

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 UE 199

4 In the Matter of

5 PACIFICORP, dba PACIFIC POWER
6 2009 Transition Adjustment Mechanism
7 Schedule 200, Cost-Based Supply Service

STAFF'S MOTION FOR LEAVE TO ADD
LIMITED ISSUE TO SURREBUTTAL
TESTIMONY

8 The Public Utility Commission of Oregon Staff ("Staff") respectfully requests leave to
9 discuss an adjustment to the Glenrock project in its surrebuttal testimony. The Industrial
10 Customers of the Northwest Utilities support this motion.

11 **INTRODUCTION**

12 On April 25, 2008, a joint prehearing conference was held involving this proceeding and
13 UE 200, which is PacifiCorp's Renewable Adjustment Clause filing under SB 838. On June 10,
14 2008, Administrative Law Judge ("ALJ") Power adopted a schedule for Docket UE 200. On
15 May 6, 2008, ALJ Power adopted a corrected schedule for Docket UE 199.

16 Docket UE 199 is PacifiCorp's 2009 Transition Adjustment Mechanism ("TAM") filing
17 to update its net variable power costs. While this is PacifiCorp's fourth TAM filing, it is the first
18 time that the TAM was filed concurrently with PacifiCorp's Renewable Adjustment Clause
19 ("RAC") filing. *See* PPL/100; Duvall/2. The concurrently filed RAC is PacifiCorp's first filing
20 under SB 838.

21 On July 23, 2008, Staff filed its reply testimony in Docket UE 200. On August 8, 2008,
22 Staff will file surrebuttal testimony in Docket UE 199. Although Staff's surrebuttal testimony is
23 the last prefiled testimony provided for in Docket UE 199, the schedule provides the opportunity
24 for live surrebuttal testimony at the hearing on August 15, 2008.

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1 DISCUSSION

2 As suggested by the concurrent filing of the TAM and RAC and the joint prehearing
3 conference, these dockets are intertwined as related to the cost recovery of renewable resources.
4 Specifically, the RAC involves the recovery of the fixed costs of certain renewable projects
5 whereas the TAM involves the recovery of the variable costs of certain renewable projects,
6 among other recoverable net variable costs.

7 While Staff has reviewed PacifiCorp's previous three TAM filings, Docket UE 200 is
8 Staff's first experience reviewing the new RAC filing provided for in SB 838. As Staff's review
9 of these two dockets has progressed, Staff has become more aware of the interconnection
10 between the RAC and TAM in relation to cost recovery of certain new renewable resources. In
11 future RAC and TAM filings, Staff will consider whether these proceedings should be
12 consolidated or whether the testimony schedules should be synchronized.

13 In preparing Staff's Reply testimony in UE 200, Staff realized that it failed to provide an
14 alternative adjustment in the TAM to the adjustment recommended in UE 200 to the Glenrock
15 project. In order to provide the Public Utility Commission ("Commission") with a full and
16 complete record, including possible alternative adjustments, Staff is filing this motion for leave
17 to add this limited issue to its Docket UE 199 surrebuttal testimony. Although Staff's surrebuttal
18 testimony is not due until August 8, 2008, Staff is filing this motion concurrently with its Docket
19 UE 200 reply testimony to more quickly notify the parties and Commission of this issue.

20 In Staff's UE 199 testimony, Staff recommended an adjustment to PacifiCorp's TAM for
21 the imprudent acquisition of the Rolling Hills project. *See* Staff/100, Brown/13-14; Staff/200;
22 Staff/202; Staff/203. In Staff's UE 200 reply testimony, which is being concurrently filed with
23 this motion, Staff offers an alternative adjustment to the Rolling Hills project. *See* Staff/200,
24 Schwartz/16 lines 14-18; Staff/300.¹ In general terms the difference between these alternative

25 ¹ For the convenience of the ALJ, Staff has attached a non-confidential copy of Staff UE 200 reply
26 testimony to this motion in Docket UE 199. However, for a more thorough description of Staff's
recommendations, it would likely be of more value to review the confidential draft of the cited testimony.

1 recommendations is whether it is appropriate to make Staff's recommended adjustment to the
2 fixed (*i.e.* RAC) or variable costs (*i.e.* TAM) of the Rolling Hills project.

3 In Staff's UE 200 reply testimony, Staff concludes that the Rolling Hills project impacts
4 the Glenrock project. *See* Staff/200, Schwartz/16, line 19 through Schwartz/20 line 20. Staff
5 recommends an adjustment to the fixed costs of the Glenrock project.² *See Id.* at lines 15-20;
6 Staff/300. The purpose of Staff's motion for leave is to add a limited issue – an alternative
7 adjustment to the variable costs of the Glenrock project and whether or not it should be made to
8 its UE 199 surrebuttal testimony.

9 The inclusion of this additional issue in Staff's surrebuttal testimony will allow for
10 consistent consideration of both the Rolling Hills and Glenrock project. Staff's current
11 testimony allows the Commission to consider a Rolling Hills project adjustment to either fixed or
12 variable costs, but only allows the Commission to consider a fixed cost adjustment to the
13 Glenrock project. If Staff's motion for leave is granted, the Commission will be able to consider
14 whether or not an adjustment to Rolling Hills and Glenrock is appropriate and, if so, whether the
15 adjustment should be to the fixed or variable costs of the respective projects.

