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

A. My name is John A. Cupparo. My business address is 825 NE Multnomah Street, Suite 1600, Portland, Oregon. My position is Senior Vice President of Transmission for PacifiCorp.

Qualifications

Q. Please describe your education and business experience?

A. I have a Bachelor of Science degree in Computer Information Systems from Colorado State University. My experience spans 24 years in the energy industry, including oil and, gas and electric utilities. The majority of my experience has been in information technology supporting natural gas pipelines, energy commodity trading and end-to-end electric utility operations. I have been employed at PacifiCorp since September 2000. Prior to assuming my current position in August 2006, I was Chief Information Officer for PacifiCorp. My responsibilities have covered supporting many aspects of utility operations including; commercial and trading, outage management, customer service, transmission scheduling and regulatory issues. I am responsible for all aspects of PacifiCorp's main grid transmission investment strategy, customer service, main grid planning, contract administration and tariff management. I am the co-chair of the Northern Tier Transmission Group ("NTTG"), which coordinates transmission planning, transmission expansion, and project reviews with sub-regional and regional planning organizations within the Western Electricity Coordinating Council ("WECC"). I am also an elected class one voting member (transmission owner class) of the WECC Board of Directors. As a member of the Board of Directors, I participate with other WECC members in overseeing WECC's activities, including defining standards and policies to ensure reliability of the western electric grid. I also hold a position on WECC's Transmission Expansion Planning Policy Committee, the Scenario Planning Steering Group, and the Reliability Coordination Committee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to rebut the direct testimony of Mr. Dennis E. Peseau, on behalf of Utah Industrial Energy Consumers ("UIEC") in regards to Rocky Mountain Power's ("RMP" or the "Company") Populus to Terminal transmission project (the "Project"). Specifically, my testimony addresses Mr. Peseau's inaccurate and misleading characterization of why the Populus to Terminal project and the balance of Energy Gateway are being built and how the costs for these facilities will be allocated to both retail and wholesale customers.

Q. Would you please summarize your rebuttal testimony?

A. Yes. Mr. Peseau's testimony and recommendations reflect a fundamental misunderstanding of the fact that Energy Gateway—including the Project—has been sized and is being built to meet the needs of PacifiCorp's retail and wholesale customers, as well as the fact that all of these customers pay for use of the transmission system. The "non-retail free rider customers" Mr. Peseau refers to in his testimony—but notably fails to identify or define—simply do not exist. My testimony will explain:

- how the costs of the Project are allocated to both retail and wholesale customers;
- how the Project was designed to meet the transmission needs of PacifiCorp's network customers, the single largest user of which is PacifiCorp Energy for service to the Company's retail customers, and the importance of protecting the Project's capacity for the long-term benefit and use of the Company's retail customers; and
- how Energy Gateway supports the Company's Integrated Resource Plan ("IRP") preferred portfolio and provides the least-cost, long-term solution to meet PacifiCorp customer needs.

Project Cost Approval

Q. Has the Commission previously reviewed the costs associated with the Project?

A. Yes, by an order issued December 21, 2010 resolving two previous major plant addition dockets, which included the Ben Lomond to Terminal transmission line (Docket No. 10-035-13, "MPA I") and the Populus to Ben Lomond transmission line (Docket No. 10-035-89, "MPA II"), which collectively comprise the Project, the Commission approved settlement stipulations, subject to parties' reserved positions, which included the costs for the Project. Specifically, the Commission stated, "we find the Stipulation is just and reasonable in result and is in the public interest."

Q. Was UIEC a party to and signatory of both settlement stipulations?

A. Yes. UIEC, among others, agreed that "the Commission should enter an order pursuant to Utah Code Ann. § 54-7-13.4(4)(a)(ii), approving cost recovery of the MPA II and MPA 1 Projects."

Q. Is there also an agreement, pursuant to the settlement stipulations, as to how the Company is to recover the costs related to the Project?

A. Yes. UIEC, among others, agreed that the stipulated net revenue requirement from the MPA I docket, of which approximately $13.8 million is for the Ben Lomond to Terminal segment of the Project, plus the stipulated net revenue requirement from MPA II docket, of which approximately $27.4 million is for the Populus to Ben Lomond segment of the Project, would be spread among Utah ratepayers and collected through Schedule 40. UIEC, among others, further agreed that Schedule 40 would begin January 1, 2011 and terminate upon the effective date of new rates set in this general rate case incorporating the revenue requirement related to the MPA I and MPA II dockets, including the revenue requirement related to the Project.

