BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF CHANGES TO ITS ELECTRIC SERVICE SCHEDULES	)))))	**CASE NO. PAC-E-07-05** **Rebuttal Testimony of Mark R. Tallman**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-07-05

October 2007

Q. Please state your name, business address and present position with the Company (also referred to as Rocky Mountain Power).

A. My name is Mark R. Tallman and my business address is 825 NE Multnomah, Suite 2000, Portland, Oregon 97232. My present position is Managing Director of Renewable Resource Acquisition. My position reports to the President of PacifiCorp Energy. Both Rocky Mountain Power and PacifiCorp Energy are divisions of PacifiCorp (the Company).

Q. How long have you been the Managing Director of Renewable Resource Acquisition?

A. I have been the Managing Director of Renewable Resource Acquisition since April 2006. Prior to that date I held the position of Managing Director of Front Office from September 2003 to April 2006. Prior to being the Managing Director of Front Office, I worked in the Origination Department, first as an Originator (beginning March 1995), then as the Manager of Origination (beginning January 1999), then as the Director of Origination (beginning September 2000), and finally as the Managing Director of Trading & Origination, Commercial & Trading (beginning September 2003). I have worked at the Company for more than 22 years.

Q. Please describe your educational history.

A. I have a Bachelor of Science degree in Electrical Engineering from Oregon State University and a Masters of Business Administration from City University. I am also a registered Professional Engineer in the states of Oregon and Washington.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to Staff's proposed revenue requirement adjustments based upon increases to and imputations of renewable energy credit (REC) revenue credits from the Company's new wind projects, including Wolverine Creek, Leaning Juniper, Marengo, and Goodnoe Hills wind projects (collectively, the Wind Resources).

Q. Would you please summarize your rebuttal testimony?

A. Through my rebuttal testimony, the Company accepts Staff's adjustment of $0.8 million (total Company) designed to update the Company's REC revenues to include known and measurable changes to these revenues in 2007. Indeed, as reflected in the updated revenue requirement results sponsored by Company witness Mr. Steven R. McDougal, the Company proposes to more than double this adjustment to $2.3 million (total Company) by extending it to cover all of 2007, instead of just the first five months of 2007 as proposed by Staff.

The Company disputes, however, Staff's adjustment of $3.4 million (total Company), which forecasts and imputes REC revenues based upon REC values assumed in the Company's integrated resource plan (IRP). This portion of the adjustment is inconsistent with test year conventions followed in all other aspects of this case, misuses the IRP to forecast and impute REC revenues, and inconsistently fails to include offsetting costs included in the IRP related to intra-hour integration of Wind Resources. The Company's support of an increased adjustment for 2007 known and measurable REC revenues is contingent upon rejection of this aspect of Staff's adjustment.

Q. Does Staff contest the prudence of the Wind Resources?

A. No. Staff does not contest the prudence of the Wind Resources. Staff witness Mr. Bryan Lanspery testified that he has no concerns about the projects selected or the manner in which the resources were acquired.

<u>Increased and Imputed REC Revenues</u>

Q. What REC revenue credits does Staff propose?

A. Staff makes two adjustments with respect to REC revenues during the proforma test year: (1) an adjustment of $825,390 (total Company) based on known and measurable historical actual sales through the first six months of 2007 (increasing the level of assumed REC revenues from all renewable resources in the Company's portfolio), and (2) an adjustment of $3,445,533 (total Company) from imputed REC revenues forecast for the Wind Resources using REC values assumed in the IRP.

Q. Please explain the basis for the first adjustment made by Staff.

A. The first adjustment ($825,390 total Company) is based on historical actual REC revenues (for the period January 1, 2007 through May 2007) that exceeded actual REC revenues during 2006.

Q. Does the Company object to the first adjustment made by Staff?

A. No, the Company does not object to the basic adjustment because it is based on known and measurable historical actual REC revenues. The revenue requirement originally proposed by the Company included 50,000 megawatt hours (MWhs) in Leaning Juniper REC revenues made during 2006. Staff's adjustment includes 235,000 MWhs of additional REC revenues associated with the Wind Resources in the first six months of 2007.

Q. Has the Company extended and increased this adjustment?

A. Yes. The Company has extended the adjustment to cover known and measurable changes in REC revenues through the end of 2007. The Company calculated this adjustment by using actual results through October 2007 and annualizing these revenues through December 2007 by applying October 2007 revenues to November 2007 and December 2007. The Company used these results instead of the 2006 REC revenues filed in the case. The resulting adjustment is an increase in REC revenues of $2,271,991 (total Company) in this case.

