

Before the Public Service Commission of Utah

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IN THE MATTER OF THE  
APPLICATION OF PACIFICORP FOR  
A CERTIFICATE OF CONVENIENCE  
AND NECESSITY AUTHORIZING  
CONSTRUCTION OF THE CURRENT  
CREEK POWER PROJECT

Docket No. 03-035-29

DPU Exhibit 1.0

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**Direct Testimony**

**Of**

**Artie Powell**

**Division of Public Utilities**

February 4, 2004

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## List of Attachments

<b>Exhibit</b>	<b>Title</b>
DPU Exhibit 1.1	Comparison of NBA and Short-listed Bids

1                   Certificate of Convenience and Necessity  
2                   Current Creek Power Project  
3                   Docket No. 03-035-29  
4

5 **Introduction**

6 **Q: Please state your name and business address.**

7 A: My name is Artie Powell. My business address is 160 E 300 S, Salt Lake  
8 City, Utah 84111.

9 **Q: Would you please identify your employer?**

10 A: I am employed by the State of Utah, Department of Commerce, in the  
11 Division of Public Utilities.

12 **Q: Are you testifying on behalf of the Division of Public Utilities in these  
13 proceedings?**

14 A: Yes, I am.

15 **Q: Please summarize your educational and professional experience.**

16 A: I have a Ph.D. in Economics from Texas A&M University. Since 1985, I  
17 have taught a variety of college courses including, economics,  
18 econometrics, and statistics. Although I continue to teach as an adjunct  
19 professor for Weber State University, since 1996, I have been employed  
20 full time by the Division of Public Utilities (“Division”). In the summer  
21 of 1996, I successively completed the Annual Regulatory Program  
22 sponsored by Michigan State University. As an employee of the Division,  
23 I have worked on a number of projects dealing with various aspects of  
24 utility regulation including, restructuring of the electric utility industry,  
25 the evaluation of power purchase contracts, cost of capital, and avoided  
26 costs.

## 1 **Scope of Testimony**

2 **Q: What is the purpose of your testimony in these proceedings?**

3 A: My testimony will cover the bidding or RFP process PacifiCorp followed  
4 in determining that its proposed project, Current Creek, was the best  
5 alternative among those received under the 2003-A RFP, and whether  
6 Current Creek is the least cost alternative.

## 7 **Summary of Testimony**

8 **Q: Would you summarize your testimony at this time?**

9 A: Based on our investigation with regards to the process followed by  
10 PacifiCorp, the evaluation of the bids received under the 2033-A RFP, and  
11 the need for peaking resources, the Division recommends that the  
12 Commission award PacifiCorp a certificate of Convenience and Necessity.  
13 In addition we recommend that the Commission require PacifiCorp to file  
14 with the Commission all permits required to begin and complete  
15 construction of the Current Creek project as soon as possible after receipt  
16 thereof, or file in a timely manner an explanation for and the  
17 consequences of any delay.

18 The Division recognizes that the RFP process followed by PacifiCorp was  
19 not without problems. Nevertheless, the Division does not believe that  
20 these problems are of a substantive nature to preclude the Commission  
21 from awarding the certificate.

## 22 **PacifiCorp's 2003-A RFP**

23 **Q: Will you briefly explain the history leading to PacifiCorp's 2003-A**  
24 **RFP?**

25 A: The current RFP, 2003-A, is a direct result of PaciCorp's IRP (2003),  
26 which identified the need for the addition of approximately 4,000 MW

1 over the first ten years of the planning horizon.<sup>1</sup> As explained in direct  
2 testimony by Mark Tallman, the items (#2, #15, and #21) in the IRP's  
3 action plan called for additional supply-side resources to be added to  
4 PacifiCorp's eastern control area, of which Utah is a substantial portion.  
5 Specifically, the action plan calls for approximately 570 MW of base load  
6 to be added by 2007; approximately 200 MW of peaking capacity to be  
7 added by 2005; and about 225 MW of seasonal – super-peak – products  
8 for the calendar years 2004-2007.<sup>2</sup> PacifiCorp's 2003-A RFP reflects the  
9 needs outlined in the action plan as identified herein.

