1 **Q. Have you previously filed testimony in this docket?**

2 A. Yes. I filed direct testimony in which I presented the Company's application to modify
3 the maximum allowable contract term for qualifying facility ("QF") contracts that the
4 Company must enter into under the Public Utility Regulatory Policies Act of 1978
5 ("PURPA").

6 **PURPOSE AND SUMMARY OF TESTIMONY**

7 **Q. What is the Company asking the Commission to approve in this proceeding?**

8 A. The Company is requesting an order from the Public Service Commission of Utah
9 ("Commission") directing implementation of a reduction of the maximum contract
10 term for PURPA contracts from 20 years to three years, to be consistent with the
11 Company's hedging and trading policies and practices for non-PURPA energy
12 contracts and more aligned with the Integrated Resource Plan ("IRP") cycle. The
13 Company is seeking a modification to the maximum contract term of QF contracts
14 executed under both Schedules 37 and 38.

15 **Q. To which witnesses are you responding in your rebuttal testimony?**

16 A. I respond specifically to the direct testimony of Utah Clean Energy ("UCE") witness
17 Sarah Wright; Sierra Club witness R. Thomas Beach; Rocky Mountain Coalition for
18 Renewable Energy ("Coalition") witnesses Kevin Higgins, Bryan L. Harris, and Hans
19 Isern; Renewable Energy Coalition witness John Lowe; Utah Office of Consumer
20 Services ("OCS") witness Bela Vastag; and Utah Division of Public Utilities ("DPU")
21 witness Charles E. Peterson.

22 **Q. After reading intervenors' direct testimony in this docket, what are your general**
23 **observations?**
24 A. In seeking to maintain the "ratepayer indifference" standard required by PURPA, the
25 Company's direct testimony explains and illustrates how the required 20-year contract
26 term is: (1) inconsistent with the Company's hedging practices implemented after
27 careful review by stakeholders in a recent collaborative, (2) inconsistent with resource
28 acquisition policies and practices for non-PURPA energy purchases, and (3) not
29 aligned with the Company's IRP planning cycle and action plan. Additionally, the
30 Company's direct testimony describes how, without the requested modification to
31 contract term, PacifiCorp will be forced to continue to acquire long-term, fixed-price
32 PURPA contracts even though PacifiCorp's 2015 IRP, which was filed in March 2015,
33 shows no new resource is required until 2028.
34 The direct testimony of three intervenors, namely UCE, the Coalition, and
35 Sierra Club, carry common themes in response to the Company's application. These
36 parties suggest PacifiCorp is trying to eliminate the PURPA must-purchase obligation,
37 even though my direct testimony is clear that the must-purchase obligation remains.
38 These parties are more concerned with ensuring continued QF development under any
39 scenario, despite the lack of an identified need for new generation, than they are with
40 balancing customer rate and risk impacts with QF rights under PURPA. These parties
41 suggest a QF contract is not similar to commodity hedges, which are currently limited
42 to three years or less under the Company's trading policies, even though the current QF
43 contract is clearly a fixed-price purchase of unit-contingent non-dispatchable energy
44 for a 20-year term. These parties suggest a QF contract is similar to a Company

45 resource, even though procurement of a Company resource is driven by need; and a
46 Company resource can be dispatched and backed down when more economic
47 alternatives are available, passing through to customers the savings from lower fuel and
48 other operating costs because the total cost of the energy is not locked-in for 20 years
49 like it is in a QF contract. Lastly, these parties suggest QFs are able to meet future
50 environmental compliance obligations, even though those obligations are not currently
51 known and measurable. Importantly, these parties ignore the critical fact that the QF
52 retains the renewable energy credits ("RECs") for their own economic benefit, and
53 those RECs represent the environmental attributes that these parties are touting as
54 beneficial to the Company.

55 The OCS submitted a short piece of testimony in which it raises two critical
56 issues with which I agree: 1) there is a risk to customers associated with carrying long-
57 term fixed-price contracts for power, and 2) there is a disconnect between new QF
58 contracts and PacifiCorp's IRP. Notwithstanding these important concerns, the OCS
59 recommends the Commission not approve the Company's application.

60 The DPU agrees with the Company on many key issues and shares the
61 Company's concerns related to the large number of existing and potential QFs. The
62 DPU agrees that:

63 1. A 20-year contract is inconsistent with the hedging principles agreed upon
64 in the hedging collaborative;
65 2. A 20-year contract term is a clear benefit to QF developers;
66 3. It is not the regulator's place to ensure economic viability of a QF project;
67 and

68 4. It is time to reconsider the previous positions related to QF contracts in light
69 of recent events.
70 The DPU introduces an alternative to the Company's proposal. The DPU proposal
71 consists of a five-year contract term but allows the capacity payment to be based on a
72 20-year avoided cost calculation. Energy prices would be calculated as they are now,
73 but only for the next five years. Under the DPU proposal, the QF will have the option
74 every five years to seek alternate off-takers elsewhere. While this proposal is an
75 improvement in that it only fixes energy prices for up to five years, paying a capacity
76 payment based on 20 years but allowing the QF the option to cease sales to the
77 Company after only five years is similar to the issue that arises with levelized pricing
78 where capacity and energy values are brought forward for the QF's benefit in early
79 years and returned to customers in the later years of the long-term contract. In the DPU
80 proposal, customers over-pay for the capacity value in the early years as capacity values
81 is brought forward but bear the risk of the overpayment if the QF leaves after five years.
82 This exposure does not meet the ratepayer indifference standard. I continue to
83 recommend the implementation of a three-year contract term for all QF contracts.
84 **Q. How is your rebuttal testimony organized?**
85 A. I respond specifically to each of the intervening parties' arguments. Since many of the
86 arguments from UCE, the Coalition, and Sierra Club are similar in nature, I provide
87 detailed responses and evidence responding to Sarah Wright, UCE's witness, and then
88 often refer to those same responses when rebutting the Coalition and Sierra Club. I then
89 respond to the limited issues raised by Renewable Energy Coalition witness John Lowe.
90 Finally, I respond directly to the OCS' recommendation and the issues and proposal

91 presented by the DPU. Like my direct testimony, my rebuttal testimony focuses on the
92 reasons this change is necessary in order to maintain the "ratepayer indifference"
93 standard required by PURPA.

