

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)
PACIFICORP for a Certificate of)
Convenience and Necessity Authorizing) Docket No. 03-035-29
Construction of the Currant Creek)
Power Project)

REBUTTAL TESTIMONY OF MARK R. TALLMAN

FEBRUARY 11, 2004

1 **Q. Please state your name.**

2 A. My name is Mark R. Tallman.

3 **Q. Are you the same Mark R. Tallman that submitted direct testimony in this**
4 **proceeding?**

5 A. Yes.

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

7 A. I will address a variety of issues raised by the Utah Association of Energy Users (UAE),
8 the Committee of Consumer Services (CCS), Calpine and Spring Canyon Energy LLC
9 (Spring Canyon) related to the Currant Creek (NBA) project, the terms and conditions of
10 the RFP, the process and evaluation of the RFP responses, disappointed bidders'
11 criticisms and suggestions for future changes to the RFP.

12 **Q. How is your testimony organized?**

13 A. The first part of my testimony discusses the terms and criteria of the RFP. Next I discuss
14 the NBA and why it satisfied the terms of the RFP for the 2005 category. Then I address
15 the implications raised in the UAE and Committee testimony that the need for 2005 could
16 be filled without building Currant Creek. I then discuss the process employed in
17 evaluating the responses received to the RFP. My testimony next discusses the criticisms
18 raised by Spring Canyon regarding the bidding process and evaluation criteria. My
19 testimony concludes that these criticisms are without merit and that even with arguably
20 valid adjustments proposed in the intervenors' testimony, Currant Creek is still the most
21 economic resource for customers and a prudent choice. Finally, I discuss the suggestions
22 made by various parties for how to improve future RFP processes.

23 **The Need for Capacity in the Summer of 2005 is Real**

1 **Q. What issues have been raised by intervenors regarding the Company’s showing of a**
2 **need for capacity in the summer of 2005?**

3 A. The majority of intervenors seem to agree that the Company has demonstrated a need for
4 capacity in the summer of 2005. The DPU, Spring Canyon and Calpine apparently agree
5 that the Company has a need for capacity to serve peak load requirements in summer
6 2005, although Spring Canyon and Calpine disagree with the Company’s choice for how
7 to meet that need. CCS witness Cheryl Murray also agrees that the Company has
8 demonstrated a need on a system-wide basis; however, she bases that finding on the
9 January 2003 IRP and not the October 2003 Update, which she says has not been fully
10 vetted by the parties. UAE appears to take the position, through witnesses Weir and
11 Wolverton, that PacifiCorp has not fully demonstrated the need for resources and that any
12 reliability issues raised by the Company regarding serving peak load requirements in
13 summer of 2005 are merely “pricing” issues, if they arise at all.

14 **Q. Do you have any concerns with respect to the testimony regarding need of CCS**
15 **witness Cheryl Murray?**

16 A. Yes. Ms. Murray asks herself the question: “Are there steps PacifiCorp could take to
17 satisfy its summer 2005 needs without the 280 MW from Currant Creek?” However, she
18 fails to answer her own question.

19 **Q. Why does this concern you?**

20 A. While Ms. Murray correctly describes PacifiCorp’s view of the 2005 needs in Utah, her
21 unanswered question might lead some to believe that PacifiCorp has viable alternatives
22 that it can presently rely upon to fulfill this need absent the addition of 280 MW of

1 incrementally new resource. This inference is not accurate. The fact remains that no
2 viable alternatives to the Currant Creek project are available.

3 **Q. Ms. Murray cites 150 MW from QF petitions and the possible availability of**
4 **additional transmission capacity. Do these things obviate the need for the 280 MW**
5 **of resource to be supplied by Currant Creek in 2005?**

6 A. No. While Ms. Murray cites a 150 MW of resources in a QF petition, she also
7 acknowledges that these QF projects would, if completed, only create an incremental 50
8 MW of supply.

9 **Q. Will the QF projects referenced by Ms. Murray be constructed?**

10 A. I don't know. The Company has no way of knowing if these projects will come to
11 fruition and, as such, cannot presently rely upon them for planning purposes.

12 **Q. Will the transmission that Ms. Murray states "may be available" obviate the need**
13 **for the 280 MW of resource to be supplied by Currant Creek?**

14 A. PacifiCorp is not aware of additional firm transmission paths to the Company's East
15 control area in Utah (PACEU) that would not also be subject to the 701 MW limitation
16 on access rights that Ms. Murray correctly references in her testimony. Thus, this does
17 not obviate the need for Currant Creek.

18 **Q. Ms. Murray states that a deficit of 348 MW would remain after the Company's**
19 **access to 701 MW of firm transmission rights. Is this statement accurate?**

20 A. No. Ms. Murray neglects to mention a key qualifying statement that the Company made
21 in response to CCS Data Request 7.7, which discussed these transmission rights. The
22 Company indicated that the 701 MW of firm import transmission rights would only

1 reduce the deficit to 348 MW “if it is assumed that firm power supply can be obtained
2 and transmitted over these remaining firm rights.”

3 **Q. What is the distinction between Ms. Murray’s portrayal and the language you cite**
4 **from the Company’s response to CCS Data Request 7.7?**

5 A. Ms. Murray appears to assume that it is guaranteed that the Company will be able to
6 procure 701 MW of firm power supply. The Company acknowledges that there is no
7 such guarantee and that 701 MW of supply will only be procured if there are willing
8 sellers.

9 **Q. UAE witness Mr. Weir believes that PacifiCorp’s load/resource balance issues are**
10 **merely short-term issues that may not manifest themselves, and if they do, it will be**
11 **“primarily as pricing issues.” Is this the case?**

12 A. No. The reliability issues are real. As an electrical engineer and former technical staff
13 member of WSCC (now WECC), Mr. Weir is almost certainly familiar with how
14 transmission paths are rated and the limitations imposed on those entities that schedule
15 power across such paths. Given Mr. Weir’s professional background, it is almost
16 incomprehensible that he would so cavalierly dismiss the Company’s representation that
17 insufficient firm transmission import capability is available to PacifiCorp in order to meet
18 the projected load for summer 2005. PacifiCorp is especially concerned due to the fact
19 that the forecasted load/resource balance contained in the IRP Update is based on
20 normalized conditions. As Mr. Weir is undoubtedly aware, given his experience with
21 loads and resources at the WECC (then WSCC), there can be: (a) substantial shifts in
22 loads due to weather events that vary from normal conditions (for example, in
23 PacifiCorp’s East control area, a hot weather event can easily result in several hundred

1 MW of additional load beyond normal conditions), and (b) multiple resource outages can
2 take place at any given time. The IRP Update assumes that 550 MW of generation is out
3 of service on average. However, PacifiCorp has experienced a number of occasions
4 when more than 550 MW of generation was unavailable. The load/resource balance
5 forecast in the IRP Update, in combination with the potential for load and resource
6 variability mentioned above, should give Mr. Weir pause in his professional
7 determination that reliability issues, as he puts it, “will almost certainly manifest
8 themselves, if at all, primarily as pricing issues”. Even if Mr. Weir is correct, and pricing
9 was the only concern, PacifiCorp does not believe that it would be meeting its obligations
10 to all of its customers if it took such a flippant approach to the need for resources.

11 **Q. Mr. Weir states that PacifiCorp delayed, of its own election, bringing the Currant**
12 **Creek project before the Commission and that the Company is now attempting to**
13 **“bootstrap” an ill-advised regulatory approval by claims of urgency or reliability**
14 **used to “threaten” regulators and ratepayers. How does PacifiCorp respond to**
15 **these claims?**

16 A. PacifiCorp is bewildered by these claims. PacifiCorp has been engaged in a very public
17 planning process that has time and time again underscored the demand and supply
18 divergence, particularly in the Utah service area. As demonstrated throughout the
19 planning process, PacifiCorp takes its obligation to serve very seriously and we take great
20 exception to any suggestion that we would inappropriately alarm our customers or the
21 Commission with respect to reliability concerns simply for, as Mr. Weir puts it, the
22 “hasty approval of an imprudent power station”. This simply is not the case and the
23 Company’s records and public planning processes bear this out. Moreover, the claim that

1 Company is seeking quick approval on something less than a full record by merely
2 claiming reliability issues is simply not true. The extensive discovery and testimony in
3 this proceeding bear out the Company's conclusion that the Currant Creek project is the
4 least cost/least risk alternative for consumers.

5 **Q. What has been the timeline of events leading up to the Currant Creek hearing?**

6 A. PacifiCorp issued the IRP on January 24, 2003. Upon completion of the IRP, the
7 Company began drafting a Request for Proposal (RFP). The draft RFP was made
8 available to stakeholders following a March 6, 2003 petition. After a series of thorough
9 discussions with stakeholders, the Company and a number of petitioners (UAE included)
10 executed a Stipulation on June 4, 2003. The RFP was then issued on June 6, 2003 with
11 the due date for bids set for July 22, 2003. PacifiCorp received approximately 100
12 individual bid responses to its solicitation. Analysis took place from late July through
13 mid-August wherein a short-list of bidders was determined. From mid-August to late-
14 September 2003, the Company endeavored to further define bidder offers and arrive at
15 the most economical alternative. Through this process, it became clear that Currant
16 Creek was the most economical choice for customers and internal approvals were sought.
17 The Company filed for a CCN on November 3, 2003. Given UAE's involvement in the
18 Stipulation, and given the fact that UAE was fully aware of the expected cycle time for
19 this particular RFP, it is extremely disingenuous for Mr. Weir and UAE to claim that the
20 Company somehow delayed the above timeline through its own election.

21 **Q. Mr. Banasiewicz criticizes PacifiCorp for pursuing additional power supply outside**
22 **of the RFP. How does the Company respond to this?**

1 A. PacifiCorp takes its obligation to serve very seriously. Mr. Banasiewicz's suggestion is
2 that PacifiCorp should be restricted to pursuing transactions within the RFP even if new
3 information has become available that suggests a more economic alternative is available.
4 PacifiCorp is pursuing alternatives outside of the RFP because a need remains for the
5 summer of 2005 and it is possible that PacifiCorp will be able to secure additional supply
6 that is more economic than bids from the RFP short list. PacifiCorp does not expect to
7 find a level of supply outside of the RFP such that the need for Currant Creek would be
8 displaced.

9 **Q. Mr. Weir states that adequate reliability of electric supply is critical to UAE**
10 **members and that UAE expects PacifiCorp to discharge its obligation to ensure**
11 **reliability regardless of the outcome of this proceeding. How does the Company**
12 **respond to this?**

13 A. The Company agrees that it has an obligation to serve and it is precisely to that end that
14 the Company is seeking approval of the Currant Creek project as the resource that has the
15 best cost/risk balance available to it. It is a conundrum to the Company how UAE can
16 maintain the position that reliability is critical to UAE and yet, at the same time, put forth
17 a position that would severely limit the ability of the Company to meet that obligation.
18 Mr. Weir merely proclaims that the Company's transmission import restrictions are
19 something less than real and Mr. Wolverton recommends that the Company should
20 simply re-open the bidding process, thus causing a more than a 30-day delay.
21 Unfortunately, Mr. Wolverton is apparently unable to put forth any realistic expectation
22 of what such a process could be expected to yield that is any better than Currant Creek or
23 just how long the entire process of re-bidding, analyzing the bids, and theoretically

1 negotiating complex contracts would take. Currant Creek has already been demonstrated
2 to be the best choice and the Company stands by that choice.

