BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Rocky Mountain Power's Proposed Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities	)))))	**Docket No. 14-035-T04**

DIRECT TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

August 12, 2014

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. The purpose of my testimony is to provide the Office's position on Rocky Mountain Power's (Company) proposed changes to Schedule 37, Avoided Cost Purchases from Qualifying Facilities (QFs). These changes were included in the Company's annual update of Schedule 37 prices, filed on May 7, 2014 with the Public Service Commission of Utah (Commission).

Q. PLEASE SUMMARIZE THE OFFICE'S POSITION REGARDING THE PROPOSED SCHEDULE 37 CHANGES.

A. As in the Schedule 38[1] Avoided Cost proceeding, Docket No. 12-035-100, the Office has reviewed the Company's proposed changes to Schedule 37 by keeping in mind the guidelines established by the Public Utility Regulatory Policies Act (PURPA) and the Federal Energy Regulatory Commission (FERC) that the rates paid to QFs be just and reasonable for the ratepayer of the electric utility and that the rates should not exceed the incremental avoided costs of the utility. The Office asserts that the proposed changes to Schedule 37 are needed at this time because existing

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[1] Schedule 38 provides procedures for avoided cost pricing for larger QFs – greater than 1 MW for a cogeneration facility and greater than 3 MW for other power producing facilities.

rates have deviated from the PURPA and FERC standard of ratepayer indifference for QF avoided cost pricing.

In addition, the Office contends there should be consistency in the methods used for determining Schedule 37 and Schedule 38 pricing. Many of the Company's proposed changes for Schedule 37 involve implementing the requirements from the Commission's Order in Docket No. 12-035-100 for Schedule 38 QF pricing (Schedule 38 Order).[2] Therefore, the Office recommends that the Commission approve the Company's proposed changes. The Office further recommends that the Company should involve stakeholders and obtain Commission approval prior to making any changes to its avoided cost modeling or to QF pricing to address the transmission constraint issue.[3]

PROPOSED SCHEDULE 37 CHANGES

Q. PLEASE SUMMARIZE THE CHANGES TO SCHEDULE 37 THAT HAVE BEEN PROPOSED BY THE COMPANY.

A. The Company's proposed changes fall into two categories: 1) changes designed to achieve consistency in pricing methods between Schedule 37 and Schedule 38 and 2) changes to reestablish ratepayer indifference for QF pricing as required by PURPA.

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[2] A copy of the August 16, 2013 Schedule 38 Order can be found at: http://www.psc.utah.gov/utilities/electric/elecindx/2012/12035100indx.html

[3] The Office notes that the Direct Testimony of Company witness Gregory N. Duvall has indicated that the Company no longer proposes any changes in this proceeding to Schedule 37 due to transmission constraint issues. However, this issue may be raised in the Company's next Schedule 38 filing.

Q. WHAT ARE THE CHANGES DESIGNED TO ACHIEVE CONSISTENCY WITH SCHEDULE 38?

A. Many of these changes are the result of the Commission's August 16, 2013 Order in Docket No. 12-035-100. Some changes are needed to address differences between intermittent and non-intermittent QF resources. These changes are as follows:

- Pricing is now stated for three types of QFs – baseload, wind and solar.
- Integration costs are now included in pricing for wind and solar QFs. The costs used are consistent with the Schedule 38 Order.
- Capacity contribution values are used for wind and solar resources. These values are consistent with the Schedule 38 Order – 20.5% for wind, 68% for fixed solar and 84% for tracking solar.
- Capacity payments based on a simple cycle combustion turbine (SCCT) during the sufficiency period are eliminated per the Schedule 38 Order.
- The costs of a hypothetical CO_2 tax are removed from the development of the Company's official forward price curve (OFPC) for electricity. This change was also made to be consistent with the Schedule 38 Order where the Commission ruled that QF avoided cost pricing should not include adders for environmental risk and that QFs would retain ownership of Renewable Energy Credits (RECs) which account for the renewable attributes of the electricity that they produce.

Q. DOES THE OFFICE AGREE WITH THESE CHANGES TO MAKE THE SCHEDULE 37 PRICING METHOD CONSISTENT WITH SCHEDULE 38?

A. Yes. The Commission's ruling in the Schedule 38 proceeding, Docket No. 12-035-100, updated the guidelines and parameters to be used in large QF avoided cost pricing. The Office asserts that there should be consistency in the methods for developing pricing for all QFs whether under Schedule 37 or Schedule 38; and therefore, the Office supports these changes because they will establish this desired consistency.

Q. WHAT CHANGES TO SCHEDULE 37 ARE BEING PROPOSED BY THE COMPANY THAT ADDRESS THE PURPA STANDARD OF RATEPAYER INDIFFERENCE?

A. Currently, Schedule 37 offers payments to QFs in two pricing formats: 1) a monthly capacity payment per kW plus a constant energy payment (i.e., a payment per kWh) for all hours of the year or 2) an energy only payment where prices vary by summer/winter and on-peak/off-peak time periods. A Schedule 37 QF developer can choose either pricing format for its purchase contract and presumably would always choose the option that provides it the largest payment for its electricity. The Company's proposed Schedule 37 pricing eliminates the first option identified above, the option with a capacity payment, and provides only an energy-based pricing format; that is, just a price per kWh.

Q. PLEASE EXPLAIN WHY THE ELIMINATION OF THE CAPACITY PAYMENT OPTION ADDRESSES THE ISSUE OF RATEPAYER INDIFFERENCE.

A. Elimination of the capacity payment option addresses ratepayer indifference in two ways:

- The current capacity-based prices can produce payments that are too high and exceed the Company's avoided costs, and
- The current two pricing formats can produce significantly different payments for a QF.

