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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Approval of Significant Energy Resource Decision Resulting from 2012 Request for Proposals	Docket No. 08-035-95
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PREFILED DIRECT TESTIMONY OF MARK T. KLEIN

The Utah Association of Energy Users (“UAE”) hereby submits the Prefiled Direct Testimony of Mark T. Klein in this docket.

DATED this 5th day of February, 2009

/s/ _____
Gary A. Dodge,
Attorneys for UAE

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 5th day of February, 2009, on the following:

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BEFORE
THE PUBLIC SERVICE COMMISSION OF UTAH

Direct Testimony of Mark T. Klein

on behalf of

Utah Association of Energy Users

Lakeside II - UPSC Docket 08-035-95

February 5, 2009

1 **DIRECT TESTIMONY OF MARK KLEIN**

2 **Introduction**

3 **Q. Please state your name, business address and present position?**

4 A. My name is Mark T. Klein; my business address is 215 South State Street, Suite 200, Salt
5 Lake City, Utah 84111. I am employed as a senior consultant for Energy Strategies, LLC.

6 **Q. Please describe your professional experience and qualifications.**

7 A. I graduated from the University of Idaho in 1981 with a Bachelor of Science in
8 Mechanical Engineering and from Washington State University in 1985 with a Master of
9 Science in Mechanical Engineering. I am also a registered professional engineer in the
10 state of Texas. I was employed in the wholesale merchant electricity area from 1996
11 until recently for Public Service Company of New Mexico and PacifiCorp as Vice
12 President of Wholesale Trading and Vice President of Commercial and Trading
13 respectively.

14 **Q. Have you previously provided testimony related to utility resource acquisitions?**

15 A. Yes, I previously provided testimony in support of PacifiCorp's acquisition of the
16 Currant Creek plant in Utah in 2004.

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

18 A. I was asked to conduct a limited review (given the accelerated schedule in this matter) of
19 testimony, exhibits, reports and other information available in this docket, and to provide
20 some general comments and observations about the process and the results.

21 **Q. Please describe the purpose and intent of PacifiCorp's RFP 2012 as communicated**
22 **to bidders on April 25, 2007.**

23 A. After formally issuing RFP 2012 on April 5, 2007, PacifiCorp conducted a bidder's
24 conference on April 25, 2007. The company communicated a need consistent with its
25 2007 IRP Action Plan for up to 1,700 MW of base load resources on its east side with
26 online dates of June 2012, June 2013 and 2014. The resource need and timing
27 requirements were designed to meet a system capacity deficit (at a 12% planning reserve
28 margin) of 2,446 MW in 2012, growing to 2,794 MW in 2014, combined with a system
29 energy deficit of 700 MWa in 2012, growing to approximately 1,000 MWa in 2014. The
30 stated purpose and intent of RFP 2012 was to acquire cost effective base load resources
31 on a transparent and fair basis to meet both the capacity and energy needs across
32 PacifiCorp's system.

33 **Q. What is the critical summer start date for a new resource required to meet system**
34 **energy and capacity requirements?**

35 A. PacifiCorp's system typically reaches its annual peak load in July when region wide
36 weather patterns and summer day length is still sufficient to impact both its east and west
37 systems on a coincident basis. Exhibit UAE 1.1 (MTK-1) shows the historical short term
38 net on-peak energy sales and purchases during the summer months of May through
39 September for the years 2004 through 2008. This exhibit illustrates two important points:
40 a) since 2005 and after the commercial operation of both Currant Creek and Lake Side,
41 PacifiCorp has been a net seller of on-peak energy during the summer months of May

42 through September and b) PacifiCorp's sales of excess on-peak energy during July on
43 average are lower than August sales by 141 MW, indicating a critical capacity exposure
44 in July. Therefore, a new base load resource reaching commercial operation after July 31
45 would not help meet PacifiCorp's critical summer capacity exposure that normally occurs
46 in July and would only provide additional excess on-peak energy for market sales.

