Exhibit No.___(SAB-1T)
Docket No. UE-09___
Witness: Stefan A. Bird

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, vs. PACIFICORP dba Pacific Power Respondent.	)	Docket No. UE-09______

PACIFICORP

DIRECT TESTIMONY OF STEFAN A. BIRD

February 2009

Q. Please state your name, business address and present position with PacifiCorp Energy, an unincorporated division of PacifiCorp (as used herein, "PacifiCorp" or "the Company").

A. My name is Stefan A. Bird. My business address is 825 NE Multnomah, Suite 600, Portland, Oregon 97232. I am Senior Vice President, Commercial and Trading, for PacifiCorp Energy, a division of PacifiCorp.

Qualifications

Q. Briefly describe your educational and professional background.

A. I joined PacifiCorp Energy and assumed my current position in January 2007. Prior to that, from 2003 to 2006, I served as President of CalEnergy Generation U.S., a portfolio of qualifying facility and merchant generation assets including geothermal and natural gas-fired cogeneration projects across the United States. From 1999 to 2003, I was Vice President of acquisitions and development for MidAmerican Energy Holdings Company. From 1989 to 1997, I held multiple positions at Koch Industries, Inc., including energy trading, financial trading, acquisitions, project engineering and maintenance planning in the United States, Latin America and Europe. I hold a Bachelor of Science degree in mechanical engineering from Kansas State University.

Q. What are your responsibilities as Senior Vice President, Commercial and Trading, for PacifiCorp Energy?

A. I am responsible for all front-office and mid-office wholesale activities including dispatch of PacifiCorp's owned and contracted generation resources and making wholesale purchases and sales to balance PacifiCorp load and resources. I am also responsible for PacifiCorp's load and revenue forecast, integrated resource plan ("IRP") and net power costs modeling. I am also responsible for acquisition of power resources for the PacifiCorp system (the "System") through negotiated power purchase agreements and the acquisition of generation resources, including through implementation of request for proposals ("RFP") processes consistent with applicable law and guidelines.

Purpose of Testimony

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

A. The purpose of my testimony is to demonstrate the Company's acquisition of the Chehalis Power Generating Plant (the "Plant") was prudent and that the Plant is used and useful for serving Washington customers. More specifically, I describe: (1) the attributes of the Plant, including its compliance with Washington's greenhouse gas laws; (2) the nature and terms of the transaction to acquire the Plant; (3) the Company's need for new generation resources; (4) why the Plant was acquired outside of PacifiCorp's RFP process; (5) the economic analysis that demonstrates the prudence of the Company's decision to acquire the Plant and shows that it is presently used and useful; and (6) a description of the ratebase components associated with the Plant.

Description of the Plant

Q. Please describe the Plant.

A. The Plant is located on a 20-acre site near the city of Chehalis in Lewis County, Washington. It is a 520 MW natural gas-fired electric generation facility, consisting of a 2x1 configuration, using two General Electric 7FA dry low NOx combustion gas turbine generators. Each of the combustion turbine generators exhaust into its own heat recovery steam generator which together supply a single steam turbine generator. To augment power output during summer conditions, the Plant is equipped with an inlet fogger. The electrical energy generated by the Plant is delivered to the Napavine 230 kV substation, and is interconnected into the Bonneville Power Administration's ("BPA") transmission system at the substation. The Plant currently has a contract for station service from Public Utility District No. 1 of Lewis County. The Plant has been in service for six years.

Q. Please describe the characteristics of the Plant.

A. Ownership of the Plant allows the Company full discretion in the dispatch of the Plant. Energy from the Plant is dispatched on a forward, day-ahead basis, with real-time optimization of the Plant's usage. This operational flexibility will provide increasing benefit to the Company as load grows, as the Company's existing flexible contracts expire, and wind resources are added to meet existing and future renewable portfolios standards.

Q. Consistent with the greenhouse gas reporting requirements contained in Washington Administration Code (WAC) 463-85-120, has the Company provided the Energy Facility Site Evaluation Council ("EFSEC") with the Company's fuel content monitoring program for the Plant?

A. Yes. EFSEC received the proposed fuel content monitoring program on December 19, 2008. A copy of this letter is attached as Exhibit No.__(SAB-2).

Q. Was the proposed fuel content monitoring program approved by EFSEC?

A. Yes. Based on the recommendation of EFSEC's contractor, EFSEC approved the fuel content monitoring program on January 13, 2009. A copy of the letter providing this approval is attached as Exhibit No.__(SAB-3).

Q. Has the Company initiated the certification process for determining that the Plant complies with the greenhouse gas emissions performance standard ("EPS") established in RCW 80.80.040?

