

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

)	
)	DOCKET NO. 17-035-40
In the Matter of the Application)	
of Rocky Mountain Power for)	Confidential DPU Exhibit No.
Approval of a Significant Energy)	5.0 R-SUP
Resource Decision and Voluntary)	And
Request for Approval of)	DPU Exhibit No. 5.0 SR
Resource Decision)	
)	
)	

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

**Confidential Supplemental Rebuttal and
Surrebuttal Testimony of**

Charles E. Peterson

April 17, 2018

Highly Confidential – Subject to Utah Public Service Commission Rules R746-1-602 and 603

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Supplemental Rebuttal Testimony of Charles E. Peterson

I. INTRODUCTION

Q. Please state your name, business address and title.

A. My name is Charles E. Peterson. My business address is 160 East 300 South, Salt Lake City, Utah 84114. I am a Technical Consultant at the Utah Division of Public Utilities (Division, or DPU).

Q. On whose behalf are you testifying?

A. The Division.

Q. Did you previously file testimony in this docket?

A. Yes. I filed direct testimony regarding PacifiCorp’s (Company) financial capacity to fund the projects it is proposing in this docket and in the related Docket No. 17-035-39.

Q. What is the purpose of your surrebuttal testimony?

A. I will briefly update my testimony regarding the Company’s financial capacity. I will then give the Division’s comments on the Request for Proposal (RFP) process that led to the Company’s final short list of wind resources in this docket and the filing of the Final Report of Merrimack Energy, the Utah Independent Evaluator (IE).

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24 **II. UPDATE ON PACIFICORP FINANCIAL CAPACITY**

25

26 **Q. In your direct testimony you outlined the analyses that you have performed to evaluate**

27 **the Company’s financial capacity to complete the Combined Projects (i.e., the new wind**

28 **and transmission and the wind repowering proposals in Docket No. 17-035-39) that**

29 **were expected to cost approximately \$3.2 billion. What has changed since then?**

30 A. Three things have changed that would alter the analysis somewhat, but would not change the

31 overall conclusion. One change is it now appears that borrowing costs to the Company likely

32 will be higher than was originally assumed. The second change is that the Company’s 2017

33 SEC Form 10-K indicated somewhat lower revenues and, consequently, profitability than I

34 was forecasting for 2017.

35

36 The third factor is the change in the federal income tax rate. This change will affect the

37 Company’s cash flows going forward by reducing deferred income taxes. This will require

38 the Company to increase the use of outside debt or retain more equity to fund growth

39 projects, which will ultimately put upward pressure on prices paid by ratepayers. How the

40 near-term effects of the change in the federal income tax rates will play out in the regulatory

41 arena are under discussion in Utah in Docket No. 17-035-69.

42

43 These three factors will, in my view, reduce slightly the Company’s financial ability to fund

44 these projects, but at this point, I do not believe they will substantially reduce its capacity to

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45 fund the projects, especially if its parent company keeps the Company's equity capital
46 structure at about 50 percent as expected.

47

48 **Q. What is your conclusion?**

49 A. I continue to believe that it is likely well within the Company's financial capacity to fund the
50 Combined Projects.

51

52

53 **III. COMMENTS ON WIND RFP AND FINAL SHORT LIST**

54

55

56 **Q. Please outline your comments on the RFP and the final short list.**

57 A. First I will discuss the Division's high level view of the RFP process in Docket No. 17-035-
58 23, which resulted in the Company issuing its final short list of projects that are brought
59 forward into this docket for approval. Next I will briefly review the IE's Final Report,
60 highlighting what the Division considers the most significant points raised by the IE. Finally,
61 I will briefly review the Oregon Independent Evaluator's (OR IE) Final Report.

62

63 **Q. Please briefly review the process in Docket No. 17-035-23 that brought us to this point.**

64 A. The Company filed an application for approval of a Request for Proposal on June 16, 2017.
65 The Company initially proposed to acquire up to 1,270 MW of wind generation in Wyoming
66 that could be tied directly into a prospective transmission line that is commonly known as

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67 Segment D2 of the larger Energy Gateway Transmission project or the Aeolus-to-
68 Bridger/Anticline (Segment D2). The Company was proposing to self-build four benchmark
69 projects that would amount to 860 MW.

