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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PACIFICORP for a Certificate of Convenience and Necessity Authorizing Construction of the Lake Side Power Project	DOCKET NO. 04-035-30
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UAE'S MOTION FOR LEAVE TO FILE DIRECT TESTIMONY

The UAE Intervention Group hereby moves for leave to file the attached Prefiled Direct Testimony of Roger Weir in the above docket on the same date that the Division of Public Utilities (“Division”) and the Committee of Consumer Services (“Committee”) are scheduled to file their prefiled direct testimony. UAE moves for leave to file its testimony at this time rather than on the earlier date specified in an early scheduling order for intervenor testimony. UAE submits that there is good cause for permitting its testimony to be filed at this time and that no party will suffer prejudice as a result.

UAE did not file testimony before the scheduled intervenor testimony deadline because, at that time, it had not yet had a chance to make a determination whether it would take a position or file testimony in this case, and it did not have a budget for testimony. Since that time, UAE has determined that it should file general policy testimony reiterating its

concerns regarding the manner in which PacifiCorp conducts its RFP processes and evaluations.

It is UAE's understanding that an earlier intervenor testimony deadline was set in large part due to the expectation that Calpine, and perhaps others, would file extensive intervenor testimony challenging the outcome of the RFP process that led to PacifiCorp's selection of the Summit turnkey project, and the state agencies wished to delay filing testimony until after they were able to review the competing claims of both camps. Calpine later withdrew from the case and neither it nor any other intervenor filed the anticipated testimony challenging the issuance of the certificate.

UAE has not retained an expert in this case and is not filing technical testimony or taking any position favoring or opposing the issuance of the certificate requested by PacifiCorp. Rather, UAE is submitting policy testimony through Roger Weir to explain its continuing concerns over the RFP process being utilized by PacifiCorp. UAE submits that the reason for an earlier filing deadline for intervenor testimony is no longer applicable and UAE should be permitted to submit its policy testimony at the same time as the Division and Committee testimony. UAE could wait and submit its testimony as rebuttal testimony on October 15, 2004. However, to avoid any risk of prejudice to any party who may wish to respond to UAE's policy testimony, it is requesting leave to file its testimony now. UAE submits that no party will suffer prejudice by the timing of UAE's testimony.

Wherefore, UAE moves for leave to file the attached testimony of Roger Weir on behalf of UAE.

DATED this 27th day of September, 2004.

HATCH, JAMES & DODGE

Gary A. Dodge,
Attorneys for UAE Intervention Group

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing was mailed, postage prepaid, this 27th day of September, 2004, to the following:

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PREFILED DIRECT TESTIMONY

Of

ROGER WEIR

On behalf of the UAE Intervention Group

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

Utah Public Service Commission Docket No. 04-035-30

September 27, 2004

1 **Q. Please state your name, employer, business address and on whose behalf you are**
2 **testifying.**

3 A. My name is Roger Weir. I am the Plant Engineer for ATK Thiokol. My work address is
4 Bacchus Plant, Magna, Utah. I am testifying on behalf of the Utah Association of Energy
5 Users Intervention Group (“UAE”).

6 **Q. Please give a brief description of your background and work experience.**

7 A. I have worked at the ATK/Hercules Bacchus Plant for nearly 25 years. My current
8 responsibilities include the cost effective and reliable supply of utilities to both the
9 Bacchus and the Promontory Plants. During most of my time at Bacchus I have also
10 been responsible for the operation and maintenance of one of the largest non-utility
11 electrical distribution systems in the State. Prior to working for ATK, I was on the
12 Technical Staff of WSCC (now WECC) with primary responsibilities for Loads and
13 Resources. Prior to WSCC, I attended the University of Utah and graduated Cum Laude
14 with a degree in Electrical Engineering.

15 **Q. What is UAE?**

16 A. The Utah Association of Energy Users is a non-profit cooperative association whose
17 membership includes nearly 50 of the largest energy consumers in Utah. The UAE
18 Intervention Group includes individual UAE members who choose to intervene in
19 regulatory proceedings to ensure that the interests of large energy users are protected.
20 ATK Thiokol and its predecessors helped found UAE, have been longtime UAE
21 members, and have regularly participated in intervention efforts before the Public Service
22 Commission of Utah.