Project Cost Allocation

Q. Mr. Peseau accuses the Company of "[abusing] its monopoly position to charge only the retail customer of Utah for transmission projects that clearly as planned to benefit a multitude of customers" [sic]. Do you agree with this statement?

A. Absolutely not. Energy Gateway has been designed and planned primarily to meet the Company's retail load needs, including those of Utah customers, consistent with the manner in which the Company has historically built its transmission system.

With the promulgation of the Federal Energy Regulatory Commission's ("FERC") open access rules came the requirement that PacifiCorp plan and build the transmission system for the needs of all of its long-term wholesale customers. Importantly, PacifiCorp's single largest wholesale customer is itself, via PacifiCorp Energy, which utilizes the transmission system to facilitate retail electric service to PacifiCorp's 1.7 million retail customers. In terms of comparison, PacifiCorp Energy accounted for 90 percent of the Company's firm transmission use in 2009, with the remaining 10 percent accounted for by the Company's third-party wholesale customers. By continuing to plan and build transmission for these interests, PacifiCorp ensures that the load needs of its retail customers will be met.

Indeed, as discussed in more detail later in my testimony, prudent planning requires that PacifiCorp use this approach to ensure that the capacity needed to serve present and future retail load needs is protected and preserved. Moreover, to the extent that there are third-party wholesale users of the transmission system, those customers pay for their use of the transmission system through wholesale rates approved by FERC. Therefore, it is simply untrue for Mr. Peseau to suggest that "only" retail customers will be charged for transmission projects or that there are "free riders" on the transmission system. All revenue received from third-party wholesale customers comes back as a dollar-for-dollar credit to retail customers—meaning each customer class pays its share for use of the transmission system, and retail customers are not required to bear the cost associated with third-party wholesale use.

Q. Please elaborate on how retail customers receive credit when third-party wholesale customers use the transmission system.

A. Under approved state retail cost allocation rules, total transmission system costs are allocated among the Company's retail jurisdictions and all third-party wholesale revenues resulting from usage of the transmission system are credited back to retail customers to lower retail rates. Revenue crediting treatment of third-party transmission revenues as filed by the Company is consistent with: 1) the Revised Protocol as approved for purposes of setting rates by this Commission in Docket No. 02-035-04; 2) the 2010 Protocol filing made by the Company in Docket No. 02-035-04; and 3) the Rolled-in allocation method approved by the Commission in Docket No. 97-035-04. For further discussion on inter-jurisdictional allocations, please refer to the testimony of Mr. Steven R. McDougall.

Q. How does the Company ensure that wholesale transmission customers pay their share of the costs of transmission?

A. PacifiCorp ensures that wholesale transmission customers pay their share of the costs of transmission by following FERC's approved methodologies for developing wholesale rates. The development of wholesale rates at FERC requires that the rates reflect the <u>total cost</u> of all in-service transmission assets, including all capacity associated with such facilities without regard to whether that capacity is presently contractually subscribed. PacifiCorp recently filed an update to these rates at FERC in docket ER11-3643-000. In this docket, PacifiCorp proposes to update its wholesale rates to ensure all transmission customers continue to pay a fair allocation of costs based on current cost data.

Q. Mr. Peseau suggests that retail customers of Utah do not benefit from the Project and should therefore not be required to pay for it. Do you agree?

A. No. Mr. Peseau's assertion ignores a critical detail – Energy Gateway, and specifically the Project included in rates in this proceeding, has been designed, planned and is being built primarily for the Company's retail load needs, including those of Utah customers. Notwithstanding this distinction, Mr. Peseau also appears to suggest that electrons flowing through an integrated, networked transmission system can be "color coded" to particular customers and then the costs directly assigned commensurate with the benefit those customers receive, all without losing any of the benefits of the integrated system. This is an overly simplistic view which does not appropriately recognize the benefit that customers receive from a networked transmission grid.

As an integrated whole, a networked transmission grid has the capability to respond dynamically and flexibly to changing load needs as well as to reliability events in which the system may be called upon to respond to sudden changes in order to ensure that the lights remain on and that the system operates safely and reliably. As an example, a robust integrated network provides benefits to customers in the form of access to power pool reserve sharing programs which can be fully utilized to minimize costly reserve requirements, including access to purchased reserves during periods of shortfall or during contingency outage events.

Q. Are there other benefits from a properly designed network?

A. Yes. A properly designed networked system provides dispatch flexibility to wholesale customers serving load by providing firm access to system resources such that low cost resources are not stranded by transmission constraints and are available to meet load needs on a least-cost basis. Finally, an integrated network provides benefits to customers by providing access to power markets such that network customers can sell any surplus capacity not necessary for load service during periods of low load levels. Adequate transmission and availability to markets ensures surplus PacifiCorp energy is sold and credited to net power costs, lowering retail customer rates. Conversely, market access provides network customers the ability to purchase energy during periods when economic or when required to supplement resources to serve loads.

