BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Service Rates in Utah and for Approval of Its Proposed Electric Service Schedules and Electric Utility Service Schedules and Electric Service Regulations	))))))))	Docket No. 09-035-23 DPU Exhibit No. 10.0SR

Surrebuttal Testimony

of

Joni S. Zenger, Ph.D.

Wind Prudence

PUBLIC VERSION

On Behalf of the

Utah Division of Public Utilities

November 30, 2009

I. INTRODUCTION

Q. Please state your name and occupation.

A. My name is Dr. Joni S. Zenger. I am employed by the Division of Public Utilities (Division) of the Utah Department of Commerce as a Technical Consultant.

Q. Are you the same Joni S. Zenger who filed Direct Testimony on wind prudence in this proceeding?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony that you are now filing?

A. My testimony has three purposes. First, I augment my Direct Testimony with information from outstanding data responses at the time my Direct Testimony was filed that have since been received. Second, I respond to several issues raised in the Rebuttal Testimony of PacifiCorp's (the Company) witness Mr. A. Robert Lasich that was filed on November 12, 2009. Third, I reiterate the importance and pertinence of several policy and reporting requirements with respect to wind projects both in this docket, as well as in future prudency reviews of utility scale wind projects expected to come online. My Surrebuttal Testimony addresses the following topics--contingency fees, reporting requirements, and recommendations to the Commissions.

II. CONTINGENCIES

Q. In your Direct Testimony, you summarized the Division's rate base adjustment of [redacted] for the McFadden Ridge project. Does Mr. Lasich in his Rebuttal Testimony accept this adjustment?

A. Yes, the Company accepts this amount. Mr. Lasich states that the Company agrees with the Division that the appropriate amount that should be placed in rates for the McFadden Ridge I Project should be reduced by [redacted]. However, he characterizes the adjustment as an updated forecast based on the timing of the project and, as a matter of semantics, states that the agreed disallowance is not an "adjustment." (He similarly objected to the characterization of UAE witness Mr. Kevin Higgins' adjustment on High Plains as not an "adjustment" but an updated forecast).

Q. Do the Division and the Company agree on the final project costs for the McFadden Ridge I project?

A. Yes. The amount that should be placed into rate base should be [redacted] for the McFadden project. This amount was determined by calculating the difference between the [redacted] project costs reported in the Company's First Supplemental Response to Confidential DPU data request #29.24 minus [redacted].

Q. Does Mr. Lasich correctly characterize your recommendation regarding contingencies on future wind projects?

A. No. Mr. Lasich states the following: "Ms. Zenger then takes the position that all future wind projects should have disallowance associated with estimated contingency costs."[1] When in fact, I stated in my Direct Testimony "all future contingency costs that are not already built into contracts on a going forward basis" should be disallowed.[2]

Q. Will you please clarify the confusion?

A. Yes. I am not claiming, nor did I state in my Direct Testimony, that contingencies are not a normal part of standard industry and business practices. What I did point out is that there are many types of contingency conditions that are already accounted for in wind turbine generator (WTG) agreements or BOP contracts, which the Company admits (along with the WTG agreements), comprise the majority of costs in building wind power plants. In his rebuttal, Mr. Lasich states the following:

> "The majority of a wind project's costs is primarily spread over the turbine supply and construction agreements."[3]

The Division wants to ensure that any contingent event that occurs which is the responsibility of one of the Company's contractors and is defined and specified as such in the legal instruments between the parties, do not result in costs passed to ratepayers.

Q. In your Direct Testimony you noted that the Division would study the responses to the outstanding data requests and make any additional recommendations regarding the

[1] Rebuttal Testimony of A. Robert Lasich, p. 11, lines 230-232.
[2] Direct Testimony of Dr. Joni S. Zenger, p. 4, lines 73-74.
[3] Id. at p. 13, lines 270-271.

inclusion of contingency funds in rate base. What are the Division's findings in this regard?

A. Based on the Company's Response to Confidential DPU #51.1, filed on October 19, 2009, the Company reports that contingency costs were required for only two of the five reported projects--Rolling Hills and Glenrock III. Therefore, I updated the contingency table that was found on page five of my Direct Testimony to include information provided by the Company in Response to Confidential DPU #51.1.