94 **RESPONSE TO UTAH CLEAN ENERGY**

95 **Q. Please summarize your understanding of Utah Clean Energy's testimony.**

96 A. UCE argues that a three-year contract term will end renewable QF development in
97 Utah, commodity hedges and QF projects are not comparable, and Company resources
98 and QF projects are comparable. Ms. Wright then suggests that QFs provide a benefit
99 to customers because they lock in generation at "current low prices."

100 **Q. What is your response to Ms. Wright's suggestion that a three-year contract term**
101 **will end the development of renewable QFs in Utah?**

102 A. The fact that a PURPA contract only has a term of three years does not mean that the
103 project will have only a three-year life. The must-take relationship between QF projects
104 and the Company will not change with the shortening of the contract term. Rocky
105 Mountain Power will be required to purchase the power produced by the project as long
106 as PURPA requirements exist and the project qualifies as a QF under PURPA. Limiting
107 the term of the contract to three years simply means that the price Rocky Mountain
108 Power and its customers will be required to pay to the QF will be subject to adjustment
109 every three years and will be more closely aligned with the Company's current avoided
110 costs. After each three-year contract term, the Company will still be required by
111 PURPA to contract with the QF for another term. The Company is not seeking to limit
112 its PURPA purchase obligation to a single three-year term—it is simply proposing to
113 align the pricing terms with the time horizons used in other commodity hedges and the

114 IRP action plan.

115 **Q. Do other witnesses agree that a three-year contract term may not end the**
116 **development of renewable QFs in Utah?**

117 A. Yes. DPU witness Charles E. Peterson points out on page 12 of his direct testimony,
118 "the ability to finance will depend in part on who the developer is and what the purpose
119 of the QF is." Mr. Peterson also points out that with the development of financing
120 vehicles such as "yieldcos", new financing opportunities are available and will likely
121 expand.

122 **Q. Ms. Wright suggests the Company's application to change the QF contract term**
123 **is contrary to the intent of PURPA. Do you agree?**

124 A. No. Nowhere in PURPA does it specifically state that contract terms for a QF must be
125 of sufficient length for a QF to obtain financing. The foundations of PURPA are: 1) the
126 purchase obligation, and 2) the ratepayer indifference standard. The Company's request
127 in this docket does not alter the purchase obligation. The Company will continue to
128 purchase energy from QFs, in compliance with the letter and the intent of PURPA, for
129 the duration of a QF's useful life. The Company's application is more directly
130 concerned with the second foundation of PURPA—the ratepayer indifference standard.
131 The Company's request aligns the maximum contract term for QFs with the Company's
132 hedging and trading policies and practices for non-PURPA energy contracts and with
133 the IRP cycle. This alignment is necessary to maintain the ratepayer indifference
134 standard required by PURPA.

135 **Q. Does PURPA require the Commission to establish QF contracting terms that**

136 **guarantee a QF will be economically viable?**

137 A. No. PURPA does not address economic viability of QFs or financing obligations. I
138 agree with DPU witness Mr. Peterson on this issue. In his direct testimony, beginning
139 on line 213, Mr. Peterson states:

140 …the Division is unaware of any statute or regulation that requires that the
141 Commission ensure that QF projects are economically viable, or that a certain
142 number QF projects be successfully developed. In Docket No. 12-035-100,
143 certain parties raised the issue of the economic viability (which broadly would
144 also include the ability to obtain financing). The Division responded that "…the
145 Division believes that it is not the regulators' place to ensure that economic
146 success is likely. The Division's position is that the avoided cost pricing that a
147 WQF [wind QF] receives should be high enough such that ratepayers are
148 indifferent between obtaining power from the WQF versus other available
149 resources, but the price should be no higher than that."

150 The Company agrees that it is not the Commission's responsibility or obligation to
151 ensure the economic viability of a QF project nor should the customer bear any cost for
152 the project to be economically viable.

153 **Q. Ms. Wright suggests the contract term should not be changed from 20 to three**
154 **years because the Company supported a 20-year contract in a prior docket.[1] Do**
155 **you agree?**

156 A. No. As discussed in my direct testimony,[2] circumstances have changed dramatically
157 since this issue was last addressed in a 2003 docket. The Company has witnessed a
158 dramatic increase in PURPA contract executions and pricing requests in Utah and
159 system-wide in the last several years. This material increase could not have been
160 anticipated by the Company when the Commission reviewed the issue of contract term
161 in previous cases. Just as avoided cost prices are updated with changing conditions, so

[1] Sarah Wright Direct Testimony, page 10, lines 201-209.
[2] Paul H. Clements Direct Testimony, page 11, lines 189-204.

