1407 W. North Temple, Suite 310
Salt Lake City, Utah 84116

October 14, 2015

***VIA ELECTRONIC FILING
AND HAND DELIVERY***

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84114

Attention: Gary Widerburg
Commission Secretary

RE: Docket No. 15-035-53
In the Matter of the Application of Rocky Mountain Power for Modification of Contract Term of PURPA Power Purchase Agreements of Qualifying Facilities

In the above referenced matter, Rocky Mountain Power hereby submits for filing the Rebuttal Testimony of Paul Clements. An original and ten (10) copies will be delivered via hand delivery. The Company will also provide electronic versions of this filing to psc@utah.gov.

Rocky Mountain Power respectfully requests that all formal correspondence and requests for additional information regarding this filing be addressed to the following:

By E-mail (preferred): datarequest@pacificorp.com
bob.lively@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Informal inquiries may be directed to Bob Lively at (801) 220-4052.

Sincerely,

Jeffrey K. Larsen/cm

Jeffrey K. Larsen
Vice President, Regulation

Enclosures

cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that on this 14th of October 2015, a true and correct copy of the foregoing was served by email on the following:

Chris Parker
William Powell
Dennis Miller
Division of Public Utilities
160 East 300 South, 4th Floor
Salt Lake City, UT 84111
ChrisParker@utah.gov
wpowell@utah.gov
dennismiller@utah.gov

Michele Beck
Cheryl Murray
Utah Office of Consumer Services
160 East 300 South, 2nd Floor
Salt Lake City, UT 84111
mbeck@utah.gov
cmurray@utah.gov

Patricia Schmid
Justin Jetter
Assistant Attorney General
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, Utah 84111
pschmid@utah.gov
Jjetter@utah.gov

Rex Olsen
Assistant Attorney General
160 East 300 South, 5th Floor
P.O. Box 140857
Salt Lake City, Utah 84114-0857
rolsen@utah.gov

Sophie Hayes
Kate Bowman
UTAH CLEAN ENERGY
1014 2nd Avenue
Salt Lake City, UT 84103
sophie@utahcleanenergy.org
kate@utahcleanenergy.org

Tony Hall
Ellis-Hall Consultants, LLC
835 East 4800 South, Suite 210
Murray, Utah 84017
mail@ehc-usa.com

Gloria Smith
Travis Ritchie
Sierra Club
85 Second Street, Second floor
San Francisco, CA 94105
gloria.smith@sierraclub.org
travis.ritchie@sieraaclub.org

Gary A. Dodge
HATCH, JAMES & DODGE
10 West Broadway, Suite 400
Salt Lake City, Utah 84101
gdodge@hjdlaw.com

Dan Patry
Director, Southwest & Upper Midwest
Government Affairs
NAMR Government Affairs
SunEdison
1875 Lawrence, Suite 1150
Denver, CO 80202
dpatry@sunedison.com

J. Craig Smith
Adam S. Long
Smith Hartvigsen, PLLC
175 South Main Street, Suite 300
Salt Lake City, UT 84111
jcsmith@smithlawonline.com
along@smithlawonline.com

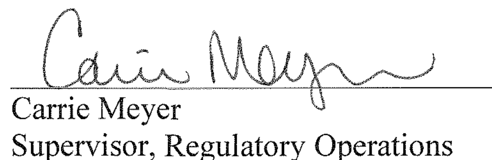
Brad Merrill
Elizabeth Brereton
Snell & Wilmer
15 West South Temple, Suite 1200
Salt Lake City, UT 84101
bmerrill@swlaw.com
lbrereton@swlaw.com

Sean McBride
General Counsel
Sustainable Power Group
2180 South 1300 East, Suite 600
Salt Lake City, Utah, 84106
smcbride@spower.com

Kevin Higgins
ENERGY STRATEGIES
215 S. State Street, #200
Salt Lake City, UT 84111
khiggins@energystrat.com

Kimberly Ceruti
Summit Wind Power, LLC
4733 South Hidden Wood Lane, Suite 200
Murray, Utah 84017
rudie.2828@hotmail.com

Michelle McDaniels
Sage Grouse Energy Project, LLC
4733 Hiddenwoods Lane
Murray, Utah 84017-6764
sage.grouse@hotmail.com



Carrie Meyer
Supervisor, Regulatory Operations

Rocky Mountain Power
Docket No. 15-035-53
Witness: Paul H. Clements

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Rebuttal Testimony of Paul H. Clements

October 2015

1 **Q. Have you previously filed testimony in this docket?**

2 A. Yes. I filed direct testimony in which I presented the Company's application to
3 modify the maximum allowable contract term for qualifying facility ("QF") contracts
4 that the Company must enter into under the Public Utility Regulatory Policies Act of
5 1978 ("PURPA").

6 **PURPOSE AND SUMMARY OF TESTIMONY**

7 **Q. What is the Company asking the Commission to approve in this proceeding?**

8 A. The Company is requesting an order from the Public Service Commission of Utah
9 ("Commission") directing implementation of a reduction of the maximum contract
10 term for PURPA contracts from 20 years to three years, to be consistent with the
11 Company's hedging and trading policies and practices for non-PURPA energy
12 contracts and more aligned with the Integrated Resource Plan ("IRP") cycle. The
13 Company is seeking a modification to the maximum contract term of QF contracts
14 executed under both Schedules 37 and 38.

15 **Q. To which witnesses are you responding in your rebuttal testimony?**

16 A. I respond specifically to the direct testimony of Utah Clean Energy ("UCE") witness
17 Sarah Wright; Sierra Club witness R. Thomas Beach; Rocky Mountain Coalition for
18 Renewable Energy ("Coalition") witnesses Kevin Higgins, Bryan L. Harris, and Hans
19 Isern; Renewable Energy Coalition witness John Lowe; Utah Office of Consumer
20 Services ("OCS") witness Bela Vastag; and Utah Division of Public Utilities
21 ("DPU") witness Charles E. Peterson.