1 **Q. What is your position with UAE?**

2 A. I am a currently a member of the board of directors of the Utah Association of Energy
3 Users. I am also a past president.

4 **Q. What is the purpose of your testimony in this docket?**

5 A. I was asked to be UAE's policy witness in the Currant Creek case in order to present its
6 concerns in that docket. UAE has now asked me to testify in this case in order to
7 reiterate UAE's concerns regarding the RFP process and to discuss our general
8 perceptions. As in the Currant Creek case, I have not attempted to perform an analysis of
9 PacifiCorp's RFP or its review of the bids, and I am not offering testimony on technical
10 issues. Unlike the Currant Creek case, UAE is not sponsoring any technical testimony in
11 this case and is not taking any position on whether the requested certificate for the
12 Lakeside plant should be issued. Rather, I am addressing policy considerations that UAE
13 believes should be reiterated in this case.

14 **Q. Why is UAE not filing technical testimony or taking a position on the issuance of a
15 certificate of convenience and necessity for the Lake Side plant?**

16 A. For two primary reasons. First and foremost, it appears that UAE has a very different
17 view than does the Commission of the Commission's proper role and authority in relation
18 to resource acquisition and certification of generation projects. In the Currant Creek
19 case, UAE strongly advocated that the "public interest," particularly when viewed in the
20 context of modern realities, required the Commission to take a very active role in
21 ensuring that a utility's RFP process is fairly and properly designed, administered and
22 evaluated, and that only those resources with the lowest possible cost, giving due

1 consideration to risk, reliability and related concerns, will be acquired or constructed.
2 UAE believed (and continues to believe) that after-the-fact prudence review is a very
3 poor substitute for rigorous before-the-fact investigation and analysis in protecting the
4 legitimate interests of ratepayers and the broader public interest. However, we read the
5 Commission's order in Currant Creek, as well as statements made by or attributed to
6 various commissioners since that order was issued, as reaching a contrary position with
7 respect to the Commission's authority and proper role.

8 It is our understanding that the Commission sees its proper role and authority in
9 certificate cases to be focused primarily upon a determination of need, leaving least-cost
10 analysis and other prudence issues for a later time. While UAE respectfully disagrees
11 with this limited view of the Commission's proper role and authority (and intends to
12 support legislative clarification on this issue), UAE nevertheless accepts that the
13 Commission's view is apparently different than its own and it thus sees little value in
14 participating actively in this docket. No one, including UAE, has suggested that there is
15 no need for additional power generation facilities within the State. With respect to
16 Currant Creek, Lakeside and other resource additions, it appears that UAE's only
17 recourse is to present its prudence analyses and propose adjustments or disallowances in
18 rate cases.

19 The second reason UAE has elected not to participate actively in this case is due
20 to budget realities. UAE spent significant amounts of money in the Currant Creek case,
21 yet the primary issues that it advocated appear to have been largely irrelevant to the
22 outcome of the case. UAE has limited funds available to it and it cannot afford to spend

1 significant amounts of money from its regulatory budgets on another certificate
2 proceeding, particularly given the outcome of the Currant Creek case, the Commission's
3 apparent view of its role and authority as discussed above, and the many other important
4 regulatory dockets in which UAE must participate to represent the interests of its
5 members.

6 **Q. Given those realities, why are you filing this testimony?**

7 A. UAE is deeply concerned that PacifiCorp's RFP process has lost all outside credibility
8 and that few if any outside entities will spend the significant time or resources necessary
9 to develop and propose alternatives to PacifiCorp's self-build or self-own options in the
10 future. So far PacifiCorp is batting 100% - it or its affiliate has "won" every single RFP
11 contest in the last several years to own and operate new long-term generating resources.
12 While we suspect that it will take legislation (and/or rate case disallowances, as
13 appropriate) to begin to change that perception, we nevertheless feel compelled to
14 reiterate for the record our strong concerns over the RFP process.