162 should the other QF contract terms and conditions. Furthermore, the hedging
163 collaborative workshops held in 2011 and 2012 resulted in a review and application of
164 Company hedging practices. The QF contract term must be re-evaluated in light of
165 these new practices to ensure consistency across all Company commodity transactions.

166 **Q. Ms. Wright asserts that QF projects are not comparable to a commodity hedge.**
167 **Do you agree?**

168 A. No. In fact, I find it interesting that Ms. Wright suggests a QF contract is "not
169 comparable to economic hedges"[3] but then spends the next six pages of her testimony
170 describing how prices are so low now that QFs have "hedging value"[4] and how, if more
171 QFs are built, the "locked-in low prices will help keep Utah rates low over the long
172 term."[5]

173 Ms. Wright is confusing "hedging" with "trading". Hedging attempts to reduce
174 or to eliminate volatility. Trading, also known as speculative trading, attempts to profit
175 from betting on the direction in which a market will move. Suggesting that power prices
176 are so low now that the Company should lock in as many long term contracts as possible
177 is a speculative trade, not a hedge. If regulators and stakeholders wanted to speculate
178 that power prices will only go up from here, the Company could put on that trade
179 without QFs. But doing so is purely speculative trading.

180 **Q. Has Ms. Wright previously asserted in other dockets that energy prices were**
181 **"low" and more likely to go up than down?**

182 A. Yes. In Docket No. 12-035-100, Ms. Wright provided an example of how gas prices

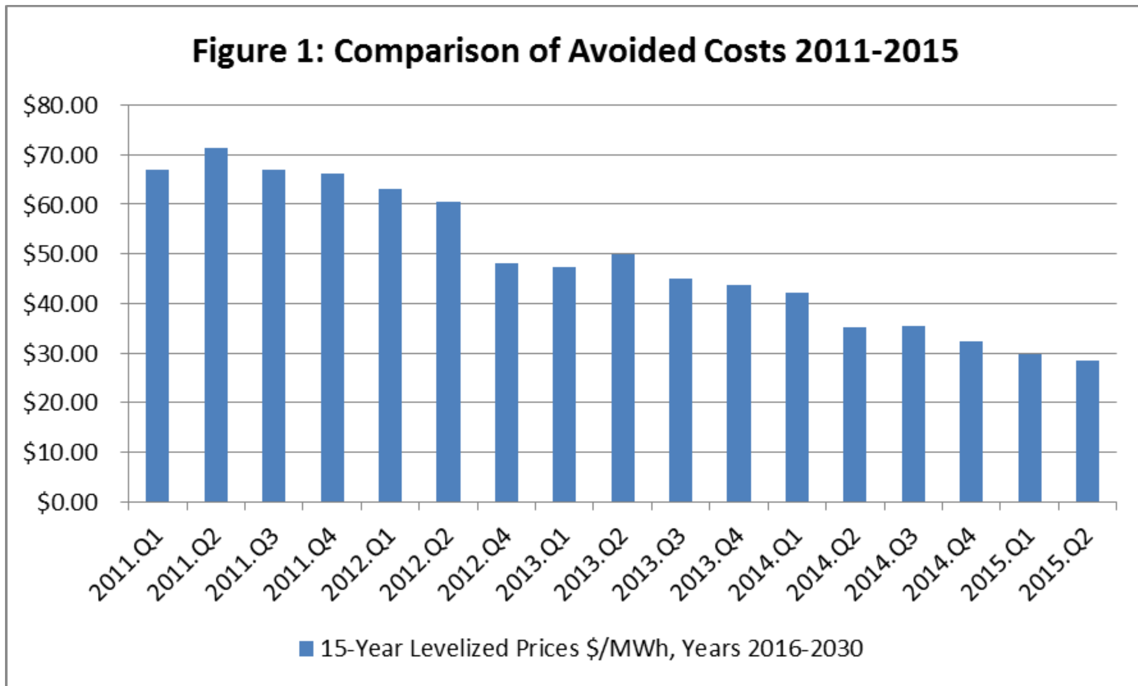
[3] Sarah Wright Direct Testimony, page 12, lines 243-245.
[4] Sarah Wright Direct Testimony, page 17, line 338.
[5] Sarah Wright Direct Testimony, page 19, line 369.

183 can influence avoided costs. In her testimony in that docket, Ms. Wright stated:
184 "...because natural gas pricing cannot get much lower, the risk that prices will be higher
185 than projected is greater than the possibility that prices will be lower."[6]

186 **Q. Was Ms. Wright correct in her prediction that energy prices would go higher?**

187 A. No. Ms. Wright submitted her testimony in that docket in March 2013. The second
188 quarter 2013 avoided cost compliance filing made by the Company showed a levelized
189 avoided cost price of $49.82 per MWh for a 15-year contract term.[7] The second quarter
190 2015 avoided cost compliance filing showed a levelized price of $28.44 per MWh for
191 that same term. In just two years, the avoided cost price has declined by 43 percent. In
192 fact, avoided costs have steadily fallen since Ms. Wright made her prediction in 2013,
193 continuing a declining trend that began in the second quarter of 2011. Figure 1 shows
194 the 15-year levelized price (covering years 2016-2030) produced by each quarterly
195 compliance filing for the four-year period starting second quarter 2011 through second
196 quarter 2015. Since the second quarter 2011, the 15-year avoided cost price has
197 declined by 60 percent.

[6] Docket No. 12-035-100, Direct Testimony of Sarah Wright, page 29 lines 494-496.
[7] 15-Year (2016-2030) Levelized Price (Nominal) @ 6.660% Discount Rate.