22 **Q. After reading intervenors' direct testimony in this docket, what are your general**

23 **observations?**

24 A. In seeking to maintain the "ratepayer indifference" standard required by PURPA, the

25 Company's direct testimony explains and illustrates how the required 20-year

26 contract term is: (1) inconsistent with the Company's hedging practices implemented

27 after careful review by stakeholders in a recent collaborative, (2) inconsistent with

28 resource acquisition policies and practices for non-PURPA energy purchases, and (3)

29 not aligned with the Company's IRP planning cycle and action plan. Additionally, the

30 Company's direct testimony describes how, without the requested modification to

31 contract term, PacifiCorp will be forced to continue to acquire long-term, fixed-price

32 PURPA contracts even though PacifiCorp's 2015 IRP, which was filed in March

33 2015, shows no new resource is required until 2028.

34 The direct testimony of three intervenors, namely UCE, the Coalition, and

35 Sierra Club, carry common themes in response to the Company's application. These

36 parties suggest PacifiCorp is trying to eliminate the PURPA must-purchase

37 obligation, even though my direct testimony is clear that the must-purchase obligation

38 remains. These parties are more concerned with ensuring continued QF development

39 under any scenario, despite the lack of an identified need for new generation, than

40 they are with balancing customer rate and risk impacts with QF rights under PURPA.

41 These parties suggest a QF contract is not similar to commodity hedges, which are

42 currently limited to three years or less under the Company's trading policies, even

43 though the current QF contract is clearly a fixed-price purchase of unit-contingent

44 non-dispatchable energy for a 20-year term. These parties suggest a QF contract is

45 similar to a Company resource, even though procurement of a Company resource is
46 driven by need; and a Company resource can be dispatched and backed down when
47 more economic alternatives are available, passing through to customers the savings
48 from lower fuel and other operating costs because the total cost of the energy is not
49 locked-in for 20 years like it is in a QF contract. Lastly, these parties suggest QFs are
50 able to meet future environmental compliance obligations, even though those
51 obligations are not currently known and measurable. Importantly, these parties ignore
52 the critical fact that the QF retains the renewable energy credits ("RECs") for their
53 own economic benefit, and those RECs represent the environmental attributes that
54 these parties are touting as beneficial to the Company.

55 The OCS submitted a short piece of testimony in which it raises two critical
56 issues with which I agree: 1) there is a risk to customers associated with carrying
57 long-term fixed-price contracts for power, and 2) there is a disconnect between new
58 QF contracts and PacifiCorp's IRP. Notwithstanding these important concerns, the
59 OCS recommends the Commission not approve the Company's application.

60 The DPU agrees with the Company on many key issues and shares the
61 Company's concerns related to the large number of existing and potential QFs. The
62 DPU agrees that:

63 1. A 20-year contract is inconsistent with the hedging principles agreed upon
64 in the hedging collaborative;
65 2. A 20-year contract term is a clear benefit to QF developers;
66 3. It is not the regulator's place to ensure economic viability of a QF project;
67 and

68 4. It is time to reconsider the previous positions related to QF contracts in
69 light of recent events.
70 The DPU introduces an alternative to the Company's proposal. The DPU proposal
71 consists of a five-year contract term but allows the capacity payment to be based on a
72 20-year avoided cost calculation. Energy prices would be calculated as they are now,
73 but only for the next five years. Under the DPU proposal, the QF will have the option
74 every five years to seek alternate off-takers elsewhere. While this proposal is an
75 improvement in that it only fixes energy prices for up to five years, paying a capacity
76 payment based on 20 years but allowing the QF the option to cease sales to the
77 Company after only five years is similar to the issue that arises with levelized pricing
78 where capacity and energy values are brought forward for the QF's benefit in early
79 years and returned to customers in the later years of the long-term contract. In the
80 DPU proposal, customers over-pay for the capacity value in the early years as
81 capacity values is brought forward but bear the risk of the overpayment if the QF
82 leaves after five years. This exposure does not meet the ratepayer indifference
83 standard. I continue to recommend the implementation of a three-year contract term
84 for all QF contracts.
85 **Q. How is your rebuttal testimony organized?**
86 A. I respond specifically to each of the intervening parties' arguments. Since many of the
87 arguments from UCE, the Coalition, and Sierra Club are similar in nature, I provide
88 detailed responses and evidence responding to Sarah Wright, UCE's witness, and
89 then often refer to those same responses when rebutting the Coalition and Sierra Club.
90 I then respond to the limited issues raised by Renewable Energy Coalition witness

91 John Lowe. Finally, I respond directly to the OCS' recommendation and the issues
92 and proposal presented by the DPU. Like my direct testimony, my rebuttal testimony
93 focuses on the reasons this change is necessary in order to maintain the "ratepayer
94 indifference" standard required by PURPA.

95 **RESPONSE TO UTAH CLEAN ENERGY**

96 **Q. Please summarize your understanding of Utah Clean Energy's testimony.**

97 A. UCE argues that a three-year contract term will end renewable QF development in
98 Utah, commodity hedges and QF projects are not comparable, and Company
99 resources and QF projects are comparable. Ms. Wright then suggests that QFs provide
100 a benefit to customers because they lock in generation at "current low prices."

101 **Q. What is your response to Ms. Wright's suggestion that a three-year contract**
102 **term will end the development of renewable QFs in Utah?**

103 A. The fact that a PURPA contract only has a term of three years does not mean that the
104 project will have only a three-year life. The must-take relationship between QF
105 projects and the Company will not change with the shortening of the contract term.
106 Rocky Mountain Power will be required to purchase the power produced by the
107 project as long as PURPA requirements exist and the project qualifies as a QF under
108 PURPA. Limiting the term of the contract to three years simply means that the price
109 Rocky Mountain Power and its customers will be required to pay to the QF will be
110 subject to adjustment every three years and will be more closely aligned with the
111 Company's current avoided costs. After each three-year contract term, the Company
112 will still be required by PURPA to contract with the QF for another term. The
113 Company is <u>not</u> seeking to limit its PURPA purchase obligation to a single three-year

114 term—it is simply proposing to align the pricing terms with the time horizons used in
115 other commodity hedges and the IRP action plan.