3 **The Requested Terms and Criteria of the RFP Were Reasonable**

4 **Q. What terms were requested for responses in the 2005 category?**

5 A. The minimum criteria for submitting bids in the “2005” or “peaker” category was the
6 requirement to have a resource available by no later than June 1, 2005 and that
7 PacifiCorp hold the right to dispatch the resource at least daily. A copy of the RFP
8 2003A itself is attached to my direct testimony as Exhibit UP&L___(MRT-1)

9 **Q. Where could a bidder find information about the minimum bid criteria?**

10 A. Bidders received information about the minimum bid criteria at the June 20, 2003 Pre-
11 Bid Workshop. The RFP was made available to bidders on June 6, 2003. In addition,
12 bidders were encouraged to submit questions to the Company/Navigant regarding the
13 RFP via the RFP Question and Answer website.

14 **Q. What specific criticisms of the RFP criteria have been raised by intervenors in their
15 direct testimony?**

16 A. Intervenors have raised general concerns regarding the minimum 2005 bid criteria. Some
17 intervenors suggest that the “up to 20-year” term was inappropriate given that the NBA
18 has a 35-year life.

19 **Q. Before describing the specific concerns raised regarding the up to 20-year term,
20 could you please address whether the term was an issue raised by any bidders or
21 any of the other intervenors prior to the filing of direct testimony?**

22 A. None of the parties to the RFP Stipulation raised any issues regarding the up to 20-year
23 term. No bidder asked any questions about the up to 20-year term during the pre-bid

1 conference or the pre-draft RFP conference (even though the power point presentations
2 for both of these conferences specifically called out the up to 20-year term). No bidder
3 asked any questions about the up to 20-year term on the RFP Question and Answer
4 website. Finally, no questions were raised during the public comment period when the
5 draft RFP was filed with the Oregon Commission.

6 **Q. Witnesses for UAE, the Committee and Spring Canyon criticize, for a number of**
7 **reasons, the Company's decision to seek power purchase agreements (PPAs) or**
8 **leases with up to a 20-year term. Why did the Company identify up to a 20-year**
9 **resource term in its RFP?**

10 A. There were several reasons, including the fact that 20 years is a long period of time for a
11 PPA. Indeed, the Utah and Idaho Commissions have established a 20-year contract term
12 as the standard for power purchases from qualifying facilities. In addition, as Mr.
13 Friedman explains, based on his experience, 20 years or less is a common term for RFPs
14 in the industry.

15 **Q. Did PacifiCorp prevent bidders from proposing structures that could result in more**
16 **than a 20-year PPA or lease term?**

17 A. No. An intended feature of the RFP was to put forth a minimum set of criteria for each
18 category in order to allow bidders to use their creativity to the fullest. PacifiCorp did not
19 prohibit any bidder from proposing PPA structures that could result in a PPA lasting
20 more than 20-years. For example, PacifiCorp did not prevent bidders from offering one
21 or more sequential options for PacifiCorp to extend the purchase beyond 20-years (for a
22 pre-determined number of years, at pre-determined prices, and under pre-determined
23 terms). As another example, PacifiCorp did not prevent bidders from offering a PPA

1 with a term greater than 20-years, but with PacifiCorp holding the option to terminate the
2 purchase after 20-years. There are a variety of structures that bidders could have
3 proposed that could include variations on the themes mentioned above, or a combination
4 of those themes. In any event, PacifiCorp was looking to the market to identify a wide
5 range of options. The other issue that is clear is that PacifiCorp made no direction as to
6 whether bidders chose to recover all of their costs over the term of contract they proposed
7 (e.g., 10, 15, or 20 years) or whether they chose to apply some terminal value to the asset
8 at the end of the contract terms.

9 **Q. Did PacifiCorp receive RFP responses for terms greater than 20 years?**

10 A. Yes. As part of RFP 2003, we received proposals for asset transfers, turnkey proposals
11 and options that if exercised would result in terms longer than 20 years. In addition, we
12 also had parties insisting that they will not consider terms in excess of 20 years as they
13 want to capture the value of their asset at the end of a 20-year PPA.

14 **Q. How does the RFP evaluation methodology handle those types of offers?**

15 A. The RFP evaluation methodology would evaluate the proposal over the entire term being
16 proposed, which would be the useful asset life for asset transfer proposals. This means
17 that a proposal that included an option that could result in a term greater than 20-years
18 would be evaluated over the longer term. This also means those turnkey proposals
19 (proposals where the asset transfers to the Company upon construction completion) were
20 evaluated over the useful life of the asset.

21 **Q. UAE witness Mr. Wolverton states that the lack of an assured contract or market at**
22 **the end of a 20-year term would prevent any rational market participant from being**

1 **competitive with the analysis performed for Currant Creek. Is this a reasonable**
2 **statement?**

3 A. No. As Mr. Wolverton should know from his work with respect to IndeGO and RTO
4 West, the Federal Energy Regulatory Commission (FERC) has displayed a consistent
5 desire to foster independently administered markets. To date, the Company has not seen
6 any shift in FERC policy that would lead it to believe that such markets will not develop.
7 It is hard to believe that Mr. Wolverton is inferring that he does not believe there will be
8 available power markets 20 years into the future.

9 **Q. What is the issue that Mr. Wolverton appears to be raising?**

10 A. Mr. Wolverton appears to be pointing out that not all bidders have the same level of
11 financial capabilities or tolerance for risk. PacifiCorp designed the RFP process from the
12 customer's point of view. A bid that is structured such that PacifiCorp customers pay
13 100% of the cost during a PPA term, and then does not afford customers the benefit of
14 the asset thereafter, should evaluate poorly against an alternative that provides customers
15 with benefits for a longer life. The RFP process did not advise bidders of how they
16 should determine their pricing nor the options they put forth in their bid. Any bidder who
17 was restricted by financing limitations or who was not able to raise enough equity to
18 consider future terminal value as an offset to near-term pricing could have offered to
19 transfer the asset to customers after their proposed PPA term and also submitted a
20 turnkey offer. In short, Mr. Wolverton seems to be going out of his way to defend the
21 interest of developers rather than customers.

22 **Q. Mr. Wolverton surmises that no one can reasonably predict the future, that he is not**
23 **comfortable relying on market forecasts more than two decades into the future, and**

1 **that it is possible that new technological advances or other factors will make a 20-**
2 **year commitment superior to a longer lived alternative. What does this lead the**
3 **Company to conclude?**

4 A. Given the fact that Mr. Wolverton has also stated that rational market participants must
5 recover 100% of their costs over an assured term of a contract, it appears he is arguing for
6 20-year resource lives. Mr. Wolverton's clouded view of the future would have
7 customers always paying for the entire cost of new power plant in a 20-year, or shorter,
8 transaction to only find out that they will never own the plant thereafter. I seriously
9 doubt if Mr. Wolverton would be willing to afford the same luxury to a utility that
10 proposes to amortize a CCCT plant over a 20 year term and then not allow customers any
11 of the benefit thereafter. The logical extension to Mr. Wolverton's argument is that
12 without 100% certainty a utility should not undertake a transaction, either on the basis
13 that new technology may be superior to existing technology or pre-determined future
14 prices are not available.

15 **Q. Committee witness Mr. Falkenberg also discusses the up-to 20-year term issue. Is**
16 **Mr. Falkenberg consistent in his arguments with respect to 20-year resources?**

17 A. No. On the one hand, Mr. Falkenberg makes the case that one reason to accept a 20-year
18 bid is his view that future technological improvements are quite likely and that the
19 Company could wait to take advantage of those improvements at the end of the 20 years.
20 On the other hand, he points out that comparing the Currant Creek project against 20 year
21 PPA bids, using Mr. Falkenberg's perception of how real-levelization should work, may
22 not ensure that customers get the best possible outcome over a longer planning horizon.

1 Mr. Falkenberg cannot seem to decide which scenario would be in the best interest of
2 customers.

3 **Q. Is Mr. Falkenberg inconsistent elsewhere in his testimony?**

4 A. Yes. As discussed below, Mr. Falkenberg criticizes the Company for not developing a
5 cost-based alternative consisting of an internal combustion engine or a combustion
6 turbine (CT) but then declares that such a design would be “unfair to ratepayers because a
7 CT may not be the most economic resource.”

8 **Q. Are there any other issues raised by intervenors regarding the 20-year term?**

9 A. Some intervenors raise specific issues about how 20-year offers could be evaluated in a
10 fair manner compared to a 35-year resource, the NBA. I will address those specific
11 concerns later in my testimony.

12 **The NBA Meets the RFP Criteria**

13 **Q. There seems to be confusion on the part of some parties that the Currant Creek**
14 **project constitutes something other than a valid “peaking” resource for purposes of**
15 **meeting the RFP criteria. For example, Mr. Wolverton states that the Currant**
16 **Creek project is a “joint-product combination of base-load and peaking capability**
17 **(and other products)”. Is the Currant Creek project a valid “peaking” project,**
18 **based on the RFP criteria, during all phases of its life?**

19 A. Yes. As described in my direct testimony, the Currant Creek CCCT-based project meets
20 the requirements of the RFP, is the most cost effective choice for customers and will
21 provide a high degree of flexibility. The entire Currant Creek project (all 525 MW) can
22 be started within approximately 4-hours on a cold-start basis and approximately 90-
23 minutes on a hot-start basis. The combination of this high level of flexibility and

1 efficient heat rates, when coupled with PacifiCorp's fleet of eight SCCT machines (320
2 MW), will provide the Company with not only a diverse mix of heat rates in its portfolio,
3 but also the tremendous ability to dispatch up to 845 MW of gas-fired generation on short
4 notice in order to meet its obligation to serve.

5 **Q. Mr. Wolverton considers the duct firing portion of the Carrant Creek project to be**
6 **the "peaking component" and the remainder of the plant to be a "base-load"**
7 **facility. Is this a reasonable assertion?**

8 A. No. PacifiCorp's goal in the RFP is to have a flexible resource that is also efficient. The
9 ability to dispatch the entire Carrant Creek project (all 525 MW) in approximately 4
10 hours (approximately 90-minutes on a hot start) meets this criteria. Mr. Wolverton
11 conveniently ignores this fact in favor of characterizing the CCCT portion of the resource
12 as being something other than flexible. It appears that Mr. Wolverton believes that
13 customers would be better served with a resource that is less efficient and produces
14 poorer overall economics.

15 **Q. Mr. Wolverton proclaims that the RFP was intended to only compare what amounts**
16 **to Mr. Wolverton's perception of a peaking product. Is that the case?**

17 A. No. While Mr. Wolverton never actually tells us what he perceives a valid peaking
18 product to be, it seems clear he does not believe a CCCT-type design qualifies.
19 Notwithstanding this fact, Mr. Wolverton completely ignores the fact that the bid criteria
20 were based on two fundamental criteria: (1) a resource availability date no later than June
21 1, 2005, and (2) the ability of PacifiCorp to dispatch the resource at least daily.
22 Mr. Wolverton would have us believe that there was different direction given to bidders.
23 In fact, just the opposite is true. Bidders were given a presentation at the June 20, 2003

1 pre-bid conference where they were explicitly told that these were the two main criteria.
2 Exhibit UP&L ____ (MRT-1R) is an excerpt of the relevant page from that presentation
3 to bidders. The presentation was made widely available to bidders on PacifiCorp's web
4 site.