70

71 After rounds of comments and testimony, the Commission held a hearing on September 19,
72 2017. The Division, the IE, and intervenors recommended changes to improve the RFP,
73 many of which were agreed to by the Company by the time of the hearing. The Commission
74 generally approved the RFP with the agreed to changes, which included expanding the
75 resource acquisition to include consideration of non-Wyoming wind resources. One of the
76 outstanding concerns the Division raised in its comments and testimony was that it believed
77 there was a good possibility that there would be few bidders who would bid against the
78 Company's benchmark proposals.

79

80 The Company issued the RFP on September 27, 2017, and eventually received proposals for
81 72 projects from 14 separate bidders, including PacifiCorp;¹ 53 projects complied with the
82 Company's initial request to tie to the Segment D2 transmission line, and 19 projects did not
83 tie to Segment D2 and were considered non-Wyoming wind.² This level of response refuted
84 the Division's concern that there might be few bidders. However, late in the short list

¹ Final Report of Merrimack Energy Group, Inc. to Utah Public Service Commission (IE Final Report), Docket No. 17-035-23 and Docket No. 17-035-40, February 2018, Table 8 on page 45. This document contains information classified as "Highly Confidential" by the Company.

² One non-Wyoming wind project actually was located in Wyoming, but since it did not connect to the Company's system via Segment D2, it was considered part of the non-Wyoming projects.

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85 selection process, the Company determined that due to an interconnection restudy performed
86 by PacifiCorp Transmission, most of the projects were not viable without substantial
87 transmission upgrades including the build out of other segments of the Energy Gateway
88 transmission plan.³ If potential bidders had known this upfront, it is questionable whether
89 very many of them would have made the effort to submit a proposal. I believe this is a major
90 failure of the RFP process. The IE observed the following in its final report:

91 During the call on February 2, 2108 (sic) PacifiCorp noted the cost of the Aeolus-to-
92 Bridger/Anticline would be the same. Also, the inclusion of the [REDACTED] as a
93 lower cost and larger project than [REDACTED] should increase the overall
94 benefits of the portfolio.

95
96 The IEs, on the other hand, expressed some frustration that the bid selection process
97 ended up being limited to selection of only those projects with favorable queue
98 positions,... and the [REDACTED]. All other proposals submitted
99 were behind the interconnection queue constraint and would have no chance of being
100 selected.⁴

101
102 The portfolios selected by the SO model are dependent upon the constraints imposed.
103 In this case, the primary constraint was the capacity of the Aeolus-to-
104 Bridger/Anticline line. The initial assessment illustrated that the constraint limited the
105 selection of the resources to the proposals above with the exception of PacifiCorp's
106 McFadden Ridge project being selected instead of Ekola Flats. However, once
107 PacifiCorp Transmission conducted restudies of the System Impact Studies in the
108 queue, the Company found that there was an increase in the interconnection capacity
109 created by segment D2 from 1,270 MW to 1,510 MW. In addition, the studies found
110 that bids with a queue position of Q0713 or greater triggered the requirements for
111 Energy Gateway South. As a result, the SO model could essentially only select the
112 projects that were actually selected based on their position in the queue. While the IE

³ See IE Final Report, pages 66-67;
Bates White Economic Consulting: The Independent Evaluator's Final Report on PacifiCorp's 2017R Request for
Proposals (Oregon IE), February 16, 2018 pages 5, 32-35. This document, is included in the Company's exhibit (Mr.
Link) Replacement Exhibit RMP__(RTL-9SS), pages 29-70. This document contains information classified as
"Highly Confidential" by the Company.

⁴ IE Final Report, page 67.

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113 had concerns over the basis of this constraint, these projects were the lowest cost
114 options available. As a note, however, PacifiCorp did not provide technical studies
115 that support the additional capacity of the Aeolus-to-Bridger/Anticline transmission
116 line.⁵

117
118 The IE had recommended that “PacifiCorp hold a Transmission workshop for bidders as they
119 had for previous solicitations. PacifiCorp agreed but due to the timing of the solicitation
120 process, the Transmission workshop was not held.”⁶ Given what transpired at the end of the
121 process regarding the interconnection restudies, he IE suggests that the workshop might have
122 helped bidders better understand their chances for success earlier in the process.

