BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR THE APPROVAL OF AN IRP BASED AVOIDED COST METHODOLOGY FOR QF PROJECTS LARGER THAN 1 MW	Docket No. 03-035-14

PREFILED DIRECT TESTIMONY OF ROGER J. SWENSON

Pioneer Ridge, LLC hereby submits the prefiled supplemental Direct Testimony of Roger J. Swenson in this Docket.

Dated this 29th day of July 2005.

Roger J. Swenson
Consultant for Pioneer Ridge, LLC

PREFILED DIRECT TESTIMONY

Of

ROGER J. SWENSON

On behalf of Pioneer Ridge LLC

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 business address.

A. Roger J. Swenson, 1592 East 3350 South, Salt Lake City, Utah 84106.

Q. By whom are you employed and in what capacity?

A. I am an independent utility and energy consultant.

Q. Please summarize your educational and professional experience.

A. I have a BS degree in Physics and a MS degree in Industrial Engineering from the University of Utah. I have worked in the energy industry for over 20 years. Prior to working as a consultant, I was the Vice President of Energy Marketing for an oil and gas production company that was affiliated with a cogeneration development company. Prior to that, I worked for Questar Corporation in various positions including some time spent on rate making matters. I have also testified before this Commission on various matters including maters involving QF rates.

Q. Can you outline how you would like to put forth a basis pricing determination for wind projects in this matter?

A. Yes. I believe that the methodology for pricing wind in calculating the avoided cost should be based on as much actual information as possible and any pricing determined from modeling assumptions should be verified by matching up with actual utility contracts with wind projects.

Q. **Would it make sense to verify the modeling methodology with actual contract costs?**

A. Yes, any modeling effort to derive avoided costs will come with many assumptions concerning various components of the cost calculations. For instance, you can make specific assumptions concerning how much capacity cost should be included in the avoided cost rates for wind generators. In addition, you can make assumptions concerning the cost of integration of wind projects into the utility resource stack. You can also make assumptions concerning the value of green tags and how they are factored into the avoided cost pricing. Unless you have some form of independent evaluation, your assumptions remain suspect.

Q. Are you saying that we should just use the latest contract price as a benchmark for QF pricing for wind?

A. I believe that whatever methodology we come up with to determine avoided cost prices for wind projects there should be some direct correlation to what costs the utility will avoid from having this specific type of resource developed. The best way to validate the accuracy of any methodology is to look at the results from the methodology compared to an actual benchmark. That benchmark should be a contract for a similar resource.

Q. Why is this important?

A. If the avoided cost methodology derives prices that are much higher than the utility could contract for to acquire the same resource then ratepayers will be harmed. If prices from the methodology are much lower than the utility can find a party to contract for to acquire the same type of resource the then the low avoided cost prices would be a barrier to the development of renewable resources.

Q. Have you calculated the avoided cost price for a QF project?

A. Yes. I have calculated the avoided cost price using the DRR methodology modified to take into account the market opportunity value rather than coal plant turn down variable pricing. The 85% load factor price that is calculated is $59.99/MWH on a levelized 20-year contract basis.

Q. PacifiCorp suggests that there should be adjustments made to the pricing for integration costs that include operating reserves cost and imbalance costs. Do you agree that those costs should be taken into account?

A. I agree that if there are specific identifiable costs that those costs should be captured in the method for determining avoided cost pricing. I believe that the DRR methodology that I have adapted includes the cost of operating reserves. The Imbalance costs as PacifiCorp has estimated at $3.00/MWH are just that, an estimate with no evidence provided as to the basis for that number. Even using the estimate of imbalance cost at $3.00/MWH, my adjusted DRR value for the avoided cost for wind would be $56.99/MWH on a levelized 20-year basis.

Q. How does this compare to the price of the latest wind contract that PacifiCorp has entered into?

A. The wind contract entered into in Idaho in May of this year has pricing of on a 20-year levelized basis of $(Confidential)/MWH. The contract pricing is shown on Wind Confidential Exhibit RJS 1. After adjusting for the PacifiCorp levelized IRP value of green tags of $2.00/MWH, the price, absent the green tags is $(Confidential)/MWH. Therefore using the DRR, costs as adjusted and the integration costs as assumed provide a (Confidential) basis for the wind avoided cost pricing.