5 **Q. Likewise, Committee witness Mr. Falkenberg registers his concern about the RFP**
6 **process because bids were not compared against a next best alternative that consists**
7 **of an internal combustion or combustion turbine design. Mr. Falkenberg expresses**
8 **this concern based on his reading of the RFP document. Has Mr. Falkenberg**
9 **misunderstood the RFP document?**

10 A. Yes. Mr. Falkenberg raises his concern based on language in the RFP document stating
11 that proposals will be compared to PacifiCorp's next best alternative for a resource with
12 "similar" characteristics. Mr. Falkenberg is concerned because he does not believe
13 Currant Creek constitutes a similar resource. Unfortunately, Mr. Falkenberg is either not
14 aware, or chooses to ignore, that PacifiCorp clarified for bidders what "similar" means in
15 the context of the RFP document. At the June 20, 2003 pre-bid conference, PacifiCorp
16 presented a slide (attached as Exhibit UP&L ____ (MRT-2R)) describing that "similar"
17 is based on product type and means the net cost to build, own, and operate a resource
18 using present value revenue requirement consistent with the IRP methodology. The slide
19 defining product type (attached as Exhibit UP&L ____ (MRT-1R)) describes the product
20 type as being a resource that can be available by no later than June 1, 2005 and provides
21 PacifiCorp with the ability to dispatch on a daily basis.

22 **Q. What does Mr. Falkenberg's concern about comparing "similar" resources appear**
23 **to suggest?**

1 A. Mr. Falkenberg appears to be suggesting the PacifiCorp should have come up with a
2 detailed cost estimate (a “next best alternative”) for each and every type of resource bid
3 into the process. Aside from the obvious impracticalities of such a suggestion, it would
4 simply be impossible to arrive at a reasoned conclusion since bids would not be
5 compared against a common benchmark and PacifiCorp received bids that were not
6 directly associated with newly constructed assets.

7 **Q. Does the Company agree with Mr. Falkenberg’s assertion that bidders could only**
8 **have thought the company NBA was a CT NBA?**

9 A. No. Mr. Falkenberg would like to have the Commission believe that PacifiCorp made no
10 attempt to educate bidders what the minimum bid criteria was. The fact is that bidders
11 were clearly informed of the criteria in order to submit a bid and their questions with
12 respect to how heat rate efficiency would impact an evaluation were asked and answered.

13 **Q. What does Mr. Falkenberg consider a “peaker” to be?**

14 A. I can only partially tell. Mr. Falkenberg declares that the industry refers to a “peaker” as
15 a unit used to serve “short duration loads during high demand hours on short notice” and
16 that Currant Creek cannot be a “peaker” because Currant Creek does not have a heat rate
17 consistent with a combustion turbine (10,000 BTU/kWh or higher) or that of an internal
18 combustion engine. While Mr. Falkenberg manages to define the heat rate that he
19 considers to be associated with his definition of a “peaker”, he fails to define what he
20 considers “short notice” or “short duration loads” to be. The fact is that Currant Creek
21 can dispatch to full load, from a cold start, with approximately 4 hours notice and to full
22 load from a hot start in approximately 90-minutes. As such, Currant Creek will be fully
23 capable of being dispatched in order to serve PacifiCorp load during high demand hours.

1 **Q. Mr. Wolverton criticizes PacifiCorp for not providing justification for why margins**
2 **from the CCCT portion of Current Creek should be used to compare margins from**
3 **other resources which have a higher heat rate. Has the Company demonstrated**
4 **why this is appropriate?**

5 A. Yes. The Company's justification is inherent in the economics of the resource. If a
6 resource is economic to run, and it is available, then the Company fully intends to
7 dispatch it. For some unknown reason, Mr. Wolverton appears to be professing a new
8 kind of economic dispatch logic wherein a higher incremental cost resource should
9 dispatch before a lower incremental cost resource.

10 **Q. Mr. Wolverton appears to be bothered by the fact that the duct fired portion of**
11 **Currant Creek can only be utilized when the CCCT portion of the resource is in use.**
12 **Should the Commission be concerned about this?**

13 A. No. The duct firing capability has a higher incremental heat rate than the CCCT portion
14 of the plant. As such, it is reasonable to expect that the CCCT portion of the plant will
15 already have been dispatched during those times that the duct-fired portion of the plant is
16 economic.

17 **Q. Mr. Wolverton appears to express a further concern that PacifiCorp will be forced**
18 **to operate the resource in simple cycle mode during times when energy is needed**
19 **but the CCCT portion of the resource is not operating. Should the Commission be**
20 **concerned about this scenario?**

21 A. No. Despite the fact that Currant Creek can be dispatched in a very flexible fashion,
22 PacifiCorp did not intend to procure a resource via this RFP that would necessarily need
23 to be available on less than a day to day basis. PacifiCorp does not consider the gloomy

1 scenario presented by Mr. Wolverton to be a realistic expectation. Mr. Wolverton is
2 apparently not aware that the Company has access to eight quick start simple cycle
3 generating units as well as other flexibility that is held in reserve as a result of normal
4 operations.

5 **Q. Mr. Falkenberg criticizes PacifiCorp for not “committing” to the capital and O&M**
6 **costs for Currant Creek. He also criticizes PacifiCorp for accepting bids based on**
7 **an estimate of costs where, in his opinion, most bidders appeared to assume the**
8 **requirement to offer fixed prices. Should the Company guarantee the costs**
9 **associated with its cost-based alternative?**

10 A. No. The purpose of a cost-based self-build alternative is to provide customers with a
11 viable alternative in the event offers from market participants are not economic. As such,
12 the current regulatory requirement that resources be included in rates at cost must hold.
13 For these reasons, and to assuage the concerns of stakeholders that PacifiCorp have
14 definitive cost estimates, PacifiCorp prepared detailed cost estimates with respect to
15 Currant Creek, based on the information available at the time, and had them validated by
16 Navigant. If PacifiCorp was required to guarantee its cost estimate then it would have no
17 choice but to build in contingencies. This would not result in a true cost-based alternative
18 for the benefit of customers.

19 **Q. Is Mr. Falkenberg suggesting that PacifiCorp be allowed to place a utility-built**
20 **project into rates at something other than cost?**

21 A. I sincerely doubt it. Mr. Falkenberg is likely alluding to a scenario where the Company is
22 held to the lower of cost or estimate. If that is the case, then the asymmetric risk
23 embedded in the message to the Company would merely have the effect of preventing the

1 Company from putting forth an alternative for the benefit of customers. This would not
2 be in the best interest of customers because it would simply result in the Company
3 becoming a price taker during competitive solicitations.

4 **Q. Should the Company accept bids based on estimated costs?**

5 A. Perhaps. It is certainly worth considering whether the Company should reject future bids
6 that have contingent pricing (such as the Spring Canyon bid was). However, for
7 Mr. Falkenberg to characterize the other bidders in this RFP process as having put forth
8 prices that were “fixed” is simply incorrect. Mr. Falkenberg should know, just as all
9 bidders did know, that no transaction is truly fixed until both parties execute a definitive
10 agreement. Notwithstanding this, Mr. Falkenberg correctly identifies the age-old issue of
11 bidders putting forth one offer and then trying to switch it later. This issue can
12 effectively be dealt with by using highly rigid solicitations where quick decisions can be
13 made. However, for more complex solicitations, such as this RFP, the “bait and switch”
14 possibility will likely continue. Unfortunately, Mr. Falkenberg only offers his criticism
15 rather than any constructive suggestions of how to deal with this issue.

16 **Q. Mr. Banasiewicz criticizes PacifiCorp for selecting a resource that is inconsistent**
17 **with the planned resource needs. What do you think Mr. Banasiewicz means by**
18 **this?**

19 A. I don’t know. Since Mr. Banasiewicz describes Spring Canyon’s resource design to have
20 very few differences from Currant Creek (i.e, they are both CCCT-based designs), it
21 appears that Spring Canyon is making an argument against the validity of their own
22 proposal.

1 **Q. What conclusions do you draw regarding whether Currant Creek meets the RFP**
2 **2005 criteria?**

3 A. Currant Creek meets the RFP criteria in every way. Mr. Wolverton’s and Mr.
4 Falkenberg’s apparent suggestion that the Company should be forced to rely on a less
5 flexible/economic bid just to meet their outdated, but not well-defined, definition of a
6 “peaker” is not reasonable and would not result in the best choice and most economic
7 resource for customers.

8 **The Evaluation of the Bids was Fair and Reasonable**

9 **Q. What specific criticisms have intervenors raised regarding the evaluation of the bids**
10 **in the 2005 category?**

11 A. Intervenors have raised concerns about how the Company analyzed bids for 20 years
12 versus the 35-year life of Currant Creek. Specifically, witnesses for UAE, CCS and
13 Spring Canyon contest the real levelization methodology employed by PacifiCorp.
14 Intervenors also suggests that the use of two different models and the forward price
15 curves employed by PacifiCorp result in inconsistent and unfair evaluations. UAE
16 witness, Mr. Wolverton argues that the use of the Company’s rate of return in evaluating
17 the NBA bid was inappropriate. Finally, Mr. Wolverton argues that the evaluations were
18 flawed because PacifiCorp did not combine peaking and baseload bids to compare the
19 result to the NBA.

20 **Q. Are these concerns valid?**

21 A. No. Mr. Klein will testify in greater detail on the real levelization methodology, the use
22 of two models and the forward price curves. However, I believe that the Company’s
23 evaluation methodologies were fair and consistently applied. Contrary to the apparent

1 assumption of some intervenors, the methodologies were not manipulated in order to
2 ensure that the Company's self-build option won. Mr. Wolverton's specific suggestion
3 that the Company should have combined peaking and baseload bids to compare them to
4 the NBA is driven by his incorrect assumption that the NBA is a "joint" product that is
5 not appropriate for the peaker category. I have already discussed why Mr. Wolverton's
6 suggestion that the NBA is a "joint" product is flawed. In addition, his suggestion to
7 combine bids is unworkable and could have the effect of requiring the Company to enter
8 into imprudent transactions. In large part, the specific criticisms on these points
9 demonstrate intervenor misunderstandings of the methodology and contain errors that
10 undermine their conclusions.

11 **Q. Mr. Wolverton asserts that PacifiCorp's evaluation approach does not meet the**
12 **challenge of comparing resources with different capabilities. Is this the case?**

13 A. No. PacifiCorp's evaluation models were prepared expressly for the purpose of
14 evaluating the wide range of proposals that we expected receive. The only proposals that
15 PacifiCorp's models were not able to accommodate were proposals that lacked sufficient
16 information from which to complete an evaluation. Mr. Wolverton's simplistic approach
17 appears to suggest that comparisons can only be made between identical resources.
18 However, the real world does not operate this way because there are a wide variety of
19 offerings that bidders are capable of putting forth. Mr. Wolverton appears to argue that
20 PacifiCorp should have placed very narrow parameters around the minimum bid criteria.
21 Customers deserve to receive the entire benefit of the market's capability and creativity,
22 all in search of the most economic alternative. Mr. Wolverton would have PacifiCorp
23 severely limit the possibilities because he views it to be too much of an analytical

1 challenge. Had PacifiCorp been as prescriptive in its solicitations as Mr. Wolverton
2 recommends, it is highly likely that it would be facing questions of its prudence with
3 regard to the RFP process.

