PP-20)), these purported benefits are conjectural in nature and have nothing to do with the cost of service of Energy East's operating utilities in New York. Benefits of this type are an inappropriate basis for rate concessions. I explain the problems with the Staff Policy Panel's analysis of merger savings, which include:

## EUGENE T. MEEHAN

- None of the benefits identified by the Staff Policy Panel have anything whatsoever to do with NYSEG/RG&E efficiency gains that result from this merger. Ratepayers are entitled to share in the benefits that result from more efficient utility operations in New York, but cannot expect to "reach up" to share in benefits that are at the holding company level.
- Most of the purported benefits are highly speculative in light of regulatory and other uncertainties (e.g., the potential goodwill-related tax benefits at the holding company level, which are not known and measurable at this time).
- A portion of the purported benefits have nothing at all to do with the merger (e.g., the attempt to capture the benefits, if any, of renewable tax credits).
- The attempt to quantify benefits by reference to costs incurred by Iberdrola's shareholders is logically flawed. These are costs that are being incurred to make the Proposed Transaction happen. Even if one were to subscribe to the view that any benefit to the acquiring entity should be shared with ratepayers, it is only sensible to share net benefits in excess of the costs of achieving the benefit. The Staff Policy Panel's attempt to characterize costs incurred by Iberdrola's

shareholders to achieve the Proposed Transaction as a "benefit" makes no sense.

- The Staff Policy Panel's attempt to compare the Proposed Transaction to an asset sale (***i.e.***, to the sale of the Ginna plant) is inapt. The basic ratemaking principle is that ratepayers pay a utility for regulated services but do not own the company. In other words, ratepayers may have "paid for" an asset that was in rate base and may be entitled to a share in the benefits/costs of selling that asset and taking it out of rate base. But a utility holding company's stock price is never in rate base. Just as ratepayers would not share in a decline in the value of the stock of a holding company, they would also not be entitled to share in the benefits/costs of the sale of that stock by shareholders. In this case, there is no change. Before and after the transaction, NYSEG and RG&E were/are regulated operating utilities in New York State. No regulated assets are sold and nothing is taken out of rate base.
- Because this is a geographic extension merger that is not anticipated to result in synergies, the write-off, reserve, rate decrease, and other ratemaking issues that have been raised by Staff are not directly relevant to approval of this non-synergy transaction.

## EUGENE T. MEEHAN

- While Staff suggested that the Commission's order ("NG/KS Merger Order")[2] addressing the National Grid/KeySpan ("NG/KS") merger should be used as a benchmark for the Proposed Transaction, the NG/KS merger is not directly comparable to the Iberdrola/Energy East transaction. Prior to acquiring KeySpan, National Grid had acquired the former New England Electric System in early 2000, followed by the acquisition of Eastern Utilities Associates in the same year. In early 2002, National Grid acquired Niagara Mohawk—doubling the size of its U.S. operations. Thus, the NG/KS merger was not a first-mover transaction, and care is needed in any comparison to that merger.
- While the NG/KS merger was not a first-mover transaction, I show how the non-synergy rate concessions, *i.e*, what was referred to as rate mitigation, of the NG/KS merger can be calculated and compared to the Proposed Transaction in a much more accurate manner than the comparison set forth by the Staff Policy Panel.

## II. SYNERGY AND NON-SYNERGY MERGERS

Q. In New York, merger benefits have been classified as "synergy" or "non" synergy. Please discuss.

[2] Commission, *National Grid, PLC, Order Authorizing Acquisition Subject to Conditions and Making Some Revenue Requirement Determinations for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island*, Joint Petition of National Grid PLC and KeySpan Corporation, Case 06-M-0878 (Sept. 17, 2007).

A. I have reviewed New York Commission orders, issued over the past 10 years, approving merger transactions involving Commission-regulated utilities. I have found that there is a clear line of demarcation between what I will call "synergy" mergers and "non-synergy" mergers.

Synergy mergers provide quantifiable and immediate benefits resulting from combined utility operations. All of these mergers have involved acquiring entities that already had significant utility operations in the U.S.

Non-synergy mergers also provide benefits to ratepayers but those benefits are not quantifiable or immediate. The Commission has approved a number of non-synergy mergers, taking care to identify the non-quantifiable but real benefits of the merger and to assure that no harm comes to consumers.

Q. How are synergy mergers analyzed?

A. For synergy mergers, a study is done that compares the utility's costs after a merger with the costs that the utility would have experienced *but for* the merger. Then, costs that are necessary to achieve those merger benefits are deducted to provide net merger benefits. These net merger benefits are then shared between customers and the utility in a rate plan. Absent a rate plan, the benefits of synergy mergers would flow to customers in the normal rate case process. The purposes of rate plans are both to provide for rate stability during the term of the rate plan and to provide a mechanism that allows the utility to share in the benefits of its efficiency-enhancing actions during the term of the rate plan.

## EUGENE T. MEEHAN

The methodology for calculating merger-enabled savings must begin with a reasonable benchmark against which to measure the utility's actual performance. To determine what would have happened absent the merger, a factual-counterfactual analysis is necessary. This analysis compares the outcomes under the scenario that was or will be chosen, with the results that likely would have been produced if another scenario had been chosen. When conducting such "what if" analyses, it is very important that realistic assumptions be used. The problem of establishing an appropriate counter-factual, which reflects what would have occurred but for the merger, is one that regulatory agencies face frequently. These analyses focus on the utility's costs because those are the costs that are used to set utility rates.

