

1 **Q. Are you the same Chad A. Teply who submitted direct testimony in this**
2 **proceeding on behalf of PacifiCorp dba Rocky Mountain Power (“the**
3 **Company”)?**

4 A. Yes.

5 **Purpose and Summary**

6 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

7 A. My rebuttal testimony responds to the testimony of Sierra Club witness Mr. Jeremy
8 I. Fisher and to the testimony of Utah Association of Energy Users (“UAE”)
9 witness Mr. Kevin C. Higgins. Specifically, my testimony addresses the alleged
10 inconsistencies in the Company’s planning and decision-making processes relating
11 to capital costs pertaining to environmental compliance at Hayden Unit 1 and
12 Naughton Unit 3 under consideration in this docket. My testimony also addresses
13 costs related to environmental compliance at Jim Bridger Units 3 and 4, which were
14 previously approved by the Commission in Docket No. 12-035-92, and are outside
15 the scope of this case. My testimony further provides a brief update regarding the
16 current status of the Company’s proposed conversion of Naughton Unit 3 to natural
17 gas as a fuel source as discussed by UAE witness Mr. Higgins. While accepting
18 Mr. Higgins’ contingency cost adjustment in this case, I continue to support the
19 prudent incorporation of contingency costs in major plant addition projects
20 managed by the Company on behalf of its customers, contrary to Mr. Higgins’
21 recommendation to exclude such costs from Test Period rate base projections as a
22 matter of policy. Finally, my testimony will also clarify and/or correct certain
23 provisions in my direct testimony filed in this docket.

24 **Q. What will your rebuttal testimony demonstrate?**

25 A. My rebuttal testimony:

- 26 • Demonstrates that Mr. Fisher’s inflammatory assertions that “the Company and
27 its officers are explicitly aware of inconsistencies between internal planning and
28 external messaging”¹ and that the Company is either deliberately or
29 inadvertently withholding information² are irresponsible, and are neither
30 accurate nor based upon facts. His assertions, rather, appear to be intended to
31 inflame opinion and are based upon his own misuse and misinterpretation of
32 information presented by the Company in various dockets. He appears to lack
33 awareness of the differences among the various filings, dockets, and
34 proceedings through which the Commission administers its obligations.
- 35 • Demonstrates that costs associated with the pre-approved Jim Bridger Units 3
36 and 4 SCR project are outside the scope of this docket and therefore were
37 inappropriately raised in this docket. Nor are the sanctions Mr. Fisher
38 recommends supportable or sensible. The Company is well aware of its
39 obligations to demonstrate its prudent administration of said projects pursuant
40 to the conditions of Commission Order in Docket No. 12-035-92. This
41 notwithstanding, Mr. Fisher’s assertions regarding changing coal supply cost
42 information and natural gas forward market projections from the Jim Bridger
43 Units 3 and 4 SCR Voluntary Pre-approval Docket No. 12-035-92 will be
44 specifically addressed by Company witnesses Ms. Cindy A. Crane and Mr. Rick
45 T. Link.

¹ See Mr. Fisher’s direct testimony, page 4, lines 15-16.

² See Mr. Fisher’s direct testimony, page 6, lines 6-8.

- 46 • Demonstrates that Mr. Fisher’s conclusions that the Company’s participation in
47 the Hayden Unit 1 SCR project is inconsistent with PacifiCorp’s planning, are
48 based upon an incomplete review and limited understanding of the facts and
49 underlying agreements governing the Company’s obligations with respect to
50 the Hayden project and the Company’s prudent review and administration of
51 those agreements in the interests of customers. In fact, Mr. Fisher’s testimony
52 regarding the Company’s highly confidential memorandum containing an
53 economic analysis of the Hayden project dated November 21, 2012 (“Hayden
54 Memorandum”), which was not the ultimate driving factor for the Company’s
55 decision-making regarding Hayden Unit 1, focuses only on a select portion of
56 the Hayden Memorandum and conveniently discounts the remainder of the
57 findings and assumptions discussed therein. Counter to Mr. Fisher’s
58 conclusions, the Company’s participation in the Hayden Unit 1 SCR project is
59 based upon a well-reasoned legal analysis of the Company’s legal obligations
60 and likelihood of success if those legal obligations were challenged.
- 61 • Demonstrates that Mr. Fisher’s recommendation to eliminate entirely any costs
62 related to the Naughton Unit 3 environmental compliance plans from this
63 docket based upon his conclusion that the Company is attempting to push
64 emissions compliance of Naughton Unit 3 ahead of federal requirements, or
65 from his perspective any legal requirement, through an alleged strategic
66 Company initiative intended to burden the Company’s customers with the
67 investment risk is completely unfounded and couldn’t be farther from the truth.
68 On the contrary, the Company has been transparent and forthcoming with