A. Yes. The Company has submitted a letter to EFSEC seeking such certification, which contains the Plant's 2007 operating data and a copy of the facility's fifth annual CO_2 emission report (2007). A copy of this letter is attached as Exhibit No.__(SAB-4).

Q. Does the 2007 operating data and the facility's fifth annual CO_2 emission report demonstrate that the Plant emits greenhouse gases at a rate lower than the greenhouse gas emission performance standards?

A. Yes. The Company provided estimates for carbon dioxide ("CO_2") emissions using both reported Continuous Emissions Monitoring System ("CEMS") data, as well as a CO_2 emissions calculation that relied on the appropriate AP-42 emissions factor. Whether relying on a combination of CEMS and fuel calculations or only fuel calculations, the facility complies with the EPS of 1100 pounds of greenhouse gases per megawatt-hour.

Structure of Transaction and Agreements

Q. Who was the prior owner of the Plant?

A. Prior to PacifiCorp's purchase, the assets of the Plant were held in a limited liability company called Chehalis Power Generating, LLC, a Delaware limited liability company (the "LLC"). The outstanding equity interests in the LLC (which are the equivalent to a corporation's stock) were, in turn, held directly by TNA Merchant Projects, Inc., a Delaware corporation ("TNA"). TNA is a wholly-owned subsidiary of Suez, S.A ("Suez"). Suez is now known as GDF Suez S.A., an international energy group resulting from the 2008 combination of Suez and Gaz de France.

Q. Please describe the process by which the Company became aware of the availability of the Plant.

A. In late 2006, the Company entered into a confidentiality agreement for access to information about acquiring the Plant. In January 2008, Suez informed PacifiCorp that two other parties were interested in acquiring the Plant and stated that if PacifiCorp remained interested, it needed to submit an indicative bid for the Plant. PacifiCorp responded with a non-binding proposal on February 13, 2008. Based on that proposal, the Company and Suez negotiated a non-binding Confidential Memorandum of Understanding ("MOU") that was signed on February 27, 2008. Suez proceeded to develop a detailed electronic data room for due diligence, and the Company engaged a comprehensive due diligence team inclusive of internal and external expertise. Nearly 1,000 documents were subsequently reviewed and site inspections were made throughout the course of due diligence. At the same time, the Company and Suez negotiated a PSA, by and between PacifiCorp and Suez's subsidiary, TNA that was executed on April 11, 2008. The PSA provided for the transaction to close upon receipt of all required regulatory approvals and satisfaction of customary closing conditions, and closing occurred on September 15, 2008.

Q. How was the acquisition of the Plant structured?

A. The purchase and sale agreement (PSA) provided that TNA would transfer 100 percent of the outstanding equity interest in the LLC to PacifiCorp upon closing. A copy of the PSA is attached as Confidential Exhibit No.__(SAB-5C). By acquiring the LLC's equity interests, under the terms of the PSA, PacifiCorp acquired the Plant as well as various permits, assets and liabilities associated with the Plant. On the day of closing, September 15, 2008, PacifiCorp received 100 percent of the outstanding equity interest in the LLC. PacifiCorp then immediately merged the LLC into PacifiCorp, with PacifiCorp surviving, such that the LLC ceased to exist, and all of the permits, assets and liabilities of the LLC now reside directly at PacifiCorp.

Q. What was the acquisition price for the LLC?

A. The acquisition price is detailed in Confidential Exhibit No.__(SAB-6C). As further explained in my testimony, the total acquisition price includes the initial purchase price plus adjustments for the General Electric contractual services agreement, legal and consulting costs, liabilities assumed, other costs of acquisition and costs related to the EFSEC ruling.

Resource Needs

Q. Please describe the Company's resource needs projected in its most recent integrated resource plan (IRP).

A. The Company's 2007 IRP Update identified a system deficit between the

Company's projected peak capacity needs and its resources available to serve that peak demand. By 2012, that deficit, after considering energy efficiency and demand management programs, was projected to be nearly 2,400 MW.

Q. Did the 2007 IRP Update address the Company's specific resource needs in the west control area?

A. Yes. While the Company plans and acquires resources on a system basis, the 2007 IRP Update did identify a resource deficit in the west control area of 575 MW in 2012.

Q. What is the primary driver creating the resource deficit in the west control area?

A. The primary driver of the resource deficit in the west control area is the expiration of 789 MW of long term power purchase agreements expiring between the summer of 2011 and 2012. The expiration of these contracts is described in more detail in the direct testimony of Company witness Mr. Gregory Duvall.

Q. Did the Company issue a Request for Proposal ("RFP") to address its long-term resource needs?

A. Yes. On April 5, 2007, the Company issued to the marketplace an RFP seeking up to 1,700 MW of cost-effective base-load resources (the 2012 RFP).

