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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of PACIFICORP for Approval of an IRP Based Avoided Cost Methodology For QF Projects Larger than 1 Megawatt	DOCKET NO. 03-035-14

PREFILED TESTIMONY OF SCOTT A. GUTTING

The UAE Intervention Group hereby submits the Prefiled Testimony of Scott Gutting in this docket.

DATED this 29th day of July, 2005.

HATCH, JAMES & DODGE

/s/_____
Gary A. Dodge
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 29th day of July, 2005, to the following:

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PREFILED TESTIMONY

Of

SCOTT A. GUTTING

On behalf of UAE Intervention Group

In the Matter of the Application of PACIFICORP for Approval of an IRP Based Avoided Cost Methodology For QF Projects Larger than 1 Megawatt

Docket No. 03-035-14

July 29, 2005

I. INTRODUCTION

Q. Please state your name, business address and occupation.

A. Scott A. Gutting, 215 South State Street, Suite 200, Salt Lake City, Utah 84101. I am President of Energy Strategies, an energy consulting firm.

Q. Please briefly describe your business experience.

A. I founded Energy Strategies in 1986. Prior to that time I worked for the Utah Energy Office. Energy Strategies is an energy consulting firm that helps consumers lower energy costs and improve energy purchasing practices. We have 20 years of experience negotiating fuel supply and electricity contracts, evaluating and implementing cogeneration and other energy facility investment opportunities, representing individual clients or groups of clients in regulatory and policy proceedings, and providing other services.

Q. Who are you representing in this proceeding?

A. I am presenting testimony on behalf of the Utah Association of Energy Users Intervention Group ("UAE").

Q. Have you testified in a PacifiCorp avoided cost case prior to this one?

A. Yes. In the mid 1980s I testified in a Utah Power & Light (UP&L) avoided cost case before the Utah Commission. Many of the same issues UP&L raised in the 1980s have been raised by PacifiCorp in this case. More recently, I filed testimony in this docket in May 2004.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss public policy issues, Qualifying Facility (QF) contract pricing options and avoided cost methodologies that should be adopted in Utah. I will also introduce other UAE witnesses.

Q. Please introduce UAE's other witnesses in this case.

A. In addition to my testimony, UAE is sponsoring the testimony of Mr. Matt Baebler, currently the President of UAE. Mr. Baebler has recent experience developing and constructing a QF project at the Tesoro Refinery in North Salt Lake. The other UAE witness is Neal Townsend. Mr. Townsend will testify on UAE's analysis of the GRID methodology proposed by PacifiCorp, on the Proxy methodology developed by UAE, and on other related matters.

Q. Why has UAE intervened in this case?

A. UAE has intervened for several reasons. UAE members believe that avoided capacity and energy cost payments should be set so that ratepayers are generally "indifferent" as to whether power is provided from a QF or a PacifiCorp-owned resource. UAE members strongly support development of efficient cogeneration and other competitive generation resources because of the many ratepayer benefits that result from such resources.

Q. Please describe a typical cogeneration or CHP facility.

A. A cogeneration facility or Combined Heat & Power (CHP) project, as it is more typically referred to in today's jargon, is a facility that produces thermal and electric energy simultaneously. A CHP project will typically have an overall energy efficiency of 75 to 85 percent and will meet or exceed the Federal Energy

Regulatory Commission's (FERC) QF requirements, thus making such a project eligible to receive full avoided cost payments from a utility.

A CHP project may or may not, depending on the particular circumstances of the site, have excess capacity and energy to sell to the utility. The size of the project will typically be determined by the thermal needs of the host site. These thermal needs may support a project like Tesoro's where excess electricity can be efficiently generated and sold to the utility. In other instances the thermal needs of the site will determine a plant size that will not support the export of electricity for sale to the utility but will displace the purchase of power from the utility instead. An example of this type of project is the Snowbird CHP project. In this case the CHP project is essentially a Demand Side Resource (DSM) that provides value to ratepayers similar to other DSM projects.