116 **Q. Do other witnesses agree that a three-year contract term may not end the**
117 **development of renewable QFs in Utah?**

118 A. Yes. DPU witness Charles E. Peterson points out on page 12 of his direct testimony,
119 "the ability to finance will depend in part on who the developer is and what the
120 purpose of the QF is." Mr. Peterson also points out that with the development of
121 financing vehicles such as "yieldcos", new financing opportunities are available and
122 will likely expand.

123 **Q. Ms. Wright suggests the Company's application to change the QF contract term**
124 **is contrary to the intent of PURPA. Do you agree?**

125 A. No. Nowhere in PURPA does it specifically state that contract terms for a QF must be
126 of sufficient length for a QF to obtain financing. The foundations of PURPA are: 1)
127 the purchase obligation, and 2) the ratepayer indifference standard. The Company's
128 request in this docket does not alter the purchase obligation. The Company will
129 continue to purchase energy from QFs, in compliance with the letter and the intent of
130 PURPA, for the duration of a QF's useful life. The Company's application is more
131 directly concerned with the second foundation of PURPA—the ratepayer indifference
132 standard. The Company's request aligns the maximum contract term for QFs with the
133 Company's hedging and trading policies and practices for non-PURPA energy
134 contracts and with the IRP cycle. This alignment is necessary to maintain the
135 ratepayer indifference standard required by PURPA.

136 **Q. Does PURPA require the Commission to establish QF contracting terms that**
137 **guarantee a QF will be economically viable?**

138 A. No. PURPA does not address economic viability of QFs or financing obligations. I
139 agree with DPU witness Mr. Peterson on this issue. In his direct testimony, beginning
140 on line 213, Mr. Peterson states:

141 …the Division is unaware of any statute or regulation that requires that the
142 Commission ensure that QF projects are economically viable, or that a certain
143 number QF projects be successfully developed. In Docket No. 12-035-100,
144 certain parties raised the issue of the economic viability (which broadly would
145 also include the ability to obtain financing). The Division responded that
146 "…the Division believes that it is not the regulators' place to ensure that
147 economic success is likely. The Division's position is that the avoided cost
148 pricing that a WQF [wind QF] receives should be high enough such that
149 ratepayers are indifferent between obtaining power from the WQF versus
150 other available resources, but the price should be no higher than that."

151 The Company agrees that it is not the Commission's responsibility or obligation to
152 ensure the economic viability of a QF project nor should the customer bear any cost
153 for the project to be economically viable.

154 **Q. Ms. Wright suggests the contract term should not be changed from 20 to three**
155 **years because the Company supported a 20-year contract in a prior docket.[1] Do**
156 **you agree?**

157 A. No. As discussed in my direct testimony,[2] circumstances have changed dramatically
158 since this issue was last addressed in a 2003 docket. The Company has witnessed a
159 dramatic increase in PURPA contract executions and pricing requests in Utah and
160 system-wide in the last several years. This material increase could not have been
161 anticipated by the Company when the Commission reviewed the issue of contract
162 term in previous cases. Just as avoided cost prices are updated with changing

[1] Sarah Wright Direct Testimony, page 10, lines 201-209.
[2] Paul H. Clements Direct Testimony, page 11, lines 189-204.

163 conditions, so should the other QF contract terms and conditions. Furthermore, the
164 hedging collaborative workshops held in 2011 and 2012 resulted in a review and
165 application of Company hedging practices. The QF contract term must be re-
166 evaluated in light of these new practices to ensure consistency across all Company
167 commodity transactions.

168 **Q. Ms. Wright asserts that QF projects are not comparable to a commodity hedge.**
169 **Do you agree?**

170 A. No. In fact, I find it interesting that Ms. Wright suggests a QF contract is "not
171 comparable to economic hedges"[3] but then spends the next six pages of her testimony
172 describing how prices are so low now that QFs have "hedging value"[4] and how, if
173 more QFs are built, the "locked-in low prices will help keep Utah rates low over the
174 long term."[5]

175 Ms. Wright is confusing "hedging" with "trading". Hedging attempts to
176 reduce or to eliminate volatility. Trading, also known as speculative trading, attempts
177 to profit from betting on the direction in which a market will move. Suggesting that
178 power prices are so low now that the Company should lock in as many long term
179 contracts as possible is a speculative trade, not a hedge. If regulators and stakeholders
180 wanted to speculate that power prices will only go up from here, the Company could
181 put on that trade without QFs. But doing so is purely speculative trading.

182 **Q. Has Ms. Wright previously asserted in other dockets that energy prices were**
183 **"low" and more likely to go up than down?**

