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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 AND A PRICE INCREASE OF $27.7 MILLION, OR APPROXIMATELY 13.7 PERCENT	))))))))	**CASE NO. PAC-E-10-07** **Rebuttal Testimony of Mark R. Tallman**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-10-07

November 2010

Q. **Please state your name, business address and present position with PacifiCorp (the "Company").**

A. My name is Mark R. Tallman. My business address is 825 NE Multnomah, Suite 2000, Portland, Oregon 97232. My present position is Vice President of Renewable Resource Acquisition.

Q. **Are you the same Mark R. Tallman that submitted direct testimony in this proceeding?**

A. Yes.

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

A. The purpose of my testimony is to rebut the testimony of Mr. Joe Leckie of the Idaho Public Utilities Commission (the "Commission") Staff as it relates to rate base associated with the Dunlap wind project and operations and maintenance ("O&M") costs associated with wind administration and the High Plains, McFadden Ridge I, and Dunlap wind projects.

Dunlap Wind Project

Q. **Please summarize Staff's position as it relates to the Dunlap wind project.**

A. Staff is proposing a $1.0 million (system) rate base reduction for the Dunlap wind project. Specifically, Staff is proposing a rate base reduction in association with the purchase cost to acquire the Dunlap Ranch property; which comprises the majority of the critical property rights necessary to construct the Dunlap wind project.

Q. **What is the stated reason for Staff's proposed reduction?**

A. Staff testified that "it appears to Staff that some of the land purchased is not currently used and useful in providing utility service."

Q. **Does the Company agree with Staff's contention that a portion of the Dunlap Ranch property is not used and useful?**

A. No, the entirety of the Dunlap Ranch is used and useful because it was used, useful and necessary to effectuate a cost effective and environmentally respectful wind project.

Q. **Does Staff recognize not all property is equally suitable for placement of wind generation?**

A. Yes, in their testimony Staff states: "Staff recognizes that not all property will be equally suitable for the placement of wind generation, and that there may be other restrictions on the property that would curtail the number of wind generation sites."

Q. **What was Staff's reasoning in determining their proposed reduction?**

A. Notwithstanding Staff's acknowledgement regarding the blanket suitability of property for wind development, Staff's reasoning was based on their after-the-fact observance of the as-built placement of wind turbine generator ("WTG") towers and transmission facility towers. Staff concluded that if a section of deeded land, or portion of a section, within the Dunlap Ranch property did not ultimately house a WTG tower or a transmission tower then the pro-rata costs associated with such land should be arbitrarily declared "not currently used and useful".

Q. **Was there any other reasoning associated with Staff's determination?**

A. No, Staff's work papers clearly demonstrate the sole reasoning behind their determination was a simple counting of land sections that did not have an outcome of housing WTG towers or transmission towers.

Q. Does Staff's reasoning and simplistic approach overlook important facts?

A. Yes, Staff's approach of focusing only on WTG and transmission tower placement overlooks several important facts. First, the property was not offered piecemeal; the Company had to purchase the entire ranch. Second, WTG or transmission towers could not be placed in some areas due to restrictions I will discuss later. Third, purchase of the property is less expensive than leasing. In addition, three of the property sections Staff declares as "not currently used and useful" in fact housed meteorological towers that were used, useful and critical in determining the placement of WTGs upon the site. This meteorological tower information was utilized to optimally site WTGs; subject to constraints identified after the purchase of the property. Finally, the Company is receiving revenue from an agricultural lease associated with the Dunlap Ranch property. I address each of these issues later in my testimony.

Q. What do you conclude from Staff's determination?

A. I conclude that Staff is inappropriately basing their assessment of what constitutes "used and useful" on a few arbitrary criteria of where the Company constructed WTG and transmission towers. The appropriate criteria should be what the Company knew at the time the Dunlap Ranch was purchased and the overall benefit of the Dunlap Ranch to customers. Determination on this latter basis is the most appropriate view and consistent with established regulatory principle.

Q. Was the Dunlap Ranch property being offered for sale piecemeal?

A. No. The Dunlap Ranch was being offered for sale in its entirety. The alternative of buying the property piecemeal was not being offered in the market. Because the Dunlap Ranch property comprises the majority of the property rights necessary for the development of the Dunlap wind project, the entire ranch property was vital and was necessary in successfully developing a prudent and cost effective generation resource that is indeed the Dunlap wind project.

