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August 13, 2008

Via Electronic and US Mail

Public Utility Commission
Attn: Filing Center
550 Capitol St. NE #215
P.O. Box 2148
Salem OR 97308-2148

Re: In the Matter of PACIFICORP 2009 Renewable Energy Adjustment
Clause
Docket No. UE 200

Dear Filing Center:

Enclosed please find an original and five copies of the Confidential Surrebuttal Testimony and Exhibit of Randall J. Falkenberg on behalf of the Industrial Customers of Northwest Utilities (“ICNU”) in the above-referenced docket. The confidential pages and exhibits are inserted in separate envelopes and sealed pursuant to the protective order in this proceeding. Also enclosed is a complete Redacted Version of the testimony.

Thank you for your assistance and please do not hesitate to give me a call if you have any additional questions.

Sincerely yours,

/s/ Brendan E. Levenick
Brendan E. Levenick

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing Confidential Surrebuttal Testimony and Exhibit of Randall J. Falkenberg on behalf of the Industrial Customers of Northwest Utilities upon the parties, on the official service list shown below for UE 199, via U.S. Mail. A Redacted Version of the testimony and exhibits was served via electronic mail.

Dated at Portland, Oregon, this 13th day of August, 2008.

/s/ Brendan E. Levenick
Brendan E. Levenick

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 200

In the Matter of)
)
PACIFIC POWER & LIGHT)
(dba PACIFICORP))
)
RAC 2009)
_____)

**SURREBUTTAL TESTIMONY OF
RANDALL J. FALKENBERG
ON BEHALF OF
THE INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES**

REDACTED VERSION

August 13, 2008

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 **A.** Randall J. Falkenberg, PMB 362, 8343 Roswell Road, Sandy Springs, Georgia
3 30350. I am the same Randall J. Falkenberg who pre-filed direct testimony in this
4 docket in July of 2008.

5 **Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?**

6 **A.** I discuss issues related to the GRID modeling of Glenrock, Rolling Hills,
7 Glenrock III and Seven Mile Hill II.

8 **Revisions to NVPC Recommendations**

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

10 **A.** In light of the motion to change the schedule in this proceeding, I am presenting
11 surrebuttal testimony related to issues concerning Rolling Hills, Glenrock,
12 Glenrock III and Seven Mile Hill II.

13 **Q. PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

14 **A.** My surrebuttal testimony makes the following points:

15 a. I recommend against inclusion of the Seven Mile Hill II and
16 Glenrock III wind projects in the GRID model study for 2009;

17 b. I don't fully agree with the Company's correction of the wind
18 profiles for Rolling Hills and Glenrock. While the Company
19 corrected minor input errors, it ignored a major error in its
20 Glenrock modeling. The Company has understated the Glenrock
21 capacity factor based on the documents produced in UE 200. For
22 Rolling Hills, Staff's proposed capacity factor adjustment is
23 conservative because it is less than the capacity factor of other new
24 Wyoming wind projects. These corrections should also be
25 reflected in the TAM; and

26 c. I discuss Mr. Tallman's arguments against the Staff capacity factor
27 adjustment. I demonstrate that ICNU's alternative proposal, to
28 remove Rolling Hills from rate base [REDACTED]
29 [REDACTED] and
30 would be a reasonable alternative to the Staff proposal. This
31 approach would address Mr. Tallman's concerns about the severity

1 of the Staff proposals and, therefore, may be a better approach for
2 the Commission to adopt.