184 A. Yes. In Docket No. 12-035-100, Ms. Wright provided an example of how gas prices

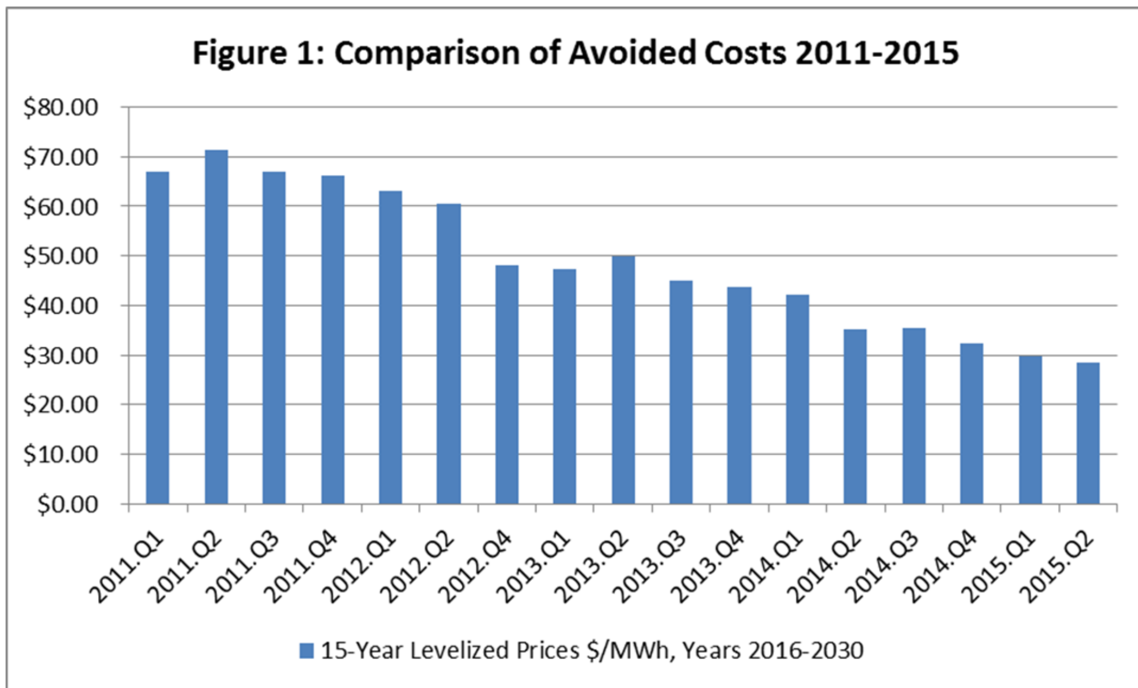
[3] Sarah Wright Direct Testimony, page 12, lines 243-245.
[4] Sarah Wright Direct Testimony, page 17, line 338.
[5] Sarah Wright Direct Testimony, page 19, line 369.

185 can influence avoided costs. In her testimony in that docket, Ms. Wright stated:
186 "...because natural gas pricing cannot get much lower, the risk that prices will be
187 higher than projected is greater than the possibility that prices will be lower."[6]

188 **Q. Was Ms. Wright correct in her prediction that energy prices would go higher?**

189 A. No. Ms. Wright submitted her testimony in that docket in March 2013. The second
190 quarter 2013 avoided cost compliance filing made by the Company showed a
191 levelized avoided cost price of $49.82 per MWh for a 15-year contract term.[7] The
192 second quarter 2015 avoided cost compliance filing showed a levelized price of
193 $28.44 per MWh for that same term. In just two years, the avoided cost price has
194 declined by <u>43 percent</u>. In fact, avoided costs have steadily fallen since Ms. Wright
195 made her prediction in 2013, continuing a declining trend that began in the second
196 quarter of 2011. Figure 1 shows the 15-year levelized price (covering years 2016-
197 2030) produced by each quarterly compliance filing for the four-year period starting
198 second quarter 2011 through second quarter 2015. Since the second quarter 2011, the
199 15-year avoided cost price has declined by <u>60 percent.</u>

[6] Docket No. 12-035-100, Direct Testimony of Sarah Wright, page 29 lines 494-496.
[7] 15-Year (2016-2030) Levelized Price (Nominal) @ 6.660% Discount Rate.



200 **Q. Why is this comparison relevant and important in the context of the Company's**
201 **request to limit QF contract terms to three years?**

202 A. This data illustrates two key points: 1) predictions regarding the future level of prices
203 are often inaccurate, and 2) the change in the level of prices over just a few years can
204 be significant. One of the primary assertions made by intervenors in this docket,
205 including Ms. Wright, is that QF prices are currently "low" and "have almost
206 nowhere to go but up."[8] This same prediction made just two years ago proved to be
207 wrong. Such predications are not relevant in this proceeding, and the inaccuracy of
208 long term predictions supports the Company's proposal to shorten QF contract terms.
209 Customers should not be exposed to the increased price risk that comes with 20-year
210 QF contracts because they are not exposed to that same risk under the Company's
211 current hedging practices and policies.

212 As stated in my direct testimony, if recent QF projects are priced higher than

[8] Sarah Wright Direct Testimony, page 16, line 324.

213 the market alternative by just 10 percent, it would create a $7.33 million impact in
214 2015 for Utah customers.

215 **Q. Is there an example that illustrates the inconsistency between the Company's**
216 **hedging polices and a QF contract?**

217 A. Yes. In my direct testimony starting on page 12 line 352, I describe how the hedging
218 policy does not allow the Company to purchase (hedge) natural gas for a power plant
219 beyond three years. However, if a QF is projected to "avoid" operation of that plant,
220 the price provided to that QF and subsequently used in the 20-year contract will be
221 based on the forecasted gas price for that plant. Executing a 20-year contract with that
222 QF, based on the 20-year forecasted gas price, essentially locks in or hedges gas at
223 that price for 20 years. That would not occur absent the QF contract, since the
224 Company's hedging policy limits gas hedges to three years.

225 **Q. What do you conclude regarding the Company's hedging policies and a 20-year**
226 **QF contract term?**

227 A. The hedging collaborative held in 2011 and 2012 resulted in a trading policy that
228 clearly delineates between hedging and speculative trading. The Company does not
229 engage in speculative trading. The Company hedges within certain boundaries
230 established as a result of the collaborative. The hedges are intended to limit price
231 volatility in the three-year time horizon to which the hedging policy applies. The 20-
232 year QF contract term currently in place falls well outside this three-year time
233 horizon. Contrary to Ms. Wright's claims, a 20-year QF contract term impacts
234 customer rates the very same way a 20-year commodity hedge would. A 20-year
235 commodity hedge is a fixed-price purchase of energy for a fixed duration, which is

236 exactly the same as a 20-year QF contract. This inconsistency does not maintain the
237 ratepayer indifference standard required by PURPA.

238 **Q. Ms. Wright asserts that QF contracts are comparable to the Company's**
239 **generation resources. Do you agree?**

240 A. No. As I explained on page 19 of my direct testimony, new Company resources are
241 procured differently than PURPA contracts. PURPA contracts do not go through the
242 same extensive IRP process to determine if they are needed, and they do not go
243 through the same competitive RFP process, which includes oversight by an
244 independent evaluator to ensure selected bids are lowest cost. Of greater importance,
245 PURPA contracts cannot be dispatched in the same manner as a Company resource.
246 This is a critical difference that impacts customer costs. For example, if the marginal
247 cost of a Company gas plant is $40 per MWh, but another alternative, such as a short-
248 term firm market purchase, costs only $30 per MWh, the Company would dispatch
249 down the gas plant and buy from the market, saving customers $10 per MWh. If a QF
250 contract has a $40 per MWh price, but another alternative costs $30 per MWh, the
251 Company cannot curtail or dispatch down the QF contract—it must continue to
252 purchase the output at $40 per MWh even though a less expensive alternative exists.
253 In fact, under PURPA's must-take obligation, the Company would be obligated to
254 back-down the existing $30 per MWh resource and purchase the $40 per MWh QF
255 energy.