69 parties and stakeholders throughout this docket regarding the Company's
70 compliance timing requirements and approach to deferring the associated fuel
71 supply conversion project for Naughton Unit 3 by engaging the state of
72 Wyoming to modify the state's legally enforceable compliance requirements
73 for the unit. Again, it is apparent Mr. Fisher's intent here is to inflame opinion
74 with innuendo regarding ill-conceived Company strategies, where the record in
75 this and preceding dockets clearly supports a completely opposite conclusion.

76 • Demonstrates that while the Company remains optimistic that its proposed
77 extension of the Naughton Unit 3 operation as a coal-fueled resource through
78 2017 will be granted by the Wyoming Department of Environmental Quality
79 ("DEQ") and subsequently approved by the U.S. EPA, final agency action in
80 that regard is yet to be taken. Accordingly, Mr. Higgins' recommendation to
81 base net power costs in this docket upon the Company's requested extension is
82 inappropriate at this time.

83 • Demonstrates the prudent incorporation of contingency costs in major capital
84 projects managed by the Company on behalf of its customers should not be
85 categorically excluded from Test Period rate base projections. Appropriately
86 developed, prudently managed and forecasted contingency costs are a
87 fundamental project administration reality of major plant addition projects.
88 However, based upon the Company's current projection of the level of
89 contingency cost to be used for the projects referenced by Mr. Higgins in this
90 case, the Company supports his recommended adjustments to the contingency
91 costs for those projects.

92 **Response to Sierra Club Testimony**

93 Jim Bridger Units 3 and 4 SCR Projects

94 **Q. Are the underlying facts and information filed in Docket No. 12-035-92 at issue**
95 **in this case?**

96 A. No. The Company is not seeking recovery of any of the costs related to the Jim
97 Bridger Units 3 and 4 SCR projects in this rate case. Sierra Club's improper
98 testimony in this case demonstrates its ulterior motive to re-litigate Docket No. 12-
99 035-92 because it did not like the result in that case. And while I am not a lawyer,
100 Sierra Club appears to be launching an untimely attack on a final Commission order
101 that was issued over one year ago, which is inappropriate.³

102 **Q. Is the Company aware of new information or changed conditions that would**
103 **be subject to Commission review pursuant to the conditions of the**
104 **Commission's Order in Docket 12-035-92⁴, or that would otherwise change the**
105 **Company's assessment and implementation of the Jim Bridger Units 3 and 4**
106 **SCR project(s)?**

107 A. No. Contrary to Sierra Club witness Mr. Fisher's assertions, the Company is not
108 aware of new information or changed conditions that would change the Company's
109 assessment and implementation plans for the Jim Bridger Units 3 and 4 SCR
110 project(s). Company witnesses Mr. Link and Ms. Crane more specifically address
111 the individual items of concern that Mr. Fisher raises in his filed testimony.

112 **Q. Does the Company regularly update, assess, and review its business plans as**
113 **part of its normal course of business?**

³ See Utah Code Ann. § 54-7-14.

⁴ See Exhibit SC_JIF-3 for a copy of the Resource Decision in Docket 12-035-92.