198 **Q. Why is this comparison relevant and important in the context of the Company's**
199 **request to limit QF contract terms to three years?**
200 A. This data illustrates two key points: 1) predictions regarding the future level of prices
201 are often inaccurate, and 2) the change in the level of prices over just a few years can
202 be significant. One of the primary assertions made by intervenors in this docket,
203 including Ms. Wright, is that QF prices are currently "low" and "have almost nowhere
204 to go but up."[8] This same prediction made just two years ago proved to be wrong. Such
205 predications are not relevant in this proceeding, and the inaccuracy of long term
206 predictions supports the Company's proposal to shorten QF contract terms. Customers
207 should not be exposed to the increased price risk that comes with 20-year QF contracts
208 because they are not exposed to that same risk under the Company's current hedging
209 practices and policies.

[8] Sarah Wright Direct Testimony, page 16, line 324.

210 As stated in my direct testimony, if recent QF projects are priced higher than
211 the market alternative by just 10 percent, it would create a $7.33 million impact in 2015
212 for Utah customers.

213 **Q. Is there an example that illustrates the inconsistency between the Company's**
214 **hedging polices and a QF contract?**

215 A. Yes. In my direct testimony starting on page 12 line 352, I describe how the hedging
216 policy does not allow the Company to purchase (hedge) natural gas for a power plant
217 beyond three years. However, if a QF is projected to "avoid" operation of that plant,
218 the price provided to that QF and subsequently used in the 20-year contract will be
219 based on the forecasted gas price for that plant. Executing a 20-year contract with that
220 QF, based on the 20-year forecasted gas price, essentially locks in or hedges gas at that
221 price for 20 years. That would not occur absent the QF contract, since the Company's
222 hedging policy limits gas hedges to three years.

223 **Q. What do you conclude regarding the Company's hedging policies and a 20-year**
224 **QF contract term?**

225 A. The hedging collaborative held in 2011 and 2012 resulted in a trading policy that
226 clearly delineates between hedging and speculative trading. The Company does not
227 engage in speculative trading. The Company hedges within certain boundaries
228 established as a result of the collaborative. The hedges are intended to limit price
229 volatility in the three-year time horizon to which the hedging policy applies. The 20-
230 year QF contract term currently in place falls well outside this three-year time horizon.
231 Contrary to Ms. Wright's claims, a 20-year QF contract term impacts customer rates
232 the very same way a 20-year commodity hedge would. A 20-year commodity hedge is

233 a fixed-price purchase of energy for a fixed duration, which is exactly the same as a
234 20-year QF contract. This inconsistency does not maintain the ratepayer indifference
235 standard required by PURPA.

236 **Q. Ms. Wright asserts that QF contracts are comparable to the Company's**
237 **generation resources. Do you agree?**

238 A. No. As I explained on page 19 of my direct testimony, new Company resources are
239 procured differently than PURPA contracts. PURPA contracts do not go through the
240 same extensive IRP process to determine if they are needed, and they do not go through
241 the same competitive RFP process, which includes oversight by an independent
242 evaluator to ensure selected bids are lowest cost. Of greater importance, PURPA
243 contracts cannot be dispatched in the same manner as a Company resource. This is a
244 critical difference that impacts customer costs. For example, if the marginal cost of a
245 Company gas plant is $40 per MWh, but another alternative, such as a short-term firm
246 market purchase, costs only $30 per MWh, the Company would dispatch down the gas
247 plant and buy from the market, saving customers $10 per MWh. If a QF contract has a
248 $40 per MWh price, but another alternative costs $30 per MWh, the Company cannot
249 curtail or dispatch down the QF contract—it must continue to purchase the output at
250 $40 per MWh even though a less expensive alternative exists. In fact, under PURPA's
251 must-take obligation, the Company would be obligated to back-down the existing $30
252 per MWh resource and purchase the $40 per MWh QF energy.

253 In a recent order on this same issue of QF contract term, the Idaho Public
254 Utilities Commission highlighted the differences between QFs and Company
255 resources:

256 As is evident upon review of the extensive record (explained by several
257 witnesses), QFs differ from utility resources in several significant and material
258 ways. A utility "cannot be compensated by its customers for energy produced
259 from a generating facility until the utility establishes the need for such new
260 generation" by requesting a Certificate of Public Convenience and Necessity
261 (CPCN). Idaho Code § 6 1-526, 6 1-541. Order No. 32697 at 15-16. In contrast,
262 PURPA requires the utility to purchase QF power whether the power is needed
263 or not. Next, a utility-authorized resource is typically subject to competitive
264 bidding, cost scrutiny, and oftentimes has dispatch characteristics different than
265 most QFs. Moreover, the fuel component for utility generating plants is
266 adjusted annually, but is fixed for the duration of fuel-based, long-term QF
267 contracts. QFs are entitled to receive full avoided cost rates. However, the
268 calculation of avoided costs is entirely unrelated to what it costs a PURPA
269 project to be developed.[9]

270 **RESPONSE TO THE ROCKY MOUNTAIN COALITION FOR**

271 **RENEWABLE ENERGY**

272 Q. **Please summarize your understanding of the Rocky Mountain Coalition for**

273 **Renewable Energy testimony.**

274 A. The Coalition has three witnesses, Mr. Kevin Higgins, Mr. Bryan L. Harris, and Mr.

275 Hans Isern. Mr. Harris' and Mr. Isern's testimonies center on the ability of a QF to

276 obtain project financing. They state limiting QF contract terms to three years would

277 adversely affect the ability of renewable energy developers to finance QF projects.[10]

278 Mr. Higgins asserts the Company has brushed aside the previous body of work

279 developed in this jurisdiction in regards to the "partial displacement differential

280 revenue requirement" ("PDDRR") pricing method, states that now is not a good time

281 to change QF contract terms because new environmental regulations are in a state of

282 flux, and claims that QF contracts are more similar to Company resources than to

283 hedges.

