Q. Please state your name, business address and present position with Rocky Mountain Power (the Company), a division of PacifiCorp.

A. My name is A. Robert Lasich. My business address is 1407 West North Temple, Suite 320, Salt Lake City, Utah. My position is president of PacifiCorp Energy.

Q. Did you submit direct and second supplemental direct testimony in this proceeding?

A. Yes.

Q. Do you have any corrections or updates to your direct and second supplemental testimony?

A. Yes. In my direct testimony, I inadvertently stated that there were land royalty payments associated with Glenrock III. In fact there are none because the Company owns that land. With respect to my second supplemental testimony, I have updated the in-service dates for Glenrock III and Rolling Hills. The table below that shows the major supply-side resource additions and the planned increases to generation related operation and maintenance (O&M) expenses to the test year ending December 31, 2009, includes these updates.

Resource Name	Location	In-Service Date	Capital Cost	O&M Included in GRC
Glenrock III	Converse County, Wyoming	January 17, 2009	$87.2 Million	$0.93 Million
Rolling Hills	Converse County, Wyoming	January 17, 2009	$206.5 Million	$1.97 Million
Seven Mile Hill II	Carbon County, Wyoming	December 31, 2008	$45.7 Million	$0.62 Million
High Plains	Albany County and Carbon County, Wyoming	November 1, 2009	$245.5 Million	$0.37 Million
Chehalis	Lewis County, Washington	September 15, 2008	$310.8 Million	$8.05 Million*

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut the testimony of the following witnesses: Dr. William A. Powell and Mr. James B. Dalton who are appearing in this proceeding on behalf of the Utah Division of Public Utilities ("DPU"); Mr. Randall J. Falkenburg who is appearing in this proceeding on behalf of the Utah Committee of Consumer Services ("CCS") and Mr. Kevin Higgins who is appearing in this proceeding on behalf of the UAE Intervention Group and Wal-Mart (collectively "UAE"). I also provide the Commission with the most recent capacity factor estimates for each wind-powered generation resource in the proceeding.

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony demonstrates that the decision to acquire the Rolling Hills wind-powered generation resource was objectively reasonable and prudent. My testimony disputes CCS's premise that Rolling Hills should be excluded from rates because of its capacity factor, notwithstanding Rolling Hills' overall cost-effectiveness. I also rebut the contentions of CCS, DPU and UAE that if Rolling Hills is allowed in rates the Commission should impute a greater capacity factor.

I explain the limited applicability of the Oregon Public Utility Commission decision on Rolling Hills to the issues in this case and address the specific issues of concern raised in that decision. I also address CCS's contention that Rolling Hills should be excluded from rates because the Company's due diligence was inadequate, even though the Company's decision-making

admittedly produced a good outcome. Additionally, I respond to CCS's proposal to impute a higher but undefined capacity factor to the Glenrock resource to account for the alleged degradation of that project by Rolling Hills. I also clarify how the Company would implement a Commission ruling in favor of CCS's recommendation. Finally, I respond to DPU's position regarding the Goodnoe Hills ETO Funding and UAE's challenge to the Marengo II capacity factor.

Q. Does any party to this proceeding question or otherwise oppose the prudence of the Seven Mile Hill II, Glenrock III or High Plains wind-powered generation resources, or of the Chehalis combined cycle combustion turbine (CCCT) resource?

A. No.

Q. In the Company's 2007 rate case, did any party to this proceeding question or otherwise oppose the prudence of the Seven Mile Hill or Glenrock wind-powered generation resources?

A. No.

Q. Did the Company perform the same general analysis and due diligence in assessing the acquisition of Rolling Hills as it applied to the other new resources in this case and the new resources in the 2007 case?

A. Yes. The need for each of the resources was supported by the results of the Company's most recent integrated resource plan. In each case, the Company assessed the resource looking at all relevant factors over the initial full life of the resource. The Company made the decision to acquire each resource only after the results of the Company's economic analysis demonstrated that the resource was

cost-effective. Because the decision-making process was the same in each case, there is no principled basis for the allegation that the process was flawed with respect to the Rolling Hills resource, but prudent with respect to all other new resources in this case and the 2007 case.

Update for Most Recent Capacity Factor Projections

Q. In completing the construction process, did the Company receive third-party technical studies updating the capacity factor estimates for the wind-powered generation resources in this and the previous proceeding?

A. Yes. Confidential Exhibits RMP___(ARL-1R), RMP___(ARL-2R), RMP___(ARL-3R), RMP___(ARL-4R), and RMP___(ARL-5R) are the final build design energy projections for the Seven Mile Hill, Glenrock, Rolling Hills, Seven Mile Hill II and Glenrock III resources, respectively.

Q. Please summarize the final build design energy projections for these resources.

A. The table below provides a summary of the final build design energy projection estimate (FBDE) as well as the projection at the time the decision was made to acquire the resource. The summary shows capacity factor (CF), megawatts (MW) and megawatt-hours (MWh):

Resource	Acquisition Decision (MW)	Acquisition Decision (CF)	Acquisition Decision (MWh)	FBDE (MW)	FBDE (CF)	FBDE (MWh)
Seven Mile Hill	99.0	41.3%	358,170	99.0	40.3%	349,948
Glenrock	99.0	38.6%	334,755	99.0	37.4%	324,348
Rolling Hills	99.0	31.0%	268,844	99.0	33.8%	293,127
Seven Mile Hill II	19.5	39.3%	67,132	19.5	40.3%	68,840
Glenrock III	39.0	31.0%	105,908	39.0	36.4%	124,357
Total MW/MWh Average CF	**355.5**	**36.2%**	**1,134,810**	**355.5**	**37.6%**	**1,160,170**

Q. Based on the final build design estimates, is the amount of energy projected from these five resources higher or lower than originally anticipated?

A. The energy production for the combination of the five resources is expected to be approximately 25,360 MWhs per year higher than originally anticipated. This is equivalent to approximately 8.3 MW of additional wind-powered generation operating at an annual average capacity factor of 35 percent. This amount of energy also represents 634,005 MWh over the initial expected 25-year resource lives or, taking a conservative value for energy at $55.00 per MWh, an incremental nominal value of approximately $35 million to customers.