15 **Q. Would you please summarize UAE's interest in this process?**

16 A. UAE's interests in the RFP, generation acquisition, and regulatory processes are
17 primarily two-fold: 1) Assurance that the best, lowest-cost, long-term generation
18 resources or contracts will be acquired to meet customers needs, and 2) Ensure that a fair
19 and understandable process is used in the selection of the generation resources or
20 contracts. Finally, at least some of the regulatory processes of the last century are no
21 longer viable models for today's world and must be updated.

22

1 **Q. Please provide a brief background on UAE's involvement in the debate over RFP**
2 **related issues.**

3 A. Several years ago, PacifiCorp projected a need to acquire more than 4,000 MW of new
4 generating resources, much on the east side, at a cost of billions of dollars and with
5 significant impacts on retail rates in Utah. UAE members, many of whom compete on a
6 local, national, or international level, are concerned about these projected resource needs,
7 the expected price tag, and the likely impact on rates, and have sought to ensure that only
8 the most efficient, lowest cost resources would be acquired. Based on these concerns,
9 UAE supported a bill before the 2003 Utah legislature that was designed to ensure that
10 meaningful competitive bidding procedures would be followed in the acquisition of any
11 new generating resources. PacifiCorp resisted the legislation and argued that the
12 Commission already had the necessary authority to do everything being requested at the
13 legislature. UAE and others then filed a proceeding before this Commission requesting
14 adoption of formal competitive bidding rules. That process has never been completed.
15 Given PacifiCorp's then-imminent RFP 2003A, UAE supported a stipulation that
16 included RFP requirements that PacifiCorp was voluntarily willing to accept. UAE then
17 participated in the Currant Creek proceeding in order to determine how the stipulated
18 process had worked. After thoroughly examining the process and the bid evaluations,
19 UAE reached the inescapable conclusion that the stipulation had failed to ensure a fair
20 and reasonable process or outcome. UAE has withdrawn its support for the stipulation
21 and is now seeking resumption of the Commission rule-making process and/or legislation
22 to mandate meaningful RFP procedures.

1 PacifiCorp has indicated that the process in this case was very similar to the
2 process in the Currant Creek case [Furman Direct Testimony, page 5, lines 6-8]. Thus,
3 UAE cannot accept that the process was fair or reasonable or that it has produced
4 meaningful results. While, for the reasons explained above, we have not investigated the
5 process in this docket in depth, we nevertheless remain very concerned about what we
6 perceive to be a fundamentally flawed RFP process that cannot reasonably be relied upon
7 to ensure fair and unbiased results or lowest-cost resources for customers.

8 **Q. In the Currant Creek case, you complained about timing issues and what you**
9 **perceived to be the utility’s use of “blackout blackmail” to ensure a hasty, ill-**
10 **advised approval. Do you have similar concerns in this case?**

11 A. Yes. It appears from the company’s testimony that the risk of reliability problems – or
12 blackouts - is once again being used to push for approval of PacifiCorp’s self-selection.
13 In addition, however, this time it appears that PacifiCorp’s timing has also served to
14 disqualify the most economical resource option – even accepting for these purposes the
15 company’s evaluation methods.

16 **Q. Please elaborate on your concern about the continued use of blackout blackmail.**

17 A. As in the Currant Creek case, PacifiCorp is claiming that the self-owned project that it
18 selected out of 53 competing bids is now the only resource that can timely be built to
19 avoid reliability problems in the summer of 2007. PacifiCorp’s Application warns that,
20 unless the Lake Side project is permitted to proceed as proposed, “the Company and its
21 customers would be exposed to the volatility in the wholesale power market, high
22 transmission costs associated with delivering power to customer in Utah, and potential

1 adverse impacts on service reliability.” [Application at pages 3-4, paragraph 6] I
2 complained in the Carrant Creek case that a utility should not be permitted to time the
3 process to leave insufficient time for a thorough analysis of the company’s proposed
4 project and the selection and pursuit of an alternative project, if appropriate. UAE rejects
5 any use of threats of an impending reliability crisis as leverage for approval of the
6 company’s preferred resource. While this issue may have less importance given the
7 apparent view of the Commission on its narrow role and authority, it nevertheless
8 remains troubling to see the utility repeat this pattern. It is UAE’s hope that, in
9 legislation or rules designed to ensure a fair and meaningful RFP process, such leverage
10 will be taken away from the utility by imposing reasonable timing requirements.

