BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of	)	
PACIFICORP for Approval of an	)	
IRP-Based Avoided Cost Methodology	)	Docket No. 03-035-14
For QF Projects Larger than One	)	
Megawatt	)	

REBUTTAL TESTIMONY OF MARK TALLMAN

May 6, 2004

Q. Please state your name and business address.

A. My name is Mark Tallman. My Business address is 825 NE Multnomah, Suite 600, Portland, Oregon 97232.

Q. Are you the same Mark Tallman that filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your testimony?

A. I will address PacifiCorp's perspective with respect to Qualifying Facility (QF) purchases and rebut the testimony of Desert Power LP (DP), US Magnesium (US Mag), and the Committee of Consumer Services (Committee or "CCS").

Q. How is your testimony organized?

A. My testimony will address seven separate topics. These topics are:

- PacifiCorp does not have an incentive to discourage QF development;
- West Valley is not an appropriate a resource on which to base avoided costs;
- The indifference standard is not met if a QF has the right to name an alternate source of electricity;
- The Company has an obligation to negotiate with pre-PURPA facilities;
- Market prices include a capacity component;
- Renewable energy credits ("Green Tags"); and
- The interim solution proposed by the DPU is reasonable.

PacifiCorp Does Not Have An Incentive to Discourage QF Development

Q. In his testimony, Desert Power LP (DP) and US Magnesium LLC (US Mag) witness Mr. Swenson claims that the Company and Utah agencies have an "institutional mindset against QF development". Do you believe this to be the case?

A. Absolutely not. Mr. Swenson misstates the motives of the Company and fails to give Utah agencies credit for their clear actions in support of QF development and determining avoided costs consistent with PURPA.

Q. What actions by Utah Agencies are you referring to?

A. The Committee has filed testimony in this docket proposing avoided cost methodologies that would increase payments to QFs as compared to the Company proposal. Similarly, the Division of Public Utilities' testimony recommends an interim avoided cost methodology to set rates for DP and US Mag until a load decrement approach can be established. These hardly appear to be the actions of agencies who have an "institutional mindset against QF development".

Q. What is the Company's motive with respect to QF development?

A. The Company's motive is to have avoided costs established that meet the PURPA defined indifference standard. If the PURPA standard is met, the Company and its customers can obtain energy and capacity from QFs at rates that mirror the costs of alternative sources and, from the Company's perspective, thus reduce the risk that other jurisdictions might impose a disallowance. Simply put, the Company merely wants to make sure that QF developers are paid an appropriate amount pursuant to PURPA and that those costs are recoverable. The Company does not want to, as DP/US Mag claims, "stifle the development of any resources other than those constructed or owned by PacifiCorp". In fact, as Mr. Griswold's testimony shows, the Company is actively working with other QF developers in Utah who have quite successfully utilized the Schedule 38 process.

West Valley is Not an Appropriate Resource on which to base Avoided Costs

Q. Mr. Swenson testifies on behalf of DP/US Mag that the appropriate resource to use for determining avoided costs should be the West Valley plant lease. Does the Company agree with this choice?

A. No. The Company does not believe that the West Valley lease is indicative of the type of resource that a QF purchase, such as from DP or US Mag, may defer. As described in the direct testimony of PacifiCorp's Dr. Rodger Weaver, the Company believes that the projected costs associated with a Combined Cycle Combustion Turbine (CCCT) resource is representative of the Company's long-run avoided costs. As also described in Dr. Weaver's testimony, a CCCT resource is consistent with the Company's IRP action plan.

Q. Mr. Swenson testifies that he would expect to see "dramatic avoided cost price signals" given the Company's resource need. What do you believe Mr. Swenson means by a "dramatic avoided cost signal"?

A. I don't know. The Company believes it is obligated to take the approach that avoided cost pricing must be pursuant to the provisions of PURPA and, as such, would meet the ratepayer indifference standard. The Company believes that its avoided cost methodology meets the indifference standard and, thus, puts forth an appropriate price signal to QF developers.

Q. With respect to DP and US Mag, does the Company believe that its proposed methodology provides an appropriate and adequate price signal?

A. Yes. As Dr. Weaver and Mr. Griswold note in their testimony, the Company believes that its proposed methodology provides an appropriate price signal based on the principles of PURPA. That methodology also provides, in my view, an appropriate and adequate price signal to both DP and US Mag.

Q. Why do you feel the price signal is adequate for DP and US Mag?

A. Given that both DP and US Mag have sunk investments in SCCT-based resources, I believe the Company's proposed methodology provides an adequate incentive for DP and US Mag to make the incremental investment to convert their SCCT units to CCCT units, in accordance with their announced intentions. The Company's proposed methodology, in the long-run, makes avoided cost payments based on the cost to construct, own, and operate a CCCT resource. Because the cost to construct a CCCT resource is more than the incremental cost to convert a SCCT resource to a CCCT resource, I conclude that DP and US Mag are being provided an adequate price signal under the Company's proposed methodology.

