Gary A. Dodge (0897)
HATCH, JAMES & DODGE
10 West Broadway, Suite 400
Salt Lake City, Utah 84101
Telephone: (801) 363-6363
Facsimile: (801) 363-6666
Email: gdodge@hjdlaw.com
Attorneys for US Magnesium LLC

Stephen F. Mecham (4089)
CALLISTER NEBEKER & MCCULLOUGH
Gateway Tower East Suite 900
10 East South Temple
Salt Lake City, Utah 84133
Telephone: 801 530-7300
Facsimile: 801 364-9127
Email: sfmecham@cnmlaw.com
Attorneys for Desert Power LP

**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

| | |
|---|---|
| In the Matter of the Application of PACIFICORP for Approval of an IRP-Based Avoided Cost Methodology For QF Projects Larger than One Megawatt | Docket No. 03-035-14 |

**PREFILED SURREBUTTAL TESTIMONY OF ROGER J. SWENSON**

US Magnesium LLC and Desert Power LP hereby submit the Prefiled Surrebuttal Testimony of Roger J. Swenson in this Docket.

DATED this 12th day of May, 2004.

/s/________________________________

/s/________________________________

PREFILED SURREBUTTAL TESTIMONY

Of

ROGER J. SWENSON

On behalf of US Magnesium LLC and Desert Power LP

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In the Matter of the Application of PACIFICORP for Approval of an IRP-Based Avoided Cost Methodology For QF Projects Larger than One Megawatt

Docket No. 03-035-14

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May 12, 2004

***General Response***

**Q. Have you previously submitted testimony in this proceeding?**

**A.** Yes. I have submitted both direct and rebuttal testimony in this docket on behalf of US Magnesium LLC ("US Mag") and Desert Power LP ("Desert Power").

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

A. I will respond to rebuttal testimony filed by witnesses for PacifiCorp, the Division of Public Utilities, UAE and the Utah Energy Office. I note that I will likely have surrebuttal for the Committee witnesses, but I understand that they intend to file their rebuttal testimony with their surrebuttal. I will thus respond at the hearings to the surrebuttal testimony filed by the Committee (and the other parties).

**Q. What do you see as the major differences in the positions of the parties, now that rebuttal testimony has been filed?**

A. The company proposes to use a proxy method for pricing beginning in 2007 and a "black box" differential revenue model, with reduced capacity payments, prior to 2007. The Division of Public Utilities ("DPU") and the Committee of Consumer Services ("CCS") want to develop a differential revenue model for the entire period that inherently relies on forecasting and assumptions. They want to establish a task force to study this issue further. For an interim period, the DPU and CCS propose to use the differential method until 2007 with reduced capacity payments and a proxy method beginning in 2007, but they propose that avoided cost payments be reduced by using a proxy that is a blend of a gas resource and a possible future coal resource. US Magnesium and Desert Power, as well as UAE, are proposing an NDP peaking plant proxy method based on identifiable costs that does not rely upon long-term forecasting.

**Q. What do you see as the key determinate in attempting to resolve these differences in positions?**

A. I believe that the most important thing is to find a solution that has the best chance of accomplishing what all parties agree should occur: maximize the likelihood of ratepayer indifference and secure resources needed by the system. Peak demand growth continues to be the dominant factor in Utah load growth. The goal should thus be to give appropriate and accurate economic signals to develop the most efficient generation resources. Under current circumstances, a strong and unmistakable signal should be sent that efficient independent energy generators should be actively involved in meeting the generation deficit being faced in this state.

This Commission can send such a message by refusing to condone a double standard, such as that presented by the suggestion of allowing full cost recovery for the utility for all fixed costs but to impose reduced capacity payments for several years to QFs. Also, by refusing to let avoided costs be set with guesses at future fuel costs, and by refusing to permit QF payments to be determined through black box models controlled by the utility. This Commission can send a clear message that Utah will not permit the utility to continue to ignore and obfuscate the obvious value provided by QFs, and that some semblance of competition will be introduced into the resource development mix in this State. The Commission needs to be very clear in the message it intends to send in this matter so that parties will not continue to waste precious time and resources.

