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October 13, 2010

Dr. Philip Powlick, Director  
Utah Division of Public Utilities  
Heber Wells Building 4th Floor  
160 East 300 South  
Salt Lake City, Utah 84111

RE: Rocky Mountain Power's Request for Alternate Cost Recovery  
For Populus to Ben Lomond Transmission Line  
Docket No. 10-035-89  
CONFIDENTIAL

Dear Phil,

On August 3, 2010, Rocky Mountain Power (RMP) filed an Application for Alternative Cost Recovery concerning two major additions – a new transmission line (Populus to Ben Lomond) and the Dunlap 1 Wind Project. On August 12, Slater Consulting was engaged to evaluate and analyze certain matters presented in RMP's Application. One of these matters is the cost claimed for the construction of the Populus to Ben Lomond section of RMP's new 345 kV transmission line from Populus to Terminal.

**Populus to Ben Lomond Transmission Line Segment**

As presented in the testimonies of RMP witness Mr. Darrell T. Gerrard<sup>1</sup> and Mr. John A. Cupparo<sup>2</sup> the Populus to Ben Lomond line segment is the remaining segment of the 135 mile long Populus to Terminal double circuit pole-mounted 345 kV transmission line that is needed to increase the overall transmission capability and improve existing limitations in the corridor between Southern Idaho and Northern Utah, as well as meet immediate needs to improve system reliability. According to Mr. Gerrard and Mr. Cupparo, the benefits will also include improved opportunities for maintenance, a contribution to increased East-West transfer capability within PacifiCorp, increased flexibility for future resource planning, including renewable energy and potential new resources in Wyoming, Utah and Idaho, and in the longer term incremental increases in transmission capacity and reliability benefits from future transmission segments in the region. The first segment of this line, the 47 mile segment from Ben Lomond to Terminal was placed in service earlier this year and its cost recovery was part of Docket No. 10-035-13.

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<sup>1</sup> V.P. of Transmission System Planning for PacifiCorp.

<sup>2</sup> V.P. of Transmission for PacifiCorp.

Description		Estimated Plant in Service by 12/31/2010
<b>Engineer, Procure &amp; Construct</b>		
1	EPC Original Contract	\$381,116,651
2	EPC Changes in Work	\$9,027,322
3	Idaho Share of Populus Substation	-\$14,117,837
4	<b>Sub total</b>	<b>\$376,026,136</b>
<b>Materials Purchased by PacifiCorp</b>		
5	Shunt reactors - Populus	\$4,361,060
6	Series Capacitors - Populus	\$10,659,601
7	Shunt Capacitor - Populus	\$491,657
8	Goshen Series Capacitor	\$6,698,610
9	Miscellaneous material	\$1,963,403
10	<b>Sub total</b>	<b>\$24,174,331</b>
<b>Other Scopes of Work</b>		
11	Communications	\$2,263,051
12	Idaho Power Microwave Conversions	\$1,560,108
13	Idaho Power Work	\$7,464,845
14	Transmission Line Reroutes	\$439,728
15	Parrish Substation - Project Sky park	\$1,900,000
16	<b>Sub total</b>	<b>\$13,627,732</b>
<b>Right of Way - Acquisitions</b>		
17	Populus - Ben Lomond acquisitions	\$44,907,457
18	Right of Way Labor	\$9,119,818
19	<b>Sub total</b>	<b>\$54,027,275</b>
<b>Legal Fees</b>		
20	Fees	\$970,200
21	<b>Sub total</b>	<b>\$970,200</b>
<b>Internal labor</b>		
22	Construction Labor	\$2,446,934
23	Engineering Labor	\$925,915
24	Project Management Office Labor	\$2,220,777
25	Expenses	\$27,220
26	<b>Sub total</b>	<b>\$5,620,846</b>
<b>Purchased services</b>		
27	Owners Engineer	\$6,176,780
28	Permitting	\$1,612,892
29	Environmental Oversight	\$344,867
30	Project Management Office Services	\$2,307,077
31	Inspection	\$4,759,752
32	<b>Sub total</b>	<b>\$15,201,368</b>
<b>AFUDC &amp; Surcharge</b>		
33	AFUDC	\$47,346,332
34	PacifiCorp Overheads	\$9,151,577
35	Discounts	-\$1,367,196
36	<b>Sub total</b>	<b>\$55,130,713</b>
<b>Capitalized Taxes</b>		
37	Taxes	\$3,359,400
38	<b>Sub total</b>	<b>\$3,359,400</b>
39	<b>Segment Total</b>	<b>\$548,138,001</b>