[9] Idaho Public Utilities Commission Order No. 33357, page 24.
[10] Bryan L. Harris Direct Testimony, page 2, lines 36-38; Hans Isern Direct Testimony, page 2, lines 41-43.

284 **Q.** **Mr. Harris and Mr. Isern argue that limiting the QF contract term to three years**
285 **would adversely affect the ability of renewable QFs to obtain financing. Is their**
286 **argument supported by PURPA?**

287 A. No. PURPA and FERC regulations do not specify a mandatory length for QF contracts.
288 They do not require that a QF contract term be of sufficient length to ensure financing.
289 The Company is aware of many QFs who choose shorter contracts lengths and are still
290 built and operating. In fact, most of the Company's combined heat and power QFs elect
291 short duration contract terms, typically one year in length.

292 **Q.** **Do you agree with Mr. Higgins' assertion that the Company is brushing aside the**
293 **previous body of work developed in this jurisdiction, namely the use of the**
294 **PDDRR pricing method?**[11]

295 A. No. The Company in not recommending discontinuing the use of the PDDRR pricing
296 method to determine avoided costs. The Company is recommending limiting the
297 contracts that include pricing produced by the PDDRR method to three years.

298 **Q.** **Mr. Higgins asserts that no changes should be made at this time because new**
299 **environmental regulations are in a state of flux.**[12] **Do you agree?**

300 A. No. In fact, Mr. Higgins' statements regarding uncertainty support the Company's
301 recommendation to shorten the QF contract term. As Mr. Higgins' acknowledges, the
302 Clean Power Plan ("CPP") does not require states to submit a compliance plan to the
303 EPA until September 2016, and states may request that date be extended by another
304 two years. The uncertainty around the implementation of the final rules related to the

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[11] Kevin Higgins Direct Testimony, page 5, Lines 99-104.
[12] Kevin Higgins Direct Testimony, page 6, lines 108-116; page 11 lines 218-259.

305 CPP and the final compliance plan support the need for extreme caution at this time in
306 how the Company acquires resources. The Company must evaluate and must makes
307 changes, if prudent, in how and whether it enters into long-term commitments in light
308 of this uncertain future. Uncertainty supports shorter term decisions and obligations—
309 it does not support locking customers into long-term fixed-price obligations.

310 **Q. Mr. Higgins, as well as several other witnesses, asserts that QFs could be a means**
311 **of gaining compliance with environmental regulations.[13] What critical fact are**
312 **they ignoring?**

313 A. The critical fact that is being ignored is that the Company does not retain RECs from
314 Utah QF projects. In its Order on Phase II Issues in Docket No. 12-035-100, the
315 Commission ordered that "RECs shall be retained by the QF."[14] The QF may sell RECs
316 to a third party, or retire its RECs. In either case, the Company cannot claim the
317 environmental attributes associated with the renewable generation from a QF without
318 retaining the rights to the RECs. Therefore, any argument made by parties in this docket
319 relative to the perceived benefit to customers of acquiring "renewable" QF resources is
320 deceiving and should not be a consideration when evaluating the appropriate contract
321 term for QFs.

322 **Q. Mr. Higgins asserts that QF contracts should not be compared to the Company's**
323 **hedging practices, but should rather be compared to the Company's generation**
324 **assets.[15] Do you agree?**

325 A. No. I addressed in detail how a QF is similar to a hedge and dissimilar to a Company

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[13] Kevin Higgins Direct Testimony, page 13, line 257.
[14] Order On Phase II Issues, Docket No. 12-035-100, page 43.
[15] Kevin Higgins Direct Testimony, pages 7-8, lines 130-164.

326 resource earlier in my testimony when rebutting Ms. Wright. In response to Mr.
327 Higgins, I add that Company generation assets are acquired much differently (generally
328 through a least-cost, least-risk RFP process under intense stakeholder review and
329 scrutiny) and for different reasons (such as an IRP identified capacity need), than a QF
330 project. I explain these differences in more detail in my direct testimony, and note that
331 Mr. Higgins did not provide any evidence rebutting these differences.

332 **RESPONSE TO THE TESTIMONY OF SIERRA CLUB**

333 **Q. Please summarize your understanding of the Sierra Club's position in this docket.**

334 A. Sierra Club witness Mr. Beach implies that the Company is trying to change the state's
335 competitive energy market and is trying to be relieved of its PURPA must-purchase
336 obligation. He then suggests three reasons why a 20-year contract term should be
337 continued: 1) a QF contract term of this length is necessary to realize PURPA's goal of
338 supporting QF development, 2) the current pricing mechanism will act on its own
339 accord to limit QF development, and 3) there are many benefits of renewable
340 generation.

341 **Q. On pages 4 through 12 of his testimony, Mr. Beach implies that the Company is**
342 **trying to end its PURPA must-purchase obligation. Do you agree?**

343 A. No. The Company's requested relief in this docket does not seek the elimination of its
344 must-purchase obligation. Mr. Beach opines heavily on Section 210(m) of PURPA in
345 which utilities can petition FERC for relief from the must-purchase obligation, and
346 further opines on state renewable portfolio standards ("RPS") and state energy policy
347 in general. Those topics are not relevant to this proceeding, so I will not address those
348 issues in detail.