3 **New Wind Projects**

4 **Q. DO YOU AGREE WITH THE COMPANY'S PROPOSAL TO INCLUDE**
5 **NEW WIND PROJECTS IN A FUTURE TAM UPDATE?**

6 **A.** No. I agree with Staff's position in UE 200 that the proposed inclusion of new
7 wind projects (Glenrock III and Seven Mile Hill II) is premature. The Staff
8 Renewable Adjustment Clause ("RAC") testimony demonstrates that there is
9 controversy surrounding these projects as well, and the issues may be difficult to
10 decide this year under the current case schedule. If, however, the Commission
11 includes the fixed costs of these new projects in the RAC, then the energy benefits
12 should be included in the TAM. Unfortunately, there is no support for the wind
13 profiles assumed by the Company at present. Indeed, the Company states in the
14 response to ICNU Data Request ("DR") 16.19 that the wind potential study for
15 these projects will not be completed until December 2008. ICNU/108,
16 Falkenberg/1. As a result, there are questions concerning the analytical basis for
17 including these resources in the GRID model. Further, the decision to commit to
18 the project before a wind potential study was complete raises serious prudence
19 concerns. Finally, it appears these projects could have been developed with the
20 earlier projects built at the same sites, but the Company chose not to do so
21 apparently in order to circumvent the Commission's competitive bidding
22 requirements. This was an issue already discussed in the testimony in UE 200.
23 For all these reasons, inclusion of these projects in the TAM or the RAC is
24 premature. Removal of these two projects from the TAM increases Net Variable

1 Power Costs (“NVPC”) by \$3.12 million on an Oregon basis. Removal of these
2 projects reduces the RAC increase by \$4.25 million on an Oregon basis.

3 **Wind Profile Error and Project Capacity Factors**

4 **Q. DO YOU AGREE WITH THE COMPANY’S CORRECTION TO THE**
5 **WIND PROFILE ERRORS FOR GLENROCK AND ROLLING HILLS?**

6 **A.** Not entirely. The Company apparently discovered these errors as a result of
7 ICNU data requests which pointed out the mismatch between the GRID inputs,
8 and the incomplete workpapers provided by the Company. While I appreciate
9 that the Company corrected some of these errors, there are bigger problems that
10 weren’t addressed. [REDACTED]

11 [REDACTED]

12 See ICNU/102, Falkenberg/23-30. I recommend a correction be made to reflect
13 the project documentation. This is the same issue addressed by Staff witness Lisa
14 Schwartz in her surrebuttal testimony in UE 199 filed on July 23, 2008.

15 Second, for the reasons I articulated in my UE 200 testimony, I support
16 the Staff adjustment related to the Rolling Hills capacity factor, and recommend
17 this adjustment be made as well. These capacity factor adjustments reduce the
18 TAM by \$1.57 million on an Oregon basis.

19 **Q. IS THE STAFF’S ASSUMED CAPACITY FACTOR FOR ROLLING**
20 **HILLS REASONABLE?**

21 **A.** Yes. The confidential wind potential studies prepared by the Company for
22 Glenrock and Seven Mile Hill, two other Wyoming wind projects, both support a
23 capacity factor in excess of the staff assumption of 38% for Glenrock. Given the
24 difference in capacity factors for the projects, the cost per kWh of Rolling Hills is

1 much higher unless the capacity factor adjustment is made. Even then, the cost of
2 Rolling Hills would exceed the cost of Seven Mile Hill on a per kWh basis.

3 **Q. MR. TALLMAN IS HIGHLY CRITICAL OF THE STAFF POSITION**
4 **REGARDING THE ROLLING HILLS PROJECT. PLEASE COMMENT.**

5 **A.** I fear that the Rolling Hills project is a good example of PacifiCorp quickly
6 building new wind resources without adequately investigating their
7 reasonableness, prudence, or cost effectiveness. The Company may have decided
8 to build an ill-conceived wind project adjacent to the Glenrock site because it had
9 the opportunity and means to do so, and expected that cost recovery would be
10 rapidly forthcoming. Even though the Company's experts suggested [REDACTED]
11 [REDACTED] the Company went forward
12 with development of the project, [REDACTED]

13 [REDACTED]
14 **Q. PLEASE COMMENT ON MR. TALLMAN'S ARGUMENTS**
15 **CONCERNING PRODUCTION TAX CREDITS ("PTCs").**

16 **A.** While PTCs make wind projects more attractive than other kinds of resources,
17 they should not be used as an excuse to develop a project with poor potential. It
18 would be better not to develop any project at all, than to develop an uneconomic
19 project. Further, a project with a capacity factor comparable to that expected for
20 Seven Mile Hill and Glenrock would have a cost per kWh of close to that of a
21 project with a capacity factor of 31% or less. This difference would eliminate
22 much, if not all, of the advantage of the PTCs. PTCs are much like tax credits for
23 buying a car. A lemon is still a lemon, no matter how much of the cost the IRS
24 might absorb.

