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**

REBUTTAL TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

August 29, 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. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes, I filed direct testimony on August 12, 2014.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will respond to the direct testimony of Dr. Abdinasir M. Abdulle of the Utah Division of Public Utilities (Division) and Ms. Sarah Wright of Utah Clean Energy (UCE). I also make a recommendation that in future annual Schedule 37 filings, Rocky Mountain Power (Company) should provide a list of projects that have signed contracts with the Company and include some relevant information for each project.

RESPONSE TO THE DIVISION

Q. PLEASE SUMMARIZE THE DIVISION'S POSITION ON ROCKY MOUNTAIN POWER'S PROPOSED CHANGES TO QUALIFYING FACILITIES (QF) AVOIDED COST PRICING UNDER SCHEDULE 37.

A. With the exception of the removal of the CO_2 tax from the calculation of the Official Forward Price Curve (OFPC), the Division's position is very similar to the position of the Office that the proposed changes are consistent with the Utah Public Service Commission's (Commission) order in Docket No.

12-035-100 and that avoided cost prices should be calculated for all QFs (regardless of size) such that the PURPA standard of ratepayer indifference is maintained. Dr. Abdulle further states specifically: "This will make the calculation of avoided costs for Schedules 37 and 38 consistent with each other and will maintain ratepayer neutrality."[1] As I described in my direct testimony, the Office agrees with the need for consistency of methods between Schedules 37 and 38. In summary, the Division supports all of the Company's proposed changes, except for the change related to CO_2 taxes.

Q. WHAT IS THE DIVISION'S POSITION ON THE REMOVAL OF THE CO_2 TAX ASSUMPTION FROM THE CALCULATION OF THE OFPC?

A. The Division does not take a position on whether the CO_2 tax should be included or excluded when determining QF avoided cost pricing but appears to be asking the Commission to clarify what it intended concerning adders for environmental risk in its 12-035-100 Order. Dr. Abdulle's testimony provides a discussion of both sides of the issue. On the one hand he acknowledges that the Commission found that speculative adders are inappropriate and he states that, indeed, CO_2 taxes are "speculative as no current tax exists."[2] On the other hand, he states that when a CO_2 tax is included in the OFPC, it affects all QFs, not just renewable QFs. He claims this is significant because the adder issue from Docket No. 12-035-100 was framed as only an adder for the environmental benefits provided by

[1] Direct testimony of Abdinasir M. Abdulle, August 12, 2014, Lines 108 and 109.
[2] Ibid, Line 147

renewable QFs. In addition, Dr. Abdulle points to the Integrated Resource Plan (IRP) which includes CO_2 taxes in the analysis of resource portfolios. He then raises the question of whether QF avoided cost pricing should use the IRP's price curve or a different price curve – i.e., should the price curves in the two processes be consistent.

Q. WHAT IS THE OFFICE'S RESPONSE TO THE ISSUES RAISED BY THE DIVISION CONCERNING CO_2 TAXES?

A. The position of the Office is based on the plain language from the Commission's Order in 12-035-100 on Schedule 38 QF pricing which clearly states that "we approve no specific adjustments to value fuel price hedging, fuel price volatility or environmental risk"[3]; and therefore, the Office asserts that the Company's exclusion of a CO_2 tax from the OFPC in the calculation of QF avoided cost pricing is appropriate.

Turning to the issue of whether the price curves need to be consistent between the IRP and QF avoided cost pricing, it is unclear if exact consistency is required or even possible. For example, the 2013 IRP incorporates five different CO_2 price assumptions (zero, medium, high and two hard caps). The IRP states that "each CO_2 price scenario is accompanied by a consistent set of natural gas and wholesale power price assumptions."[4] The Office is not aware of any guidelines stating which of

[3] Docket No. 12-035-100 Order on Phase II Issues, August 16, 2013, page 42.
[4] PacifiCorp 2013 IRP, Volume I, page 167.

these CO_2 scenarios and corresponding power price assumptions QF pricing should be consistent with.

