

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PACIFICORP for a Certificate of)
Convenience and Necessity Authorizing) Docket No. 03-035-29
Construction of the Currant Creek)
Power Project)

REBUTTAL TESTIMONY OF D. DOUGLAS LARSON

FEBRUARY 11, 2004

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

2 A. My name is D. Douglas Larson. My business address is One Utah Center, Suite
3 2300, 201 South Main Street, Salt Lake City, Utah 84111.

4 **Qualifications**

5 **Q. What is your current position at PacifiCorp (the Company) and your
6 previous employment history with the Company?**

7 A. I am currently employed as Vice President of Regulation. I joined the Company
8 in 1981 in the Financial Accounting Department and have held various
9 accounting and regulatory-related positions prior to assuming my current position.

10 **Q. What are your responsibilities as Vice President of Regulation?**

11 A. My responsibilities include management of regulatory proceedings in all of the
12 states in which the Company does business. This includes revenue requirement,
13 cost of service, rate design and all other proposed changes to the Company's
14 tariffs. In addition, I have the responsibility for developing regulatory policy on
15 issues that the Commissions must address and making recommendations to
16 management on policy direction.

17 **Q. What is your educational background?**

18 A. I graduated from Brigham Young University with a Bachelor of Science Degree
19 in Accounting. In addition to formal education, I have also attended various
20 educational, professional and electric industry related seminars during my career
21 at the Company. I am currently a member of the board of directors of the
22 Intermountain Electric Association, President of the Utah Foundation, and I am a
23 licensed CPA in the State of Utah.

1 **Purpose of Testimony**

2 **Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to respond to a number of policy issues raised in
4 the direct testimony of witnesses representing the Utah Association of Energy
5 Users (UAE), the Committee of Consumer Services (“Committee”), Calpine and
6 Spring Canyon Energy, LLC (“Spring Canyon”). Specifically, I will address the
7 following concerns: several intervenor witnesses have claimed that the
8 Company’s interests and the interests of its customers are at odds in this
9 proceeding. I will demonstrate that the Company’s objectives in building the
10 Currant Creek facility are completely consistent with customer interests.

11 There has been a great deal of public posturing in this proceeding, with parties
12 alleging a lack of objectivity on the part of PacifiCorp while attempting to cloak
13 themselves in the banner of the public interest. To ensure a balanced and accurate
14 record in this regard, I will discuss the reasons why the UAE, Calpine and Spring
15 Canyon interpretations of the public interest in this case appear to focus on
16 developer interests.

17 The claim has been made that the regulatory compact is ineffective in protecting
18 the public interest with respect to new resource additions. I will explain that
19 competitive bidding for new resources has not invalidated traditional regulatory
20 principles and that current regulatory processes continue to be an effective tool for
21 protecting the public interest.

22 There have been several remedies suggested by parties in this case which include
23 the awarding of a contract to a bidder, or a re-opening of the bidding process. I

1 will confirm the Company position is that this was a fair process and that the
2 Carrant Creek Project is the best resource choice for PacifiCorp’s customers. As
3 such, the Company seeks a determination that this is a prudent resource
4 acquisition.

5 **PacifiCorp’s Interests do not Conflict with the Best Interests of Customers**

6 **Q. Please describe the nature of the self-interest conflict being ascribed to**
7 **PacifiCorp in this proceeding.**

8 A. There is a common theme running through the UAE and disappointed bidder
9 testimony. These witnesses would have the Commission believe that PacifiCorp
10 may have had good intentions in designing its RFP process; however, when the
11 time came to actually administer the bidding process, the Company inevitably
12 succumbed to its most primal instinct—to enrich shareholders at the expense of
13 customers. Examples abound. UAE witness Roger Weir states, “We expect
14 PacifiCorp to do exactly what it should do – watch out for the best interests of its
15 shareholders.” UAE witness Lincoln Wolverton opines that “it appears that
16 PacifiCorp chose its own best interests over the best interests of its customers.”
17 Spring Canyon witness David Graeber explains that “having PacifiCorp manage
18 the RFP does not lend itself to a fair and unbiased process because they have a
19 huge financial interest in awarding the bid to themselves.” All of these
20 characterizations portray the tragic figure of a utility charged with operating in the
21 public interest, but hopelessly addicted to ever increasing shareholder earnings.

22 **Q. Are there parties in this case whose self-interests have affected their**
23 **perception of the public interest?**

1 A. Yes. The two most obvious are Calpine and Spring Canyon. Those parties have
2 intervened in this proceeding in an effort to use the regulatory process to gain an
3 advantage for their projects; they are looking out for their investors. As expressed
4 by Spring Canyon, this process should result in a Commission order declaring
5 them the winning bidder and directing PacifiCorp to purchase power from their
6 project. It is also ironic, in our view, that the UAE, which has close ties to a
7 bidder in the RFP process, questions the Company's objectivity in this process.
8 Three of the six UAE staff members are registered lobbyists for Calpine,
9 including the Executive Director and Assistant Executive Director of the UAE.
10 In addition, the Executive Director has also been involved in the Calpine
11 negotiation process. That relationship should be, we believe, considered in
12 analyzing the UAE position in this case.