10 In particular, the 2003-A RFP solicited bids for 225 MW of super-peaking  
11 resources to be available beginning in 2004; 200 MW of peaking capacity  
12 to be available beginning in 2005; and 570 MW of base load capacity to  
13 be available beginning in 2007.

14 **Q: PacifiCorp hired a consultant, Navigant Consulting Inc., to monitor**  
15 **the RFP process. Can you explain how this came about?**

16 A: In March 2003, a group of petitioners filed an application with the Utah  
17 Commission requesting “agency action in order to timely consider and  
18 adopt procedures or rules for competitive RFP processes and for affiliate  
19 transactions.”<sup>3</sup> In response, the Commission opened docket 03-035-03  
20 and requested various parties (the “group”) to meet and discuss the issues  
21 and file the results of its efforts.

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<sup>1</sup> “Integrated Resource Plan 2003: Assuring a Bright Future for our Customers,” PacifiCorp, p. 2.

<sup>2</sup> Mark R. Tallman, Direct Testimony, Docket 03-035-29, pp. 3-4. “Integrated Resource Plan 2003: Assuring a Bright Future for our Customers,” PacifiCorp, p. 151-162.

<sup>3</sup> “Request for Agency Action,” Docket 03-035-03, March 6, 2003, p. 7.

1 As a result of those discussions, the group, consisting of the Committee,  
2 the Division, PacifiCorp, and the Petitioners entered into a stipulation,<sup>4</sup>  
3 which was filed for informational purposes with the Commission in June  
4 2003.

5 **Q: Can you describe the purpose of the stipulation and summarize its**  
6 **major features?**

7 A: As discussions in the group proceeded, given the eminent issuance of an  
8 RFP by PacifiCorp, it was determined that there was not enough time to  
9 work out all the details of a formal set of rules governing both  
10 competitive bidding and affiliate transactions. The group, therefore,  
11 began discussing a stipulation containing some general guidelines to  
12 cover the 2003-A RFP, and, unless superceded by Commission order,  
13 would also be applicable to future RFPs. In particular, the stipulation  
14 details the role and duties of an outside evaluator to be hired by  
15 PacifiCorp to oversee the RFP process.

16 According to the stipulation, the primary roles of the outside evaluator,  
17 Navigant in the current RFP, are to:

- 18 1. Compare and evaluate bid proposals and its own self-build  
19 option in “a manner that is reasonable, fair, unbiased and  
20 comparable to the extent practicable (‘Fair Manner’).” And
- 21 2. Submit detailed reports to regulators reporting whether the  
22 process followed by PacifiCorp met with these objectives.<sup>5</sup>

23 The duties of the outside evaluator included submitting three reports to  
24 regulators: two process reports, one validating the self-build option

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<sup>4</sup> “Stipulation Regarding Outside Evaluator for PacifiCorp’s RFP 2003-A,” Docket 03-035-03, June 2003.

<sup>5</sup> “Stipulation Regarding Outside Evaluator for PacifiCorp’s RFP 2003-A,” Docket 03-035-03, June 2003, p. 2.

1 identified in the RFP as the next best alternative or NBA, and a second  
2 report detailing PacifiCorp's evaluation of the bids. The third or final  
3 report is to be to be a detailed report regarding "all aspects of the RFP  
4 process and the evaluator's involvement in the RFP, and its observations,  
5 conclusions, and recommendations." To date, Navigant has filed the first  
6 two reports with the Commission. Navigant will file its final report at the  
7 conclusion of the 2033-A RFP.

8 In addition, the outside evaluator's duties include, but are not necessarily  
9 limited to,

- 10 1. Serving as a liaison between bidders and PacifiCorp;
- 11 2. Validating PacifiCorp's self-build option or NBA;
- 12 3. Ensuring all bids are sufficiently blinded prior to the initial  
13 screening and evaluation by PacifiCorp; and
- 14 4. Confirming that bids are treated in a "Fair Manner".

15 **Q: You indicated that the outside evaluator has submitted its first two**  
16 **reports, the process reports. What conclusions or recommendations**  
17 **did the outside evaluator offer in these reports?**

18 A: The reports submitted to PacifiCorp and subsequently filed with the  
19 Commission are confidential and, therefore, I will answer the question  
20 without giving specific details. The two reports in their entirety are  
21 available under the protective order of this docket.