16 CONCLUSION

17 Staff files this motion for leave at this time to give the parties as much advance notice as
18 possible to respond to this motion and, if granted, to prepare live surrebuttal testimony at the
19 August 15, 2008 hearing. In consideration of the fact that the RAC filing is a new process and
20 with the objective of providing the Commission with a full and complete record, Staff believes
21 that any hardship upon the other parties is mitigated by the timing of this motion and the current
22 schedule which allows for live surrebuttal testimony in response to Staff's additional testimony

23

24 ² Staff's UE 199 testimony was filed on June 23, 2008, one month before Staff's UE 200 reply testimony.
25 After UE 199 testimony was filed, Staff had the opportunity to review data responses in UE 200 that
26 resulted in Staff's proposed UE 200 adjustment to Glenrock. Because this is Staff's first review of a RAC
filing, it did not fully realize all of the connections between the RAC and variable power costs as related
to certain renewable resources. As a result, Staff failed to offer an alternative adjustment to Glenrock in
its earlier UE 199 testimony.

1 on a limited issue. While the two dockets have different schedules, Staff notes that UE 199 reply
2 briefs are due September 25, 2008, and that UE 200 reply briefs are due October 2, 2008.
3 Docket UE 199 has a shorter deadline for Commission action with a tentative target final order
4 date of October 24, 2008. Because both dockets are scheduled to have completed hearings and
5 briefings by October 2, 2008, Staff believes that the Commission will have sufficient time to
6 review the record in both dockets before making its decisions in these matters.

7 For the foregoing reasons, Staff respectfully requests leave to file additional testimony of
8 the issue discussed herein in its August 8, 2008, UE 199 surrebuttal testimony.

9 DATED this 23rd day of July 2008.

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Respectfully submitted,

HARDY MYERS
Attorney General

s/ Jason W. Jones
Jason W. Jones, #00059
Assistant Attorney General
Of Attorneys for Public Utility Commission of
Oregon Staff

CASE: UE 200
WITNESS: Lisa Schwartz

**PUBLIC UTILITY COMMISSION
OF
OREGON**

STAFF EXHIBIT 200

Direct Testimony

July 23, 2008

**PARTS OF STAFF EXHIBIT 200
ARE CONFIDENTIAL AND SUBJECT TO PROTECTIVE
ORDER NO. 08-190. YOU MUST HAVE SIGNED
APPENDIX B OF THE PROTECTIVE ORDER IN
DOCKET UE 200 TO RECEIVE THE
CONFIDENTIAL VERSION
OF THIS EXHIBIT.**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS**
2 **ADDRESS.**

3 A. My name is Lisa Schwartz. I am a lead worker/senior analyst employed by the
4 Public Utility Commission of Oregon. My business address is 550 Capitol
5 Street NE Suite 215, Salem, Oregon 97301-2551.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK**
7 **EXPERIENCE.**

8 A. My Witness Qualification Statement is found in Staff Exhibit 201.

9 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

10 A. The purpose of my testimony is to provide staff's recommendation on whether
11 the renewable resources included in PacifiCorp's 2009 Renewable Adjustment
12 Clause (RAC) are prudently acquired under the Commission's guidelines for
13 integrated resource plans (IRPs) and competitive bidding and the Oregon
14 Renewable Energy Act (Senate Bill 838, 2007 Session). Staff witness Brown
15 addresses another key aspect in assessing the prudence of these acquisitions
16 – the economic analysis used in decision-making. My testimony also
17 addresses the appropriate capacity factors to use for the Rolling Hills and
18 Glenrock projects. Finally, my testimony addresses whether it is appropriate for
19 PacifiCorp to include in the RAC Update filed by December 1, 2008, additional
20 renewable resources not included in the original filing.

21 **Q. DID YOU PREPARE EXHIBITS?**

1 A. Yes. Staff Exhibit 202 is PacifiCorp's responses to selected data requests.
2 Staff Exhibit 203 is selected pages from PacifiCorp's renewable resources
3 update to the Commission at the June 10, 2008, regular public meeting.

4 **Q. HOW IS YOUR TESTIMONY ORGANIZED?**

5 A. My testimony is organized as follows:
6 Issue 1, IRP acknowledgment of renewable resources
7 Issue 2, Competitive bidding
8 Issue 3, PacifiCorp's renewable portfolio standard (RPS) obligations
9 Issue 4, Resources not included in the April 1st filing

10 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

11 A. I recommend the Commission find the resources in the RAC filing consistent
12 with PacifiCorp's 2004 and 2007 IRPs as acknowledged by the Commission
13 and PacifiCorp's future obligations under the Oregon Renewable Energy Act.
14 However, I recommend the Commission find PacifiCorp's acquisition of the
15 Rolling Hills project inconsistent with the competitive bidding guidelines
16 established in Order No. 06-446 and therefore imprudently acquired. I also
17 recommend the Commission use a [REDACTED] capacity factor for the Glenrock
18 project. Staff proposes alternative adjustments for these items for the
19 Commission's consideration in Docket Nos. UE 199 and UE 200. In addition, I
20 recommend the Commission not allow PacifiCorp to include in any RAC
21 Update resources the Company did not include in its April 1st filing.