II. BACKGROUND

Q. Please provide some background on QF development in Utah.

A. Since I testified in the first QF case in Utah in 1984, QF development in Utah has been very limited. UAE Exhibit 1.1 (SAG-1) provides a list of all of the QF projects that have been developed in Utah since the passage of the Public Utilities Regulatory Policies Act (PURPA). In Utah**,** there are four (4) QFs that generate approximately 439,414 MWH of power, which is 1.8 percent of PacifiCorp's sales to all customers as noted in the most recent annual Scottish Power report. (Source: **"**Scottish Power Annual Report and Accounts 2004/2005, page 34) In

contrast, in the year 2000, there were 2,378 QFs in the U.S, with a yearly growth rate of 6-10 percent, providing 228 million MW of capacity (Source: EIA Table 49 - Installed Capacity by Qualifying Facilities). At the end of 2004, commercial and industrial CHP plants provided 160 million MWH, combining for 12.4 percent of the nation's total electric generation (Source: EIA Tables 1.4 and 1.5 – net generation by energy source).

Q. Why has QF development in Utah been so limited?

A. Despite State Policy as expressed in Utah Code (UCA § 54-12-1) to encourage independent energy production, the removal of barriers, and the "development of new sources of electrical energy," QF development has been limited in Utah for a number of reasons. One of the most critical factors has been the utility's continued hostility towards QF projects and the lack of a consistent, transparent and reasonable pricing methodology coupled with reasonable contract terms.

Q. How long have the current issues relating to QFs and long-term avoided cost pricing been in front of the Commission?

A. Since 2001, there have been numerous dockets, hearings, task forces and meetings that were set to address QF issues. A list of some of these various efforts and their results is included in UAE Exhibit 1.2 (SAG-2). During this time the Company has developed over 1,300 MWs of gas-fired power projects on its own and has current plans to acquire over 1,000 MWs of new peaking and base load resources in the next few years. These amount to over 2,300 MWs of resources

being built, acquired and planned for, while the QF issues raised in 2001 are still being debated.

Q. Please list the new QF projects that have come online within the same time frame.

A. Since 2001 when the Schedule 38 process began, power sales contracts for two new QF projects have been approved:

1. Desert Power to provide 95 MWs of firm capacity when online in 2006.
2. Tesoro provides 10 MWs of non-firm capacity from a facility that went into service in late 2004.

In addition, two new contracts for pre-existing facilities have been approved by the Commission:

1. US Magnesium provides 36 MWs of non-firm energy under a contract that began in January 2005.
2. Kennecott Utah Copper Corporation (KUCC) provides 32 MWs of non-firm energy under a contract that went into service in January 2005.

Q. How does the total of new QFs projects coming online compare with the recent PacifiCorp resources completed, in progress, and planned for?

A. The new QF contracts provide for only 95 MWs of firm capacity, or roughly 4 percent of the capacity of PacifiCorp's owned and planned resources. Clearly, QFs continue to play a very minor role in the State of Utah due to existing barriers.

Q. Has the avoided cost process that has been conducted since 2001 been successful?

A. Unfortunately, no. Even though the process has been very lengthy, with many task force meetings and proceedings having occurred, there is still little new QF development in Utah. We hope that this proceeding will address many of the issues and set a clear path forward for QF development.

Q. Is it UAE's position that QFs should be developed at any cost?

A. Absolutely not. We would oppose uneconomic QF projects with the same zeal that we oppose uneconomic utility-built resources. As our history clearly shows, UAE is first and foremost a dedicated ratepayer advocate. That advocacy has, with others, helped all Utah ratepayers save hundreds of millions of dollars over the years. In our advocacy for ratepayers we would oppose QF prices or terms that are not in the best interests of Utah ratepayers and citizens. At the same time, we strongly oppose QF pricing and terms that discourage QF development, because they rob Utah ratepayers of the numerous benefits I define later in my testimony. In our view, the State has failed to capture numerous benefits that would have accrued to Utah ratepayers and citizens had appropriate QF pricing terms and methodologies been in place. We want to put an end to policies that either favor uneconomic utility development or discourage efficient QF project development.

Q. Please describe some of the "barriers" that have limited QF development.

A. A number of factors act as barriers to QF development in Utah, including the following:

1) a lack of transparent pricing that developers can use to determine project feasibility;
2) no methodology in place that provides industrial hosts or developers a means of determining avoided cost terms and pricing;
3) contract terms that are one-sided with no easy method to resolve disputes with the utility;
4) the difficulty and length of time to negotiate agreements for a project (as discussed in the testimony provided by UAE Witness Baebler);
5) avoided cost prices tendered by the utility do not accurately reflect its avoided costs;
6) utilities evaluate QFs as generating resources in isolation and in a manner that essentially requires a CHP facility to be equivalent to a PacifiCorp "dispatchable" CCCT, which such a facility is not.