Q. DPU asserts that the fact these capacity factors were updated—and thus differ from the capacity factors previously determined by the Company—reflects a level of uncertainty that causes DPU discomfort. Is it unusual for capacity factor determinations to vary over time as the construction of wind facilities progress?

A. No. As more information is acquired, it is not unusual for capacity factor estimates to change.

Q. Why did the estimated capacity factors of these resources change?

A. The change in estimated capacity factor reflects normal changes that resulted in the final construction design of the resources, as well as additional information on wind climatology for the sites.

Q. Is the average capacity factor of the Company's new Wyoming wind resources in line with the average capacity factors for other Wyoming wind resources?

A. Yes. The average capacity factor for the Company's owned Wyoming wind resources and contracts with wind resources in Wyoming is 35 percent if the Seven Mile Hill, Glenrock, Rolling Hills, Seven Mile Hill II and Glenrock III resources are excluded. If the wind resources in this case and the preceding case are included, the average capacity factor increases to 35.4 percent, based on the capacity factor estimates used for project approval of the new resources, or 36 percent, based upon the final build design estimates.

Q. What is the estimated capacity factor for High Plains and how does that impact these averages?

A. The estimated capacity factor is 35.7 percent. Because High Plains' capacity factor is at the average, it does not materially impact the average capacity factor for Wyoming wind resources.

Q. Is the average capacity factor of the Company's new Wyoming resources in line with the proxy capacity factor assumed for Wyoming wind resources in the Company's 2007 Integrated Resource Plan (IRP)?

A. Yes. The Company's 2007 IRP used a 35 percent capacity factor to model proxy Wyoming wind projects for building the Company's portfolio of renewable energy resources. In reality, some renewable resources will have capacity factors above 35 percent and others will be lower than 35 percent.

Q. Does the Company currently have wind resources or contracts with wind resources in its portfolio with capacity factors below 35 percent?

A. Yes. Excluding Rolling Hills, the Company currently has 17 such resources with projected annual capacity factors below 35 percent. Of these, four are located in Wyoming and, in fact, one of these Wyoming wind resources has a projected capacity factor of 32.6 percent and two of the contracted Wyoming wind resources recently delivered notices to the Company indicating capacity factors of 28.1 percent and 26.3 percent respectively.

Q. CCS raises a concern regarding the validity of the updated 33.8 percent capacity factor for Rolling Hills. Can you respond?

A. The Company believes that the 33.8 percent capacity factor is the most accurate projection now available for Rolling Hills. CCS's only objection is that the final build design estimate is informed by less than six months of data. In fact, as evidenced in Page 6 (Exhibit 3) of Confidential Exhibit RMP___(ARL-3R), the updated projection was based upon data collected over a period ranging from nearly 6 months to more than 21 months. Additionally, the most recent data was collected during the most critical winter time period when monthly capacity factors are at their highest. Please refer to Confidential Exhibit RMP___(ARL-6R).

Q. Has the Company already updated the capacity factors for wind resources based on their most recent forecast, including updating Rolling Hills to an annual capacity factor of 33.8 percent?

A. Yes. The Company included these updates in the net power cost study sponsored

in the Second Supplemental Direct Testimony of Mr. Gregory Duvall.

Rolling Hills Prudence/Cost Effectiveness

Q. Do CCS and UAE assert that Rolling Hills was imprudent?

A. Yes.

Q. Does DPU assert that Rolling Hills was imprudent?

A. No, although it reserves the right to make a prudence determination in the future.

Q. Does CCS assert that Rolling Hills is not cost-effective?

A. No. CCS concedes that: "…the Rolling Hills project would have a positive net after-tax cash flow over the life of the facility based on the Company's capacity factor assumptions."[1] CCS 4D Falkenberg at 82 (confidential).

Q. Does UAE assert that Rolling Hills is not cost-effective?

A. No. UAE does not directly address this issue in its testimony.

Q. What is the basis for CCS and UAE to claim that Rolling Hills is imprudent?

A. CCS and UAE focus on one issue exclusively, which is the projected capacity factor of Rolling Hills. DPU—although not directly challenging the prudence of Rolling Hills—also expresses a concern that the capacity factor used by the Company in its decision to acquire the resource is lower than other comparable wind projects in Wyoming.

Q. In your opinion, should the Commission limit its prudence review to the single issue of Rolling Hills' capacity factor?

A. No. In a Commission review of prudence, I understand that the Commission reviews the objective reasonableness of the Company's business decision to

[1] While the Company is quoting CCS confidential testimony, the testimony does not actually contain confidential Company information on Rolling Hills, thus the Company is not treating the quotation as confidential.

acquire the new resource. Specifically, I understand that the Commission follows Utah Code Annotated § 54-4-4 which states:

> (4)(a) If, in the commission's determination of just, reasonable, or sufficient rates, the commission considers the prudence of an action taken by a public utility or an expense incurred by a public utility, the commission shall apply the following standards in making its prudence determination:
>
> > (i) ensure just and reasonable rates for the retail ratepayers of the public utility in this state;
> >
> > (ii) focus on the reasonableness of the expense resulting from the action of the public utility judged as of the time the action was taken;
> >
> > (iii) determine whether a reasonable utility, knowing what the utility knew or reasonably should have known at the time of the action, would reasonably have incurred all or some portion of the expense, in taking the same or some other prudent action; and
> >
> > (iv) apply other factors determined by the commission to be relevant, consistent with the standards specified in this section.

The Company's decision to acquire Rolling Hills was based upon the overall economics of the resource. While capacity factor is one input to determining the overall cost-effectiveness of a resource, it is not the sole determinant. It is possible for a resource to have a capacity factor lower than other resources and be cost effective, just as it is possible for a resource with a capacity factor higher than other resources to not be cost effective.