1 **ISSUE 1, IRP ACKNOWLEDGMENT OF RENEWABLE RESOURCES**

2 **Q. PLEASE EXPLAIN WHAT COMMISSION ACKNOWLEDGMENT MEANS**
3 **IN INTEGRATED RESOURCE PLANNING.**

4 A. Acknowledgment simply means the resource plan seems reasonable at the
5 time. In order for the Commission to make that determination, the utility must
6 follow the resource planning guidelines set out in Order No. 07-002, provide
7 analysis demonstrating the selected portfolio represents the best combination
8 of cost and risk for ratepayers and demonstrate the proposed action plan is
9 reasonable.

10 **Q. IS ACKNOWLEDGMENT A PRUDENCE DETERMINATION?**

11 A. No. Decisions on cost recovery for resources can only be made in a rate
12 proceeding. However, consistency of resource investments with acknowledged
13 resource plans is among the factors the Commission considers in determining
14 prudence. Consistency may be evidence in support of favorable ratemaking
15 treatment, but it is not a guarantee. Conversely, the utility must justify any
16 action that is inconsistent with an acknowledged plan in order to receive
17 favorable ratemaking treatment.

18 **Q. DID THE COMMISSION ACKNOWLEDGE SPECIFIC RESOURCES IN**
19 **PACIFICORP'S RECENT RESOURCE PLANS?**

20 A. No. The Commission prefers to acknowledge general, or "proxy," resources in
21 the planning process, leaving to the procurement process the selection of
22 specific resources.

1 **Q. PLEASE DESCRIBE THE RENEWABLE RESOURCES THE COMMISSION**
2 **HAS ACKNOWLEDGED, STARTING WITH PACIFICORP'S 2003**
3 **RESOURCE PLAN.**

4 A. The Commission acknowledged 1,400 megawatts (MW) of renewable
5 resources by 2011 in PacifiCorp's 2003 resource plan with the following
6 planned build pattern.

7 In the Western control area:

- 8 ○ 100 MW - 2006
- 9 ○ 200 MW - 2008
- 10 ○ 200 MW - 2010

11
12 In the Eastern control area:

- 13 ○ 200 MW - 2007
- 14 ○ 200 MW - 2009
- 15 ○ 200 MW - 2011

16
17 Under the acknowledged plan, the Company agreed to move up acquisition
18 dates if economic to do so.

19 **Q. WHAT LEVEL OF RENEWABLE RESOURCES DID THE COMMISSION**
20 **ACKNOWLEDGE IN THE NEXT RESOURCE PLAN, IN 2004?**

21 A. The Commission reaffirmed its acknowledgment of 1,400 MW of renewable
22 resources with the Company's modified planning horizon through 2015. The
23 Company agreed to refine targets by testing cost and risk metrics and further
24 refining its method for assessing wind's capacity contribution.

25 **Q. WHAT DID THE COMPANY'S ANALYSIS OF RENEWABLE RESOURCES**
26 **DEMONSTRATE IN THE MOST RECENT PLAN?**

1 A. PacifiCorp's 2007 resource plan tested various levels of proxy wind resources
2 on the east and west sides of its system. PacifiCorp determined that on a risk-
3 adjusted least-cost basis, the Company should acquire 2,000 MW of renewable
4 resources by 2013, including 400 MW expected to be on-line by the end of
5 2007. The Company planned to acquire renewable resources at a rate of 200
6 MW per year, thereby meeting its previous target of 1,400 MW by 2010 —
7 several years ahead of schedule. The Commission acknowledged this item.

8 **Q. HOW DO THESE ACKNOWLEDGED AMOUNTS OF RENEWABLE**
9 **RESOURCES COMPARE TO THE LEVELS IN THE 2009 RAC FILING?**

10 A. By year-end 2007, PacifiCorp had acquired about 600 MW of renewable
11 resources¹ toward its 1,400 MW target. The RAC filing includes 713 MW of
12 renewable resources. Excluding projects on-line by 2007 (Blundell, Leaning
13 Juniper and Marengo), the RAC filing includes about another 600 MW of
14 capacity toward the target. This level of acquisitions is in line with PacifiCorp's
15 acknowledged 2007 IRP, leaving roughly another 200 MW to acquire by 2010.

16 **Q. WHAT COSTS DID PACIFICORP ESTIMATE FOR WIND RESOURCES IN**
17 **ITS 2007 IRP?**

18 A. The Company estimated the capital cost of a 50 MW wind plant in Oregon or
19 Idaho with a 2008 on-line date at \$1,729 per kilowatt (kW). The company
20 estimated the capital cost of a 50 MW Wyoming wind plant at \$2,011 per kW.
21 Fixed operation and maintenance (O&M) costs added another \$29.78 per kW.
22 After accounting for other fixed costs, proxy site capacity factors and tax

¹ Not all of these resources are eligible for the Oregon RPS.

1 credits, the Company estimated the total resource cost at about 55 mills per
2 kWh for wind plants in Oregon and southwest Wyoming and about 51 mills per
3 kWh for a wind plant in Idaho.²

4 **Q. HOW DO THESE PLANNING ESTIMATES COMPARE TO THE COSTS OF**
5 **THE RENEWABLE RESOURCES IN THE COMPANY'S RAC FILING?**

6 A. Staff witness Garcia summarizes the cost of the resources in Staff Exhibit
7 102. Her testimony shows that actual costs for wind resources with a 2008
8 in-service date are higher than PacifiCorp assumed in its 2007 IRP.
9 PacifiCorp states that the market for equipment, labor and services for
10 renewable energy projects is not in balance on a supply and demand basis.
11 See Staff's Opening Comments in Docket UM 1368 at 14-15.³ Further, as I
12 explain later, the Company must meet its obligations under the Oregon
13 Renewable Energy Act, subject to a cost off-ramp.
14

² These figures are from Tables 5.1 to 5.4 in PacifiCorp's 2007 IRP, and all costs are in 2006 dollars.