Q. How can these barriers to QF development be removed?

A. The barriers will only be removed if the Commission first decides as a policy matter that it will strongly encourage efficient CHP and QF development and that there is a legitimate long-term role for QFs in a balanced utility portfolio. UAE believes such a policy is in ratepayers' interests. This type of leadership from the Commission, which historically has been lacking, would implement clear state policy in encouraging the development of QFs. Once this policy is in place, the

Commission should then adopt simple methodologies and processes by which QF developers can quickly obtain and understand pricing and contract terms through a flexible, transparent process, including pre-approved contract terms, multiple pricing options, and the elimination of "new" roadblocks that the utility proposes to throw in the way of project development. These policies should apply to CHP projects that sell power to the utility. The Commission should also seek to encourage CHP projects that consume all the power they produce internally. Project developers will then hopefully be able to proceed in obtaining power contracts and interconnect agreements in a successful manner.

Q. Do the utility's modeling practices create significant barriers?

A. Yes. The complicated "black box" models recommended by PacifiCorp and embodied in the Grid model to project avoided costs make the process very complex, are not transparent, and do not produce results that are any more reasonable than the UAE proxy approach described by UAE Witness Townsend. The Commission should adopt methodologies that are understandable and transparent. Models should be easily accessible, with results that are easy to validate and replicate, do not take a long time to evaluate, understand and operate and that can be updated based on changing circumstances. The proxy model fits this description, while the GRID model and revenue requirement models are very complex and either unavailable to other parties or difficult for them to manipulate. The proxy model is simple and verifiable, produces stable estimates of avoided costs and can be run by an industrial host or a developer. The desired result

should be avoided capacity and energy costs that are fair and reasonable and comparable to the costs incurred by the utility in building its own projects.

III. PUBLIC POLICY DISCUSSION

Q. Please describe the intentions of PURPA.

A. PURPA was enacted in response to the energy crisis in the late 1970s to help reduce U.S. dependence on foreign oil and encourage fuel diversity - things that are still critically needed today.

Q. What benefits do you believe PURPA provides?

A. PURPA is one of the most successful federal policies in promoting energy efficient generation and renewable energy. It has produced a broader, more efficient, more environmentally friendly base of electricity generation. Cogeneration/CHP technologies make use of diverse fuel resources, including renewables, which lessen the use of fossil fuels and the nation's dependence on foreign energy supplies. It is my opinion that had PURPA not been enacted efficient Combined Cycle Combustion Turbine (CCCT) technologies developed in the 1980s would not be available to ratepayers today. In the Utah QF case in the mid 1980s the primary power supply options on the table were base load coal plants and inefficient oil/gas fired Simple Cycle CTs. The enactment of PURPA has led to the development of an independent energy industry that effectively competes with the traditional monopoly utilities and has fostered reduced wholesale prices and innovation in electric generating technology.

Q. How do you think PURPA is viewed at the federal level today?

A. I believe that PURPA is generally held in a very positive light. This is confirmed by the fact that the Act's basic utility purchase obligation is preserved in both current versions of the Energy Policy Act of 2005 passed by the House and Senate, absent a showing that the purchase obligation is no longer necessary because of the existence of a workable competitive market. Although both versions of the Energy Bill propose to modify PURPA to "ensure that qualifying facilities are legitimate, commercially useful facilities, and to help promote energy efficient and demand response tools" (Source: "Chairman Domenici's Opening Remarks," Senate Energy and Natural Resources Committee Press Release, May 19, 2005), both also contain PURPA-preserving language and confirm that PURPA *does* promote energy efficiency and other intended benefits.

Q. What is your position on the 2005 Energy Bill modifications to PURPA?

A. I generally support the PURPA modifications as I currently understand them. They appear to protect customers by encouraging the development of a transparent, legitimate process for QF development where there is no competitive market available, which is clearly the case in Utah. Both bills retain the requirement that utilities purchase power from QFs unless a liquid, competitive market is shown to exist. UAE believes that this purchase obligation is vitally important and in the public interest in Utah because there is currently no significant market outlet for QF power. Absent this continuing mandate, there would be no QF development in Utah at all.