22 The purpose of the first process report, "Navigant Consulting Inc.'s  
23 Review and Audit of PacifiCorp's Next Best Alternative (NBA)," which  
24 was filed with the Commission on or about August 1, 2003, was, as  
25 indicated in the stipulation, to validate the NBA. This validation included  
26 ensuring that the NBA's specification, including all relevant information  
27 required for modeling and evaluation, was completed and fixed prior to



1 PacifiCorp receiving and reviewing bids under the RFP and that the  
2 information provided in the NBA (e.g., its cost assumptions and other  
3 components) were reasonable. In general, Navigant concluded in this first  
4 report that that the NBA assumptions are reasonable and were in place  
5 prior to PacifiCorp receiving or reviewing bids under the RFP.

6 The purpose of the second process report, “Navigant Consulting Inc.’s  
7 Review and Audit of PacifiCorp’s Screening Review Process for RFP  
8 2003-A,” filed with the Commission on November 12, 2003 was to  
9 document and validate the process used by PacifiCorp to screen and  
10 evaluate the bids received under the 2003-A RFP. In particular Navigant,  
11 in its approach to validating the RFP process, focused on the (1)  
12 organization of the screening process, (2) screening criteria, modeling  
13 consistency, (3) NBA as a benchmark, and (4) scoring of proposals. In  
14 general, Navigant concluded that the process meets the objectives  
15 specified in the stipulation.

16 **Q: Do you agree with Navigant’s conclusions?**

17 A: In general, yes. However, the division believes that the RFP process,  
18 including the modeling and evaluation, could be improved.

## 19 **Division’s Investigation**

20 **Q: What is the basis for your agreement with Navigant’s conclusions?**

21 A: Under the umbrella of the current docket, the Division, and various other  
22 parties, have met with PacifiCorp and Navigant on numerous occasions  
23 and discussed issues surrounding PacifiCorp’s choice of Current Creek.  
24 In these meetings representatives from PacifiCorp and Navigant have  
25 presented considerable evidence to support most, if not all, the  
26 conclusions presented in the Navigant’s reports, namely, that the RFP  
27 process was conducted in a “fair manner.” I would stress at this point  
28 that, while I recognize the modeling and evaluation of the bids is part of

1 the overall process, I am breaking the process into two parts. The first  
2 part deals with PacifiCorp's handling of the bids up to and through the  
3 evaluation stage, the second part of the process deals with the actual  
4 modeling and evaluation of the bids.

5 In addition, the Division has undertaken its own investigation into  
6 PacifiCorp's development of its NBA, the handling and evaluation of the  
7 bids, and the need for capacity such as offered by Current Creek.

8 **Q: What investigation have you conducted in regards to PacifiCorp's**  
9 **handling of the bids?**

10 A: Several things. First, one role of the outside evaluator was to ensure that  
11 all bids were sufficiently blinded prior to PacifiCorp receiving those bids.  
12 As part of my investigation I reviewed several bids and, while it was  
13 obvious that several different bids were offered by the same entity, the  
14 bids appeared sufficiently blinded as to mask the entity's identity.

15 Second, I verified that bids were correctly categorized for evaluation.  
16 Once PacifiCorp received a bid, PacifiCorp had to classify the bid into  
17 one of three categories for evaluation. The three categories along with  
18 the classification criteria are specified in PacifiCorp's RFP document.<sup>6</sup>  
19 The primary criteria for classification are starting date and flexibility.  
20 The criteria for the super-peaking category are identified as a starting  
21 date in 2004 with daily call options during super-peak hours. The criteria  
22 in the peaking category are a start date of 2005 with a daily call option.  
23 The criteria in the base-load category are a starting date of 2007 with a  
24 curtailment option.

25 **Q: Throughout your investigation did you see any problems with the**  
26 **process?**

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<sup>6</sup> See Mark Tallman, "Direct Testimony of Mark R. Tallman," Docket 03-035-29, Exhibit UP&L\_(MRT-1).