256 In a recent order on this same issue of QF contract term, the Idaho Public
257 Utilities Commission highlighted the differences between QFs and Company
258 resources:

259 As is evident upon review of the extensive record (explained by several
260 witnesses), QFs differ from utility resources in several significant and material
261 ways. A utility "cannot be compensated by its customers for energy produced
262 from a generating facility until the utility establishes the need for such new
263 generation" by requesting a Certificate of Public Convenience and Necessity
264 (CPCN). Idaho Code § 6 1-526, 6 1-541. Order No. 32697 at 15-16. In
265 contrast, PURPA requires the utility to purchase QF power whether the power
266 is needed or not. Next, a utility-authorized resource is typically subject to
267 competitive bidding, cost scrutiny, and oftentimes has dispatch characteristics
268 different than most QFs. Moreover, the fuel component for utility generating
269 plants is adjusted annually, but is fixed for the duration of fuel-based, long-
270 term QF contracts. QFs are entitled to receive full avoided cost rates.
271 However, the calculation of avoided costs is entirely unrelated to what it costs
272 a PURPA project to be developed.[9]

273 **RESPONSE TO THE ROCKY MOUNTAIN COALITION FOR**

274 **RENEWABLE ENERGY**

275 **Q. Please summarize your understanding of the Rocky Mountain Coalition for**

276 **Renewable Energy testimony.**

277 A. The Coalition has three witnesses, Mr. Kevin Higgins, Mr. Bryan L. Harris, and Mr.

278 Hans Isern. Mr. Harris' and Mr. Isern's testimonies center on the ability of a QF to

279 obtain project financing. They state limiting QF contract terms to three years would

280 adversely affect the ability of renewable energy developers to finance QF projects.[10]

281 Mr. Higgins asserts the Company has brushed aside the previous body of

282 work developed in this jurisdiction in regards to the "partial displacement differential

283 revenue requirement" ("PDDRR") pricing method, states that now is not a good time

284 to change QF contract terms because new environmental regulations are in a state of

285 flux, and claims that QF contracts are more similar to Company resources than to

286 hedges.

[9] Idaho Public Utilities Commission Order No. 33357, page 24.
[10] Bryan L. Harris Direct Testimony, page 2, lines 36-38; Hans Isern Direct Testimony, page 2, lines 41-43.

287 **Q. Mr. Harris and Mr. Isern argue that limiting the QF contract term to three**
288 **years would adversely affect the ability of renewable QFs to obtain financing. Is**
289 **their argument supported by PURPA?**
290 A. No. PURPA and FERC regulations do not specify a mandatory length for QF
291 contracts. They do not require that a QF contract term be of sufficient length to ensure
292 financing. The Company is aware of many QFs who choose shorter contracts lengths
293 and are still built and operating. In fact, most of the Company's combined heat and
294 power QFs elect short duration contract terms, typically one year in length.
295 **Q. Do you agree with Mr. Higgins' assertion that the Company is brushing aside**
296 **the previous body of work developed in this jurisdiction, namely the use of the**
297 **PDDRR pricing method?**[11]
298 A. No. The Company in not recommending discontinuing the use of the PDDRR pricing
299 method to determine avoided costs. The Company is recommending limiting the
300 contracts that include pricing produced by the PDDRR method to three years.
301 **Q. Mr. Higgins asserts that no changes should be made at this time because new**
302 **environmental regulations are in a state of flux.**[12] **Do you agree?**
303 A. No. In fact, Mr. Higgins' statements regarding uncertainty support the Company's
304 recommendation to shorten the QF contract term. As Mr. Higgins' acknowledges, the
305 Clean Power Plan ("CPP") does not require states to submit a compliance plan to the
306 EPA until September 2016, and states may request that date be extended by another
307 two years. The uncertainty around the implementation of the final rules related to the
308 CPP and the final compliance plan support the need for extreme caution at this time

[11] Kevin Higgins Direct Testimony, page 5, Lines 99-104.
[12] Kevin Higgins Direct Testimony, page 6, lines 108-116; page 11 lines 218-259.

309 in how the Company acquires resources. The Company must evaluate and must
310 makes changes, if prudent, in how and whether it enters into long-term commitments
311 in light of this uncertain future. Uncertainty supports shorter term decisions and
312 obligations—it does not support locking customers into long-term fixed-price
313 obligations.

314 **Q. Mr. Higgins, as well as several other witnesses, asserts that QFs could be a**
315 **means of gaining compliance with environmental regulations.[13] What critical**
316 **fact are they ignoring?**

317 A. The critical fact that is being ignored is that the Company does not retain RECs from
318 Utah QF projects. In its Order on Phase II Issues in Docket No. 12-035-100, the
319 Commission ordered that "RECs shall be retained by the QF."[14] The QF may sell
320 RECs to a third party, or retire its RECs. In either case, the Company cannot claim
321 the environmental attributes associated with the renewable generation from a QF
322 without retaining the rights to the RECs. Therefore, any argument made by parties in
323 this docket relative to the perceived benefit to customers of acquiring "renewable" QF
324 resources is deceiving and should not be a consideration when evaluating the
325 appropriate contract term for QFs.

326 **Q. Mr. Higgins asserts that QF contracts should not be compared to the Company's**
327 **hedging practices, but should rather be compared to the Company's generation**
328 **assets.[15] Do you agree?**

329 A. No. I addressed in detail how a QF is similar to a hedge and dissimilar to a Company
330 resource earlier in my testimony when rebutting Ms. Wright. In response to Mr.