349 **Q. Mr. Beach implies that PURPA requires a contract term that ensures a QF can**
350 **obtain financing.[16] Do you agree?**
351 A. No. Earlier in my rebuttal of Ms. Wright, I explain how nowhere in PURPA or in FERC
352 regulations is the issue of contract term addressed. There is no requirement to ensure a
353 QF can obtain financing. The obligation is must-purchase, not must ensure economic
354 viability.
355 **Q. In his second of three arguments, Mr. Beach suggests that the pricing mechanism**
356 **will act on its own to limit QF development. Do you agree?**
357 A. No. While I agree that avoided costs generally decrease as more QFs are added to the
358 system and lower-cost resources are avoided, the Company's experience has shown
359 that a large and material number of QFs may enter into long-term contracts before any
360 impact of the pricing queue is realized. The Company witnessed this first-hand in the
361 past few years. As described in my direct testimony, the Company signed 24 new QF
362 contracts in Utah totaling 897 MW in the past two years. Mr. Beach points out that
363 recent indicative prices are now lower and implies that this is a result of the queue (i.e.,
364 the fact that many QF contracts have already been signed). I have personally been
365 involved in the processing of QF pricing requests and the execution of recent QF
366 contracts and purport that the recent reduction in indicative avoided costs is largely a
367 result of lower forward price curves used as inputs to the model and not a result of the
368 pricing queue.
369 I previously shared Mr. Beach's opinion that contract term is irrelevant as long
370 as the model produces an accurate avoided cost. However, as I evaluated the impact of

[16] R. Thomas Beach Direct Testimony, page 17, lines 343-344

371 long-term fixed-price risk, analyzed how that impact is magnified when a large number
372 of QF contracts are executed, and recognized that long-term fixed-price risk is not
373 consistent with the Company's hedging practices for non-PURPA contracts, I realized
374 that a 20-year contract term violates the ratepayer indifference standard in that it
375 introduces fixed-price risk to the customer that it otherwise would not incur.

376 **Q. In his third of three arguments, Mr. Beach suggests that the contract term should**
377 **remain at 20 years because there are many benefits to renewable generation.[17] Is**
378 **his characterization and valuation of those alleged benefits accurate?**

379 A. No. As a general response, the objective of this docket is not to re-evaluate the avoided
380 cost calculation for renewable generation. Docket No. 12-035-100 evaluated the
381 avoided cost method for wind and solar resources and implemented a model to
382 determine the value. This docket strictly addresses the contract term and not the
383 contract price. Notwithstanding that objection, I find several flaws in Mr. Beach's
384 calculation of his suggested benefits. Since this docket is not focused on the valuation
385 of QFs, I will only briefly address each suggested benefit:

386 • REC sales revenues – Mr. Beach suggests that RMP can sell RECs and
387 achieve additional revenue. He ignores that fact that RMP does not retain
388 the REC from a QF, making this argument irrelevant.
389 • Hedging benefit – Mr. Beach suggests long-term renewable QF contracts
390 are a better hedge than Company resources because the fuel price is locked
391 down (since there is no fuel cost). He fails to acknowledge that a Company
392 resource is only acquired if a long-term need is identified through the IRP

[17] R. Thomas Beach Direct Testimony, page 23, lines 457-462

393 process. No such needs assessment occurs with a QF contract. And he
394 further argues that QF contracts protect against spikes in natural gas prices.
395 He fails to acknowledge how they also can hurt customers when QF prices
396 are locked-in and gas prices decline (which has been the case over the past
397 several years). He also fails to acknowledge that QFs cannot be backed
398 down even when lower cost alternatives are available, while Company
399 resources are dispatched economically.

400 • Market price mitigation – Mr. Beach suggests that the addition of large
401 amounts of renewable generation will decrease demand on the wholesale
402 markets and thus decrease prices in general. His argument is illogical—why
403 would one acquire as much as possible of something now when the effect
404 will be to make it cheaper in the future? Why not acquire nothing now and
405 wait for the cheaper prices? Notwithstanding the irrational nature of this
406 position, as I described earlier in my rebuttal testimony, guessing on the
407 direction of future prices is purely speculative.

408 • Capacity optionality – Mr. Beach asserts that additional QFs will add
409 generation capacity to the Company's system, but then acknowledges that
410 the Company has no need for capacity.

411 • Local economic benefits – Mr. Beach suggests the construction of solar
412 generation provides an economic benefit to Utah. Local economic benefit
413 is not relevant in this proceeding and has not been considered in the past
414 when valuing QFs. And if such a consideration were to be made, one would
415 have to compare the economic benefit of a solar resource to other resource

416 types, which Mr. Beach has not done.

417 **Q. Mr. Beach concludes by saying "today's avoided costs are relatively low" and QF**
418 **contracts executed now "will be a good deal for ratepayers." Should these types**
419 **of statements be considered in the Commission's implementation of PURPA?**

420 A. No. These statements represent speculation. I have witnessed Utah solar QF prices fall
421 from the low $100s per MWh for some Schedule 37 contracts, to the mid-$60s per
422 MWh for another batch of contracts, to the low-$50s per MWh for another batch, and
423 then to the low-$40s for a few more. Each time I was skeptical that the price could go
424 lower and still be economically viable for QFs, largely based on representations by QF
425 developers each time that the bottom had been reached.