11 **Q. Would you also please elaborate on your statement about timing considerations**
12 **being used to reject the most economical resource option.**

13 A. As I read the company’s testimony, bid 213 (which we understand to be a Calpine bid)
14 was evaluated, even by the company, as economically superior to the Summit bid, but
15 nevertheless rejected because the risk of a two or four month delay in completion of the
16 project was too great for the company to accept. If PacifiCorp had moved in a more
17 timely fashion to request and evaluate bids and negotiate contracts, there could have been
18 more than 2-4 months of leeway in the schedule, and this risk presumably would not have
19 disqualified the most economical project. Mr. Furman provides the dire warning: “there
20 is no margin for error with respect to the ability to deliver the physical assets needed to
21 serve load in 2007.” [Furman page 11, lines 19-20] The fact that the company’s
22 planning process leaves “no margin for error” is extremely troubling from a customer

1 perspective. The utility will ask Customers to pay for higher-priced resources because
2 the company delayed until there was “no margin for error” remaining, even for a two or
3 four month delay in construction. A utility making prudent and timely planning decisions
4 with the best interests of its customers in mind would not let itself face such a lack of
5 flexibility. Under the current standard as interpreted by the Commission, the only
6 recourse is to propose disallowances in future rate cases. UAE believes that the standards
7 should be changed to require PacifiCorp to plan its resources in a way that will leave
8 ample time for meaningful Commission evaluation and selection of optimal resources.

9 **Q. Is the timing largely within the utility’s control?**

10 A. Yes, clearly. PacifiCorp is in control of all significant timing decisions in the pursuit of
11 new resources, including identifying the need for resources, preparing an RFP, evaluating
12 bids, negotiating contracts and filing for PSC approval. There was significant delay in
13 virtually all of these planning steps. Indeed, Navigant admitted the evaluation delay:
14 “Although the process took longer than expected” [Friedman Direct Testimony, page
15 16, line 23 – page 17, line 1] While there must be flexibility for bona fide emergencies, a
16 utility should not be permitted to manipulate timing that essentially only it controls to
17 ensure a desired outcome.

18 **Q. UAE argued in the Carrant Creek case that the utility seemed to have a strong bias
19 in favor of self-constructed or owned facilities. The company denies such a bias.**

20 **How do you respond?**

21 A. I read with a mixture of bemusement and amazement PacifiCorp’s repeated claims that it
22 has no incentive whatsoever to build or operate generation plants in Utah. I believe the

1 facts speak for themselves. First, ScottishPower’s chief executive officer has publicly
2 stated that its earnings goal for PacifiCorp can be achieved in large part due to the new
3 facilities it will construct or own in Utah. Second, and most telling, every single time the
4 utility has faced a decision on a new significant long-term generating resource in the past
5 several years, it has selected either itself or its affiliate to construct and/or own the
6 facility. When it repeatedly selects itself out of hundreds of competing bids, including
7 bids from some of the most prolific builders of natural gas facilities in the world, it
8 becomes almost laughable to read Mr. Furman’s protestations that the process was
9 “rigorous, neutral and fair” [Furman Direct Testimony, page 4, line 14], and that the
10 company “had no predetermined notion or bias towards any type of resource, whether
11 self build, turn-key or PPA ...” [Furman Direct Testimony, page 2, lines 13-14].
12 Moreover, even if Mr. Furman’s claims were true, the perception clearly exists, and has
13 been repeatedly reinforced, that, so long as PacifiCorp remains both a contestant and the
14 ultimate judge, it will always find a way to do the analysis in a way that allows it to select
15 itself.

16 **Q. Do you have you any general comments, concerns or questions about the Lake Side**
17 **process, based on your reading of the company’s testimony?**

18 A. Yes. I have several general questions and comments:

19 First, it is interesting to read Mr. Furman’s assurance that the “real levelization”
20 problems that dictated the results of the Currant Creek process do not apply in this case.
21 The reason? Having been educated by the Currant Creek hearings, Calpine knew that it
22 would have no chance of winning without adding a 15-year option at the end of the 20-

1 year contract requested in the RFP. Mr. Furman's testimony effectively concedes the
2 dramatic impact of PacifiCorp's real levelization technique and underscores the need for
3 full, fair and meaningful disclosure to RFP participants. A bidder should not be required
4 to attend Commission hearings in order to understand what it needs to do to have a
5 reasonable chance of being selected. The RFP itself should do that. Here, it clearly did
6 not.