114 A. Yes. As further discussed in the rebuttal testimony of Company witnesses Mr. Link
115 and Ms. Crane, updated information related to changing coal quality, impacts on
116 fueling plans, forward projections for natural gas costs, among other items, are
117 routinely updated, assessed, and reviewed. With respect to Mr. Fisher's perception
118 of new information or changed conditions which may have altered the
119 Commission's findings in Docket No. 12-035-92, the Company specifically
120 responds to his criticisms in the rebuttal testimony of Mr. Link and Ms. Crane.

121 **Q. Please summarize Mr. Link's rebuttal testimony as it pertains to Mr. Fisher's**
122 **assertions.**

123 A. Mr. Link's rebuttal testimony demonstrates that, contrary to Mr. Fisher's claims,
124 the Company's PVR(d) analysis, when reviewed with consideration of market
125 conditions current at the time the Commission reviewed and approved the Jim
126 Bridger Units 3 and 4 SCR project(s), continue to support implementation of the
127 SCR project(s). Mr. Link bases his conclusion on a step-by-step review of the
128 Company's filed testimony and supporting materials in Docket No. 12-035-92,
129 specific references to the Company's updated forward price curve assessment
130 submitted in rebuttal in Docket No. 12-035-92, and a comparison to the Company's
131 then-current forward price curve available at the time the Commission approved
132 the Jim Bridger Units 3 and 4 EPC contract, pursuant to the terms of the
133 Commission's Order in Docket No. 12-035-92.

134 **Q. Please summarize Ms. Crane's rebuttal testimony as it pertains to Mr. Fisher's**
135 **assertions.**

136 A. Ms. Crane's rebuttal testimony demonstrates that Mr. Fisher's assertions that the

137 Company has identified significant increases in coal supply costs for Jim Bridger
138 Units 3 and 4 that could be construed as new information or changed conditions
139 subject to the Commission's review in Docket No. 12-035-92 is entirely inaccurate.
140 Ms. Crane's testimony demonstrates that the root of the problem is Mr. Fisher's
141 improper attempt to compare separate and distinct coal supply cost data sets from
142 independent regulatory filings with differing data needs regarding Jim Bridger fuel
143 costs. Mr. Fisher's inaccurate portrayal of concerns is further compounded by his
144 misunderstanding of publicly available Jim Bridger coal supply cost information
145 from the U.S. Energy Information Administration and his lack of understanding of
146 the Company's routine Bridger Mine assessment and planning activities, and how
147 the Company's response to the results of those assessments may impact short-term
148 mine cost projections. Ms. Crane's rebuttal testimony also demonstrates that the
149 Company's use of a long-term coal supply forecast based upon forecasted cash
150 operating expenses and capital expenditures at the Bridger Mine in conjunction
151 with appropriately forecasted costs for incremental third-party coal supplies for the
152 Jim Bridger plant appropriately supports the Company's economic analysis of the
153 Jim Bridger Units 3 and 4 SCR project(s) reviewed by the Commission in Docket
154 No. 12-035-92.

155 **Q. Has the Company or its officers knowingly withheld information from the**
156 **Commission that would have otherwise changed the Company's assessment**
157 **and implementation of the Jim Bridger Units 3 and 4 SCR project(s), or any**

158 **other projects, as purported by Mr. Fisher?**

159 A. No. To the contrary, the rigor and timeliness of development and review of
160 information underlying the Commission's Order in Docket No. 12-035-92 provided
161 the Commission with the best available information at the time of decision-making.
162 In addition, the Company's implementation of the pre-approved Jim Bridger Units
163 3 and 4 SCR project(s) is being administered pursuant to the terms of the
164 Commission's Order in Docket No. 12-035-92.

