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 SUPPLEMENTAL 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 19thth day of April 2006.

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Roger J. Swenson
Vice President of Regulatory Affairs

PREFILED SUPPLEMENTAL DIRECT TESTIMONY

Of

ROGER J. SWENSON

On behalf of Pioneer Ridge 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. 05-035-09

April 19, 2006

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 the Vice President of Regulatory Affairs for Pioneer Ridge LLC.

Q. Have you provided testimony previously in this docket?

A. Yes, I filled testimony on January 28, 2005 concerning a request to approve a QF contract for sales of electric energy and capacity to PacifiCorp and testimony on March 10, 2006 in this matter.

Q. What is the purpose of this supplemental direct testimony?

A. To provide the specific prices derived from the Pioneer methodology that was ordered to be the starting point as the methodology that would be used to make wind operating profile price adjustment by the Commission. Until recently PacifiCorp had refused to provide the information that is needed to make the Pioneer adjustments to wind pricing based on differences in wind profiles. I have received the required information from PacifiCorp and I have completed the pricing determination. Also given the information we have received, we are concerned about the issues surrounding security deposit calculations and I will provide additional testimony concerning the development security and default security amounts and how these issues can become a barrier to the development of this important resource. We have also been able to come to an agreement with PacifiCorp concerning the timing of default penalties and termination timing issues that I discussed in my initial filing of March 10, 2006.

Q. **What information has been provided that now allows you to come up with an accurate Pioneer methodology?**

A. In order to complete the Pioneer methodology I needed to have the PacifiCorp system values for on and off peak power cost. The most accurate determination of these values comes from the latest determined avoided costs. PacifiCorp provided an avoided cost study for a resource as large as the Proxy wind plant. I have attached the results of the study that provided off peak pricing and on peak pricing in Pioneer supplemental RJS Supplemental Exhibit 1. The Pioneer methodology uses the ratio of avoided cost off-peak cost to on-peak cost to determine the wind profile adjustment.

Q. **Why did you use avoided cost in the Pioneer methodology?**

A. In the example that I provided in the 03-035-14 docket I used the on and off-peak price from an avoided cost example that was filed by Mr. Griswold in the 03-035-14 docket. If avoided costs are calculated correctly then the avoided costs are the best determinant for the on and off-peak value of power production for any resource that would provide power to the PacifiCorp system. Given that we determined the most accurate method for calculating avoided cost in a lengthy, fully vetted process I believed that this provides the most accurate calculation of a resource value to the system.

Q. **What was the basis for PacifiCorp refusing to give you the avoided cost information?**

A. PacifiCorp suggested that the Clarification Order from the Commission stated to not use the DRR method to make a determination of the pricing adjustment for

wind projects. PacifiCorp takes this statement to mean that any portion of the pricing adjustment cannot be derived from any aspect of the DRR grid based method, the most accurate means we have to value incremental power to the system.

Q. **Can you understand the confusion that has been expressed by Parties in the case and the resistance to use the system derived values?**

A. I can see the language in the Order on Clarification that says, " Neither did we approve use of the Grid model for wind profile adjustments". It creates a conundrum for the parties. The order states to use the Pioneer method as a starting point for making the necessary adjustments. The Pioneer method of adjustment uses avoided costs to determine system value. The avoided costs are now determined from a Grid based DRR model run. PacifiCorp is interpreting the words in the order to now say we must come up with a new methodology that has nothing to do with the DRR derived price. We therefore need the Commission to tell us what they meant. I testify that the Pioneer method as I proposed it used avoided costs. The order stated use the Pioneer method as a starting point but parties are refusing to use the pioneer method because the order says not to use the grid-based model.

Q. **How do you read the order?**

A. I read the order to simply say that the DRR model is not the methodology to be used to directly make the adjustment. I read the order to say we will start with the simpler and more transparent Pioneer adjustment methodology. I do not read the order to say that any information derived from avoided costs that are partially

derived from the DRR model should not be allowed as part of the adjustment.

Q. **The first pricing provided by PacifiCorp was based on a grid run how does the pricing compare using the Pioneer method?**

A. The Pioneer method came up with an adjustment that was somewhat lower than the grid based adjustment. The adjustment captures roughly 75% of the levelized price adjustment that the grid based model did. The results are shown on Confidential Pioneer Supplement Exhibit SUP 2. The algebraic model used to do the actual year-by-year adjustment is attached as Confidential Pioneer Sup Exhibit 3. (The Exhibit is confidential since it includes some details from the Proxy wind project) The prices in Exhibit SUP 2 can now be applied to any wind project profile and year-by-year prices can be calculated from on-peak and off-peak projected production for a wind project. These prices should remain valid until a new proxy wind resource is contracted or avoided costs change.

Q. **Can you explain the remaining differences between the DRR derived price adjustment and the Pioneer method?**

A. Yes the remainder of the differences between the DRR adjustment and the Pioneer method is based on moving to the hourly adjustment as in done in the grid model. These hourly adjustments take into account seasonal factors and more detailed daily hourly variations.

Q. **Do the differences make sense between the Pioneer method and the DRR method?**

A. Yes, what would be suspect would be a model result that gave us more adjustment than the DRR model. If the model adjustment gave a higher price than the DRR

result then ratepayers would not be indifferent assuming the DRR method captures all the value differences between the proxy project and the Pioneer wind QF project.

Q. **Did any other Party in the case support and understand your adjustment method does as you proposed?**

A. Yes, Dr. Collins representing Wasatch Wind did. As he states in his request for reconsideration;

"Only Witness Swenson presents explicit written evidence as to the appropriate method to make such wind profile adjustments. (See Swenson's surrebuttal testimony page 1 and his surrebuttal exhibit SR RJS-2.) This adjustment is supported by Witness Collins and relies on Company Witness Griswold's testimony and evidence on the appropriate differential between on-peak and off-peak pricing."