Mr. Gerrard's testimony describes the Populus to Ben Lomond line segment as being approximately 90 miles long<sup>3</sup>, compared with the Ben Lomond to Terminal line segment at 47 miles. (It is probably closer to 88 miles.) Mr. Gerrard's testimony includes a table of RMP's June 14, 2010 estimate of the line's in-service cost as exhibit RMP-TDG 2. With two exceptions, these costs appear to be in line with those found reasonable for the Ben Lomond to Terminal segment in Docket No. 10-035-13. This is to be expected as the two segments were constructed under the same EPC contract.

The first of these two exceptions is a set of Change-in-Work Orders concerning changes in the routing of the Populus to Ben Lomond transmission line segment. According to the Change-in-Work orders, (Numbers 1, 1A, 1B, 2, 16, 27 and 44), the collected cost of these route changes is \$8,999,537.40, or about 2.4% of the EPC contract for this segment. In reply to DPU data request 6.8, RMP stated, in part, [REDACTED]

[REDACTED] This reply indicates that RMP's management of the transmission planning function for this line was lacking. A further data request (DPU Request 10.2) was made in order to discover more information concerning rerouting costs. From RMP's reply to this data request it is clear RMP believes that, in order to get the new line in service in a timely fashion, it had no option but to begin the contract bidding process before the line routing could be fully defined. The reply to previous DPU data request 6.04 described some of the operational difficulties that the Populus to Terminal line would alleviate and shows that the line could not reasonably be delayed. It is my belief that RMP's management did not correctly anticipate the imposition of NERC's reliability/security standards which were somewhat more difficult to meet than those of the WSCC/WECC. This lack of anticipation has resulted in the extra change order costs for the re-routing. Because our request for more information, (DPU Data Request 10.2,) was parried rather than answered, the best estimate I have of the extra costs due to the various re-routings is the almost \$9 million discussed above.

The other exception is the cost of communications associated with this line. Obviously, the table of costs above does not identify all communications costs under the line 11 "communications" item. RMP's replies to DPU Data Requests 6.1 and 6.2 makes it clear that, in addition to \$3.8 million of Power Line Carrier equipment dedicated to Protective Relaying, RMP has installed a further \$10.9 million of Microwave and Fiber Optic communication, which has the appearance of being only partially used for transmission purposes. The lack of clarity in the response to DPU Request 6.2 was remedied by a response to DPU Request 10.1. With this response I have been able to analyze the communication costs which are being included in the cost claimed for the Populus to Ben Lomond transmission line segment.

As shown in Attachment 1 to this letter, of the total \$14.7 million communications expenditure, only \$7.2 million appears to be used for the operation, protection and control of the transmission line.

### Summary

In summary, the cost of the Populus to Ben Lomond transmission segment as presented in

<sup>3</sup> See Gerrard testimony at line 38.

the testimony of Mr. Darrell T. Gerrard is not unreasonable, with the exception of the costs associated with line rerouting and communications.

The rerouting costs became unavoidable because of the lack of proper anticipation by RMP management, and should be removed from the cost of building the transmission line.

With regard to the communications costs, I believe that uses will be readily found for the unused communication capabilities that have been constructed along with those needed for the operation, protection and control of the transmission line. Reasonably, only \$7.2 million of the communications costs should be included in the cost of building the Populus to Ben Lomond transmission segment. The remaining \$7.5 million should not be dealt with in this proceeding, but should wait until the next general rate case.

Please let me know if you have any questions on these issues, or need any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "K. J. Slater". The signature is written in a cursive style with a large initial "K" and a long, sweeping underline.

Kenneth J Slater