165 Hayden Unit 1 Project

166 **Q. Did the Company appropriately assess its options regarding participation in**
167 **the Hayden Unit 1 environmental compliance project?**

168 A. Yes. To build upon my direct testimony regarding the Company's legal obligations
169 and rights under the Hayden Ownership Agreement and the Company's assessment
170 of those rights in light of Hayden Unit 1 environmental compliance obligations,
171 please refer to Confidential Exhibits RMP____(CAT-1R) and RMP____(CAT-2R).
172 Confidential Exhibit RMP____(CAT-1R) is a detailed legal analysis, dated
173 November 29, 2012, of the Company's legal obligations, rights, and options under
174 the Ownership Agreement initially completed under attorney-client privilege that
175 is now being released for review and consideration in this docket. Confidential
176 Exhibit RMP____(CAT-2R) is an internal recommendation memorandum that
177 provides additional context regarding the Company's engagement of the Hayden
178 plant operator in responding to certain requests for information regarding the
179 Hayden Unit 1 SCR project at the time of decision-making.

180 **Q. Is the installation of the Hayden Unit 1 SCR project consistent with the**
181 **Company's planning?**

182 A. Yes. Each of the Confidential Exhibits RMP___(CAT-1R) and RMP___(CAT-2R)
183 results in the same planning recommendation as is being pursued by the Company.
184 That is, to participate in the Hayden Unit 1 SCR project.

185 Additionally, the Company began communicating its intent with respect to
186 planning, assessment, and Ownership Agreement constraints associated with
187 Hayden environmental compliance in its 2011 IRP Update Confidential Appendix
188 A dated March 30, 2012 (see Confidential Exhibit RMP___(CAT-3R)). The
189 Company also documented its justification for participation in the Hayden Unit 1
190 SCR project in its 2013 IRP Confidential Volume III dated April 30, 2013 (see
191 Confidential Exhibit RMP___(CAT-4R)).

192 **Q. Does the Hayden Memorandum referenced by Mr. Fisher definitively make a**
193 **recommendation contrary to the recommendations in Confidential Exhibits**
194 **RMP___(CAT-1R) and RMP___(CAT-2R)?**

195 A. No. The Hayden Memorandum assesses the Hayden Unit 1 SCR project over a
196 range of market price scenarios with varying assumptions for natural gas prices,
197 CO₂ prices, and long-term coal contract liabilities compared to an assumption that
198 PacifiCorp could make a unilateral decision to retire the unit by the prescribed
199 environmental compliance deadline for the unit (i.e. December 31, 2015). The
200 analysis includes varying results, depending upon given assumption scenarios,
201 either supporting SCR installation or supporting the hypothetical retirement
202 scenario assessed.

203 **Q. Mr. Fisher states that “In each and every run, the Company determined that**
204 **maintaining Hayden 1 presented an economic liability to PacifiCorp**
205 **customers.” Is the statement accurate?**

206 A. No. Mr. Fisher’s statement above considers only cases where [REDACTED]
207 [REDACTED] only
208 four of eight cases assessed. For the cases where [REDACTED]
209 [REDACTED] three of four cases
210 demonstrate benefit associated with the SCR environmental compliance project.

211 **Q. Did the Company complete an economic analysis of the Hayden Unit 1 SCR**
212 **project as part of its due diligence process and then turn around and ignore**
213 **its own findings, as Mr. Fisher asserts?**

214 A. No. Notwithstanding the fact that the Company’s legal analysis of its rights and
215 obligations under the Hayden Ownership Agreement supports the Company’s
216 participation in the Hayden Unit 1 SCR project, the Company’s economic analysis
217 in the Hayden Memorandum did not provide definitive conclusions in all
218 assessment scenarios, [REDACTED]
219 [REDACTED]
220 [REDACTED]

221 **Q. What was the entire range of economic analysis results included in the Hayden**
222 **Memorandum?**

223 A. The economic analysis results included in the Hayden Memorandum for the
224 Hayden Unit 1 SCR ranged from [REDACTED] favoring retirement at the

225 compliance deadline under a [REDACTED]
226 [REDACTED] to [REDACTED] favoring installation of SCR
227 under a [REDACTED]
228 [REDACTED].