1 **Q. MR. TALLMAN CRITICIZES THE STAFF CAPACITY FACTOR**
2 **ASSUMPTION ON PAGE 10 STATING THAT HALF OF ALL PROJECTS**
3 **WILL HAVE A CAPACITY FACTOR LESS THAN THE AVERAGE**
4 **USED IN THE IRP. PLEASE COMMENT.**

5 **A.** Mr. Tallman’s testimony misses an important point. A prudent resource selection
6 process would select the most economical options first, and select the least
7 economic resources later, only after the best sites had been developed. It may
8 well be the case that someday Rolling Hills could be the most economic choice.
9 However, that should be after, not before, more promising projects were
10 developed. Given the Company’s approach we’ll never know what kind of
11 project might have been developed under a prudent expansion program.

12 Further, Mr. Tallman did not point out that the 31% capacity factor
13 assumed for Rolling Hills was only a mid-point estimate. There is a 50% chance
14 that the capacity factor for the project will be worse, and based on the information
15 presented in ICNU DRs 10.1-10 from UE 200, it could be much worse.

16 Finally, Mr. Tallman fails to mention that the wind potential study for

17 Glenrock [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]
22 [REDACTED]
23 [REDACTED]
24 [REDACTED]
25 [REDACTED] See ICNU/102, Falkenberg 31-40.

1 **Q. MR. TALLMAN CRITICIZES THE REASONING BEHIND THE STAFF**
2 **PROPOSAL ON PAGE 6. HE ALSO CRITICIZES THE AMOUNT OF**
3 **THE DISALLOWANCE ON PAGE 11. PLEASE COMMENT.**

4 **A.** Even if one were to assume that all of Mr. Tallman's numbers, assertions and
5 reasoning were correct, it doesn't change the fact that the Company made an
6 imprudent decision to commit to Rolling Hills before [REDACTED]

7 [REDACTED] If the Commission does not adopt the Staff proposal, then
8 it should adopt ICNU's proposal to remove Rolling Hills from both the TAM and
9 the RAC. This would have a larger impact in the test year, but would not
10 necessarily have an adverse impact on the Company over the long term. [REDACTED]

11 [REDACTED]

12 [REDACTED] See ICNU/102, Falkenberg/4-21. Therefore,
13 removing the facility from rate base is an alternative to the Staff proposal that
14 would address Mr. Tallman's concern about the severity of the Staff proposal
15 over the life of the project.

16 **Q. DO YOU HAVE ANY CORRECTIONS TO YOUR DIRECT**
17 **TESTIMONY?**

18 **A.** Yes. Refer to ICNU/100, Falkenberg/16, Line 7. The figure \$7.75 million should
19 be changed to \$6.78 million. The corrected sentence should read: "The Oregon
20 jurisdictional allocation amounts to \$6.78 million."

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

22 **A.** Yes.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UE 200

In the Matter of)
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PACIFIC POWER & LIGHT)
(dba PACIFICORP))
)
RAC 2009)
_____)

ICNU/108

**PacifiCorp Data Response to
ICNU Data Request 16.19
in UE 199**

August 13, 2008

UE-199/PacifiCorp
August 4, 2008
ICNU 16th Set Data Request 16.19

ICNU Data Request 16.19

For the Glenrock III and Seven Mile Hill II wind resources, please provide documents comparable to those produced in the responses to ICNU 1.6 and 10.1 in UE 200. and ICNU 14.1 in UE 199.

Response to ICNU Data Request 16.19

For both Glenrock III and Seven Mile Hill II, the Company's consultant will have completed an as-built wind report prior to the December 1, 2008 update in UE 200.