Q. **Why was the entire ranch property necessary for developing the Dunlap wind project?**

A. The development and ultimate placement of WTGs and other facilities associated with a wind project is a highly technical, time consuming and iterative process that cannot be determined without a number of environmental, engineering and technical wind studies. In addition, it is necessary to have multiple consultative sessions with agencies who are party to applicable permitting processes (i.e., the Wyoming Game and Fish Department) and agencies who the Company may have interaction with following the permitting process (i.e., the United States Fish & Wildlife Service). The purpose of the studies and consultations is to identify the restrictions associated with the wind project site.

Q. **Do you have an exhibit showing the Dunlap Ranch property in the context of the overall Dunlap wind project?**

A. Yes, Exhibit No. 61 identifies the Dunlap Ranch property in the context of the overall property rights necessary for the Dunlap wind project. It also illustrates the critical nature of the Dunlap Ranch property relative to the overall property rights required. Absent the Dunlap Ranch property, the Company could not have constructed the Dunlap wind project.

Exhibit No. 61 also identifies the environmental restrictions that resulted in agency consultations and permit requirements that took place after the Company acquired the ranch property and demonstrates why it is necessary to have adequate property rights when developing a wind project. While the site restrictions associated with the Dunlap wind project were many, the adequate size of the Dunlap Ranch property to accommodate the restrictions was a critical and necessary factor in constructing a generation resource in the best interest of customers.

Q. **How should the used and usefulness of a wind site property be assessed?**

A. Because of the iterative nature of developing a wind project, it is impossible to have a complete foreknowledge about a piece of property at the time a commitment to acquire the wind site property rights must be made. The iterative nature of wind project development underscores the inappropriateness of judging used and usefulness of wind site property on the basis of outcome. The used and usefulness of wind site property is most appropriately based on what the Company knew at the time it acquired the property rights and the benefit to customers in the overall context of a prudent and cost effective supply side generation resource.

Q. **Does Staff question the prudence of, or otherwise propose a rate base reduction associated with, any aspect of the Dunlap Wind project other than the Dunlap Ranch property?**

A. No.

Q. Did customers benefit because the Company acquired the entirety of the Dunlap Ranch property?

A. Yes, the fact that the Company had the entirety of the property to consider when working through the iterative study, agency consultation and permitting processes benefited customers because the Company could construct a more economic generation project while respecting environmental and other restrictions. In short, had the Company had less property to work with, it is likely the Dunlap wind project would have resulted in a higher cost resource.

Q. How else does the Dunlap Ranch property benefit customers?

A. Customers benefit from the fact that the Company bought the Dunlap Ranch because leasing a similar piece of property would be more costly. It is not typical for wind projects to be located on land owned by the entity who also owns the wind project assets.

Q. Have you quantified the benefit to customers of purchasing the property versus a lease?

A. Yes, the Company is leasing state property within the external and internal boundary of the Dunlap Ranch that can serve as a proxy. The cost to purchase the ranch was identified in Staff's Confidential Exhibit No. 103, page 1. When conservatively compared to the proxy cost associated with the state property lease, customers nominally benefit by more than $16 million during the initial 25-year life of the project and by more than $317 million if the site is repowered four times during a 100-year period. Because the Dunlap Ranch is an attractive place to house a wind project, it is reasonable to expect the Company will have assets at the site well beyond the life of the initial project. This provides additional benefit to customers because payments to a third party are avoided in perpetuity and the Company, on behalf of its customers, holds the option (the "Terminal Value") to repower the site at cost after the initial 25-year life.

Q. What other benefits are associated with the Dunlap Ranch property?

A. The Dunlap Ranch property offers important additional benefits to customers and for the public interest. First, the Company has entered into an agricultural lease for that portion of the property where WTG towers, transmission towers or other assets (i.e., the O&M building and the collector substation) are not located. While modest, this agricultural lease indeed provides revenues to the Company and customers for those very sections of land that Staff has concluded are not "currently used and useful". During the construction phase, the revenues associated with the agricultural lease appropriately reduced the capital associated with the wind project, thus benefiting customers. During the operational phase, the agricultural lease will continue to generate revenues that will be taken into consideration in future rate proceedings. In addition, the agricultural lease provides other benefits since a lease requirement is that the Dunlap Ranch house be occupied to provide on-site security, improvements and to prevent trespassing. The fact that the agricultural lease generates revenues, albeit modest and other benefits further demonstrates the flaw associated with Staff's reasoning and approach.