Q. Did the Company file the 2012 RFP in Washington for approval?

A. Yes, however, the Washington Commission Staff determined that because the RFP was seeking capacity in 2012, which was not within the following three years, and was soliciting resources delivered in or into the eastern control area, the 2012 RFP was not subject to Washington approval.

Q. Was the Plant identified as part of the 2012 RFP?

A. No. As I discuss later in my testimony, the Plant became available for purchase for a limited time in the market, outside the RFP bidding process. Application of the competitive bidding process would have resulted in the loss of the time-limited opportunity to purchase the Plant at a price that presented a unique value to customers. As a consequence, PacifiCorp obtained a waiver of the RFP regulatory requirements in the states where it was required to do so.

Q. Can you briefly explain the waiver process in Oregon?

A. Yes. The Company requested a waiver of the solicitation process from the Public Utility Commission of Oregon (OPUC) to proceed with the acquisition of the Plant. The OPUC retained an Independent Evaluator, Boston Pacific, to conduct a thorough analysis of the Company's acquisition of the Plant. The Oregon Staff and Independent Evaluator recommended that the OPUC approve the request for waiver of the solicitation process.

Q. What did the Independent Evaluator conclude regarding the Company's acquisition of the Plant?

A. The Oregon Independent Evaluator's Report (provided on June 18, 2008), stated:

> Boston Pacific strongly prefers choosing resources through competitive procurement and having more competitors in the market. However, our top priority is getting the best deal for ratepayers in terms of price, risk, reliability and environmental performance. Given Chehalis' obvious benefits in capacity cost, risk mitigation and given the fact that those benefits are not clearly wiped away by its disadvantages, we think that it is reasonable to grant the Company's waiver request, subject to our review of the information below. More specifically, based on what we saw in the 2012 RFP, we cannot conclude that denying the waiver, in the hope of being able to select a better offer in the upcoming RFP, is in the best interest of ratepayers.

After review of further information, the Oregon Independent Evaluator filed a supplemental report on July 2, 2008. It concluded:

> [T]he Company's analysis does show that this is a beneficial transaction. This conclusion is reinforced when we consider that the Company's analysis does not even consider the risk reduction benefit that ratepayers receive when acquiring an operational facility versus a new-build plant.

Q. Did the OPUC grant the Company's request for a waiver of the solicitation process?

A. Yes. On July 8, 2008, the OPUC approved the Company's request for waiver of the solicitation process.

Prudence of the Company's Decision to Acquire the Plant/Used and Useful

Q. Was the Company's acquisition of the Plant a prudent decision and is the Plant now used and useful for serving Washington customers?

A. Yes. The acquisition of the Plant provides a favorably-priced, flexible resource that the Company is now using to meet the resource needs of its Washington customers. The Plant satisfies a portion of the deficit identified in the 2007 IRP Update. Moreover, as I detail below, the purchase price for the Plant is extremely reasonable, as indicated by the fact that the only resource that resulted from a contemporaneous RFP is a combined-cycle gas unit with a negotiated capital cost significantly higher than the Plant. The independent and contemporaneous analysis of the Oregon Independent Evaluator also confirms the beneficial nature of the Plant for customers.

Q. Please identify the information, data, models and analyses used by the Company in evaluating whether to acquire the Plant.

A. The information, data, models and analyses used by the Company in its evaluation are described in detail in Mr. Duvall's testimony. In addition, Confidential Exhibit No.__(SAB-7C) to my testimony validates the assumptions in Mr. Duvall's analysis and the risks associated with the acquisition of a new plant. This exhibit demonstrates that the Plant is substantially below the projected cost of the short-listed bid in the 2012 RFP for a new combined cycle plant. At the time the Chehalis Plant analysis was completed, the price of shortlist bids in the 2012 RFP were not yet final and were subject to continued price risk exposure in the midst of a volatile market. Further, the 2012 RFP allowed a bidder to index up to 40 percent of the price for up to two years after execution of the contract. In addition, the cost of the Plant is less than the cost of the 548 MW Lake Side project that was added to the system in 2005 at a cost of $347 million, or $633 per kW.

Studies performed in 2007 by Standard & Poor's and by The Brattle Group for The Edison Foundation demonstrate that the capital costs for new generation facilities have increased dramatically during the preceding three years as a result of labor and materials shortages. Standard & Poor's data shows that the capital costs increased by over 50 percent.[1] Data compiled by the Brattle Group for the Edison Foundation shows that "the cumulative increase in the installation cost of new combined-cycle units from 2000 to 2006 was almost 95

[1] Prabhu, Aneesh and Pratt, Terry A., "Increasing Construction Costs Could Hamper U.S. Utilities Plans to Build New Power Generation," Ratings Direct, Standard & Poor's (June 12, 2007) at page 2.

percent, with much of this increase occurring in 2006."[2] Acquisition of the Plant provided an opportunity for the Company to acquire a generation resource at price levels prevalent before the significant inflation of the past few years.