4 **Q. Witnesses for UAE, Spring Canyon and the Committee contend that PacifiCorp's**
5 **use of a real-levelization technique disadvantaged bidders. What is real-**
6 **levelilzation intended to accomplish and why was it used in the RFP evaluation**
7 **process?**

8 A. As Mr. Falkenberg, Mr. Banasiewicz and Mr. Wolverton note in their testimony, real-
9 levelization is a technique that is intended to deal with unequal lives. The real-
10 levelization technique was used in the RFP process because it was expected that
11 PacifiCorp would receive a variety of proposed structures that would result in a variety of
12 resource lives (either contractual via a PPA or via asset transfer or lease).

13 **Q. What is the real underlying issue surrounding the use of real-levelization and the**
14 **focus on the 20-year time period?**

15 A. The true underlying issue is terminal value and to whom that value will flow, customers
16 or the bidder. When a bidder constructs a plant, proposes a 20-year PPA, and retains
17 100% of the ability to use the plant after year 20, it is clear that the terminal value is
18 flowing to the bidder and not customers. As Mr. Falkenberg recognizes, the Company
19 has a responsibility to its customers and, it could not ignore the value of Currant Creek
20 for its entire life from year 21 through year 35 when a bidder proposes to retain that very
21 same value for its self. While Spring Canyon has complained that a 20-year PPA forces it
22 to recover its costs over the term of the PPA, this is only the case if no terminal value is
23 applied to the asset. If Spring Canyon did not have the finances to allow a terminal

1 value, or they were unable to attract adequate equity support, they would have been free
2 to consider also bidding their proposed plant as a turnkey or some other variation. The
3 RFP process did not limit the number of bids that a bidder could submit. Mr. Klein goes
4 into greater detail on the appropriateness of the company's real levelization methodology.

5 **Q. In comparing Currant Creek to a 20-year PPA, is it fair to customers to only**
6 **evaluate the first 20-years of value associated with Currant Creek when the owner**
7 **of the plant supplying the PPA is retaining 100% of the value associated with the**
8 **plant in year 21 and beyond?**

9 A. No. It would not be fair to customers because it could result in an inaccurate decision
10 from the customer's perspective. In this example, power supplies under the PPA stop at
11 the end of year 20, while customers will continue to receive cost effective power for an
12 additional 15-years from Currant Creek. That difference should be recognized in the
13 analysis.

14 **Q. Were bidders unaware that PacifiCorp intended to perform a PVRR analysis that**
15 **was consistent with the IRP methodology?**

16 A. No. In the pre-bid conference on June 20, 2003, PacifiCorp presented a slide indicating
17 to bidders that the company intended to perform a PVRR analysis of the proposed
18 resources that took into account their cost of construction, ownership and operation.

19 **Q. Mr. Wolverton performed an analysis of the 20-year versus 35-year real levelization**
20 **issue in which he retained the effect of real levelizing capital costs while removing**
21 **the other costs and revenues. What did Mr. Wolverton's analysis conclude?**

1 A. Mr. Wolverton's analysis concluded that Currant Creek was more cost effective than the
2 next lowest-cost bid, bid number 401. Mr. Wolverton's analysis concluded that Currant
3 Creek is \$92 million more cost-effective than that bid.

4 **Q. Mr. Wolverton makes the case that PacifiCorp should use a higher return on equity**
5 **(say 15%) in determining its cost of capital for the purpose of comparing**
6 **alternatives. Why does Mr. Wolverton make this argument and why does the**
7 **Company disagree with him?**

8 A. Mr. Wolverton argues that customers are actually bearing the risk of utility investments
9 and that because of this, the true risk between a cost-based alternative and a market offer
10 may be the same. The Company clearly does not agree with Mr. Wolverton because he
11 fails to acknowledge that the risk associated with the utility's obligation to serve never
12 actually transfers. When a market participant fails to perform, it is the utility that must
13 stand ready to physically step in and reliably serve the load. This is just as true on an
14 hour to hour or day to day basis as it is if a limited liability company (who is selling
15 power to the utility) determines that it is no longer economic to continue operations.
16 While I am sure this overall topic could generate much-spirited debate, it is the obligation
17 to serve that remains the primary risk that a load serving entity must manage. For this
18 reason, the debate around the provider of last resort inevitably finds its way into every
19 direct access debate. Further, it is not clear if Mr. Wolverton is actually suggesting that
20 the utility should actually earn a rate of return on generation assets commensurate with
21 external parties or whether he just wishes to apply a theoretical rate of return assessment
22 that bears no resemblance to reality.

1 **Q. Mr. Wolverton believes that PacifiCorp should have combined bids from the “2007”**
2 **bid category with bids from the “2005” category in order to determine if the**
3 **combination of the two could create a more economic combination than Currant**
4 **Creek. Is this an approach that the Commission should consider as being prudent?**

5 A. No. First of all, taken at face value, Mr. Wolverton’s suggestion would result in every
6 bid from every bid category being combined to determine if every possible combination
7 would result in economics more favorable than Currant Creek. This would, of course, be
8 totally impractical since it would have required 1,484 individual analyses (53 “2007”
9 bids multiplied by 28 “2005” bids). Even if Mr. Wolverton intended to apply this
10 concept to only the short-listed bids, he fails to acknowledge that PacifiCorp receives
11 prudence review on a transaction by transaction basis. Mr. Wolverton’s example of
12 combining an offer that is \$100m more expensive than the NBA with one that is \$150m
13 less expensive (netting \$50m or “benefit”) would cause PacifiCorp to explain why it
14 entered into an imprudent transaction. Moreover, Mr. Wolverton fails to explain the
15 practicality of having to negotiate two transactions but make one transaction contingent
16 on another. This would provide an inordinate amount of leverage to one of the
17 counterparties. In simple terms his suggestion is wholly unworkable.

18 **Disappointed Bidders’ Criticisms are Unfounded**

19 **Q. Please describe this portion of your testimony.**

20 A. Two of the intervenors in this proceeding, Spring Canyon and Calpine, were also bidders
21 in the RFP. Each of these intervenors/bidders raises specific concerns regarding the RFP
22 process and evaluations. None of the issues raised is well founded. Nor do any of the
23 arguably valid assertions change the underlying fact that Currant Creek is the most

1 economic resource for customers for the summer of 2005. I will address the allegations
2 raised by Spring Canyon and Calpine separately in this section of my testimony. Finally,
3 Mr. Wolverton and Mr. Falkenberg have each raised a single issue regarding the
4 evaluation of Duke's bid in the 2005 category. Each assertion is erroneous and should be
5 given no weight by this Commission.

6 **Q. Regarding the general process concerns raised by Spring Canyon, they contend that**
7 **no good faith negotiations took place between PacifiCorp/Spring Canyon and that**
8 **PacifiCorp refused to negotiate with Spring Canyon's bid team. Is this what**
9 **transpired?**

10 A. No. PacifiCorp never refused to negotiate with Spring Canyon. The majority of the time
11 spent with Spring Canyon was on defining their definitive offer and attempting to
12 ascertain if Spring Canyon had any intentions of making their offer more competitive.
13 For example, when Spring Canyon was asked to improve the economics of their offer,
14 their response was to find a new equipment vendor rather than sharpen their pencil on
15 price. After anxiously awaiting a lower price offer, Navigant Consulting received an e-
16 mail on October 2, 2003 from Mr. Banasiewicz stating that Spring Canyon's final offer
17 must remain at the prices submitted as part of their revised templates. A copy of the
18 referenced e-mail from Mr. Banasiewicz is attached as Exhibit UP&L_____ (MRT-
19 3R). Despite the October 2, 2003 e-mail, PacifiCorp agreed to meet with Spring Canyon
20 on October 16, 2003 since Spring Canyon appeared to still be pursuing a new equipment
21 vendor. In spite of the discussions that took place at this meeting, PacifiCorp never
22 received any definitive prices that were different than those included Spring Canyon's
23 revised templates.

1 **Q. What are the “templates” that you refer to?**

2 A. Following the initial screening, and upon short-listing of bids in the peaker category,
3 PacifiCorp prepared a bid summary template outlining the key terms/conditions
4 contained in the bidder’s definitive offer. The initial template for Spring Canyon’s
5 definitive offer is attached as Exhibit UP&L_____ (MRT-4R).

6 **Q. Were there revisions to this template?**

7 A. Yes. This initial template was provided to Spring Canyon for their review and editing.
8 Attached as Exhibit UP&L_____ (MRT-5R) is the redlined version of the template that
9 Spring Canyon provided back to PacifiCorp and a copy of the September 2, 2003 email
10 from Ted Banasiewicz sending that template back to PacifiCorp. Noteworthy in the
11 revision is Spring Canyon’s insertion of a 260/year start limitation.

12 **Q. What happened at this point?**

13 A. The parties conferred by telephone and walked through the edits put forth by Spring
14 Canyon. The result of that conversation is the final revised template that
15 Mr. Banasiewicz refers to in his October 2, 2003 e-mail. A copy of the final revised
16 template is attached as Exhibit UP&L _____ (MRT-6R). It is important to note that in this
17 final template Spring Canyon removed their 260 start/year limitation in favor of a start-up
18 charge and revised variable O&M rate that escalates at CPI (whereas the previous O&M
19 rate was represented by Spring Canyon as being fixed at \$3.44/MWh). Navigant
20 received the final revised template from Spring Canyon on September 2, 2003.

21 **Q. Spring Canyon contends that they never imposed a 260 start/year limitation within**
22 **bid number 653 and that PacifiCorp simply “did not read the entire bid proposal”.**

1 **What specific language was contained in Spring Canyon’s bid number 653**
2 **regarding the 260 start/year limitation?**

3 A. Spring Canyon included in their bid number 653 the following language in Section 2,
4 Resource Description. “Bidder’s offering includes a maximum of 260 individual
5 combustion turbine starts per year for the dispatchable option”. The relevant page from
6 Spring Canyon’s proposal is attached as Confidential Exhibit UP&L_____ (MRT-
7 7R).

8 **Q. Spring Canyon points out that bid number 135 also contained this same language.**
9 **If that is the case, why was bid number 135 slotted in the “2005” category when bid**
10 **number 653 was not?**

11 A. Both bids contained the 260 start/year limitation language. Notwithstanding this,
12 PacifiCorp initially slotted both bids into the “2005” category with the intent to clarify
13 the 260 start/year limitation language because it conflicted with language elsewhere in
14 the respective proposals. However, the economics of bid number 653 were far less
15 desirable than that of bid number 135. As a result, Navigant and the Company conferred
16 and agreed that bid number 653 would be in a more favorable position, relative to the
17 benchmark NBA, in the “2007” category. It is for this reason that bid number 653 was
18 slotted in the “2007” category. As stated above, Spring Canyon removed the 260
19 start/year limitation for its bid number 135, thus making it compliant with the criteria for
20 the “2005” category.

21 **Q. Spring Canyon contends that no legal or contract terms were mentioned or**
22 **discussed at an October 16, 2003 meeting between the parties in Portland, Oregon.**
23 **Is this what transpired?**

1 A. No. The parties discussed a variety of contractual terms. Key amongst these were what
2 Spring Canyon considered “market-based liquidated damages” to be, what level of law
3 change risk Spring Canyon was willing to take, and the effects of financing on Spring
4 Canyon’s offered price.

5 **Q. What did Spring Canyon clarify for PacifiCorp with respect to these material**
6 **terms?**

7 A. Spring Canyon clarified that their proposed prices would float with financing and the
8 final costs they were able to negotiate with their Engineer Procure Construct (EPC)
9 contractor. Spring Canyon clarified that their proposed prices would float both
10 downward and upward based on the outcome of these two contingencies. This feature of
11 Spring Canyon’s proposal regarding financing was documented in a September 4, 2003
12 e-mail from Ted Banasiewicz to Navigant which is attached as Confidential Exhibit
13 UP&L_____ (MRT-8R).