7 Second, while Calpine was able to avoid the "real levelization" landmine, it
8 apparently ran into some others. While we have not investigated the evaluation process
9 enough to explain the results, it is simply not facially plausible that the Calpine bid
10 evaluated at \$0.77 per kw-month compared to the self-owned (turnkey) project evaluation
11 at \$3.04 per kw-month when the CO2 risk was left (in both cases) with ratepayers.

12 [Tallman Direct Testimony, page 16, lines 2-17] It appears that something in the process
13 produced dramatic differences in results that do not appear intuitive. Only by adding a
14 \$225 million NPV credit for assuming the CO2 risk did the PPA even come close to the
15 value of the turnkey (in which ratepayers and/or PacifiCorp retain the CO2 risk).

16 [Tallman Direct Testimony, page 16, line 20] It appears that this issue warrants careful
17 scrutiny in a future rate case.

18 Third, another "landmine" apparently used to cause the PPA options to evaluate
19 lower than the turnkey options was inferred debt [Tallman Direct Testimony, page 14,
20 lines 11-14]. This issue has been extensively discussed, but not yet resolved to UAE's
21 understanding or satisfaction, by the Commission. UAE believes that the debt imputation

1 issue should be carefully analyzed and a meaningful approach adopted – an approach
2 based on actual, verifiable costs and not on hypothetical or potential costs.

3 Fourth, credit risk appears ultimately to have been the landmine that sunk the ship
4 of the admittedly most economical bid. [Ito Direct Testimony, page 16, lines 2-4: The
5 “difference in credit ratings was crucial throughout the negotiation process and
6 significantly impacted the final outcome of the negotiations.”] Even with admittedly
7 superior economics (and that, even despite the counter-intuitive results of the evaluation
8 process discussed above), bid 213 lost due to credit concerns. While UAE members, as
9 retail customers, certainly agree that credit is a relevant consideration, we fear that it may
10 have been used here like real levelization was used in Currant Creek to ensure that the
11 turnkey project prevailed. This is particularly troubling given that the primary credit
12 concern addressed in the testimony is the risk of a two to four month delay in completing
13 construction and the implications for reliability in the summer of 2007. As discussed
14 above, this risk could have been adequately mitigated through prudent and timely utility
15 planning.

16 Also, UAE understands that Calpine brought more than 3,100 MW of new
17 generation on line at five separate gas fired power plants in the second quarter of 2004
18 alone, and that it operates more than 91 power plants in 21 states and in other countries,
19 generating over 26,000 MW of capacity. Those facts alone suggest that the credit
20 standards used by PacifiCorp to disqualify Calpine may be unreasonable. The credit
21 worthiness as evaluated seems to be more of an investor type evaluation, rather than a
22 ratepayer evaluation. As a customer, the ability of Calpine to construct and operate a

1 power plant should be based primarily on its track record of building and operating
2 plants, not a credit rating. How many plants has Calpine started and how many has it
3 completed? The credit analysis would lead you to believe that Calpine has only a 52%
4 to 36% chance of completing a project that it has started. In any event, it is hard to ignore
5 the perception that credit issues may have been used to ensure a competitive advantage
6 for a turnkey project to be owned and operated by PacifiCorp as opposed to a project to
7 be owned and operated by a competitor.

8 Fifth, UAE remains adamantly of the view that Navigant's role in the process can
9 hardly be viewed as independent. UAE sees absolutely no value to ratepayers in paying
10 money to a consultant hired by PacifiCorp and that answers only to PacifiCorp. UAE has
11 withdrawn its support for the stipulation that contemplated PacifiCorp hiring an outside
12 evaluator and believes that the only party benefited by the evaluator is PacifiCorp –
13 because it gives the company the ability to claim that the process has been blessed by an
14 “independent” evaluator who is clearly not independent. Unless and until an outside
15 evaluator is truly independent of the company – that is, hired by and answerable to the
16 Commission or another independent, unbiased entity - repeated self-selection will
17 continue to create a very strong perception of bias.