Wind Project	MW	Contingency Fee ($) Requested	Contingency Funds ($) Used
Rolling Hills	99.0	[redacted]	[redacted]
Glenrock III	39.0	[redacted]	[redacted]
Glenrock I	99.0	[redacted]	[redacted]
Seven Mile Hill I	99.0	[redacted]	[redacted]
Seven Mile Hill II	19.5	[redacted]	[redacted]
High Plains	99.0	[redacted]	[redacted]
McFadden Ridge I	28.5	[redacted]	[redacted]

Other than the Rolling Hills and Glenrock III projects, none of the contingency funds that had been identified in the respective project requisition forms were required or used.[4]

The Division wishes to reiterate two points. First, as described in my Direct Testimony and as demonstrated in the Company's data response above, the Company has sufficient experience in developing utility wind scale projects to plan for contingencies and to include terms and conditions in its contract negotiations that account for contingencies. There may be acts of God, weather, or certain events which legitimately could be claimed

[4] The Division does not have the contingency funds used for Glenrock I or Seven Mile Hill I.

as contingencies, inasmuch as the projects may be delayed, but these need to be documented and not assumed to be prudent until otherwise determined so.

Second, as I previously discussed, there may be contingencies that are already covered in construction contracts, turbine supply agreements, or security provisions within the contracts for which the costs are the responsibility of the contractor and should not be passed on to ratepayers. The Division reviewed contracts with [redacted] We identified numerous types of contingency clauses and risk provisions throughout each of these respective contracts. Although a dollar amount for each event was not expressed, the Company notes in its project requisition forms that many of these contingencies are or will be negotiated with the contractors. For example, in the approval document for the High Plains wind project, dated February 14, 2008, the Company identifies the risk factors that were evaluated as part of the project's approval process. These include contractual, performance, operational, regulatory, transmission, and subsurface rights. Further the document states:

[redacted]

Similarly, in the McFadden Ridge I project package, Pacific Energy writes:

[5] PacifiCorp Energy, High Plains Wind Project, February 14, 2008, paragraph 5.

[redacted]

Q. Mr. Lasich rebuts your testimony and states that: "Contingency costs are certainly not 'speculative' as Ms. Zenger claims."[7] How do you respond?

A. In the Company's Confidential Response to DPU data request #23.32, the Company refers to contingency as an estimate for unforeseeable events. Mr. Lasich's rebuttal testimony references the Association for the Advancement of Cost Engineering (AACE) as well the Project Management Institute (PMI) as functional organizations. The AACE defines contingency as follows:

> An amount added to an estimate to allow for items, conditions, or events for which the state, occurrence, or effect is *uncertain* and that experience shows will likely result, in aggregate, in additional costs. Typically estimated using statistical analysis or judgment based on past asset or project experience.[8]

The AACE calls them uncertain.[9] In my Direct Testimony I stated that the contingency cost is merely speculative and "*may never be realized*."[10] The data responses above confirm this point. Therefore, in this regard contingencies may certainly be speculative, unknown, or unforeseen. Regardless of the semantics, the Division believes that the Company has the burden to account for and explain any contingency costs that go into rates for future wind projects.

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[6] PacifiCorp Energy McFadden Ridge Wind Project, Project Package, February 14, 2008, p. 6.
[7] Rebuttal Testimony of A. Robert Lasich, p. 13, lines 276-277.
[8] http://en.wikipedia.org/wiki/AACE_International.
[9] http://en.wikipedia.org/wiki/Cost_contingency.
[10] Direct Testimony of Dr. Joni S. Zenger, p. 4, line 78.

III. THE DIVISION'S RECOMMENDATIONS FOR EVALUATING THE PRUDENCY OF WIND PROJECTS

Q. In your Direct Testimony you made several recommendations to the Commission regarding future wind projects. Will you please restate those recommendations here?

A. Yes. The Division recommends:

- The Company should consider looking at diverse wind characteristics going forward in the acquisition of its wind portfolio.
- The Company should be required to submit a notification letter to the Commission at the time that each wind plant comes in service.
- The Commission should review the Company's strategy of building 99 MW wind farms adjacent to each other as separate projects in order to avoid the solicitation process required in Oregon for major resource additions.
- The Company needs to report detailed accounting of its capital wind projects rather than lump sum capital costs in order for the Division to complete a full prudence review of future wind projects.

Q. Mr. Lasich rebuts your recommendation and claims that the four general recommendations are not relevant to this proceeding. Do you agree?

A. No.

Q. Will you please explain your justification for each of these recommendations and their relevance to this proceeding?

A. Yes. In this docket, the Company seeks a favorable prudence review for the McFadden Ridge I project, which the Division agreed to. However, the first recommendation regarding the diversity of the Company's wind portfolio affects whether this particular project or an alternative project would have impacted the peak load for which the Company needs to meet its system peak demand. As Company witness Mr. Gregory N. Duvall writes, "A large amount of the Company's wind is located in Wyoming, where the variation in load are relatively small."[11] If the Company had wind energy projects with characteristics other than the similar Wyoming wind characteristics, this would reduce the need for the Company to augment its system to meet peak load by other means of energy, including peaking gas plants and/or costly market purchases which eventually flow to ratepayers.