[13] Kevin Higgins Direct Testimony, page 13, line 257.
[14] Order On Phase II Issues, Docket No. 12-035-100, page 43.
[15] Kevin Higgins Direct Testimony, pages 7-8, lines 130-164.

331 Higgins, I add that Company generation assets are acquired much differently
332 (generally through a least-cost, least-risk RFP process under intense stakeholder
333 review and scrutiny) and for different reasons (such as an IRP identified capacity
334 need), than a QF project. I explain these differences in more detail in my direct
335 testimony, and note that Mr. Higgins did not provide any evidence rebutting these
336 differences.

337 **RESPONSE TO THE TESTIMONY OF SIERRA CLUB**

338 **Q. Please summarize your understanding of the Sierra Club's position in this**
339 **docket.**

340 A. Sierra Club witness Mr. Beach implies that the Company is trying to change the
341 state's competitive energy market and is trying to be relieved of its PURPA must-
342 purchase obligation. He then suggests three reasons why a 20-year contract term
343 should be continued: 1) a QF contract term of this length is necessary to realize
344 PURPA's goal of supporting QF development, 2) the current pricing mechanism will
345 act on its own accord to limit QF development, and 3) there are many benefits of
346 renewable generation.

347 **Q. On pages 4 through 12 of his testimony, Mr. Beach implies that the Company is**
348 **trying to end its PURPA must-purchase obligation. Do you agree?**

349 A. No. The Company's requested relief in this docket does not seek the elimination of its
350 must-purchase obligation. Mr. Beach opines heavily on Section 210(m) of PURPA in
351 which utilities can petition FERC for relief from the must-purchase obligation, and
352 further opines on state renewable portfolio standards ("RPS") and state energy policy
353 in general. Those topics are not relevant to this proceeding, so I will not address those

354 issues in detail.

355 **Q. Mr. Beach implies that PURPA requires a contract term that ensures a QF can**
356 **obtain financing.**[16] **Do you agree?**

357 A. No. Earlier in my rebuttal of Ms. Wright, I explain how nowhere in PURPA or in
358 FERC regulations is the issue of contract term addressed. There is no requirement to
359 ensure a QF can obtain financing. The obligation is must-purchase, not must ensure
360 economic viability.

361 **Q. In his second of three arguments, Mr. Beach suggests that the pricing**
362 **mechanism will act on its own to limit QF development. Do you agree?**

363 A. No. While I agree that avoided costs generally decrease as more QFs are added to the
364 system and lower-cost resources are avoided, the Company's experience has shown
365 that a large and material number of QFs may enter into long-term contracts before
366 any impact of the pricing queue is realized. The Company witnessed this first-hand in
367 the past few years. As described in my direct testimony, the Company signed 24 new
368 QF contracts in Utah totaling 897 MW in the past two years. Mr. Beach points out
369 that recent indicative prices are now lower and implies that this is a result of the
370 queue (i.e., the fact that many QF contracts have already been signed). I have
371 personally been involved in the processing of QF pricing requests and the execution
372 of recent QF contracts and purport that the recent reduction in indicative avoided
373 costs is largely a result of lower forward price curves used as inputs to the model and
374 not a result of the pricing queue.

375 I previously shared Mr. Beach's opinion that contract term is irrelevant as
376 long as the model produces an accurate avoided cost. However, as I evaluated the

[16] R. Thomas Beach Direct Testimony, page 17, lines 343-344

377 impact of long-term fixed-price risk, analyzed how that impact is magnified when a
378 large number of QF contracts are executed, and recognized that long-term fixed-price
379 risk is not consistent with the Company's hedging practices for non-PURPA
380 contracts, I realized that a 20-year contract term violates the ratepayer indifference
381 standard in that it introduces fixed-price risk to the customer that it otherwise would
382 not incur.

383 **Q. In his third of three arguments, Mr. Beach suggests that the contract term**
384 **should remain at 20 years because there are many benefits to renewable**
385 **generation.[17] Is his characterization and valuation of those alleged benefits**
386 **accurate?**

387 A. No. As a general response, the objective of this docket is not to re-evaluate the
388 avoided cost calculation for renewable generation. Docket No. 12-035-100 evaluated
389 the avoided cost method for wind and solar resources and implemented a model to
390 determine the value. This docket strictly addresses the contract term and not the
391 contract price. Notwithstanding that objection, I find several flaws in Mr. Beach's
392 calculation of his suggested benefits. Since this docket is not focused on the valuation
393 of QFs, I will only briefly address each suggested benefit:

394 • REC sales revenues – Mr. Beach suggests that RMP can sell RECs and
395 achieve additional revenue. He ignores that fact that RMP does not retain
396 the REC from a QF, making this argument irrelevant.

397 • Hedging benefit – Mr. Beach suggests long-term renewable QF contracts
398 are a better hedge than Company resources because the fuel price is locked
399 down (since there is no fuel cost). He fails to acknowledge that a

[17] R. Thomas Beach Direct Testimony, page 23, lines 457-462

400 Company resource is only acquired if a long-term need is identified
401 through the IRP process. No such needs assessment occurs with a QF
402 contract. And he further argues that QF contracts protect against spikes in
403 natural gas prices. He fails to acknowledge how they also can hurt
404 customers when QF prices are locked-in and gas prices decline (which has
405 been the case over the past several years). He also fails to acknowledge
406 that QFs cannot be backed down even when lower cost alternatives are
407 available, while Company resources are dispatched economically.

408 • Market price mitigation – Mr. Beach suggests that the addition of large
409 amounts of renewable generation will decrease demand on the wholesale
410 markets and thus decrease prices in general. His argument is illogical—
411 why would one acquire as much as possible of something now when the
412 effect will be to make it cheaper in the future? Why not acquire nothing
413 now and wait for the cheaper prices? Notwithstanding the irrational nature
414 of this position, as I described earlier in my rebuttal testimony, guessing
415 on the direction of future prices is purely speculative.