Q. Is the Proposed Transaction a synergy merger?

A. No, it is not. Typically, synergy mergers provide immediate and quantifiable opportunities to reduce costs through combined operations, for example, by consolidating administrative resources. The potential efficiencies that can result from a synergy merger include economies of scale, scope, and learning that benefit consumers. Economies of scale, scope, and learning are generally achieved by spreading fixed costs over a larger volume of output or a broader complement of services. The term "economies of scale" refers to reductions in the average cost of a product in the long run, resulting from an expanded level of output. The term "economies of scope" refers to economies that result from the expanded range of a firm's operations—*i.e.*, cost savings that result from simultaneous production of several different outputs in a single enterprise, as contrasted with their production in isolation by separate firms. If economies of scope or scale are present, different functions of a production process can be provided most efficiently by the same organization. Finally, the term "economies of learning" can be thought of as the cumulative economies of scale and scope that result from discovering, evaluating, and gaining experience with best practices throughout the combined firm.

The Proposed Transaction is not a synergy merger because Iberdrola does not currently own regulated utility assets in the U.S. For geographic extension (first mover) mergers, it is particularly important to recognize the limited opportunities to immediately realize synergies. While a geographic extension (first mover) merger can provide efficiencies, those benefits are necessarily limited in nature and take time and effort to realize. Therefore, Staff's efforts to identify synergistic benefits and capture a share of these purported benefits for New York ratepayers are misplaced.

Non-synergy mergers, such as the Proposed Transaction, may still provide economies of scale, scope or learning, but they either are not immediately realized or quantifiable at the time of Commission review and approval. To the extent that such benefits are realized, however, the Commission could flow such benefits to ratepayers in normal rate cases in the future.

Q. Has the Commission previously approved non-synergy mergers?

A. Yes. As discussed above, I have reviewed merger cases before the Commission over the past ten years. In this review, I identified a number of non-synergy mergers

## EUGENE T. MEEHAN

approved by the Commission which provided benefits that were either not quantifiable or not immediate, including transactions and mergers involving United/Aquarion (C. 07-W-0176), United Water NY/United Water South County (C. 06-W-0131, C. 06-W-0244), Philadelphia Suburban (C. 02-W-1447), Long Island Water/American Water Works/Thames (C. 01-W-1949), Aquarion/NY American (C. 01-W-1770), and UWR/LAH (C. 99-W-1542). Notably, I am not aware of any non-synergy mergers that have included up-front rate reductions, though several of the mergers resulted in rate stay-outs of 1-3 years. An analysis of these non-synergy transactions therefore shows that modest benefits over time and the absence of harm are sufficient for approval of "first-mover" mergers—***i.e.***, Commission approval is not dependent on quantifiable synergistic benefits.

Q. Can you discuss in detail an example of a non-synergy merger previously approved by the Commission?

A. Yes. One relevant precedent that I would like to highlight is the transfer of stock of UWR to LAH, the U.S. investment arm of Suez, a French holding company.[3]

Q. How did the Commission evaluate this non-synergy merger?

A. The Commission took a balanced view of this transaction, recognizing that the potential for long-term benefits on one hand combined with the Commission's ability

[3] Commission, ***United Water Resources, Inc.***, ***Order Approving Stock Acquisition***, Joint Petition of United Water Resources, Inc., and Lyonnaise American Holdings, Inc., Case 99-W-1542 (July 27, 2000) (as modified by Errata Notice issued August 1, 2000).

to set rates, monitor affiliate transactions and ensure quality of service on the other resulted in positive net benefits.

Many of the objections raised in the UWR/LAH merger are analogous to the objections raised here by Staff: objectors claimed that a foreign parent would lack local knowledge and sensitivity; that the transaction would jeopardize the financial integrity of UWR; that affiliate transactions would result in the cross-subsidization of foreign holdings; and that the prospect for traditional benefits was limited. Objectors asserted that the merged entity would have the incentive for either "excessive" rates or "draconian" efficiency measures at the expense of customers and employees. Some opponents also claimed that a portion of the stock purchase price should be used to offset rates.[4]

The Commission found the opponents' views "unpersuasive,"[5] noting that, even if any of these concerns should eventually prove to be well-founded, UWR would still be regulated under the Commission's jurisdiction. In addition to the one-year rate freeze agreed to by UWR, the Commission pointed to the retention of local management and the fact that UWR was not seeking recovery of any transaction costs as important benefits.[6] The Commission said:

---

[4] *Id.*, pp 7-9.

[5] *Id.*, p. 9.

[6] *Id.*, pp. 8-9.

## EUGENE T. MEEHAN

> The public interest standard under § 89-h is satisfied here because SLDE—one of the world's largest water distribution and treatment companies—can provide enormous technological and financial assets to help the subsidiary meet precisely those unique local challenges cited by the opponents.[7]

The Commission went on to state that:

> United Water will remain a fully regulated commodity and service provider, subject to our jurisdiction—and under local management, according to the proponents' representations—in case there emerges some reason for concern about the company's ability or willingness to maintain safe and adequate service and conduct its affiliate transactions on an arms' length basis.[8]

Rather than turn down the merger, the Commission recognized that, given the extent of its authority over regulated utilities in New York, it could protect utility customers from harm if some unanticipated threat to customers were to emerge in the future.

This example serves to show that: (1) the Commission has previously approved first-mover geographic extension mergers that lack quantifiable synergy savings; and (2) the Commission has ample experience in regulating utilities with foreign parent

[7] *Id.*, p. 7.

# EUGENE T. MEEHAN

companies and can exercise its regulatory tools to ensure that no harm comes to New York ratepayers. The Commission should apply the same standards here.