***<u>Dr. Powell</u>***

**Q. Dr. Powell relies upon a Tellus Institute paper to argue for an equal weighting of a coal unit and a CCCT in the avoided cost calculations since, according to a Tellus paper, avoided costs will come from "bits and pieces of a large number of different types of units spanning varying time periods" (Powell Rebuttal at 3) Can you comment on Dr. Powell's proposal to include a coal resource?**

A. Yes. I have a very hard time understanding any sound basis for including a coal plant in the calculation, even in consideration of the Tellus report that he relies upon. The report refers to a "large number of different types of units" over "varying time periods." Why not blend in the costs of a peaking plant, wind units, and other resources as well? What is the basis for the assumed coal costs? What are the reasons for choosing a 50% weighting for the coal plant? Is the coal plant dispatchable? What about potential environmental costs? The IRP includes environmental cost factors in its calculations, yet Dr. Powell ignores them. The very Tellus report so extensively relied upon by Dr. Powell discusses including environmental costs in avoided cost calculations (Section III, COMPONENTS OF TOTAL AVOIDED COSTS), but the issue is not even mentioned by Dr. Powell. There are simply too many interdependent factors at play to cavalierly add one additional type of resource—the coal plant—to the calculation of avoided costs without meaningful analysis and without an evaluation of what the cost of that addition truly is.

**Q. In the same section of the Tellus report from which Dr. Powell quotes, there**

**is a discussion about two specific limitations of the proxy plant method. Can you explain how the NDP approach addresses these limitations?**

A. Yes. The first limitation discussed by the Tellus report is the potential for a mismatch if the proxy unit has an operating capacity factor that is different than the alternative resource [the QF]. For example, the report references a proxy plant with a 10% capacity factor and a QF with a 30% capacity factor, causing an overpayment in variable cost to the QF if it is paid for the extra 20% of operating hours that the proxy plant would not have been dispatched.. The NDP methodology takes care of this limitation, since the QF is paid the variable costs of the proxy plant only when it has been dispatched. If it operates beyond that capacity factor, it is paid based on market costs that will be lower. The NDP methodology therefore eliminates this limitation that the Tellus report calls out.

The second limitation is size. The Tellus report states that if the size of the proxy versus the QF is not similar, there will be cost mismatches. (Tellus Study, Section II-9) This issue is not of significant concern in this case. The sizes of the US Magnesium and Desert Power projects are as large as the units that have been added to the system in the past few years. Gadsby has three 40 MW units and West Valley has five 40 MW units. The sizes of US Magnesium at over 40 MW and Desert Power at roughly 90 MWs are comparable. These projects, when considered in combination are clearly within the size range of each of the facilities already developed by the utility and its subsidiary. Again, this Tellus limitation is overcome when considering the size of the US Mag and Desert

Power projects.

**Q. What does this tell us concerning the NDP approach?**

A. The limitations suggested by the Tellus report are overcome with the NDP methodology that I propose. The NDP methodology also inherently considers the strong interdependence between avoided capacity costs and avoided energy costs, which is a very important consideration. The value of the capacity payment in the NDP approach sets the cap for the variable energy cost at the energy cost of the chosen NDP resource. Lower capacity payments for a peaking simple cycle NDP resource would likely have higher variable operating cost factors. Higher capacity payments for a CCCT NDP unit will likely have lower variable cost operating factors. The capacity payment is thus directly tied to the actual value provided by the QF resource under the NDP methodology.

**Q. What about Mr. Powell's suggestion of an interim price for large QF's of $44.09 to $47.44 per MWH?**

A. I find it hard to understand the basis from which these costs are derived and illustrative of the issues that forecasting provides. One only needs to use the existing delivered gas prices in the market in our area today of over $5.00/Dth and the heat rates and variable costs of the peaking plants in the PacifiCorp resource mix that provide variable costs to produce power well in excess of these numbers.