Q. How do CCS, UAE, and DPU justify their single-issue challenge to Rolling Hills?

A. CCS, UAE, and DPU cite last year's decision of the Public Utility Commission of

Oregon ("OPUC") excluding Rolling Hills from PacifiCorp's Oregon Renewable Adjustment Clause as precedent. CCS claims that the OPUC essentially accepted the argument that Rolling Hills was imprudent because its capacity factor was relatively low compared to other Wyoming resources—notwithstanding evidence that Rolling Hills' capacity factor compared favorably to other wind projects in the Company's portfolio and that it was cost-effective on an overall basis. CCS also claims that Rolling Hills should be excluded from Utah rates because the Company's decision to proceed with the project was poorly informed, even though it ultimately produced a better outcome than projected. In the alternative, CCS argues that the Commission should impute a higher capacity factor if the resource remains in rates. DPU and UAE also request that the Commission impute a greater capacity factor for Rolling Hills.

Q. As a practical matter, does CCS's proposal to exclude Rolling Hills from Utah rates make sense for customers?

A. No. If a resource is cost-effective, customers are better off with the resource in rate base. CCS's proposal to exclude the resource from Utah rates will ultimately result in higher rates for customers.

Q. Did the separate opinions of the OPUC Commissioners in the OPUC Order make essentially this same point?

A. Yes. In his separate opinion, Commission Chair Beyer noted that:

> "Staff acknowledged, except for capacity factor, that the Company developed Rolling Hills in a prudent manner. With respect to Rolling Hills' capacity factor, at a projected 31 percent, the project's capacity factor is reasonably close to the 35 percent capacity average capacity factor used in Pacific Power's recently acknowledged Integrated Resource Plan. Likewise, it is similar to

> or higher than other wind projects that have been accepted by the Commission for inclusion in rates elsewhere in the region, both by Pacific Power and Portland General Electric Company." Order No. 08-548 at 25.

The separate opinion of Commissioner Savage dissented from the removal of the Rolling Hills resource from rates, noting that:

> "It is very likely, over the longer run, that Oregon customers will be made worse off by this remedy. Removing Rolling Hills output from power cost runs and replacing it with additional market purchases or reduced market sales may result in increased net variable power costs. In the near term, the reduced capital cost estimates will probably exceed the higher net variable power costs. For the longer term, (and factoring in REC values), the net result will probably harm Oregon customers." Order No. 08-548 at 26.

Q. Is the OPUC's order on Rolling Hills precedent for finding the resource imprudent based upon its capacity factor?

A. No. The litigation in Oregon focused primarily on compliance with the Commission's request for proposals (RFP) guidelines. For this reason, the record in the Oregon case was only partially developed on the issue of prudence. The OPUC did not find that the Company violated the RFP guidelines, instead ruling that the Company had not met its burden of proving prudence, based upon an inadequate evidentiary showing on four issues: (1) whether the specifications of the Rolling Hills project were inferior to other projects; (2) whether the Company could have sold or stored the turbines it used for Rolling Hills; (3) whether other project sites were available; and (4) whether the Company's decision was in part justified by the then-imminent expiration of the federal production tax credit (PTC) or the Company's need to meet RPS targets or other commitments. The Commission made clear that it was open to including Rolling Hills in rates in a

future case if the Company satisfied its evidentiary burden on these issues.

My testimony in this case provides evidence addressing each of these issues. I also address the contention that the Company's decision-making for Rolling Hills was poorly informed, an allegation undermined by CCS's own admission that the Company's decision-making produced a good outcome.

Rolling Hills' Project Specifications Compared to Market

Q. Are the Rolling Hills' project specifications inferior to those of other comparable projects?

A. No. The project compares favorably to market and to other projects.

Q. How does the cost of Rolling Hills compare to market?

A. In making its decision to acquire the Rolling Hills resource, the Company utilized its next highest alternative cost for compliance (ACC) analysis methodology for renewable resources. The result is a resource-specific analysis that allows the Company to compare the resource against the potential next highest alternative cost for renewable resource compliance. In essence, the result of the ACC analysis yields how the resource compares to the undifferentiated (non-renewable) power market. A negative ACC is below the undifferentiated market whereas a positive ACC would be above.

Q. What is the ACC for Rolling Hills?

A. Based upon the capacity factor used for project approval (31 percent), the ACC for the Rolling Hills resource is $4.53 per MWh on a nominal-levelized basis. This is less than the ACC of another resource in this case for which no party challenges the prudence of, Glenrock III, which has a nominal levelized ACC of

$6.26 per MWh. In fact, no party in this case has challenged the prudence of Glenrock III on any basis, including the fact that it was projected to have a 31 percent capacity factor at the time the acquisition was made.

Q. Please explain further.

A. Both Rolling Hills and Glenrock III were forecasted to have the same capacity factor (31 percent) at the time the decision to acquire was made. However, CCS and UAE only challenge the prudence of Rolling Hills and not Glenrock III,

Q. What are the final build design estimates for Rolling Hills and Glenrock III?

A. The final build design estimate for Rolling Hills is 33.8 percent whereas the final build design estimate for Glenrock III is 36.4 percent.

Q. How do the overall resource economics for Rolling Hills change using the most recently projected capacity factor of 33.8 percent?

A. Using an estimate of 33.8 percent yields a projected resource cost as shown in Confidential Exhibit RMP___(ARL-7R) on a real-levelized basis. The nominal-levelized ACC is negative $2.91 per MWh which can be compared to the nominal-levelized ACC of positive $4.53/MWh using the initially conservative estimate of 31 percent. The result is a beneficial movement of $7.44 per MWh on a nominal-levelized basis, demonstrating that the projected resource economics are well below market.

Q. How do the overall resource economics for Glenrock III change using the most recently projected capacity factor of 36.4 percent?

A. Using an estimate of 36.4 percent yields a nominal-levelized ACC of negative $10.66 per MWh which can be compared to the nominal-levelized ACC of

positive $6.26/MWh using the initially conservative estimate of 31 percent. The result is a beneficial movement of $16.71 per MWh on a nominal-levelized basis, demonstrating that both the Rolling Hills and Glenrock III projected resource economics are well below market.