Q. How do ratepayers and the public at large benefit from QF projects?

A. The public and ratepayer benefits are numerous and impressive. QF projects are an important part of the competitive generation puzzle from which all ratepayers benefit. At a typical efficiency of over 75 percent, QFs are much more efficient than traditional utility power plants. These efficiencies have led to a significant reduction in air emissions, which means cleaner air to breathe and a reduced consumption of fossil fuels.

In addition, CHP units typically are diverse in size and location. This dispersal means greater efficiency through reduced line losses, avoided transmission capacity, improved system reliability and other factors.

Q. What impacts have PURPA and QFs had on competition in the electric generation business?

A. PURPA and the subsequent QF development have spurred the competitive electric generation market in the U.S. where monopoly utilities control generation, transmission and distribution systems over several states, and therefore can exercise market power. Market power leads to higher prices to consumers. PURPA mandates that electric utilities interconnect and purchase power from QFs, as well as sell standby, back-up and maintenance power to the facilities on a non-discriminatory basis. This makes it possible for QF developers to enter the market and provide an alternative source of competitive power to the nation's power supply portfolio. Their existence provides an independent set of resources that can deliver low costs and greater innovation.

Q. Can you give any examples of the benefits to ratepayers of having competition for the generation of power in Utah?

A. I can point to at least two concrete examples, one recent and one from nearly 20 years ago. The first example is a result of PacifiCorp's 2003RFP-A solicitation for new gas-fired generating resources. Prior to issuing the RFP, PacifiCorp had looked for sites to locate a gas-fired generating plant. PacifiCorp selected what is now known as the Currant Creek site. An alternative power plant site rejected by PacifiCorp is located at the former Geneva Steel site. As a result of the issuance of the RFP seeking competitive supplies from Independent Power Producers (IPPs), IPP developers identified and tested the Geneva site, which is now being developed for the benefit of ratepayers. Competition caused this positive result and should result in lower costs to ratepayers.

The second example I point to is a result of the first Commission hearings on QFs in the early 1980s. These were the first hearings on long-term QF rates in Utah and were held to meet PURPA's requirements, to promote competition in generation and QFs. The predecessor organization to UAE, the Utah Council of Independent Power Producers, was involved in this first UP&L avoided costs case. In that case, the Commission set long-term avoided capacity costs based on the cost to ratepayers of building the Hunter IV and other "planned" coal-fired power plants. The avoided capacity payments set by the Commission were $202 Kw-yr**.** for a 20-year contract**.** The Sunnyside Project was developed as a result of these first hearings on QF rates. The Commission accepted a 30-year contract

with capacity payments lower than those stipulated and approved by the Commission. As a result, a 45 MW QF was developed. In the same time period the Hunter IV plant was cancelled and ratepayers avoided paying for 400+ MWs of unneeded, excess capacity.

Q. Do you have additional thoughts on competition?

A. Yes. It is UAE's belief that competition, spurred initially by PURPA, has generally resulted in more efficient, lower cost, competitive electric generation for ratepayers. QFs provide both ownership and resource diversity. This is especially important when you have a monopoly utility in the state. Ownership diversity creates a competitive environment which will result in lower costs to ratepayers. Resource diversity also means that plants like the Tesoro project, which would never have been built as a utility resource, have a place in the utility resource portfolio.

Q. Are there other benefits that ratepayers may see as a result of QF Projects?

A. Yes. When compared to traditional cost-of-service utility cost recovery options, QFs and IPPs provide ratepayers cost certainty. Once a contract is signed between a QF and the utility and approved by the Commission, any cost increases the QF incurs in capital cost, O&M expense, etc., are borne by the QF owner, not ratepayers. This is typically not the case with a utility built plant. Depending on the size of a resource and other factors, the benefit to ratepayers can be huge.

Q. You mentioned earlier in your testimony the Tesoro CHP project. Can you comment further on that project?

A. The Tesoro project is a great example of QF innovation. A legitimate steam need existed at Tesoro from new facilities to replace 50-year-old boilers at this critical industrial site located in the PacifiCorp load center. Only as a result of the innovation and leadership shown by Mr. Baebler and Tesoro was this project developed. It met the host's internal energy needs and is efficient, clean, reliable, and uses fuel that would otherwise be wasted to the atmosphere, thereby saving fossil fuel for future generations and leaving cleaner air.