Q. PLEASE GIVE AN EXAMPLE OF HOW CURRENT CAPACITY-BASED PRICES CAN BE HIGHER THAN THE COMPANY'S AVOIDED COSTS.

A. Under the current Schedule 37 pricing format that provides a capacity payment, solar QFs can earn 8¢ or more per kWh on a 20-year levelized basis.[4] This compares to 3.9¢ - 6.2¢ per kWh for the current energy-only pricing format.[5] Another comparison is that 20-year levelized prices contained in recent solar QF Power Purchase Agreements (PPAs) under Schedule 38 have generally been in the 5¢ to 6¢ per kWh range.[6] Clearly, the capacity-based format which can provide payments in excess of 8¢ per kWh exceeds the Company's avoided cost. This violates the PURPA standard of ratepayer indifference, that the rates paid to QFs should not exceed the incremental avoided costs of the utility. Providing some QFs prices that greatly exceed the Company's avoided costs is a strong reason

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[4] The Company performed an analysis for a fixed tilt solar facility and a tracking solar facility using current Schedule 37 capacity-based rates. See Rocky Mountain Power comments in Docket No. 14-035-T04, filed June 12, 2014.

[5] See Rocky Mountain Power Schedule 37, Sheet No. 37.4, filed June 24, 2013.

[6] See Docket Nos. 14-035-46, 14-035-85, 14-035-86, 14-035-87 and 14-035-88.

to eliminate the current Schedule 37 pricing format based on a capacity payment.

Q. PLEASE EXPLAIN THE CONCERN WITH HAVING TWO PRICING FORMATS THAT PRODUCE SIGNIFICANTLY DIFFERENT PRICES.

A. If the Commission allows the Company to offer QFs multiple pricing options under a Schedule, then the ratepayer should be indifferent as to which pricing format the QF chooses to incorporate in its purchase contract with the Company. That is, the two formats should produce the same total payments to the QF, or in other words produce the same avoided costs, such that the ratepayer is indifferent. Since the two formats produce different prices, one of the formats should be eliminated.

Q. IF ONE FORMAT IS TO BE ELIMINATED, IS THERE A REASON TO ELIMINATE THE CAPACITY-BASED PRICING FORMAT FROM SCHEDULE 37 INSTEAD OF THE ENERGY-ONLY PRICING FORMAT?

A. Yes. As discussed earlier, the Office asserts there should be consistency between Schedule 37 and Schedule 38. QF PPAs developed under Schedule 38 provide avoided cost based pricing only in a per MWh format, with no separate capacity payment.[7] Again, maintaining consistency with how Schedule 38 pricing is implemented supports eliminating the capacity-based pricing format from Schedule 37 rather than the energy-only format.

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[7] In Schedule 38, the value of the capacity that the QF contributes to the system is incorporated in the energy-only price (i.e., the per MWh price).

POTENTIAL TRANSMISSION CONSTRAINT ISSUE

Q. PLEASE EXPLAIN THE TRANSMISSION CONSTRAINT ISSUE.

A. According to the Company, there have been a large number of potential QFs requesting access to the Company's transmission system in southern Utah and because of that, the Company may need to back down its existing thermal resources at some point in the future in order to integrate the power these QFs would generate.[8] The thermal resources that would be backed down are the Huntington and Hunter coal-fired plants and according to the Company, PURPA does not allow Schedule 37 and Schedule 38 contracts to have a provision to permit the Company to physically back down a QF's output, even if it is more economical for ratepayers to do so.[9]

Q. WHAT WAS THE COMPANY'S INITIAL PROPOSAL TO DEAL WITH THE POTENTIAL TRANSMISSION CONSTRAINT?

A. In its original Advice Filing on May 7, 2014, the Company stated that "These prices are not applicable to Qualifying Facilities whose power cannot be delivered to load without transmission upgrades as identified in the system impact study associated with the Transmission Service Agreement request for the Qualifying Facilities. In the event this occurs, the Company will provide prices to the transmission constrained Qualifying Facilities which reflect the applicable transmission constraint."[10]

[8] Direct Testimony of Gregory N. Duvall, lines 378 to 391.
[9] Rocky Mountain Power's response to OCS Data Request 2.2, July 31, 2014.
[10] Schedule 37, First Revision of Sheet No. 37.1, filed May 7, 2014.

Q. DOES THE COMPANY STILL THINK THAT THIS ISSUE NEEDS TO BE ADDRESSED IN THIS PROCEEDING?

A. No, the direct testimony of Company witness Duvall stated that the Company no longer proposes any changes to Schedule 37 in this filing to address the transmission constraint issue because it does not anticipate that this transmission problem will occur before the next 25 MW cap on Schedule 37 is reached.[11]

Q. WHAT IS THE POSITION OF THE OFFICE ON THIS TRANSMISSION CONSTRAINT ISSUE?

A. The Office recommends that the Company work with stakeholders and regulators to explore solutions to any transmission constraint issue. In the future, if the Company believes that transmission-related changes to Schedule 37 procedures or pricing methods are necessary, it should make a filing with the Commission prior to implementing any such changes.

RECOMMENDATION

Q. DOES THE OFFICE RECOMMEND THAT THE COMMISSION APPROVE THE COMPANY'S PROPOSED CHANGES TO SCHEDULE 37?

A. Yes, the Office recommends that the Commission approve the proposed changes because they make the pricing methods consistent between Schedules 37 and 38, including implementing the Commission's guidelines

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[11] Direct Testimony of Gregory N. Duvall, lines 392 to 399.

from the Schedule 38 Order, and because they ensure that Schedule 37 rates do not violate the PURPA standard of ratepayer indifference.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes it does.