BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	:	
Rocky Mountain Power for Approval of	:	
Changes to Renewable Avoided Cost	:	Docket No. 12-035-100
Methodology for Qualifying Facilities	:	
Projects Larger than Three Megawatts	:	Motion to Stay

REBUTTAL TESTIMONY OF

BELA VASTAG

ON BEHALF OF THE

OFFICE OF CONSUMER SERVICES

DECEMBER 7, 2012

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Béla Vastag. I am a utility analyst in the Office of Consumer Services (Office). The Office is located in the Heber Wells Building at 160 East 300 South, Salt Lake City, Utah.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes, I filed direct testimony on November 30, 2012.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will respond to the direct testimony provided by Wasatch Wind (Wasatch), Energy of Utah (EOU), Utah Clean Energy (UCE), and the Division of Public Utilities (Division).

<u>Response to Wasatch Wind</u>

Q. DOES WASATCH WIND CURRENTLY HAVE A WIND QF PROJECT UNDER DEVELOPMENT THAT IS IMPACTED BY THE STAY?

A. Yes, it has the Latigo wind project near Monticello, Utah. Wasatch began developing the Latigo project in 2006, over six years ago.

Q. WHEN WILL THE WIND QF AVOIDED COST ISSUES IN THIS DOCKET BE RESOLVED AND HOW MIGHT THAT AFFECT THE TIMING OF THE LATIGO PROJECT?

A. It is expected that the Commission will resolve the issues by June 2013 and at that time, price certainty will be available to Wasatch. The Latigo project has been delayed many times and is in its seventh year of development. In approximately six months, we will have a decision in this proceeding. Even if a stay is granted, the project could continue to move forward using PDDRR pricing. It is unclear that a project which has been under development for so long will be harmed by another six months but it is clear that if Wasatch enters into a 20-year fixed price PPA using an inflated Market Proxy price that ratepayers will be harmed.

Q. HAS WASATCH WIND IDENTIFIED OTHER ISSUES MORE SIGNIFICANT THAN THE STAY OF MARKET PROXY PRICING THAT MIGHT AFFECT THE TIMING OF WASATCH'S PROJECT?

A. Yes, the Production Tax Credit (PTC) for wind expires at the end of 2012. Wasatch states: "The economics of most Utah wind projects, challenging under the best of circumstances, will likely become virtually impossible without the PTC."[1] At this time, it is unknown if the PTC will be renewed in 2013. The PTC is a $22/MWh credit while the price differential between the PDDRR and Market Proxy method is approximately $7/MWh.[2] The extension of the PTC is a more significant unknown; yet, Wasatch has continued the development of its Latigo project for many months under this uncertainty.

Q. HAS WASATCH WIND FILED COMMENTS IN OTHER PROCEEDINGS WHICH SUPPORT THE OFFICE'S POSITION TO STAY WIND QF PRICING BASED ON THE MARKET PROXY METHOD?

A. Yes, in June 2012, Wasatch filed comments in Docket No. 11-2035-01 on PacifiCorp's 2011 IRP Update. For example, in that memo Wasatch makes several statements[3] which are contradictory to its position on the Company's Stay in this proceeding:

1. "…wind projects can be rapidly deployed (construction can occur in 12 months) enabling projects to respond quickly to market changes."

2. "Lest we forget about the cost of wind and natural gas which are currently at rough partiy [sic] with each other."

3. "Given the improvements to the technology – larger turbines, wider blade sweeps and higher hub heights – the price of wind will continue to fall even without the production tax credit, it must to compete."

4. "The Commission's charge is to protect ratepayers…."

5. "The Commission should ask the company to update its model *with current costs* and consider Utah wind projects so the model can select wind in the near term."

[1] Direct Testimony of Christine Mikell, Docket No. 12-035-100, November 30, 2012, Lines 268 – 270.
[2] Order On Request For Agency Action, September 20, 2012, Docket No. 12-2557-01, page 8.
[3] Comments of Wasatch Wind Intermountain, June 11, 2012, Docket No. 11-2035-01, pages 3 – 5. (Emphasis added.)

