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 Chad A. Teply**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-10-07

November 2010

Introduction

Q. Please state your name and business address.

A. My name is Chad A. Teply. My business address is 1407 West North Temple, Suite 210, Salt Lake City, Utah.

Q. Are you the same Chad A. Teply who submitted pre-filed direct testimony in this proceeding?

A. Yes.

Purpose of Testimony

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

A. My testimony will respond to the direct testimony of Mr. Randall J. Falkenberg on behalf of the PacifiCorp Idaho Industrial Customers ("PIIC") regarding the Company's management and financial modeling of unplanned thermal unit outages and will also respond to the direct testimony of Mr. Don Reading on behalf of the Idaho Conservation League ("ICL") regarding prudence of the Company's pollution control expenditures for coal-fired power generation plants.

Q. Please summarize Mr. Falkenberg's concerns regarding the Company's management and financial treatment of planned and unplanned thermal unit outages and his recommended adjustments 6 and 7.

A. Mr. Falkenberg's concerns are primarily two-fold. First, Mr. Falkenberg is concerned with the Company's prudence regarding management of two outage events. Second, Mr. Falkenberg is concerned with the Company's utilization of the calculated four-year average outage rate for the thermal units in question. Mr.

Falkenberg's recommendation is to cap the allowable outage durations for the two outage events to 28 days in outage rate calculations.

Q. Does the Company believe that the planned and unplanned thermal unit outages in question were prudently managed?

A. Yes.

Q. Are the costs for the extended planned and unplanned outage durations in the four-year averaging period representative of the costs expected in the prescribed test period?

A. Yes. The Company has appropriately applied the accepted outage rate averaging methodology to the specific units referenced. When reviewed in isolation, the Company recognizes that the individual outage rates referenced are, on average, higher than those units that did not experience extended planned or unplanned outages during the four-year averaging period; however, considering the size and age of the Company's generation fleet, individual units do experience significant events that result in extended outages during prescribed test periods. If significant events are not calculated into the Company's outage rates, due to their anomalous characteristics, said omission artificially affects the historical, and therefore, forecasted availability of the fleet. As such, the outage rate averaging methodology applied by the Company for individual units, when reviewed in context with the Company's aggregated outage rates, accurately represents costs incurred by the Company associated with unit outages in the prescribed test period and provides an accurate forecast for expected outage costs for the Company's generation fleet on a forward-looking basis.

Q. Are the Company's calculated four-year average outage rates for the thermal units in question reasonable?

A. Yes. Using the four-year average outage rate for the Company's thermal units is reasonable and should be included in rates.

Q. Why should the Commission reject Mr. Falkenberg's proposal to cap extended outages at 28 days in the outage rate calculations utilized as the basis for this case?

A. The cap approach proposed by the Company in OPUC docket, UM 1355, and referenced by Mr. Falkenberg in his testimony beginning on line 23, was part of a larger proposal that has not been accepted by regulators. As noted in Mr. Falkenberg's testimony, there are several completing alternatives in the docket referenced and a decision is pending. The Company has submitted extensive testimony and exhibits in OPUC docket, UM 1355, which can be referenced but will not be re-presented herein.

Q. Was the Company's management of the Lake Side unplanned outage referenced in Mr. Falkenberg's testimony prudent and reasonable?

A. Yes. On August 16, 2009, the Lake Side steam turbine generator tripped following a three phase electrical fault which resulted in catastrophic damage to the stator windings. There were no operational or other monitoring equipment indications of a problem prior to the trip and no history of problems on the unit. Following the fault, the generator field was removed allowing access for visual examination and testing. Inspections by Siemens (the original equipment manufacturer), the Company and an independent generator expert revealed the

stator core was beyond repair, and that stator replacement was the only option to return the unit to service. A suitable replacement stator was located, purchased and delivered. Contamination from the stator fault necessitated field refurbishment. Work to ship the replacement stator, remove the failed stator, and refurbishment of the field occurred simultaneously. With a new stator and refurbished rotor installed, the manufacturers' recommend tests were performed prior to returning the unit to service on November 15, 2009. Considering the nature of the catastrophic damage incurred and the typical lead time to specify, procure and manufacture replacement equipment of the type needed in this instance, the schedule achieved to locate, purchase, and install a replacement stator at Lake Side and return the unit to service for the benefit of customers was commendable.

