BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR AN ORDER APPROVING AVOIDED COST RATES	DOCKET NO. 03-035-14 DPU EXHIBIT 1.0SR

Surrebuttal Testimony of

Artie Powell

Division of Public Utilities

May 12, 2004

SURREBUTTAL TESTIMONY OF ARTIE POWELL
DOCKET NUMBER 03-035-14
AVOIDED COST METHODOLOGY FOR LARGE QFS

Q: Please state your name, business address, and current position.

A: My name is Artie Powell; my business address is 160 E 300 S Salt Lake City, Utah, 84114. I am a Technical Consultant with the Division of Public Utilities.

Q: On whose behalf are you testifying in these proceedings and did you file testimony previously in this proceeding?

A: I am testifying on behalf of the Division. I previously submitted direct and rebuttal testimony identified respectively as DPU Exhibits 1.0 and 1.0R in this matter.

Q: What is the purpose of your surrebuttal testimony in this matter?

A: While the Division is not changing its recommendation as presented in rebuttal testimony, I would like to clarify the Division's position and recommendation in this matter.

Q: What is the Division's recommendation?

A: The Division's recommendation has three parts. First, we recommend that the Commission adopt a deferential revenue requirement ("DRR") method as a permanent methodology for pricing large QFs. The DRR method requires the use of a production cost model such as that used by PacifiCorp in the development of its IRP. The model currently utilized by PacifiCorp, however, does not include logic to choose among resources. It is the Division's understanding, however, that the vendor for PacifiCorp's IRP model is in the process of developing such logic and anticipates delivery around July of this year. Therefore, as the second part of its recommendation, the Division recommends that this issue be turned over to a task force for further study. At the end of a specified period of time – the Division recommends a date no later than the end of the year – the task force would report on the viability of and make recommendations on a DRR method. Third, until the task force can complete its work, the Division recommends the adoption of the hybrid method discussed in DPU Exhibits' 1.0 and 1.0R. This hybrid method would be available to any QF coming on line during the period of time before the task force completes its work and the Commission makes a final decision on the pricing methodology for large QFs.

Q: Is the DRR method proposed by the Division the same as the Ideal method discussed by Tellus Institute?

A: No. From testimony filed by other parties it is apparent that there is some confusion about the Division's proposal of the DRR method and the Ideal method discussed in a report by Tellus Institute.[1] As Tellus explains, the Ideal method is a differential revenue requirement method that leads to the actual avoided costs of the utility with complete accuracy. "Under this methodology, the *true,* rather than the *approximated*, avoided cost of *each* alternative resource is calculated."[2] While it may be desirable, in general, to know the "true" avoided cost of each alternative, the Ideal methodology is not practical.

Q: Why do you say that the Ideal method is not practical?

A: The calculation of avoided costs will involve the use of estimates to one extent or another. Therefore, the true avoided costs are not likely to fall out of any method employed by the Commission to set rates for large QFs.

[1] "Costing Energy Resource Options: An Avoided Cost Handbook for Electric Utilities," Tellus Institute, September 1995.

[2] *Ibid.*, p. II-1.

Q: How does the DRR method proposed by the Division differ from the Ideal method?

A: The Division's DRR proposal uses a load decrement as an approximation to the QF under consideration. The intent is that the decrement would, as closely as is reasonably possible, reflect the size and operating characteristics of the QF. In addition, the DRR method would use forecasts of key variables such as gas prices.[3] Under the Ideal method the actual values for the QF and other variables are employed.

Q: UAE witness Dr. Collins recommends that the Commission charge the task force to investigate both the differential revenue requirement method and also a "more practical" proxy plant method. Do you have any comments on this recommendation?

A: This seems to be a reasonable recommendation that the Division supports.

Q: In rebuttal testimony, Desert Power witness Mr. Swenson accuses state agencies of a double standard. Are you familiar with this accusation?

A: Yes, I have read Mr. Swenson's rebuttal testimony. I believe Mr. Swenson's remarks refer to the treatment of capacity cost over the period of sufficiency in calculating Schedule 37, namely, the years from 2004 through June 2007. In this period, PacifiCorp originally proposed paying small QFs (and by default, large QFs) capacity payments for 3 months, or about ¼ of the annual capacity costs. Mr. Swenson believes this is inconsistent with PacifiCorp's practice of asking for full recovery of its prudent costs.

Q: Do you agree with Mr. Swenson assessment of this issue and the Division's attempts to arrive at a methodology for pricing large QFs?

[3] This is essentially the method advocated by Tellus as a practical alternative to the Ideal method. The decrement is essentially a proxy plant designed to look and act like the proposed QF. The term "decrement" is used here to avoid confusion between the DRR method proposed by the Division and the various proxy plant methods being proposed by parties in these proceedings.

A: No, I do not. First, PacifiCorp's initial assessment was based on its estimate of its need for capacity in the sufficiency period. Committee comments on Schedule 37 subsequently argued that PacifiCorp's need extended to 6 months. In rebuttal remarks, PacifiCorp agreed that its need was closer to 5 months. The Commission has not yet ruled (in Docket 03-035-T10) on the appropriate number of months for which capacity payments are due. However, the Division's interim or hybrid method anticipates adoption of any changes to Schedule 37 (and thus Schedule 38) ordered by the Commission, including, but not necessarily limited to, the appropriate number of months to pay capacity payments over the sufficiency period.

Second, in setting avoided costs rates for QFs, it is PacifiCorp's actual avoided costs that are being estimated, not the costs the QF faces in developing and operating its project. PacifiCorp's avoided costs are necessarily tied to its load and resource balance and the best estimates to-date indicate that PacifiCorp is capacity deficient for a limited number of months for the next couple of years. Thus, the QF can only potentially help avoid a few months worth of capacity additions or purchases over the sufficiency period. Therefore, under current conditions, it seems reasonable to pay capacity payments only for the number of months that the capacity is actually needed and can potentially be avoided.

Q: In rebuttal testimony, you reported a range of QF prices coming from the hybrid method. Do you have any independent confirmation that these prices are reasonable?

A: Yes. In rebuttal testimony I reported prices from the hybrid model, which ranged from \$44.09 to \$47.44 per MWh. The lower number was for an all coal scenario, the upper number for an all CCCT scenario. Recent contracts signed by PacifiCorp with third parties are reasonably comparable to these prices. Based on the prices for these contracts and the operational flexibility offered by the contracts to PacifiCorp, the Division believes the hybrid method proposed in direct and rebuttal testimony will, at least on an interim basis, provide reasonable prices for large QFs.

Q: Does this conclude your surrebuttal testimony?

A: Yes.