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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 MATT BAEBLER

The UAE Intervention Group hereby submits the Prefiled Direct Testimony of Matt Baebler 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

MATT BAEBLER

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

BACKGROUND

Q. Please state your name and occupation.

A. My name is Matt Baebler. I am the Technical & Engineering Manager of the Tesoro Refining and Marketing Company's refinery in Salt Lake City ("Tesoro").

Q. On whose behalf are you filing testimony in this Docket?

A. The UAE Intervention Group.

SUMMARY OF TESTIMONY

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

A. I recently developed a cogeneration project for Tesoro which, to my knowledge, is one of only two new cogeneration projects developed in Utah over the past several years. I will explain my experiences and discuss the critical need for regulatory support, timeliness, transparency and certainty in terms and pricing for cogeneration projects if the Commission is serious about encouraging cogeneration projects in this State.

Q. Could you give a summary of your conclusions and recommendations?

A. Yes. Cogeneration projects provide many societal benefits because of their efficiency in the utilization of scarce energy resources. In addition, economical and efficient cogeneration projects help Utah businesses remain competitive. However, many available and economic cogeneration projects will likely not be completed in this State unless and until the Commission takes steps to ensure that reasonable, transparent, predictable and timely procedures and pricing provisions are available, along with a timely and meaningful process for resolving conflicts.

Q. Please provide some background on Tesoro's cogeneration project.

A. The Cogeneration plant is comprised of two parallel turbo generators and Heat Recovery Steam Generators that can together produce over 22 MW of electrical power, and 350,000 pounds per hour of steam.. The refinery currently uses about 75% of this power, while the remaining is sold to PacifiCorp on a non-firm basis. To give one a feel for size, 22 MW would supply power to about 20,000 average homes along the Wasatch Front. The steam is used in the refining process, so no steam is exported. Further, these units are equipped with the latest in low emissions equipment such as Solonox turbine burners and UltraLo Nox steam generator burners, so air emissions are reduced considerably when compared to separate conventional electricity generation and steam generation. Lastly, the cogeneration process is by design much more thermally efficient, close to 80% versus 35% for conventional coal fired electrical production.

The project schedule took approximately two years from conception to first generation in July 2004 and was a joint effort between Tesoro, CEntry Engineers and Constructors, and Solar Turbines Inc..

Q. Why do you think there has been only limited cogeneration development in this State?

A. Cogeneration projects typically require a significant investment -- of money, resources and time -- even to determine whether they will be economical. Essential to a determination of the economics of a potential project is the ready availability of pricing and other significant contractual terms. Unless the utility

happens to be eager to support the development of cogeneration projects – in the case of PacifiCorp, the level of support varied dramatically depending on the individual or department -- it is very difficult for a developer to obtain critical information in a reliable or timely manner. A clear path must be provided by which a potential QF developer can quickly obtain and verify all necessary information. Moreover, unless pricing is set at a reasonable level -- reflecting the utility's full avoided costs -- many efficient and economic projects are not likely to be constructed.

Q. Have you observed or participated in any of the various QF processes, task forces and hearings that have taken place on in this state over the past several years?

A. Yes, and the process appears quickly to get bogged down in complex models and theoretical debates. A useful pricing methodology must be straightforward, simple and transparent. Moreover, prices should be consistent with the costs that PacifiCorp would expect to recover from ratepayers for its own facilities.

Q. Did you encounter any significant obstacles in your negotiation of your QF contract?

A. Yes, several. Principal among them were: (i) the complexity of and time required to negotiate necessary arrangements with the utility; (ii) the absence of clear pricing terms or a transparent process for predicting prices; (iii) the lack of standard contract terms and conditions; and (vi) the absence of a process or

mechanism for quick resolution of disputes.

Q. Please discuss the first obstacle, the complexity and time necessary to complete negotiations.

A. We had to negotiate five separate agreements with PacifiCorp over a two-year period, including several interconnection studies and agreements. We had to deal with literally dozens of utility representatives from several different departments, causing significant delays, overlap and confusion. Moreover, we often received conflicting information. Our experience was the opposite of a "one stop" approach that one would expect to find from a company anxious for your business. The utility's processes for negotiating and approving QF contracts should be clarified, streamlined and understandable.

Q. How about the second obstacle, the lack of clear pricing or procedures to determine pricing.

A. Pricing is the single most important factor in determining the feasibility of a QF project, yet it was very difficult to obtain accurate or verifiable pricing information. Given our steam needs, a much larger QF project would have been desirable and, had we had access to reliable pricing information and procedures, we likely would have built a much larger facility. We ended up building a much smaller facility because we could never get comfortable with the utility's pricing. To be meaningful, pricing terms and procedures should be simple, transparent, understandable and verifiable. I fear that many economic and efficient QF

projects are lost in Utah because of the absence of clear and adequate pricing information.

Q. What was the impact of the third obstacle, the absence of standard contract terms and conditions?

A. We were forced into very long and laborious contract negotiations which delayed the project and increased frustration and costs. A meaningful procedural roadmap, with standard terms and conditions approved in advance, would greatly facilitate the process and decrease problems and frustrations.

Q. Please explain the fourth obstacle, the absence of a mechanism for quick dispute resolution.

A. We could have developed the larger project and completed negotiations much more quickly had there been a process in place for prompt resolution of disputes or disagreements. The utility did not appear to have any particular reason to move quickly or to compromise. Absent the discipline that a competitive market brings to arms-length contract negotiations, a prompt and efficient regulatory process is critical.

Q. What do you recommend to the Commission in this docket?

A. Basically, ensure that a clearly defined, transparent process exists, with fair pricing, to ensure that economic QFs can be built in this State. This recommendation would help ensure that the Utah consumer continues to enjoy a

relatively lower price compared to many of the surrounding Western States.

Q. Does this conclude your testimony?

A. Yes it does.