***<u>Mr. Tallman</u>***

**Q. Mr. Tallman rejects your view of PacifiCorp's bias against QF development and responds to your perception that the state agencies are not adequately**

**promoting state policies encouraging development of efficient independent power resources by pointing to the fact that the agencies are promoting a new QF methodology. (Tallman Rebuttal at 2) How do you respond?**

A. PacifiCorp's motives and objectives are self-evident. They strenuously resist power production by anyone but themselves in this state. With respect to the state agencies, my comments are based largely on testimony filed in this docket that suggests payment of only a partial capacity payment to QFs in the early years. This type of approach creates and perpetuates formidable barriers to the development of QF resources. I am pretty sure that employees of the state agencies understand that no one can develop 50% of a plant. Either the plant is built or it isn't. PacifiCorp and its subsidiaries are not treated this way when they develop generation. Amazingly, I hear no discussion of less than full cost recovery for an expensive gas plant being built in an expedited manner to provide capacity for only a few months per year. These types of double standards make me question whether the state agencies have a sincere interest in promoting state policy and in removing barriers to the development of independent energy suppliers in the resource mix. Had we seen similar proposals for cost recovery of utility investments in the Gadsby or Current Creek proceedings, my concerns over such a double standard and over preferences for utility build options would likely never have arisen.

**Q. Mr. Tallman appears confused about your suggestion that you would expect dramatic avoided cost price signals based on recent circumstances. (Tallman Rebuttal at 3) Can you help Mr. Tallman understand?**

A. My expectation of dramatic price signals is based partly on what I heard Mr. Tallman himself say in discussions during Currant Creek technical conferences. I heard Mr. Tallman explicitly state that without additional resources Utah will be subject to potential blackouts. I look at PacifiCorp's own exhibits and find fixed costs constantly in excess of $70/kw-yr for what they have developed or are developing. Yet here, they propose $16.04 /kw-yr for non-PacifiCorp owned resources. To me, a $16.00/kw-yr capacity payment paid to a QF (as opposed to $97 for West Valley) sends a very different pricing signal.

**Q. Mr. Tallman suggests that the economics of the Desert Power and US Magnesium facilities should support his proposed lowball QF rates. (Tallman Rebuttal at 4) Is that the case?**

A. No. However, the economics of any specific QF are not the issue here. The issue here is finding the most reasonable approach to determining legitimate avoided cost rates designed both to ensure ratepayer indifference and to further the policy directives of the State of Utah. The NDP proxy method that I propose (which is similar to the method used by PacifiCorp after 2007, if modified for non-dispatch hours) is the best way to meet both goals.

**Q. Mr. Tallman opposes your suggestion that a QF be permitted to provide delivery from an alternative resource, if necessary. (Tallman Rebuttal at 4) How do you respond?**

A. My proposal was designed to provide reasonable remedies for circumstances that otherwise will involve penalties. The goal is to keep ratepayers whole, to keep power flowing to ratepayers, while avoiding unnecessary penalties to the QF that could be averted by simply arranging for alternative deliveries at an acceptable point. It is only reasonable to assume that a QF could often take actions that would keep ratepayers whole and avoid penalties by supplying from alternative sources. I expect that this would be the same method that PacifiCorp itself would use if one of its plants had a delivery problem. Mr. Tallman simply claims that the utility is not required by PURPA to facilitate such a remedy. That is not the point. It is just and reasonable, and in the public interest, to minimize unnecessary penalties to QF developers, while at the same time keeping ratepayers whole. I am simply proposing a reasonable accommodation for circumstances that will likely occur at some point in time.

***Mr. Griswold***

**Q. Mr. Griswold's testimony addresses Schedule 38 and its usefulness so far. (Griswold Rebuttal at 2) Can you respond?**

A. Mr. Griswold seems to claim that US Mag and Desert Power are somehow trying to obtain engineering and consulting services from PacifiCorp. That claim is false and absurd. For more than 18 months I have been trying in every way I can conceive of to get from PacifiCorp a clear perspective on what a QF could expect to be paid under various different design configurations and different operating characteristics. US Mag and Desert Power are both committed to reconfigure their facilities. Without useful information from PacifiCorp, we are left completely in the dark as how best to design the project to maximize the value to the utility and its ratepayers, and thus to maximize the avoided cost payments. It is PacifiCorp's long-honored practice to keep potential developers in the dark and to withhold information in order to stifle development by anyone other than itself. Contrary to Mr. Griswold's suggestion, Schedule 38 was intended in part to give a potential QF developer a means to obtain the pricing information needed to make economical decisions before committing to a specific design or size. The process has simply not worked because PacifiCorp has continued to refuse to provide meaningful or useful information. PacifiCorp, under the existing circumstance is the only party that has the information required to complete a valid analysis and is now complaining about being asked to provide the information so that a developer can make design decisions.