Q. Why did the Company propose to increase Staff's known and measurable REC adjustment?

A. Throughout this case, the Company has supported consistency in the application of test year conventions to avoid mismatching costs and revenues. This is true whether the result increases revenue requirement or, as here, decreases revenue requirement.

Q. Does the Company have any reservations about Staff's proposal to increase the REC revenue credit in this case?

A. Only one. The Company objects to Staff's proposal to impute additional REC revenues based upon IRP REC values. Because this proposal is inconsistent with a known and measurable approach to calculating the REC revenue credit, the Company's support of an increase to the REC revenue credit in this case for 2007 full year revenues is based upon the assumption that the adjustment will be adopted in lieu of (and not in addition to) Staff's proposal to impute additional

REC revenues based upon IRP valuations.

Q. Please explain the basis for Staff's REC adjustment related to IRP valuations.

A. This adjustment ($3,445,533 total Company) is based upon Staff's view (using Staff's interpretation of REC valuation assumptions in the Company's IRP) of incremental revenues that Staff believes should be associated with the Wind Resources. This adjustment is not based on known and measurable REC revenues. Staff based its proposed imputation on the erroneous assumption that the value for RECs was a necessary component in the IRP planning process to include renewable resources in the Company's preferred generation portfolio.

Q. Is it appropriate for Staff to impute revenues during the pro forma test year from the Wind Resources on anything but a known and measurable basis?

A. No. The revenue requirement in this case is based on a historical test year (2006) with known and measurable adjustments. The revenue requirement in this case is not based on a future test year.

Q. Does the IRP reflect costs associated with wind resources that are not included in the revenue requirement associated with the Wind Resources?

A. Yes. The IRP takes into account costs associated with integrating wind resources. The cost of integration consists of intra-hour costs and inter-hour costs. The GRID production cost model (used to determine net power costs in this case) accounts for inter-hour costs. Because the Company is still developing its methodology for including intra-hour costs in the Company's net variable power costs, these costs are not reflected in this case. The Company's intra-hour integration costs are real and significant, however, and the Company intends to include these costs in future filings.

Q. Does the IRP quantify the cost associated with intra-hour integration?

A. Yes. The cost of intra-hour integration reflected in the IRP is $1.33/MWh on a nominal levelized basis over 25-years.

Q. What is the effect of taking into account intra-hour integration costs on Staff's proposed imputation?

A. As Exhibit No. 57 shows, the intra-hour cost of integration for the Wind Resources (excluding Goodnoe Hills) is $842,144. Any imputation of REC revenues based upon IRP assumptions must be offset by IRP assumptions regarding intra-hour integration costs.

Q. Based on your testimony, what conclusions do you reach with respect to Staff's proposed adjustments?

A. It is not appropriate to impute REC revenues in this case unless they are based on actual, known, and measurable REC revenues. This is because the revenue requirement in this case is based on a historical test year (with known and measurable adjustments) and not a future test year. Staff's proposed revenue requirement decrease of $3,445,533 (total Company) is inappropriate and should be disregarded by the Commission. On the other hand, Staff's proposed adjustment for known and measurable changes in revenues, a decrease in revenue requirement of $825,390, should be adopted and adjusted to $2,271,991 to reflect changes through the end of 2007.

Q. Does this conclude your testimony?

A. Yes.

RECEIVED
2007 OCT 26 AM 10: 52
IDAHO PUBLIC
UTILITIES COMMISSION

Case No. PAC-E-07-05
Exhibit No. 57
Witness: Mark R. Tallman

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

Exhibit Accompanying Rebuttal Testimony of Mark R. Tallman

Intra-Hour Integration Cost

October 2007

Rocky Mountain Power
Exhibit No. 57
CASE No. PAC-E-07-05
Witness: Mark R. Tallman

Exhibit MRT-1

Wind Resource	(1) Proforma year RECs (MWh)	Intra-Hour Integration Cost ($/MWh)	Intra-Hour Integration Cost ($)
	(1)	(2)	(1) X (2)
Wolverine Creek	166,724	1.33	$ 221,743
Leaning Juniper	296,142	1.33	$ 393,869
Marengo	170,325	1.33	$ 226,532
Goodnoe Hills	-	1.33	$ -
sum	633,191		**$ 842,144**
		Idaho share (i)	**$ 53,106**

Notes:
(i) Based on a 6.306% system generation factor