Q. What can you conclude based on the fact that CCS and UAE challenge the prudence of Rolling Hills, but not Glenrock III, when Rolling Hills was projected to be more economic at the time the acquisition decision was made?

A. I conclude that CCS and UAE are basing their prudence challenge on the capacity factor outcome of a wind resource rather than the objective reasonableness of the Company's decision to acquire the resource or the overall project economics.

Q. Are there other factors that contribute to Rolling Hills being economically favorable?

A. Yes. For example, one factor that makes Rolling Hills a desirable resource is the Company's ability to avoid leasing costs related to the resource. Because the Company owns the land on which Rolling Hills is located, third party leasing costs will be avoided. These savings are conservatively $12.2 million over the initial 25-year life of the project. Indeed, this cost avoidance is in perpetuity, which means the Company will successfully avoid more than seven times this amount over the next 100-years (more than $90 million). Similarly, the Company will enjoy the terminal value of the Rolling Hills resource because of its ownership of the project.

Q. What is terminal value?

A. Terminal value is the value associated with the right to re-power a resource at cost when the asset reaches the end of its initial economic life. Terminal value includes all aspects of the resource, including its location, favorable land rights, the existence of or favorable location to infrastructure or other beneficial attributes.

Q. What is the effect of economic factors that the Company considered when evaluating Rolling Hills, but did not explicitly include in the Rolling Hills acquisition analysis, that will provide benefit to customers?

A. There are a number of factors that the Company conservatively excluded from its Rolling Hills acquisition analysis and will provide benefit to customers. These include: avoided lease payments; avoided storage expense; avoided allowance for funds used during construction ("AFUDC") due to storage; and terminal value. Together these factors reduce the cost of Rolling Hills by $6.47/MWh. This is equivalent to Rolling Hills being a 34.5 percent resource if it were absent of these benefits—meaning that Rolling Hills is as cost effective as a resource that does not have the attributes I described above but has a capacity factor of 34.5 percent. See Confidential Exhibit RMP___(ARL-8R). In addition, the Company's analysis of Rolling Hills did not include the possibility that the capacity factor would increase due to the lack of turbulence and instead used a more conservative capacity factor. The actual capacity factor is in fact higher than the conservative estimate the Company used in its acquisition analysis. Combined with the other factors described in this answer, this reduces the cost of Rolling Hills by $11.31/MWh. This is equivalent to Rolling Hills being a 37.6 percent resource if

it did not have these benefits. See Confidential Exhibit RMP___(ARL-8R).

Q. Are there qualitative factors associated with the Rolling Hills resource that an alternative resource could not provide?

A. Yes. The Rolling Hills resource is located adjacent to the Glenrock resource and, as such, the Company is able to better utilize certain infrastructure that was necessary for the Glenrock resource. This infrastructure includes the Windstar transmission interconnection substation, the Glenrock to Windstar 230 kV transmission line, an operations and maintenance building and land owned by the Company previously used to support coal mining activities.

Q. What benefit will the Windstar interconnection substation have for further generation and transmission construction in Wyoming?

A. In constructing the Windstar substation, the Company was able to establish a key point of interconnection that can be used for numerous other interconnection requests for future generation. In addition, the Windstar substation now represents the key starting point in Wyoming for the Company's multibillion dollar Energy Gateway transmission project that will, among other things, facilitate further integration of wind-powered generation resources. Please see Exhibit RMP___(ARL-9R).

Q. You mentioned land owned by the Company previously used to support coal mining activities. Would you please elaborate?

A. The Glenrock, Rolling Hills and Glenrock III resources are all located on property owned by the Company that includes the location of the Company's now reclaimed Dave Johnston coal mine. Mining operations took place from

approximately 1958 through September of 2000. After mining operations ceased, the Company reclaimed the land pursuant to its Wyoming administered Federal mining permit. The siting of these renewable resources at this location serves as a testimonial to environmental stewardship and continued asset utilization for the benefit of customers. This is the only instance I am aware of in the western United States that wind projects have been located at the site of a reclaimed coal mine.

Rolling Hills Project Specifications Compared to Other Projects/IRP Benchmarks

Q. Does Rolling Hills compare favorably to other similar wind projects?

A. Yes. The Company has recently completed a renewable resource RFP. The Company issued an RFP on January 31, 2008 for long-term renewable resources less than 100 MW in generating capability, or alternatively for a term less than five years if greater than 100 MW in generating capability, that would be in operation prior to December 31, 2009. The Company termed this RFP as "2008R". Developers could submit proposals in the form of a power purchase agreement (PPA) or build-own-transfer agreement (BOT). As a result of RFP 2008R, the Company executed a PPA for the output from a 99 MW wind project with Three Buttes Windpower LLC (Three Buttes), an entity owned by Duke Energy Corp.

Q. How does Rolling Hills compare to the Three Buttes PPA?

A. Confidential Exhibit RMP___(ARL-10R) shows a comparison of the two resources. As can be seen, the resources are comparable in cost.

Q. In Confidential Exhibit RMP___(ARL-10R), does the Rolling Hills analysis include terminal value?

A. The 31 percent and 33.8 percent analyses do not. However, the 37.6 percent analysis does. The 37.6 percent analysis is the analysis shown in Confidential Exhibit RMP___(ARL-10R).

Q. In Confidential Exhibit RMP___(ARL-10R), does the PPA provide the Company with terminal value?

A. No, the Company would be required to purchase the project at the Fair Market Value at the time, not on a cost basis.

Q. CCS takes the position that, should the Company demonstrate at a later time that Rolling Hills is an economic resource (based on competitive bidding or actual wind data) it could re-apply for inclusion in rates at that time. How does the Company respond?

A. The Company has indeed met CCS's criteria and demonstrated that Rolling Hills is an economic resource based on competitive bidding. See Confidential Exhibit RMP___(ARL-10R).

Q. Are there other Company wind resources now in Utah rates with capacity factors in the low thirty percent range?

A. Yes. Marengo and Marengo II wind resources are in Utah rates and have estimated capacity factors of 32 percent and 30.5 percent, respectively.