**Q. Can you give an example of the types of issues as to which you have been kept in the dark?**

A. Yes. The primary issues have related to pricing and how prices are determined, as I have previously discussed. Another issue relates to dispatchablility versus scheduling. Before reading Mr. Weaver's recent rebuttal testimony, we did not know what PacifiCorp considered the difference to be. We have never seen a specific discussion anywhere from which one could draw this distinction. Also, we have not been able to understand how PacifiCorp's proposed adjustments would be calculated. For example, the illustration contained in Exhibit BWG-2R to Mr. Griswold's rebuttal testimony suggests that we should not be conservative with scheduled maintenance periods. This is the very type of information we have been seeking for months. However, I would note that Desert Power with its proposed contract has attempted to render its dispatchability fully equivalent to that of a PacifiCorp owned plant.

**Q. Mr. Griswold claims that your documentation in connection with your schedule 38 pricing and contract request dated July 15, 2003 was incomplete. (Griswold Rebuttal at 2-3) Did you know that?**

A. No. This is the first time I have heard that claim. The request specifically asked PacifiCorp to let us know if they needed any further information. No such indication was forthcoming. I received a number of emails from Mr. Griswold after the request for final pricing and contract was submitted my Schedule 38 request for indicative pricing, including ones dated July 29, August 12, August 20, September 4 and November 20. (These emails are attached hereto as Exhibit USM/DP 1SR.1). Not one of these emails mentions any inadequacy in the information provided. The July 29, 2003 email from Mr. Griswold discussed the IRP process and the difficulty PacifiCorp was having in running its model. The August 12, 2003 email discussed a new forward price curve that needed to be approved for use that was slowing down progress. The August 20, 2003 email described credit requirement issues and how PacifiCorp needed the output of the model to determine exposure. The September 4, 2003 email discussed ownership issues and acknowledged the project between US Magnesium and Desert Power. What I saw was continued excuses as to why PacifiCorp was not making any progress. No mention was ever made – until Mr. Griswold filed his rebuttal testimony – that our documentation was somehow inadequate. This clearly illustrates that PacifiCorp is perfectly capable and willing to manipulate and delay the Schedule 38 process.

**Q. Mr. Griswold seems to make an issue over the joint effort of Desert Power and US Magnesium. (Griswold Rebuttal at 3) Why did you ask for pricing based on a combined QF?**

A. In the working group PacifiCorp suggested that a QF would need to be over 100 MW to receive any capacity payment. It was suggested that groups could work together to make sure there was enough size to actually defer a single facility. The two facilities together clearly overcame the 100 MW barrier that PacifiCorp had imposed. However that barrier was subsequently removed, so the individual projects were proposed.

**Q. Mr. Griswold's testimony provides an example of how he would compute some of his proposed adjustments (Exhibit BWG-2R). Can you comment on his example?**

A. Yes. First, I would like to say that it is very nice, after nearly two years, to finally see how he would propose to made some of the adjustments. Unfortunately, however, there is still very little detail provided that would allow us to understand the specifics. For example, I cannot tell if the adjustment is based on actual performance or on projections made up front. When we know this, we can make economic decisions concerning maintenance contracting that will reduce the number of potential maintenance days required. If we expend more money for quicker turnaround, we will have quantifiable economics that will allow us to compare the extra costs and benefits.

As I have previously discussed, most of PacifiCorp's proposed adjustments are unnecessary under the NDP methodology. Under PacifiCorp's methodology, we would have serious concerns regarding how the proposed adjustments would be determined and implemented. QF development will continue to be thwarted in this state unless all potential adjustments are understood up front and presented in a clear and straightforward manner that will allow meaningful early design decisions. These adjustments cannot be left to be thrust at QF projects as surprises in final negotiations.