Q. **What additional information do you want to add to your testimony concerning security?**

A. The calculation of actual security amounts for development and delivery security needs to be addressed in more detail. PacifiCorp has suggested that the development security should be based on the replacement value of going to the market and using a published PV index. The concept of having a security amount to call on for default is reasonable as long as we are using the true cost to cover specific shortfalls. The cost to cover is the cost that PacifiCorp will see based on all the alternatives to replace a shortfall. As we have seen in the 03-035-14 case, the actual power cost of the PacifiCorp system based on the production cost

model is quite different for most of the time than the projected market cost. While there are certainly some market purchases included in the production cost grid model there are many hours where there are no purchases being made and available productive capacity exists from plants including coal plants. What I suggest is that we use the production cost model to determine the cost to cover and not market index projections that overly inflate the cost to cover and impose barriers for independent QF development.

Q. **What will using that cost to cover basis do?**

A. It will eliminate a barrier that is being erected to the development of independent power production by using non-system based costs to overly inflate security amounts. If the power purchase prices in a wind QF contract are higher than the true cost to cover as derived from the production cost model, then there is no extra cost to cover any shortfall and there should not be a cost to the wind project. The cost to cover should not be projected to be any higher than the production cost model shows in Pioneer SUP Exhibit 1 plus the value of green tags that PacifiCorp has used in the IRP of $2.00/MWH.

Q. **If the projection of the costs to cover for defaults are from production cost model and those projections are at a lower price than the wind QF contract pricing, then should any deposit be required?**

A. No, there should only be a requirement if there is a potential risk exposure to PacifiCorp concerning the cost to cover.

Q. Should the value of the project be considered as a potential source of security that can be posted to meet credit requirements?

A. Yes. A wind QF that has no need for fuel to produce energy has a very strong and stable revenue stream. The project should be able to use that value from the stream of cash flows above its fixed costs to provide security to PacifiCorp. Even the value of the project development rights at a location should be considered.

Q. **Where do things stand in regards to the contractual issues you brought to light in your testimony filed on March 10, 2006?**

A. We seemed to have made progress in that I believe we have resolved all but one of the major issues in the contract that remain beyond the wind profile price adjustment issue discussed previously. We have actually seen language as proposed by PacifiCorp concerning the timing of when default and penalties for cost to cover begin to occur as well as the ultimate time that the contract can be cancelled for not making the Commercial Operation date. We accept PacifiCorp changes that also included broadened definition of test energy. We also believe that PacifiCorp now accepts the idea that too little or too much wind can extend critical dates that can have consequences. However we have not received any contractual language that they are willing to include in the contract that we have asked for approval for in this case.

Q. **What about the timing of a Development Security Deposits?**

A. I believe that the timing issue that still exists can be dealt with as we have dealt with the timing issue of the default and termination date. To address Pioneer's concerns over the timing of defaults and termination that was discussed above PacifiCorp suggested that Pioneer should control setting the Commercial Operation date. PacifiCorp suggested that we can set that time period out as far as

Pioneer was comfortable in making the online commitment. We should be able to look at the same type of arrangement here. I believe what PacifiCorp wants is some type of commitment that a project will be on line so that it can plan for this resource to be in its supply mix. We would propose as an alternative for the Company and the Commission to consider that Pioneer post the Development Security Deposit 12 months prior to the Commercial Operation Date. That way PacifiCorp can then begin to plan on the resource a year before the resource will be on line and expecting to pay full contract payments for the wind power. This would allow the wind QF developer to set their own schedule for the time it will take to make sure that wind turbines and financing is secured and can feel comfortable posting the Development Security. But it also should meet the needs of PacifiCorp to be able to integrate the resource into its planning needs.

Q. Can you provide an example of how this would work for both Parties?

A. Yes. If a wind QF set its Commercial Operation date at 12 months from the effective date the Development Security would be due on the effective date. If a wind QF set its Commercial Operation date at 15 months from the effective date then the Development Security would be due 3 months after the contract effective date. If the wind QF set its Commercial Operation date at 18 months from the effective date then the wind QF Development Security posting date would be 6 months from the contract effective date. In all cases PacifiCorp would have a year to plan for the wind production to enter its supply mix.

Q. **Are there other issues that you want to add in this discussion?**

A. The only other issue that deserves some discussion is the impact that the

performance guarantee PacifiCorp has required in the contract has on smaller QF developments. PacifiCorp has demanded that the wind QFs meet an 87.5% availability or face penalties associated with underperformance. One of the factors that drove Pioneer to maximize the size of its project was to reduce the probability that such an availability shortfall would occur. By having a larger number of wind turbines the probability of not meeting the availability requirement goes down considerably. If a project only has 4 or 5 turbines and there is a serious problem with only one turbine, then the project will have a very difficult time meeting the performance threshold. While we do not want to make this an issue in our case this matter should be taken up with the next small project that wants to take up this issue that is a barrier to QF developments.

Q. **Why do you not want to deal with this issue here?**

A. Our goal is to move forward quickly as wind turbines are becoming a more and more scarce commodity. Also, there is the next impending date for losing tax credits. If we slip past this date then there will be the likely loss of any chance to develop this Utah project, therefore we want to move forward as quickly as possible. We believe the two remaining issues concerning the methodology for determining adjustment for prices based on wind profiles and setting a reasonable Development Security posting date can and should be addressed quickly in this case.

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 sent electronically, this 19h day of April 2006, to the following

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