Q. Did CCS, UAE, DPU, or any other party claim that these resources were imprudent on the basis of capacity factor or otherwise?

A. No. UAE raises a question regarding the correct capacity factor of Marengo II,

which I address below.

Q. Looking at another benchmark, is Rolling Hills below the Company's 2007 IRP proxy cost assumption?

A. Yes. The 2007 IRP provided a proxy cost estimate of $2,011 per kilowatt (kW) in 2006 dollars. An accurate comparison to 2008 resource costs requires escalation of the IRP proxy estimate. During the 2006 to 2008 timeframe, the wind resource market escalated at rates higher than inflation. A wind resource cost escalation rate of between 10 percent and 20 percent or more per year is a reasonable assumption. On this basis, the IRP projected costs range as follows:

IRP Proxy (2006$)	Wind Resource Cost Inflation	IRP Proxy (2007$)	IRP Proxy (2008$)
$2,011/kW	10%	$2,212/kW	$2,433/kW
$2,011/kW	15%	$2,313/kW	$2,660/kW
$2,011/kW	20%	$2,413/kW	$2,896/kW

The Rolling Hills resource is expected to cost approximately $2,086 per kW, which is well below the adjusted IRP amounts above.

Q. How does the all-in life of project net cost for Rolling Hills compare to the IRP Proxy?

A. Confidential Exhibit RMP___(ARL-11R) demonstrates that the projected cost of the Rolling Hills resource is well below[2] a conservatively escalated IRP proxy.

Q. CCS represents the cost of the Rolling Hills during the test year. Is this an appropriate economic reference for prudence review?

A. No. When the prudence of a resource is in question, all economic references

[2] The comparison in Confidential Exhibit RMP___(ARL-11R) is understated since the Company conservatively escalated the 2007 IRP proxy, which is in 2006 dollars, by 2% instead of at an annual rate in line with what the wind industry experienced.

should be made on a life-of-resource basis. Otherwise, there is a risk of a skewed representation. This is especially true with a wind resource, because the capital intensive nature of the resource results in more expensive early years and less expensive out years. Viewed in the correct manner, the projected costs of Rolling Hills is much lower than CCS's representation. For example, CCS overstates the cost of the Rolling Hills resource by as much as $33.61 per MWh by representing the information only on a test year basis instead of more correctly over the life of the resource. See Confidential Exhibit RMP___(ARL-12R).

Reselling or Storing Turbines

Q. Did the Company pursue the Rolling Hills project to utilize turbines that had previously been made available to the Company?

A. Yes. The Company originally procured the wind turbines used at Rolling Hills for another project located in another state. The Company abandoned the initial alternative project site on the basis of economics, but the Company had already entered into a turbine supply agreement and was obligated to accept delivery of the turbines in 2008. The Company determined that Rolling Hills was the best project in which to utilize the turbines.

Q. Did the Company consider reselling the turbines as an alternative to acquiring Rolling Hills?

A. The Company determined that it would not have been prudent to resell the turbines. First, it was not clear whether the Company could legally resell the turbines. The Company did not have the outright contractual right to resell the turbines and the Company's assignment of the turbine supply agreement required

consent of the turbine supplier. Second, even if it were legally possible to resell the turbines or assign the agreement, the Company expected to recover little or no benefit from the resale. In the face of economic analysis demonstrating that the Company could cost-effectively use the turbines at Rolling Hills for the benefit of customers, it would not have been reasonable for the Company to sell the turbines and forego this opportunity for customers. This is especially true because turbines were in short supply at the time and it could have been difficult for the Company to cost-effectively obtain turbines for an alternative project or even obtain turbines at all.

Q. Did the Company consider storing the turbines as an alternative to Rolling Hills?

A. The Company considered storing the turbines but determined that the Company would incur unnecessary costs. Storage of the wind turbines during that time would have caused the Company to incur incremental AFUDC, estimated at the time to be approximately $9.9 million for one year. The delay would also have exposed the Company to the risk of cost increases for construction and other materials, which could easily have been 10 percent or more per year. This is equivalent to more than $5 million per year of delay for Rolling Hills. In addition, the Company would have incurred increased risk related to double handling, increased transportation costs or the increased risk associated with construction contracting, permitting risk, third party risk, and interconnection risk. Given the significant competition for economic wind sites, the Company knew it would be challenging to find a permitted, interconnection-ready, and ready-to-

build site in time to have a new resource on line before the end of 2008. Based on these risks, it was evident that turbine storage and project delay would not be prudent.

Exploration of Alternative Sites

Q. Was the Company aware of other readily available sites in Wyoming with a higher capacity factor when it was considering the Rolling Hills acquisition?

A. No. The Company was the first entity to be issued a wind project permit by the Wyoming Industrial Siting Council (ISC) since 2003 and the Company was already pursuing those other Wyoming wind projects under development and with the ability to interconnect during 2008 (for example, the Mountain Wind PPAs). The fact that no entity had an ISC permitted site and there was no active LGIA application with an in-service date of 2008 demonstrated that the Company did not have a viable alternative site in Wyoming for placement of 66 turbines.

Q. Did the Company consider alternative sites outside of Wyoming?

A. Yes. The Company evaluated an alternative site in the state of Washington. The Company did not pursue the site for economic reasons. The cost to acquire the site rights and construct with Company-supplied wind turbines was approximately $35 million higher than that for Rolling Hills. In addition, the site required third party transmission wheeling to reach the Company's system whereas Rolling Hills does not. Finally, the site resided on leased land, requiring an up-front construction payment and ongoing royalty payments. Rolling Hills does not have these costs. These factors combined for a materially more expensive alternative despite a somewhat higher projected capacity factor. See Confidential Exhibit

RMP___(ARL-13R).

Expiration of the Production Tax Credit/Meeting Acquisition Targets

Q. Was the Company's decision to acquire Rolling Hills motivated by the fact that the resource could be in-service before the then-scheduled expiration date of the PTC?

