

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

)	
)	DOCKET NO. 10-035-126
In the Matter of the Application of Rocky)	Exhibit No. DPU 2.0-SR
Mountain Power for Approval of a)	
Significant Energy Resource Decision)	Surrebuttal Testimony
Resulting from the All Source Request)	Richard S. Hahn
for Proposals)	
)	
)	

**FOR THE DIVISION OF PUBLIC UTILITIES
DEPARTMENT OF COMMERCE
STATE OF UTAH**

**Surrebuttal Testimony of
Richard S. Hahn**

March 24, 2011

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1 **I. Introduction**

2

3 **Q: Please state your name, business address and title.**

4 A: My name is Richard S. Hahn. I am employed by La Capra Associates, Inc. (“La Capra
5 Associates”) as a Principal Consultant. My business address is One Washington Mall,
6 Boston, Massachusetts, 02108.

7

8 **Q: On whose behalf are you testifying?**

9 A: The Division of Public Utilities of the State of Utah (the “Division”).

10

11 **Q: Have you previously filed testimony in this proceeding?**

12 A: Yes. On March 3, 2011, my direct testimony and exhibits were filed in this proceeding.
13 On March 17, 2011, my supplemental direct testimony was filed.

14

15 **II. Purpose**

16

17 **Q: What is the purpose of your surrebuttal testimony?**

18 A: On March 17, 2011, the Company filed rebuttal testimony by Mssrs. Bird and Duvall.
19 The purpose of this surrebuttal testimony is to respond to the issues raised in that rebuttal
20 testimony and also in the supplemental rebuttal testimony filed by Mr. Duvall on March
21 21, 2011.

22

23 **Q: Does the Company's rebuttal testimony change any of the conclusions in your direct**
24 **and supplemental direct testimony?**

25 A: No, it does not. After reviewing the Company's rebuttal testimony, my conclusions are
26 unchanged. I have identified several concerns mainly with the process used by the
27 Company and also the results. I continue to believe that the Company prematurely
28 terminated the negotiations for the Apex plant, and that the Apex plant should have been
29 selected among the RFP bids in addition to the CH2M project. This is especially true
30 when consideration is given to the Company's economic analysis provided in response to
31 Data Request DPU 4.23. When post-2016 resources are no longer fixed in the analysis
32 and Currant Creek II is an option after 2016, the savings with the Apex plant are [REDACTED]
33 [REDACTED] It should be noted that in this analysis, Currant Creek II is not selected at any
34 time during the study period.

35

36 **III. Issues Raised by Mr. Bird's Rebuttal Testimony**

37

38 **Q: What issues does Mr. Bird raise in his rebuttal testimony?**

39 A: Mr. Bird's rebuttal testimony states that the Company's termination of negotiations for
40 the Apex plant was appropriate, and that Mr. Duvall's errata filing analysis did not
41 change the Company's position on the termination issue. In addition, Mr. Bird's rebuttal
42 states that the Apex plant required significant investments in transmission over and above

43 what was analyzed during due diligence. He also states that the acquisition of the Apex
44 plant will cause unacceptable near-term rate increases, and that the guarantee from LS
45 Power regarding near-term maintenance was not as good as a guarantee from an
46 operating utility. Mr. Bird provides a new description of the natural gas supply plan for
47 Apex, CH2M Project and Currant Creek II compared to what was described in the
48 Company's due diligence analysis. Lastly, Mr. Bird refers to Currant Creek II as a "2016
49 IRP Resource." This is not correct. Currant Creek II is a 2018 resource in the IRP. As I
50 noted in my direct testimony, it was inappropriately changed to 2016 in the latter stages
51 of the Company's analysis.