Q. What are the other benefits associated with the Dunlap Ranch property?

A. The Dunlap Ranch property provides important setback protection for customers in terms of wake effects from potential future adjacent wind projects, important buffer property to respect the environment and the potential for continued public access to the property. These additional customer and public interest benefits are directly associated with those sections of land that Staff has identified as being "not currently used and useful" and additionally demonstrate that those portions of the ranch are indeed used, useful and in the public interest.

Wind O&M Costs

Q. Please summarize Staff's position as it relates to O&M costs for wind administration and the High Plains, McFadden Ridge I and Dunlap wind projects.

A. Staff is proposing a $488,000 (system) reduction in the expense increase requested by the Company for O&M costs associated with the High Plains, McFadden Ridge I and Dunlap wind projects, and a $174,119 (system) reduction in expense associated with wind administration O&M costs. The total reduction proposed by Staff is $662,119 (system).

Q. What was the intent behind the O&M expense increase requested by the Company for wind administration and the High Plains, McFadden Ridge I and Dunlap wind projects?

A. Staff describes the intent, and the Company agrees, as: "These increases are intended to capture the increase in costs to operate these facilities that were recently placed in service."

Q. What is the stated reason for Staff's proposed reductions?

A. Staff testified that "The Company has not shown that the 2009 test year expenses are insufficient to cover these costs."

Q. What was the basis for Staff's determination?

A. Staff determined that expected costs associated with 2010 contractual expenses are acceptable known and measurable increases to the test year expenses but that 2010 expenses budgeted for labor, employee expense and electrical parts, breakers, fuses filters, gaskets, gear oils, propane etc. are not sufficiently known and measurable and should not be included in the Company's test year expenses.

Q. Does the Company agree with Staff's contention that the budgeted expenses associated with wind administration and the High Plains, McFadden Ridge I and Dunlap wind projects are not sufficiently known and measurable?

A. No, the costs that Staff is targeting are costs typically associated with any of the Company's owned wind plants and are the type of costs the Company has indeed experienced in association with fewer wind projects that were operating for the entirety of 2009. Because adding three wind projects at two different sites is indeed known and measurable, it is unreasonable for Staff to declare such expenses associated with the addition of those operating wind projects as not known and therefore unrecoverable.

Q. Is there a practical reason the Company does not have historical expenses associated with the referenced "budgeted expenses"?

A. Yes, as my direct testimony described, the High Plains and McFadden Ridge I wind projects reached their commercial operation date ("COD") during September 2009. In addition, the Dunlap wind project reached its COD on October 1, 2010. As a result, actual 2009 expenses largely do not reflect expenses associated with these particular wind projects because they were either operating for a very short period of time during 2009 or not at all (in the case of Dunlap).

Q. Did the Company provide Staff with any information regarding expenses the Company incurred during 2009 for other wind projects?

A. Yes, in response to data request IPUC 109 the Company itemized actual expenses associated with five wind projects located at two Wyoming sites (Seven Mile Hill, Seven Mile Hill II, Glenrock, Rolling Hills and Glenrock III). These expenses are similar in type to the expenses Staffs has taken issue with. In so doing, the Company demonstrated that the expenses associated with the three new Wyoming projects (High Plains, McFadden Ridge I and Dunlap) are reasonable and known and measurable on a dollar per site basis as compared with those incurred during 2009. Specifically, the Company is seeking an additional $488,000 (system) in O&M expenses which amounts to $244,000 per new site. This can be compared to the actual 2009 expense of approximately $319,000 per existing site. When viewed on this basis, the expected costs for 2010 are reasonable as compared to the known and measurable 2009 average cost per site. See Exhibit No. 62.

Q. Did the Company provide Staff information regarding expected wind administration costs for 2010 compared to actual costs for 2009?