Q. Why not do as Mr. Peseau suggests and allocate only a portion of revenue requirement to Utah?

A. Mr. Peseau's overly simplistic suggestion is based on several untenable premises, which, if taken to their conclusion, would result in the inability of the Company to ensure reliable service for its retail customers. PacifiCorp's obligation to plan and build its transmission system to ensure sufficient capacity to reliably meet its customers' needs could not be fulfilled if the Company's ability to make the necessary investments was dependent on commitments from third-party wholesale customers. To illustrate, after the initial Energy Gateway project was announced, PacifiCorp received significant interest in additional capacity from third-parties. PacifiCorp's efforts to secure third-party commitment to invest in an "upsized" configuration of Energy Gateway failed to result in any viable commitments, thereby halting plans for this configuration. Specifically, the "upsized" configuration would have required significant upgrades including, but not limited to: 1) a double circuit 500 kV configuration for Gateway West originating at Aeolus substation in Wyoming and running to the Populus substation in Idaho; 2) a double circuit 500 kV line from Aeolus substation in Wyoming to the Mona substation in Utah; 3) a new 500 kV line from Mona substation in Utah to the Crystal substation in Nevada; 4) completion of the 500 kV element from Hemingway to Captain Jack and the completion of the corresponding Gateway West elements proposed by Idaho Power including a second 500 kV line from Populus to Hemingway and the 500 kV Hemingway to Boardman project; and 5) a double circuit 500 kV configuration of the Mona to Oquirrh project. Halting these "upsized" plans was appropriate since the added capacity was not needed for existing PacifiCorp network customers and no third-parties were willing to fund their portion of the cost increase. Reliance on third-party commitments is not appropriate or prudent for planning and building the facilities required by PacifiCorp customers.

Moreover, the reliability and load service benefits that come from planning and operating the transmission system as an integrated whole could not be maintained if the Company were forced to parcel and directly assign transmission system costs to third-parties and then hope that those third-parties followed through with the necessary commitments required to move forward with construction and permitting. Mr. Peseau's suggestion would threaten PacifiCorp's ability to have sufficient transmission capacity available for retail load service needs.

Q. Mr. Peseau states that "an allocation of 50 percent of the revenue requirement of the Populus-Terminal project to retail customers is fair and reasonable based on the limited benefit they will receive and the fact that they are not the primary cost causers." Is it true that retail customers are not the primary cost causers?

A. No. The primary cost causers for Energy Gateway are PacifiCorp's network customers, and as explained above, PacifiCorp Energy is the primary network customer and beneficiary of transmission service utilized to facilitate electric service to PacifiCorp's retail customers.

Q. Mr. Peseau illustrates his "cost causation" principle with an analogy about a new highway built through Towns A, B and C in order to serve a new shopping center in Town D, suggesting that Towns A-C should not be burdened with the cost of the highway since they were not the reason the highway was built. How does this apply to the Project?

A. Mr. Peseau's analogy suggesting PacifiCorp has unfairly allocated costs for the Energy Gateway project is off the mark. Rather, when properly explained, the analogy is supportive of the cost allocation principles applied to the Project. Mr. Peseau concludes that towns A, B, and C (i.e., Utah customers) are unfairly burdened because they were billed for the highway (i.e., the Project), because they had "marginal usage and were not the reason that a highway was built." There are several reasons why his analogy fails:

1) Based on my understanding and belief, the federal highway system was built and funded upon the premise that the creation of interstate highways improves access and brings commerce and prosperity to communities which would otherwise remain isolated or constrained by their locations. As such, the highway system is funded by a collective fund, not by a subset of perceived beneficiaries of the highway. Like the interstate highway system, Energy Gateway is part of an integrated network, and reliability and load service improvements to that network benefit all customers who depend upon it.

2) Energy Gateway is not being built for one set of customers over another; it was planned for PacifiCorp's customers as a whole, and is being built to meet forecasted demand growth by improving transfer capability, access to reserves, and to maintain the reliability of the transmission system. Of note, the highest load growth on the PacifiCorp system over the past several years is the economic growth in Utah.