52

53 **Q: What does Mr. Bird's rebuttal testimony state regarding the decision to terminate**
54 **negotiations with LS Power?**

55 A: Mr. Bird states that the decision to terminate negotiations with LS Power was
56 appropriate. On lines 120-121, he states that "While the team completed the due
57 diligence on December 9, 2010, the resulting modeling updates were not completed until
58 December 12, 2010." This statement implies that the Company did not fully complete its
59 analysis of the Apex plant until December 12th. However, on December 9, 2010, the
60 Company issued a memorandum that recommended the acquisition of the Apex plant. I
61 have been informed that there was a conference call with the IEs on December 10, 2010
62 during which the Company announced its decision to acquire the Apex plant. Then on
63 December 12th, three days after the December 9th memorandum and two days after the
64 conference call with the IEs, the Company issued a second memorandum recommending

65 termination of negotiations. Thus, in assessing the appropriateness of the decision to
66 terminate negotiations, one must focus on what new information became available during
67 this three-day window, two of which were weekend days,¹ to reverse the December 9th
68 recommendation. In the December 12th memorandum that recommended termination of
69 the LS Power negotiations, the only major assumption that appeared to change was the
70 natural gas transportation costs for Apex and Currant Creek II. None of the new issues
71 raised in the Company's rebuttal testimony, such as higher transmission costs, rate
72 impacts, the LS Power guarantee, seem to have been factors in the Company's decision to
73 terminate the Apex negotiations. They weren't discussed in the December 12th
74 termination memorandum. Thus, the Company has not provided any new information in
75 its rebuttal testimony that factored into its December 12th decision to terminate
76 negotiations. I continue to believe that the action to terminate negotiations with LS
77 Power was hasty and premature, as also noted by the Utah IE. Any decision this
78 important should not have been made over a two-day weekend unless it was absolutely
79 necessary. That necessity did not exist here. According to the RFP schedule there was
80 an anticipated filing deadline of about January 17, 2011 in order for the Utah
81 Commission to issue an order approving a resource by May 17, 2011; and the Company
82 would not acquire the Apex plant until the end of 2011. If there were outstanding issues
83 to resolve, the Company had ample opportunity to address them.

84

85 **Q: What does Mr. Bird's rebuttal testimony state regarding transmission?**

¹ December 9, 2010 was a Thursday. December 11th and 12th were Saturday and Sunday respectively.

86 A: On lines 408 to 409, Mr. Bird states that “The cost of the PacifiCorp Transmission
87 upgrades if series compensation is not feasible could range [REDACTED] to [REDACTED]
88 [REDACTED]. The final valuation model assumed [REDACTED].” The issue of potential
89 additional transmission upgrade costs above [REDACTED] was raised in the December 2,
90 2010 Transmission Desk Due Diligence Memo. The referenced cost [REDACTED]
91 However, this memo also stated that the need for this additional expenditure would not be
92 known [REDACTED]
93 [REDACTED]
94 [REDACTED] When the Company wrote the December 9th
95 memorandum to acquire the Apex plant, it knew about this issue. The Company did not
96 appear to perform any economic analyses with more [REDACTED] in required
97 transmission upgrades. And as noted earlier in this testimony, the December 12th
98 termination memorandum does not further discuss the need for additional transmission
99 upgrades beyond what was noted in the December 9th memorandum. It seems as if the
100 Company is raising this issue only after several witnesses have opined that negotiations
101 with LS Power were prematurely ended.

102

103 **Q: What does Mr. Bird’s rebuttal testimony state regarding near-term rate increases?**

104 A: On lines 239 to 241, Mr. Bird’s rebuttal testimony states that “the acquisition of the Apex
105 plant would have resulted in certain increases in rates for several years that would only be
106 potentially marginally offset many years in the future if highly uncertain conditions
107 materialize several years down the road.”

108

109 **Q: Has this issue been raised previously in this proceeding?**

110 A: It does not appear to have surfaced previously. It wasn't mentioned as an issue in the
111 December 12th termination memorandum. In DPU 3.73, the Division asked the Company
112 if it had performed any analyses of the rate impacts of any of the RFP bid projects. The
113 question and answer are provided below.