***Mr. Weaver***

**Q. Mr. Weaver challenges your NDP methodology and your use of West Valley as the NDP (Weaver Rebuttal at 3). What do you say in response to his assertions?**

A. Mr. Weaver claims that we should not use the West Valley plant as the NDP, but should choose a CCCT instead. He bases his claim on the fact that West Valley will allegedly not be deferred by US Mag and Desert Power. I would remind Mr. Weaver that this is a generic docket, designed to set QF rates for any QF developments that may qualify. If rates are properly set, it is very possible that sufficient QF resources will become available that will allow actual deferral of all of the West Valley leases. Moreover, it is not necessary, or even appropriate, to try to determine whether a specific QF will actually defer a plant. Such an analysis is a losing proposition that will do nothing but construct inappropriate and unnecessary roadblocks to QF development. Utah Code Section 54-12-2 clearly states that the capacity component of avoided costs should be based on the "**long-term**" capacity value of a plant that "**may**" be deferred. It is not necessary to guess whether a plant actually will be displaced. Also, the utility will almost always resist the actual deferral of a plant or lease, particularly when it is in the best financial interests of the utility or its affiliates to keep the plant in rate base or under contract. Once a potentially deferrable plant is identified, the QF should be paid based on the variable cost of the plant plus all fixed costs. The QF thus effectively provides the same value to the utility as the NDP, and is paid accordingly.

**Q. Why is West Valley the appropriate proxy plant or next deferrable resource?**

A. West Valley is the appropriate proxy because it is potentially deferrable. Mr. Weaver's discussion of this issue clearly illustrates the double standard that the utility is trying to impose on QF developers. Mr. Weaver claims that the basis for a capacity payment to a QF should be different than the capacity recovery for a utility resource that provides the very same contribution to meeting demand during those few months when the utility is capacity deficit. Mr. Weaver claims that the West Valley plant must continue to operate to meet the summer demands, but PacifiCorp will obviously ask for full fixed cost coverage for the entire year. For a QF it is an entirely different story. Mr. Weaver proposes that, since a QF is only needed for five months per year, capacity payments should be limited to those 5 months. His claim of resource sufficiency in the face of the utility's loud and desperately expressed need for more resources is regulatory double talk. PacifiCorp should not receive full cost recovery for the Gadsby peakers, the West Valley peakers or the Currant Creek plant if QFs are not given full capacity payments.

**Q. Mr. Weaver suggests that the company will simply rely upon market purchases to meet its capacity shortfall during the summer, at least until 2007 (Weaver Rebuttal at 5). What is your response to this claim?**

A. Having followed the recent Currant Creek hearings, I find this claim remarkable. It appears that PacifiCorp thinks we all have very short memories. PacifiCorp aggressively denied that significant market purchases will be available to the company in the coming years, and threatened blackouts if it was not permitted to construct the Currant Creek plant. I suspect we will see similar claims in the upcoming Summit hearings. To then turn around and cavalierly dismiss any need for QF capacity along the Wasatch Front because of the availability of market purchases is astounding and disingenuous, and shows how far the utility will go in trying to accomplish its goals. If capacity is worth what PacifiCorp claims it is worth in constructing its new plants, it is worth that much if provided by a QF.

**Q. Mr. Weaver states that you are confusing the capacity value that a QF would allow the company to avoid with the capital cost that a QF developer must incur to construct a facility. (Weaver Rebuttal at 6) Are you confusing the two?**

A. No. I certainly understand the concept of avoided capacity costs. Mr. Weaver makes this claim in a vain attempt to provide cover for his proposed double standard. I have calculated the avoided capacity costs to be $97.80/kw-yr, based on West Valley pricing as reflected in Exhibit 2 of my direct testimony. It reflects the value of all non-variable costs on an annualized basis, developed from information provided by PacifiCorp. Generally speaking, the avoided capacity payment is relied upon by a QF developer to cover its capital costs plus all other fixed costs that a QF developer must incur. The "capacity cost" payment proposed by Mr. Weaver in his direct testimony of $16.04/kw-yr clearly illustrates the "double standard" being proposed by PacifiCorp. Mr. Weaver certainly understands that a QF could not cover all of its fixed costs from a $16.04/kw-yr payment, particularly given that PacifiCorp's West Valley fixed costs amount to roughly 6 times that amount. How can the value of 5-months worth of capacity be more than $97/kw-yr if supplied by PacifiCorp, but only $16/kw-yr if supplied by a QF? In my view, PacifiCorp should be embarrassed to even advance such an argument.

