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

A. My name is Stan K. Watters. My business address is 825 NE Multnomah, Portland, Oregon, 97232. My present position is Senior Vice President of the Commercial and Trading department. My position is part of PacifiCorp's regulated merchant function.

Qualifications

Q. Please describe your education and business experience.

A. I joined the Company in 1982 and I have held various positions in engineering, finance, and wholesale prior to my current position. In my position as Senior Vice President of Commercial and Trading, I am responsible for the Company's long-term resource planning, electricity and natural gas balancing, resource acquisition, structuring and pricing, load forecasting, and the economic dispatch of PacifiCorp's system resources. I graduated from Oregon State University in 1981 with a Bachelor of Science in Civil Engineering.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide information regarding the current status of the West Valley lease agreement ("West Valley Lease"), the Gadsby simple cycle project (the "Gadsby Project"), and the 525 MW combined cycle combustion turbine Currant Creek project (the "Currant Creek Project").

Q. Would you please summarize your testimony in this proceeding?

A. My testimony will discuss the West Valley Lease and explain the Company's recent decision to exercise the first early termination option contained in the lease. I will also address the Gadsby Project and provide the comparison requested by the Commission in its Order in Docket No. 01-035-37. Finally, I will discuss the current status of the Currant Creek Project

The West Valley Lease

Description of the West Valley Lease

Q. Please provide a general description of the West Valley Lease.

A. The West Valley Lease is a 15-year operating lease between PacifiCorp and West Valley Leasing Company, LLC, for the output of a 200 MW natural gas-fired, simple-cycle combustion turbine electric generating station ("West Valley Project").

Q. Please describe the lease terms.

A. Under the West Valley Lease, the Company: has the responsibility for operation and maintenance of the West Valley Project; provides all of the fuel used by the West Valley Project; and has the exclusive right to dispatch and receive all of the generation from the West Valley Project as well as the exclusive use of the West Valley Project to produce ancillary services (such as operating reserves) or to dispatch the resource to provided voltage support when needed. The lease requires PacifiCorp to make quarterly payments of $749,150 for each of the five units ($14,983,000/year).

Q. Does the lease give PacifiCorp an option to terminate the lease?

A. Yes, the lease is very flexible. PacifiCorp has multiple options embedded in the lease including the option to terminate the lease in years three and six.

Q. Has PacifiCorp exercised its option with respect to termination of the West Valley Lease in year three?

A. Yes. The first early termination option provides PacifiCorp with the ability to issue a termination notice on or before June 1, 2004 with the additional PacifiCorp option to rescind the notice on or before September 30, 2004. In the event PacifiCorp elects to not rescind its termination notice, the resource will cease to be a leased resource as of June 1, 2005.

Q. How will PacifiCorp determine if the termination notice should be rescinded?

A. The Company will evaluate the lease against the market. Issuance of the termination notice, and the ensuing right to rescind it, provides PacifiCorp with the opportunity to test the market to determine if viable alternatives are available for the time period that includes the summers of 2005, 2006, and 2007. Additionally, to further test the market, the Company is asking potential bidders if they are interested in a transaction where the Company has the option to extend the term past May 31, 2008 (an option similar to what the lease provides), or if the bidder is interested in a longer term transaction.

The Gadsby Project

<u>Comparison with Proposals</u>

Q. Would you briefly describe the Commission order approving a certificate for the Gadsby Project?

A. In its January 2002 Order in Docket No. 01-035-37, the Commission said:

> "We note the representation by counsel for the Company that the only issue with respect to prudence the Company believes may be open

> concerns a review by any party desiring to do so of the bids received pursuant to its current request for proposals for wholesale market transactions. We agree. Short of the bid review caveat, we have concluded that the Gadsby resource addition is the best of alternatives."

I will, in response to the Commission's order, provide a comparison of the Gadsby Project with the bids received pursuant to the Company's 2001 RFP.

Q. How did the Gadsby Project compare with the proposals received in the Company's 2001 RFP?

A. As shown in Exhibit UP&L___(SKW-1), Gadsby was the best alternative.

Q. Please explain Exhibit UP&L___(SKW-1).

A. The first column of the exhibit on the left shows the criteria used to analyze the four alternatives. Moving from left to right, the other columns summarize the results for the Gadsby Project, and other transactions. The exhibit shows that the Gadsby Project has the highest net present value benefit ($6,940,631, or $5,783,859 on a per/100 MW basis) of any of the alternatives and an overall relative ranking of number one. As a consequence, the Gadsby Project was the least-cost resource alternative.

Q. Did the Gadsby Project come in under budget?

A. Yes it did.

The Currant Creek Project

The Acquisition Process

Q. Would you please describe the acquisition process for the Currant Creek Project.

A. We recently went through a multi-month proceeding before the Commission in which the outcome of that process was reviewed in depth, so my discussion will be brief. PacifiCorp issued a request for proposal (RFP 2003A) on June 6, 2003. RFP 2003A employed a blind bid evaluation process wherein bid responses were submitted to an external consultant Navigant Consulting Inc. ("Navigant") which, in turn, assured that the responses were adequately blinded such that the bidding entity was not known to PacifiCorp. Navigant then supplied the blinded bid responses to the Company for evaluation. After an evaluation process, a short-list of bids was established and the Company, in consultation with Navigant, compared the economics of the bids against the Current Creek Project, which was the Company's cost-based self build alternative or, as referred to in RFP 2003A, the Next Best Alternative ("NBA").

Q. Please describe how the short-list of bids compared to the Currant Creek project.

A. Currant Creek was found to be the most economic alternative as compared to the short-listed bids.

Q. Has a Certificate of Public Convenience and Necessity been issued for the Currant Creek Project?

A. Yes. On March 5, 2004, the Commission issued an order granting a Certificate of Public Convenience and Necessity authorizing the Company to proceed with construction of the Currant Creek Project. In its Order, the Commission examined five alternative courses of action that the Company could have followed to meet its summer 2005 peak deficiency: (1) rely exclusively on wholesale market power purchases, (2) re-bid the peak bid category of the 2003-A RFP, (3) re-analyze the bids already received, (4) restart negotiations with bidders, and

(5) proceed with building a new resource. The Commission found that a review of these alternative actions "shows no better alternative at the present time than proceeding with building a new resource," and therefore concluded that the Currant Creek Project is required by the public convenience and necessity. (Docket No. 03-035-29, March 5, 2004 Order, p. 20.)

Currant Creek Project Costs

Q. What is the currently expected cost for the Currant Creek Project?

A. The total installed cost of the Currant Creek Project is currently estimated to be $348 million.

Q. Is construction proceeding on schedule and within budget?

A. Yes, construction is proceeding on time and within budget.

Q. When will phase one of the Currant Creek Project go in service?

A. Phase one is currently estimated to enter service by July 1, 2005.

Q. Does this conclude your testimony?

A. Yes.