14 **Q. Please comment on the proposed floating finance rate.**

15 A. This was the only proposal of this sort that we received. Obviously, customers would
16 have taken the risk of the actual financing costs that Spring Canyon achieved. Spring
17 Canyon specifically confirmed at the time and later in response to Pacificorp Discovery
18 Request 2.6(h) that it was unwilling to take any of the risks of the floating financing
19 costs.

20 **Q. Did Spring Canyon clarify anything else during the meeting?**

21 A. Yes. Spring Canyon clarified that they were unwilling to take any change of law risk.
22 When asked what this meant, Spring Canyon responded that they would expect to be able
23 to pass through any cost associated with changing laws in the event the law change

1 resulted in Spring Canyon incurring a capital expense. Spring Canyon was unable to
2 clarify what constituted a capital expense.

3 **Q. You mentioned market-based liquidated damages. Did Spring Canyon clarify what**
4 **they consider market-based liquidated damages to be?**

5 A. Yes. Spring Canyon clarified that market-based liquidated damages, to them, means the
6 ability of PacifiCorp to make reduced capacity payments in the event Spring Canyon
7 does not perform. Spring Canyon stated that they were unwilling and unable to accept
8 liquidated damage provisions tied to power markets.

9 **Q. Spring Canyon contends that PacifiCorp delayed contract negotiations beyond**
10 **October 1, 2003, and states that the delay “effectively prevented any bidder from**
11 **being able to complete construction by PacifiCorp’s June 2005 target date”. Did**
12 **PacifiCorp delay negotiations beyond October 1, 2003?**

13 A. No. During the September 2003 time period, PacifiCorp was merely working our way
14 through a long list of short-listed bidders, in all three categories of the RFP, in an attempt
15 to reach economic resource decisions. In addition, Spring Canyon was well aware of the
16 likelihood of delay which is shown in its bid summary sheet that notes a one for one
17 delay in completion for agreement reached after October 1, 2003.

18 **Q. Mr. Banasiewicz represents that Spring Canyon “developed the ability to provide**
19 **replacement power” and that PacifiCorp failed to take this into account when**
20 **evaluating Spring Canyon’s proposal. What definitive offer did Spring Canyon**
21 **make to PacifiCorp with respect to “replacement power”?**

22 A. None. PacifiCorp did not receive any definitive offer from Spring Canyon with respect
23 to replacement power, its amount, its source, its price, its delivery point, its delivery

1 shape, what contractual vehicle it would be supplied under, or even if Spring Canyon has
2 the legal authority from FERC to make such wholesale sales.

3 **Q. Spring Canyon contends that it was “prepared to sell the plant at the end of the 20**
4 **year tolling agreement for as little as \$1.00”. Did Spring Canyon ever make it**
5 **known to PacifiCorp that such an attractive offer was intended?**

6 A. No. Spring Canyon never made such an offer to PacifiCorp, at any price. The bid
7 summary templates I referred to earlier were devised in order to remove confusion over
8 key valuation assumptions such as this. Such an important commercial term as selling a
9 power plant for \$1.00 would surely be included by Spring Canyon in their final revised
10 template, or in writing at some later point, if Spring Canyon sincerely intended for such a
11 feature to be considered. The terms/conditions under which such a sale would take place
12 are vital in determining if such a transfer is prudent. The fact that Spring Canyon never
13 defined this claimed willingness in writing should serve as a testament to its questionable
14 existence.

15 **Q. Did PacifiCorp tell bidders that it would find value in a bid that provided**
16 **PacifiCorp with the option to purchase the bidders facility?**

17 A. Yes. As Mr. Banasiewicz correctly points out, PacifiCorp verbally informed bidders of
18 that fact in the pre-bid conferences.

19 **Q. In spite of this acknowledgement by Mr. Banasiewicz, when was the first time that**
20 **you heard Spring Canyon claim that they may have been prepared to sell the plant**
21 **for \$1.00?**

22 A. Spring Canyon verbally notified PacifiCorp on December 10, 2003, during the first of
23 three technical sessions to help Spring Canyon understand how to run the PPA and NBA

1 models, that they believed the disposition of the plant would be dealt with in negotiations.
2 Either “through a future PPA or the sale of the plant for some amount (say \$1)”. Indeed
3 such representation was made shortly after Spring Canyon started to realize the economic
4 consequences of seeking to recover all costs of the plant within the length of the proposed
5 power purchase agreement.

6 **Q. Spring Canyon contends that it was “prepared to discuss all of the relevant costs of**
7 **debt, returns on equity and amortization of these capital costs” during the October**
8 **16, 2003 meeting in Portland and that Spring Canyon could have lowered its after-**
9 **tax cost of capital to approximately 6.6%. Are these statements that PacifiCorp**
10 **agrees with?**

11 A. No. PacifiCorp finds it hard to believe that Spring Canyon would have been so willing to
12 discuss the level of equity return they have embedded in their business plan in light of
13 Spring Canyon’s response to our data request for documentation regarding Spring
14 Canyon’s assumed return on equity. Specifically, Spring Canyon responded that it “*is*
15 *bound by confidentiality agreements with its bid partners and cannot violate them*” and
16 then declined to give any specific information. (Response to PacifiCorp Data Request
17 2.20(e)).

18 **Q. Does the Company agree with Mr. Banasiewicz’ assertion that future tax on carbon**
19 **is “fictitious?”**

20 A. No. The IRP process involved an extensive amount of input from stakeholders with
21 respect to the potential timing and amount of future taxes on CO₂. The underlying base
22 case assumption of \$8/ton in the IRP was a consensus opinion that this Commission
23 acknowledged when it acknowledged the IRP. If Mr. Banasiewicz truly believed that this

1 tax was indeed fictitious he could have decided to take that risk as part of the Spring
2 Canyon bid proposal, something he chose not to do.

3 **Q. Mr. Banasiewicz criticizes PacifiCorp for not evaluating Spring Canyon’s bid with**
4 **prices that were lower than those offered by Spring Canyon in writing, contending**
5 **that it was “very likely” that they could achieve an interest rate of 7.25% rather**
6 **than the 8.25% referenced in their bid. Why did PacifiCorp not evaluate Spring**
7 **Canyon’s bid using lower prices?**

8 A. Section 5 of Spring Canyon’s bid describes their capacity charge as “fixed” over the 20
9 year term, however, the price is subject to adjustment for interest rate changes during the
10 construction period as well as for interest rate changes resulting from lender required
11 financing during the permanent financing period. A copy of the relevant text from
12 Section 5 is included as Confidential Exhibit UP&L_____(MRT-9R). This means that
13 PacifiCorp’s customers would in fact NOT be guaranteed a “fixed price”. PacifiCorp did
14 not use a capacity price different from that which Spring Canyon proposed in writing
15 because Spring Canyon was unable to substantiate and commit to their 7.25% claim and
16 never provided PacifiCorp with revised prices in writing. Despite numerous attempts to
17 clarify the actual financing that was available, PacifiCorp has not been able to
18 substantiate any claims that Spring Canyon concluded any definitive financing
19 arrangements. PacifiCorp witness, Mr. Bruce Williams provides additional details on
20 that subject.

21 **Q. In summarizing this portion of your testimony, Spring Canyon is asserting that**
22 **additional, specific contract and pricing terms were offered during the meetings**
23 **with PacifiCorp but then simply ignored by PacifiCorp. Do you agree?**

1 A. No. Spring Canyon’s testimony makes several assertions regarding the supposed terms
2 and conditions offered to PacifiCorp over the course of the discussions regarding their
3 bid. Many of the assertions are simply not true. Specifically, Spring Canyon never
4 offered in writing: to sell their Project for \$1.00; to provide PacifiCorp the option to
5 extend the contract term, or to commit to specific lower interest rate and corresponding
6 specific lowered capacity charge. While PacifiCorp gave Spring Canyon several
7 opportunities to include any additional corrections or changes to its offer in its bid
8 summary sheet, Spring Canyon never made a definitive offer to PacifiCorp which
9 included these terms. PacifiCorp acknowledges that Spring Canyon did have general
10 discussions regarding ways in which they may change their bid. However, in spite of
11 these discussions, and contrary to the assertions in the Spring Canyon testimony, none of
12 these alleged offers was included in the Spring Canyon best and final offer.

13 **Q. Why didn’t PacifiCorp just use some of these discussion terms in evaluating the**
14 **Spring Canyon offer?**

15 A. This would have been totally unfair to the other bidders. In addition, the practical
16 problem with this suggestion was that PacifiCorp did not know what terms were actually
17 being offered by Spring Canyon that they would accept. If PacifiCorp simply chose any
18 of a range of numbers to evaluate the bid, but these were in fact not the pricing terms
19 and/or conditions being offered by Spring Canyon, there likely would have been “he
20 said/she said” arguments about what the offer actually consisted of and what Spring
21 Canyon was bound to deliver. This is precisely why the bid templates were used, so that
22 PacifiCorp and the bidder would be clear on the terms and conditions being offered and
23 on which the bids were being evaluated.

1 **Q. Spring Canyon contends that PacifiCorp’s use of two models to calculate PVRR did**
2 **not result in comparisons on an equitable and consistent basis because the models**
3 **do not “calculate PVRR in the same way”. Why were two models used and do they**
4 **produce consistent results?**

5 A. Yes, the two models produce consistent results. This was demonstrated in attachments to
6 the Company’s response to DPU Data Request 2.5. In addition, Navigant validated that
7 the two models produce consistent results. Two models were used because PPA
8 alternatives do not require the same type of calculations as ratebased assets (such as from
9 turnkey offers). This was described in response to Spring Canyon Data Request 4.1.

10 **Q. After “correcting” a long list of assumptions regarding Spring Canyon’s Bid**
11 **number 135, Spring Canyon then turns its attention to “corrections” to the NBA**
12 **model. Are these “corrections” valid?**

13 A. No. PacifiCorp witness, Mr. Rand Thurgood explains in detail the errors in these alleged
14 “corrections” to the cost inputs to the NBA model.

15 **Q. One specific issue regarding the NBA raised by Spring Canyon is related to the**
16 **duct-firing assumptions in the NBA model. Specifically, Spring Canyon expresses a**
17 **concern that the duct firing for Currant Creek dispatches too many hours under the**
18 **NBA model in excess to the 3,500 hours that PacifiCorp expects to be in its air**
19 **order. Should this be a concern to the Commission?**

20 A. No. In response to Data Request DPU 3.11, a copy of which was provided to Spring
21 Canyon, the Company explained that once it was determined by the Company’s
22 Structuring & Pricing Department that duct firing would be limited to 3,500 hours per
23 year, which occurred after Round II, the valuation was adjusted accordingly. The results

1 showed that the net PVRR of the Currant Creek project actually improved with this
2 limitation, and thus, no change in the relative rankings of the economics of the bids
3 would have occurred, except that Currant Creek would be even more economic than the
4 alternatives.