Q. Was the Company's management of the Colstrip Unit 4 planned outage referenced in Mr. Falkenberg's testimony prudent and reasonable?

A. Yes. Prior to 2009, Colstrip Unit 4 experienced a sudden, massive condenser tube leak that caused cracks in the L-0 stages of the main turbine's low-pressure rotors. These cracks were discovered during a scheduled spring 2009 inspection. The turbine manufacturer determined that the rotors could not be returned to service in their as-found condition. The rotors were sent to the turbine manufacturer's facilities for removal of the damaged rotor wheels and weld-repair and machining of new wheels. During the initial repair sequence, non-destructive examination completed by the manufacturer as part of its quality assurance process found significant defects in the weld material which had been utilized for

repair of the new wheels. This material had to be removed and the wheels re-welded. Final quality assurance testing showed that the second batch of weld material was sound. The wheels were machined, blades installed, and the unit was returned to service in late 2009. Although the required rotor repairs and need for re-work resulted in extended outage duration, adherence to manufacturer recommendations for turbine rotor repairs and utilization of its repair facilities was the prudent and reasonable approach to management of that outage critical path.

Q. Please summarize Mr. Falkenberg's concerns regarding the Company's management and financial treatment of the Naughton Unit 3 outage and his recommended adjustment 9.

A. Mr. Falkenberg's concerns are primarily two-fold. First, Mr. Falkenberg is concerned with the Company's prudence regarding management of the referenced outage event. Second, Mr. Falkenberg is concerned with the Company's calculation of the outage rate for the thermal unit in question. Mr. Falkenberg's recommendation is to adjust the planned and forced outage rates calculated for the thermal unit in question in this case.

Q. Does the Company believe that the Naughton Unit 3 outage in question was prudently managed?

A. Yes. The Company prudently negotiated a liquidated damages clause with the contractor before the start of repairs. The Company prudently exercised that clause when poor subcontractor performance negatively impacted outage completion. The liquidated damage payment was credited to customers.

The collection of liquidated damages from the outage repair does not displace the need to recover appropriate outage costs and reflect appropriate outage durations in the four-year average outage rate for the thermal unit in question. As noted in Mr. Falkenberg's testimony, the liquidated damages collected did not result in full compensation for costs associated with this event.

Q. Does including extended planned and unplanned outage durations in the four-year averaging period for cost recovery for specific units appropriately represent costs incurred by the Company associated with outages in the prescribed period?

A. Yes. Please refer to my testimony beginning on line 31 above.

Q. Is it your opinion that the calculated four-year average outage rate for the thermal unit in question should be included in rates?

A. Yes. In my opinion, the Company has appropriately applied the accepted outage rate averaging methodology to the specific units referenced, and therefore that rate should be included in rates.

Q. Please summarize Mr. Reading's concerns regarding prudence of the Company's pollution control expenditures contemplated in this case.

A. Mr. Reading's concerns regarding prudence of the pollution control expenditures for which the Company is seeking recovery in this case are primarily three-fold. First, Mr. Reading is concerned that the Company is installing certain pollution control equipment to meet "a presumptive BART emission limit". Mr. Reading is concerned that the Company is making these investments before it receives a final decision on whether the equipment is sufficient to meet federal pollution control

standards.

Second, Mr. Reading is concerned that the Company is installing certain pollution control equipment in accordance with state issued permit requirements, but without final U.S. Environmental Protection Agency ("EPA") review and approval of the respective state implementation plans. Mr. Reading's concern is that the EPA may ultimately require more stringent controls and more expensive equipment to be installed on the generating units contemplated in this case.