1 A: In various meetings with PacifiCorp or other parties in this case, various  
2 parties have raised concerns over the way PacifiCorp chose to define the  
3 bid categories in the RFP. For example, the so-called peaker category  
4 was defined with respect to a start date and sufficient flexibility.  
5 PacifiCorp required a start date of June 2005 and daily dispatch ability for  
6 a bid to be classified as a peaker proposal. This definition created some  
7 confusion among some bidders. In addition, some parties assert that  
8 PacifiCorp's Current Creek project is really a base-load product and thus  
9 does not constitute a proper benchmark for the 2005 category.

10 **Q: Is PacifiCorp's Current Creek project a base-load product?**

11 A: I admit that on first reading PacifiCorp's application in this case I was  
12 confused. Prior to this case I would have assumed that a 500 MW project  
13 was a base-load project. However, after reading the RFP and meeting  
14 with PacifiCorp to discuss various issues in this case, I am satisfied that  
15 PacifiCorp's Current Creek project can fulfill part of PacifiCorp's  
16 peaking needs.

17 **Q: Please explain why you have reached this conclusion.**

18 A: In various meetings with PacifiCorp, Rand Thurgood has explained that as  
19 long as the project is designed with peaking requirements in mind, then a  
20 unit such as that proposed for Current Creek should have no significant  
21 problems in being utilized to meet peaking needs. In addition to Mr.  
22 Thurgood's explanation, it should be noted that Current Creek project was  
23 modeled and evaluated on the basis of 300 starts per year. That is, the  
24 unit would, in some sense, be treated as a peaker. Furthermore, the  
25 costing information used by PacifiCorp in the modeling of Current Creek  
26 was, at least in part, derived from information provided by General  
27 Electric, which is supplying the turbines. I am not aware of any  
28 objections or concerns raised by General Electric in treating or using its  
29 turbines with the flexibility requirements of a peaking project.

1           Furthermore, the outside evaluator, Navigant, has reviewed the RFP and  
2           PacifiCorp's NBA and concluded that Current Creek was not inconsistent  
3           with industry standards and meets the requirements specified in the RFP  
4           for the peaking category.

5   **Q:   How did you audit the bid classification process?**

6           To verify that bids had been classified correctly, through a DPU data  
7           request 3.5 I asked PacifiCorp to provide a list of bid numbers assigned to  
8           the all the bids received in the 2003-A RFP. The list included 107 bid  
9           "numbers." However, some of these bid numbers appeared to identify sub  
10          bids. For example, four bids 419(A1), 419(B1), 419(A2), and 419(B2)  
11          appear to refer to a single proposal 419.<sup>7</sup> For classification purposes, I  
12          chose to treat bids of this nature as if they were one bid (e.g., I looked at  
13          bid 419). This left 79 individual bids. Using a random number table, I  
14          randomly selected ten bids for review. However, when writing up the  
15          data request asking PacifiCorp to have these bids available for my review,  
16          I inadvertently left off one bid number. As a consequence, that bid was  
17          not available for review in time for my testimony. The remaining bids  
18          were #188, #245, #334, #381, #513, #517, #531, #653, and #910.

19          Of these nine bids, six (#188, #245, #334, #513, #517, and #531) appeared  
20          to be for delivery in 2007, the so-called base-load category. PacifiCorp's  
21          classification of these bids agreed with my own classification. Of the  
22          remaining three, one bid (#381) appeared to be for delivery in 2005, the  
23          so-called peaker category. This agreed with PacifiCorp's classification.

24          The final two bids, #653 and # 910, were more problematic and I was  
25          unable to clearly classify these bids.

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<sup>7</sup> Later discussions with PacifiCorp indicated that this was indeed the case. Navigant apparently assigned one bid number to the proposal submitted prior to its release to PacifiCorp. However, the proposal actually contained multiple bids. Therefore, PacifiCorp broke the separate bids out for evaluation purposes.

1 **Q: Can you explain the difficulty you had in determining how to classify**  
2 **these bids?**

3 A: The starting dates in bid #910 were beyond any of the starting dates  
4 specified in the RFP. Given the criteria set forth in the RFP document, I  
5 would have eliminated this bid for noncompliance.