A. Yes, in response to data request IPUC 319 the Company itemized actual wind administration costs for 2009 associated with five sites in the system (Wyoming, Oregon and Washington) as compared to wind administration costs for 2010 associated with seven sites in the system (two new sites added in Wyoming). In so doing, the Company demonstrated the reasonableness of its wind administration costs and the known and measurable nature of the 2010 expenses on a per site basis. Specifically, the Company is seeking an additional $174,119 (system) which amounts to approximately $262,000 per site within the Company's portfolio (7 total sites in 2010). This can be compared to the actual 2009 expense of approximately $332,000 per site (5 total sites in 2009). When viewed on this basis, the expected costs for 2010 are reasonable as compared to the known and measurable 2009 average cost per site. See Exhibit No. 63.

Q. **Is Staff's recommended wind administration reduction reasonable given the information the Company provided Staff in IPUC 319?**

A. No. By recommending a $174,119 (system) reduction in expense associated with wind administration O&M costs, Staff is expecting the Company to absorb the added administration costs associated with three new wind projects.

Conclusion

Q. **What conclusion do you have regarding Staff's proposal to reduce the Dunlap wind project rate base by $1.0 million (system)?**

A. I conclude that the Dunlap wind project is a very cost effective resource that will benefit customers for many years. Staff is inappropriately reviewing the used and usefulness of the Dunlap Ranch property on the basis of actual WTG and transmission tower placement. Instead, Staff should have viewed the used and usefulness of the Dunlap Ranch property on the basis of what the Company knew at the time the property was purchased, the cost benefit the property brings customers (i.e., perpetually avoided lease costs) and the ongoing benefit the property brings customers (e.g., revenues from the agricultural lease) as well as the overall public interest.

Q. What are the policy implications of Staff's rate base reduction recommendation?

A. From a policy perspective, accepting Staff's proposal sends a signal that land right acquisitions for wind project sites should not be governed by what is in the overall cost effective interest of customers, but rather based on how many of the property sections will house WTG or transmission towers. Such an approach does not constitute a least cost approach to generation development and is contrary to the best interest of customers. The Company maintains that acquisition of the Dunlap Ranch in its entirety was its only option, it was not available piecemeal, and that the acquisition was indeed prudent, in the best interest of customers, and constitutes a used and useful asset in the public interest.

Q. What recommendation do you have for the Commission regarding Staff's proposed Dunlap wind project rate base reduction?

A. I recommend the Commission reject Staff's proposed $1.0 million adjustment associated with the Dunlap Ranch property and reject Staff's recommendation to have $1.0 million associated with the Dunlap Ranch property put into Account 105 (property held for future use).

Q. What conclusion do you have regarding Staff's proposal to reduce the Company's cost recovery for O&M expenses associated with the High Plains, McFadden Ridge I and Dunlap wind projects and wind administration expenses by a total of $662,119 (system)?

A. I conclude that Staff's proposed O&M expense reduction of $662,119 (system) is unwarranted and unreasonable because the Company adequately demonstrated via data request IPUC 109 and data request IPUC 319 that projected 2010 O&M expenses for wind administration and the High Plains, McFadden Ridge I and Dunlap wind projects are reasonable, given actual 2009 expenses associated with like expense categories for the Company's wind project sites. My testimony demonstrates that it is unreasonable to assume there will be no additional costs. The projected wind resource O&M costs the Company included in its case are the most accurate reflection of the expense the Company expects to incur during the rate effective period.