229 **Q. Has the Company pursued the option of selling its interest in Hayden Unit 1**
230 **as an alternative incremental environmental compliance costs?**

231 A. Yes. To ensure that all reasonable alternate compliance approaches are being
232 pursued on behalf of PacifiCorp's customers, in March of 2014 the Company
233 initiated an open-ended Request for Expressions of Interest in Hayden Units 1 and
234 2 (see Exhibit SC_JIF-9) with a requested response date of April 18, 2014. [REDACTED]
235 [REDACTED]

236 **Q. Mr. Fisher contends that an attempt to sell Hayden Unit 1 immediately**
237 **following the Company's November 2012 analyses of environmental**
238 **compliance options in the Hayden Memorandum, rather than in 2014, would**
239 **have likely proven more fruitful. Does the Company agree with that assertion?**

240 A. No. Regardless of the timing of any sale/divestment opportunity, should such an
241 opportunity be identified and evaluated as providing value to PacifiCorp's
242 customers, Mr. Fisher appears to ignore the facts that the Company remains a
243 minority owner with specific legal obligations and rights in a coal-fueled unit with
244 legally enforceable, date certain environmental compliance obligations at the state
245 and federal levels, which have been incorporated into state law and approved by
246 the facility operator's regulator as being in the best interests of customers. These
247 facts alone offer clear insight into the installation of the Hayden Unit 1 SCR project

248 being a key component of maintaining the inherent value of the asset for long-term,
249 compliant service regardless of ownership structure and timing. The environmental
250 compliance obligation to install SCRs and the other market and environmental
251 compliance uncertainties assessed by the Company in November 2012 are
252 effectively comparable to those that would be assessed today, and would be
253 expected to be assessed by potential buyers under very similar risk/benefit
254 perspectives in either case.

255 **Q. What is your conclusion regarding the Hayden Unit 1 SCR project included**
256 **for review in this docket?**

257 A. The Company has prudently reviewed and pursued its obligations, rights, and
258 options under the Ownership Agreement for this partially owned coal-fueled
259 resource as they pertain to the subject environmental compliance project. The
260 Company contends that the terms, conditions, and remedies of the Ownership
261 Agreement ultimately dictate the Company's participation in the Hayden Unit 1
262 SCR project; which when installed will position this resource for compliance with
263 its legally enforceable compliance obligations. To the extent that alternate
264 compliance opportunities, including divestment, are identified in the future and
265 evaluated as being in the best long-term interest of customers, the Company will
266 continue to pursue and evaluate such options. The compliance costs associated with
267 the Hayden Unit 1 SCR project included in this case are reasonable and prudently
268 incurred, and the Company should be granted full cost recovery for these
269 investments.

270 Naughton Unit 3 Natural Gas Conversion Project

271 **Q. Is the Company attempting to push implementation of the Naughton Unit 3**
272 **natural gas conversion project ahead of federal requirements as a strategic**
273 **Company initiative intended to burden the Company's customers with the**
274 **investment risk, as Mr. Fisher purports?**

275 A. No. As clearly communicated by the Company in this docket and in prior updates
276 and information provided to the Commission and stakeholders, the Company has
277 continually engaged state and federal environmental agencies having jurisdiction
278 over the ultimate outcome and timing of the Company's proposed Naughton Unit
279 3 natural gas conversion project in an attempt to effectuate a desired outcome for
280 customers. In fact, the Company's efforts have been focused on deferring
281 implementation of the natural gas conversion.

282 **Q. Does the Company control the administrative processes of the Wyoming DEQ**
283 **and the U.S. EPA as they pertain to effectuating deferral of Naughton Unit 3**
284 **conversion to natural gas as its fuel supply?**

285 A. No. While the Company has worked closely with the aforementioned agencies to
286 determine necessary steps to effectuate the desired Naughton Unit 3 outcome for
287 customers and has timely filed the required documentation to support that outcome,
288 the administrative processes and public input response periods for the various
289 permitting and review steps are under the control of the respective agencies
290 responsible for each step.