6 **Q: Do you have an idea how PacifiCorp treated this bid?**

7 A: PacifiCorp indicated that, based on other information in the bid, it was  
8 classified and evaluated as a peaker.

9 **Q: What problems did you have in classifying bid #653?**

10 A: As I recall, Bid #653 met the starting date of 2005 set out for the peaker  
11 category. However, the bid contained contradictory statements in regards  
12 to its dispatch flexibility. In one part of the bid, it clearly states that  
13 there is a limitation on the number of times per year (260) the underlying  
14 unit can be called on or started. This appears to contradict a statement  
15 elsewhere in the bid that indicates there is no limitation on the number of  
16 starts per year.

17 **Q: Do you know how PacifiCorp treated this bid?**

18 A: PacifiCorp indicated that there was considerable debate both internal to  
19 PacifiCorp and with Navigant as how this bid should be classified. My  
20 understanding is that PacifiCorp initially classified the bid as a peaker but  
21 ultimately classified the bid as a base-load proposal because the bid  
22 compared more favorably with the bench mark in the base-load category  
23 than it did with the bench mark in the peaker category.

24 **Q: Were there any other problems you saw with the nine bids you**  
25 **reviewed?**

26 A: Two of the bids, #245 and #381, did not appear to contain enough  
27 information to determine what was being offered. Further conversations

1 with PacifiCorp confirmed this impression: the bids did not contain  
2 enough information for the modeling and evaluation to proceed.

3 **Q: Did PacifiCorp attempt to obtain additional information or clarify**  
4 **these or any other bids?**

5 A: Yes, it is my understanding that PacifiCorp made several attempts to  
6 obtain additional information on all bids that were incomplete or to  
7 clarify bids that it was unsure of.

8 **Q: How did PacifiCorp go about trying to obtain additional information?**

9 A: PacifiCorp developed a term sheet or summary of each blinded bid it  
10 received from Navigant. If additional information or clarification was  
11 needed, PacifiCorp forwarded the term sheets to Navigant (along with the  
12 relevant information or clarification requests). Navigant in turn  
13 forwarded the term sheet to the appropriate bidder. The bidder reviewed  
14 the term sheet, made the necessary corrections or additions and returned  
15 the sheets to Navigant who returned the corrected sheets to PacifiCorp.  
16 For some bids the term sheets were exchanged several times before  
17 enough information was provided to allow PacifiCorp to model and  
18 evaluate the bids and develop a short list.

19 **Q: After PacifiCorp developed its short list, were the short listed bidders**  
20 **given an opportunity to review the term sheets and provide additional**  
21 **clarifications or corrections?**

22 A: Yes, PacifiCorp asked bidders with short-listed bids to review the term  
23 sheets and offer any corrections or clarifications they deemed necessary.  
24 PacifiCorp also asked some of the short listed bidders for specific  
25 information or clarifications. Since the short-listed bids were de-blinded,  
26 this latter exchange of information took place directly between PacifiCorp  
27 and the bidder. Navigant, however, did attend all such meetings.

28 **Q: What was the result of this exchange of information?**

1 A: PacifiCorp made a valiant effort to obtain enough information to evaluate  
2 all the bids it received under the 2003-A RFP and, according to the  
3 documentation kept by PacifiCorp and Navigant, this process was mostly  
4 successful. One bidder (Spring Canyon) for example, after several  
5 exchanges of the term sheet, sent an email to PacifiCorp indicating that  
6 the term sheet produced on a particular date accurately reflected the  
7 bidder's proposal and that modeling should proceed on the basis of the  
8 information contained therein.

9 **Q: How was the evaluation of the bids accomplished?**

10 A: PacifiCorp modeled each proposal to obtain its present value revenue  
11 requirement ("PVRR"). Based on the information contained in the term  
12 sheet, which was developed by PacifiCorp and approved by the bidder,  
13 each proposal was dispatched against PacifiCorp's forward price curve in  
14 one of two models. The net value of the proposal was then discounted  
15 back to the present to obtain the PVRR.

16 To account for the varying length of each proposal, a real levelized  
17 equivalent of the PVRR was used. To account for the difference in MWs,  
18 the real levelized rate was converted to a dollar per 100 MW figure. The  
19 proposals were then ranked based on the dollar per 100 MW figure.