Q. Some non-synergy cases involve water utilities. Why are water utilities relevant to this proceeding?

A. While the Staff Policy Panel focused exclusively on electric utility mergers, the Commission has experience with non-synergy mergers in the water utility industry that is applicable to the Proposed Transaction. Large-scale foreign companies have been active in purchasing U.S. utilities, including utilities in New York, reflecting a worldwide trend towards consolidation in utility ownership, as well as significant developments in various industries in the U.S.

The U.S. water industry faced important challenges in the late-1990s. The existing plant and equipment of many water utilities needed to be upgraded in order to meet new Federal regulations on clean water standards: the U.S. Environmental Protection Agency estimated that the 20-year infrastructure needs related to Safe Water Drinking Act ("SWDA") compliance totaled about $151 billion in 1999 dollars.[9] Aging water transmission and distribution infrastructure and the need to meet customer demand for water distribution service (with sprawl-type development resulting in longer distribution lines and lower customer density) presented major challenges to the U.S.

---

[8] *Id.*, p. 8.

[9] *Drinking Water Needs and Infrastructure: Hearing Before the Subcomm. on Environment and Hazardous Materials of the H. Comm. on Energy and Commerce*, 107th Cong. 140 (Mar. 28, 2001) (statement of Janice A. Beecher, Beecher Research Policy, Inc.).

water utility industry. The American Water Works Association (an industry group) estimated that 20-year water needs totaled about $366 billion in 1999 dollars.[10]

In various orders (for example, addressing the UWR/LAH and Long Island Water/American Water Works/Thames transactions), the Commission recognized that large foreign water companies were well suited to use their expertise and knowledge acquired from operating utilities internationally to generate additional value from existing operations. Plainly, the electric utility industry today faces its own set of challenges. In the electric and gas utilities industries, the Proposed Transaction is the first geographic extension (first mover) merger that has come before the Commission. Even though the Commission lacks precedent addressing geographic extension mergers in the electric and gas industries, the Commission can rely on its experience in the water utility industry—where acquisitions of water utilities by foreign water utility companies have become commonplace.

I would note that I have also reviewed recent acquisitions of U.S. gas and electric utilities by foreign companies. In 2001, for example, the large German utility, E.ON, acquired Louisville Gas and Electric Co. ("LG&E") and Kentucky Utilities Co. ("KU") through its acquisition of PowerGen PLC.[11] Although this was a non-synergy merger and there were no quantifiable synergy savings associated with the merger,

---

[10] *Id.*, p. 141.

[11] Commonwealth of Kentucky Public Service Commission, Order in the Matter of Joint Application for Transfer of Louisville Gas and Electric Company and Kentucky Utilities Company in Accordance with E.ON AG's Planned Acquisition of *PowerGen* PLC., Case 2001-104 (Aug. 6, 2001).

the merger was found to be in the public interest due to the managerial and technical expertise E.ON would bring to Kentucky.[12] It is also my understanding that ratepayer benefits have been realized as E.ON has pursued cost reductions through the sharing of information on "best practices" as part of coordination initiatives.[13] These initiatives and examples of cross-company sharing are consistent with what one would expect out of a geographic extension merger: there would initially be no obvious synergy benefits but, with time, management would be able to identify cost saving opportunities that could be passed down to ratepayers through normal rate proceedings.

I would further note that one of the fundamental tenets of utility regulation is the development and application of a consistent set of standards by which conduct and transactions are to be evaluated. This approach affords predictability to those who come before the Commission with matters that are similar in nature to those that have gone before. I also find that the water company cases, and, in particular, the language from the UWR case quoted above, are consistent with the traditional approach the Commission has taken to mergers, especially where there are not readily identifiable or quantifiable savings present (as in the "first mover" cases). The Commission has recognized synergy savings where they exist and has not attempted to manufacture

[12] *Id.*, p. 5-6.

[13] *See:* Louisville Gas and Electric Company and Kentucky Utilities Company Annual Report 2006, SEC Form 10-K, p. 83.

merger savings where synergies are not present. Thus, I believe that the proceedings involving water companies are in line with this tradition of predictable and consistent regulation of mergers and acquisitions.

## III. BENEFITS OF THE PROPOSED TRANSACTION

Q. You previously stated that the Proposed Transaction is not a synergy merger. Does the Proposed Transaction provide net benefits to utility customers in New York?

A. Yes, it does. As discussed herein, and as supported by other Iberdrola and Energy East witnesses in this proceeding, there are net benefits and no harm to customers from the Proposed Transaction.

Even where, as here, no quantifiable savings have been identified, future potential savings may be realized over time. These potential benefits may accrue over time as NYSEG and RG&E are able to consult with Iberdrola on management, share information regarding "best practices" and gain from Iberdrola's experience as a large, global leader involved in more diverse aspects of the energy industry on an international scale. That this possibility might be achievable is suggested by Energy East's current "best practices" ranking in the U.S.[14] As discussed above, the Commission has previously recognized such benefits in approving non-synergy mergers.

---

[14] Iberdrola, Investor Presentation, *IBERDROLA + Energy East, Expanding the Global Platform*, June 26, 2007, p. 31.

## EUGENE T. MEEHAN

It is important to avoid over-stating the likely efficiency-enhancing benefits of Iberdrola's acquisition of Energy East, given the productive efficiencies that Energy East, NYSEG and RG&E have already achieved. Nevertheless, the financial, technical and managerial resources that Iberdrola and Energy East will together be able to bring to bear with respect to their U.S. utility operations will provide benefits to utility customers in New York that would become apparent over time. This would be especially true if Iberdrola acquires additional utility operations in the U.S., which could provide greater opportunities for achieving economies.