123

124 The Oregon IE had the following comments regarding the new interconnection analysis:

125 The net result of these adjustments calls for consideration of the overall context of
126 the RFP. Recall that in its RFP as originally drafted, PacifiCorp proposed to select
127 only projects from the constrained area and offered three Benchmark projects.
128 Based on the final analysis laid out above, only one other third party bid on the
129 shortlist [REDACTED] could even compete with these offers. In fact,
130 only one other Wyoming wind offer – [REDACTED] – had
131 a high enough queue position to be viable. *So this entire RFP really boiled down*
132 *to two viable benchmarks and two third-party offers, meaning a lot of the analysis*
133 *presented here was of questionable value.* (Italics added)

134

135 To be clear, the remaining viable offers were competitive offers, but were not the
136 best the market could provide based on cost or risk, but for the transmission
137 constraint issue. We understand and appreciate PacifiCorp’s position and do not
138 disagree with their transmission department’s findings (beyond noting the obvious
139 fact that many projects will likely drop out of the queue and that actual
140 interconnection costs will differ from projected). To go forward with projects that
141 cannot meet the proposed online date without major accelerated transmission
142 investment would not seem to be the wisest course of action[.]

⁵ Ibid., page 84.

⁶ Ibid., page 86.

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The real issue here is that PacifiCorp’s procurement (in the form of this RFP) got out ahead of its resource and transmission planning. If PacifiCorp had identified this plan earlier, then all aspects of this work (IRP, transmission planning and resource acquisition) could have worked together in a more coherent fashion.⁷

Q. How does the Division perceive that the proposal evaluation process?

A. In spite of a compressed schedule, the process worked fairly well. The Company was responsive in a timely manner to any Division requests. However, as the time to issue the final short list approached, mistakes were discovered and last minute changes were made that might have been handled more smoothly if the schedule had been a bit more relaxed.⁸

Q. By saying that the process worked fairly well, are you commenting on the prudence of the Company’s proposals?

A. No. I am only saying that from the Division’s perspective the process, the flow, appeared to work well for the most part. However, the Utah and Oregon IE’s have leveled some potentially serious process criticisms that I outline below that may dovetail into the prudence of the Company’s proposals. Other Division witnesses are commenting more directly on the prudence of the projects.

⁷ Oregon IE Final Report, pages 34-35.

⁸ Besides the interconnection issue discussed above, other examples of problems are mentioned below and more fully in the IE’s Final Report.

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165 **Q. What are some of the positive comments the IE had regarding the RFP process?**

166 A. The following are summaries of some of the comments made by the IE that I view as mostly
167 positive and supportive of the RFP process, I generally agree with the IE's characterizations
168 set forth below:

- 169 • In our view, the solicitation process overall was fair, reasonable and generally in the public
170 interest. All bidders and benchmarks were treated the same, had access to the same
171 information at the same time, and had an equal opportunity to compete. Furthermore, the
172 process was a transparent process with active involvement and oversight by the two IEs
173 (Utah and Oregon)...⁹
- 174 • In our view, the solicitation documents were reasonably transparent and detailed and
175 provided significant information on which bidders could structure their proposals and decide
176 how to compete....¹⁰
- 177 • The IE found that the 2017R RFP was a reasonably flexible process. PacifiCorp allowed
178 bidders to update their pricing after the new Tax Bill was passed to reflect the implications of
179 the bill on their pricing, if material. PacifiCorp generally allowed bidders to be flexible in
180 their responses, worked with bidders to conform their proposals, and made revisions to the
181 process at the suggestions of the IEs, including revising the timing for bidder submission of
182 the Commitment Letter....¹¹
- 183 • In our view, the evaluation criteria and evaluation methodologies were consistently applied
184 to all proposals and benchmarks and are consistent with standard industry practices....¹²
- 185 • The Company used a consistent set of assumptions generally based on the assumptions used
186 in the most recent IRP. The assumptions were consistent (e.g. fuel and CO2 costs), were of
187 recent vintage, and were locked down prior to receipt of bids....¹³
- 188 • PacifiCorp provided the IEs with a complete proposal for each Benchmark option. The
189 Company provided a very detailed description of the benchmark resource, including the
190 technology, cost information, transmission and interconnection, permitting status, site
191 control, etc. The Company provided all the same information as other bidders were required
192 to submit....¹⁴

⁹ IE Final Report, page 70.

