BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application	)	
of PacifiCorp for Approval	)	Docket No. 03-035-14
of an IRP Based Avoided Cost	)	
Methodology for QF Projects	)	
Larger than 1 MW	)	

SUPPLEMENTAL REBUTTAL TESTIMONY OF WILLIAM E. AVERA TO THE DIRECT TESTIMONY OF RICHARD COLLINS

September 2005

Q. Please state your name and business address.

A. William E. Avera, 3907 Red River, Austin, Texas, 78751.

Q. What is the purpose of your rebuttal testimony?

A. I am responding to the testimony submitted by Dr. Richard Collins on behalf of Wasatch Wind.

Q. Please summarize your rebuttal to Dr. Collins.

A. My rebuttal testimony makes the following point:

- Dr. Collins's claim that the debt equivalence of wind projects is too small to be considered ignores the collective impact of all QF PPAs on PacifiCorp customers.

Q. Does Dr. Collins dispute the reality of imputed debt associated with QF PPAs?

A. No, he does not. Rather he argues that wind projects are too small to have a material effect on risk and there are too many variables that determine the bond rating of a company as large as PacifiCorp. (p. 21.) Dr. Collins uses the vivid analogy of blaming a flea for causing a fighter not to make his weight class. Yet, if one looks behind the analogy, the result is to confirm that wind projects should not get a free ride on debt imputation. Consider if Dr. Collins's hypothetical fighter had of full head of long hair (a possibility that some of us can only dream of). A single hair contributes very little weight. Yet, the combined effect of the copious hair on the fighter's head could make a material difference in the official weigh-in before the fight.

Similarly, the bond rating of a large company reflects the totality of factors considered by the rating agencies and the investors they serve. A utility's generation portfolio, customer composition, regulatory environment, geographic location, fuel mix, and labor relations are considered along with a host of other factors. The amount of debt in the utility's capital structure is one of the most important considerations because of the fixed charges associated with debt.

The total fixed charges associated with a utility's PPA obligations is significant to investors and is unambiguously reflected in bond rating assessments. While the addition of a single wind project might not tip the scales for investors or bond rating agencies, there is no question that investors take into account the collective impact of PPAs. The addition of a small QF adds to the total PPA obligation, and its incremental effect on debt equivalence should not be ignored. Even though the addition of a wind project—in and of itself—might not change investor risk assessments and bond ratings, the potential incremental effect is clear. If the goal is to identify avoided costs as accurately as possible, the avoided costs must consider all relevant incremental costs, including debt equivalence. To do otherwise would distort price signals in the marketplace and cause PacifiCorp's customers to pay a hidden subsidy for power from wind QFs.

Q. Does this conclude your rebuttal testimony in this case?

A. Yes, it does.