20 **Q: What two models did PacifiCorp use to evaluate the bids?**

21 A: The two models have been referred to as the NBA model and the purchase  
22 power agreement ("PPA") model.

23 The NBA model was used to evaluate the NBA as well as those bids that  
24 were of a turnkey nature, while the PPA model was used to evaluate  
25 power purchase agreements.

26 **Q: Have you had an opportunity to review these models?**

27 A: Although I have not been through the models cell by cell, I have attended  
28 several all day meetings with PacifiCorp and other parties reviewing the

1 models. In these meetings PacifiCorp explained the general logic of the  
2 models and walked those present through specific bids, including the  
3 NBA.

4 **Q: What was the outcome of PacifiCorp's evaluation of the bids?**

5 A: As explained in PacifiCorp's application, the NBA (Current Creek) had  
6 the best dollar per MW figure.

7 **Q: With respect to the PVRR, were any of the short-listed bids close to  
8 the NBA?**

9 A: No, the closest bid was more than four and one-half (4½) times less  
10 economic than the NBA. The worst bid was more than nine times less  
11 economic. The final outcome or value, it should be noted, for each of the  
12 short-listed bids represents its best outcome. The PPA model specifically  
13 has a considerable amount of flexibility in how each proposal is model.  
14 For example, the proposal can be model as a "flat all hours," "7x16," or  
15 "6x16" product. PacifiCorp modeled each proposal under a variety of  
16 such options and used the best outcome for each proposal as the  
17 representation of its final value.

18 **Q: Would the relative results remain the same if PacifiCorp had used one  
19 model to do the evaluation?**

20 A: Yes, I believe they would. To better understand the models and how they  
21 work, I requested that PacifiCorp run its NBA proposal through the PPA  
22 model. The results for the NBA proposal from the PPA model where  
23 within ten percent of those obtained in the NBA model.

24 **Q: Do you have an explanation for the large difference in the results for  
25 the NBA and other bids?**

26 A: In response to DPU data request 2.8, PacifiCorp prepared a comparison of  
27 its NBA with the other bids short-listed in the peaker category. This  
28 comparison – see confidential attachment DPU Exhibit 1.1 – shows on a



1 percentage basis the magnitude of the difference in the bids. For  
2 example, in column one of Table 1, the bid with the largest revenue value  
3 has a corresponding entry of 100%; the entry for the NBA's revenue is  
4 96%, indicating that the value of the energy produced by the NBA is 96%  
5 of the revenues for the bid with the largest revenues. Columns 2 through  
6 7 are read in a similar fashion. For example, column 4 compares fixed  
7 O&M costs for the bids. The column reveals that the fixed O&M for the  
8 NBA is 29% of the fixed O&M costs for the bid with the largest fixed  
9 O&M. Column 8 shows the ranking of the bids relative to the NBA based  
10 on each bid's net PVRR adjusted for the total MW. The least economic  
11 bid is, as stated previously, more than 9 times less economic than  
12 PacifiCorp's NBA. The nearest bid to the NBA is more than 4 times less  
13 economic.

14 Two of the bids – see lines 3 and 4 – both have proposed lives similar to  
15 PacifiCorp's NBA. The other short-listed bids propose much shorter  
16 lives. That is, the other bids propose recovering the cost associated with  
17 each proposal over much shorter periods. This is reflected in the relative  
18 ranking of the fixed O&M and capacity costs in columns 4 and 6  
19 respectively. (The bid in line six also is a short-lived proposal, however,  
20 it has the lowest value for its revenue of the group and doesn't fare well  
21 in the overall ranking). Relative to the highest cost bid, the bid in line  
22 three and the NBA have similar fixed O&M and capacity costs; this is also  
23 true of the bid in line 4 when you consider that it has zero variable O&M  
24 costs. Thus, it would appear that the driver behind the wide disparity in  
25 PVRRs is largely due to the length of time over which costs are  
26 recovered. Some bidders chose to submit bids that recover costs of a  
27 period of time similar to PacifiCorp's NBA; other bidders chose to  
28 recover cost over much shorter periods.

29 Although the RFP does indicate a restriction of "Up to 20-years," clearly  
30 the pricing of each proposal was left up to each individual bidder.