¹⁰ Ibid., page 71.

¹¹ Ibid., page 72.

¹² Ibid., page 73.

¹³ Ibid., page 73.

¹⁴ Ibid., page 73.

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- 193 • The IE participated in discussions with the Benchmark team to ensure the IE had all pertinent
194 information required. The Benchmark team provided very detailed line-by-line information
195 on each resource, and provided all information requested....¹⁵
- 196 • ...the IEs were concerned that the analysis period used for the SO model evaluation was less
197 than 20-years (i.e. 2017-2036), with the possible implication that 30-year BTA options would
198 have an inherent competitive advantage since not all costs would be accounted for in the
199 evaluation. The IEs asked PacifiCorp to conduct analysis over a 30-year period to ensure the
200 overall results would not change. Overall, the results indicated that there did not appear to be
201 an inherent advantage associated with a utility-ownership bid due to the shorter evaluation
202 period for purposes of evaluating and selecting a portfolio of resources....¹⁶
- 203 • Given the timing of the evaluation process, the IE primarily audited the Company's analysis
204 rather than undertaking its own independent evaluation. In other bidding processes, the IE
205 usually undertakes an independent non-price and at times an initial price evaluation process
206 to verify short list selection. In this case, the IE conducted a thorough review and assessment
207 of PacifiCorp's evaluation results and model outputs and asked questions if any information
208 seemed inconsistent.¹⁷
- 209 • PacifiCorp was diligent in providing information it compiled on each bid and also was
210 responsive to any requests for information asked by the IE...¹⁸
- 211 • PacifiCorp set up conference calls with the IE and PacifiCorp Transmission personnel to
212 discuss any issues the IE may have regarding transmission and interconnection. PacifiCorp
213 was responsive to the IEs requests in this area.¹⁹
- 214

215 **Q. What are some of the concerns the IE raised regarding the RFP process?**

216 A. The following quotations reflect some of the concerns raised by the IE.

- 217
- 218 • One of the primary issues the IE is required to address in its assessment of the solicitation
219 process is whether the solicitation process is consistent with Utah Statutes (54-17-101) and is
220 in the public interest taking into consideration whether it will most likely result in the
221 acquisition, production, and delivery of electricity at the lowest reasonable cost to the retail
222 customers of an affected electrical utility located in this state, including (1) long-term and
223 short-term impacts; (2) risk; (3) reliability; (4) financial impacts on the affected electric

¹⁵ Ibid., page 74.

¹⁶ Ibid., page 75.

¹⁷ Ibid., page 77.

¹⁸ Ibid., page 77.

¹⁹ Ibid. page 78.

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224 utility; and (5) other factors determined by the Commission to be relevant. In the view of the
225 IE, PacifiCorp’s selection of the final portfolio of wind resources is in the public interest
226 based on wind proposals submitted, albeit subject to cost risk associated with the benchmark
227 resources as discussed below. *Since PacifiCorp’s solicitation is based solely on the*
228 *solicitation for system wind resources, it is not possible to determine if other resources would*
229 *have been included in a final least cost, least risk system portfolio, potentially displacing one*
230 *or more wind resources. The result of this market test for wind was the proposed selection of*
231 *wind resources that actually provided significantly more customer benefits than PacifiCorp*
232 *had calculated in its IRP cases. The same could be true for other resources as well.*²⁰ (Italics
233 added)