114

115

[REDACTED]

116

[REDACTED]

117

[REDACTED]

118

[REDACTED]

119

[REDACTED]

120

[REDACTED]

121

[REDACTED]

122

[REDACTED]

123

124 **Q: Has the Company provided any analysis or supporting information to support its**
125 **assertion the near-term rate impacts from the Apex acquisition will be problematic?**

126 A: Not to my knowledge. Furthermore, it is quite possible that other projects, such as the
127 CH2M Project or Currant Creek II could also have similar short-term rate impacts as the
128 Company claims will occur with the Apex plant. The CH2M project, Apex, and Currant
129 Creek II are all natural gas combined cycle plants with similar operating costs. It is not

130 credible to believe that only the Apex plant will have adverse near-term rate impacts
131 while the other projects will not. After all, Apex had the lowest capital costs, and a
132 portion of its output can address the Company's short-term resource needs. And, near-
133 term rate impact was not one of the reasons cited in the December 12th memorandum for
134 terminating negotiations with LS Power. The Company's rebuttal testimony on this issue
135 should be ignored.

136

137 **Q: What does Mr. Bird's rebuttal testimony state regarding the guarantee from LS**
138 **Power for short-term maintenance at the Apex plant?**

139 A: As noted previously, Mr. Bird's rebuttal testimony states that a guarantee from LS Power
140 is not as good as a guarantee from an operating utility. What is apparently at stake is [REDACTED]
141 [REDACTED] in maintenance costs over the next few years. It should be noted that the
142 Company has provided no analysis or assessment of LS Power's ability to provide such a
143 guarantee. This issue was not mentioned in the December 12th memorandum as a reason
144 for terminating negotiations with LS Power. Even if the Company had to absorb [REDACTED]
145 [REDACTED] in additional maintenance costs, the Apex project, which saves [REDACTED]
146 would still be economical.

147

148 **Q: What information does Mr. Bird's rebuttal provide regarding natural gas delivery**
149 **and supply?**

150 A: In my direct testimony, I stated that it appeared that the Company had not included all of
151 the natural gas transportation costs for Currant Creek II. Specifically, in order to deliver

152 natural gas from Goshen to Currant Creek II, transportation on the QPC system from
153 Goshen to the Currant Creek lateral would be required. The cost of this transport did not
154 appear to be included in the economic analysis of Currant Creek II. In response to Data
155 Request DPU 3.65.c, the Company stated that “The firm transportation costs for Apex
156 reflect capacity that would be purchased on the Questar system, which would allow
157 supply from various production basins to complement liquidity at the Goshen receipt
158 point.” This response confirms the need to include the cost of capacity on Questar
159 Pipeline in the economic analysis of Currant Creek II and raises the issue of liquidity at
160 the Goshen point.

161
162 Exhibit 1.1R of Mr. Bird’s rebuttal testimony provides a new schematic of the delivery
163 paths for Lake Side II, Currant Creek II, and Apex. This schematic shows that lateral tap
164 to Currant Creek as being different from Goshen, so it seems to confirm my original
165 observation. If the Goshen price curve was used as an input for Currant Creek II fuel
166 supply, then it seems appropriate to include transportation on the QPC system.

167

168 **Q: Does the inclusion or exclusion of additional transportation costs affect your**
169 **assessment of the Apex plant?**

170 A: No, it does not. According to the economic analysis provided in response to Data request
171 DPU 4.23, the Apex plant is an economic resource even if no additional costs are added
172 to Currant Creek II.