Q. What recommendation do you have for the Commission regarding Staff's proposed O&M adjustment?

A. I recommend the Commission disregard Staff's proposed $662,119 (system) in O&M adjustments.

Q. Does this conclude your rebuttal testimony?

A. Yes

Case No. PAC-E-10-07
Exhibit No. 61
Witness: Mark R. Tallman

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

Exhibit Accompanying Rebuttal Testimony of Mark R. Tallman

Map of Dunlap Ranch

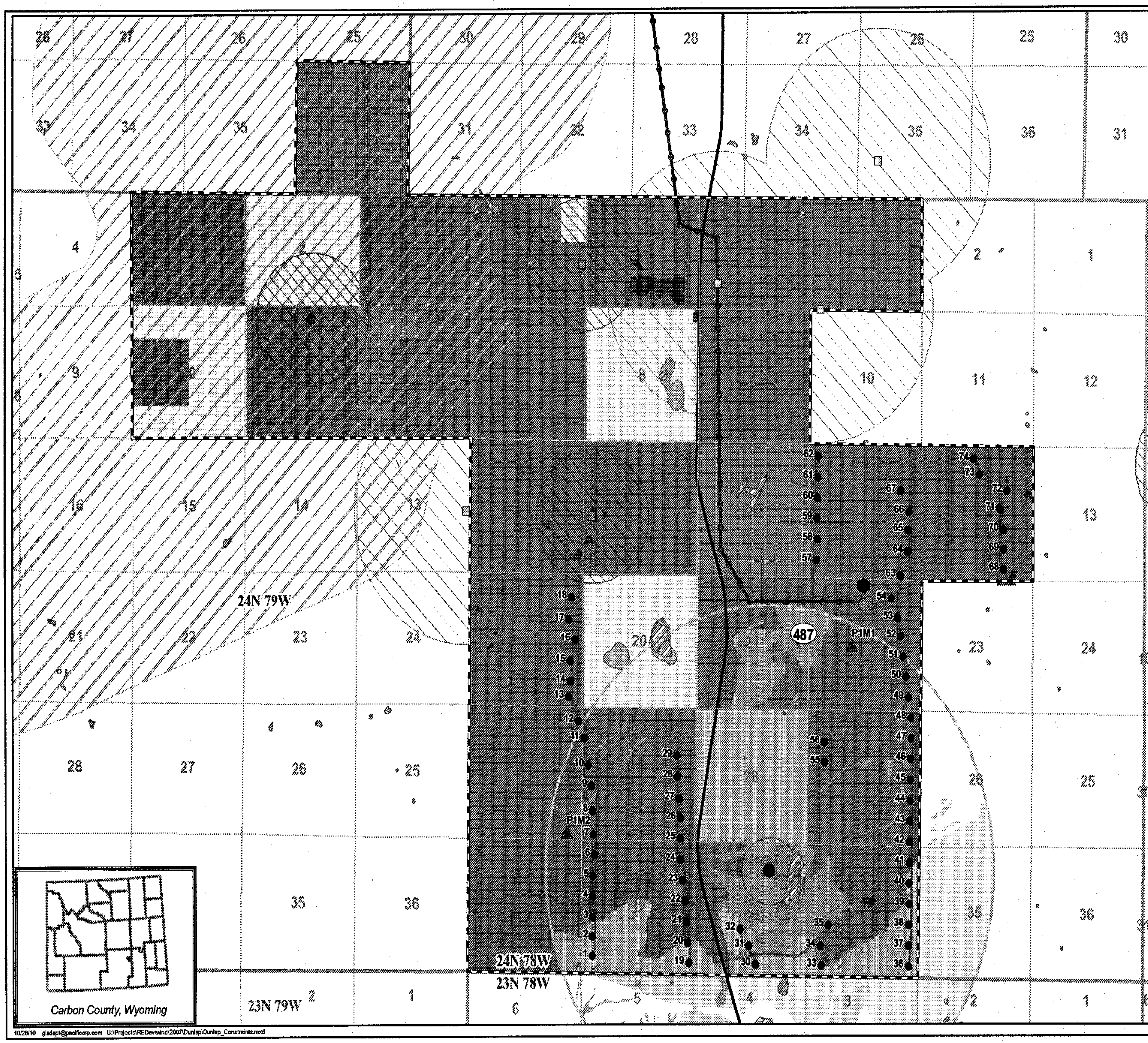
November 2010

Rocky Mountain Power
Exhibit No. 61 Page 1 of 1
Case No. PAC-E-10-07
Witness: Mark R. Tallman

Dunlap Wind Energy Project

Phase I
Project Overview

Environmental Constraints



Legend

- Township/Range
- Section
- Ranch Boundary
- Highway
- Phase I Turbines
- Project Roads
- Collector/Substation
- O & M Building
- T - Line
- T Line Structures
- Permanent Met Towers
- Elk Crucial Winter Range
- Wetlands
- Exclusion Zones

Raptor Nests

- Ferruginous Hawk
- Golden Eagle
- Great Horned Owl
- Long-eared Owl
- Merlin
- .5 Mile Raptor Buffer
- 1 Mile Buffer

Sage Grouse

- Active Sage Grouse Lek
- 2 mile CSU
- .25 Mile Sage Grouse Lek Buffer

Sage-Brush Density

- High: >60%
- Moderate: 30-60%
- Low: 10-30%

Ownership

- Deeded PacifiCorp
- State of Wyoming
- BLM
- WATER
- DEEDED PRIVATE

0 2,000 4,000
Feet

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PACIFICORP ENERGY
A DIVISION OF PACIFICORP

GIS Support Services
Solutions Group
gisdept@Pacificorp.com

Data is projected in UTM Zone 13, NAD83, meters.