As I stated in my Direct Testimony, the uniformity of the wind characteristics in the Company's portfolio tends to raise reliability concerns and also increases wind integration costs (which affect net power costs) that are passed on to ratepayers. Further, in Appendix F of the Company's 2008 Integrated Resource Plan, the Company discusses the impact of maintaining system reliability when large quantities of wind are integrated on PacifiCorp's system. Wind integration costs are going to be higher if the wind being

[11] Confidential Rebuttal Testimony of Gregory N. Duvall, p. 41, lines 888-889.

added to the system has similar operating characteristics than if the additional wind had diversity of characteristics--such as wind speed, time of day, time of year, capacity, etc.

In the Company's Response to DPU data request #4.7, the Company states "in the event that a planned wind project is not available to meet load service obligations, the company would seek to procure-cost-effective renewable replacement capacity—most likely wind—in order to comply with the renewable portfolio standards and climate change regulations. The Company would rely on short-term market purchases if a renewable resource procurement delay is expected to result in a short position for energy. Therefore, in order to meet peak load the Company will have to accept the market bid price for the energy, which may cost ratepayers more money in the long run. Whereas, if the Company explored wind sites that blow in the summer and in the day time hours, there would be more alternative renewable energy resources available for when the Wyoming wind is not blowing.

Q. What about the second recommendation that the Company notify the Division and the Commission of wind projects coming into service?

A. Mr. Lasich claims this would be overly burdensome and that the Company already updates the Division on a regular basis. If the Company has been notifying the Commission, the Division has not received reports or formal notification. In fact, in Mr.Lasich's Rebuttal testimony he references two wind power purchase agreements, one of which the Division had not even heard of. We have an outstanding data request on this matter. Furthermore, the Division implied that the Company notify us of only capital wind projects, inasmuch my Direct Testimony addresses wind prudence issues. The Division did not intend for the Company to notify of us every purchase or sale of energy. The Company states in its 2008 IRP Action Plan that it intends to acquire 100 MW of wind resources each year for the next ten years. A notification letter of a 99 MW wind plant or such coming online would not be overly burdensome, but would alert the Commission and Division of future wind projects that the Company would be requesting to go into rate base.

Q. Your next recommendation deals with the Company building 99 MW wind projects either adjacent to each other or as separate projects rather than one large project. Please comment on this.

A. This recommendation is relevant to this docket as well as future proceedings. The McFadden Ridge project is not just adjacent to the High Plains project, but is interspersed within the project. Both projects were built at approximately the same time. High Plains was completed on September 13, 2009, and McFadden Ridge I was placed in service on September 29, 2009.[12] The Division cannot know if these two projects had been combined into one larger project if there would have been economic efficiencies or other benefits that would have made customers better off. Therefore, the Division reaffirms its position that the Commission should review how these separate projects avoid the solicitation process required in Oregon for major resource additions in order to determine

[12] See DPU Data Request #29.24 and #49.3.

if the optimal (or reasonable) cost efficiencies are being obtained. Mr. Lasich states that the Company is willing to meet with the Division following this rate case and explain the justification for this acquisition pattern and the Company's wind procurement process. Inasmuch as the Company intends to aggressively pursue wind energy projects, we recommend that the Commission conduct such meeting or technical conferences on this topic.

Q. Your final recommendation deals with the reporting of capital wind projects. Will you please explain why this requirement is not only relevant to this proceeding, but to future rate cases?

A. Yes. In the past the Company reported a total project cost for a wind plant to receive a favorable prudence review with little or no details. Based on the Division's experience in this docket, it is imperative that the Company report detailed accounting of costs for future wind projects rather than lump sum capital costs. In order for the Division to conduct a full prudence review of the McFadden Ridge I project in this docket we asked 11 sets of data requests with a total of 141 questions to the Company. Had we not, we would not have discovered the [redacted] adjustment or other discrepancies with BOP costs, WTG agreements, and a myriad of other data that we deemed necessary to complete a full prudence review of not only this project, but in order to also review the economics of the Company's other wind projects.

The Division requests that the Commission require the Company to file a breakdown of capital costs for future wind projects up front and that any project requisition forms or project approval documents be filed as part of the Master Data Requests in upcoming rate case proceedings. At a minimum the Company should file the wind appropriation requests and wind approval documents.

IV. CONCLUSION

Q. Other than the [redacted] adjustment for McFadden Ridge I, are you proposing any other adjustments that have a dollar or cost amount tied to this case?

A. No.

Q. Are the Division's concerns regarding wind prudence pertinent not only to this case, but to future rate case filings?

A. Yes.

Q. Does this complete your Surrebuttal Testimony?

A. Yes it does.