426 Notwithstanding this experience, whether one believes the QF avoided cost is
427 low or high at any given time does not change the fact that the Company is being forced
428 to enter into 20-year contracts for energy that it otherwise would not procure under the
429 current IRP action plan and the current hedging policies and practices.

430 **RESPONSE TO THE TESTIMONY OF THE RENEWABLE ENERGY COALITION**

431 **Q. What are the specific issues raised by the Renewable Energy Coalition?**

432 A. The Renewable Energy Coalition witness Mr. John Lowe recommends: 1) that the
433 Company's recommended three-year contract term not apply to base load Schedule 37
434 eligible QFs, and 2) that a capacity payment be included for existing QFs that renew
435 their contracts, even if the shorter-term contract period does not include a resource
436 need.

437 **Q. How do you respond to these two recommendations?**

438 A. Mr. Lowe asserts that existing small base load QFs, specifically those eligible for rates

439 under Schedule 37, are not causing the same harm as new, large QFs.[18] Small 20-year
440 contracts carry the same fixed-price risk as larger contracts, but I agree with Mr. Lowe
441 that the magnitude of the risk is much smaller. The Company's concern with a 20-year
442 QF contract term is largely driven by the limitless nature of QF contracts under
443 Schedule 38, meaning a very large number of megawatts could be put to the Company
444 at a fixed price for 20 years, introducing a considerable amount of fixed-price risk to
445 customers. This concern is lessened considerably for small projects executed under
446 Schedule 37, primarily because Schedule 37 has a cumulative cap of 25 MW built into
447 the tariff. While the Company continues to recommend the three-year contract term
448 apply to all QF contracts, the Company acknowledges the risk from Schedule 37 QFs
449 is less because of the cap in the tariff.

450 Regarding his second recommendation, I do not agree that capacity payments
451 should apply to existing QFs even if the Company does not have a forecasted capacity
452 need during the three-year term. There is no guarantee a QF will continue to sell to the
453 Company at the expiration of any contract term. Providing or bringing value forward
454 from time periods that are not included in the contractual obligations of both parties is
455 not prudent and does not provide protection to customers that they will receive the
456 future capacity benefits for which they have prepaid. I recommend the Commission
457 reject this proposal.

458 **RESPONSE TO THE TESTIMONY OF THE OFFICE OF CONSUMER SERVICES**

[18] John Lowe Direct Testimony, page 14, lines 255-256.

459 **Q. Please summarize your understanding of the OCS' testimony.**

460 A. The OCS agrees with the Company on two points: 1) there is a risk to customers
461 associated with carrying long-term fixed-price contracts for power, and 2) there is a
462 disconnect between new QF contracts and PacifiCorp's IRP, in that incremental QFs
463 are not evaluated in the Company's annual IRP plan similar to other generation
464 resources.[19] I particularly agree with Mr. Vastag's assessment of the fixed-price risk
465 associated with 20-year QF contracts. He states: "Ratepayers, not the Company, not the
466 QF developer, not the QF financier, carry this risk."[20] Notwithstanding these material
467 and relevant concerns, the OCS recommends the Commission not approve the
468 Company's request. The Company agrees with Mr. Vastag that it is customers who
469 bear the risk. The Company will get cost recovery for these QF contracts regardless of
470 the Commission's decision in this case.

471 **Q. Do you agree with Mr. Vastag's conclusion that ensuring the avoided cost**
472 **modeling is accurate adequately addresses the QF contract term issue raised by**
473 **the Company?**

474 A. No. The two concerns raised by Mr. Vastag are not completely eliminated by accurate
475 avoided cost modeling. Long-term fixed-price risk exists regardless of the accuracy of
476 the modeling. Mr. Vastag recommends the Commission ensure that avoided cost
477 modeling is *as accurate as possible*,[21] but then discounts the fact that a three-year
478 contract term results in a much more "accurate" avoided cost than a 20-year contract
479 term because of the uncertainty associated with long-term forecasting of prices and

[19] Bela Vastag Direct Testimony, page 2, lines 23-29.
[20] Bela Vastag Direct Testimony, page 2, lines 27-28.
[21] Bela Vastag Direct Testimony, page 2, lines 39-42, page 4 lines 68-70.

480 other inputs to the avoided cost model.

481 **RESPONSE TO THE TESTIMONY OF THE DIVISION OF PUBLIC UTILITIES**

482 **Q. Please summarize your understanding of the DPU's testimony.**

483 A. DPU witness Mr. Charles E. Peterson agrees with the Company on many key issues.
484 He shares the Company's concerns related to the large number of existing and potential
485 QFs. He suggests a large number of additional QFs may negatively impact the
486 Company's operation of its system, and that the existing QF method may not
487 adequately address this risk.[22] Mr. Peterson also agrees with the Company that a 20-
488 year contract is inconsistent with the hedging principles agreed upon in the hedging
489 collaborative.[23] Mr. Peterson further agrees with the Company's position that a 20-year
490 contract term is a clear benefit to QF developers that is a concession to a strict ratepayer
491 indifference standard.[24] He also agrees that it is not the regulator's place to ensure
492 economic viability of a QF project.[25] And, most importantly, Mr. Peterson agrees with
493 the Company that it is time to reconsider the previous positions related to QF contracts
494 in light of recent events.[26] He then recaps the Idaho Public Utilities Commission recent
495 determination that 20-year contracts were no longer in the public interest and that the
496 maximum contract term should be reduced to two years. Lastly, he introduces an
497 alternative to the Company's proposal. He recommends the Commission adopt a five-
498 year contract term, but allow the capacity payment to be based on a 20-year avoided
499 cost calculation. Energy prices would be calculated as they are now, but only for the

[22] Charles E. Peterson Direct Testimony, page 5, lines 90-104.
[23] Charles E. Peterson Direct Testimony, page 8, lines 151-155.
[24] Charles E. Peterson Direct Testimony, page 9, lines 179-181.
[25] Charles E. Peterson Direct Testimony, page 12, lines 235-237.
[26] Charles E. Peterson Direct Testimony, page 10, lines 193-196.