291 **Q. Without formal indication from the state of Wyoming regarding its intended**
292 **response to the Company's request for modification of the Regional Haze**
293 **permit governing Naughton Unit 3 compliance, is it reasonable for the**

294 **Company to have made its filing in this docket under the assumption that the**
295 **Company’s current legally enforceable compliance obligation with the state of**
296 **Wyoming would dictate the implementation schedule for the Naughton Unit 3**
297 **Regional Haze alternate compliance project?**

298 A. Yes. The Company’s filing and underlying cost structure in this docket for timing
299 of the Naughton Unit 3 gas conversion project is based upon current legally
300 enforceable compliance obligations set forth by the state of Wyoming.

301 **Q. Has the Company been clear about its intended treatment of Naughton Unit 3**
302 **gas conversion project costs should the legally enforceable compliance**
303 **deadline for the project change during the course of the docket?**

304 A. Yes. The Company provided an update in this docket on April 10, 2014, regarding
305 Wyoming DEQ activities regarding the Company’s formal request to amend the
306 Regional Haze Best Available Control Technology (“BART”) compliance date for
307 Naughton Unit 3 in the applicable permit to December 31, 2017. In that update, the
308 Company committed to measure and defer any cost savings from continued
309 Naughton Unit 3 coal operations past December 2014 for future rate making
310 treatment should the Wyoming DEQ not grant the Company’s requested
311 amendment for Naughton Unit 3 prior to the Company’s scheduled rebuttal filing
312 in this docket.

313 **Q. Has Wyoming DEQ granted the Company’s requested amendment to**
314 **Naughton Unit 3 Regional Haze BART compliance requirements?**

315 A. No. Although on May 15, 2014, Wyoming DEQ issued draft permit AP-15946,
316 which supersedes portions of BART permit MD-6042A2; specifically conditions

317 pertaining to Unit 3, for public comment. The draft permit aligns with the
318 Company's requested amendment to Naughton Unit 3 compliance requirements.
319 The draft permit 30-day public comment period will close at 5:00 pm on June 16,
320 2014.

321 **Q. What is your conclusion regarding Mr. Fisher's recommendation to remove**
322 **Naughton Unit 3 conversion project costs in their entirety from this docket?**

323 A. Contrary to Mr. Fisher's accusations that the Company has an underlying initiative
324 intended to burden the Company's customers with the investment risk associated
325 with the Naughton Unit 3 conversion project, the Company has been forthright with
326 its intentions regarding associated project costs and ongoing agency actions and
327 anticipated timing regarding its legally enforceable compliance requirements and
328 plans for Naughton Unit 3.

329 **Response to UAE Testimony**

330 Naughton Unit 3 Natural Gas Conversion Project

331 **Q. Does UAE witness Mr. Higgins also address the Company's proposed**
332 **treatment of Naughton Unit 3 conversion project costs in this docket?**

333 A. Yes. Mr. Higgins also proposes alternative handling of Naughton Unit 3 conversion
334 project costs in this docket.

335 **Q. What is your conclusion regarding Mr. Higgins' recommendation for**
336 **alternate handling of Naughton Unit 3 conversion project costs in this docket?**

337 A. While the Company remains optimistic that its proposed extension of the Naughton
338 Unit 3 operation as a coal-fueled resource through 2017 will be granted by the
339 Wyoming DEQ and subsequently approved by the U.S. EPA, final agency action

340 in that regard is yet to be taken. Accordingly, Mr. Higgins' recommendation to base
341 net power costs in this docket upon the Company's requested extension is
342 inappropriate at this time.

343 Contingency Reserve Costs

344 **Q. Mr. Higgins proposes an adjustment to the contingency amount for certain**
345 **plant additions in this docket. Do you agree with his proposed adjustment?**

346 A. Because Mr. Higgins' proposed adjustment to the contingency amounts for certain
347 plant additions in this docket is based upon the Company's current projection of
348 the level of contingency cost to be used for these projects, the Company supports
349 Mr. Higgins' recommendation. The Company proposes to remove \$3.6 million in
350 contingency costs from the case. This adjustment is detailed in adjustment 12.29 of
351 Exhibit RMP___(SRM-2R).