173

174 **IV. Issues Raised by Mr. Duvall's Rebuttal Testimony**

175

176 **Q: What issues does Mr. Duvall raise in his rebuttal testimony?**

177 A: Mr. Duvall's rebuttal testimony raises several issues. Mr. Duvall offers similar assertions
178 regarding the termination of the LS Power negotiations, the potential transmission
179 upgrades for the Apex plant, and the impact on near-term rates by Apex as does Mr. Bird.
180 I have already responded to these issues in the previous section of this testimony and will
181 not repeat that response here. Mr. Duvall's rebuttal testimony states that certain planning
182 assumptions that were updated and used during the evaluation of the Apex plant are now
183 out of date, and implies that they can no longer be relied upon. He claims that my
184 testimony relies upon economic analyses that have been superseded by changes in
185 assumptions. Mr. Duvall disagrees that it is inappropriate to remove unmet energy costs.
186 He also disagrees with me that it is inappropriate to allow a generic or proxy resource
187 such as Currant Creek II to economically compete with or displace a RFP bid project.
188 Mr. Duvall states that it is appropriate to fix certain post-RFP resources in the evaluation
189 process. He recommends that the Commission dismiss my criticisms of the economic
190 comparisons between Apex and Currant Creek II because my testimony on this subject
191 matter is inconsistent.

192

193 **Q: Please respond to Mr. Duvall's rebuttal testimony on the issue of out-of-date**
194 **assumptions.**

**CONFIDENTIAL VERSION - SUBJECT TO
UTAH PUBLIC SERVICE COMMISSION RULE 746-100-16**

Docket No. 10-035-126

DPU Exhibit 2.0-SR

Richard S. Hahn

March 24, 2011

195 A: It is important to note that the same assumptions were used to evaluate all projects bid in
196 the RFP. Mr. Duvall's rebuttal testimony suggests that these assumptions are out-of-date
197 only for the Apex plant. The Company has not proposed re-evaluating all projects,
198 including the CH2M project. This position suggests an inappropriate bias against the
199 Apex plant. Also, several of the analyses cited in my direct and supplemental testimony
200 which showed favorable economic benefits for Apex were based on the Company's
201 assumptions that were updated during the evaluation process. The Commission should
202 reject the Company's s argument regarding out of date assumptions.

203
204 **Q: Please respond to Mr. Duvall's rebuttal testimony on the issue of unmet energy**
205 **costs.**

206 A: Mr. Duvall's rebuttal testimony claims that unmet energy costs "are intentionally set high
207 as a means to ensure the model behaves rationally by not choosing to fall short of load or
208 reserve obligations as a means to lower costs. The price premiums for unmet energy are
209 not necessarily derived from empirical market data, and thus they should not be used to
210 justify the acquisition of the Apex plant." If the Company believes that its input
211 assumptions for unmet energy are too high, then it should propose alternative values and
212 provide the justification for them. But instead what the Company has done is completely
213 remove unmet energy costs from the economic evaluation of the Apex plant. This action
214 is tantamount to assuming that unmet energy costs are zero dollars per MWH. Clearly,
215 this would be an inappropriate assumption. The Company's criticism of my testimony on

216 unmet energy costs should be rejected, and the Commission should not rely upon any
217 economic evaluations that inherently assume zero dollars per MWH unmet energy costs.

218

219 **Q: Please respond to Mr. Duvall's rebuttal testimony on the issues of fixing post-RFP**
220 **resources and economic comparisons between Apex and Carrant Creek II.**

221 A: Mr. Duvall's rebuttal testimony that my position on these issues is inconsistent is
222 inaccurate and incorrect. As I stated in my direct testimony, the Company made two
223 assumptions in the evaluation process that are inappropriate. The first inappropriate
224 assumption was to change the in-service date of Carrant Creek II to 2016 from 2018 in
225 the later stages of the analysis. This effectively allowed a generic or proxy resource,
226 whose cost and operating assumptions had not been vetted and which were not binding
227 on the Company, to directly compete with RFP bid projects. The second was to fix the
228 in-service dates of certain post-RFP resources and not allow RFP bid projects to displace
229 those resources. The Company's response to DPU 4.23 demonstrates fixing post-RFP
230 resources reduces the value of the Apex plant. These assumptions made by the Company
231 are simply inappropriate for the reasons stated above and in my direct testimony. My
232 testimony on this subject is not inconsistent, as Mr. Duvall asserts. Rather, my testimony
233 is consistent and comports with sound utility planning practices.