Most concretely, Iberdrola's acquisition of Energy East could have a beneficial impact on NYSEG's and RG&E's ability to issue debt at lower cost, which would tend to reduce their cost of debt capital. As discussed by Mr. Fetter in his testimony and by Mr. Azagra in the Rebuttal Testimony of the JPPP, Iberdrola's credit rating remains higher than that of Energy East. It is my understanding that Iberdrola now has an "A-" long-term corporate credit rating from Standard & Poor's, an "A" rating from Fitch Ratings, and an "A3" rating from Moody's. Thus, it is my understanding that Iberdrola's corporate credit rating continues to be within the broad "A rating" category, which includes the "A+," "A," and "A-" ratings. I have also reviewed data from the December 2007 Mergent *Bond Record* that shows (p. 12) that public utility bonds within the broad "A" rating category had bond yields that were about 20-30 basis points lower than public utility bonds within the broad "Baa" rating category (using Moody's rating categories, which is equivalent to the "BBB+," "BBB," and

"BBB-" ratings for Standard & Poor's and Fitch Ratings).[15] Thus, the fact that Iberdrola's credit rating is higher than that of Energy East would, all other things being equal, benefit NYSEG and RG&E and, over time, lead to cost savings that benefit customers.

In addition, the Proposed Transaction provides benefits to the State of New York, not just customers. The support that the Proposed Transaction has received reflects these benefits. The New York State Department of Economic Development ("Empire State Development") supports the merger because it provides the opportunity to realize key economic development benefits for upstate New York.[16] Similarly, Greater Rochester Enterprise, a regional economic development organization, supports the transaction because of its beneficial positive economic impact.[17] The International Brotherhood of Electrical Workers also supports the transaction because of its job retention benefits.[18] These benefits reflect the broader interests of the State as a whole in creating or retaining jobs.

---

[15] During periods of turmoil in the capital markets, the spreads between the broad A and Baa rating categories can widen substantially. Thus, in 2002, a year of financial stress in utility bond markets, the spread between the broad A and Baa rating categories was about 65 basis points.

[16] Gunderson, D.C., Before the Commission, Comments on Behalf of Empire State Development, Case 07-M-0906 (Jan. 11, 2008).

[17] Mullen, D.M., Before the Commission, Direct Testimony on Behalf of Greater Rochester Enterprise, Case 07-M-0906 (Jan. 11, 2008).

[18] Casey, G., Before the Commission, Testimony on Behalf of System Council U-7 and Local 36 International Brotherhood of Electrical Workers, Case 07-M-0906 (Jan. 10, 2008).

The Rebuttal Testimony of the JPPP, and in particular, Mr. Azagra of Iberdrola, addresses in greater detail these and other benefits to customers and the State of New York from the Proposed Transaction.

Q. How did you evaluate whether there is harm to customers as a result of the Proposed Transaction?

A. I first reviewed Staff's filing in this proceeding. Staff identified numerous examples of risk and uncertainty. I evaluated these claims, reviewed the testimony of other witnesses on behalf of Iberdrola and Energy East, considered whether any credible harm (risks) that Staff had identified could be mitigated, and then drew my overall conclusion.

There are several issues to consider when evaluating Staff's concerns, which are overwhelmingly anecdotal in nature. First, there is the question of whether the harm/risk issues have anything directly to do with this merger. A number of the issues raised by Staff would have been concerns even if the Proposed Transaction had not been proposed. Dr. Makholm, Dr. Hieronymus and Mr. Fetter consider allegations of harm/risk raised by Staff.

Second, there is the question of whether the harm/risk can be mitigated. Critically, given that the Commission's authority to regulate NYSEG and RG&E will continue unchanged, the Commission can be confident that utility customers in New York will not be harmed as a result of this merger. The Commission will retain all of the authority that it has now and, as Dr. Makholm explains, the substitution of one foreign parent corporation shareholder for Energy East's individual and institutional shareholders will not affect the Commission's ability to exercise its authority.

Moreover, and as discussed in greater detail by Mr. Azagra in the Rebuttal Testimony of the JPPP, Iberdrola has agreed to a number of potential conditions, which provide additional ratepayer protections. These include the agreement that NYSEG and RG&E customers will not: (1) pay rates that reflect the recovery of the acquisition premium being paid by Iberdrola's shareholders for the stock of Energy East; and (2) pay rates that include recovery of transaction costs related to this proceeding, such as investment bank fees, legal fees, transfer or other taxes, among others. These concessions mitigate the risk that NYSEG and RG&E customers will be harmed by the Proposed Transaction.

After reviewing all the evidence, I conclude that the Proposed Transaction will result in positive benefits to Energy East, NYSEG and RG&E over time, and will also not result in harm to New York ratepayers. Thus, applying the standards that the Commission has previously used in assessing non-synergy mergers, the Proposed Transaction should be approved.

## IV. MERGER BENEFITS IDENTIFIED BY THE POLICY PANEL

Q. There is a substantial difference of opinion between the Staff Policy Panel and Iberdrola on net merger benefits. How would you go about analyzing these issues?

A. The Staff Policy Panel identifies $1.68 billion of benefits to Iberdrola/Energy East and others. Exhibit___(PP-20). In addition, Staff provides a comparison that shows total cumulative delivery revenue reductions (nominal dollars, over five years) for Iberdrola/Energy East of $740.9 million. Exhibit___(PP-21). To respond to these issues, I explain the economic principles that are important to a proper benefit-cost analysis and then respond to the specific methodological and policy issues raised by Staff's analysis. The Rebuttal Testimony of the Rate Adjustment Panel provides a detailed analysis and response to Staff's calculation of the positive benefit adjustments ("PBAs") and rate reductions.