352 **Q. Does the Company concur with Mr. Higgins' recommendation that the**
353 **Commission consider setting policy that would categorically exclude projected**
354 **contingency costs from rate base for all plant addition projects when using a**
355 **projected test period?**

356 A. No. The Company's position is that estimated contingency costs are reasonable and
357 prudent and consistent with standard industry practice; therefore, project
358 contingency costs are valid costs when setting rates using a forward test period.

359 **Q. Is the Company’s approach to establishing contingency cost forecasts for its**
360 **major capital addition projects aligned with its documented corporate**
361 **governance policy?**

362 A. Yes. The Company’s development and administration of contingency costs is
363 consistent with the Company’s corporate governance policy which specifically
364 addresses the usage of contingency on capital projects and states:

365 Contingency: When preparing project cost estimates, the individual line
366 items comprising the total estimate are required to be determined as
367 accurately as possible. A contingency estimate is expected to be an integral
368 part of the total projected cost and is particularly important where previous
369 experience has demonstrated that cost increases for unforeseeable events
370 are likely to occur. The policy proceeds to say that “Contingency amounts
371 should be included in the annual capital expenditure budget process.”

372 The Company’s projected contingency cost estimates are developed as accurately
373 as possible and, when applied, consider the length and complexity of a project, as
374 well as unforeseen and unpredictable conditions, such as weather, soil and
375 subsurface conditions, existing system conditions on major retrofit projects, and
376 uncertainties within the defined project scope.

377 **Q. Is the Company’s approach to establishing contingency cost forecasts for its**
378 **major projects consistent with recognized industry practice?**

379 A. Yes. The Company’s approach to contingency cost development and administration
380 is also consistent with recognized industry practice. Accounting for contingency
381 costs is a reasonable and standard practice that constitutes a prudent industry
382 practice because a number of functional organizations recommend the use of
383 including contingency in establishing project estimates.

384 **Q. What functional organizations are you referring to?**

385 A. Two examples include the Association for the Advancement of Cost Engineering
386 (“AACE”) and the Project Management Institute (“PMI”).

387 **Q. Is the Company’s practice with respect to estimating contingency consistent**
388 **with what is supported by AACE and PMI?**

389 A. Yes.

390 **Q. Does federal law establish that contingency is part of eligible project costs?**

391 A. Yes. Code of Federal Regulations Part 80 of Title 49 states:

392 Eligible project costs mean amounts substantially all of
393 which are paid by, or for the account of, an obligor in
394 connection with a project, including the cost of:

395 (1) Development phase activities, including planning,
396 feasibility analysis, revenue forecasting, environmental
397 review, permitting, preliminary engineering and design
398 work, and other pre-construction activities;

399 (2) Construction, reconstruction, rehabilitation,
400 replacement, and acquisition of real property (including land
401 related to the project and improvements to land),
402 environmental mitigation, construction contingencies, and
403 acquisition of equipment; and

404 (3) Capitalized interest necessary to meet market
405 requirements, reasonably required reserve funds, capital
406 issuance expenses, and other carrying costs during
407 construction. (emphasis added)

408 **Q. Does the Company assign contingency costs to all capital plant addition**
409 **projects?**

410 A. No. The Company does not assign contingency costs to all capital plant addition
411 projects, but does establish contingency with consideration given to the project-
412 specific factors described above and generally summarized as project complexity
413 and project uncertainties.

414 **Clarifications/Corrections to Direct Testimony**

415 **Q. Please provide any clarifications and/or corrections to your direct testimony**
416 **filing that have been identified to date.**

417 A. Please refer to the following clarifications and/or corrections:

418 1) Teply Direct Testimony Page 9, Line 190, add the following sentence: “In
419 addition, costs of approximately [REDACTED] associated with the Lake Side 2
420 interconnection project were placed in service prior to this Test Period for this
421 docket.”

422 2) Teply Direct Testimony Page 9, Line 195, revise the reference to “[REDACTED]”
423 to “[REDACTED]” to reflect the Lake Side 2 interconnection project cost noted
424 above.