18 UAE notes, parenthetically, that a representative of an outside evaluator hired by
19 the Commission staff in Arizona to oversee an RFP process by an Arizona utility
20 appeared at this year's UAE annual conference. That representative indicated that, to his
21 knowledge, not one person or entity had claimed bias or impropriety in either the results
22 or the process, notwithstanding that the utility's affiliate was selected for a majority of

1 the resources awarded. Until an evaluator with no ties to PacifiCorp is utilized, outsiders
2 will have little or no confidence in repeated reassurances of fairness in the face of the
3 utility's persistent self-selection.

4 Sixth, I note that PacifiCorp has now found contracts for at least 390 MW of new
5 generation for 2005. [Tallman Direct Testimony, page 4, lines 4-11] In the Carrant
6 Creek case I was ridiculed by PacifiCorp personnel for arguing that market resources
7 would be available, if necessary, to displace the Carrant Creek's projected 2005
8 generation of about 200 MW. It appears that, with proper incentives, PacifiCorp is able
9 to find those market resources, despite earlier warnings that they were simply not
10 available.

11 Seventh, UAE remains very concerned, both from a general public policy
12 perspective and from the perspective of impacts on Wasatch Front natural gas prices,
13 about excessive reliance by PacifiCorp on natural gas resources in this area. UAE is not
14 convinced that PacifiCorp's selection of natural gas facilities for virtually all of the
15 significant facilities constructed over the past several years and for the foreseeable future
16 is prudent. As with many other issues, this prudence issue will presumably have to be
17 addressed in future rate cases.

18 Eighth, I find it interesting that, just a few short months after completion of
19 hearings on the "least cost" Carrant Creek Project, there were 20 projects in this bid
20 evaluation that were financially superior to the NBA – the expansion of Carrant Creek. I
21 question how good the Carrant Creek project can be if an expansion of that project
22 cannot compete with 20 bids in this proceeding.

1 Ninth, and finally, I would like to reiterate the “lessons” that I feared would be
2 learned if the Commission approved the Currant Creek certificate without resolving the
3 significant problems identified by the witnesses. Those potential “lessons,” as
4 reproduced from my surrebuttal testimony in the Currant Creek docket, were as follows:

- 5 • Lessons for Bidders: If PacifiCorp has already invested time and resources in
6 developing a self-build option, don’t waste time submitting a bid; you will lose.
7 If, despite dozens of market proposals, the closest anyone could get to
8 PacifiCorp’s proposal, based on its analysis, is \$320 million, no minor “tweaks”
9 or “improvements” to the process will overcome the inherent disadvantages. Save
10 your time and money rather than assuming good faith in the process. Don’t buy
11 land, secure permits or take other proactive steps; you have no reasonable
12 probability of winning against a self build option desired by the utility. Also,
13 because PacifiCorp controls transmission in Utah, do not assume that the output
14 of a facility can be delivered to another buyer. The transmission system is
15 “constrained” and there is no room for transportation that is not desired by the
16 utility.
- 17 • Lessons for Customers: If PacifiCorp decides to build a power plant, don’t waste
18 time or money insisting upon a careful scrutiny of the process or the results.
19 Accept that PacifiCorp’s primary consideration is the best interests of its
20 customers and fulfilling its obligation to serve. Trust that PacifiCorp does not
21 care whether its self-build proposal will enhance the interests of its stockholders.

- 1 • Lessons for PacifiCorp: Timing is everything. It is much easier to obtain
2 approval for a self build project if concerns are raised, based on undisclosed
3 predictions and analyses to which only the utility has reasonable access, that that
4 the lights may go out in the near future if the proposed project is not approved on
5 an expedited basis.

6 I repeat these “lessons” here because I fear that this case demonstrates that they
7 were accurate. UAE believes that the process will continue to be seriously tainted, the
8 perceptions will continue to be negative, and the results will continue to be questionable,
9 unless and until serious and substantive changes are imposed on the process, either
10 through legislation or Commission rules.

11 **Q. Does this conclude your direct testimony?**

12 A. Yes.