Witness OCS – 1D

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Modification of Contract Term of PURPA Power Purchase Agreements with Qualifying Facilities	)))))	**Docket No. 15-035-53**

DIRECT TESTIMONY OF

BELA VASTAG

FOR THE

OFFICE OF CONSUMER SERVICES

SEPTEMBER 16, 2015

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. I will provide the response of the Office to Rocky Mountain Power's (Company) request for a permanent reduction in the maximum contract term for Public Utility Regulatory Policies Act (PURPA) qualifying facilities (QF) contracts from twenty (20) years to three (3) years.

Q. WHAT IS THE OFFICE'S OVERALL RESPONSE TO THE COMPANY'S REQUEST?

A. The Office does not support the Company's request to reduce the maximum contract term to 3 years because we are concerned that this extreme change may discourage all new QF development. This would be contrary to Federal and State laws which were enacted specifically to <u>encourage</u> the development of small power producers or QFs.[1]

Q. IN ITS APPLICATION AND DIRECT TESTIMONY, THE COMPANY DISCUSSES SEVERAL ISSUES THAT IT BELIEVES MAKE A 20-YEAR TERM FOR QF CONTRACTS UNDESIREABLE. DOES THE OFFICE THINK THAT ANY OF THESE ISSUES HAVE MERIT?

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[1] PURPA Section 210 (a): "…the Commission [FERC] shall prescribe, and from time to time thereafter revise, such rules as it determines necessary to encourage cogeneration and small power production…" and Utah statute Section 54-12-1 (2): "It is the policy of this state to encourage the development of independent and qualifying power production and cogeneration facilities…".

A. Yes. Some of the issues raised by the Company are also a concern for the Office. These issues are:

- The risk to ratepayers associated with carrying long-term fixed-price contracts for power. It is uncertain whether a 20-year commitment to take all the power these QFs generate and to pay the currently calculated avoided cost prices will end up being a good outcome for ratepayers. Ratepayers, not the Company, not the QF developer, not the QF financier, carry this risk.
- The disconnect from PacifiCorp's system-wide resource planning because a significant amount of new long-term QF resources are being acquired but are not being evaluated on a system basis through the Integrated Resource Plan (IRP) process. The IRP is used to identify future resources needed to provide reliable, reasonable-cost service with manageable risks to ratepayers. It produces a long-term resource plan that considers cost, risk, uncertainty and the long-run public interest. It is also developed through a collaborative public process.[2]

Q. WHAT DOES THE OFFICE BELIEVE IS THE BEST REMEDY FOR THE CONCERNS YOU RAISED ABOVE?

A. Given that federal law requires the Company to purchase power from QFs, the Commission should make sure that QF prices accurately reflect true avoided costs by ensuring that avoided cost modeling is as accurate as possible.

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[2] PacifiCorp 2015 IRP, Chapters 1 & 2.

Q. PLEASE EXPLAIN WHY ACCURATE AVOIDED COST MODELING IS ESSENTIAL IF A 20-YEAR TERM FOR QF CONTRACTS IS TO BE MAINTAINED.

A. For QF contract pricing to be as accurate as possible, avoided cost modeling must be properly developed and timely updated. However, if our process allows prices in QF contracts to be based on inaccurate assumptions such as out-dated proxies, interim modeling assumptions (e.g., capacity contribution factors), hypothetical cost adders, excessive regulatory lag or unsupported modeling changes, acquiring 20-year QF resources would be problematic, especially when compared to the standards set by the Company's hedging, resource acquisition and IRP regulatory requirements.

The capital costs of an 80 MW solar or wind QF could easily exceed $100 million.[3] PURPA requires the Company to purchase power from a QF; and therefore, the typical lengthy review of a multi-million dollar resource acquisition such as is done in a RFP, a Significant Energy Resource Decision proceeding or a general rate case is not possible for a QF contract. For a QF power purchase agreement (PPA), practically the only protection for ratepayers is accurate avoided cost prices. Therefore, it is extremely important that avoided cost modeling be rigorously maintained

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[3] $100 million would mean a capital cost of only $1,250 per kW for an 80 MW project. This cost per kW is considerably less than the Company uses in the 2015 IRP, see Table 6.1, page 93.

and updated and that the modeling always achieves the PURPA standard of ratepayer indifference.

Q. WHAT IS THE OFFICE'S RECOMMENDATION REGARDING THE COMPANY'S REQUEST FOR A THREE YEAR MAXIMUM TERM FOR QF CONTRACTS?

A. The Office recommends that the Commission not approve the Company's request and that the Commission insists on continued diligence and rigor in properly establishing avoided cost prices in Schedules 37 and 38.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes it does.