Third, Mr. Reading testifies that if future stricter regulations are enacted, the projects contemplated in this case may not be sufficient to achieve compliance. Mr. Reading has asked that the Company justify any future pollution expenditures in two ways. First, expenditures would be analyzed not only based on the effectiveness of the control equipment, but also with respect to compliance with existing federal pollution control laws. Second, a risk assessment of meeting realistic assumptions for future stricter environmental requirements would be completed.

Company Response to Concerns

Q. Please clarify the definition of "a presumptive Best Available Retrofit Technology ("BART") emission limit" as it pertains to established federal pollution control standards.

A. The use of the term "presumptive" in the instance cited refers to presumptive emission rates that are discussed in the Regional Haze Rule, Code of Federal Regulations (CFR), Title 40, Sections 51.300 through 51.309, and Appendix Y.

Electronic copies of the referenced Code of Federal Regulations can be found at the following link:

http://www.access.gpo.gov/nara/cfr/waisidx_09/40cfr51_09.html

The term "presumptive" comes from Appendix Y cited above, and the presumptive rates are defined by the EPA. States use the presumptive rates defined by the EPA to assist in determining if a BART-eligible facility has met the requirement to install best available retrofit technology. For example, if the installation of low-NOx burners on a BART-eligible facility with cell-burners firing sub-bituminous coal achieves an emission rate of 0.28 lb/MMBtu, which is below the EPA presumptive BART rate of 0.45 lb/mmBtu (the presumptive rate for a cell-burner unit burning sub-bituminous coal), it can be presumed that the installation of low-NOx burners on this unit meets federal best available retrofit requirements with respect to NOx control, and no additional controls would be required. With respect to SO2 control, the EPA had defined the presumptive SO2 emissions rate as 0.15 lb/mmBtu or 90% removal. Here again, if the installation of pollution control equipment on a BART-eligible facility achieves an emission rate less than that presumptive limit, it can be presumed that the installation meets federal best available retrofit requirements and no additional controls will be required.

Q. Is the Company obligated to install pollution controls required by state permits, regardless of whether final U.S. Environmental Protection Agency review and approval of the respective state implementation plans remains pending?

A. Yes. The BART permits and construction permits issued by the respective state agencies for the pollution control investments contemplated in this case include stand-alone requirements enforceable by the laws of the respective states. These requirements are enforceable independent of whether EPA has approved the respective state implementation plans.

Q. Does the Company anticipate that final U.S. EPA approval of the respective state implementation plans will require alternate pollution control equipment to be installed, making the equipment contemplated in this case obsolete?

A. No. The pollution control technology selections completed to date apply best available retrofit technology, comply with existing state and federal regulations, and support Regional Haze Rule objectives. The Company also incorporates into its pollution control equipment contract specifications design considerations intended to provide appropriate levels of operating margin, equipment redundancy, and system maintainability and reliability provisions to support an expected range of process inputs, operating conditions, and system performance. Although the Company cannot predict future pollution control regulations and associated emissions limits, the Company does take steps to procure a prudent level of design flexibility to accommodate potential changes in system performance requirements, where practical.

Q. Does the Company anticipate that final U.S. EPA approval of the respective state implementation plans will require additional pollution control equipment to be installed on the facilities contemplated in this case?

A. That is a possibility; however, should final EPA approval of state implementation plans prescribe additional emissions reductions across the Company's generation fleet, the Company anticipates that said reductions would likely be accomplished via additional projects that build on the capabilities of installed pollution control projects, otherwise act independently of installed pollution control projects, or via facility operations changes. The Company includes the following considerations in its planning efforts in order to best meet the Company's future emissions reductions obligations: facility operations compliance options, available control technologies, cost of compliance; proposed compliance deadlines, and emerging environmental regulations and rulemaking.

Q. On page 44 lines 17 and 18 of Mr. Reading's testimony he expresses concern that current pollution control projects may not be sufficient to meet future stricter regulations. How do you respond?