When developing this plant, Tesoro considered several options, including building a larger plant. The Tesoro plant could have been a much larger project had there been clear and transparent QF pricing, or an established and flexible methodology for determining avoided cost rates, and streamlined contracting and interconnect procedures. Given the absence of such pricing or procedures, Utah ratepayers and citizens were deprived of the benefits of a potentially larger efficient QF plant.

Q. You have discussed the "ratepayer indifference" standard. How does UAE view this standard?

A. UAE is primarily a ratepayer advocacy organization and "ratepayer indifference" is an important objective to UAE. Ratepayer indifference does not mean that all presumptions and doubts should be resolved against prices paid to a QF, as the utility and others tend to do. The ratepayer indifference standard is not met if

efficient and economic QF projects remain undeveloped because QF pricing and procedures discourage their development. Ratepayer indifference is only satisfied when QF rates and procedures are set at full avoided cost rates -- the rates that the utility would otherwise pay itself or others for similar products. Avoided costs should be set so that ratepayers are generally indifferent as to whether the utility or the QF builds the generating resources. By setting QF rates either too low or too high, ratepayers could be harmed.

Q. Is there any methodology that can guarantee ratepayers indifference?

A. There is no perfect avoided cost methodology. No methodology can guarantee that ratepayers will remain completely indifferent at any specific point in time with respect to avoided costs, or with respect to decisions a utility may make to build a plant itself. By using a reasonable and transparent avoided cost methodology, by setting reasonable avoided cost rates, and by developing fair and reasonable contract terms, QFs will have a reasonable opportunity to compete with the utility in serving ratepayers needs. As a result ratepayers will benefit.

Q. Is there an exact science in achieving "ratepayer indifference"?

A. No. The term "ratepayer indifference" is an amorphous, moving--albeit important--concept that should be considered in QF and other proceedings. But ratepayers are never "indifferent" because the Company may decide to build a certain type of plant over another resource that may later end up being the less expensive plant. Ratepayers will be asked to pay for that resource. My point here is not to criticize past decisions. The last several years have been very

uncertain times in the West. My intent is simply to point out that it is not good for ratepayers when QF development is frustrated in the name of a ratepayer indifference standard that is, at best, amorphous and constantly subject to interpretation, or by setting up barriers to QF development that are not applied to utility built resources against which QFs must compete.

IV. AVOIDED COST METHODOLOGY AND QF PRICING OPTIONS

Q. What recommendations do you have for the Commission regarding QF pricing options?

A. UAE proposes various pricing options for QFs to select. These options should be similar in structure to those approved in the 2004 QF Stipulation, including a fixed price option, a tolling option and a non-firm option tied to an electric index.

Because the Commission approved an index pricing option in the 2004 stipulation there are QF contracts in Utah whose prices are based on the Palo Verde Index. This pricing structure and method is simple and transparent – two of the key features UAE has stressed are important for QF development. This pricing option and method may be favored by QFs who desire to enter into shorter term or non-firm agreements with the utility. In the case of the Tesoro non-firm contract approved by this Commission in 2004, the Stipulation between the intervening parties explains that "the energy price shall be: (1) 0.93, multiplied by (2) the applicable On-peak, Off-Peak, or 24-Hour firm Palo Verde index … multiplied by (3) the applicable hourly [shaping factors]." This is the same

pricing mechanism used in both the US Magnesium and KUCC QF contracts, that is, 0.93 multiplied by the applicable Palo Verde index multiplied by the applicable shaping factors, where the shaping factors are those found in Appendix A of the Stipulation. UAE's strong recommendation is that the Commission should retain this index-based pricing option.

Q. Are there other index pricing options the Commission should consider?

A. Yes. UAE has contacted Platt's and learned that this organization began publishing a Mona pricing index on July 25th. While this index is just getting off the ground and there are several important issues to explore in using such an Index, we recommend that the Commission, as part of an order in this case, direct the parties to report to the Commission by the end of 2005 on the potential for using the Mona index. Such an index could possibly be used by itself or in conjunction with the PV and other indices for short term QF contracts. Based on the results of that effort we recommend that if a Mona pricing Index is a viable and desirable option, then such a method be put in place in early 2006 to be incorporated into QF pricing options.