47 **Q. Is there uncertainty as to the July 1, 2012 projected start date for Lake Side 2?**

48 A. According to Merrimack Energy Group, there were delays in the bidder qualification,
49 evaluation and commercial negotiation processes in RFP 2012 that have impacted the
50 commercial operation of Lake Side 2 by compressing the available time for obtaining an
51 air quality permit. The air quality permit is a critical element. PacifiCorp has indicated
52 that there are seven critical tasks between January 2009 and the May 25, 2009 target for
53 the Utah Division of Air Quality's (UDAQ) to issue the air permit. PacifiCorp suggested
54 a probability of success of 90% for each of six of these steps, and an "unknown"
55 probability of success for final UDAQ permit issuance. Assuming a 90% probability of
56 success for each step, there is less than a 50% chance the permit will be issued by May
57 25, 2009, which will impact the start date for Lake Side 2 and its ability to mitigate
58 PacifiCorp's capacity exposure during summer 2012.

59 **Q. Do you have any comments on the elimination of Bid 480 as a resource option for
60 credit non-conformance issues?**

61 A. Yes. Unlike the Lakeside bid, which provides for the sale of the asset to PacifiCorp at
62 commercial operation, Bid 480 was a 30-year tolling arrangement from a new resource

63 similar to the existing Currant Creek plant. In the original offer, Bid 480 provided a
64 guaranteed commercial operation date of June 1, 2012, assuming an executed PPA was in
65 place by June 15, 2008. This deadline appears to have been achievable, had PacifiCorp
66 expedited the original schedule slightly. PacifiCorp originally communicated its intent to
67 have commercial negotiations and its own decision completed by December 31, 2007.
68 This schedule also provided another 180 days for final Utah Public Service Commission
69 approval, by June 28, 2008. Given the seriousness of PacifiCorp's summer 2012 capacity
70 and energy needs, there is no reason to believe that the evaluation and approval process
71 could not have been compressed by 13 days.

72 PacifiCorp has articulated that Bid 480 was eventually dropped from
73 consideration over the reluctance of the bidder to provide credit security on the schedule
74 determined by PacifiCorp to be appropriate. Bid 480 agreed to the quantity of credit
75 support related to the PPA transaction, but not the timing of when that credit support
76 must be provided. The removal of Bid 480 effectively left PacifiCorp with only one
77 "cost-effective" offer -- from an entity willing to sell the plant to PacifiCorp at
78 commercial operation.

79 **Q. Do you disagree with PacifiCorp's decision to eliminate Bid 480?**

80 A. I do not currently have all of the information necessary to make such a determination.
81 Unfortunately, PacifiCorp did not conduct any risk analyses with respect to excluding
82 Bid 480 for failing to accept its security posting schedule requirements in order to
83 determine whether a higher projected system capacity deficit, up to 2,446 MW, was less

84 risky for customers than accepting the security posting schedule offered by Bid 480. In
85 other words, PacifiCorp failed to conduct any risk analyses pertaining to the trade-off
86 between credit and physical supply risk when Bid 480 was dropped from further
87 consideration in RFP 2012.

88 **Q. What are your general conclusions and observations about the 2012 RFP process?**

89 A. 1) If 2012 summer capacity exposure is as projected by PacifiCorp, the selection of
90 Lake Side 2, and the potential for delays past July 2012, leaves customers exposed to
91 supply risk with no apparent options.

92 2) Given the acquisition of the Chehalis plant and the significant downward
93 revisions in forecasted retail load and market prices in today's economy, it is very
94 difficult to determine whether PacifiCorp's potential acquisition of Lake Side 2 is the
95 lowest reasonable cost resource.

96 3) By excluding Bid 480 without a full risk trade-off analysis between credit and
97 physical supply in 2012, customers face supply risk with limited options.

98 4) Delays in bidder qualifications, evaluations and commercial negotiations
99 potentially affected the commercial operation date of Lake Side 2, putting customers at
100 greater risk.

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

102 A. Yes, it does.