13 **Q. Was PacifiCorp's decision to seek approval of the Currant Creek resource**
14 **based on maximizing shareholder value?**

15 A. No. The charge that every operating decision is predicated on maximizing
16 earnings for shareholders evidences a limited understanding of the regulatory
17 process and how utility investors are compensated. It also fails to recognize the
18 reality of the situation. Put simply, PacifiCorp is hardly close to over-earning on
19 its allowed rate of return and its investment in the Currant Creek plant is
20 obviously unlikely to change that situation.

21 **Q. What evidence do you see in the testimony of intervenor witnesses of a**
22 **"simplistic understanding of the regulatory process"?**

1 A. The obvious premise underlying all of the intervenor testimony in this case is that
2 it is in PacifiCorp’s financial best interest to construct and own generating
3 resources rather than purchase power. In this case the simplistic notion is that
4 since the Company is allowed to earn a return on its utility investment, the more
5 assets the Company owns the better off shareholders must be. The corollary is
6 that since purchasing power doesn’t provide any return for shareholders, it should
7 be avoided whenever a build and own option is available. Following this logic,
8 PacifiCorp must inevitably succumb to its predatory impulses and manipulate the
9 competitive bidding process to ensure that self-construction is the lowest cost
10 option.

11 **Q. Why is the idea that a utility would always prefer “build vs buy” a simplistic**
12 **notion?**

13 A. PacifiCorp’s goal as a regulated utility is to recover all of the expenses it incurs in
14 providing service to customers and to earn a fair return on its capital investment.
15 For a multijurisdictional utility like PacifiCorp, simply achieving full cost
16 recovery and obtaining a reasonable ROE in six states is a daunting task. With
17 new generation resources which, unlike distribution facilities, are allocated
18 system wide, there are prudence issues and allocation gaps to be dealt with. For
19 example, the Company has been working for several years to close existing
20 allocation gaps for the recovery of generation costs through the MSP process,
21 with no resolution to date. In addition, in recent Oregon and Wyoming rate
22 proceedings, staff and intervenors have sought to disallow the recovery of
23 expenses associated with our Gadsby resource. As a result, adding on a major

1 construction program introduces a whole new level of complexity. Additional
2 capital must be acquired while maintaining debt ratings and without increasing
3 the overall cost of capital. Rate cases must be timed to minimize regulatory lag
4 on new investments and the prudence of build vs buy decisions must be
5 addressed. The reality is that the potential adverse financial impact of
6 undertaking a major construction program to serve the Company's growing load
7 is already a major concern for PacifiCorp management. New construction that
8 cannot be competitively financed and included in rates in a timely fashion would
9 create a significant burden for Company shareholders. In this environment, the
10 notion that PacifiCorp would manipulate the RFP process to justify additional
11 plant construction is absurd. In addition, this analysis ignores the fact that the
12 Company recently issued an RFP for 1,100 MW of renewable energy, and is not
13 pursuing a self-build option as part of this process. This is hardly an action of an
14 obsessive rate base guzzler.

15 **Q. Has the relative riskiness of new asset construction been addressed in a**
16 **recent rate proceeding?**

17 A. Yes, and it provides an interesting counterpoint to the arguments being raised in
18 this proceeding. In 2001, PacifiCorp sought approval to implement a Purchased
19 Power Cost Adjustment mechanism (PPCA) in Wyoming. This application was
20 subsequently withdrawn, but not before intervenors had filed testimony in
21 response to it. It is interesting to note that among the arguments raised in
22 opposition to the PPCA was that it might result in the Company purchasing more
23 power from the market, and generating less of its own power than would be

1 reasonable or cost justified. The speculation was that the Company would be
2 motivated to maximize power purchases at the expense of new plant construction
3 because a PPCA would provide quicker recovery of purchased power costs with
4 less rigorous regulatory review. I find it somewhat ironic that when the Company
5 sought to implement a PPCA, it was accused of trying to find a way to avoid
6 making prudent capital additions. In this case when the RFP evaluation process
7 supports the Company-build option, PacifiCorp is being accused of trying to
8 avoid making prudent power purchases. It just shows how easily the notion of
9 what behavior is in PacifiCorp's "best interest" can be manipulated by the special
10 interest groups involved in a particular proceeding. In Wyoming, it was in the
11 interest of the intervening parties to show that PacifiCorp was attempting to
12 manipulate the regulatory process to avoid making prudent capital additions.

13 In this proceeding, the special interest groups would have the Commission
14 believe that PacifiCorp is again attempting to manipulate the regulatory process—
15 only this time the goal is to justify imprudent capital additions. This is all
16 transparent nonsense. I will tell you what behavior is in PacifiCorp's best
17 interest. The Company is motivated to work within the regulatory process to
18 provide excellent service to its customers, to fully recover its prudent cost of
19 service and to earn a fair, regulated return for its investors. The Company has
20 managed the RFP process with these objectives in mind. The intervenor
21 protestations should be seen for what they are—expressions of frustration at being
22 denied the opportunity to earn high returns for their investors at the expense of
23 utility customers.