- 234
- 235 • The selection of the benchmark options,... poses several risks that need to be scrutinized.
236 The cost of [REDACTED] is significantly lower (on a \$/kW basis) than a
237 comparable proposal submitted [REDACTED], a sophisticated wind
238 project developer. In addition, the capital cost proposed by PacifiCorp [REDACTED]
239 [REDACTED] is significantly lower than any BTA option proposed for similar resources on a \$/kW
240 installed basis. The IE had already concluded that the benchmark cost for this project
241 appeared low when compared to market benchmarks in the IE report on the Benchmark
242 resources. In the end, the project capital cost was low compared to actual proposals, with the
243 benchmarks being the lowest cost options proposed by any BTA bidder by a significant
244 margin. Since this project is a cost of service option, the IE suggests that the actual cost of
245 the project be closely scrutinized;²¹
 - 246 • A common occurrence in the wind industry has been that the actual capacity factors of wind
247 projects have been lower than the projected capacity factors. Such an occurrence for PPA
248 options is not a major issue since the PPA project must conform to the contract requirements
249 for meeting generation required levels or incur penalties. For BTA or Benchmark options,
250 failure to meet the target capacity factor is an issue. For one, the full PTC benefits may not be
251 realized if generation is lower than projected. Failure to meet projected generation levels for
252 these resources results in higher unit costs and raises the question of whether these projects
253 would have been selected if realistic generation profiles were provided. While PacifiCorp
254 retained Sapere to conduct such an analysis to ensure the generation levels and capacity
255 factors are reasonable, the IE feels there is some risk [REDACTED]
256 [REDACTED] based on the Sapere analysis regarding wake losses. The IE feels that the generation

²⁰ Ibid., page 84

²¹ Ibid., page 85.

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257 levels of the benchmark and BTA options should be closely monitored to ensure they
258 perform as proposed;²²

259 • While the IEs suggested that PacifiCorp include another PPA on the final shortlist,
260 PacifiCorp made a compelling case that the queue position of the PPA in question would
261 result in very high interconnection and network upgrade costs for this project to achieve
262 interconnection to the grid. PacifiCorp indicated that this project could not interconnect to the
263 Aeolus-to-Bridger/Anticline since there were so many projects ahead of it in the queue and
264 that the timing to be interconnected could be substantial. PacifiCorp's conclusion was that
265 this project ... would require construction of the Gateway West and Gateway South
266 transmission projects.²³

267

268 **Q. What are some of the recommendations the IE suggested regarding the RFP process?**

269 A. The IE makes some technical recommendations, such as simplification of the Company's

270 spreadsheet tool for initially screening bids. The IE reiterated the need to scrutinize

271 benchmark project costs when they come up for review. The IE believes the terminal value

272 adder used in assessing utility ownership project should be considered in more detail in

273 future RFPs. The IE also recommended that the supporting documentation of the

274 transmission interconnection restudy be provided to interested parties for the hearing in this

275 docket. The Company has subsequently provided this documentation for study by the

276 Division and other parties.

277

278 **Q. What are some of the comments the Oregon IE made regarding the RFP process?**

279 A. At a high level, the Oregon IE had comments and conclusions that are similar to the Utah IE.

280 The first recommendation to the Oregon commission was the following:

²² Ibid., page 85.

²³ Ibid., page 85-86.

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281 Bates White recommends that the Commission acknowledge the Final Shortlist as
282 presented. Based on the results of portfolio optimization modeling, stochastic risk
283 analysis, and review of viability factors, the Company has selected four projects
284 for the Final Shortlist representing approximately 1,300 MW.²⁴

285

286 The Oregon IE then summarized the bases for its Final Shortlist acknowledgement

287 recommendation. However, the Oregon IE had some fairly strong additional

288 recommendations to the Oregon commission:

289 We have additional recommendations related to the RFP to help protect
290 ratepayers from bearing undue risk. First, in order to protect ratepayers and ensure
291 that they receive the benefits promised during this RFP we would recommend that
292 all selected resources to be owned by the Company (i.e., BTAs and Benchmark
293 resources) be held to their capital and operations and maintenance (“O&M”) cost
294 projections as provided with the bid. These amounts should be considered a
295 “hard” cap, meaning that there will be no opportunity for the Company to collect
296 additional costs even if they believe such expenditures were prudent. Doing so
297 will help give the offers a risk profile much closer to that of a PPA, requiring the
298 Company to take risks that typical wind developers take, and insulate ratepayers
299 from the risk of cost overruns. Because the majority of construction costs will be
300 covered under the BTA agreement or, in the case of Benchmarks, a negotiated
301 engineering, procurement, and construction (“EPC”) agreement, we feel this is a
302 reasonable requirement.

303

304 Second, ratepayers should not be harmed if either PacifiCorp or the project
305 developers fail to acquire 100% of the value of the Production Tax Credit
306 (“PTC”). PacifiCorp should provide an unconditional guarantee (i.e., not subject
307 to force majeure or change in law) that ratepayers will receive the full projected
308 value of the Production Tax Credit. This includes situations where (a) PacifiCorp
309 cannot claim full PTC value or (b) PacifiCorp does not have the taxable income to
310 use the full PTC value. Again, this is similar to what is expected of a third-party
311 developer.