500 next five years. He states his proposal can be viewed as a 20-year contract with a price
501 reopener every five years, and the QF will have the option every five years to seek
502 higher prices elsewhere.

503 **Q. What is your response to the DPU's alternative proposal?**

504 A. I agree that the DPU proposal lessens the fixed price risk to customers since the energy
505 portion of avoided costs will only be locked in for five years instead of the current 20
506 years. However, I see two fatal flaws in his treatment of the capacity value or payment.

507 First, his proposal continues to lock in the capacity portion of avoided costs for
508 twenty years. While I agree that locking in capacity value but not energy value is more
509 consistent with the Company's hedging practices, it still carries considerable risk to
510 customers and over-payment to the QF should the QF leave at the end of the five-year
511 term. Locking in capacity costs to customers outside the IRP action plan horizon
512 introduces risk to customers that would not otherwise exist. This is due to the fact that
513 long term capacity needs often change from one IRP to the next. For example, the 2013
514 IRP included a combined cycle combustion turbine ("CCCT") gas plant in 2024.
515 However, due to the timing of the identified need for this resource, the 2013 IRP action
516 plan did not include any action items to procure this long-term resource. In other words,
517 no costs to customers were locked in as a result of this forecasted resource need. The
518 2013 IRP Update pushed the CCCT out to 2027. Again, due to the timing of this
519 identified need, the Company did not develop an action item to procure this long-term
520 resource. The Company's 2015 IRP was recently completed. The 2015 IRP preferred
521 portfolio pushes the CCCT out even further to 2028. Over the two year planning cycle,
522 the next deferrable resource moved from 2024 to 2028. Customers were not impacted

523 by this move because the Company did not incur costs to acquire the previously
524 projected 2024 resource because it was outside the IRP action plan.
525 However, if a 20-year QF contract were entered into between the 2013 IRP and
526 the 2015 IRP, the 20-year capacity value for that QF would have been based on a
527 projected resource need in 2024, even though that need was subsequently pushed to
528 2028. As a result of that 20-year QF contract, customers are forced to pay capacity
529 value starting with a 2024 resource even though that capacity is now not needed until
530 2028. Customers would not incur the cost of acquiring that resource earlier than needed
531 absent the QF contract. Bringing forward capacity value for QFs for up to 20 years
532 introduces risk to customers that is not found in the current IRP action plan procedure.
533 Second, and even more critical, is the fact that Mr. Peterson's proposal allows
534 a QF to receive the benefit of a levelized 20-year capacity payment but then opt out of
535 the contract after only five years. This is simply not equitable to customers. For
536 example, if the resource need (and thus the capacity value or payment) does not begin
537 until the last two years of the proposed 20-year QF contract, Mr. Peterson would
538 propose that the capacity value for the last two years be levelized and then spread across
539 all 20 years. This is reasonable if the QF is contractually obligated to provide the
540 capacity over all 20 years. However, under Mr. Peterson's proposal, the QF can opt out
541 and sell elsewhere after five years. In this scenario, the QF would have received value
542 in years one through five for capacity that it was supposed to provide in years 19
543 through 20—years in which the QF is no longer available to the Company if it opts out.
544 This proposal also introduces considerable risk in the Company's long range planning.
545 Since the QF can opt out after five years, the Company cannot reasonably assume the

546 QF will continue to be available after five years. So the Company will have to plan for
547 other resources beyond year five. If the Company plans for and then acquires other
548 resources, and then the QF elects to stay and not opt out after five years, the Company
549 is left with more resources than what is needed, and customers are effectively paying
550 twice. Mr. Peterson's proposal is not equitable if the five year opt out is included.

551 **Q. Please summarize your key conclusions after reviewing parties' direct testimony.**

552 A. No party has provided credible evidence to refute the three key facts upon which the
553 Company bases its request. No one has disproven the fact that a 20-year QF contract
554 term is:

555 1. inconsistent with the Company's hedging practices;
556 2. inconsistent with resource acquisition policies and practices for non-
557 PURPA energy purchases; and
558 3. not aligned with the Company's IRP planning cycle and action plan.

559 A 20-year fixed-price QF contract impacts customers in the same manner as a 20-year
560 energy hedge and therefore should be subject to the same term limitations established
561 for non-PURPA energy hedges. Many parties suggest that the environmental benefits
562 associated with renewable QFs justify the continued use of a 20-year contract term, but
563 they fail to acknowledge that the Company does not receive the REC from Utah QFs.
564 Customers receive all of the fixed price risk and none of the environmental benefits.

565 Without the requested modification to the maximum allowable contract term,
566 the Company will continue to be forced to acquire long-term, fixed-price PURPA
567 contracts even though PacifiCorp's 2015 IRP shows no new resource is required until
568 2028. I continue to recommend the implementation of a three-year contract term for all

569 QF contracts.

570 **Q. Does this conclude your rebuttal testimony?**

571 A. Yes.