³ Pursuant to OAR 860-014-0050(1)(e), staff asks the Commission and Administrative Law Judge to take official notice of its opening comments at 14-15 filed in Docket No. UM 1368.

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ISSUE 2, COMPETITIVE BIDDING

2

Q. DID PACIFICORP ACQUIRE ALL OF THE RESOURCES IN THE FILING

3

THROUGH A COMPETITIVE BIDDING PROCESS?

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A. No. PacifiCorp acquired only the Leaning Juniper and Marengo projects

5

through a competitive bidding process. Further, PacifiCorp owns all resources

6

in the filing; none was acquired through a power purchase agreement.

7

Q. DID PACIFICORP'S COMMITMENTS UNDER THE MIDAMERICAN

8

ENERGY HOLDING COMPANY (MEHC) ACQUISITION AFFECT THE

9

ACQUISITION PROCESS FOR RENEWABLE RESOURCES?

10

A. Yes. In Docket UM 1209, MEHC agreed to add at least 100 MW of wind

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resources within one year of the close of the transaction and up to 400 MW by

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year-end 2007, inclusive of the initial 100 MW commitment. MEHC also agreed

13

to file a plan with the Commission to achieve its 1,400 MW goal and evaluate

14

the cost-effectiveness of increasing generation from the Blundell geothermal

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plant. The Commission adopted a stipulation including these commitments in

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February 2006. The 400 MW by 2007 renewable resources target was

17

particularly aggressive given the circumstances: the federal production tax

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credit was set to expire in 2007, increasing demand for wind turbines, project

19

sites and labor.

20

Q. PLEASE EXPLAIN THE COMPETITIVE PROCESS USED TO ACQUIRE

21

THE LEANING JUNIPER AND MARENGO PROJECTS.

22

A. PacifiCorp acquired these projects through a Commission-approved 2006

23

amendment to a Request for Proposals (RFP) originally issued in February

1 2004 (Docket UM 1118). Under the amendment, PacifiCorp asked existing
2 bidders to update their proposals and invited new bidders to participate. The
3 amended RFP sought resources that could be on-line in 2006 or 2007.

4 **Q. PLEASE SUMMARIZE THE RESULTS OF THE 2006 RFP AMENDMENT.**

5 A. The 2006 amendment attracted 13 bidders that submitted 29 bids totaling
6 2,107 MW.⁴ Bidders offered a mix of power purchase agreements, turnkey and
7 site offers. PacifiCorp short-listed eight bids and selected the Leaning Juniper
8 and Marengo projects from that list. See PacifiCorp's Summary Report on RFP
9 2003-B, filed May 15, 2007, and revised June 6, 2007 (Docket No. UM 1118).

10 **Q. DID AN INDEPENDENT EVALUATOR OVERSEE THE PROCESS?**

11 A. No. The Commission's competitive bidding guidelines in effect at that time did
12 not require an independent evaluator.

13 **Q. HOW DID PACIFICORP ACQUIRE THE BLUNDELL EXPANSION?**

14 A. PacifiCorp owns the Blundell geothermal plant. The Company hired a third
15 party to study the potential addition of a "bottoming cycle" and hired a firm for
16 engineering, procurement and construction services to add the bottoming cycle
17 to drive a second turbine generator. The project increased capacity by 11 MW
18 while raising plant efficiency and reducing unit production costs. See PPL/200,
19 Tallman/31.

20 **Q. HOW DID PACIFICORP ACQUIRE THE REMAINING PROJECTS?**

21 A. PacifiCorp acquired the Goodnoe Hills project from enXco Development Corp.
22 PacifiCorp simply states, "The decision to acquire Goodnoe Hills was informed

⁴ Bidders were allowed to submit more than one bid per project.

1 by the then-current market for similarly situated assets.” PacifiCorp developed
2 the Seven Mile Hill and Glenrock/Rolling Hills projects on its own. The
3 Company acquired land leases for the Seven Mile Hill project from Eurus Wind
4 Power Development, LLC. PacifiCorp owns the Glenrock/Rolling Hills site,
5 portions of which are on the reclaimed Dave Johnston coal mine.

6 **Q. HOW DID THE COMPANY MAKE THE DECISION TO MOVE FORWARD**
7 **WITH THESE WIND PROJECTS?**

8 A. For Goodnoe Hills, subject area experts performed due diligence on various
9 aspects of the asset and wrote an internal memo reporting their findings. The
10 due diligence process for the Seven Mile Hill, Rolling Hills and Glenrock
11 projects was part of the project management plans implemented by the
12 Company.

13 Company executives made the decision to acquire each project after
14 reviewing a detailed overview, the contract support and counterparty
15 guarantees for executing the project, project risks, the IRP-established need for
16 the project, and a financial assessment and justification. See PPL/200;
17 Tallman/19, 23-24, 26-27 and 29.

18 **Q. HOW DOES THE COMMISSION KNOW WHETHER THESE WIND**
19 **PROJECTS WERE THE BEST DEAL FOR RATEPAYERS?**

20 A. Without a competitive bidding process, there is no price discovery to
21 demonstrate these projects represent the best opportunities to acquire
22 renewable resources on behalf of customers.