1 **Q. Is there any evidence that the same type of self-serving interpretation that**
2 **has been applied to capital additions is also being applied to evaluate the**
3 **RFP process in this proceeding?**

4 A. Yes. This proceeding is being billed as the first test of the RFP stipulation. This
5 stipulation contains competitive bidding guidelines that in Mr. Weir’s words, “we
6 hoped would ensure a fair and reasonable outcome of the 2003 RFP process.”
7 For a better understanding of what might constitute a “fair and reasonable
8 outcome”, we need only refer to the testimony of Steven Schleimer on behalf of
9 Calpine, who states “Had PacifiCorp selected one of the bidders in the Peaking
10 portion of the RFP instead of the Currant Creek Power Project, this CC&N
11 hearing would likely not be held.” Similarly, Spring Canyon witness David
12 Graeber says that if the process had been fair, Spring Canyon would not have
13 intervened in this matter. In other words, if PacifiCorp had just awarded a bid to
14 the correct third party developer, we wouldn’t be having this debate over what
15 constitutes “fair and reasonable”. Thus, as I interpret the forgoing discussion, the
16 intervenors in this case have always known what would constitute a fair and
17 reasonable outcome to the RFP process—namely, any outcome that served their
18 own economic interests. By definition, they would oppose any outcome that
19 resulted in PacifiCorp constructing and owning its own facility.

20
21

22 **The Regulatory Process is Effective**

1 **Q. So why didn't PacifiCorp opt for the easy life and pick one of these**
2 **developers?**

3 A. Put most simply, the regulatory compact works. PacifiCorp is well aware of its
4 obligation to determine what is in the best interest of customers. If this is a
5 transaction with a third party, PacifiCorp will undertake it. If this is a self-build
6 option, PacifiCorp will undertake it. I am not in the position of apologizing for
7 protecting shareholder and customer interests by ensuring that PacifiCorp does
8 not incur costly disallowances as a result of imprudent, but politically correct
9 transactions.

10 **Q. If it isn't driven by the opportunity to acquire new assets, what is the**
11 **Company's motivation in acquiring new generating resources?**

12 A. The Company's motivation in acquiring new generating resources is the same as
13 its motivation for upgrading its transmission and distribution facilities and for
14 improving its customer service capabilities. PacifiCorp is striving to be an
15 excellent electric utility. Accomplishing this goal requires that resources be
16 obtained and the delivery systems put in place to provide high quality, reliable
17 electric service to a growing customer base. In return for providing excellent
18 service, the Company expects to be able to fully recover its prudent cost of
19 service and earn a regulated return on its prudent investments. Attainment of
20 these objectives requires that the Company work cooperatively within the
21 regulatory environment; there is no need or desire to manipulate the system or to
22 attempt to "pad" rate base.

23

1 **Q. UAE witness Roger Weir indicates after-the-fact prudence audits are largely**
2 **ineffective for evaluating “build vs buy” decisions in acquiring generating**
3 **resources. Do you agree?**

4 A. No. There is a sufficient record in this proceeding to justify a Commission Order
5 granting a certificate for the construction of Currant Creek and determining that
6 the plant is a prudent resource acquisition for customers. That record will not
7 somehow disappear in the future.

8 **Q. How do you respond to comments that because the process appears to have**
9 **some errors built into it, the actual cost of the resource will bear little**
10 **resemblance to the costs ratepayers will ultimately bear?**

11 A. This issue was raised by Mr Falkenberg who notes that he has “little confidence”
12 that the Currant Creek evaluation will have “any relationship” to the costs
13 ratepayers will ultimately bear. While Mr. Falkenberg is entitled to his opinion,
14 he chooses to ignore the fact that this utility has an excellent track record of
15 providing consistently low rates to its customers, a track record it couldn’t have
16 maintained if Mr. Falkenberg’s criticism was accurate.

17 **The Commission should grant the Certificate of Convenience and Necessity.**

18 **Q. In your view what conclusions should the Commission reach in this**
19 **proceeding?**

20 A. I have already outlined the seriousness with which the Company takes its
21 responsibility to make decisions that are in the best interests of customers and its
22 shareholders. While others may represent that as an impossible goal, this merely
23 represents their limited understanding of the regulatory compact. Making the best

1 determination on behalf of customers ensures that the Company avoids regulatory
2 disallowances that harm it as a business. I firmly believe that the evidence that
3 PacifiCorp has provided in this proceeding establishes that this was a fair process,
4 as recognized by Division witness Mr. Powell, and that the Currant Creek project
5 is the best resource choice for PacifiCorp's customers. I urge the Commission to
6 recognize those facts in its order and grant a certificate for the Currant Creek
7 plant, and recognize that this is a prudent resource acquisition.

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

9 A. Yes it does.

10