Q. DOES WASATCH WIND PROVIDE ANY INFORMATION ABOUT CURRENT WIND PRICING?

A. Yes. In these same comments on the IRP, Wasatch Wind indicates that current wind projects can be constructed for as little as $1,400 - $1,500/KW[4]. The current market proxy pricing that they seek to maintain in this docket is based on considerably higher construction costs of $2,383/KW[5]. These costs for the Market Proxy, Dunlap I, are over 58% higher than the wind costs advocated by Wasatch in June 2012. In contrast to their IRP comments above, Wasatch Wind asserts in this proceeding that absent this high price, "…it will almost certainly mark the end of the Latigo project"[6] and "…will likely end wind QF development in Utah…"[7]

Q. WHAT DOES THIS SAY ABOUT WASATCH'S POSITION IN THIS DOCKET?

A. Wasatch seeks to advocate for lower costs for wind and to protect ratepayers from harm when such positions may promote wind development. However, they take a very different position and appear much less concerned about ratepayer protection when the costs they advocate may be applied to their own project.

<u>Response to Energy of Utah</u>

Q. EOU STATES THAT THE COMPANY USED FAULTY ASSUMPTIONS WHEN CALCULATING THE HARM TO RATEPAYERS FROM MARKET PROXY BASED PRICING. DOES EOU SUPPORT THIS CLAIM?

A. No. They claim the $186 million harm to ratepayers that the Company calculated is due to the fact that the PDDRR based costs are underestimated.[8] They provide no support for this

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[4] Ibid, page 5.
[5] Major Plant Additions Application of Rocky Mountain Power, August 3, 2010, Docket No. 10-035-89, page 5. Dunlap I wind project – 111 MW, total capital costs of $264.5 million.
[6] Direct Testimony of Christine Mikell, Docket No. 12-035-100, November 30, 2012, Lines 256 -257.
[7] Ibid, Lines 263 – 264.
[8] Rebuttal Testimony of Robert Millsap, Docket No. 12-035-100, November 26, 2012, pages 2 – 3.

assertion. As discussed above, Market Proxy pricing based on a 2009 project incorporates costs that are significantly higher than current wind project construction costs.

Q. DOES EOU DISPUTE THE FACT THAT WIND COSTS HAVE DECREASED SINCE THE 2009 DUNLAP I MARKET PROXY WAS ESTABLISHED?

A. No, on the contrary. Mr Ros Vrba on page 2 of his November 28, 2012 rebuttal testimony states that wind projects provide competitively-priced power to ratepayers. He further emphasizes that "Wind has become a very cost-competitive resource."

Response to Utah Clean Energy

Q. UCE STATES THAT THE COMPANY'S MOTION TO STAY THE APPLICATION OF THE MARKET PROXY PRICING METHOD IS INCONSISTENT WITH PURPA. DO YOU AGREE?

A. No, I do not agree. UCE states that the purpose of PURPA is to encourage the development of small power producers and that an approved pricing methodology that pays a "relatively higher avoided cost" will therefore encourage more QF development.[9] However, the relatively higher avoided cost that UCE refers to is higher than the utility's avoided cost; and therefore, does not meet the intent of PURPA. PURPA intends to encourage the development of QFs while holding ratepayers harmless. A Stay on the Market Proxy pricing method is consistent with PURPA because it still allows QFs to move forward under PDDRR avoided cost pricing from the Company and at the same time, it protects the ratepayer from paying more than the Company's avoided cost. Both of these outcomes are consistent with PURPA.

Q. UCE POINTS TO A FERC DECISION WHICH WAS UPHELD BY THE SUPREME COURT THAT UTILITIES SHOULD PAY QFS FULL AVOIDED COSTS. DOES THIS FERC DECISION SUPPORT THE COMPANY'S STAY OF THE MARKET PROXY PRICING METHOD?

[9] Direct Testimony of Sarah Wright, Docket No. 12-035-100, November 30, 2012, Lines 166 -168.

A. Yes, it does because the Company should pay wind QFs prices based on full avoided costs, no less and no more. UCE provided an excerpt from this Supreme Court decision which supports this position:[10]

> Congress provided that the rate to be set by the Commission "(1) shall be just and reasonable to the electric consumers of the electric utility and in the public interest, and (2) shall not discriminate against qualifying cogenerators or qualifying small power producers. *No such rule prescribed under subsection (a) of this section shall provide for a rate which exceeds the incremental cost to the electric utility of alternative electric energy.*"

Q. WOULD CURRENT MARKET PROXY PRICING RESULT IN A JUST AND REASONABLE RATE TO THE ELECTRIC CONSUMERS OF THE ELECTRIC UTILITY?

A. No. It is clear that current Market Proxy pricing for wind is much higher than the utility avoided cost, regardless of whether it is measured against a wind project or a natural gas project. As mentioned above, the wind industry – and presumably Utah Clean Energy – is well aware that current costs are lower than the proxy costs being used.