1 **Q. WHAT RATIONALE DOES PACIFICORP PROVIDE FOR ACQUIRING**
2 **THESE PROJECTS OUTSIDE OF A COMPETITIVE BIDDING PROCESS?**

3 A. Misapplying the Commission's direction in Order No. 07-018 at 6 that
4 PacifiCorp consider in-house conservation and demand response programs
5 instead of relying solely on RFPs to acquire these resources, the Company
6 asserts it used acquisition processes other than competitive solicitations as
7 appropriate to acquire renewable resources. PacifiCorp further states that it
8 "...considered factors such as market changes, the rise in major equipment
9 and construction costs, and the reasonable expectation that a resource could
10 be placed in-service before the then-current expiration of the Federal
11 production tax credit." See PacifiCorp's response to Staff Data Request No. 1,
12 Staff Exhibit 202 at 1.

13 According to PacifiCorp, the Company was concerned it would not be able
14 to take advantage of the tax credit, set to expire year-end 2008, if it conducted
15 a competitive bidding process under Utah's then-current procurement laws and
16 the Oregon Commission's established competitive bidding process. See
17 PacifiCorp's response to Staff Data Request No. 19, Staff Exhibit 202 at 7.

18 **Q. BUT ISN'T THE COMPANY CONTINUING TO ACQUIRE RENEWABLE**
19 **RESOURCES OUTSIDE A COMPETITIVE SOLICITATION WITH IN-**
20 **SERVICE DATES AFTER THE TAX CREDIT SUNSETS?**

21 A. Yes. PacifiCorp is developing three wind projects on a single site with on-line
22 dates beyond 2008. The first two projects are the 99 MW High Plains facility
23 expected to be in service in 2009 and the 88.5 McFadden Ridge project

1 expected to be in service in 2010. See Staff Exhibit 203. PacifiCorp has not yet
2 defined the third project at the site. The Company submitted a single permit
3 application to the Wyoming Industrial Siting Council for all three projects.
4 PacifiCorp plans to own, construct and operate the facilities.⁵

5 **Q. DOES PACIFICORP EXPECT THE TAX CREDIT WILL BE EXTENDED?**

6 A. It appears so. In addition to developing these three additional wind projects that
7 won't be on-line by the tax credit sunset date, PacifiCorp states the following in
8 response to a recommendation that the Utah Public Service Commission
9 impute the value of the federal production tax credit (PTC) if the wind projects
10 included in the Utah proceeding do not come on line by year-end 2008:

11 Q. Is it possible PTCs will be applicable to wind turbines that
12 are placed in service during 2009?

13 A. Yes; both the House and Senate have passed versions of
14 legislation that would extend PTCs to wind turbines placed in
15 service during 2009.

16 See Rebuttal Testimony of Mark R. Tallman at 14, Public Service
17 Commission of Utah Docket No. 07-035-93.

18
19 **Q. DID PACIFICORP HAVE TIME FOR A COMPETITIVE SOLICITATION TO**
20 **UNCOVER THE MOST BENEFICIAL WIND PROJECTS, WITHOUT**
21 **RISKING THE TAX CREDIT?**

22 A. Under Oregon's process, yes. The Commission has previously approved RFPs
23 within several months of filing. For example, the Commission approved the
24 2006 amendment to PacifiCorp's renewable resources RFP about three weeks

⁵ Permit application available at:
[http://deq.state.wy.us/out/downloads/High_Plains_ISA_All_Sections_\(070708\).pdf](http://deq.state.wy.us/out/downloads/High_Plains_ISA_All_Sections_(070708).pdf).

1 after filing⁶ and recently approved the Company's 2008 "all source" RFP three
2 months after filing. In addition, PacifiCorp sets tight deadlines for bids. For
3 example, the Company issued its amended renewable resources RFP on
4 March 21, 2006, and required bids on April 12, 2006. The recently approved
5 2008 all-source RFP requires bids 75 days after RFP issuance. See Docket
6 Nos. UM 1118 and UM 1360. Even assuming PacifiCorp would not have
7 issued another renewable resources RFP in 2006, the Company had all of
8 2007 to undertake a competitive solicitation for resources with a 2008 in-
9 service date.

10 **Q. WHAT ABOUT RFP REQUIREMENTS IN OTHER STATES?**

11 A. To the extent that, prior to passage of Utah SB 202,⁷ the Company faced
12 constraints in Utah that hampered timely acquisition of renewable resources,
13 Oregon customers should not suffer the consequences. PacifiCorp bears the
14 risk of regulation in other states.

15 **Q. WHAT IS YOUR RELATED RECOMMENDATION FOR THE ROLLING**
16 **HILLS PROJECT?**

17 A. I recommend the Commission find PacifiCorp's acquisition of the Rolling Hills
18 plant inconsistent with the competitive bidding guidelines established in Order
19 No. 06-446 and therefore imprudently acquired. As I explained in my UE 199
20 direct testimony, the estimated capacity factor of the Rolling Hills project (31

⁶ The approval process for the original RFP took 3-1/2 months in order to address issues related to the risk mitigation benefits of renewable resources and potential debt imputation for power purchase agreements. The Commission has since addressed these issues in Docket No. UM 1182.