**Q. Mr. Weaver discusses the difference between a dispatchable resource and a schedulable resource. (Weaver Rebuttal at 7). Do you have any comments?**

A. First, I would like to thank Mr. Weaver for attempting to explain the distinction as he understands it. PacifiCorp has never previously explained it and there was no mention of this specific distinction in any of the discussions relating to schedule 38. We had assumed that the utility scheduled gas supplies for West Valley on a day-ahead basis, since there is no mention of any extra costs associated with no notice gas transportation service to the plant. We assumed that the plant was being scheduled on a day-ahead basis and were trying to match the capabilities for purposes of the NDP avoided cost calculations. We would be happy to adjust our calculations to reflect a dispatchable resource after we review the no notice gas supply arrangements that would document this capability.

**Q. What do you say to Mr. Weaver's claim that the NDP methodology is**

**complex and that it will be difficult to manage and bill ? (Weaver Rebuttal at 8)**

A. I must admit that I thought that the utility would always be keeping track of its position in the market. If not, I suspect that it should be. Moreover, I am confident that PacifiCorp actually has all of the necessary information and that it will not be nearly as hard as Mr. Weaver suggests to determine and capture the utility's position in any given hour, and then to capture the published market price shaped to the hours, as we do now with the US Mag QF contract. The dispatch hours are the hours when the plant has been called on to be operating, so that will not be very hard to track. I certainly admit that guessing at the price of natural gas for the next 20 years is easier from a billing standpoint, but the risk of such an approach to both the QF developer and the ratepayers simply does not justify his simplistic approach.

**Q. Mr. Weaver goes into some detail concerning gas prices. (Weaver Rebuttal at 9-10) Can you comment on his rebuttal testimony?**

A. The one thing of which I am certain is that Mr. Weaver's gas price projections will be wrong, just as will the guesses of all other parties to this case. The only way to not make the gas price forecast mistakes that are inevitable is to use the NDP method from the start; that is to use a specific NDP plant heat rate and real gas prices plus variable O&M and dispatch the QF plant as a resource and pay the lower market price if the QF determines that it will schedule operations during non-dispatch hours.

***<u>Mr. Williams</u>***

**Q. Mr. Williams states that your silence on the point of whether or not the QF contract will impair the credit quality and financial position of the utility implies acknowledgment. (Williams Rebuttal at 1) Does it?**

A. No. My statement, like those of several others in this proceeding, points to the need for a more clear evaluation and quantification of actual costs before imputing these costs to a QF. We want to understand the specific incremental impacts of these credit issues of the QF contracts versus self build options.

**Q. Mr. Williams cites a rule from Florida in support of his claim that such costs are being considered elsewhere. (Williams Rebuttal at 2) What guidance does the Florida rule provide here?**

A. Very little. The quoted rule merely requires that "the petition shall include a discussion of the potential for increases or decreases in the utility's cost of capital"; it hardly confirms what the impact will be under any given circumstances.

**Q. Others have suggested that we should study this issue in greater depth. Do you agree?**

A. Yes. I believe we need to look into this matter in much greater depth. There has not been a sufficient demonstration to this point of the existence or magnitude of actual impacts. Also, although Mr. Williams understandably resists the suggestion, we should also look at all aspects of PacifiCorp and Scottish Power activities to understand all impacts of various activities on the utility's balance sheet and ratings. Mr. Williams demands an adjustment to QF avoided cost payments even if the impacts are immaterial, yet he lightly brushes aside any impacts that the corporate structure and affiliated businesses may have on credit ratings. I suspect such impacts are likely to be much more significant and they should not be ignored if the QF impacts are to be considered.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by U.S. mail, postage prepaid, and by email, this 12th day of May, 2004, to the following