312

313 Third, the Company should similarly be held to their cost projections for the
314 Aeolus-to-Bridger D2 Segment. PacifiCorp’s resource acquisition strategy here –

²⁴ Oregon IE Final Report, page 1.

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315 which includes three projects that rely on the D2 Segment’s construction for
316 economic viability – is based on a certain cost promise for this segment and the
317 Company should be held to its promises.²⁵
318

319 **Q. Did the Oregon IE provide still other conclusions and recommendations to the Oregon**
320 **Commission?**

321 A. Yes. The Oregon IE made the following additional observations and recommendations:

322 Based on our work in this RFP we have several observations and
323 recommendations to assist parties moving forward. First, parties should make
324 more effort in the future to align the RFP process with the IRP process. This
325 process was rushed in order to meet deadlines for qualification for full value of
326 the PTC. However, the PTC’s sunset has been known since the end of 2015. We
327 were not involved in the IRP process but are unaware of any reason why this fact
328 could not have been incorporated into planning at an earlier time. Moreover, as of
329 today there is still no written order approving the Company’s IRP, which cast
330 additional uncertainty over this RFP process.

331
332 Second, and related to the above point, transmission planning should better align
333 with IRP planning. One troubling aspect of this RFP was that the initial system
334 impact studies provided to bidders did not incorporate the early completion of the
335 D2 Segment. After revisions to account for the earlier in-service date of the D2
336 Segment were incorporated it was determined that only projects with early queue
337 positions could be deliverable to load without the completion of the entire
338 Gateway South project in 2024. These evaluations by PacifiCorp’s transmission
339 group essentially left us with only about four potential offers in the transmission-
340 constrained area served by the D2 Segment. We realize that there are functional
341 separations within the Company but having alignment between the planning side
342 and the transmission side will help make more informed decisions in the future.

343
344 Third, future RFPs using the Company’s production cost modeling should
345 examine (as a sensitivity) resource choice with levelized benefits as well as costs.
346 While the issue ultimately had no impact on winning projects selected in this RFP
347 due to the transmission issues noted above, the Company’s modeling method,

²⁵ Ibid. pages 4-5.

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348 which leveled cost but not the benefits of PTC acquisition, could have biased
349 the bid selection to less favorable offers.

350
351 Fourth, regarding the winning Cedar Springs project, which is 50% BTA and 50%
352 PPA of 200 MW each (for a total of 400 MW), we note that [REDACTED]
353 [REDACTED]. Additional analysis shows this
354 option to be preferable to the selected option across several years, but slightly less
355 preferable over the entire 30-year expected life of the facility. We believe the
356 Company's selection of the 50-50 BTA/PPA option is reasonable, [REDACTED]
357 [REDACTED]
358 [REDACTED] and additional portfolio flexibility.

359
360 Fifth, because the selected portfolio contains mostly options to be owned by the
361 company, the selected portfolio generates significant PTC benefits within the first
362 ten years of operation. These benefits credit against revenue requirements and
363 serve to lower costs in this initial period. However, after the end of the ten-year
364 PTC window these credits disappear and costs increase. PacifiCorp currently
365 projects a \$125 million cost increase in 2031. If the Commission believes such an
366 increase would be unreasonable they should consider enacting some form of rate
367 mitigation efforts in the future.²⁶

368

369

370 **IV. CONCLUSIONS AND RECOMMENDATIONS ON THE RFP AND**
371 **FINAL SHORT LIST**

372

373 **Q. What are your conclusions and recommendations regarding the RFP process?**

374 A. There are many things that went well with the RFP process, and some of the specifics I
375 highlighted above. There were also some difficulties as detailed in the IE's report, but most
376 of these were cooperatively worked out between the Utah and Oregon IEs and the Company.