5 **Q. Does Mr. Banasiewicz provide any support for his assertion that the number of**
6 **hours considered permissible for duct firing on Currant Creek should be reduced**
7 **from 3,500 hours per year to 1,500 hours per year?**

8 A. Mr. Banasiewicz offers absolutely no valid basis for his assertion. Rather, he simply
9 referred to what the EPA apparently said was the national average, and to a statement in
10 the Company's IRP. Contrary to his mischaracterization, the statement in the IRP is that
11 environmental constraints "may limit the capacity factor of installed duct firing to an
12 equivalent of 15% capacity factor." As Mr. Thurgood has testified, the Company will be
13 permitted to operate the duct firing for up to 3,500 hours per year. Thus, neither the
14 "national average" nor an environmental constraint that does not apply, provides a basis
15 for Mr. Banasiewicz' position. For PacifiCorp to artificially impose such a limitation
16 would not be in the best interest of customers.

17 **Q. Why did PacifiCorp limit the number of hours considered permissible for duct**
18 **firing to 1,500 hours for Spring Canyon?**

19 A. Spring Canyon represented that their order from the Utah Division of Air Quality limits
20 their emission rate such that a 1,500-hour limitation would be appropriate. PacifiCorp
21 fully expects its allowed emission rate to support 3,500 hours per year.

22 **Q. Spring Canyon contends, by "correcting" a long list of assumptions associated with**
23 **inputs into the Spring Canyon PPA model and assumptions associated with inputs**

1 **into the Currant Creek NBA model, that Spring Canyon’s bid number 135 produces**
2 **a more attractive PVRR than Currant Creek. How does the Company respond to**
3 **this claim?**

4 A. PacifiCorp finds Spring Canyon’s laundry list of input changes to be wholly
5 inappropriate and inconsistent with what Spring Canyon themselves represented as being
6 the capabilities of their definitive proposal. Instead, Spring Canyon has changed several
7 of the material terms of their offer in what appears to be an attempt to make it more
8 economic, in ways that were never offered to PacifiCorp. Spring Canyon has stated that
9 the planned use of inlet chillers by Spring Canyon and evaporative coolers by PacifiCorp
10 is “one of the very few differences between Current Creek and Spring Canyon”. This
11 begs the question of just what changes Spring Canyon could make that should not also
12 apply to the Currant Creek analysis. Notwithstanding this basic question, as the
13 testimony of PacifiCorp witness Mr. Mark Klein shows, the changes employed by Spring
14 Canyon are not only inappropriate, they do not result in the effect upon the PVRR
15 analysis that Spring Canyon claims (even if they were assumed to be valid). In addition,
16 the idea that bidders can change a whole set of parameters from those listed in their
17 defined best offer is staggering. The commission only needs to consider what type of
18 process would ensue if all 100 bids were revised as a result of unsuccessful bidders
19 starting to review the evaluation model and applying “after the fact” improvements to
20 their offers and then the bidders intervened in any subsequent certificate proceedings
21 requesting that the Commission choose among them to whom the bid should be awarded
22 as requested by Spring Canyon in this case. In any event, I am informed by counsel that

1 Utah statutes do not provide the Commission with the authority to grant the relief
2 requested by Spring Canyon.

3 **Q. Is the way that Spring Canyon arrived at the PVRR impact of its claimed changes**
4 **suspect?**

5 A. Yes. In most instances, Spring Canyon did not bother to run either the PPA or NBA
6 model again with the new inputs. Rather, Spring Canyon appears to have selected a time
7 period (i.e, a 12-month period) that it favored and developed what appears to be a “rule of
8 thumb” approach. Spring Canyon then applied this “rule of thumb” value as if the results
9 of the one time period were indicative of all time periods. This type of analysis is
10 seriously flawed and must be rejected. Mr. Klein discusses the flaws in this analysis in
11 greater detail in his testimony.

12 **Q. Since Spring Canyon has the PPA and NBA models in its possession, why would**
13 **they not simply re-run the models with each successive change?**

14 A. I don’t know. I can only surmise that Spring Canyon either did not like the results that
15 new model runs yielded or that Spring Canyon was not capable of operating the models
16 after PacifiCorp provided them with multiple days of training and the standing offer to
17 assist them if they encountered any problems.

18 **Q. Spring Canyon proclaims that their “bid 653 also wins!” and that Spring Canyon’s**
19 **bids “provide better economics” than Currant Creek. How has Spring Canyon**
20 **demonstrated this?**

21 A. I can’t tell. Mr. Graeber describes their bid number 135 as being less economical than
22 their bid number 653 but neither Mr. Graeber nor Mr. Banasiewicz offers evidence to

1 support their claim. This is curious since Spring Canyon has the PPA model and should
2 have been able to easily produce a model run to support such claims.

3 **Q. Mr. Banasiewicz claims that their bid 135 “gave PacifiCorp all the flexibility that**
4 **they modeled into the NBA.” Does Spring Canyon’s bid 135 provide PacifiCorp’s**
5 **customers with the same level of flexibility as Currant Creek?**

6 A. No. Spring Canyon’s bid number 135 is for a CCCT-based design without duct firing.
7 Currant Creek includes duct firing. Duct firing on Currant Creek provides an enhanced
8 level of flexibility as compared to Spring Canyon’s bid number 135. It is possible,
9 however, that Mr. Banasiewicz meant to refer to bid number 653 which does provide
10 similar flexibility.

11 **Q. Mr. Banasiewicz represents that Spring Canyon was totally convinced that its**
12 **proposal would present the least risk from a construction perspective since so much**
13 **work had been completed. What assurances did Spring Canyon offer with respect**
14 **to shielding customers from construction risk?**

15 A. Very little. Spring Canyon was unwilling, or unable, to provide remuneration to
16 PacifiCorp for construction delays. Spring Canyon did make a passing reference to the
17 provision of replacement power if the plant was not on line when needed but as I have
18 testified, Spring Canyon failed to provide any level of definition around such provisions.
19 Indeed, in order to supply such an assurance for the benefit of customers, Spring Canyon
20 would likely have to purchase a very large capacity call option for delivery at Mona. A
21 product that has been very difficult for PacifiCorp to locate.

22 **Q. Even if one were to assume there was some merit in the 20-year vs. 35-year issue**
23 **raised by various parties, a position that PacifiCorp rejects, is there an analysis that**

1 **the Company has performed to demonstrate that Currant Creek is the most cost**
2 **effective resource evaluated in the “2005” bid category?**

3 A. Yes. In order to place the Currant Creek project on the same footing as one of the 20
4 year proposals, the Company has assumed that it could recover its capital costs for the
5 project over a 20 year period. As the Commission knows, those costs would really be
6 recoverable over the 35-year period approved by the Commission for other combined
7 cycle combustion turbine facilities like the Hermiston plant. The Company has then
8 compared the Currant Creek project against each of the short-listed bids in the “2005” bid
9 category.

10 **Q. What were the results of this analysis?**

11 A. As shown in Exhibit UP&L_____ (MRT-10R), the result was that Currant Creek
12 remains as the least cost alternative for customers. Exhibit UP&L_____ (MRT-11R)
13 shows that Currant Creek, under this conservative scenario, is 14% less expensive than
14 bid number 401, which is the next best alternative.

15 **Q. Does this analysis show that Currant Creek is more cost effective than Spring**
16 **Canyon’s bid number 135.**

17 A. Yes.

18 **Q. Spring Canyon claims that their bid number 653 was significantly less expensive**
19 **that Currant Creek . Does PacifiCorp agree with this statement?**

20 A. No. As Mr. Klein’s testimony further explains, Spring Canyon’s bid number 653 does
21 not result in a normalized PVRR that is more economic than their bid number 135.

22 **Q. Spring Canyon witness Mr. Graeber states that they proposed to build a plant just**
23 **like Currant Creek “for less”. If that is the case, why would the results shown in**

1 **Exhibit UP&L_____ (MRT-10R) indicate that bid number 135, and as a result,**
2 **bid number 653 are more expensive than Currant Creek ?**

3 A. Mr. Graeber’s statement may accurately reflect his belief that Spring Canyon can build a
4 plant “just like PacifiCorp’s NBA, for less”. However, even if that belief reflected
5 reality, Spring Canyon’s costs are irrelevant to PacifiCorp’s customers. PacifiCorp and
6 its customers are interested in what Spring Canyon proposed to charge for power from its
7 facility, and based on the written proposal from Spring Canyon, Currant Creek is a more
8 attractive alternative for customers.

9 **Q. The other bidder that has intervened in this process is Calpine, presenting the**
10 **testimony of Mr. Steven Schleimer. Mr. Schleimer describes Calpine’s concern that**
11 **construction of Currant Creek will effectively preempt consideration of other**
12 **competing greenfield projects since, in Calpine’s view, a new greenfield project**
13 **cannot be fairly compared against a project that has access to shared infrastructure.**
14 **Is this a legitimate concern?**

15 A. No. Calpine’s bid number 213, along with a bid from another entity, are being
16 considered in the 2007 category and their costs compare favorably against the costs of
17 expanding Currant Creek from the 525 MW level. Both of these bids are being pursued
18 and negotiations continue with both in parallel. Calpine should be more concerned about
19 how its proposal compares with the other bidder rather than with an expanded Currant
20 Creek.

21 **Q. Mr. Schleimer describes Calpine’s proposal as being a tolling agreement/PPA. Is**
22 **the term of the agreement consistent with the up to 20-year criteria of the RFP?**

23 A. Yes.

1 **Q. As discussed above, Mr. Wolverton asserted that “Virtually any rational market**
2 **participant would have to recover its costs over the assured term of the contract,**
3 **given it would have little assurance of a contract or market outlet at the end of the**
4 **term” . Does Calpine’s bid indicate something about the validity of that statement?**

5 A. Yes. As described by Mr. Schleimer, Calpine is the largest independent power producer
6 in the Western United States and it certainly appears to be a “rational market participant”.
7 As a result, based on Mr. Wolverton’s premise, Calpine’s bid must recover all the costs
8 of its facility over its offered term. However, since that bid is still cost effective as
9 compared to an NBA with a longer life, I suspect that Calpine has its own views
10 regarding the terminal value of its facility and that its views may differ from
11 Mr. Wolverton’s.

12 **Q. Mr. Schleimer also describes a Calpine concern that construction of Currant Creek**
13 **will obviate the need for future resources due to changes in loads forecast or other**
14 **events. Is this the case?**

15 A. No. I can only take Mr. Schleimer’s comments to mean that Calpine is concerned that
16 construction of Currant Creek, in conjunction with a change in the load forecast or other
17 event, will remove the need for the 817 MW proposed by Calpine’s bid number 213.
18 PacifiCorp has updated its load forecast and, in conjunction with a more detailed look at
19 Utah’s load/resource balance, filed an IRP Update with the Commission on October 28,
20 2003. In the IRP Update, PacifiCorp indicated a shortage of 1,634 MW for the summer
21 of 2007. If that estimated load develops, even with Currant Creek constructed at the 525
22 MW level, and with a theoretical purchase such as 817 MW from Calpine, PacifiCorp
23 would still remain short by several hundred MW during peak periods.

1 **Q. Mr. Schleimer states that PacifiCorp’s RFP only asked for 200 MW of supply from**
2 **simple cycle machines. Is this the case?**

3 A. No. PacifiCorp did not place artificial limitations on the type of resource that could be
4 bid. In fact, PacifiCorp received a wide variety of proposals for the “2005” category,
5 including proposals from entities proposing to make sales from CCCT machines, or at a
6 contractual heat rate commensurate with a CCCT machine. With respect to the MW
7 amount that PacifiCorp requested, Calpine is fully aware of PacifiCorp’s July 10, 2003
8 notice wherein bidders were informed of PacifiCorp’s revised load forecast and
9 “encouraged to submit proposals that exceed these amounts (referring to the original RFP
10 amounts of 200 MW in the “2005” category and 570 MW in the “2007” category) if
11 economies of scale or cost efficiencies can be obtained through a higher MW amount”.
12 Presumably, it was this July 10, 2003 notice that led Calpine to respond with an 817 MW
13 proposal rather than a proposal closer to the originally requested 570 MW amount.
14 Following the logic of Mr. Schleimer’s argument could lead to a conclusion that the
15 Calpine bid should be restricted to 570 MW rather than the 817 MW currently offered.

