-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

	)	**Docket No. 94-2035-03**
In the Matter of the Application	)	
of PacifiCorp for an Order	)	Prefiled Surrebuttal Testimony
Approving its Avoided Cost Rates	)	of
	)	**Rebecca Wilson**

Prefiled Surrebuttal Testimony of
the Utah Division of Public Utilities

January 9, 1995

Q. Please state your name and position and by whom you are employed.

A. Rebecca L. Wilson, Utility Economist with the Utah Division of Public Utilities.

Q. Are you the same Rebecca Wilson who prefiled direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. I present the Division of Public Utilities' response to issues raised by PacifiCorp (Company) witness Rodger Weaver in his rebuttal testimony.

Q. How is your testimony organized?

A. I will first address the Company's proposal to file a standard tariff and the Company's response to the Division's recommendation that short-run avoided energy costs be based on 10 average MW of QF generation rather than the 50 average MW of QF generation proposed by the Company. Secondly, I will address issues raised by the Company in response to the Division's recommendation that the adoption of a standard method to compute avoided energy and capacity costs be deferred until we have an opportunity to review the capability of and results from computing avoided energy and capacity costs using PacifiCorp's integrated resource planning (IRP) optimization model, IPM, in RAMPP-4 (the name of the Company's IRP process).

TARIFF AND SHORT-RUN AVOIDED COSTS

Q. The Company proposes to develop, in conjunction with the Division and any other interested parties, a draft tariff for submission to the Commission following a Commission order approving prices in this docket. What is the Division's response to this proposal?

A. The Division welcomes the opportunity to work with the Company in developing a draft QF tariff with price and eligibility criteria and we concur with the schedule proposed by the Company.

Q. The Company is concerned that the Division's preference for use of a 10 average MW block of QF power, rather than a 50 average MW decrement, in determining short-run avoided energy costs for QF projects under one MW is inconsistent with the Division's consideration of the use of the standard rates in other applications, i.e., demand side resource benefits, review of resource acquisition decisions, and payments to QF's larger than one MW. The Company argues that the Division provides no support for the 10 MW average assumption "as it relates to these other applications". What is your response to these concerns?

A. There is no inconsistency because we do not recommend the use of these rates without appropriate adjustment for purposes other than for QF projects less than one MW. As stated on page 6, lines 6-8 of my direct testimony in the context of discussing secondary considerations when reviewing methods, "To the extent that standard avoided cost rates are used for other applications, it is important that the method reflects reality as much as is practicable". And indeed, with respect to the 10 versus 50 average MW discussion, we are not objecting to the Company proposed differential revenue requirements method used for short term avoided energy costs but rather to one of the inputs, namely, the 50 average MW because it is not representative of QF's less than one MW for which this proceeding is determining rates. If 50 average MW is deemed appropriate for another application, then the

adjustment should be made for that application. As stated in my direct testimony, our primary consideration was to examine methods for QFs less than one MW and to assure consistency of the method with Commission policy. To elaborate on my direct testimony, we gave secondary consideration to balancing our desire to have relatively simple, transparent rates for QFs less than one MW with our desire that the method be reasonably comprehensive in capturing the value of the small QF generation in order to improve our confidence that the method is a reasonable foundation upon which appropriate adjustments can be made for other applications.

IPM-BASED AVOIDED COST RATES

Q. On pages 3 and 4 of Dr. Weaver's rebuttal testimony, he argues that using the IPM-based method to compute avoided cost rates rather than the Company proposed method "will likely not reflect the most recent generation supply information as well as the Company's proposed method". Do you agree?

A. Possibly. However, we do not think this is a problem. Since the IRP is forward looking and includes analysis of alternative futures, sensitivity analysis of the avoided costs to changing conditions could improve confidence that the rates address changing market conditions over the planning horizon.

Q. On page 6, Dr. Weaver said that "the Company believes it is very important to use a method which is flexible... and can be updated quickly to reflect changes in the marketplace." Do you agree?

A. Not entirely. As I indicated in my direct testimony, it is Commission policy to consider changing market conditions in setting avoided cost rates. However, I noted that it is also Commission policy to encourage cost effective small power production

and cogeneration projects. Both of these goals as well as the other stated policy goals must be considered. If rates vary erratically and frequently, this could introduce an unreasonable amount of uncertainty in revenues to small power producers and cogenerators and thus discourage project development. IPM-based rates should yield stable standard rates to the QF but still allow update for changing conditions every two years with the cycle of IRP analysis. Indeed, the most recent avoided cost rates for QF's less than one MW formally approved by the Utah Commission reflect 1989 planning assumptions and disastrous results have not been apparent. Because RAMPP is a biennial process, avoided costs developed through that process would reflect the changes in the market conditions which are modeled in RAMPP, would be updated every two years, and would have the added feature of consistency between avoided cost rates and the Company's long run planning process. Additionally, alternative futures are analyzed in the IRP which may yield an understanding of the sensitivity of avoided cost rates to changing market conditions and changing assumptions, including load growth. It is not clear that avoided energy and capacity costs for QF's less than one MW will need to be updated more frequently than every two years because it does not seem likely that changes would be great enough during the two year period to warrant new rates. This would also be the case for application to DSR analysis. For QF's greater than one MW, a more market responsive method may be necessary and we have provided comment on this issue to the Commission.

