



825 NE Multnomah, Suite 2000
Portland, Oregon 97232

December 7, 2012

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Public Utility Commission of Oregon
550 Capitol Street NE, Ste 215
Salem, OR 97301-2551

Attn: Filing Center

RE: UM 1182 – Errata – Replacement Pages to Stacey J. Kusters’ Direct Testimony

PacifiCorp d/b/a Pacific Power submits for filing an original and five copies of the corrected pages 12, 13, 15, and 21 to the direct testimony of Stacey J. Kusters. Please replace the previously sent pages with the enclosed pages.

Please direct any informal inquiries regarding this filing to Bryce Dalley, Director, Regulatory Affairs and Revenue Requirement, at (503) 813-6389.

Sincerely,

William R. Griffith
Vice President, Regulation

Enclosures

cc: Service List UM 1182

1 the APSA bidder. These values are based on the performance information
2 provided by the Original Equipment Manufacturer (OEM) as adjusted for site-
3 specific characteristics and the third party's design. The heat rates are converted
4 to a long term annual schedule of performance through the application of the heat
5 rate degradation curve, which is supplied by the OEM. To ensure a common
6 approach is used, the same degradation values are applied for proposals that use
7 the same OEM equipment. For third party tolling services agreement (TSA)
8 proposals the Company utilizes the heat rate information that is submitted in the
9 bidder's proposal.

10 **Q. Is the OEM the best source for heat rate degradation data?**

11 A. Yes. The OEM has the most information about the expected performance over
12 time of its equipment. However, actual plant performance is dependent on the
13 maintenance of the plant. The Company enters into long-term maintenance
14 contracts (LTP) for the major OEM equipment to ensure the equipment is
15 maintained and overhauled according to the OEM's recommendations. The heat
16 rate degradation schedule is prepared based on the OEM's recommended
17 maintenance schedule and used in the evaluation process. This may or may not
18 be accurate for a third party bidder as it may in fact do this work itself and choose
19 not to have an LTP contract compliant with the OEM's recommended overhaul
20 schedules or maintenance practices. These maintenance overhauls contribute
21 significantly to recovering the degradation losses that affect the performance of
22 the equipment over the life of the asset. Unless contracts terms exist to protect
23 customers, third parties that operate a resource inconsistent with OEM

1 maintenance guidelines could pose increased risks to customers.

2 **Q. Does the IE assess the reasonableness of heat rate and degradation values**
3 **used to evaluate resource proposals as it pertains to a Company owned**
4 **benchmark resource or the third party bidder?**

5 A. Yes. In general the IE assesses the reasonableness of the heat rate and
6 degradation values used to evaluate the resource proposals. However, it would
7 also depend on how the third party bidder proposal is structured and if the third
8 party bidder intends to operate and maintain in the plant equipment. Without
9 this information, it is difficult to determine a third party bidder's maintenance
10 assumptions and therefore whether or not they are reasonable.

11 **Q. Are customers typically protected from impaired performance versus the**
12 **guaranteed heat rate provided in EPC and Asset Purchase and Sale (APSA)**
13 **contracts?**

14 A. Yes. The Company negotiates liquidated damages for impaired performance (i.e.
15 higher heat rates than guaranteed) under an EPC or an APSA in the event the
16 resource does not meet its guaranteed heat rate value at the completion of the
17 project's commissioning period. For example, in the Company's most recent
18 EPC contract for the Lake Side 2 resource, the EPC contains provisions to recover
19 liquidated damages in the event the heat rate is greater than the guaranteed
20 contract heat rate value.

21 **Q. Can heat rates of utility owned resources improve over time?**

22 A. Yes. The OEMs periodically make available mechanical and controls upgrades
23 that can result in improved heat rates if purchased and installed. The Company

1 heat rate. Inasmuch as the thermal unit would also be used to provide reserves,
2 integrate wind, or track load, its realized heat rate will be higher than that of the
3 TSA contract. However if the TSA is selected, the other requirements (reserve
4 holding, etc.) do not disappear. The Company may need to operate other units
5 less efficiently to meet these requirements, causing a similar economic impact
6 to customers. However, ultimately the effect upon customers is determined by
7 then-applicable regulatory rulings or rate-making processes.

8 **Q. Does a “guaranteed” heat rate fully protect customers against performance**
9 **fluctuations with respect to energy delivered under a TSA?**

10 A. No. A guaranteed heat rate is a contractual concept in which regardless of the
11 actual operational efficiency of the resource used to supply energy under the
12 TSA, the price paid for that energy would be calculated based upon a the
13 contract heat rate. Therefore the seller of the TSA is encouraged to ensure plant
14 performance and is harmed in the case of poor plant performance. If
15 performance is poor enough, the seller of the TSA may choose or be forced to
16 default under the TSA, leaving the Company to either step into the poor
17 performing project, or otherwise replace the power with market purchases (if
18 available). For this reason, the value of a guaranteed heat rate is limited by the
19 creditworthiness of the TSA contracting party and its guarantor. Often, these
20 guarantees are capped which does not cover the overall harm to customers in
21 the case of nonperformance.

22 **Q. Is there an impact of a “guaranteed” heat rate to the seller of the TSA?**

23 A. Yes. The Company would expect any seller of a TSA with a guaranteed heat

1 Risk adjustments, if any, are imputed and reviewed associated with any unfixed
2 portion of the utility benchmark resource or third party proposals. These values
3 are reviewed by the IE.