Q. What additional pricing options does UAE recommend?

A. UAE Witness Neal Townsend proposes avoided capacity and energy payments derived from a proxy model that should be made available, on either a fixed price or tolling basis, to QFs willing to provide firm capacity.

Q. Are there other issues related to pricing that the Commission should address?

A. Yes. There are several other types of costs that a QF may potentially allow the utility to avoid. These avoided cost "adders" include avoided transmission capacity costs and avoided transmission line losses, both of which are discussed in Mr. Townsend's testimony. In some cases QFs can also provide voltage support, spinning reserves or other services, depending on location, size and characteristics of the project or the distribution or transmission system to which the project is interconnected. For example, some technologies, such as natural gas fueled spark ignited internal combustion engines and certain aero derivative combustion turbines, may provide spinning reserve capability even when not operating due to rapid ramp rates. A QF should be fully compensated for any such "adders" that it provides to the utility, either in the derivation of avoided cost rates or as separate additions to the avoided cost rates, as appropriate.

Q. Do you have specific recommendations on how these avoided cost "adders" should be treated.

A. Yes. Avoided transmission capital costs should be included in the avoided capacity payment as suggested by Mr. Townsend. Avoided transmission line losses should be determined on a project by project basis, calculated to reflect the location of the QF project as opposed to the deferrable proxy plant. The Commission has previously approved such line loss payments to Desert Power and US Magnesium and should require similar payments to other QFs for avoided line losses. With respect to other potential QF benefits such as voltage support, spinning reserve, operating reserves and other benefits, the Commission should

order the utility to negotiate in good faith to identify these benefits on a case by case basis.

Q. Does UAE have a position with respect to the term of QF contracts?

A. Yes. The Company offers QF contracts for a term of up to 20 years. UAE does not believe that such a limitation on term is reasonable. We recommend that contract terms be available to a QF that desires to sign a contract for longer periods, up to the amortization period that the Commission would approve for a similar facility owned by the utility.

V. QF CONTRACT ISSUES

Q. Are there other contract issues that UAE wishes to address?

A. Yes. There are several contract issues that PacifiCorp Witness Griswold raises in his direct testimony. Without repeating his testimony here I point the Commission to page 3 line 54 through page 5 line 12 where Mr. Griswold refers to "QF project specific adjustments to be considered when finalizing the avoided cost prices".

Q. What issues raised in Mr. Griswold's Testimony would you like to address?

A. With respect to his comments regarding payment adjustments I have the following comments. In item "a" he indicates that the "type" of power, i.e., whether it is firm or non-firm, should be reflected in the price that is paid. I agree with that concept. The avoided cost methodologies and pricing options we present in this case reflect that agreement. However, the utility should not be

allowed to use this issue to renegotiate payments in the process of contract negotiations. To avoid this problem the Commission should adopt clear contract language.

In item "c" in his testimony Mr. Griswold raises the issue of dispatchability. Once again, I have no conceptual disagreement with his comment that QFs should meet some performance requirement if they are paid for capacity so long as the utility is required to meet the same standards they would impose on a QF. As an example, if a utility resource is unable for some reason to serve ratepayers then ratepayers should not be obligated to pay the costs of that resource. Again, the Commission in this case should approve reasonable standard contract language that would be applied equally to the QF and the utility.

In item "d" in his testimony Mr. Griswold raises the issue of reliability and suggests that payments to a "less" reliable QF should be decreased based on performance. A CHP project (such as Tesoro's) is typically more reliable than a utility resource. If the Company proposes to pay less for a "less" reliable resource, then it should also pay more for a more reliable resource. Furthermore, it appears that Mr. Griswold's discussion under item "d" is redundant with item "a" with which I have no conceptual disagreement so long as the utility lives with the same standards imposed on the QF.

Q. What do you recommend when there is a contract dispute between the utility and developer?

A. QF developers should have access to prompt dispute resolution in the event that there is a significant disagreement between the two parties. We recommend that the Commission set up a 30-60 day process within which a dispute or disputes could be adjudicated by the Commission in order to eliminate lengthy contract negotiations when PacifiCorp and the QF developer cannot come to an agreement without outside influence. This will also act as a disincentive for anyone to use contract negotiations to delay project development. It will promote a more seamless process that will benefit all parties.