Edward Hunter
Jennifer Horan
STOEL RIVES
210 South Main Street, Suite 1100
Salt Lake City, UT  84111

Reed Warnick
Assistant Attorney General
Heber M. Wells Bldg., Fifth Floor
160 East 300 South
Salt Lake City, UT 84111

Mike Ginsberg
Patricia Schmid
Assistant Attorney General
Heber M. Wells Bldg., Fifth Floor
160 East 300 South
Salt Lake City, UT 84111

Gregory L. Probst
C/0 ENERGY STRATEGIES
39 Market Street, Suite 200
Salt Lake City, UT 84101

/s/________________________________

**From:** Griswold, Bruce [Bruce.Griswold@PacifiCorp.com]
**Sent:** Tuesday, July 29, 2003 4:20 PM
**To:** 'roger.swenson'
**Subject:** RE: QF contract discussions

The IRP model is being rerun with the new project specifics in it including your phased approach to the start up. i expect to have it by 1st of the week after which the credit folks will determine credit requirements for the project. based on the project description and start date, it is clear that the Desert Power facility will be part of the project. it will be necessary to have a clear picture of the relationship between the two parties as part of the credit review.

Bruce Griswold
Phone 503.813.5218
Fax 503.813.6260
Cell 503.702.1445

-----Original Message-----
**From:** roger.swenson [mailto:roger.swenson@prodigy.net]
**Sent:** Tuesday, July 29, 2003 10:53 AM
**To:** Bruce Griswold
**Cc:** Lee R. Brown
**Subject:** QF contract discussions

Bruce,

You were going to get some feedback on the issue of the tax adjustment in the capacity payment calculation. What's the story?

What are our next steps to get to agreement on the specific terms to draft the QF contract around?

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**From:** Griswold, Bruce [Bruce.Griswold@PacifiCorp.com]
**Sent:** Tuesday, August 12, 2003 12:45 PM
**To:** Roger Swenson (E-mail)
**Cc:** Lee Brown (E-mail); Thompson, Kevin
**Subject:** QF pricing

Roger,
there is going to be about a week's delay in getting the QF pricing. A new forward price curve has been developed and needs to be approved by management before it can be input in the IRP model. sorry for the delay. if you have questions, give me a call.

Bruce Griswold
Phone 503.813.5218
Fax 503.813.6260
Cell 503.702.1445

**From:** Griswold, Bruce [Bruce.Griswold@PacifiCorp.com]
**Sent:** Wednesday, August 20, 2003 5:26 PM
**To:** Roger Swenson (E-mail)
**Cc:** Lee Brown (E-mail); Thompson, Kevin
**Subject:** QF pricing and curtailment options

roger,
just an update before I get out of town. The QF pricing will be completed this week and then it will be provided to credit so they can determine credit requirements associated with the PPA. when i return on wednesday i will review both items and should be able to send off to you the prices that line up against the project submitted on July 15th.

i have gotten the four curtailment / interruptible options from our pricing folks but it needs to be reviewed by our risk folks this week so i will send that off to you wednesday on my return. i will be available by cell phone thursday until around 3pm and then the reception goes bad. so if you have questions, call me on my cell.

we still should be able to meet on the 28th and go through both items.

Bruce Griswold
Phone 503.813.5218
Fax 503.813.6260
Cell 503.702.1445

**From:** Griswold, Bruce [Bruce.Griswold@PacifiCorp.com]
**Sent:** Thursday, September 04, 2003 5:25 PM
**To:** Charles Darling (E-mail)
**Cc:** Roger Swenson (E-mail); Cathy Fonfara (E-mail)
**Subject:** Avoided cost request for DSesert power plant

Charles
i received your fax dated September 4, 2003 requesting avoided cost prices for the Desert Power Rowley power plant. As i understand the letter, your plant will be part of the QF generation expansion project proposed by US Magnesium and you would like to confirm Desert Power's role and interest in seeking the avoided cost prices. You have requested us to work with Roger Swenson and the final prices are developed. One of the items we will like to discuss is the structure of the combined company so that we can work through credit requirements for the power purchase agreement.