²⁶ Ibid., pages 5-6

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377 As discussed above some issues remain such as the costs of the benchmark projects and the
378 important question of whether wind-only RFP results in the lowest reasonable cost, least risk
379 options for ratepayers. In the Division's view the most significant failure of the RFP process
380 was the last minute elimination of essentially all projects but the final short list projects due
381 to the restudy by PacifiCorp Transmission of the transmission interconnections. If potential
382 bidders had been aware of this restudy, it is likely that the response to the RFP would have
383 been much thinner. This outcome, at a minimum, needs to be avoided in future RFPs.

384

385 The Division believes that the Commission should review the reports of both the Utah and
386 the Oregon independent evaluator and their conclusions and recommendations and adopt the
387 recommendations that the Commission concludes are in the public interest.

388

389 **Q. Does that conclude your supplemental rebuttal testimony?**

390 A. Yes.

391

392 [NOTE: Surrebuttal Testimony of Charles E. Peterson starts on the next page]

393 **Surrebuttal Testimony of Charles E. Peterson**

394

395 **I. INTRODUCTION**

396

397

398 **Q. What is the purpose of your surrebuttal testimony?**

399 A. I respond to comments made by Company witnesses Mr. Rick Link and Ms. Joelle R.

400 Steward regarding the Division's support of the acquisition of the natural gas plant located in

401 Chehalis, Washington (Chehalis) in 2008.

402

403

404 **II. DISCUSSION**

405

406 **Q. Please outline the Company's witnesses' comments that you are responding to.**

407 A. Mr. Link is now saying that the pursuit of transmission and wind resources in Wyoming

408 (Wyoming projects) is simply an early acquisition of resources identified in the Company's

409 Integrated Resource Plan that shows a need for Wyoming transmission resources coming

410 online in 2024.²⁷ As outlined in Division witnesses Dr. Joni Zenger's and Mr. Daniel Peaco's

411 surrebuttal testimony, this justification for the Wyoming projects is the latest iteration in an

412 ever-evolving rationale for the Company's acquisition of roughly \$2.1 billion of additional

413 rate base. Ms. Steward seeks to diminish any Division opposition to the Wyoming projects

²⁷ Supplemental Direct and Rebuttal Testimony of Rick T. Link, January 16, 2018, page 45, lines 898-907 and page 53, lines 1078-1088.

414 by drawing a parallel between the Division's support for the Chehalis acquisition in 2008 and
415 the Wyoming projects.²⁸ The Chehalis acquisition was considered in 2008 docket to be a
416 substitute for an IRP-planned acquisition of a baseload natural gas plant in 2012, i.e. an
417 "early acquisition."

418

419 **Q. You testified in behalf of the Division in the Chehalis matter.²⁹ What was the substance**
420 **of your testimony in that docket?**

421 A. Generally I described the proposed acquisition of the Chehalis plant by PacifiCorp and the
422 Division's efforts to investigate the proposal as being in the public interest. My conclusions
423 and recommendations in that matter were the following:

424 Based upon the report from our consultant, Bodington & Company, we conclude
425 that the purchase price is at market value and fair to all parties; we also conclude
426 that the plant is well maintained and in nearly new condition.

427

428 Since the plant is being acquired from a third party at market value, we see no
429 reason not to include the full purchase price in rate base. The Company has made
430 an argument that according to FERC accounting rules, the full amount of the
431 purchase price should be booked in plant in service accounts.

432

433 With respect to the issue that the plant is not beneficial to ratepayers at the present
434 time, in addition to evaluating information provided by the Company, the
435 Division also performed its own sensitivity analyses. Based upon these analyses
436 the Division has concluded that there is a reasonable probability that over the life
437 of the Chehalis plant the Company's ratepayers will receive a net benefit over the
438 IRP base plan.

439

440 In addition, there is the non-quantifiable benefit that the Company gains
441 flexibility that it otherwise won't have with respect to the choice of operating the
442 plant or purchasing power on the wholesale market, whichever makes more

²⁸ Supplemental Direct and Rebuttal Testimony of Joelle R. Steward, January 16, 2018, pages 15-16, lines 325-351.

²⁹ See Docket No. 08-035-35, Testimony of Charles E. Peterson.

443 economic sense. In the 2007 IRP both the Division and the Committee of
444 Consumer Services expressed concern for the Company's reliance on wholesale
445 market purchases instead of building or acquiring its own generating capacity.
446 The Division primarily discussed its concern with the market purchases over the
447 2008 to 2012 time frame, the Committee appears to be more concerned with the
448 post 2012 market purchases.³⁰ The Chehalis acquisition will mitigate this
449 criticism.