Q. What price are you recommending we use for wind projects?

A. I recommend that we use the $56.99/MWH levelized price for the wind contract pricing for this type of resource and that the Wind projects retain ownership of the green tags that are meant to encourage this type of generation project. The very (Confidential) level that can be supported by the evidence is the adjusted contract price of $(Confidential)/MWH that was recently entered, again with the ownership of green tags remaining with the project.

Q. **How does your proposed approach compare to the approach used by PacifiCorp?**

A. The approach used by PacifiCorp as provided for pricing the Pioneer Ridge LLC 18 MW wind project in Tooele, Utah on a 20-year levelized basis is $35.65 as shown on Wind Exhibit RJS 2. There is obviously some sort of disconnect with the assumptions driving the calculations of PacifiCorp. The comparison shows that the assumptions made by PacifiCorp in the avoided cost methodology are not validated by the actual market based contract.

Q. Do you need to argue over the capacity value included in the avoided cost pricing?

A. Not in my approach, I have spread the capacity value included in the pricing is over the hours of operation. If the facility operates at 35% CF it will receive about 35% of the capacity payment value since the capacity value is spread out over 85% of the hours. A project that has a higher capacity factor will receive a high portion of the capacity payment by virtue of its additional operating hours. A project with 20% capacity factor will receive only 20% of the capacity value.

Q. PacifiCorp argues that there be no consideration for the green tags associated with the QF purchase, do you agree?

A QF rates, as we have discussed in many proceedings before this commission, should keep ratepayers indifferent to the price they are paying for power provided from these projects. If ratepayers are indifferent with the QF contract pricing that has been derived and the utility takes these valuable green tags and markets them to other utilities that have renewable portfolio standards, then the ratepayers are better off rather than indifferent for this transaction. If PacifiCorp can resell these green tags or charge ratepayers who sign up for programs like "Blue Skies' an extra payment for green tag acquisition then there will be a disconnect. Ratepayers will be indifferent only if the project receives the proceeds from the value of these renewable energy credits. If PacifiCorp needs the green tags itself then some transparent means to value the reimbursement to the project should be used. The PacifiCorp IRP in appendix J states;

> "Green tags represent the environmental attributes of renewable energy. Such attributes can be traded among parties and therefor have a dollar value. With such value green tags help lower the installation cost and production cost of renewable power.
>
> Green tags are the result of Policy incentives to encourage renewable energy production." [1]

If PacifiCorp prevails in asserting its ownership and does not provide a value for the attribute, it will thwart the very basis for their creation. FERC has issued a ruling concerning this issue and clearly stated that absent agreement from the Parties to a power contract the green tags remain an asset of the project. In order

1 PacifiCorp IRP Appendix J page 150

to avoid arguments over the pricing I have assumed that green tags will remain the property of the project, then no assumptions need to be made for their value.

Q. The wind project in Utah is located much closer to the Utah load center than the Idaho Project. Should there be some consideration given for the reduced transmission costs associated with moving the energy to consumption areas?

A. Yes, the specific location of a project relative to load should be taken into account in the specific contract. The specific losses or transmission costs that can be avoided should also be taken into account in the specific contract as has been done in other approved QF contracts.

Q. Are you proposing that as part of the Commissions determination in this matter that the utility be ordered to provide a contract with the pricing you have laid out in your testimony?

A. Yes. I believe that the Wind Project Owners'have been very patient waiting for a determination in this matter. We participated in the Renewable Task Force and expected a determination of this matter last year. We initiated a docket asking to approve contracts based on stipulation pricing but were told that this determination would need to occur in this proceeding. The development of this wind project has been held up long enough. We would ask that as part of the findings in this case that any order provide direction for PacifiCorp to provide Pioneer Ridge LLC with a contract and expedited treatment so that the project may attempt to move forward as quickly as possible.

Q. **Would such a project moving forward be in the interest of the State of Utah?**

A. Yes, as the recently acknowledged IRP has more than 1000 MWs of wind generation included, it is clear that these types of resources should make up a portion of the resource base for PacifiCorp. This project can provide a example of Utah's commitment to conserving precious natural resources and show its commitment to a more sustainable energy future.

Q. Does this conclude your testimony?

A. Yes it does