BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE PETITION OF PIONEER RIDGE, LLC AND MOUNTAIN WIND, LLC FOR APPROVAL OF A CONTRACT FOR THE SALE OF CAPACITY AND ENERGY FROM THEIR PROPOSED QF FACILITIES	Docket No. 05-035-09

PREFILED DIRECT TESTIMONY OF ROGER J. SWENSON

Pioneer Ridge, LLC and Mountain Wind, LLC hereby submits the Prefiled Direct Testimony of Roger J. Swenson in this Docket.

DATED this 28th day of January, 2005.

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Roger J. Swenson
Consultant for Pioneer Ridge, LLC and Mountain Wind, LLC

PREFILED DIRECT TESTIMONY

Of

ROGER J. SWENSON

On behalf of Pioneer Ridge LLC and Mountain Wind, LLC

IN THE MATTER OF THE PETITION OF PIONEER RIDGE, LLC AND MOUNTAIN WIND, LLC FOR APPROVAL OF A CONTRACT FOR THE SALE OF CAPACITY AND ENERGY FROM ITS PROPOSED WIND GENERATION FACILITIES

Docket No. 05-035-__

January 28, 2005

<u>Background</u>

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. On whose behalf are you testifying in this proceeding?

A. My testimony is sponsored by Pioneer Ridge, LLC and Mountain Wind, LLC.

Q. What is the purpose of your testimony?

A. My testimony will provide the basis for the pricing terms and conditions for the wind projects ("QF") contracts submitted for approval in this proceeding.

Q. How are QF contracts a benefit to society?

A. QF facilities such as the wind projects represented here provide many societal benefits. They encourage reduced consumption of scarce natural resources. This not only reduces consumption of scarce resources, but also reduces harmful emissions into the air since no fuel is consumed. QF facilities also add generation diversity and thus reduce price exposure risk.

Q. Has the State of Utah taken a position on QF and Small Power development?

A. Yes. Utah Code Section 54-12-1, declare it is the policy of the State of Utah to "promote the more rapid development of new sources of electrical energy," to "promote a diverse array of sustainable energy resources", and to "conserve our finite and expensive resources".

Q. Has the Commission adopted any processes to facilitate QF development?

A. Yes. Within the last year a stipulation was approved establishing pricing that would be used for projects greater than 3 MWs. This stipulation was meant to help provide a clear price signal that a developer could use to look to in order to establish the economics of a project. The Commission also established a task force to continue to look at issues regarding the future basis of pricing and specifics issues concerning renewable generation and intermittent resources such as wind. As such we were hopeful that project economics would be apparent.

Q. Was that the case?

A. No. We have had little success in understanding the basis for all the adjustments (reductions) in pricing that a wind project would receive based on the position of Pacificorp. We do not understand why there are no positive adjustments for the benefits that wind generation provide.

Q. Has the Task Force on renewable resources provided any clear result?

A. Unfortunately, not. The most we can say we have achieved in the renewable task force is to have Pacificorp's position put forth in the last few days.

Q. Why has Pioneer Ridge, LLC and Mountain Wind, LLC filed its Petition in

this Docket?

A. After spending many hours in task force proceedings and attempting to understand Pacificorp's position it was clear that no compromise position was likely. Pacificorp's positions if accepted would certainly not encourage the development of these types of resources. After spending precious time waiting for any kind of consensus to develop we felt that it was imperative to move forward. We felt that it was time to let this Commission set policies that do what the code states, to promote this type of technology and to look for a basis for encouraging this type of resource, not to discourage it from being developed.

Q. How did you come to the prices derived in the contracts that are filed for approval in this matter?

A. The contract pricing was derived from the stipulation pricing and used the basis that was discussed in the testimony provided by Pacificorp's witness Bruce Griswold in his testimony filed February 3, 2004 on page 6. That basis, as described in his testimony uses a volumetric pricing derived from combining the capacity component of rates using a specified capacity factor. The capacity factor suggested was 100%. Exhibit 1 shows this derivation of the rates used in the contract.

Q. Do you believe this approach sends a correct pricing signal to wind developers?

A. I do. This type of approach will provide a greater share of capacity component for a project that has a higher capacity factor. If fact if a wind project had a 100% capacity factor it would just receive the same revenue as though it was not an intermittent resource.

Q. What about the integration costs that Pacificorp has suggested?

A. I have not included any of the integration costs that Pacificorp has described in Mr. Griswolds testimony. I question the derivation of those specific numbers and the results that were developed from one more "black box" model to which only PacifiCorp has access. I also question the idea that more value should be deducted from the QF payments operating reserves. The treatment of the capacity component of the rate is already reducing the value to which the QF will receive by way of using the 100% capacity factor spread only to operating hours. If a QF operates only 30% of the time it will only get 30% of the capacity that a full operation plant would get.

Q. Are there other factors that offset the potential integration costs?

A. Yes. One example is the value for providing a fixed price in a manner that does not cost the utility and its ratepayers.

Q. How would there be costs for fixing power prices?

A. One of the identifiable costs to fix energy costs for long periods is associated with margin funds. For example if the company were to use futures contracts as traded on the NYMEX there is a requirement for cash to be put up in order to enter into that transaction. There are very specific margin requirements to establish hedges using that mechanism. Alternatively if a hedge or price lock is done directly with a counter party there would be some credit assurance also needed in the form of cash margin or letters of credit that would take away some borrowing capacity or require additional equity.

Q. Are there Other factors that should be taken into account that could be an offset to any potential integration costs?

A. Yes. There should be some basis for taking into account the likely reduction in emission costs that a renewable resource will help the company avoid. There were no avoided environmental costs explicitly called out in the derivation of the stipulation rates. Purchasing power from the renewable resource should reduce those future costs.

Q. Have you explicitly taken those benefits into account in the pricing you are proposing?

A. No. I have just left the pricing as derived and I believe that these values for hedging and should be considered once specific contract pricing has been determined and these values can then be added.

Q. What about the issue of Green tags?

A. As Mr. Griswold states in his testimony, the Commission needs to determine the ownership basis for those green tags that result from the renewable power production of resources that are sold to Pacificorp. I do not see this as a difficult question for any reasonable party to come to a conclusion on. The green tags are intended to provide an encouragement to develop more renewable resources. If Pacificorp simply takes the green tags without compensating the project it may drive off the potential projects.

Q. What else should be a consideration in the green tag issue?

A QF rates, as we have discussed in many proceedings before this commission, should keep ratepayers indifferent to the price they are paying to 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 much better off rather than indifferent for this transaction. If Pacificorp can resale these green tags ratepayers will be indifferent only if the project receives the proceeds from marketing these tags or if Pacificorp needs to use them in one of the jurisdictions that have mandated a renewable standard. In such a case that Pacificorp needs the green tags itself then some transparent means to value the reimbursement to the project should be used.

Q. One of the projects, Mountain Wind, LLC is located outside the state. Why should the state accept this power as part of the QF purchases under the stipulation?

A. In discussion that took place within the Task Force meetings it came to light that this was a practice that had taken place before and was being considered for other entities. This project will obtain transmission to move the power into the Utah service territory and absorb those costs of the transmission for delivery to Utah.

Q. Are the proposed contracts for Pioneer Ridge, LLC and Mountain Wind, LLC in the public interest?

A. Yes. I believe that there is clearly a need to promote this type of resource in order to become less dependent on natural gas as a power supply fuel. The Companies IRP has indicated that a portfolio with this type of resource is the preferred option.

Q. Does this conclude your testimony?

A. Yes it does

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 28th day of January, 2005, to the following

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