A. PacifiCorp and its parent, MidAmerican Energy Holdings Company, are very active in the current Congressional, state legislative, and EPA activities regarding environmental controls affecting virtually every emission from coal and natural gas generating units. The Company is very cognizant that some potential restrictions on greenhouse gas emissions ("GHGs") could require coal (and potentially natural gas) units to adjust the depreciation lives for ratemaking purposes. The Company considers this possibility when determining whether to

proceed with investments to control emissions other than GHGs. As stated on page 10 of my direct testimony, the Company's plans regarding these investments would not change due to carbon-emission restrictions. The units have depreciation lives for ratemaking purposes that provide sufficient remaining time to depreciate the investments in the pollution controls.

Q. Starting at line 20 on page 45 of his testimony, Mr. Reading refers to other states that are evaluating whether to invest in environmental control equipment or retire existing coal units. How do you respond?

A. PacifiCorp and its parent closely monitor environmental activities in other states, including nearly all Western states. PacifiCorp is a participant in the Oregon proceedings regarding Portland General Electric's Boardman plant. I would correct Mr. Reading's statement regarding that proceeding, in that no decision has yet been made to retire that plant before the end of the depreciation life used for ratemaking. That is merely one of several options under consideration.

PacifiCorp and its parent are also closely following proceedings in Colorado. As Mr. Reading correctly notes, the current activity in Colorado relates to the implementation of a statute enacted in 2010. That statute primarily focused on reductions in nitrogen oxides and facilitated the conversion of 1000 MW of coal-fired generation to natural gas generation. The regulatory proceeding is still pending.

Q. Is the Company undertaking reasonable efforts to ensure that environmental regulators consider the uncertainty created by requiring investments in certain emissions controls prior to knowing the nature and extent of controls on other emissions?

A. Yes. The Company appealed Regional Haze requirements in Wyoming for this exact reason. Wyoming was the first state to make the determination that best available retrofit technology (BART) required the installation of selective catalytic reduction ("SCR") controls for nitrogen oxides. The Company disagreed with that determination and asserted that Appendix Y of 40 CFR Part 51 did not contemplate the installation of post-combustion controls. Additionally, the Company was concerned that other environmental laws and/or regulations could impact the Company's facilities affected by Wyoming's BART determinations. These requirements not only include greenhouse gas reduction requirements, but also a host of regulatory initiatives underway by the EPA, including the outcome of pending coal combustion residual regulations and maximum achievable control technology standards for mercury and non-mercury hazardous air pollutants. Due to the uncertainty associated with the potential impact of these rules on the Company's facilities, the Company appealed the BART permits issued by the Wyoming Department of Environmental Quality to ensure that these and other issues were considered in the agency's decision and, to the extent these issues had an impact on long-term viability of the facilities, the economic analysis of adding emission reduction equipment was properly reflected. The Company's appeal is still pending before the Wyoming Environmental Quality Council. Since the time

that the Company filed its appeal, the EPA has issued a BART determination for the Four Corners Power Plant, requiring the installation of SCR at all five units operated by Arizona Public Service within a five-year period, without regard to other environmental requirements or their associated uncertainties.

Q. In this rate case, the investments in environmental controls have already occurred. What process is in place by which Mr. Reading's concerns are explored prior to investments being made?

A. The integrated resource planning (IRP) proceedings conducted in all six of the states served by the Company provides the process to address Mr. Reading's concerns. Future IRP proceedings will more and more focus upon the increasing complexity in balancing factors such as (1) pending environmental regulations and requirements to reduce emissions, (2) avoidance of excessive reliance on any one technology, (3) cost of energy efficiency and demand response programs, (4) cost of supporting reasonable state economic development efforts, (5) cost of additional transmission investment to increase efficiency and reliability of the integrated transmission system, (6) all while trying to maintain rates as affordable as possible.

Q. Does this conclude your rebuttal testimony?

A. Yes.