Witness OCS – 2D

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 Methodology for Qualifying Facilities Projects Larger than Three Megawatts	**)))))**	**Docket No. 12-035-100** **Phase 2** **All Other Issues**

DIRECT TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

MARCH 29, 2013

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Béla Vastag. I am a Utility Analyst for the Office of Consumer Services (Office). My business address is 160 East 300 South Salt Lake City, Utah 84111.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony provides the overall recommendation of the Office regarding Rocky Mountain Power's (Company) proposed changes to the avoided cost methodology for renewable Qualified Facilities (QF) larger than three megawatts (MW). I also describe our approach to avoided cost rates and provide our position on the ownership of the Renewable Energy Credits (RECs) produced by these QFs.

Q. PLEASE PROVIDE A SUMMARY OF THE ISSUES ADDRESSED BY YOUR TESTIMONY.

A. 1. In determining the proper avoided cost method for wind QFs, the Office relied on the guidelines from the federal legislation which established QFs, the 1978 Public Utility Regulatory Policies Act (PURPA).

2. Based on these PURPA guidelines, the Office supports the Company's proposal to use the PDDRR method for wind QFs in place of the current Market Proxy method. The testimony of Mr. Randall J. Falkenberg, a consultant retained by the Office, examines the Company's proposed methodology and provides some modifications recommended by the Office.

3. The Office also asserts that the Renewable Energy Credits (RECs) generated by a QF receiving avoided cost based payments from the Company should be owned by the ratepayers.

APPROACH TO DETERMINING AVOIDED COST RATES FOR QFS

Q. WHAT APPROACH DOES THE OFFICE USE TO EVALUATE METHODS FOR SETTING AVOIDED COSTS FOR RENEWABLE QFS?

A. The Office follows the guidelines set forth in the Public Utility Regulatory Policies Act of 1978. In addition to encouraging electricity conservation and efficiency, Section 101 of PURPA states that the purpose of the law is to encourage "equitable rates to electric consumers." This federal law also created the QF class of power producers and provided the framework for setting QF rates. Section 210 of PURPA established two important guidelines which frame our approach to renewable QF avoided cost rates:

1. Rates shall be just and reasonable to the electric consumers of the electric utility and in the public interest, and
2. No rate should exceed the incremental cost to the electric utility of alternative electric energy.

Q. DOES PURPA DEFINE WHAT IS MEANT BY INCREMENTAL COST OF ALTERNATIVE ELECTRIC ENERGY?

A. Yes. Section 210 of PURPA defines incremental cost as "the cost to the electric utility of the electric energy which, but for the purchase from such cogenerator or small power producer [QF], such utility would generate or purchase from another source."

Q. IN ITS ORDER 69, THE FEDERAL ENERGY REGULATORY COMMISSION (FERC) ADOPTED REGULATIONS THAT IMPLEMENT SECTION 210 OF PURPA. HOW DID FERC DEFINE INCREMENTAL COST?

A. In its definition of incremental cost, FERC develops the concept of avoided cost. These are costs which an electric utility would avoid by making purchases from a QF. FERC states further that nothing in its Order 69 rules requires any electric utility to pay more than the avoided costs for purchases from QFs.

Q. PLEASE SUMMARIZE THE OFFICE'S APPROACH TO DETERMINING AVOIDED COSTS.

A. The Office adheres to the concept that in order for the rates paid to a QF to be just and reasonable for the ratepayer of the electric utility, the rates should not exceed the incremental avoided costs of the utility. This concept meets the standards set by PURPA and FERC.

<u>AVOIDED COST METHODOLOGY</u>

Q. WHAT METHODOLOGY FOR DETERMINING RENEWABLE QF AVOIDED COST DOES THE OFFICE RECOMMEND?

A. The Office recommends the Partial Displacement Differential Revenue Requirement (PDDRR) method for renewable QFs.

Q. HOW DID THE OFFICE DETERMINE WHAT METHODOLOGY TO RECOMMEND?

A. The Office, in conjunction with its consultant Mr. Falkenberg, reviewed the Company's proposal from the perspective as described above of 1) just and reasonable rates to the customer and 2) accurate determination of the utility's incremental avoided costs. The Office recommends the PDDRR method for determining the avoided cost to be paid to renewable QFs for the reasons described in Mr. Falkenberg's testimony.

Q. DOES THE OFFICE RECOMMEND ADOPTING THE COMPANY'S PDDRR METHODOLOGY AS PROPOSED?

A. No. The Office agrees with the Company's use of the PDDRR method but recommends some changes to how this methodology is implemented. In his testimony, Mr. Falkenberg reviews the issues impacting the implementation of the PDDRR method and explains the changes to the methodology that are recommended by the Office.

<u>RENEWABLE ENERGY CREDITS (RECS)</u>

Q. WHAT IS THE OFFICE'S POSITION ON THE RECS GENERATED BY RENEWABLE QFS?

A. Because the Company is required by PURPA to purchase electricity from a QF, the Office asserts that ratepayers should own the associated RECs. A small power production facility will only qualify for QF status if it produces "electric energy solely by the use, as a primary energy source, of biomass, waste, renewable resources, geothermal resources, or combination thereof."[1] Since producing renewable energy is what qualifies a power producer as a QF, it follows that the RECs should be tied to the flow of QF energy. PURPA requires ratepayers to pay for the energy; and therefore, the RECs should remain bundled with the energy and the ratepayers should receive them.

Q. SHOULD A POWER PURCHASE AGREEMENT (PPA) THAT THE COMPANY SIGNS WITH A RENEWABLE QF REQUIRE THAT THE RECS BE BUNDLED WITH THE ENERGY?

A. Yes, the PPA should be clear that in this case where the Company is required by PURPA to purchase renewable energy that the renewable attributes should not be separated from the energy. A renewable QF receives the benefit of having unique access to the Company's ratepayers to sell its power. Ratepayers should receive the total benefits, including the RECs, for their obligation to purchase the QF's power. The PPA should require this symmetry of benefits.

The Office is aware that there are power purchase contracts where the renewable energy and the RECs are sold separately. However, the Office asserts that a PPA contract with a renewable QF is a unique situation that requires the energy and RECs to remain bundled due to the PURPA mandate that ratepayers buy the power from the QF.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes it does.

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[1] Federal Power Act, Section 3 (17)(A)