Bruce Griswold
Phone 503.813.5218
Fax 503.813.6260
Cell 503.702.1445

**From:** Griswold, Bruce [Bruce.Griswold@PacifiCorp.com]
**Sent:** Thursday, November 20, 2003 4:57 PM
**To:** Roger Swenson (roger.swenson@prodigy.net); Charles Darling (Charles Darling)
**Cc:** Stewart, John_W; Eriksson, John (Stoel)
**Subject:** US Mag / Desert Power QF Pricing

Roger/ Charles,
Below are the revised proposed prices for the purchase of the output of US Mag/Desert Power QF generation (I have also attached the same information as a separate document). These prices are based on the revised assumptions you have provided for a QF plant capacity of 155MW and include both a capacity and energy component as requested. I have also shown the total payment on a per MWh basis. I am in the process of working up a definitive term sheet for the transaction but felt that we should at least get you the QF prices ahead of the term sheet so that you could run your own economic models. The term sheet would more clearly define the terms and conditions that would go into the power purchase agreement. These prices are subject to change depending upon current review of the QF methodology by the Utah PSC, updates to PacifiCorp's portfolio and modeling assumptions and changing market conditions. I will be out of the office next week but available to discuss upon my return on Monday December 1, 2003.

<<US Mag 155MW_QFPrices_112003.doc>>

Bruce Griswold
Phone 503.813.5218
Fax 503.813.6260
Cell 503.702.1445

### *US Mag 155MW - shaped delivery*

## Capacity and Energy Payments

| Year | Capacity Payment ($ per kW-mo) | Energy Payment ($ per MWh) | Total Payment ($ per MWh) |
|---|---|---|---|
| 2005 | $2.75 | $24.63 | $36.26 |
| 2006 | $2.69 | $24.11 | $33.55 |
| 2007 | $2.98 | $29.02 | $37.41 |
| 2008 | $3.06 | $29.67 | $38.24 |
| 2009 | $3.13 | $30.77 | $39.66 |
| 2010 | $3.21 | $31.13 | $40.13 |
| 2011 | $3.29 | $32.09 | $41.37 |
| 2012 | $3.37 | $33.29 | $42.91 |
| 2013 | $3.46 | $34.10 | $43.96 |
| 2014 | $3.54 | $34.52 | $44.50 |
| 2015 | $3.63 | $35.45 | $45.69 |
| 2016 | $3.72 | $36.51 | $47.06 |
| 2017 | $3.82 | $37.33 | $48.12 |
| 2018 | $3.91 | $38.36 | $49.44 |
| 2019 | $4.01 | $39.36 | $50.74 |
| 2020 | $4.11 | $40.08 | $51.67 |
| 2021 | $4.21 | $40.97 | $52.82 |
| 2022 | $4.32 | $42.24 | $54.45 |
| 2023 | $4.43 | $43.38 | $55.91 |
| 2024 | $4.52 | $44.24 | $57.03 |

*These proposed QF Prices ("QF Price") are preliminary and intended to serve as a basis for further discussion and negotiations between the Parties with respect to the potential QF purchase. This communication does not contain all matters upon which agreement must be reached in order for the*

*Transaction to be completed. The matters set forth in this communication are not intended to and do not constitute a binding agreement of the Parties or establish any obligation of the Parties with respect to the Transaction, and this communication may not be relied upon by a Party as the basis for a contract by estoppel or otherwise. A binding agreement will arise only upon the negotiation, execution and delivery of mutually satisfactory definitive agreements and the satisfaction of the conditions set forth therein, including completion of due diligence and the approval of such agreements and the Transaction by the respective governing body(ies) and management of each Party, which approval shall be in the sole subjective discretion of the respective governing body(ies) and management. Any actions taken by a party in reliance on the non-binding terms expressed in this communication or on statements made during negotiations of the transactions contemplated by this communication shall be at that party's own risk, and this communication and statements made during negotiations shall not be the basis for a contract by estoppel, implied contract or any other legal theory. In addition, our proposed QF Prices are based on current IRP methodology and market conditions and PacifiCorp may update our proposed terms/conditions based on changes to the IRP methodology by the Utah PSC or changing market conditions or until such time as the parties have executed a definitive agreement.*