425 3) Teply Direct Testimony Page 18, Lines 377 and 378, replace “Hunter Units 1,
426 2, and 3 for criteria pollutants NO_x, PM₁₀, and SO₂” with “Hunter Units 1 and
427 2 for NO_x as a criteria pollutant.”

428 4) Teply Direct Testimony Page 23, Lines 484 through 487, append the following
429 sentences: “NOTE: The technical definition of zero discharge requires the
430 facility to operate in such a way that no Utah Pollutant Discharge Elimination
431 System (“UPDES”) permit is required. Hunter plant has no UPDES permitted
432 discharges to surface waters; however, there are certain UPDES groundwater
433 permits in place at the facility. Therefore the Hunter plant cannot unequivocally
434 be defined as a zero discharge facility.”

435 **Conclusion**

436 **Q. Please summarize your testimony.**

437 A. Sierra Club witness Mr. Fisher’s inflammatory assertions that “the Company and
438 its officers are explicitly aware of inconsistencies between internal planning and
439 external messaging”⁵ and that the Company is either deliberately or inadvertently
440 withholding information⁶, are irresponsible and are neither accurate nor based upon
441 fact. Mr. Fisher’s recommended sanctions regarding the Company’s participation
442 in the Jim Bridger Units 3 and 4 SCR Voluntary Pre-approval Docket No. 12-035-
443 92 and the Company’s administration of its obligations under the Order in that
444 docket, should be summarily rejected as they are unfounded, misinformed and
445 based on sloppy and erroneous testimony, as demonstrated by the rebuttal
446 testimony of Company witnesses Mr. Link and Ms. Crane. Notwithstanding the fact
447 that the costs associated with the Jim Bridger Units 3 and 4 SCR project are outside
448 the scope of this docket.

449 Mr. Fisher’s assertions that the Company’s participation in the Hayden Unit
450 1 SCR project is inconsistent with PacifiCorp’s planning are based upon an
451 incomplete review and limited understanding of the facts and underlying
452 agreements governing the Company’s obligations and the Company’s prudent
453 review and administration of those agreements in the interests of customers. The
454 Company’s participation in the Hayden Unit 1 SCR project is based upon a well-
455 reasoned legal analysis of the Company’s legal obligations and likelihood of
456 success if those legal obligations were challenged. The compliance costs associated
457 with the Hayden Unit 1 SCR project included in this case are reasonable and

⁵ Fisher direct testimony, page 4, lines 15-16.

⁶ Fisher direct testimony, page 6, lines 6-8.

458 prudently incurred, and the Company should be granted full cost recovery for these
459 investments.

460 Mr. Fisher's recommendation to eliminate entirely any costs related to the
461 Naughton Unit 3 environmental compliance plans from this docket based upon his
462 conclusion that the Company is attempting to push emissions compliance of
463 Naughton Unit 3 ahead of federally enforceable legal requirement to do so through
464 a strategic Company initiative intended to burden the Company's customers with
465 the investment risk is unfounded and disingenuous. And while the Company
466 remains optimistic that its proposed extension of the Naughton Unit 3 coal
467 operation through 2017 will be granted by the Wyoming DEQ and subsequently
468 approved by the U.S. EPA, final agency action in that regard is yet to be taken.
469 Accordingly, Mr. Higgins' recommendation to base net power costs in this docket
470 upon the Company's requested extension is inappropriate at this time.

471 The prudent incorporation of contingency costs in major plant addition
472 projects managed by the Company on behalf of its customers should not be
473 excluded from future test period rate base projections. Appropriately developed,
474 prudently managed and forecasted contingency costs are a fundamental project
475 administration reality of major plant addition projects. Nonetheless, the Company
476 is supportive of Mr. Higgins' recommended adjustments to contingency amounts
477 for certain plant additions in this docket which are based upon the Company's
478 current projection of the level of contingency cost to be used for these projects.

479 **Q. Does this conclude your rebuttal testimony?**

480 A. Yes.