Furthermore, the modeling that the Company performs to determine QF avoided cost pricing incorporates the future resources from the IRP's preferred portfolio. The current preferred portfolio is the one developed from scenario Case C-07 of the 2013 IRP. Interestingly, Case C-07 includes a zero CO_2 tax assumption.[5] On the other hand, the three 2013 IRP reference or base cases use a medium CO_2 price, the same CO_2 assumption as the OFPC. However, each reference case uses a different Renewable Portfolio Standard (RPS) assumption.[6] Again, it is ambiguous whether QF avoided cost pricing can be consistent with the IRP when, for example, you have different power price assumptions between the IRP preferred portfolio and the various IRP reference cases.

Unless the Commission provides specific guidance, it is unclear as to how the price curves or other assumptions can be strictly consistent between the IRP and QF avoided cost pricing. What is clear is that the Commission has stated in its 12-035-100 Order that no specific adjustment be made to QF avoided cost pricing for environmental risk.

<u>RESPONSE TO UCE</u>

Q. PLEASE SUMMARIZE UTAH CLEAN ENERGY'S POSITION ON THE COMPANY'S PROPOSED SCHEDULE 37 CHANGES.

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[5] See case definitions, 2013 IRP Volume II – Appendices, page 290.
[6] Ibid.

A. UCE disagrees with most of the Company's proposed changes. The only change that UCE does support is including capacity values for wind and solar resources in the calculation of avoided costs.

Q. UCE DISAGREES WITH THE COMPANY'S CHANGES RELATED TO INTEGRATION COSTS AND CAPACITY PAYMENTS DURING THE SUFFICIENCY PERIOD. HOWEVER, HAVEN'T THESE TWO ISSUES ALREADY BEEN RESOLVED BY THE COMMISSION?

A. Yes, in its 12-035-100 Order, the Commission approved integration costs for wind and solar QFs[7] and ruled that no additional capacity payments are required during the sufficiency period because these payments would over-compensate the QF and violate the ratepayer neutrality objective.[8] This order addressed Schedule 38, but these two issues are also applicable to QFs under Schedule 37.

UCE states that there is no evidence or clear reason why these two issues should apply to Schedule 37 QFs. However, let's consider two different QFs – one at 3.0 MW and one at 3.1 MW.[9] UCE's assertion that these two issues, which apply to a 3.1 MW wind or solar QF under Schedule 38, do not apply to a 3.0 MW wind or solar QF under Schedule 37 is illogical. No evidence has been provided that these Commission-approved issues do not apply to all QFs, including small QFs.

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[7] Docket No. 12-035-100 Order, August 16, 2013, Section III. C. & D., pages 31 – 34.
[8] Ibid, Section III. E., pages 34 – 36.
[9] 3 MW is the size limit for a renewable QF under Schedule 37. A 3.1 MW QF would be required to contract with the Company under Schedule 38.

Q. WHAT IS UCE'S POSITION ON THE COMPANY'S PROPOSAL TO REMOVE CO_2 TAX ASSUMPTIONS FROM THE OFPC?

A. UCE disagrees with the Company's removal of this carbon cost assumption from Schedule 37 avoided cost pricing. Regarding this issue, UCE witness Ms. Wright states "It is our goal to ensure that avoided cost pricing fairly values renewable electricity generation"[10] and "Avoided cost pricing should be consistent with integrated resource planning."[11] She further recommends: "In order to be consistent with resource planning, the Company should revert all avoided costs input assumptions…..back to consistency with IRP base case assumptions."[12]

Q. WHAT IS THE OFFICE'S RESPONSE TO THESE STATEMENTS?

A. First, Ms Wright is concerned that removing a carbon price from the development of renewable QF avoided cost pricing does not value its energy fairly. However, Ms Wright does not mention that these renewable QFs retain ownership of the Renewable Energy Credits (RECs) that are created in conjunction with their power production. These RECs provide renewable QFs value for the environmental attributes of their electricity generation.