Q. Does the Staff Policy Panel follow the standard procedures when calculating merger benefits?

A. No. Staff's calculation of benefits to Iberdrola does not follow standard practice. Rather than comparing the New York utility's costs after the merger with the utility's costs but for the merger, Staff estimates "benefits" across all jurisdictions to Iberdrola and others. Thus, Staff's focus is not on the benefits of the transaction to NYSEG and RG&E.

This shift of focus from NYSEG and RG&E to Iberdrola and others is puzzling—and misleading. As Dr. Makholm shows, 100 years of ratemaking practice in New York points to the need to focus on the regulated utilities. Instead, Staff has offered an analysis that does not focus on outcomes relevant to New York.

## EUGENE T. MEEHAN

One of the purposes of utility regulation is to insulate utility customers from harm through exposure to the utility's affiliates and parent company. Thus, ringfencing, codes of conduct, and affiliate rules all aim to provide a clear line of demarcation between the utility and its affiliates/holding company. The basic concept of symmetry suggests that if regulators want to insulate utility ratepayers from harm from affiliates, then they should also accept that utility ratepayers would not benefit when utility affiliates are successful. To do otherwise would create a classic "heads-I-win/tails-you-lose" situation.

Q. Has Staff performed an economically sound analysis of the benefits of the Proposed Transaction?

A. No. The benefits that the Staff Policy Panel identifies on Exhibit___(PP-20) have a number of problems, not the least of which is the fact that these benefits have nothing to do with the realization of operating efficiencies achievable by the regulated utility operations of NYSEG or RG&E as a result of the Proposed Transaction.

Q. Can you please address each of the purported benefits identified by the Staff Policy Panel? Please first address the amortization of goodwill under Spanish law identified by the Staff Policy Panel.

A. The Staff Policy Panel's proposed benefits to Iberdrola/Energy East and others include tax benefits resulting from the amortization of financial goodwill under the Spanish Corporate Income Tax law of $476 million. These benefits are not known and measurable at this time; would shift benefits, if any, from the holding company to

New York ratepayers; and have nothing to do with the realization of economies of scale, scope, and learning in New York. As an initial matter, the JPPP Rebuttal Testimony explains the uncertainties surrounding the question of whether Iberdrola will ever realize any of these tax benefits in Spain, such as the recent rulings by Spanish tax authorities that questioned whether the acquisition of a holding company (such as Energy East) qualifies for goodwill amortization.

Equally important, governments provide tax benefits in order to provide incentives. Those incentives would be dampened if the tax benefits do not flow to the intended party. For example, Congress sometimes provides investment tax credits to encourage investment in plant and equipment by U.S. companies and may require that these benefits flow to the intended recipient. In the Revenue Act of 1964, for example, Congress barred state agencies from flowing through the benefits of utility investment tax credits to ratepayers.[19] In this case, the principle is particularly clear: the tax benefits, if any, are intended to go to Spanish companies to give them an incentive to invest abroad. These benefits have nothing to do with the cost of service of New York regulated electric and gas utilities and the Staff Policy Panel's attempt to capture these tax benefits for New York ratepayers is clearly inappropriate.

Q. Can you also address the benefits associated with Production Tax Credits ("PTCs") identified by the Staff Policy Panel?

[19] Leonard Saul Goodman, *The Process of Ratemaking* (Vienna, VA: Public Utilities Reports, 1998), p. 726.

A. The Staff Policy Panel's proposed benefits also include tax benefits from PTCs of $150 million. Again, the JPPP Rebuttal Testimony explains why these purported benefits are speculative at best. Indeed, after Congress failed to renew incentives for renewable energy production in the energy bill passed in December, there is currently a high degree of uncertainty about the level of benefits that will be available in the future, if any.[20]

Moreover, and as with the amortization of goodwill under Spanish law, PTC benefits (if any) have nothing to do with Energy East's regulated utility operations, and the Proposed Transaction also has nothing to do with whether or not Iberdrola will be able to realize these tax benefits. There has been some confusion on whether Iberdrola's acquisition was proposed, in part, to take better advantage of renewable-related tax benefits. This question, however, is misguided—there are numerous ways for Iberdrola to use its U.S. renewables-related tax benefits efficiently. For example, Mr. Azagra points out in the JPPP Rebuttal Testimony that third-party equity investors have already used available PTCs, and that PTCs are far from certain and are completely unrelated to NYSEG and RG&E. As such, the PTC benefits fail the "but-for-the-merger" analysis; in the absence of the Proposed Transaction, PTCs would be used by third-party equity investors. With the Proposed Transaction, nothing changes.

---

[20] Robin Goldwyn Blumenthal, ed., "Tax Credit in Jeopardy: Green Energy Blues," *Barron's*, Jan. 21, 2008, p. 17. This article quotes a spokesman for the House Ways and Means committee, who said that it

## EUGENE T. MEEHAN

Moreover, and as with the amortization of goodwill, any attempt to divert PTC benefits away from Iberdrola to New York ratepayers would be a bad policy for the Commission to adopt. Attempts to shift tax benefits away from the intended recipient would affect the incentives of the recipient. Simply put, if Congress decides to continue to provide tax credits for renewables, that decision would provide an incentive to build more renewables in the U.S. Requiring the sharing of renewable-related tax benefits with someone else (*i.e.*, NYSEG and RG&E ratepayers in New York) would reduce the incentive to build renewables, thereby subverting the public policy efforts of Congress and state legislatures for the short-term benefit of ratepayers within the utility's service area.