4 **Q. How does the Company ensure that customers are protected from**
5 **imprudent cost overruns from change orders that may occur with EPC**
6 **contracts associated with a utility benchmark resource?**

7 A. Contingency reserves are applied to EPC as described above. EPC contractual
8 terms are applied to minimize scope or project related events that could result in
9 cost change orders. Additional costs or benefits not initially contemplated are
10 subject to a prudence review before the Company may include those costs in
11 customer's rates. It is proper that unforeseen but prudently incurred costs are
12 recoverable, as they are incurred for the benefit of customers. However costs
13 determined to be imprudently incurred should not be and are not recoverable. In
14 this way, the current regulatory framework encourages utilities to be prudent with
15 respect to the minimization of cost overruns and also to protect its customers from
16 such cost overruns that are not in the Company's ability to control.

17 **Q. Is there a potential for customers to benefit from cost under-runs that may**
18 **occur with regard to EPC and APSA construction?**

19 A. Yes. As reviewed by the IE, the Company also budgets reasonable contingency
20 reserves in the total cost that is submitted to the Commission. Only the actual
21 costs are ultimately sought to be recovered from customers.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document, in Docket UM 1182, on the date indicated below by email and/or US Mail, addressed to said parties at his or her last-known address(es) indicated below.

Janet L. Prewitt (W) (C)
Department of Justice
1162 Court St. NE
Salem, OR 97301-4096
Janet.prewitt@doj.state.or.us

Matt Hale (W) (C)
Oregon Department of Energy
625 Marion St. NE
Salem, OR 97301
Matt.hale@state.or.us

Renee M France (W) (C)
Natural Resources Section
1162 Court St. NE
Salem, OR 97301-4096
Renee.m.france@doj.state.or.us

David F. White (W) (C)
Portland General Electric
121 SW Salmon St., 1WTC1711
Portland, OR 97204
David.white@pgn.com

Vijay A. Satyal (W) (C)
Oregon Department of Energy
625 Marion St. NE
Salem, OR 97301
Vijay.a.satyal@state.or.us

Ann L. Fisher (W)
AF Legal & Consulting Services
P.O. Box 25302
Portland, OR 97298-0302
ann@annfisherlaw.com

David J. Meyer (W)
Avista Corporation
P.O. Box 3727
Spokane, WA 99220-3727
David.meyer@avistacorp.com

Patrick Ehrbar (W)
Avista Corporation
P.O. Box 3727
Spokane, WA 99220-3727
Patrick.ehrbar@avistacorp.com

Michael Parvinen (W)
Cascade Natural Gas
8113 W. Grandridge Blvd.
Kennewick, WA 99336
michael.parvinen@cngc.com

Dennis Haider (W)
Cascade Natural Gas
8113 W. Grandridge Blvd.
Kennewick, WA 99336
Dennis.haider@mdu.com

Gordon Feighner (W) (C)
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
Gordon@oregoncub.org

Robert Jenks (W) (C)
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
Bob@oregoncub.org

G. Catriona McCracken (W) (C)
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
catriona@oregoncub.org

Irion A. Sanger (W) (C)
Davison Van Cleve
333 SW Taylor, Suite 40000
Portland, OR 97204
ias@dvclaw.com

S. Bradley Van Cleve (W) (C)
Davison Van Cleve PC
333 SW Taylor, Suite 400
Portland, OR 97204
bvc@dvclaw.com

John W. Stephens (W)
Esler Stephens & Buckley
888 SW Fifth Ave., Suite 700
Portland, OR 97204-2021
stephens@eslerstephens.com
mec@eslerstephens.com

Regulatory Dockets (W)
Idaho Power Company
P.O. Box 70
Boise, ID 83707-0070
dockets@idahopower.com

Lisa D. Nordstrom (W) (C)
Idaho Power Company
P.O. Box 70
Boise, ID 83707-0070
Lnordstrom@idahopower.com

Lisa Rackner (W) (C)
McDowell & Associates PC
520 SW Sixty Ave., Suite 830
Portland, OR 97204
dockets@mcd-law.com

David E. Hamilton (W)
Norris & Stevens
621 SW Morrison St., Suite 800
Portland, OR 97205-3825
davidh@norrstev.com

Alex Miller (W)
Northwest Natural Gas Company
220 NW 2nd Ave.
Portland, OR 97209
Alex.miller@nwnatural.com

Wendy Gerlitz (W)
NW Energy Coalition
1205 SE Flavel
Portland, OR 97202
Wendy@nwenergy.org

Robert D. Kahn (W)
NW Independent Power Producers
1117 Minor Ave., Suite 300
Seattle, WA 98101
rkahn@nippc.org
rkahn@rdkco.com

Mary Wiencke (W)(C)
Pacific Power
825 NE Multnomah, Suite 1800
Portland, OR 97232
mary.wiencke@pacificorp.com

Patrick Hager (W) (C)
Portland General Electric
121 SW Salmon St., 1WTC0702
Portland, OR 97204
Pge.opuc.filings@pgn.com

Oregon Dockets (W)
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232
Oregondockets@pacificorp.com

Stefan Brown (W) (C)
Portland General Electric
121 SW Salmon St., 1WTC1711
Portland, OR 97204
stefan.brown@pgn.com

William A. Monsen (W) (C)
1814 Franklin St. Suite 720
Oakland, CA 94612
wam@mrwassoc.com

Robert Procter (W) (C)
Oregon Public Utility Commission
P.O. Box 2148
Salem, OR 97308
Robert.procter@state.or.us

Michael T. Weirich (W) (C)
Department of Justice
Regulated Utility & Business Section
1162 Court St. NE
Salem, OR 97301-4096
Michael.weirich@doj.state.or.us

Megan Walseth Decker (W)
Renewable Northwest Project
917 SW Oak, Suite 303
Portland, OR 97205
megan@rnp.org

Gregory M. Adams (W) (C)
Richardson & O'Leary
P.O. Box 7218
Boise, ID 83702
greg@richardsonandoleary.com

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Carrie Meyer
Coordinator, Regulatory Operations