Q. DOES UCE ADDRESS WHETHER PRICING BASED ON THE MARKET PROXY METHOD WILL BE JUST AND REASONABLE FOR UTAH RATEPAYERS?

A. No, UCE avoids this issue and simply states that: "…because there are substantial benefits to encouraging the development of small power production facilities, it is *unlikely* that ratepayers will be harmed if the stay is denied".[11] Later in Ms Wright's testimony, UCE indicates that these benefits could be due to increased jobs and tax base for the community where the wind project is located. This type of cost/benefit analysis is outside the scope of this proceeding. Further, Ms. Wright provides no explanation of why Utah ratepayers

[10] Ibid, Lines 116 – 121. (Emphasis added)
[11] Ibid, Lines 63 – 65, (Emphasis added)

should have to pay for a Market Proxy price that is known to be higher than current market prices.

Q. UCE IS CONCERNED THAT PDDRR PRICING WILL MAKE IT DIFFICULT FOR WIND DEVELOPERS TO BUILD WIND PROJECTS IN UTAH. SHOULD THIS ISSUE BE ADDRESSED IN THIS PART OF THE PROCEEDING?

A. No, the issue at hand is simply the Company's requested Stay and the issue of the proper calculation of avoided costs will be addressed in the later portion of this docket. Furthermore, whether or not proper avoided costs will be high enough to support wind development is a question of wind economics, which is not an issue covered under PURPA and far outside the scope of this proceeding. If wind projects cannot survive in Utah given true avoided cost pricing, the solution is not to give them higher pricing supported by the ratepayers.

<u>Response to the Division of Public Utilities</u>

Q. DOES THE DIVISION PROPOSE AN ALTERNATIVE TO THE OFFICE, UCE, EOU AND WASATCH'S POSITIONS?

A. Yes, the Division proposes that wind QF projects already in the queue and that meet certain conditions be allowed to receive avoided cost indicative pricing based on the Market Proxy method. The conditions are that a QF project:

- Must be in the "queue". (Defined as the 5 projects in the Company's direct testimony.)
- Must implement a signed PPA with the Company by 9/1/2013 to receive Market Proxy pricing – called a "grace" period (this also applies to Blue Mountain).
- Must have had an application for an interconnection agreement in place with the Company by 10/9/2012.

Q. WHAT IS THE DIVISION'S REASONING FOR ITS PROPOSAL?

A. They indicate that it is designed to provide projects that are similarly situated to Blue Mountain the opportunity to receive Market Proxy pricing. Blue Mountain is to receive Market Proxy pricing per the Commission's Order in Docket No. 12-2557-01.

Q. DOES THE DIVISION'S ALTERNATIVE ADDRESS THE ISSUE OF HARM TO RATEPAYERS IF PRICING BASED ON THE MARKET PROXY IS USED?

A. No. In Mr. Peterson's direct testimony, he states: "The cost differential between the Company's last signed wind contract in 2009 and current costs may also be significant and should be examined."[12] The Division states it has not performed its own cost analysis nor addresses the issue of ratepayer harm in its direct testimony.

Q. WHAT IS THE OFFICE'S VIEW OF THE DIVISION'S ALTERNATIVE PROPOSAL?

A. The Office agrees that it remedies the current situation that appears to have created preferential treatment for Blue Mountain. However, the Office cannot support the proposal without reservation because it does not address the potential harm to ratepayers. It appears in this case that no solution exists that is fair to all parties – either some projects receive preferential treatment or ratepayers pay unjustifiably higher rates.

<u>Recommendation</u>

Q. HAS THE OFFICE CHANGED ITS POSITION REGARDING THE REQUESTED STAY?

A. No, the Company's request for a Stay should be granted. The Office also continues to advocate that wind QFs should be allowed to obtain new indicative pricing when the issues in the second part of this proceeding have been resolved.

Parties have not demonstrated that wind QFs are actually harmed by a Stay. Nor have parties adequately addressed the fact that ratepayers will be harmed if the current Market Proxy pricing method is used for avoided cost indicative pricing. The Office notes that the Company has estimated that the use of Market Proxy pricing for each of the projects in the queue would result in ratepayers paying an additional $186 million over the

[12] Direct Testimony of Charles E. Peterson, Docket No. 12-035-100, November 30, 2012, Lines 96 - 98.

life of the projects. If the Commission chooses not to grant the Company's request, then the Division's proposal is an alternative that may result in less harm to ratepayers than an outright denial of the Stay would.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.