Q. Does the purchase of the Plant in 2008, versus waiting to acquire another resource in 2012, benefit the Company's customers?

A. Yes. This issue is addressed in Mr. Duvall's testimony and further demonstrated by the results of the 2012 RFP. The acquisition of the Plant on the terms and conditions in the PSA reduces the Company's present value revenue requirement of its resource portfolio by approximately $142 million to $197 million, versus a comparable alternative resource from the 2012 RFP with an estimated cost of $1,000/kW to $1,150/kW. This analysis is now known to be conservative, given the final negotiated cost of the combined cycle project that resulted from the 2012 RFP is substantially higher, which is outlined in Confidential Exhibit No.__(SAB-7C), than the estimated range of costs assumed in the analysis in Mr. Duvall's testimony. The acquisition of the Plant therefore provides economic benefit to the Company's customers and avoids the cost and schedule risks associated with permitting and construction of a new facility.

Q. Are there other benefits to acquisition of the Plant versus possible construction of a similar resource in the future?

A. Yes. As I have explained earlier in my testimony, as an existing resource, acquisition of the Plant eliminates the risks associated with permitting and constructing a new plant and the risk of holding up to 40 percent of the costs open

[2] Chupka, Marc W. and Basheda, Gregory, Rising Utility Construction Costs: Sources and Impacts, The Brattle Group for The Edison Foundation (September 2007) at 8.

for up to two years after approval and execution of the contract. These risks include, but are not limited to, unanticipated costs and delays associated with permitting and construction and changes in engineering, labor and materials costs. As my foregoing answer illustrates, these risks are real and significant.

Acquisition Costs

Q. What are the elements that make up the acquisition price of the Plant?

A. The total cost of the Plant and other assets acquired to be included in rates is outlined in Confidential Exhibit No.__(SAB-6C). In addition to the Plant, other assets including materials and supplies inventory and a prepaid maintenance contract were added to the initial acquisition price. The costs associated with acquiring all the above assets as of September 30, 2008, include the following:

- The initial purchase price.
- A payment to TNA at closing in the amount of $4.7 million related to the acquisition of the long term maintenance contract. This is the amount of prepaid maintenance that TNA had paid to General Electric under the Contractual Services Agreement ("CSA") that is attributable to the period under the CSA following closing. These costs have been treated as a prepayment on the balance sheet.
- Costs for outside consultants and legal counsel associated with the acquisition of the Plant, due diligence, and related federal and state regulatory approvals for the acquisition. The total amount is approximately $2.0 million. These costs have been capitalized as part of the cost of the Plant acquisition. The cost of an early termination fee of $1.8 million related to a tolling agreement

contract for the Plant with Suez's merchant subsidiary, SUEZ Energy Marketing NA, Inc.

- Approximately $8.2 million in liabilities which were offset by the receipt of a working capital adjustment in the amount of $5.3 million. The difference of $2.9 million is considered an additional cost of the acquisition and consists primarily of property taxes related to the Plant.

The above costs will be allocated to plant, inventory and prepaid maintenance assets as appropriate. The Company is also required by EFSEC to pay a total of $1.5 million in the future for greenhouse gas mitigation in connection with the EFSEC's approval of the transfer of the Site Certification Agreement ("SCA") for the Plant. Owners of generating plants in Washington are required to enter into an SCA. These amounts will be included in rate base as they are incurred.

Q. Did the Plant have an SCA prior to the Company's acquisition?

A. Yes. However, one of the regulatory approvals required for the acquisition of the Plant by the Company was approval by the EFSEC of the transfer of the SCA from the LLC to the Company at closing. On April 30, 2008, the Company and Suez filed a request with the EFSEC for approval of the transfer of the SCA and related permits. On July 8, 2008, the EFSEC issued its written decision approving the transfer. It provided that the Company:

> shall provide $1.5 million in funding for greenhouse gas mitigation projects. EFSEC staff and PacifiCorp representatives will work together to identify potential mitigation projects and will consult with Washington agencies …. Based on the recommendations of EFSEC staff and PacifiCorp, the Council will make final decisions selecting projects to be funded ….

The EFSEC also noted in its decision that:

> this CO_2 mitigation will constitute the entire mitigation obligation for the Chehalis Generating Facility. In the event that [] PacifiCorp requests additional amendments to the SCA in the future, the Council will not require any additional mitigation for the maximum potential CO_2 emissions associated with the existing Facility as a condition of approving any such amendment.

The Company anticipates that the mitigation projects to be funded will be identified and that the payments will be made in the near future. These costs will be capitalized as they occur in the future.

Q. Does this conclude your testimony?

A. Yes.