1 **Q: Was the twenty-year limit a general restriction?**

2 A: No, as explained by PacifiCorp, the restriction applied to power purchase  
3 proposals. There were several bids, two of which were short-listed, in the  
4 peaker category that were for periods as long as or longer than the NBA.

5 **Q: Do you think this restriction was fair to the bidders?**

6 A: It is neither fair nor unfair; it is the way the RFP was constructed.  
7 PacifiCorp restricted purchase power agreements to twenty-years. To  
8 compel PacifiCorp to accept or enter into agreements for longer periods is  
9 a policy decision, which, from the Division's point of view, is beyond the  
10 scope of this forum.

11 Additionally, PacifiCorp's modeling ostensibly took into account that  
12 proposals could be of different lengths by employing a real levelization  
13 comparison, which is the same approach or methodology employed by  
14 PacifiCorp in its latest IRP.

15 **Q: Would you explain what is meant by real levelization?**

16 A: Given the PVRR of a proposal, the real levelized rate or value is a "real  
17 annual value which, when allowed to increase at the rate of inflation, will  
18 accumulate the same present value as the original"<sup>8</sup> PVRR.

19 In practical terms, the real levelized PVRR reflects how each proposal or  
20 bid would affect revenue requirement. That is, rates would be higher  
21 under those proposals (*ceteris paribus*) that recover costs in twenty years  
22 as opposed to PacifiCorp's NBA which recovers the costs over a longer  
23 period.

24 **Q: What is the purpose of real levelization?**

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<sup>8</sup> "Costing Energy Resource Options: An Avoided Cost Handbook for Electric Utilities,"  
Tellus Institute, September 1995, p. B-1.

1 A: According to a report produced by the Tellus Institute, “real dollar  
2 levelization allows for the comparison of costs streams with different start  
3 and end dates, since overall inflation has been removed.”<sup>9</sup>

4 **Q: Do you see any problems with using real levelization in this case?**

5 A: Some parties in this proceeding, in particular Spring Canyon and  
6 UAE, have raised questions about the appropriateness of the real  
7 levelization methodology PacifiCorp uses to compare the bids to the NBA.  
8 At this time it is unclear to me what the exact nature of these objections  
9 are. Again, as Tellus points out, the purpose of real levelization is to  
10 allow for the comparison of projects that have different start and end  
11 dates. Additionally, Navigant has reviewed the modeling and comparison  
12 of the bids and has raised no concerns to this point. Therefore, it seems  
13 that the real levelization comparison is a valid methodology.

14 **Q: Can you draw any conclusions about the NBA at this time?**

15 A: Yes, despite the flaws in the RFP process, the NBA has the best  
16 economics of any of those bids that were submitted and analyzed in the  
17 2005 category. Furthermore, the NBA is a reasonable project to meet the  
18 needs that PacifiCorp identifies in its IRP.

## 19 **PacifiCorp’s Ability to Finance Current Creek**

20 **Q: How does PacifiCorp propose to finance Current Creek?**

21 A: In direct testimony, Mr. Williams, PacifiCorp’s elected Treasurer,  
22 explains that PacifiCorp “expects to use a reasonable mix of capital” from  
23 “sources similar to those used in the past, including operating cash flows,

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<sup>9</sup> “Costing Energy Resource Options: An Avoided Cost Handbook for Electric Utilities,”  
Tellus Institute, September 1995, p. B-2. PacifiCorp also discusses the use of real  
levelization in Appendix J to its 2003 IRP.

1 and the issuance of long-term and short debt and, if necessary, new equity  
2 capital.”<sup>10</sup>

3 **Q: Do you believe that PacifiCorp has the where withal to finance**  
4 **Current Creek?**

5 A: Yes, from the evidence available it appears that PacifiCorp should be able  
6 to finance the Current Creek project without major difficulties.

7 **Q: Would you explain how you came to this conclusion?**

8 A: The total installed cost of the Current Creek project is estimated to be  
9 \$343 million.<sup>11</sup> To finance the project, PacifiCorp will need access to  
10 capital markets or receive an infusion of equity from Scottish Power, and  
11 adequate cash flows to cover the annual expenses. According to  
12 PacifiCorp’s 10Q filed with the FERC, for the six months ending  
13 September 30, 2003 internally generated cash from amortization and  
14 depreciation was approximately \$210 million. Over the same period,  
15 PacifiCorp experienced a positive cash flow of \$54 million.