416 • Capacity optionality – Mr. Beach asserts that additional QFs will add
417 generation capacity to the Company's system, but then acknowledges that
418 the Company has no need for capacity.

419 • Local economic benefits – Mr. Beach suggests the construction of solar
420 generation provides an economic benefit to Utah. Local economic benefit
421 is not relevant in this proceeding and has not been considered in the past
422 when valuing QFs. And if such a consideration were to be made, one

423 would have to compare the economic benefit of a solar resource to other
424 resource types, which Mr. Beach has not done.

425 **Q. Mr. Beach concludes by saying "today's avoided costs are relatively low" and**
426 **QF contracts executed now "will be a good deal for ratepayers." Should these**
427 **types of statements be considered in the Commission's implementation of**
428 **PURPA?**

429 A. No. These statements represent speculation. I have witnessed Utah solar QF prices
430 fall from the low $100s per MWh for some Schedule 37 contracts, to the mid-$60s
431 per MWh for another batch of contracts, to the low-$50s per MWh for another batch,
432 and then to the low-$40s for a few more. Each time I was skeptical that the price
433 could go lower and still be economically viable for QFs, largely based on
434 representations by QF developers each time that the bottom had been reached.

435 Notwithstanding this experience, whether one believes the QF avoided cost is
436 low or high at any given time does not change the fact that the Company is being
437 forced to enter into 20-year contracts for energy that it otherwise would not procure
438 under the current IRP action plan and the current hedging policies and practices.

439 **RESPONSE TO THE TESTIMONY OF THE RENEWABLE ENERGY COALITION**

440 **Q. What are the specific issues raised by the Renewable Energy Coalition?**

441 A. The Renewable Energy Coalition witness Mr. John Lowe recommends: 1) that the
442 Company's recommended three-year contract term not apply to base load Schedule
443 37 eligible QFs, and 2) that a capacity payment be included for existing QFs that
444 renew their contracts, even if the shorter-term contract period does not include a
445 resource need.

446 **Q. How do you respond to these two recommendations?**

447 A. Mr. Lowe asserts that existing small base load QFs, specifically those eligible for
448 rates under Schedule 37, are not causing the same harm as new, large QFs.[18] Small
449 20-year contracts carry the same fixed-price risk as larger contracts, but I agree with
450 Mr. Lowe that the magnitude of the risk is much smaller. The Company's concern
451 with a 20-year QF contract term is largely driven by the limitless nature of QF
452 contracts under Schedule 38, meaning a very large number of megawatts could be put
453 to the Company at a fixed price for 20 years, introducing a considerable amount of
454 fixed-price risk to customers. This concern is lessened considerably for small projects
455 executed under Schedule 37, primarily because Schedule 37 has a cumulative cap of
456 25 MW built into the tariff. While the Company continues to recommend the three-
457 year contract term apply to all QF contracts, the Company acknowledges the risk
458 from Schedule 37 QFs is less because of the cap in the tariff.

459 Regarding his second recommendation, I do not agree that capacity payments
460 should apply to existing QFs even if the Company does not have a forecasted capacity
461 need during the three-year term. There is no guarantee a QF will continue to sell to
462 the Company at the expiration of any contract term. Providing or bringing value
463 forward from time periods that are not included in the contractual obligations of both
464 parties is not prudent and does not provide protection to customers that they will
465 receive the future capacity benefits for which they have prepaid. I recommend the
466 Commission reject this proposal.

[18] John Lowe Direct Testimony, page 14, lines 255-256.

467 **RESPONSE TO THE TESTIMONY OF THE OFFICE OF CONSUMER SERVICES**

468 **Q. Please summarize your understanding of the OCS' testimony.**

469 A. The OCS agrees with the Company on two points: 1) there is a risk to customers
470 associated with carrying long-term fixed-price contracts for power, and 2) there is a
471 disconnect between new QF contracts and PacifiCorp's IRP, in that incremental QFs
472 are not evaluated in the Company's annual IRP plan similar to other generation
473 resources.[19] I particularly agree with Mr. Vastag's assessment of the fixed-price risk
474 associated with 20-year QF contracts. He states: "Ratepayers, not the Company, not
475 the QF developer, not the QF financier, carry this risk."[20] Notwithstanding these
476 material and relevant concerns, the OCS recommends the Commission not approve
477 the Company's request. The Company agrees with Mr. Vastag that it is customers
478 who bear the risk. The Company will get cost recovery for these QF contracts
479 regardless of the Commission's decision in this case.

480 **Q. Do you agree with Mr. Vastag's conclusion that ensuring the avoided cost**
481 **modeling is accurate adequately addresses the QF contract term issue raised by**
482 **the Company?**

483 A. No. The two concerns raised by Mr. Vastag are not completely eliminated by accurate
484 avoided cost modeling. Long-term fixed-price risk exists regardless of the accuracy of
485 the modeling. Mr. Vastag recommends the Commission ensure that avoided cost
486 modeling is *as accurate as possible*,[21] but then discounts the fact that a three-year
487 contract term results in a much more "accurate" avoided cost than a 20-year contract
488 term because of the uncertainty associated with long-term forecasting of prices and

[19] Bela Vastag Direct Testimony, page 2, lines 23-29.
[20] Bela Vastag Direct Testimony, page 2, lines 27-28.
[21] Bela Vastag Direct Testimony, page 2, lines 39-42, page 4 lines 68-70.

489 other inputs to the avoided cost model.