VI. OTHER PRICING RELATED ISSUES IN THIS CASE

Q. Please identify other pricing issues that must be resolved.

A. In PacifiCorp's direct testimony filed in this docket in 2004 and again in this 2005 filing, the Company identified two accounting standards – Emerging Issues Task Force (EITF) 01-08 and Financial Interpretation No. 46R (Fin 46R) and also introduced the idea of "debt imputation" as a concept that may impact the cost of capital or capital integrity of the utility when it purchases power from other entities. As I understand it PacifiCorp would conduct an analysis of each contract to determine a "cost" of signing a PPA and would then deduct that "cost" from the avoided costs prices to be paid to the QF as determined by the Commission in this case.

Q. **Do you have any general comments on this issue?**

A Yes. While I do not purport to be an expert on how ratings agencies such as Moody's and Standard & Poor's (S&P) determine the "risks" of loaning money to a utility, nor am I an accountant or accounting expert, I recommend the Company proposal be rejected by the Commission..

Q. Why do you suggest that the Commission should reject these issues outright?

A. I am far from persuaded that these "virtual costs" claimed by the utility have been adequately demonstrated or established. Also, to my knowledge, the vast majority of states have not imputed any such costs to QFs. Utah business should not be penalized with imputed costs that other states refuse to impose. Moreover, there are two major recent events that, by all accounts, strengthen the Company's financial standing. The first such event is Senate Bill 26, which should allow PacifiCorp greater assurance of cost recovery from its resource acquisition activities. While cost recovery is not guaranteed, SB 26 makes the road to approval much smoother for the utility, thereby reducing its financial regulatory risk going forward for all procurement. In fact, S&P states in its May 5, 2005 credit rating on PacifiCorp that SB 26 "should substantially increase the utility's prospects for cost recovery" (UAE Exhibit 1.3 (SAG–3)).

The second event, which is in my view more important, is the application filed on July 15, 2005, by PacifiCorp and MidAmerican Energy Holdings Company for the purchase of PacifiCorp from ScottishPower. MidAmerican is a vast, financially sound energy corporation with "comparatively lower cost of debt" which will "lead to lower prices for customers than would be the case

without the transaction." [1] In the event this acquisition is approved, PacifiCorp appears to be joining a company that is very secure financially.

Q. What is happening regarding debt imputation in other states that regulate PacifiCorp?

A. Very little. In Oregon, the Public Utility Commission Staff provided recommendations on January 23, 2004, to the Commission (UAE Exhibit 1.4 (SAG-4)) on these accounting standards. The staff indicated that it was not persuaded that PacifiCorp had demonstrated that the FASB changes will necessarily have a negative impact on the Company. The Oregon staff also noted that the investment community has required full financial disclosure for decades, making it unlikely the recent changes would impact PacifiCorp's financial health.

Q. What actions did the Oregon Commission take based on staff comments?

A. The Oregon Commission agreed in its February 18, 2004 Order (UAE Exhibit 1.5 (SAG-5)) that it was not persuaded that the new FASB standards would have a negative impact on PacifiCorp. The Oregon Commission did allow that if subsequent analysis properly identified increased risk to PacifiCorp, then the Commission would consider further review.

Q. What about other PacifiCorp State Commissions?

A. To my knowledge, the issue has not been addressed in Idaho, Wyoming or Washington to any significant level.

[1] PacifiCorp July 15, 2005 press release.

Q. What are the implications if the Commission adopts the Company's proposal on these issues?

A. I believe that any industrial concern with a possible CHP project or potential QF developer, faced with the prospect of a deduction in their avoided cost payment, will simply not pursue the project or ignore Utah as a place to do business. If this were to occur, ratepayers would be harmed.

VII. SUMMARY OF RECOMMENDATIONS

Q. Would you summarize your recommendations to the Commission?

A. Yes. UAE recommends that the Commission do the following:

1. Adopt an explicit policy to encourage the development of QFs, and particularly CHP projects, in Utah.
2. Adopt UAE's recommended avoided cost methodologies and payment options.
3. Adopt UAE's proposed line loss and other avoided cost payment adders.
4. Eliminate contractual and other barriers to QF, and particularly CHP, development in Utah.
5. Direct the Parties to evaluate an independent Mona pricing Index.
6. Reject the Company's proposal to employ "blanket" contract price deductions.
7. Reject PacifiCorp's recommendation to reduce QF prices through debt imputation.

Q. Does that conclude your direct testimony?

A. Yes.