16 **Q. Mr. Schleimer states that the Vineyard plant will be designed for daily cycling to**
17 **provide maximum flexibility and “will have the capability to be started as needed to**
18 **meet base load, intermediate load, heavy load and super-peak requirements of**
19 **PacifiCorp”. Mr. Schleimer further states that “PacifiCorp will be in total control of**
20 **when the plant is dispatched”. Given that the Vineyard plant is a CCCT design,**
21 **what is the significance of these statements?**

22 A. The significance of these statements is that Calpine is confirming PacifiCorp’s belief that
23 a CCCT design can result in a very flexible, yet efficient resource.

1 **Q. Mr. Schleimer states that Calpine made an offer to PacifiCorp that 450 MW of**
2 **simple cycle capacity could be made available by June 2005 and that the remainder**
3 **of the 817 MW would then be made available by April 2006 or April 2007. Was this**
4 **offer made by Calpine and, if so, why was bid number 213 slotted in the “2007”**
5 **category rather than the “2005” category.**

6 A. Calpine submitted a highly detailed proposal that stood nearly $\frac{3}{4}$ inches thick. The very
7 first page of Calpine’s offer clearly states that “Power from the plant would be available
8 by April 2007”. Although Calpine described theoretical alternatives to their proposed
9 April 2007 date, including accelerated construction of simple cycle machines, Calpine
10 never provided the financial or operational details of these alternatives required in order
11 for PacifiCorp to complete an evaluation. A plain reading of Calpine’s bid number 213
12 shows that their offer was consistent with the “2007” rather than the “2005” category.
13 For example, they offered; annual start limitations (50 cold, 100 hot) which are
14 inconsistent with the daily dispatch criteria, pricing that is tied to a 7,000 mmbtu/mwh
15 heat rate, and a construction schedule that begins January 2005 and ends with commercial
16 operation in April 2007.

17 **Q. Once Calpine’s bid number 213 was short-listed in the “2007” category, is there any**
18 **further indication that the offer was slotted correctly?**

19 A. Yes. PacifiCorp supplied Calpine with a bid summary sheet listing June 1, 2007 as the
20 agreement start date. Calpine redlined the bid summary sheet to indicate their preference
21 for a start date of “As requested in RFP: 4/1/2007 for total plant output of 817 MW. At
22 PacifiCorp’s option: As early as April of 2006” . The end date was not revised by Calpine
23 when they returned this bid summary sheet.

1 **Q. Mr. Schleimer states that “Had PacifiCorp selected one of the bidders in the**
2 **Peaking portion of the RFP instead of the Currant Creek Power Project, this CC&N**
3 **hearing would likely not be held.” Do you agree with statement?**

4 A. No. A decision involving the expenditure of hundreds of millions of dollars for a new
5 resource has required a hearing in the past and, I anticipate, will require hearings in the
6 future. Indeed, I am relatively confident that Calpine and Spring Canyon have intervened
7 in this proceeding to advance their own economic interests and that the choice of another
8 bidder would likely have left one of both of them no happier than than they appear to be
9 currently. In any event, if one or the less economic bidders in what Mr. Schleimer refers
10 to as the Peaking category had been chosen rather than Currant Creek, the imprudence of
11 that decision would have raised legitimate and serious issues that I assume regulators
12 would want to address.

13 **Q. Mr. Schleimer proposes that the Commission limit PacifiCorp’s construction of**
14 **resources at the Currant Creek site to no more than the 280 MW of SCCT machines**
15 **that will be in service by summer 2005. Is this in the best interest of PacifiCorp’s**
16 **customers?**

17 A. No. This is a self-serving and unnecessary attempt by Calpine to advance its own
18 economic interests. PacifiCorp selected the Currant Creek project because our analysis
19 shows that the project is the least cost and most efficient flexible resource available for
20 2005 and beyond. If the Commission accepts Calpine’s suggestion, that resource would
21 be replaced by a resource that is, as shown in Exhibit UP&L_____ (MRT-12R), nearly
22 seven times less economic than a CCCT-based design. Additionally, as I indicated
23 earlier, negotiations are still taking place between PacifiCorp and two other bidders,

1 including Calpine, and Calpine's concern should be its competing bidder and not an
2 expanded Currant Creek. Finally, placement of only 280 MW on the Currant Creek site
3 would still leave PacifiCorp short of resource in 2006, even with a theoretical 817 MW
4 purchase from Calpine, and only serves to exacerbate PacifiCorp's ability to reduce the
5 load/resource imbalance for the summer of 2007 and beyond. This appears to be a
6 suggestion that would only be made by an organization that has no obligation to serve
7 customers in Utah and is not in the best interests of those customers.

8 **Q. Mr. Wolverton and Mr. Falkenberg offer some comments on Duke's bid number**
9 **401. Mr. Wolverton came to the conclusion that PacifiCorp's assignment of**
10 **transmission expense to Duke bid number 401 is an indication that the RFP process**
11 **had problems. Did PacifiCorp correctly apply transmission expense to Duke bid**
12 **401?**

13 A. Yes. Mr. Wolverton failed to take the time to validate that Duke's resource is located in
14 the Nevada Power control area and, as such, required firm point-to-point wheeling to
15 PacifiCorp's control area at the Nevada-Utah Border (NUB). Duke proposed that they
16 would either pass this expense onto the Company or that the Company could purchase the
17 transmission across Nevada's system itself. Either way, it is a valid expense to include in
18 the analysis. Mr. Wolverton's characterization of this "error" is wholly inaccurate.

19 **Q. Mr. Falkenberg criticizes PacifiCorp for having reservations about making a**
20 **capacity pre-payment to Duke in the amount of \$210 million. Is this a warranted**
21 **criticism?**

22 A. No. PacifiCorp did have reservations about making a \$211,200,000 up front payment to
23 Duke and for good reason. PacifiCorp was especially concerned that the Company may

1 not be able to adequately protect customers by ring fencing the transaction in the event
2 Duke exits the business or defaults due to a bankruptcy. The Company's concerns were
3 vindicated when it was announced on January 29, 2004 that Duke plans to sell their
4 merchant plants in the southeastern U.S. and end energy trading in Europe.
5 Notwithstanding these concerns, the Duke offer was economically unattractive.

6 **Q. Please summarize this portion of your testimony.**

7 A. The bidder/intervenors have not provided this Commission with any credible evidence
8 that the RFP process was fatally flawed or that Carrant Creek is not the most economic
9 resource for customers. PacifiCorp's testimony demonstrates that the Company
10 negotiated with Spring Canyon in good faith and reasonably considered the specific terms
11 that Spring Canyon actually offered to the Company. It would be fundamentally unfair to
12 permit Spring Canyon to change nearly all of its material terms at this point in an attempt
13 to become more economic. In addition, Calpine's stated concern that approval of the
14 Carrant Creek project as requested would somehow interfere with the negotiations in the
15 baseload bid category is simply incorrect. Calpine and another bidder have already been
16 shortlisted as more economic than the Carrant Creek expansion. Finally, the concerns
17 raised regarding the Duke bid are simply incorrect. It is notable that Duke, unlike Spring
18 Canyon or Calpine, has not intervened in this proceeding.

19 **The NBA Is the Most Economic Resource Available For Customers**

20 **Q. Have any of the allegations raised by the intervenors changed the fundamental**
21 **conclusion of the RFP process that Carrant Creek is the most economic resource**
22 **available to customers in the 2005 category?**

1 A. No. As discussed above, none of the bid-specific allegations sufficiently change the
2 relative ranking on economic terms of the bids. Currant Creek is still the least cost
3 resource for customers.

4 **Q. Mr. Falkenberg criticizes the PacifiCorp’s analysis wherein the Currant Creek**
5 **project is portrayed as having a net present value benefit of \$117 million because**
6 **Mr. Falkenberg believes purchased power would be a lower cost option if available.**
7 **How was the \$117 million figure produced and was that the analysis that was used**
8 **in the RFP process to compare alternatives?**

9 A. The \$117 million value was produced by running the NBA model with the line item cost
10 for CO₂ toggled off. Comparisons between the NBA and bidder supplied alternatives
11 were done by running the NBA model with the line item cost for CO₂ turned on. This
12 means that the results of the RFP comparisons were done based on Currant Creek being
13 assigned a CO₂ cost expense. With this feature turned on, the NBA model produces a
14 present value amount of negative \$46 million.

15 **Q. Mr. Falkenberg states that the negative \$46 million amount indicates that Currant**
16 **Creek would not be the least cost alternative if purchased power is available. Does**
17 **PacifiCorp hold enough firm transmission rights to serve the projected peak load**
18 **for summer 2005 and displace the need for Currant Creek?**

19 A. No. Mr. Falkenberg appropriately hedges his comments with respect to the availability
20 of purchased power by using the key qualifying statement “if available”. As I discuss
21 elsewhere in my testimony, PacifiCorp is projected to have a deficit of 348 MW even if it
22 is assumed that PacifiCorp is able to procure enough power to fill the transmission rights
23 that are allocated to the Company.

1 **Q. Do purchased power alternatives exist such that PacifiCorp could make purchases**
2 **rather than constructing Currant Creek?**

3 A. No. This would mean that PacifiCorp would have to search for more than 1,049 MW.
4 PacifiCorp has no reasonable expectation of being able to procure that amount of power
5 on a forward basis and having it firmly delivered in or to PacifiCorp's Eastern control
6 area in Utah.

7 **Q. Mr. Falkenberg appears to remove his qualifying statement with respect to**
8 **purchased power by criticizing PacifiCorp for not considering the "do nothing**
9 **scenario" and that purchased power "would cost less". Can PacifiCorp merely "do**
10 **nothing" as Mr. Falkenberg suggests?**

11 A. No. Mr. Falkenberg is merely making a sweeping assumption that PacifiCorp has an
12 endless supply of entities willing to sell PacifiCorp a seemingly endless amount of power.
13 This is simply not the case.

14 **Q. Mr. Weir and Mr. Wolverton contend that a portfolio of generation resources**
15 **should be diverse to mitigate risk and that a diverse portfolio should include a**
16 **number of long-term power purchase contracts of varying lengths. Does the**
17 **Company agree with this?**

18 A. Yes. The Company shares UAE's opinion that resource diversity is desirable and that
19 varying resource terms are also desirable, providing that these are economic to customers.
20 It is exactly for these reasons that the RFP was fashioned. Unfortunately, the Company
21 was not as successful as hoped in acquiring short-term supply via the "Super-Peak" bid
22 category in the RFP. This resulted in 225 MW of seasonal supply originally intended for
23 the summers of 2004-2007 not materializing. As a result, there was further pressure on

1 acquiring long-term resources that could begin as early as 2005. Currant Creek, in
2 conjunction with other long-term power purchase agreement negotiations, will help to
3 further diversify an already diverse portfolio.