A. Yes. A significant factor in the Company's analysis of Rolling Hills was the value of the PTC to customers. When the Company was evaluating Rolling Hills, the PTC was set to expire at the end of 2008. The Company expressly considered the PTC in its economic analysis of Rolling Hills and determined that the value of the PTC to customers would be approximately $64 million on a present value basis. At the time, in order to take advantage of this value, the Company needed to act quickly so as to place the resource in service by the end of 2008. Although Congress has since extended the PTC, the Company could not have known Congress would do so when it was evaluating Rolling Hills. Therefore, the Company had a short window in which to act.

Q. Did the Company previously present evidence to the Wyoming Commission regarding the impact of the PTC on the Company's evaluation of Rolling Hills?

A. Yes. In support of the Company's application for a CPCN to construct Rolling Hills in Docket No. 20000-309-EA-07, the Company filed confidential cost estimates that included the benefit associated with the PTC. See Confidential Exhibit RMP___(ARL-14R). Also, at the open meeting for final approval of the application, the Company presented testimony that the Company planned to have

Rolling Hills complete in time to take advantage of the PTC before it expired at the end of 2008.

Q. Did the Wyoming Commission take note of the Company's plan to have the resource on line before the PTC expiration date when it approved the Rolling Hills CPCN?

A. Yes. In its order approving the CPCN on March 31, 2008, the Wyoming Commission specifically noted the Company's testimony that the Company planned to have Rolling Hills complete in time to take advantage of the PTC.

Q. Was the Company's decision to acquire Rolling Hills also influenced by rapidly rising costs and the intensely competitive environment for wind-powered generation resources in 2007-08?

A. Yes. As explained in my direct testimony, the Company is operating under ambitious renewable energy acquisition targets, set by state RPS, the Company's merger commitments, and the Company's IRP. In 2007-08, the market for quality renewables was a sellers' market, with intense competition for sites, equipment and contractors. This was in part due to the fact that the PTC was set to expire at the end of 2008 and it was not extended until near the end of that year. In order to stay on track to meet its acquisition targets, capture the most cost-effective projects, and stay ahead of rapidly increasing project costs, the Company needed to move quickly to develop all available projects. Rolling Hills was very attractive in this regard, because of the project's many attributes, including that it could be completed in the 2008 timeframe.

Adequacy of Company's Rolling Hills Due Diligence

Q. Citing the third-party technical study for Rolling Hills, CCS and DPU declare that the projected capacity factor information available to the Company for Rolling Hills was inadequate. Is this a fair reading of the wind study?

A. No. The study referenced by CCS and DPU is the November 30, 2007 capacity factor study that the Company relied upon when making its decision to move forward with Rolling Hills resource. The study is included as Confidential Exhibit RMP___(ARL-15R). The study projected a 31 percent capacity factor for the Rolling Hills resource. Contrary to CCS's allegations, the resource was indeed supported by long-term on-site data and selectively quoting from the wind study does not change this fact. Fairly read, the reference in the report to "best guess" was nothing more than another way of the consultant saying "based on the information available." In addition, CCS takes great liberty in referencing the study's use of the term "non-standard industry practice". In the context of the study document, it would have been non-standard to rely solely on the ridge data without taking other information into account. The Company's consultant did not rely solely on the ridge data and indeed took other factors into account when reporting its conclusions. Finally, the Company's consultant recommended additional on-site data collection to supplement the data set. The Company followed the consultant's recommendation, installed four additional on-site meteorological towers during December 2007 and collected supplementary data. This is evidenced on pages 5 and 6 of the most recent final build design estimate

prepared by the Company's consultant. See Confidential Exhibit RMP___(ARL-3R).

Q. Did the Company have adequate information on estimated capacity factor at the time it made its decision to advance the Rolling Hills resource?

A. Yes. While the on-site data was ultimately supplemented, the information available to the Company was sufficient at the time to make an intelligent "go/no go" decision. CCS's allegation of insufficient data is erroneous. Page 3 (Exhibit 2) in Confidential Exhibit RMP___(ARL-15R) clearly shows that the Company's consultants had access to more than 21 years of data from the Company's Dave Johnston mine mast and nearly one year of data from two other meteorological towers. The consultant "assigned" wind turbine generator locations between these two reference points. Data recovery was high from all three sources.

Q. CCS characterizes the 10 meter height of the Company's Dave Johnston mine mast as disadvantageous to the estimation of Rolling Hills capacity factor. Does the Company agree?

A. No. CCS fails to recognize that all capacity factor estimates typically utilize a long-term reference point and, in the absence of a better alternative, that reference point is typically from airport meteorological towers. Airport meteorological towers are typically 10 meters tall, the same height as the Company's long-term tower. Having access to a long-term data set at the project site advantages the analysis by reducing off-site correlation error.

Q. Please discuss how wind turbulence impacted the site.

A. The Company's consultants were concerned about potential turbulence for the

Rolling Hills turbines. To help quantify this concern, the Company authorized its consultant to take spot measurements.

Q. Was the data collection a success?

A. Yes. Significant results were obtained. In short, the observations led to three key assumptions that the consultant then incorporated into the November 30, 2007 capacity factor study. Confidential Exhibit RMP___(ARL-15R).

Q. What were these three assumptions?

A. First, due to concerns about high levels of turbulence, the consultant utilized a lower availability factor assumption for the turbines. Second, a conservative turbine efficiency factor was used to compensate for higher turbulence and, third, the consultant used a high turbulence power curve. Each of these assumptions had the effect of lowering the estimated capacity factor, resulting in the 31 percent projection on which the Company based its decision.

Q. Is turbulence currently a concern for the Rolling Hills resource?

A. No. The final build design estimate (Confidential Exhibit RMP___(ARL-3R)) no longer assumes lower availability or lower efficiency due to turbulence and utilizes a low turbulence intensity power curve. While the concern over turbulence turned out to be unwarranted, the Company nonetheless prudently assessed the potential for turbulence-related performance risk at the time it made the decision to acquire the Rolling Hills resource.