450
451 Finally, in conjunction with data requests and questions sent by the Commission's
452 Independent Evaluator, Merrimack Energy, the Division considered the question
453 of whether or not the Chehalis plant would likely have been chosen had it been
454 bid into the 2012 RFP. Based upon the available information, it appears that at a
455 minimum, the Chehalis plant would have been a strong candidate in that RFP and
456 is likely to have been selected.

457
458 In summary, the PacifiCorp's proposed purchase of the Chehalis plant is for a fair
459 price, the plant is in good condition, and ratepayers will likely receive a net
460 monetary benefit from the plant over the currently contemplated alternatives. The
461 plant would likely have been selected in the 2012 RFP process had it been a
462 bidder. Therefore the Division recommends that the Commission approve the
463 purchase of the Chehalis plant as being prudent and in the public interest with the
464 full purchase price allowed in rate base in the next general rate case, or other
465 appropriate proceeding.³¹
466

467 **Q. As a principle, is the Division opposed to the Company's acquisition of plant for either**
468 **an economic opportunity or an "early acquisition"?**

469 A. No. The Division is not opposed to the Company searching for economic opportunities or
470 seeking "early acquisitions;" but the Division's support for acquisitions justified either as
471 economic opportunities or early acquisitions is on a case-by-case basis. As outlined in Dr.

³⁰ Division of Public Utilities, Memorandum dated August 31, 2007 in Docket No. 07-2035-01, see pp.12-13, 19-20, 37, 39-40, and 42. The Committee of Consumer Services, Comments dated August 31, 2007 in Docket No. 07-2035-01, see pp. 18 and 20.

³¹ Testimony and Exhibits of Charles E. Peterson, Docket No. 08-035-35, lines 92-129.

472 Zenger's testimony, the Division continues to believe that PacifiCorp has not met its burden
473 of proof in this case.

474

475 **Q. Please summarize the main points of difference that you see between Chehalis and the**
476 **Wyoming Wind.**

477 A. The principal points are as follows:

- 478 • The Chehalis plant was an existing, relatively new plant. Therefore there was no
479 construction risk with the Chehalis acquisition that exists with the new wind plant and
480 transmission assets the Company is proposing to acquire.
- 481 • The Chehalis plant was substituting for a natural gas baseload plant that was
482 presented and vetted through the IRP process.
- 483 • The Division was able to independently verify that the acquisition price of Chehalis
484 was at fair market value.
- 485 • The acquisition price of the existing Chehalis plant was substantially below the
486 estimated cost of a new 2012 resource, which at the time was a clear benefit to
487 ratepayers.
- 488 • The Chehalis plant represents reliable, dispatchable capacity, whereas the Wyoming
489 wind resources' capacity contribution is not dispatchable and is based upon estimated
490 statistical averages.
- 491 • There was no need to add controversial transmission capacity to acquire Chehalis.
- 492 • The Division was able to test whether or not the Chehalis plant would likely have
493 been a winning bid had it been bid into a subsequent RFP.
- 494 • As discussed in Dr. Zenger's surrebuttal testimony, in the past the Division
495 recommended the replacement of front office transactions with physical plant
496 capacity. However, the Company routinely dismissed any Division concerns about
497 front office transactions until the past few months when it discovered a "need" to

498 replace front office transactions with multi-billion dollar rate base proposals first
499 announced at the very end of the latest IRP process.

500

501 **III. CONCLUSIONS AND RECOMMENDATION**

502

503 **Q. What is your conclusion?**

504 A. I believe that there are significant differences between the Wyoming projects and the
505 Chehalis acquisition. It is true that the Division is not opposed as a matter of principle to the
506 Company making an “early acquisition,” or for that matter, an acquisition based upon an
507 economic opportunity; but, the Division’s support for the Chehalis acquisition in no way sets
508 a precedent for any acquisition the Company styles as an “early acquisition.”

509

510 **Q. What do you recommend?**

511 A. I recommend that the Commission disregard the Company’s reference to the Chehalis or any
512 earlier acquisition as the Commission contemplates its decision in this matter.

513 **Q. Does that conclude your surrebuttal testimony?**

514 A. Yes.