Second, as I described earlier in our response to the Division, it is unclear to what extent QF avoided cost pricing should or can be consistent with the IRP. A certain degree of consistency is achieved because the

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[10] Direct Testimony of Sarah Wright, August 12, 2014, lines 457 – 458.
[11] Ibid, line 506.
[12] Ibid, lines 517 – 519.

development of QF pricing incorporates the resources from the IRP's preferred portfolio. Ms Wright's assertion that QF avoided cost CO_2 tax assumptions should be consistent with the IRP base case is problematic. For example, as stated earlier, the 2013 IRP has three base cases, which are actually labeled reference cases. The 2011 IRP, on the other hand, did not identify any of its cases as base or reference.[13] Furthermore, the proposed set of cases for the 2015 IRP include two reference cases that have no CO_2 cost or tax and no compliance with the proposed EPA 111(d) rule on carbon emissions. Of the 15 proposed core cases in the 2015 IRP, only one will include a specific CO_2 tax because the environmental compliance focus of the IRP is to develop and dispatch a mix of resources that can comply with the proposed 111(d) rule.[14] The types of assumptions and cases that are modeled in the IRP change significantly from cycle to cycle, making it difficult to prescribe exactly how the QF avoided cost method should be consistent with the IRP.

Q. UCE RECOMMENDS THAT SCHEDULE 37'S CAPACITY PAYMENT OPTION SHOULD NOT BE ELIMINATED BUT INSTEAD BE MODIFIED TO REFLECT THE CAPACITY VALUE OF THE QF. WHAT IS THE OFFICE'S RESPONSE?

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[13] See PacifiCorp 2011 IRP Volume II, Appendix D pages 89 to 95 or see the case list at: http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/Integrated_Resource_Plan/2011IRP/PAC_2011IRP_PortfolioDevelopmentCases_12-7-10.pdf

[14] To see the current draft of 2015 IRP cases go to: http://www.pacificorp.com/content/dam/pacificorp/doc/Energy_Sources/Integrated_Resource_Plan/2015IRP/2015IRP_Scenario-Case%20Matrix_2014-08-07.pdf

A. In her testimony, Ms Wright fails to address a key problem with having two different payment methods for QFs under Schedule 37. The problem is that ratepayers are not indifferent if the two payment methods provide significantly different total payments to the QF or, in other words, produce different avoided costs. Even if the capacity payment format could be modified to produce the same total payments as the energy-only format for the proposed rates in this proceeding, the likelihood is that they will deviate again in the future. It would be administratively burdensome to continually review these rates to ensure they remain in sync. Therefore, the Office asserts that there should be just one payment format for Schedule 37, incorporating the Company's avoided cost, and for simplicity and consistency with Schedule 38, that payment format should be an energy-only format.

<u>RECOMMENDATION FOR ANNUAL SCHEDULE 37 REPORTING</u>

Q. DOES THE OFFICE HAVE A RECOMMENDATION FOR FUTURE SCHEDULE 37 ANNUAL FILINGS?

A. Yes. Prior to this filing from the Company, the Office was not aware that the current Schedule 37 method produced such high pricing for solar projects, prices that appear to be greatly exceeding the Company's avoided costs. The Office asserts that the regulatory system should not just rely on the Company to identify such problems and initiate changes, but that regulatory parties should also be in a position to conduct their own review if and when prices appear to be out of alignment with avoided costs. Further, the Commission and other parties need to be aware of contracts that have been executed and that may impact future power costs. Thus, the Office recommends that in future annual Schedule 37 filings, the Company include a list of the contracts that have been signed under that schedule during the previous year. The list should include relevant project information such as contract date, scheduled operation date, resource type, size (MW), location, and estimated average price per MWh. This list would serve as a starting point from which regulatory parties can conduct further review, if necessary. Parties could then advocate for potential changes to methods and calculations within the annual Schedule 37 docket if it appears circumstances justify such change.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes it does.