

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE)	
APPLICATION OF PACIFICORP)	Docket No. 03-035-14
FOR AN ORDER APPROVING)	SURREBUTTAL TESTIMONY
AVOIDED COST RATES)	OF SCOTT A. GUTTING
)	

MAY 12, 2004

1 **Q. Do you have Surrebuttal Testimony in this case?**

2 A. Yes, I am providing Surrebuttal testimony to PacifiCorp Witness Roger Weaver
3 and DPU witness Powell. I also have comments on the historic basis differential
4 numbers used by the Committee and make an additional suggestion regarding
5 issues raised by PacifiCorp on cost of capital issues.

6 **Q. What is your Surrebuttal Testimony of PacifiCorp Witness Weaver?**

7 A. In response to the Committees' recommendation that energy prices be tied "to an
8 indexed fuel price" Dr. Weaver suggests that the Company have "the option to
9 offer either a fixed price or a fuel indexed price." We agree with the Company on
10 this approach.

11 I would add that the election of which gas payment option to use should be
12 at the discretion of the QF because it is the QF that must manage fuel price risk.
13 Furthermore, the Commission should adopt UAE's suggestion on the appropriate
14 Gas Index to use and should adopt UAE witness Collins recommendations on
15 Page 26 of his rebuttal testimony regarding the appropriate heat rate to be used
16 with the monthly gas index price to arrive at an avoided energy price.

17 **Q. If the Commission elects to use forecasted gas prices proposed by the
18 Committee to determine avoided cost, are there any adjustments to the
19 forecasts put forth by the Committee that should be implemented?**

20 A. Yes. I have comments on the historic basis differential numbers used by the
21 Committee. I also have comments on the impact of future gas export pipelines
22 from the Rocky Mountains on the future basis differential. Based on these

1 comments and with the support of Dr. Collins testimony, both Dr Collins and I
2 recommend that certain adjustments be made to the Committee forecast.

3 **Q. Please describe what basis differential means.**

4 A. Basis differential refers to the difference in the actual index price for gas delivery
5 in the Rocky Mountains in a given month and the NYMEX contract closing price
6 for that same month.

7 **Q. Please comment on the Committee \$-.70 per MMBtu basis adjustment.**

8 A. The Committees' original basis adjustment was \$-.40 per MMBtu. Subsequently
9 Committee changed to a \$-.70 per MMBtu basis differential number. My
10 understanding is that the Committee estimate is based on long-term historical
11 basis data for the Rocky Mountain Region. The bottom half of Exhibit
12 SAG__SR1 illustrates that the long-term historic (1992-2004) basis differential
13 for Opal, Wy. has averaged \$-.61 per MMBtu. As a result the Commission
14 should begin with this basis differential adjustment to the Committee proposed
15 non-basis adjusted forecast and not use the Committee \$-.70 per mmbtu number.

16 **Q. You mentioned that you also have comments for the Commission regarding**
17 **the impact of future export pipelines from the Rocky Mountains on the basis**
18 **differential. Please elaborate.**

19 A. The basis differential in the Rocky Mountains is affected by the amount of Gas
20 pipeline export capacity from the Rocky Mountains to other markets such as
21 California and the Midwest. As more pipelines are built to export gas from the
22 Rockies the basis differential is likely to narrow.

1 Page 1 of Exhibit SAG_SR2 is a map showing committed and planned
2 pipelines and capacity expansions in the Rocky Mountains. Page 2 of this Exhibit
3 is a table listing each project, its current status, capacity and estimated in-service
4 date. The Exhibit illustrates that total regional transportation capacity expansion
5 could grow from roughly 5 Bcf/day in 2004 to between 10.4 and 12.7 Bcf/day by
6 2008, which is 120 to 167% of today's capacity.

7 **Q. What is your conclusion in making this point?**

8 A. My conclusion is that future pipeline expansions in the Rocky Mountains will
9 result in the basis differential narrowing relative to historical numbers over the
10 next 20 years – the time period of this avoided cost analysis. If the Commission
11 adopts a forecast to use in setting avoided costs rates rather than the Index
12 approach we have advocated then that gas forecast should be adjusted to take into
13 account regional interstate pipeline capacity expansions.

14 **Q. Do you have specific reasoning as to this conclusion?**

15 A. Yes. History shows that major expansions have had an impact on regional basis.
16 For example, the top half of page 1 of Exhibit SAG__SR1 shows that in the
17 twelve (12) year period prior to the recent Kern River capacity expansion in May
18 of 2003 the magnitude of the basis differential (measured as the difference in
19 price between the NYMEX futures monthly settlement price and the Kern River
20 Opal monthly index price published in Inside FERC's Gas Market Report)
21 averaged 21.5% of NYMEX. Since the Kern River expansion the magnitude has
22 narrowed to 12.6% of the NYMEX price. Thus, expansion capacity is causing
23 Rocky Mountain gas to flow to more expensive out-of-region markets and rise in

1 price relative to the Henry Hub. This trend in basis differential narrowing is
2 expected to continue as more export pipelines are built.

3 **Q. What adjustment should the Commission make to the \$.61 per mmbtu basis**
4 **number?**

5 A. Since the Kern River expansion in 2003 the magnitude of the basis differential
6 has changed from 21.5% of NYMEX. to 12.6% of the NYMEX price. Based on
7 the prospect of additional pipeline expansions it is reasonable to expect that this
8 differential will continue to decrease. Witness Collins recommends that
9 beginning in 2006 that the basis differential decrease from 12.6% to 9.2%

10 **Rebuttal of DPU Witness Powell**

11 **Q. Do you have any Surrebuttal for DPU witness Powell?**

12 A. Yes, Witness Powel has suggested on page 4 of his rebuttal testimony that the
13 Commission should use an average of the PacifiCorp and Committee gas forecast.
14 As stated in UAE witness Collins rebuttal testimony we recommend that the
15 Committee forecast be used with adjustments to the basis differential cited above.

16 **Q. Do you have additional comments?**

17 A. Yes, I have an additional comment how to evaluate cost of capital impact issues
18 raised by PacifiCorp Witness Williams.

19 **Q. Please explain.**

20 A. The cost of capital issue that PacifiCorp has raised is a bigger issue than just this
21 QF case. As Mr. Williams quotes S&P “regardless of whether a utility buys or
22 builds, adding capacity means adding risk”. I previously suggested that the
23 Commission have the QF Task Force address this issue in Mr. Williams’ rebuttal

1 testimony. I now suggest the Commission create a separate task force to study
2 this issue and give it in more attention rather than limit it to a QF case. In that
3 Task Force the agenda should not be limited to single issues such as QF
4 contracts/PPA's. It should identify and address all the issues that might impact
5 the Company as a result from *buying or building added capacity*.

6 Q. Does this conclude your testimony?

7 A. Yes.