490 **RESPONSE TO THE TESTIMONY OF THE DIVISION OF PUBLIC UTILITIES**

491 **Q. Please summarize your understanding of the DPU's testimony.**

492 A. DPU witness Mr. Charles E. Peterson agrees with the Company on many key issues.
493 He shares the Company's concerns related to the large number of existing and
494 potential QFs. He suggests a large number of additional QFs may negatively impact
495 the Company's operation of its system, and that the existing QF method may not
496 adequately address this risk.[22] Mr. Peterson also agrees with the Company that a 20-
497 year contract is inconsistent with the hedging principles agreed upon in the hedging
498 collaborative.[23] Mr. Peterson further agrees with the Company's position that a 20-
499 year contract term is a clear benefit to QF developers that is a concession to a strict
500 ratepayer indifference standard.[24] He also agrees that it is not the regulator's place to
501 ensure economic viability of a QF project.[25] And, most importantly, Mr. Peterson
502 agrees with the Company that it is time to reconsider the previous positions related to
503 QF contracts in light of recent events.[26] He then recaps the Idaho Public Utilities
504 Commission recent determination that 20-year contracts were no longer in the public
505 interest and that the maximum contract term should be reduced to two years. Lastly,
506 he introduces an alternative to the Company's proposal. He recommends the
507 Commission adopt a five-year contract term, but allow the capacity payment to be
508 based on a 20-year avoided cost calculation. Energy prices would be calculated as
509 they are now, but only for the next five years. He states his proposal can be viewed as

[22] Charles E. Peterson Direct Testimony, page 5, lines 90-104.
[23] Charles E. Peterson Direct Testimony, page 8, lines 151-155.
[24] Charles E. Peterson Direct Testimony, page 9, lines 179-181.
[25] Charles E. Peterson Direct Testimony, page 12, lines 235-237.
[26] Charles E. Peterson Direct Testimony, page 10, lines 193-196.

510 a 20-year contract with a price reopener every five years, and the QF will have the
511 option every five years to seek higher prices elsewhere.

512 **Q. What is your response to the DPU's alternative proposal?**

513 A. I agree that the DPU proposal lessens the fixed price risk to customers since the
514 energy portion of avoided costs will only be locked in for five years instead of the
515 current 20 years. However, I see two fatal flaws in his treatment of the capacity value
516 or payment.

517 First, his proposal continues to lock in the capacity portion of avoided costs
518 for twenty years. While I agree that locking in capacity value but not energy value is
519 more consistent with the Company's hedging practices, it still carries considerable
520 risk to customers and over-payment to the QF should the QF leave at the end of the
521 five-year term. Locking in capacity costs to customers outside the IRP action plan
522 horizon introduces risk to customers that would not otherwise exist. This is due to the
523 fact that long term capacity needs often change from one IRP to the next. For
524 example, the 2013 IRP included a combined cycle combustion turbine ("CCCT") gas
525 plant in 2024. However, due to the timing of the identified need for this resource, the
526 2013 IRP action plan did not include any action items to procure this long-term
527 resource. In other words, no costs to customers were locked in as a result of this
528 forecasted resource need. The 2013 IRP Update pushed the CCCT out to 2027.
529 Again, due to the timing of this identified need, the Company did not develop an
530 action item to procure this long-term resource. The Company's 2015 IRP was
531 recently completed. The 2015 IRP preferred portfolio pushes the CCCT out even
532 further to 2028. Over the two year planning cycle, the next deferrable resource moved

533 from 2024 to 2028. Customers were not impacted by this move because the Company
534 did not incur costs to acquire the previously projected 2024 resource because it was
535 outside the IRP action plan.

536 However, if a 20-year QF contract were entered into between the 2013 IRP
537 and the 2015 IRP, the 20-year capacity value for that QF would have been based on a
538 projected resource need in 2024, even though that need was subsequently pushed to
539 2028. As a result of that 20-year QF contract, customers are forced to pay capacity
540 value starting with a 2024 resource even though that capacity is now not needed until
541 2028. Customers would not incur the cost of acquiring that resource earlier than
542 needed absent the QF contract. Bringing forward capacity value for QFs for up to 20
543 years introduces risk to customers that is not found in the current IRP action plan
544 procedure.

545 Second, and even more critical, is the fact that Mr. Peterson's proposal allows
546 a QF to receive the benefit of a levelized 20-year capacity payment but then opt out of
547 the contract after only five years. This is simply not equitable to customers. For
548 example, if the resource need (and thus the capacity value or payment) does not begin
549 until the last two years of the proposed 20-year QF contract, Mr. Peterson would
550 propose that the capacity value for the last two years be levelized and then spread
551 across all 20 years. This is reasonable if the QF is contractually obligated to provide
552 the capacity over all 20 years. However, under Mr. Peterson's proposal, the QF can
553 opt out and sell elsewhere after five years. In this scenario, the QF would have
554 received value in years one through five for capacity that it was supposed to provide
555 in years 19 through 20—years in which the QF is no longer available to the Company

556 if it opts out. This proposal also introduces considerable risk in the Company's long
557 range planning. Since the QF can opt out after five years, the Company cannot
558 reasonably assume the QF will continue to be available after five years. So the
559 Company will have to plan for other resources beyond year five. If the Company
560 plans for and then acquires other resources, and then the QF elects to stay and not opt
561 out after five years, the Company is left with more resources than what is needed, and
562 customers are effectively paying twice. Mr. Peterson's proposal is not equitable if the
563 five year opt out is included.

564 **Q. Please summarize your key conclusions after reviewing parties' direct testimony.**

565 A. No party has provided credible evidence to refute the three key facts upon which the
566 Company bases its request. No one has disproven the fact that a 20-year QF contract
567 term is:

568 1. inconsistent with the Company's hedging practices;
569 2. inconsistent with resource acquisition policies and practices for non-
570 PURPA energy purchases; and
571 3. not aligned with the Company's IRP planning cycle and action plan.

572 A 20-year fixed-price QF contract impacts customers in the same manner as a 20-year
573 energy hedge and therefore should be subject to the same term limitations established
574 for non-PURPA energy hedges. Many parties suggest that the environmental benefits
575 associated with renewable QFs justify the continued use of a 20-year contract term,
576 but they fail to acknowledge that the Company does not receive the REC from Utah
577 QFs. Customers receive all of the fixed price risk and none of the environmental
578 benefits.

579 Without the requested modification to the maximum allowable contract term,
580 the Company will continue to be forced to acquire long-term, fixed-price PURPA
581 contracts even though PacifiCorp's 2015 IRP shows no new resource is required until
582 2028. I continue to recommend the implementation of a three-year contract term for
583 all QF contracts.

584 **Q. Does this conclude your rebuttal testimony?**

585 A. Yes.