⁷ Utah Senate Bill 202, the Energy Resource and Carbon Emission Reduction Initiative, went into effect March 18, 2008. Section 14 provides an exemption from many of Utah's competitive bidding requirements, including RFP approval, for resources up to 300 MW. See <http://le.utah.gov/~2008/htmdoc/sbillhtm/SB0202S01.htm>.

1 percent) is significantly lower than other Wyoming wind projects, which have
2 capacity factors in the high 30s to low 40s. If PacifiCorp had issued an RFP for
3 renewable resources, the Company likely would have acquired a resource with
4 a far higher capacity factor. The Commission requires that Major Resources —
5 those 100 MW or greater and for a term of five years or longer — be acquired
6 through a Commission-approved competitive bidding process unless the
7 Company requests a waiver. See Order No. 06-446 at 3. While PacifiCorp is
8 attempting to distinguish the Rolling Hills and Glenrock projects as separate
9 resources, they are both on the same site, both to be completed this year and
10 both 99 MW. PacifiCorp did not acquire the Rolling Hills project through the
11 Commission-established competitive bidding process or request a waiver.
12 Further, the Company is adding another 39 MW of capacity at the Glenrock/
13 Rolling Hills site to be in-service by year-end. See Staff Exhibits 200, 202 and
14 203 in Docket UE 199.⁸

15 **Q. WHAT IS THE IMPACT OF CAPACITY FACTOR ON ELECTRICITY**
16 **COSTS?**

17 A. Capacity factor is the most direct measure of a wind project's productivity and,
18 therefore, its economic benefit. A small difference in average wind speed
19 among sites translates into a large difference in the amount of electricity
20 produced and, therefore, a large difference in the cost of the electricity
21 generated. The impact is evident when comparing PacifiCorp's estimated
22 annual output (in megawatt-hours) and levelized resource cost (in dollars per

⁸ Pursuant to OAR 860-014-0050(1)(e), staff asks the Commission and Administrative Law Judge to take official notice of its direct testimony Staff/200, Staff/202 and Staff/203 filed in Docket No. UE 199.

1 megawatt-hour) for the three 99 MW Wyoming wind plants included in the RAC
2 filing — Seven Mile Hill, Rolling Hills and Glenrock. See PacifiCorp's response
3 to Staff Data Request 33, Attachment 33-2, Staff Exhibit 202 at 8-11.

4 **Q. WHAT OTHER EVIDENCE DO YOU HAVE REGARDING THE PRUDENCE**
5 **OF ACQUIRING THE ROLLING HILLS PROJECT?**

6 A. [REDACTED]
7 [REDACTED]
8 [REDACTED]

9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
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[REDACTED]

[REDACTED]

Q. DID PACIFICORP ANALYZE WHETHER A BETTER WYOMING SITE WOULD HAVE BEEN AVAILABLE?

A. Staff is not aware of any analysis PacifiCorp performed to determine whether another Wyoming site would have provided a greater benefit to customers than the Rolling Hills site, with its relatively low capacity factor for that state. PacifiCorp originally planned to develop another site in another state and used the turbines instead for Rolling Hills. PacifiCorp states the following as the basis for its decision to proceed with the Rolling Hills project:

[REDACTED]

[REDACTED] See PacifiCorp’s response to ICNU Data Request No. 1.1-7, Staff Exhibit 202 at 50.

Q. ARE THERE SITE ADVANTAGES THAT OUTWEIGH THE LOW CAPACITY FACTOR OF THE ROLLING HILLS PROJECT?

A. While there are advantages to owning a site — no land leases or royalty payments, for example — the quality of the wind resource at the site is so

1 important that it can easily overwhelm such advantages. Further, benefits
2 resulting from expansion at an existing project site, such as making use of
3 existing roads and transmission facilities, also are present at third-party owned
4 sites, where expansion of existing projects is routine.

5 **Q. DID STAFF RECOMMEND A RELATED ADJUSTMENT FOR THE**
6 **ROLLING HILLS PROJECT IN UE 199?**

7 A. Yes. Staff recommended an adjustment in PacifiCorp's Transition Adjustment
8 Mechanism (TAM) to protect ratepayers from this imprudent acquisition. See
9 Staff/100, Brown/13-14 and Staff/200, Staff/202 and Staff/203 in Docket UE
10 199.⁹ Staff's proposed adjustment in that proceeding is designed to capture the
11 benefits ratepayers would receive if PacifiCorp had selected an appropriate
12 wind site by testing self-build options against market bids, as the Company is
13 required to do for Major Resources under Order No. 06-446.

14 **Q. DID STAFF CONSIDER AN ALTERNATIVE ADJUSTMENT IN UE 200?**

15 A. Yes. As an alternative to the adjustment staff recommends for the TAM in UE
16 199, the Commission could adjust the revenue requirement for the RAC to
17 achieve the same effect. Staff witness Brown provides the alternative
18 adjustment for the Commission's consideration in Staff Exhibit 300.

19 **Q. DOES ROLLING HILLS IMPACT THE GLENROCK PROJECT?**

20 A. Yes. As I stated previously, these projects are at the same site and are in close
21 proximity. See Staff/203, Schwartz/3-4, in Docket UE 199. [REDACTED]

⁹ Pursuant to OAR 860-014-0050(1)(e), staff asks the Commission and Administrative Law Judge to take official notice of its direct testimony Staff/100 at 13-14 filed in Docket No. UE 199. A/so see footnote 8.