3) By stating that "Towns A, B, and C were billed for the highway, even though they only had marginal usage and were not the reason that a highway was built <u>rather than a simple road</u>," (<u>emphasis</u> added) Mr. Peseau implies a "simple road" approach instead of Energy Gateway would have been sufficient to meet customer needs. This is not the case. The Company evaluated multiple alternative configurations for the Project and determined its current configuration was the most cost effective for meeting customers' long-term needs. Alternatives considered are

discussed in the Company's 2008 Populus to Terminal analysis paper (provided with Mr. Darrell T. Gerrard's rebuttal testimony as Confidential Exhibit RMP___DTG-1). Had the Company taken the "simple road" approach, to build on Mr. Peseau's analogy, customers would have found themselves sitting in heavy traffic very quickly with little potential for relief.

4) Energy Gateway does not provide for mere "marginal use" for retail customers. As explained previously, PacifiCorp Energy's load and resource needs to serve its retail customers represent the vast majority of total wholesale customer demand.

In sum, Mr. Peseau's analogy is simply inappropriate, and leads to multiple incorrect conclusions about how transmission projects—and highways, for that matter—are planned, built and paid for.

Project Design and Capacity Benefits

Q. Why was Energy Gateway undertaken and how do Utah ratepayers benefit from this project?

A. Energy Gateway was undertaken to meet current and forecasted customer load growth needs by providing additional transmission capacity to deliver renewable and cost effective resources as identified in the Company's integrated resource plan to loads. The benefit to Utah and all Rocky Mountain Power customers initially is enhanced reliability and improved transfer capability within the existing system. In the future, these investments will also provide benefits by establishing incremental capacity necessary to deliver the resources within the

Company's Integrated Resource Plan. Maintaining a stable and reliable system during a variety of operating conditions minimizes potential outages to all customers and financial impacts of having to deliver higher cost resources if required.

Q. Do you agree that, unless the Commission takes action as recommended by Mr. Peseau, Utah ratepayers are left unprotected from bearing the cost of transmission facilities which do not benefit them?

A. No. One of Mr. Peseau's chief arguments is essentially that Utah ratepayers should not bear the costs of Energy Gateway because they are neither cost causers nor beneficiaries of the majority of the Project, and that this is a result of the absence of "regional transmission organizations regulated by FERC where competitive outcomes can be preserved by regulation." PacifiCorp customers, including Utah customers, are in fact the primary beneficiaries of the project. PacifiCorp, like all federally regulated transmission providers, is required to ensure open, non-discriminatory access to the transmission system by conducting business according to the terms and conditions of its FERC-approved OATT, or else be subject to severe penalties under the Federal Power Act. This includes adherence to the transmission planning procedures required by FERC in Order No. 890, as set forth in Attachment K to PacifiCorp's Open Access Transmission Tariff ("OATT"). In addition, FERC and the OATT require that the Company plan for and expand the transmission system to meet customers' long-term forecasted loads and resources needs.

Q. Has there been a long tradition in the West of joint planning and development of transmission resources in a non-RTO environment?

A. Yes. PacifiCorp is a joint owner of several generating assets and associated transmission lines constructed under joint planning and construction principles. These include the Colstrip project in Montana, the Wyodak and Bridger projects in Wyoming, and the Oregon AC Intertie transmission line. Organizations also exist in the West to facilitate planning of the regional transmission system as well as cost allocation. PacifiCorp is a member of NTTG, a sub-regional planning group facilitating a transmission planning process spanning substantial portions of the Pacific Northwest and the Rocky Mountains. NTTG's efforts are directed by a steering committee comprised of transmission providers and representatives from the utility regulatory commissions of Utah, Idaho, Montana, Wyoming and Oregon. These member representatives work in collaboration with stakeholders to increase the efficient use of the grid and to develop the infrastructure needed to deliver new resources to customers.

Within NTTG are subcommittees, including a cost allocation committee which is governed by state regulatory authorities, including a representative from the Utah Public Service Commission. Energy Gateway, inclusive of the Project, was submitted to the NTTG cost allocation committee with a recommendation to use PacifiCorp's state-approved cost allocation mechanism. NTTG's cost allocation committee accepted that recommendation in late 2009. PacifiCorp believes this existing governance structure along with the FERC OATT and state regulatory oversight is equivalent to and arguably superior to Mr. Peseau's suggestion that the region should form a regional transmission organization.

Q. Mr. Peseau advocates for allowing "the capacity of the line not used by…retail customers [to] be marketed to third parties," who would be free to use the line for non-utility purposes. Do you agree with Mr. Peseau that this would be "a good outcome"?

A. Absolutely not. First, and as Mr. Gerrard addresses further in his rebuttal testimony, Path C, which includes the Populus to Terminal lines, is fully subscribed for firm transmission service in the southbound direction directly to the benefit of the Company's retail customers (i.e., no unused capacity).