Q. On page 4, Dr. Weaver expresses the Company's concern that developing avoided costs through IPM "could result in a litigious process that would slow

down an already long IRP process". Do you share this concern?

A. No. I have recommended that the Commission direct PacifiCorp to compute avoided costs using the IPM model in the RAMPP-4 process and to direct PacifiCorp to refile an application for approval of avoided costs methods and standard QF rates when the IPM avoided cost information is available for analysis. It is expected that this analysis would be provided at the same time the avoided cost rates would be updated normally. We are not recommending that such avoided cost analysis be required to be included in the RAMPP-4 published report. It is clear that the Utah Commission does not have the jurisdiction to require other states to adopt the method or numbers generated through such analysis. Indeed, the Utah Commission may not prefer the method or numbers. However, the method and numbers would be subject to broad analytical review, which would only improve confidence in the IPM method or the Company's proposed method. Since QF avoided costs are allocated system wide, this is a multi-jurisdictional issue and since most jurisdictions attend the public IRP meeting, computing avoided costs through RAMPP-4 would aid in the common understanding of and confidence in the methods selected and numbers generated in each jurisdiction.

Q. On page 6 of Dr. Weaver's rebuttal testimony, he states "On pages 10 and 11 of Ms. Wilson's testimony she states that the energy component developed by the Company's proposed proxy method is based on the variable running costs of the selected unit." Is this correct?

A. No, there is a misunderstanding. The statement in my testimony noted above, lines 18 to 21 is part of a generic discussion of avoided cost methods. At that point I

discussed the proxy plant method based on long-run marginal costs which is what the Company's proposal is based upon. I did not define the Company's version of the proxy plant method nor did I compare it to the generic definition. Neither do I take issue with Dr. Weaver's description of the Company's proposed method.

Q. On page 7, Dr. Weaver argues that the proxy method captures the impact of a QFs contribution over a utility's demand cycle which may be to displace energy generated by base load, cycling and peaking units at any point in time. What do you think of this argument?

A. The proxy method as proposed by the Company provides a "proxy" dollar amount for QF contributions to capacity and energy. As Dr. Weaver notes (rebuttal, page 7), an advantage to the proxy method is the relative ease and transparency with which classification of costs between capacity and energy can be made and therefore payments to QFs can match the actual capacity and energy provided by the QF. The key question is whether the value of the proxy resource(s) matches what is actually being avoided in the system through integration with the QF power. As stated in my direct testimony, a weakness in the proxy method is that it does not integrate the contribution of the QF energy into the utility's demand cycle so that the value of costs avoided correspond to the resource displaced which may change over time and not always be represented by one "proxy" plant in the dispatch of resources. The advantage of the differential revenue requirements method computed using a capacity expansion model (as in RAMPP) is that it will reveal the value of the impact of QF generation on the utility's least cost dispatch, and thus on minimizing total costs to ratepayers. Dr. Weaver notes that the proxy method provides a proper

classification of energy and capacity and therefore QF payments will correspond to the QF contributions of energy and capacity, which is reasonable if the proxy unit(s) reflect the dollar cost of what is actually avoided by QF power contribution to the system. This may or may not be the case and is therefore one argument against the proxy method; i.e., that it can be viewed as arbitrary and may not reflect the magnitude of the costs avoided, which in turn could result in over or under payment, thus sending the wrong price signal to the QF generator, and violating ratepayer neutrality.

Q. On page 8 of Dr. Weaver's rebuttal testimony, he argues that IPM does not recognize lumpiness and therefore does not deal with deferral of resources appropriate for avoided cost determination. Does the IPM model have capabilities to deal with lumpiness and can it reveal the delay of resource acquisition?

A. Yes; my understanding is that RAMPP-4 will address the lumpiness problem with respect to coal units and DSR and possibly other resources like pumped storage. One way to examine the impact of QF power on changes in the timing of resource selection through IPM is to analyze multiple runs depicting future conditions with and without the QF power. If introducing QF power to the model in one run causes a plant to come on line in 1999 rather than in 2000 in an alternative run without the QF power, the difference in revenue requirement between the two runs should reflect the value of this delay.

Q. Could you summarize the key issues in your surrebuttal testimony.

A. Yes, there are six items to emphasize: 1) The Division supports the Company's

proposed schedule to present a draft tariff for standard QF rates for Commission consideration; 2) the Division's primary consideration in examining avoided cost methodologies was for its application to QF units less than one MW in size, and secondarily for other applications of the rates; 3) the Division does not consider the difference in the abilities of either the Company's proposed method or an IPM-based method to reflect market changes to be material with respect to standard avoided cost rates for QF's less than one MW in size; 4) the Division does not recommend that IPM-based avoided costs be required to be published in the RAMPP-4 document; 5) the Division considers the IPM-based approach to have an advantage over the proxy approach in the ability to capture the impact of a QFs contribution over a utility's demand cycle with respect to the resources avoided or delayed; 6) the Division notes that the "lumpiness" issue will be addressed in RAMPP-4.

Q. Does this conclude your surrebuttal testimony?

A. Yes.