Q. Please address the benefits to employees, third parties and shareholders identified by the Staff Policy Panel.

A. The Staff Policy Panel's proposed benefits also include payments to executives/management and third parties of $78 million and $46 million, respectively. The basic point to make here is that these are *costs* to Iberdrola, not *benefits*. In order to enter the U.S. utility business and acquire a platform for future growth in the U.S., Iberdrola is bearing certain "transaction costs" to complete the Proposed Transaction. These costs include certain payments to Energy East executives under existing employment contracts, as well as to third parties (such as law firms and consultants).

---

was "too early to handicap" the chances for legislation.

The Staff Policy Panel has proposed that 50 percent of these transaction costs should flow to NYSEG and RG&E ratepayers in New York. However, doing so would force Iberdrola to pay a second time for these costs. The simple point is that these are costs and that only benefits in excess of costs are realizable benefits.

The Staff Policy Panel's proposed benefits also include $930 million that flow to Energy East's shareholders in the form of an "acquisition premium" reflecting the amount of the price paid to shareholders by Iberdrola above the share price at a point in time. Again, these are costs to Iberdrola, and not benefits that can somehow be assigned to NYSEG/RG&E ratepayers. Moreover, and as Mr. Azagra explains in the JPPP Rebuttal Testimony, NYSEG and RG&E will not seek recovery of the acquisition premium or transaction costs for the Proposed Transaction from customers. Dr. Makholm also explains in his rebuttal testimony why a large acquisition premium at the holding company level would not skew or distort the incentives of the potential combined Iberdrola/Energy East entity relative to the status quo. Nonetheless, Staff wants to capture (on behalf of ratepayers) alleged financial benefits that will accrue to Energy East shareholders. There is no principle under which this is justifiable. The Commission regulates the cost of the utilities within New York. The costs and finances of holding companies that own utilities in New York are outside of the purview of the Commission, and the Commission is only concerned with holding companies to the extent that they affect the Commission-jurisdictional utilities. Staff in the current case is distorting this concept and transforming a principled and established concept into a form of "pay to play." The Proposed Transaction should be approved if it meets the standard of providing benefits to New York and, as described above, it does meet that standard. It is inappropriate to demand rate and other concessions based on potential financial benefits to investors for a transaction that meets the established standard for approval.

Q. Please discuss Staff's comparison of the Proposed Transaction with the Ginna acquisition.

A. The Staff Policy Panel compares the Iberdrola/Energy East merger transaction with the Ginna transaction, which was RG&E's most recent asset divestiture (*see:* Staff Policy Panel Testimony, p. 237, lines 14 to p. 238, line 1). This comparison is inappropriate.

The Ginna transaction involves a generating asset that was included in RG&E's rate base. Beginning in the early 1970s, a return *of* and *on* the Ginna rate base was included in RG&E's regulated electric utility revenue requirement and therefore was included in the tariffed rates paid by RG&E's end-use customers.[21] When an asset that has been included in rate base is sold and thus removed from rate base, the long-

---

[21] The undepreciated original cost book value was included in RG&E's test-year electric utility rate base. The return *on* that rate base was the test-year rate base times the allowed fair rate of return on invested capital. The return *of* that rate base was the test-year depreciation expense.

standing regulatory practice in the U.S. is to assign all or a portion[22] of the benefits of that sale to ratepayers, who, after all, have paid for that asset in their regulated rates.[23]

Energy East's shares, in contrast, have never been in the regulated rate base in New York. The value of Energy East's shares may depend on any number of factors, and ratepayers of NYSEG and RG&E are not obligated to ensure that the shares of Energy East maintain any particular market value. Thus, ratepayers are not entitled to a share of changes in the market value of Energy East. Similarly, neither NYSEG's nor RG&E's ratepayers should be entitled to capture any of the benefits of the sale of Energy East's common shares to Iberdrola. Moreover, even if ratepayers of NYSEG and RG&E were somehow entitled to receive the change in market value in the shares of Energy East (which they are not), Staff inappropriately assumes that this benefit would not have to be shared with ratepayers of Energy East's other operating subsidiaries in Connecticut, Maine, Massachusetts and New Hampshire.

Q. Why is it appropriate that only merger benefits that result from utility operational savings properly attributable to NYSEG and RG&E form the basis for the rate concessions?

A. This is appropriate because attaching rate conditions to merger approval has a principled foundation. Rate conditions are not a form of legalized extortion or a

[22] Utility shareholders frequently receive a share of the gain on the sale of a regulated utility asset. This provides utility management with a "carrot" to seek and find utility assets that are no longer needed to provide utility service and therefore can be sold.

ransom to be paid to customers. Rather, rate conditions serve two purposes. First, they are a way of assuring that customers are not harmed by a merger. For example, if customers were to pay an acquisition premium or if merger savings were less than merger integration costs, rates could rise as a result of merger. Rate conditions protect against this.

In synergy mergers, cost savings would exceed integration costs and rates would fall. However, mergers come with transaction costs, including acquisition premiums, integration costs, and legal and financial fees. The second purpose of rate conditions is to serve as a means to enable a merger to proceed and for those costs to be recouped by the acquirer, thereby providing an incentive for the utility to search for and find opportunities to increase the utility's operating efficiency. In many synergy mergers, rate plans provide for rate reductions that flow a portion of synergy benefits on to customers, while providing an opportunity for a portion of those benefits to flow to investors to cover merger costs and incentivize synergistic mergers. When the plan expires, customers receive all synergy savings benefits in the form of lower cost of service.