4 **Q. Mr. Wolverton also states that he is confident that PacifiCorp's previous long-term**
5 **purchases would not have survived an economic analysis against a self-build option.**
6 **How does the Company respond to this?**

7 A. The Company does not agree that such agreements should somehow be justified on
8 anything but the information known at the time. If PacifiCorp entered into a long-term
9 contract, knowing that the economics were poor as compared to another viable
10 alternative, then PacifiCorp would anticipate encountering difficulties during the ensuing
11 prudence review. In the case of the RFP, the Currant Creek project is a known alternative
12 and PacifiCorp has an obligation to consider the full benefit of the alternative to
13 customers.

14 **Q. Mr. Weir contends that UAE is vitally interested in ensuring that the most efficient,**
15 **lowest cost, lowest risk resources are acquired, whether they take the form of**
16 **effective demand side management programs, efficient utility-owned resources, or**
17 **efficient contractual resources. Does the Company agree with this?**

18 A. Yes. PacifiCorp believes that the Currant Creek project represents just such a resource.
19 Unfortunately, Mr. Weir and the UAE's other witness (Mr. Lincoln Wolverton) appear to
20 have come to the conclusion that the Currant Creek CCCT-based project is not the least
21 cost, least risk choice for customers. However, neither witness identified any alternative
22 resource that provided a valid and analyzable bid for the "2005" category, that can be
23 available by summer 2005, and would possess superior economics to the Currant Creek

1 project. As such, the opinions that they offer are somewhat limited in the assistance they
2 offer to the Commission or the Company.

3 **Q. Mr. Wolverton recommends that the Commission should reopen the bidding**
4 **process and allow bidders to offer alternatives to PacifiCorp's Currant Creek**
5 **project. Mr. Wolverton would only allow bids from resources capable of being**
6 **available by summer of 2005 and that such bids be due 30 days following the**
7 **Commission's decision. Are there any inherent flaws in Mr. Wolverton's**
8 **suggestion?**

9 A. Yes. Mr. Wolverton fails to inform the Commission as to how long he believes this
10 entire process would take. Thirty days would hardly be enough time to receive and
11 analyze bids. It is hard to imagine how customers are better off regardless of the outcome
12 from Mr. Wolverton's ill-conceived concept. If the Currant Creek project remained the
13 most desirable choice then there would be little chance that the resource would be
14 available by July 2005. If another alternative was found to be more desirable then
15 PacifiCorp would have to enter into what is often a lengthy negotiation process. Finally,
16 it is almost impossible to conceive that a bidder, at this stage, could offer anything other
17 than a resource design that is less efficient than that of Currant Creek. In addition, there is
18 nothing to guarantee that a re-opening process would not lead to a determination that left
19 some bidders disappointed with the outcome. Would Mr. Wolverton then suggest the
20 process is re-opened again until all parties are satisfied with the outcome?

21 **Suggested RFP Process Improvements**

1 **Q. The Committee, through witness Cheryl Murray, raises a number of specific**
2 **recommendations to improve future RFP processes. Do you agree with these**
3 **recommendations?**

4 A. While I welcome suggestions to improve the RFP, and fully intend to work with
5 interested parties to identify lessons learned, I certainly do not agree that the current
6 procedure is flawed and I do not agree that the recommendations made by Ms. Murray
7 will improve the procedure. In fact, I believe that a number of the recommendations, if
8 implemented, could actually result in customers paying more for a resource than they
9 need to.

10 **Q. From a policy perspective, why do you not agree with Ms. Murray's first**
11 **recommendation?**

12 A. Ms. Murray's first recommendation suggests that bidders should have the option to
13 submit bids for a term that is over or under the book life for the type of plant sought.
14 Notwithstanding the fact that the RFP did not solely seek a "plant", and did not shun
15 bidders who merely wanted to make a power sale, Ms. Murray's first recommendation is
16 wholly impractical because it fails to acknowledge that the Company will not always
17 have a cost-based self-build option and it allows bidders to set any term they desire. It is
18 unclear if the CCS considers a term of 20-years, 25-years, 35-years, 40-years, 50-years,
19 or higher to be in customer's best interest. In addition, Ms. Murray's first
20 recommendation fails to opine on one of the key issues raised by the Committee's
21 consultant Mr. Falkenberg. This is the issue of how bids of varying terms should be
22 analyzed. Curiously, Mr. Falkenberg also fails to offer a definitive alternative to the
23 Company's use of real-levelization in analyzing bids of varying terms. This is despite the

1 fact that the Committee fully understands that the Company must recover self-build asset
2 costs from customers based on the life of the asset.

3 **Q. From a policy perspective, why do you not agree with Ms. Murray's second**
4 **recommendation?**

5 A. Ms. Murray's second recommendation suggests that bidders should be provided with
6 models so they can "self-score" their first round bid. This recommendation flies in the
7 face of PacifiCorp's obligation to procure least cost resources. It is difficult to see how
8 providing bidders with a copy of evaluation models will result in bidders putting forth
9 their most competitive offer. Arguably, the opposite effect is more plausible where
10 bidders may not be able to prevent themselves from increasing their pricing such that
11 they reside just below the benchmark, regardless of whether they have lower costs. This
12 is especially a concern where several hundred MW of supply is being sought in a
13 transmission-constrained area such as Utah. This suggestion is the equivalent of
14 publishing a "target price" and then hoping that bidders will make offers well below that
15 target.

16 **Q. Do you agree that Ms. Murray's third recommendation will improve the RFP**
17 **process?**

18 A. No. Ms. Murray's third recommendation is exactly what PacifiCorp did in the current
19 RFP. Bidders were clearly informed that the Company desired the right to dispatch
20 resources in the "2005" category on a daily basis. Any bidder who did not understand
21 this criterion to mean a maximum of 365 starts/year and a minimum of zero had ample
22 opportunity to ask clarifying questions. While it is reasonable for bidders and the

1 Company to assume the number of starts will be greater than zero, the Company did not
2 want to be contractually bound to a minimum number of starts.

3 **Q. Do you agree that Ms. Murray's fourth recommendation will improve the RFP**
4 **process?**

5 A. No. Ms. Murray's fourth recommendation again fails to acknowledge that the RFP
6 process already was transparent in this area. The RFP did not seek a specific type of
7 resource beyond the minimum criteria of delivery date and daily dispatch capability.
8 PacifiCorp provided the criteria in this fashion such that bidders could employ their
9 respective level of sophistication and flexibility in presenting creative resource
10 alternatives. Bidders were put on notice that the Company desired the right to decide
11 daily if the resource would dispatch and that the bidder was expected to clarify which
12 delivery hours, if any, the Company would be limited to. Implicit in these directions to
13 bidders was an approximate range of maximum capacity factors that the bidders
14 themselves could set by virtue of limiting delivery hours. Ms. Murray's recommendation
15 would have the Company specify a range of minimum capacity factors that the Company
16 would obligate itself to. This may be appropriate in some instances but it would not have
17 been appropriate given the criteria established for this RFP.

18 **Q. Do you agree that Ms. Murray's fifth recommendation will improve the RFP**
19 **process?**

20 A. No. Ms. Murray's fifth recommendation suggests that using a production cost model to
21 evaluate the short-listed bidders would enhance the RFP process. The Company does not
22 agree that a production cost model would yield additional information that would
23 materially help rank bidders on a relative economic basis. Production cost models are

1 very appropriate for setting test period rates (where much more information about
2 balancing transactions is known) and for the Integrated Resource Plan (IRP) (where
3 robust portfolio changes are compared). However, a production cost model for the size
4 of PacifiCorp's system, when used to compare individual resource additions, runs the risk
5 of having the effects of the resource addition muted by other dynamics inherent in the
6 particular model. For example, the IRP production cost model has a feature where
7 generator outages occur at random. Because supply in PacifiCorp's system is robust
8 (nearly 8,900 MW as listed on page 2 of Ms. Murray's testimony) the true effect of
9 adding an incremental resource may not be easily determined. A 20-year IRP base case
10 run can produce a Present Value Revenue Requirement (PVRR) amount of more than
11 \$14,900,000,000 (or \$14.9B). Given that the minimum resource size allowed under the
12 RFP was 25 MW, a production cost model may not yield definitive results. Lastly,
13 Ms. Murray gives no guidance on the Committee's opinion of how a final decision
14 should be made if a production cost model yields conflicting results with a model used
15 for screening purposes or if the results from the production cost model are statistically
16 insignificant on a ranking basis.

17 **Q. Do you agree that Ms. Murray's sixth recommendation will improve the RFP**
18 **process?**

19 A. No. Ms. Murray's sixth recommendation suggests that bidders merely need to be told
20 what they must submit in writing and that if they are told exactly what the negotiation
21 process will entail then no dispute should arise. Ms. Murray's recommendation over
22 simplifies the complexities surrounding these types of procurement efforts. PacifiCorp
23 told bidders exactly the type of information that we expected them to provide. This

1 information was contained in the RFP and associated appendices. However, bidders do
2 not always provide clear and concise information and every bidder has their respective
3 negotiation style. It is exactly for these reasons that the RFP process deployed bid
4 summary templates for short-listed bidders. The bid summary templates detailed the
5 definitive offer being put forth by the bidder so that vagaries could be clarified by the
6 bidder and the Company could perform an evaluation.

7 **Q. Do you agree that Ms. Murray's seventh and final recommendation will improve the**
8 **RFP process?**

9 A. No. Ms. Murray's seventh recommendation suggests that there is a finite list of non-price
10 requirements that bidders must meet to have their bid considered valid but she fails to list
11 any examples. She then continues to opine that a bidder who has permits in place, or
12 bids that contain firm cost figures, should be conferred an advantage. Unfortunately,
13 again, Ms. Murray fails to recognize that the RFP process necessarily had to
14 accommodate a wide range of bidders and their circumstances and that the RFP was not
15 merely targeted to only independent power producers. Ms. Murray appears to also
16 assume that bidders are willing to be contractually bound to bid prices they submit in
17 their proposals. While the Company does expect bidders to submit competitive offers
18 that can form the basis for a formal contract, the Company has not experienced any
19 bidders who are willing to be contractual bound to such prices prior to execution of a
20 contract. This should be distinguished from bidders who might submit prices that are
21 highly contingent on external events, such as obtaining financing or an Engineering
22 Procure Construct (EPC) contract. Lastly, Ms. Murray apparently does not recall that the
23 discussions leading up to the June 4, 2003 Stipulation (to which the Committee is

1 signatory) included a number of discussions and clear representation of how the RFP was
2 conducting its screening process. For example, some stakeholders most clearly did not
3 want the Company to screen bids based on the credit capability of the bidder.
4 Stakeholders wanted that particular criteria to be applied only after a bidder made the
5 shortlist. The Company is not aware of any comments that the Committee made during
6 the Stipulation discussions that would indicate that they deemed permit status to be a
7 fundamental RFP hurdle.

8 **Q. Does the Company believe that the comments on suggested improvements in the**
9 **process indicate a fault in the 2005 category such that the Commission should not**
10 **approve the certificate for the Currant Creek project?**

11 A. No. For all of the reasons discussed in my testimony and the testimony of the other
12 PacifiCorp witnesses, the process used by PacifiCorp and validated by Navigant was fair
13 and reasonable and Currant Creek is the most economic resource available to customers.
14 As stated above, the Company is committed to working through any reasonable process
15 improvements in an already-open proceeding, Docket No. 03-035-03. We intend to
16 consider valid suggestions as well as Navigant's recommendations in that proceeding.
17 These suggestions should not impede the Commission's decision in this proceeding.

18 **Q. Does this conclude your testimony?**

19 A. Yes.