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]

8 [REDACTED] See PacifiCorp's
9 response to ICNU Data Request No. 1.1-6, Staff Exhibit 202 at 32. [REDACTED]

10 [REDACTED]

11 [REDACTED] See PacifiCorp's response to ICNU Data
12 Request 10.1-9, Staff Exhibit 202 at 57.

13 **Q. WHAT IS YOUR RECOMMENDATION ON WHAT CAPACITY FACTOR**
14 **SHOULD BE USED FOR THE GLENROCK PROJECT?**

15 A. Consistent with the third-party analysis of the wind resource for the Glenrock
16 project, and in consideration of the imprudent acquisition of the Rolling Hills
17 project, staff recommends the Commission make an adjustment to reflect a [REDACTED]
18 [REDACTED] capacity factor for the Glenrock project in this proceeding or,
19 alternatively, in Docket UE 199. Staff witness Brown provides the adjustment
20 alternatives in Staff Exhibit 300.

21 **Q. DID STAFF PROVIDE AN ALTERNATIVE ADJUSTMENT FOR THE**
22 **GLENROCK PROJECT IN DOCKET UE 199?**

1 A. No, staff did not raise this issue in direct testimony in UE 199. However, staff
2 intends to file a motion in UE 199 that addresses the relationship between
3 Docket Nos. UE 199 and UE 200 regarding renewable resources. Staff intends
4 to include in its UE 199 surrebuttal testimony an adjustment to the TAM as an
5 alternative to making the adjustment recommended in UE 200 for the Glenrock
6 project.

7

1

ISSUE 3, PACIFICORP'S RPS OBLIGATIONS

2

Q. PLEASE EXPLAIN PACIFICORP'S OBLIGATIONS UNDER THE OREGON

3

RENEWABLE ENERGY ACT.

4

A. The Company must meet 25 percent of its energy needs by 2025 with

5

qualifying renewable resources. The requirement for the first compliance year,

6

2011, is 5 percent. The requirement increases rapidly to 15 percent in 2015

7

and 20 percent in 2020. See ORS 469A.052.

8

Q. HOW DOES THE ACT AFFECT COMMISSION RATEMAKING DECISIONS

9

RELATED TO RENEWABLE RESOURCES?

10

A. The Act imposes mandatory requirements to acquire renewable resources.

11

However, the Commission retains its responsibility to ensure that rates reflect

12

prudent resource decisions and prudently incurred costs. Utilities are not

13

required to comply with the standard in a compliance year to the extent the

14

incremental cost of compliance, the cost of unbundled renewable energy

15

certificates (RECs), and the cost of alternative compliance payments exceed 4

16

percent of the utility's annual revenue requirement.¹⁰ See ORS 469A.100.

17

Q. HOW DOES THIS COST "OFF-RAMP" AFFECT THE COMMISSION'S

18

CONSIDERATION OF RENEWABLE RESOURCES?

19

A. The RAC test year, 2009, is not an RPS compliance year. However, when the

20

Commission reviews the cost of renewable resources for RPS compliance

¹⁰ At its June 10, 2008, public meeting, the Commission established the methodology for determining this annual revenue requirement. The Commission has not yet defined the other components of this cost "off-ramp." Staff will propose such rules later this year in Docket AR 518.

1 years, it will consider the cost of all qualifying resources acquired over time and
2 remaining in rates, including resources included in this RAC filing.

3 **Q. WHAT OTHER PROVISIONS IN THE ACT SHOULD THE COMMISSION**
4 **CONSIDER IN RATEMAKING DECISIONS?**

5 A. Under the Act, the Commission must allow electric companies to recover in
6 rates all prudently incurred costs associated with RPS compliance. See ORS
7 469A.120(1). The Act also required the Commission to establish a method to
8 allow timely recovery of these costs. See ORS 469A.120(3). The Commission
9 established the RAC to do so. See Order No. 07-572 (Docket UM 1330). In
10 addition, the Act allows an electric company to make an alternative compliance
11 payment instead of meeting the renewable resource target in a compliance
12 year. See ORS 469A.180. All of these provisions reduce PacifiCorp's risk for
13 cost recovery. Staff witness Brown explains the ramifications in Staff Exhibit
14 300.

15 **Q. PLEASE EXPLAIN HOW THE RESOURCES IN THE RAC FILING ARE**
16 **CONSISTENT WITH THE COMPANY'S FUTURE RPS OBLIGATIONS.**

17 A. Excluding Qualifying Facilities under the Public Utility Regulatory Policies Act,
18 where PacifiCorp may not own the RECs, as of year-end 2007 the Company
19 had 426 MW of resources with fuel types and commercial operation dates
20 compliant with SB 838. See PacifiCorp's response to Staff Data Request No.
21 65, Staff Exhibit 202 at 17-20. The RAC filing includes 713 MW of resources
22 eligible for the Oregon RPS, of which an incremental 461 MW are expected to
23 be on-line in 2008. To meet the Oregon RPS, the Company projects it will need

1 the following levels of renewable resources system-wide, including resources
2 already acquired:

	System-wide	Oregon's allocated share
3 2011	1,031 MW	263 MW
4 2015	3,359 MW	796 MW
5 2020	4,733 MW	1,070 MW
6 2025	6,325 MW	1,388 MW

7
8
9 See PacifiCorp's response to Staff Data Request No. 14, Staff Exhibit
10 202 at 2-6.