The Indifference Standard is Not met if a QF Has the Right to Name an Alternative Source of Electricity

Q. Mr. Swenson's testimony appears to imply that a QF should have the right to provide an alternate source of electricity when the QF has lower availability than required by its contract obligations, fails to meet its contract dispatch requirements, or has unscheduled outages. Is this approach in line with the provisions of PURPA?

A. I am aware of no provision in PURPA wherein the QF is afforded the ability to decide if it would like to make deliveries to the utility from the QF resource or from an alternative source of electricity. In fact, allowing the QF to make deliveries from alternative sources would, I am informed, be inconsistent with FERC certification requirements and, thus, put in question the facility's status as a QF.

Q. Even if a QF could make deliveries from an alternate electricity source and retain its QF status, would it be good public policy to provide that option?

A. No. When the Company enters into a QF agreement, it may defer a resource and, at a minimum, the Company has the expectation that the QF resource will be available to serve load. If the QF resource is not made available as intended then the indifference standard is not met.

Q. Did Mr. Swenson provide a reason why the option for a QF to use an alternate electricity source is required?

A. No.

Q. What are some reasons as to why a QF may desire such an alternate electricity source option?

A. A QF may desire such an alternate electricity source option if its resource is not truly dispatchable. This may be the case if the operational flexibility of the QF resource is limited due to other obligations. For example, a QF with a steam host that receives interruptible electric service could desire such an option in order to get QF payments based on "dispatchability" while retaining its ability to serve the "interruptible" load of its steam host. During those peak periods when the Company seeks to dispatch the QF and interrupt the steam host in order to meet load requirements, a QF with that option could decide to serve its steam host and seek to replace its "dispatchable" resource with some other alternate electricity source. The result would be that the Company ends up paying for a dispatchable resource that is not truly dispatchable. That is, in the Company's view, just one example of the problems associated with allowing a QF to displace its own generation every time it sees an economic advantage.

The Company has an Obligation to Negotiate with Pre-PURPA Facilities

Q. Mr. Hayet refers in his testimony to "PacifiCorp's desire to have a pre-PURPA QF adjustment." Is PacifiCorp proposing a pre-PURPA adjustment?

A. No. The Company merely pointed out that, under the FERC rules implementing PURPA, a QF which commenced construction before the enactment of PURPA may be paid less than full avoided cost. The FERC distinction between pre-PURPA and post-PURPA facilities is intended to recognize that facilities that were in existence prior to PURPA obviously weren't built with PURPA in mind and didn't rely on full avoided cost prices for their development.

Market Prices Include a Capacity Component

Q. Committee witness Mr. Hayet states that "just because market energy prices appear to be above the cost to actually generate the energy, I would not consider the premium to be a capacity charge in the context of calculating avoided energy costs". Does the Company believe that market prices contain a capacity element?

A. Yes. The most common product purchased in the WECC market is a Western Systems Power Pool (WSPP) "Schedule C" product. A WSPP Schedule C product is backed by the sellers reserves. It is the Company's opinion that capacity resources must be utilized to provide reserves in the context of WSPP Schedule C transactions. Otherwise, WSPP Schedule C transactions could not be considered to be firm purchases.

Renewable Energy Credits ("Green Tags")

Q. Committee witness Ms. Francone testifies that the Committee recommends that the customers should receive the associated benefits of the Green Tags from a QF. Does the Company agree with this position?

A. Yes.

Q. Committee witness Ms. Francone testifies that the Company spends $19.50/MWh in the market to buy Green Tags for the Blue Sky program. Is this accurate?

A. No. The $19.50/MWh that Ms. Francone references in her testimony is designed to cover all of the expenses associated with the Blue Sky program, including administration, marketing, and the purchase of Green Tags. The Company has been able to purchase Green Tags for the Blue Sky program for far less than $19.50/MWh.

Q. Committee witness Ms. Francone testifies that she believes the value determination of Green Tags requires further study. Does the Company agree with this?

A. No. The Company proposes to use a value for Green Tags that was utilized in the last IRP planning process. The Company believes that the public nature of the IRP planning process gives credibility to this assumption. Going forward, the Company proposes to include the avoided cost of Green Tags with its future avoided cost filings. The Company believes it is fully capable of determining avoided Green Tag costs since it is regularly in the market.

The Interim Solution Proposed by the DPU is Reasonable

Q. Dr. Powell testifies that the Division recommends an interim hybrid avoided cost method so that a QF group can continue to work toward a viable load decrement method. Does the Company agree with this approach?

A. The Company agrees that adopting an interim avoided cost method that applies while the parties work toward a long-term solution is a good idea. Moreover, such an approach is reasonable because there is not sufficient detail or capability to implement a load-decrement or IRP-based approach at this time. However, there are some potential differences among the parties about the details of the interim method. We are expecting that Mr. Powell will be addressing some of those details in his rebuttal testimony and we will then have an opportunity to address them.

Q. Is the Company willing to participate in the QF work group referenced by Dr. Powell?

A. Yes. The Company agrees that such a QF work group could effectively work toward how a viable load decrement methodology could be utilized. Based on a review of the Committee testimony, it would appear that the Company, Division, and Committee would all agree that such an endeavor is desirable from an avoided cost methodology basis.

Q. Does this conclude your testimony?

A. Yes.