Q. CCS contends that previous information provided by the Company's consultant concludes the estimated capacity factor of the Rolling Hills resource was 28 percent and not 31 percent. Is this an accurate representation by CCS?

A. No. Any information provided in advance of the November 30, 2007 study was not conclusive as to estimating capacity factor and indeed pre-dates the study that the Company relied on to make its decision. Such preliminary information merely informed the November 30, 2007 study and does not displace it.

Q. CCS claims that the Company usurped its "ordinary process" used to project wind resource capacity factors. Is CCS correct?

A. No. As noted above, the Company followed the same general business process with respect to each of the investment decisions in this case. In any event, it is not clear what "ordinary process" CCS is describing since wind resource development remains relatively new and historically non-routine.

Q. DPU expresses concern that the November 30, 2007 study and the subsequent August 14, 2008, study contain discrepancies that call into question their reliability. Do you agree with DPU's assertion?

A. No. Each study was performed in a manner consistent with industry standards. The so-called "discrepancies" between the two studies merely reflect the fact that the second study was performed at a later date when the project was nearer completion. The second study also had access to more detailed information.

Q. CCS claims that the Company did not meet the "reasonable person" prudence standard. Does the Company agree?

A. No. The Company does meet the prudence standard because, based on the information available to it, an expectation of a 31 percent capacity factor was reasonable. Furthermore, as I showed previously in my testimony, the Company's economic analysis was conservative as it did not factor in attributes such as terminal value; avoided lease costs; avoided storage costs; avoided AFUDC costs, or the possibility (now borne out) that the estimated capacity factor would increase due to the lack of turbulence.

Q. When did the Company make its decision to acquire Rolling Hills?

A. December 20, 2007.

Q. When did the Company make its decision to acquire Glenrock?

A. May 31, 2007.

Q. CCS speculates that, at the time the decision to acquire Glenrock was made, the Company had already decided to acquire Rolling Hills. Is this a correct speculation on CCS's part?

A. No. As Company witness Mark Tallman testified in the Glenrock CPCN proceeding before the Wyoming Commission:

> ***"Q. Does the Glenrock site have future expansion possibilities?***
>
> *A. Yes, the Company believes the Glenrock site has the potential to add additional wind facilities.*
>
> ***Q. What are the Company's plans with regard to expansion at Glenrock?***
>
> *A. The Company is currently collecting data to determine where additional facilities can most economically be located. The construction experience*

gained from this initial project at the Glenrock site will heavily inform the decision to pursue another project at the Glenrock site.

Q. What is the timing of a possible expansion at the Glenrock wind site?

A. The Company does not have any current specific plans to develop the site beyond that as contemplated in this application. Any additional project or projects at or near the Glenrock wind site would be developed and constructed on a project-specific basis based on information then-available to the Company." (Emphasis added)

Any attempt by CCS to claim otherwise is simply applying hindsight based on the outcome and not what the Company knew at the time.

Alleged Avoidance of Utah Procurement Law

Q. CCS alleges that the Company avoided Utah's resource procurement law when it specifically sized several wind projects to fall below the competitive bidding threshold. UAE also points to this issue as a part of its prudence challenge. Did the Company fail to comply with Utah's resource procurement law?

A. No. As outlined above, all wind projects—including Rolling Hills, Glenrock, and Seven Mile Hill—were reasonable and prudent investments. Also, as outlined above, the Company did not artificially or arbitrarily delineate projects such that each fell below the 100 MW threshold. Each project was developed independently as a 99 MW wind project. These projects were conceived of separately, acquired separately, and contracted separately. Moreover, in May 2008, well before any of these projects came in service, the procurement law changed so that competitive bidding was required only for projects exceeding 300 MW.

Q. CCS specifically references the construction of Glenrock and Seven Mile Hill in support of its contention that the Company avoided procurement laws. In the 2007 rate case—in which Glenrock and Seven Mile Hill were brought into rates—did CCS or any other party challenge either the prudence of these resources or the sizing?

A. No. As stated above, no party challenged the prudence of these resources. Moreover, no party alleged that the sizing of these resources was an attempt by the Company to avoid Utah's procurement laws.

Alleged Degradation of Glenrock Capacity Factor

Q. Does CCS recommend that the Commission impute an increase to the Glenrock project's capacity factor?

A. Yes, although CCS does not specify the exact level of imputation.

Q. What is the basis for this recommendation?

A. CCS claims that Rolling Hills is expected to degrade Glenrock's capacity factor. Because CCS asserts that Rolling Hills should not have been developed, it proposes to offset the alleged degradation by imputing a higher capacity factor upon Glenrock.

Q. CCS contends that Rolling Hills' turbine locations were changed to the detriment of Glenrock. Is this accurate?

A. No. Only one turbine location was constructed as part of the Rolling Hills resource that was previously planned for the Glenrock resource.

Q. Is CCS's proposal reasonable?

A. No. My testimony demonstrates that the development of Rolling Hills was

prudent. In any event, adjustments related to Rolling Hills should not be made to Glenrock, especially because no party has challenged the prudence of Glenrock.

Company Position Regarding CCS's Recommendation

Q. How would the Company implement a Commission decision that rejected the Rolling Hills resource?

A. The Company would exclude all costs and benefits of the resource from the Utah revenue requirement and would exclude the resource from the dispatch stack in its net power cost models. Similarly, any RECs from the resource would not be assigned to Utah. In effect, the resource would be displaced by other Company resources, renewable resources acquired in the future, and/or undifferentiated market purchases.

Q. Has the Company ever made such an adjustment?

A. Yes. In 1984, the Washington Utilities and Transportation Commission ordered the Company to exclude from Washington rates the investment in Colstrip 3. Since that time, the Company has implemented an identical approach to that described above and will continue to do so over the life of the asset.

Q. Is the process you describe similar to how the Company plans to implement the OPUC decision on Rolling Hills?

A. Yes.

Q. CCS infers that a decision by the Commission to reject Rolling Hills as a result of this proceeding would or could result in the Company seeking for inclusion of Rolling Hills in Utah rates during a future proceeding. Is it likely that the Company would make such a subsequent request?