10/28/10 gisdept@pacificorp.com U:\Projects\REDev\wind\2007\Dunlap\Dunlap_Constraints.mxd

Case No. PAC-E-10-07
Exhibit No. 62
Witness: Mark R. Tallman

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

Exhibit Accompanying Rebuttal Testimony of Mark R. Tallman

O&M Costs by Wind Facility

November 2010

Note: shaded portions not incuded in response to IPUC 109

Attachment IPUC 109

Operations and Maintenance Costs by Wind Facility - Idaho General Rate Case

	A	B	C	D	E		Expense	Site	$/Site
Pro forma 2010 (see Adj 4.6)	Labor	Employee Expenses	Materials	Contracts	Other	Total	A+B+C		
High Plains	$ 26,000	$ 2,000	$ 231,000	$ 1,873,363	$ 890,000	$ 3,022,363	$ 259,000	1	
McFadden Ridge	$ 12,000	$ -	$ 44,000	$ 540,461	$ 256,000	$ 852,461	$ 56,000		
Dunlap	$ 68,000	$ 20,000	$ 85,000	$ 2,049,111	$ 213,000	$ 2,435,111	$ 173,000	1	
Wind Admin	$ 1,443,000	$ 100,000	$ 209,000	$ 84,148	$ -	$ 1,836,148			
							$ 488,000	2	$ 244,000

Actual 2009	Labor	Employee Expenses	Materials	Contracts	Other	Total	Expense	Site	$/Site
Seven Mile Hill	$ 10,016	$ 1,281	$ 89,495	$ 1,153,848	$ 177,095	$ 1,431,735	$ 100,792	1	
Glenrock	$ 5,938	$ -	$ 121,514	$ 1,032,864	$ 40,097	$ 1,200,413	$ 127,452	1	
Rolling Hills	$ 6,377	$ 1,281	$ 317,561	$ 1,163,262	$ 656	$ 1,489,136	$ 325,219		
Seven Mile Hill II	$ 1,699	$ 197	$ 20,462	$ 228,404	$ 34,869	$ 285,631	$ 22,358		
Glenrock III	$ 2,346	$ -	$ 59,920	$ 410,734	$ 85	$ 473,086	$ 62,266		
							$ 638,087	2	$ 319,043

Case No. PAC-E-10-07
Exhibit No. 63
Witness: Mark R. Tallman

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

Exhibit Accompanying Rebuttal Testimony of Mark R. Tallman

Average O&M Costs per Facility

November 2010

ID PAC-E-10-07
IPUC 319

PacifiCorp

Note: shaded portions not incuded in response to IPUC 319

Docket No. PAC-E-10-07
Attachment IPUC 319

	A	B		B-A
	Jan - Dec 2009 Actual	Jan - Dec 2010 Pro Forma	Explanation	
Labor	1,203,332	1,437,413	2009 - costs for seven full-time employees plus cross-charged labor for Rocky Mountain Power employees related to operational start-up projects. 2010 - Budgeted costs for 13 full-time employees	234,081
Exployee Expenses	131,137	120,567	Major categories of employee expenses include travel, training & recruiting	(10,570)
Materials	235,696	37,677	Major categories of materials include computer software/hardware, vehicles expenses, facility/office supplies	(198,019)
Contracts	109,849	150,708	Major categories of contracts include maintenance, cell phone, utility, and other miscellaneous contracts.	40,859
Other	(17,985)	89,783	Miscellaneous costs including utilities, rent, and other	107,768
Total	1,662,029	1,836,148		174,119

Wyoming sites	2	4
Oregon sites	1	1
Washington Sites	2	2
total	5	7
$/site	$ 332,406	$ 262,307

Rocky Mountain Power
Exhibit No. 63 Page 1 of 1
Case No. PAC-E-10-07
Witness: Mark R. Tallman