With non-synergy mergers, rate plans often have periods during which rates are fixed to provide incentives for cost reduction and to place some of the risk of actually achieving the reduction on the merged entities. Certainly, to the extent that the merger

[23] See: David W. Wirick, *State Public Service Commission Disposition of the Gain on Sale of Utility Assets*, National Regulatory Research Institute, NRRI 94-17 (Aug. 1994).

lowers utility costs, the Commission can eventually lower rates to reflect the cost reductions. As I explained before, in a synergy merger, the opposite is done. For a period of time in a synergy merger, a portion of operating cost reductions is re-directed to the investor and away from the customer to provide a means to recover merger transaction costs and to share in the benefits of the utility's efficiency-enhancing actions. Hence, rate plans and rate concessions are not designed just to provide customer benefits in synergy mergers—those will come through lower cost of service and the rate setting process—but to provide a means to enable acquirers to share in merger synergy benefits. If an acquirer could not have an opportunity to share in the operational benefits of a merger, it may not recover the merger transaction costs and mergers that could be beneficial would not occur.

Here, Staff has the entire paradigm backwards. As rate plans for NYSEG and RG&E are relatively short lived and there will be no immediate material synergy savings resulting from the Proposed Transaction, customers are indeed getting near 100 percent of the operational benefits of the merger, which can be assessed in normal periodic rate cases. A defined rate plan to share those benefits with investors is not needed and is not being sought by Iberdrola.

Q. Does Staff's characterization of benefits have public policy implications beyond the Proposed Transaction?

A. Yes. Staff's attempt to reach beyond traditional benefits raises the cost of the transaction. By characterizing transaction costs as benefits and by claiming a share of purported holding company-level tax incentives, Staff is sending a signal to potential investors that one must "pay to play" in New York. This can be damaging because it could make other utility investors interested in bringing their capital to New York less likely to do so. Potential beneficial mergers may not be realized if investors see Staff as charging a "toll" to invest in New York.

In addition, an unsubstantiated rejection of foreign ownership of a U.S. electric utility could reduce future foreign interest in U.S. utility capital investment. The Edison Electric Institute ("EEI") forecasts that electric companies in the U.S. will need to spend, on average, $14 billion per year on distribution investment over the next 10 years. EEI projects the total value of transmission investment over the 2007-2010 time period to be $38.1 billion.[24] In addition to these investments in traditionally regulated T&D facilities, over $400 billion of electric industry infrastructure investment in generating plants will be required between 2006 and 2030.[25] Investments will be needed not only to accommodate the growth in population and the economy, but also to replace aging facilities, reduce emissions, and fund research and development of innovative technologies.

[24] Edison Electric Institute, http://www.eei.org/industry_issues/energy_infrastructure/distribution/index.htm and http://www.eei.org/industry_issues/energy_infrastructure/transmission/index.htm (Accessed Jan. 30, 2008).

[25] "[T]otal of 258 gigawatts of new [generating] capacity is expected between 2006 and 2030, representing a total investment of approximately $412 billion (2005 dollars)," *Annual Energy Outlook* 2007 at 41, Energy Information Administration, DOE/EIA-0383 (Feb. 2007).

**EUGENE T. MEEHAN**

Foreign direct investment can aid in this process. The ability to draw on the financial resources of foreign capital is a valuable option, and it is important to consider the mid to long-term implications that a rejection of the acquisition of Energy East by Iberdrola would have. In short, if access to foreign capital for New York utilities is reduced, it may be more difficult to ensure affordable and reliable electricity supply in the future. New York utility customers would be worse off—in terms of price and service quality—if New York utilities were handicapped in seeking investment by only being able to attract capital from domestic companies. As I mentioned previously, faced with a similar need for investment in water infrastructure, the Commission recognized the benefits of affiliation of water utilities in New York with large and sophisticated foreign holding companies.

## V. COMPARISON OF NATIONAL GRID/KEYSPAN TO THE PROPOSED TRANSACTION

Q. Please discuss the Policy Panel's PBA comparison.

A. Staff's Policy Panel identifies cumulative delivery revenue reductions totaling $740.9 million, which they depict as PBAs in Exhibit___(PP-21) and which they compare on a percentage of delivery revenue basis to the NG/KS merger and the Energy East/RGS merger.

Q. Is the comparison valid?

## EUGENE T. MEEHAN

A. No. Exhibit___(PP-21) has a number of problems, both conceptual and computational, including: (1) comparing the Proposed Transaction, which is a non-synergy merger, to synergy mergers; (2) using incorrect delivery revenue reduction levels; and (3) using an incorrect denominator by excluding the delivery revenues of Niagara Mohawk and Long Island Power Authority ("LIPA"). I believe that the Staff Policy Panel is attempting to use Exhibit___(PP-21) to cloak as legitimate and reasonable PBAs or delivery rate reductions of $740 million by attempting to paint this level of percentage reduction as comparable to that achieved in other mergers. However, these other mergers are synergy mergers and, as discussed previously, the Proposed Transaction is not a synergy merger. Further, the comparisons made by Staff are in error even for what they are.

Q. Why would it be incorrect to compare the Proposed Transaction to NG/KS and Energy East/RGS?

A. The Proposed Transaction is a geographic extension (first mover) merger with no quantifiable or immediate merger savings. The transactions that Staff focuses on in Exhibit___(PP-21), however, are synergy mergers.

The difference can be most readily seen by comparing the Energy East/RGS transaction with the Proposed Transaction.

The Energy East/RGS transaction involved two operating utilities in New York, NYSEG and RG&E, both of which operate electric and gas utilities. As a result, there were obvious opportunities to combine operations. The same can be said for the

NG/KS transaction. National Grid already operated an electric utility in New York, Niagara Mohawk, and had additional utility operations in New England. Thus, National Grid was not a first-mover with respect to the NG/KS transaction—National Grid had entered the U.S. utility market in 2000, with the acquisition of New England Electric System ("NEES"), with utilities in Massachusetts, New Hampshire, and Rhode Island.