A. No. The Company is asking the Commission to include all of Rolling Hills' costs and benefits into rates, not a portion of the costs or a portion of the benefits for a portion of the resource's life. If rejected by the Commission, the Company is likely to seek to monetize its investment in Rolling Hills via other avenues and for the long-term.

Q. What is your conclusion with respect to the Rolling Hills resource?

A. Because the Company has met the burden of showing that the costs and cost effectiveness of Rolling Hills are beneficial to customers, and because the resource was prudently acquired, the Commission should include Rolling Hills in Utah rates with no capacity factor imputation.

Goodnoe Hills ETO Funding

Q. DPU advocates for an adjustment to the above market costs for the Goodnoe Hills wind resource. Do you agree with DPU's proposed adjustment?

A. No. DPU is asking the Commission to exclude all above market costs associated with the Goodnoe Hills resource from rates. DPU approximated the above market costs to be $12 million. Goodnoe Hills, however, came into the Company's rate base in the last rate case. At that time the Company included the entire above market costs in rates. DPU did not object to this inclusion in that case. Thus, DPU is asking for a prudence review of the resource after it has already been included

in rates. Once the Commission determines a resource was acquired in a prudent manner parties cannot later revisit that determination in every subsequent rate case.

Q. What does "above market" mean in the context of the Goodnoe Hills resource?

A. For each renewable resource in this proceeding and the Company's last rate case, to the extent the Company determines costs to be "above market", the Company is referring to that portion of the resource's cost that is above the undifferentiated (non-renewable) power market.

Q. Is the DPU's inference of $12 million as the above market costs of Goodnoe Hills accurate?

A. No. The DPU bases its calculation on ETO Board minutes referencing the ETO's proprietary determination of above market costs. The Company was not privy to the ETO's analysis. In any event, there is no need to infer how far above market the Goodnoe Hills project was at the time the acquisition was made. It was $6.37 per MWh above market on a nominal levelized basis.

Q. Is there any portion of the above market costs at issue in this rate case?

A. Yes. As testified to previously by Mark Tallman in the 2007 rate case, the Energy Trust of Oregon ("ETO") contributed $4.5 million to the above market costs for the project. The purpose of this contribution was to secure a greater share of the future RECs from the project for Oregon rate payers. However, the agreement between the Company and the ETO allowed for other jurisdictions to essentially offset a pro-rata portion of the ETO's $4.5 million contribution to the project. It

is these funds that are now at issue in this case. So, contrary to DPU's testimony, the only funds at issue is an amount equal to Utah's allocation factor as applied to calendar year 2009's portion of the $4.5 million ETO contribution and not the entire above market costs for Goodnoe Hills. Company witness Mr. Steven McDougal testifies as to the exact amount in this proceeding and the Company's proposal with respect to recovery.

Q. Do you agree with DPU's proposed adjustment to exclude the above market costs from rate base?

A. No. As outlined above, the only issue is the ETO contribution, not the entire above market costs. Moreover, the ETO funds are not a part of the Company's rate base because the Company did not include them in the Company's rate base in this case. If the state of Utah chooses to participate in the ETO funding, there would be a reduction to the operating expenses in the O&M section of the rate case. This allocation of the funds to O&M expenses would be made pursuant to the agreement between the Company and ETO. Irrespective of the Commission's decision, there should not be a reduction to the Company's rate base because the ETO funding is not a rate base item. Rather, the amount at issue should be dealt with in the context of O&M expenses. The Company does not agree with Mr. Powell's proposal of reducing the Company's revenue requirement by approximately $1.1 million, because the Commission has not yet made a decision that the state of Utah will participate in the ETO funding. When, and only if, the state of Utah participates should Utah customers receive the benefits of that participation.

Marengo II Capacity Factor

Q. Do you agree with UAE's recommendation that the Commission impute a higher capacity factor for the Marengo II wind facility?

A. No. UAE asserts that in the 2007 rate case, the Company used a capacity factor of 32.5 percent but has since reduced the capacity factor to 30.5 in this case. UAE asks that the Commission impute a higher capacity factor—matching the previous one at 32.5 percent—simply because it is concerned that the capacity factor decreased after the resource was allowed in rates. The most recent capacity factor estimate—30.5 percent—is based upon the wind study the Company relied on when making the decision to acquire the resource. This value is the most recent and most accurate estimate of the resource's capacity factor. In setting just and reasonable rates the Commission should use the most up-to-date and accurate estimates.

Q. Is it uncommon for a capacity factor to change from the time the Company chooses to acquire a resource to the time the resource comes on-line?

A. As my testimony above illustrates, this is not uncommon at all.

Q. Does UAE express a concern for instances where capacity factor estimates increase?

A. No. UAE does not express a concern under those circumstances.

Q. When the Company made the decision to acquire the Marengo II resource, what capacity factor was used in making that decision?

A. The capacity factor used was 30.5 percent—the same value used in this case. This was documented in the project approval document provided to Company

management that was provided in response to UIEC data request 2.3 in the last rate case. When the Company chose to acquire the resource UAE did not challenge the capacity factor and the Commission found the project to be reasonable and prudent based upon that capacity factor. Now, however, UAE is essentially trying to challenge retroactively the prudence through a capacity factor imputation.

Q. What is the appropriate capacity factor estimate for prudence review and what is the appropriate capacity factor estimate for setting just and reasonable rates?

A. The appropriate capacity factor estimate for prudence review is the estimate that the Company used in assessing economics when making its acquisition decision. However, for setting just and reasonable rates, the most recent capacity factor estimate should be used since it represents the most recently available information. While, in the case of Marengo II, it turns out that there has been no more recent estimate than the 30.5 percent estimate used at the time the acquisition decision was made, it is not uncommon for subsequent capacity factors estimates to be different than the estimate at the time of decision. Once the initial prudence determination has been made on a resource, such subsequent production estimates should be included in rates; regardless if they are higher or lower than the estimate at the time of acquisition decision.

Q. Does this conclude your testimony?

A. Yes.