16 While PacifiCorp’s access to competitive capital or financial markets in  
17 the future can be influenced by a variety of factors including industry  
18 developments, management decisions, and regulatory outcomes,  
19 PacifiCorp’s current access appears to be favorable. As Mr. Williams  
20 testifies in direct testimony, PacifiCorp’s senior secured debt currently  
21 carries investment grade ratings from both Moody’s Investor Service (A3)  
22 and Standard and Poor’s (A). PacifiCorp’s ability to access debt funds  
23 will depend to a great extent on maintaining these ratings.

24 Recent reports from these two rating agencies indicate a negative outlook  
25 for PacifiCorp. However, as Moody’s points out, “The rating could  
26 stabilize as the benefits of cost savings initiatives and increased rate

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<sup>10</sup> Bruce N. Williams, Direct testimony, Docket No. 03-035-29, pp 1-2.

<sup>11</sup> J. Rand Thurgood, Direct Testimony, Docket 03-035-29, 17-18.

1 relief begin to consistently appear in PacifiCorp's financial results."<sup>12</sup>  
2 Given the recent rate cases in Oregon and Utah, it would appear that  
3 PacifiCorp's ratings could stabilize and PacifiCorp's access to the  
4 financial markets should be unimpeded.

## 5 **Recommendations**

### 6 **Q: What are your recommendations?**

7 A: Based the Division's investigation, the Division recommends that the  
8 Commission grant the Certificate of Convenience and Necessity.  
9 Furthermore, we recommend that the Commission require PacifiCorp to  
10 file with the Commission all necessary permits required for the  
11 construction and operation of Current Creek as soon as possible after the  
12 receipt thereof, or file an explanation of the reasons for and consequences  
13 of any delay. Our review of the process and of the analysis of the various  
14 bids submitted in PacifiCorp's 2003-A RFP, as well as our examination of  
15 the need for resources finds sufficient evidence that the Current Creek  
16 resource will serve the public interest and therefore supports our  
17 recommendation to grant PacifiCorp's request for a Certificate of  
18 Convenience and Necessity.

19 However, we do believe that the RFP process could be improved and have  
20 discussed the primary areas where we believe improvements should be  
21 made. Specifically, we believe that the RFP for resources to come on line  
22 in 2005 could have been clearer in specifying the type of resources that  
23 would have satisfied the RFP requirements. We have heard PacifiCorp  
24 indicate that it wanted to encourage bidders to be creative in how they  
25 would fulfill the need as set out by the RFP and that more specificity  
26 would have hampered such creativity. However, in discussions with  
27 various parties we have come to believe that a better balance needs to be

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<sup>12</sup> Moody's Investor Service: Opinion Update, PacifiCorp, December 29, 2003. See response to Division's data request 3.2.

1           achieved between the clarity of the RFP requirements and the way in  
2           which bidders propose meeting those requirements or needs. The Division  
3           would like the opportunity to discuss ways in which this can be achieved  
4           with other interested parties in a forum similar to the one leading to the  
5           RFP stipulation.

6           Yet, despite the flaws we perceive in the RFP process, we come to the  
7           conclusion that the Current Creek plant should be granted a certificate of  
8           Convenience and Necessity. We believe, as Andrea Coon has discussed in  
9           testimony for the Division, that the Current Creek plant as configured is a  
10          reasonable resource to help meet the need of PacifiCorp's system.  
11          Additionally, the Company's RFP process, as validated by the outside  
12          consultant, Navigant, indicates that the Current Creek project provides the  
13          best economics among those bids received and evaluated in the 2005  
14          category, the so-called peaker category. According to PacifiCorp's  
15          analysis and our own review of that analysis, the Divisions believes that  
16          the economics of the Current Creek project are so superior to the other  
17          bids that correction of errors or flaws in the process would not change the  
18          relative ranking of the NBA and the other bids. For these reasons, we  
19          believe that the granting of the certificate will reasonably serve the public  
20          interest.

21   **Q: Does this conclude your direct testimony?**

22   A: Yes.