234

235 **Q: Please respond to Mr. Duvall's rebuttal testimony on the validity of the series of**
236 **four studies showing net PVRR results favorable to Apex ranging from \$** [REDACTED]

237 [REDACTED]

238 A: Beginning at line 292, Mr. Duvall states that “the four studies referenced by Mr. Hahn
239 showing net PVRR results favorable to Apex ranging [REDACTED] to [REDACTED]
240 are also not valid as a means to support the acquisition of Apex.” I must conclude that the
241 studies he refers to are the analyses requested in DPU Data Request 2.7, which is
242 provided below:

243 [REDACTED]
244
245 [REDACTED]
246 [REDACTED]
247 [REDACTED]
248 [REDACTED]

249
250 It was the plain intent of the data request to have the Company perform the step 3a
251 stochastic analysis it would have performed during the approved RFP bid evaluation
252 process, using all the information it claims became apparent during the original and
253 revised due diligence process. I received the response to this data request on January 27,
254 2011, well after the time when the Company had finalized all assumption updates based
255 on its due diligence process and after the January 13, 2011 errata filing.

256
257 Assuming the Company performed the analysis as requested, Mr. Duvall is essentially
258 saying that Step 3a is not a valid way to compare portfolios in the RFP bid evaluation
259 process.

260

261 **Q: Didn't you critique some of the modeling procedures of the RFP process in your**
262 **direct testimony?**

263 A: Yes, that is true. However, my suggestions were aimed at improving future RFP
264 processes. I did not suggest invalidating the approved bid evaluation methodology for the
265 current RFP in mid stream, as the Company now appears to be advocating. It is not
266 contradictory to assert that for this docket the bid evaluation methodology approved and
267 locked down when bids are submitted should be followed, while at the same time
268 asserting that the evaluation methodology can be improved for future RFPs.

269

270 **Q: The supplemental rebuttal testimony of Mr. Duvall asserts that [REDACTED]**
271 **savings with the Apex plant is based upon an inappropriate comparison. How do**
272 **you respond?**

273 A: Mr. Duvall's supplemental rebuttal testimony appears to make two points regarding the
274 [REDACTED] savings. The first point is that the comparison of the two scenarios that
275 yielded the [REDACTED] figure is inappropriate because it compares one portfolio where
276 certain resources were fixed with another portfolio where resources were optimized. The
277 purpose of that data request was to determine whether "unfixing" certain resources would
278 increase the value of the Apex plant, so it would be reasonable to compare these two
279 portfolios. Mr. Duvall does not explain in any detail what, if any, revisions to these
280 portfolios would yield a more appropriate comparison.

281

282 The second point appears to be that natural gas prices are now lower than the prices used
283 in the evaluation. Thus, it seems that the Company seeks to use assumptions that are
284 being updated now and applied only to the Apex plant. As stated previously, it is
285 inappropriate to use those updated assumptions only for the evaluation of the Apex plant.

286
287 If there is any question about the value of the Apex plant, then the Commission could
288 adopt Mr. Peterson's recommendation to establish a new docket to determine the
289 appropriate amount.

290

291 **V. Conclusion**

292

293 **Q: Does this conclude your supplemental testimony?**

294 **A:** At this time, yes, it does. Should additional or new information become available, I will
295 supplement my testimony as appropriate.

CERTIFICATE OF SERVICE

I Hereby certify that on this 24TH Day of March, 2011, I caused to be transmitted electronically (email) a true and correct copy of the PUBLIC Prefiled Surrebuttal Testimony of Richard S. Hahn for the Utah Division of Public Utilities in Docket 10-035-126: In the Matter of the Verified Application of Rocky Mountain Power for Approval of Significant Energy Resource Decision and for Certificate of Public Convenience and Necessity

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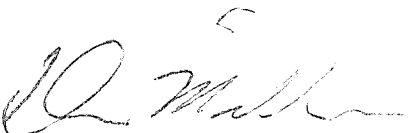
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