Second, if there was unused capacity on an Energy Gateway project, and the Company's load and resource forecasts showed that capacity would be needed to meet its customers' future needs, it absolutely would not be a "good outcome" for customers to lose it to a third-party customer. To allow this would require future needs to be met with a new project or another higher cost alternative. PacifiCorp recently expressed to FERC its concern that, absent clear regulatory support, a utility's ability to restrict "rollover rights" of third-party transmission customers taking long-term service of at least five years in favor of forecasted network capacity needs is untenable. PacifiCorp is concerned that once a third-party customer acquired critical capacity in the Project or other Energy Gateway segments, there would be no ability to recall it once needed for retail load requirements. It would, in effect, be gone, and the Company would be faced with needing to build a new project, assuming new construction and permitting in the same region would even be possible, or faced with other higher-cost alternatives. As such, PacifiCorp believes it must be able to protect and preserve access to project capacity planned for future load service when future transmission capacity is needed to meet future network customer requirements.

Integrated Resource Plan and Project Sizing

Q. Mr. Peseau states that "the Company's proposal leads to excessive retail rates." Has the Company conducted net power cost ("NPC") studies on the Energy Gateway projects?

A. Yes. The Company's 2011 IRP shows the full Energy Gateway expansion plan along with the preferred resource portfolio provides a 20-year present value revenue requirement savings of approximately $900 million compared to a minimal Energy Gateway expansion. With the IRP's preferred portfolio of resources, Energy Gateway is a key component of the least cost alternative to provide the required load service to customers over the next 20 years.

Energy Gateway, in effect, provides capacity such that loads can be served with lower cost resources than would otherwise be available. Without this investment, customer rates will actually be higher due to higher cost dispatch of existing generation, construction of localized generation with higher and more volatile fuel cost, and the need for additional market purchases to serve loads. In addition, Energy Gateway improves resource options and access to future generation development sites in resource-rich areas of the Company's service territory. This transmission investment also acts as a hedge against costs associated with potential future legislative changes relating to carbon regulation, renewable energy mandates, environmental protection agency rulemakings and other potential legislative changes that can impact generation costs required to serve loads.

Finally, even if one assumes all new future load growth will be met with localized natural gas-fired generation, there are a limited number of future gas plant locations available in the Utah Wasatch front, simply due to land, water, and air quality issues. The transmission capacity provided by Energy Gateway assures that adequate and optimal generation development sites remain available external to the Salt Lake City area well beyond the 2020 timeframe.

Adopting Mr. Peseau's suggestion that the Company sell off this high value asset, which is shown to provide for the future needs of network customers, would be a big mistake.

Q. Mr. Peseau states that the Company is "proposing to construct Energy Gateway in anticipation of future development of generation resources, and future markets for such resources, despite the 2007-2008 pull back from third party subscribers," and argues that "the attempt now to charge only retail customers for this is unfair and does not attribute reasonable cost causation." Please address this in more detail.

A. The Company is absolutely constructing Energy Gateway to meet load growth and demand requirements of PacifiCorp's customers. The Company is not constructing the project for any purpose other than to meet its customers' needs. In particular, the transmission is NOT being built to market energy, renewable or otherwise, to wholesale customers in California.

The 2011 IRP includes more than 4,000 MW of new generation resources added to the system by 2030, and significant transmission additions will be needed to deliver those resources. As explained in the IRP, delivery of future generation resources is needed in order to continue to provide reliable electric service to retail customers.

With regard to the referenced "pull back" from third party subscribers, Mr. Peseau is correct that substantial interest was expressed by third parties in capacity on the Energy Gateway projects, but an important distinction missing from Mr. Peseau's testimony is that this interest was in additional capacity via an "upsized" version of Gateway, NOT in the core Gateway plan needed to meet PacifiCorp customers' needs. When PacifiCorp initially posted the Energy Gateway project on its OASIS in 2007, it received a high level of interest in commercial point-to-point service - 39 point-to-point transmission service requests resulting in 4,900 MW of requested capacity across the announced project. To satisfy these requests, PacifiCorp determined that, if financial commitments were made by third-parties, the Company could "upsize" the project by using double circuit 500-kV line construction instead of a single-circuit configuration. However, none of these or subsequent requests resulted in the financial commitments from requestors that would be required to do so. For this reason, the upsized version of Energy Gateway is not being built. As referenced in my earlier testimony, the additional investment needed to meet "upsized" Energy Gateway needs was put on hold and is not being constructed at this time. The

Company is moving forward with the necessary investments, including Energy Gateway, to serve its customers' needs.

Q. Does this conclude your rebuttal testimony?

A. Yes.