Delivery rate reductions in a synergy merger are enabled by the savings that come from synergy savings. To the extent that operating costs decrease, rates can and will decrease. In a non-synergy merger there is no immediate decrease in costs. As a result, there is no basis for delivery rate reductions. Further, the synergy mergers that the Staff Policy Panel used in Exhibit___(PP-21) obscure the fact that a portion of net synergy savings actually went to shareholders.

Q. Could Exhibit___(PP-21) be corrected to provide a more accurate comparison of Staff's PBA recommendations for the Proposed Transaction to the other transactions?

A. Yes, it can be corrected for some of the gross errors, but the resulting values may well still exaggerate the percentage rate reductions for the other transactions. I will concentrate on the comparison to the NG/KS merger as there is a reasonably detailed settlement and Commission Order that lays out the rate reductions. Further, Staff through a data request has already cut in half the percentages applicable to the EE/RGS merger. Also, the JPPP Rebuttal Testimony argues that even Staff's new number is incorrect.

In Exhibit___(PP-21), the Staff Policy Panel assumes that rate mitigation relative to the stand-alone rate plans of $602.8 million flow to NG/KS over the five years following the transaction. However, this is not the level of benefits acknowledged by the Commission in the NG/KS Merger Order. The actual, acknowledged nominal level of benefits is $407.88 million to KEDNY and KEDLI over five years.[26] The Commission pointed out that the difference between the $602.8 million and $407.8 million was not mitigation resulting from the merger, but was an amount by which rates would have been mitigated even absent the merger. Adjusting for this is necessary and would lower the ratio of reductions to delivery revenues to 6.97 percent in the NG/KS merger.

Further, of the $407.8 million acknowledged by the Commission, $45.1 million is due to net synergy savings (net of costs to achieve). Those savings are not available in the Proposed Transaction. Removing these synergy savings lowers the 6.97 percent to 6.19 percent. Further adjustments are still required. The $45.1 million only represents the customers' 50 percent share of net synergy benefits. Shareholders will also retain a 50 percent ($45.1 million) share of the net synergy benefits allocable to KEDNY and KEDLI. As explained above, investors are allowed to retain this amount to help pay for transaction costs and to incentivize synergistic mergers. This amount offsets rate reductions and therefore must be subtracted from the savings in

[26] NG/KS Merger Order, p. 118.

order to obtain a true comparison for a non-synergy merger. After this adjustment, the remaining unfunded concessions for KEDNY and KEDLI would be $317.6 million, or 5.14 percent of delivery revenues.

This figure still needs further adjustment. Staff's analysis neglects the fact that both LIPA and Niagara Mohawk received a share of merger synergy benefits in the NG/KS merger and there is no reason to divide the non-synergy rate mitigation for KEDNY and KELDI by a delivery revenue value that excludes Niagara Mohawk and LIPA revenue. If the correct non-synergy rate mitigation of $317.6 million is divided by aggregate New York delivery revenues for KEDNY, KELDI, Niagara Mohawk and LIPA, the percentage of non-synergy rate reductions to delivery revenues would be 1.34 percent. Applied to the Proposed Transaction, this would yield non-synergy rate mitigation of $87 million. The 1.34 percent calculation provides a truer comparison to the NG/KS merger and if the Proposed Transaction was treated comparably to that transaction, the nominal non-synergy rate mitigation level over the five years following the merger would be no more than $87 million.[27] My calculations are shown in Exhibit___(ETM-2).

Q. Why do you qualify with the phrase "no more than" the values that you calculate to make a more appropriate comparison to the NG/KS merger?

---

[27] If LIPA revenues are excluded, the percentage would be 2.07% and, applied to the Proposed Transaction, this would yield non-synergy rate mitigation of $134.3 million.

# EUGENE T. MEEHAN

A. I qualify using this phrase because I believe that the 1.34 percent and $87 million values are overstated. The rate mitigation values in NG/KS are not clearly reductions that result from the merger. For example the NG/KS Order (page 83) states, "DPS Staff notes that the largest mitigation measure for KEDNY – the imputation of $106.2 million of additional revenues over the five years – addresses three key issues for DPS Staff that were subject to a degree of litigation risk." On page 84, the Order goes on to state that "DPS Staff also notes that the largest mitigation measure for either company was KEDLI's agreement to impute $152.2 million of additional revenues over five years. This imputation is intended to address the same three DPS Staff concerns that were addressed by a similar adjustment for KEDNY." In other words, $261.5 million of the total non-synergy rate mitigation amount of $317.6 million is not necessarily a merger-related reduction, but is rather the resolution of issues that Staff acknowledges may have gone either way in a litigated rate case. It is impossible to judge what portion of that $261.5 million should be used in a comparative analysis, but the Staff Policy Panel blindly attributes all $261.5 million to the merger and this is a clear overstatement.

Q. Are you suggesting that the Commission should require non-synergistic rate concessions for the Proposed Transaction?

A. No. As discussed above, the Commission has previously approved non-synergy mergers without requiring up-front rate reductions or write-offs/write-downs. There is no reason why the Proposed Transaction should be treated differently. The

## EUGENE T. MEEHAN

Commission must of course do what is necessary to assure that no harm comes to New York ratepayers as a result of the Proposed Transaction, but that is no cause to assume that the Proposed Transaction must provide some threshold minimum concessions to proceed. I see no reason why there should be quantitative rate reduction standards in the absence of quantifiable synergy benefits and to the extent that there were synergies, a portion of those synergies should for a period of time be shared with investors.

Q. Does this conclude your testimony?

A. Yes, it does.