11 These figures are based on the Company's October 2007 load forecast
12 and assuming wind resources will provide all of the remaining capacity to be
13 acquired.¹¹ The system-wide figures also assume the other states in which
14 PacifiCorp operates that do not have an RPS, or standards as aggressive as
15 Oregon's, will pay their allocated share of the resources.¹² The resources in the
16 RAC filing, together with earlier acquisitions, position the Company to meet its
17 near- and mid-term Oregon RPS requirements.

18 **Q. WILL THE RESOURCES INCLUDED IN THE RAC COUNT TOWARD**
19 **FUTURE RPS COMPLIANCE?**

20 A. Yes. In addition to meeting eligibility criteria related to resource type, on-line
21 date and location, RECs from these resources generated on or after January 1,
22 2007, can be banked indefinitely toward future RPS compliance. See OAR

¹¹Wind has a low capacity factor compared to geothermal and biomass resources. All other factors being equal, actual capacity additions to meet Oregon's RPS will be lower because the standard is energy-based, not capacity-based.

¹² Multi-state agreements addressing assignment of resources could reduce system-wide (but not Oregon) requirements for renewable resources.

1 330-150-0030(1)¹³ and ORS 469A.140(2).

2 **Q. DID THE COMPANY'S 2007 IRP ANALYSIS INDICATE THAT 2,000 MW**
3 **OF RENEWABLE RESOURCES WERE PART OF THE BEST COST/RISK**
4 **PORTFOLIO ABSENT CONSIDERATION OF THE OREGON RPS?**

5 A. Yes. PacifiCorp filed its 2007 IRP on May 30, 2007, before SB 838 was
6 enacted. The Company's IRP analysis showed that acquiring 2,000 MW of
7 renewable resources by 2013 was part of the best cost/risk portfolio absent
8 consideration of the Oregon RPS.

9

10

11

12

¹³ The Oregon Department of Energy is re-noticing its RPS-related rules due to a filing error.

ISSUE 4, RESOURCES NOT INCLUDED IN THE APRIL 1ST FILING**Q. PLEASE EXPLAIN THE ISSUE.**

A. PacifiCorp stated that it plans to include the 39 MW Glenrock Hills III and 19.5 MW Seven Mile Hill wind projects in its RAC Update to be filed by December 1, 2008. See PacifiCorp's response to Staff Data Request No. 49, Staff Exhibit 202 at 13. The Company did not include these resources in its April 1st filing.

Q. DOES STAFF AGREE THAT THE RAC UPDATE MAY BE USED TO ADD RESOURCES NOT INCLUDED IN A UTILITY'S APRIL 1ST FILING?

A. No. The purpose of the RAC update is to update "*cost elements* as described in section 6(b) of an eligible resource [which] cannot be verified by the final round of testimony in an annual RAC proceeding ... to reflect then-current, prudently-incurred actual resource costs, or forecasted costs where appropriate.... If the updated costs are lower than the projected costs *in the record of the proceeding*, the update will contain sufficient information to support a reduction in the proposed RAC charges before the January 1 effective date. *If the updated costs are higher than the projected costs in the record, the difference will be treated in accordance with Section 6(f) below* [Deferred Accounting Under SB 838]." See Stipulation at 5, Order No. 07-572 (Docket UM 1330); emphasis added. It is clear that the purpose of the December 1st RAC update is not to add entirely new resources just before they are intended to go into rates on January 1st.

Q. PLEASE EXPLAIN THE TIMING IMPLICATIONS.

1 A. The established RAC process provides seven months for review of resources
2 before a Commission order on November 1st. Including new resources in any
3 filing after April 1st would not provide sufficient review time for staff and parties
4 or give the Commission sufficient time to review the matter and issue an order.

5 **Q. IS THE COMPANY HARMED BY EXCLUDING ADDITIONAL RESOURCES**
6 **FROM THE DECEMBER 1ST RAC UPDATE?**

7 A. No. The Commission provides for deferral of costs for eligible projects not
8 timely submitted for RAC filings. *Id.* at 5-6.

9 **Q. ARE RATEPAYERS HARMED BY EXCLUDING ADDITIONAL**
10 **RESOURCES FROM THE RAC UPDATE?**

11 A. No. Recovery of prudently incurred costs through deferred accounting is net of
12 dispatch benefits. *Id.* at 6. Therefore, customers will receive the power cost
13 benefit of these zero dispatch-cost resources through deferred accounting.
14 Further, PacifiCorp estimates the Oregon-allocated revenue requirement in
15 2009 for the Glenrock III and Seven Mile Hill II projects at \$2,828,662 million
16 and \$1,417,778 million respectively. See PacifiCorp's response to Staff Data
17 Request No. 63, Staff Exhibit 202 at 14-16. A comparison of revenue
18 requirements and power cost benefits of projects included in the RAC and TAM
19 filings demonstrates revenue requirements in 2009 far outweigh the power cost
20 benefits in that year. In addition, customers will be far better off with a
21 reasonable review period for these projects.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 A. Yes.

1 **CERTIFICATE OF SERVICE**

2
3 I certify that on July 23, 2008, I served the foregoing MOTION upon all parties of record
4 in this proceeding by delivering a copy by electronic mail and by mailing a copy by postage
5 prepaid first class mail or by hand delivery/shuttle mail to the parties accepting paper service.

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