

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

IN THE MATTER OF THE)	
APPLICATION OF PACIFICORP)	Docket No. 03-035-14
FOR AN ORDER APPROVING)	REBUTTAL TESTIMONY
AVOIDED COST RATES)	OF SCOTT A. GUTTING
)	

MAY 6, 2004

1 **Q. Please state your name, business address and occupation.**

2 **A.** Scott A. Gutting, 39 Market Street, Salt Lake City, Utah 84101. I am President of
3 Energy Strategies, an energy consulting firm.

4 **QUALIFICATIONS**

5 **Q. Please briefly describe your business experience.**

6 **A.** I founded Energy Strategies in 1986. Prior to that time I worked for the Utah
7 Energy Office. Energy Strategies is an energy consulting firm that represents
8 consumers to lower energy costs and improve their energy purchasing practices.
9 We have 18 years of experience negotiating fuel supply and electricity contracts,
10 evaluating and implementing cogeneration and other energy facility investment
11 opportunities, representing individual clients or groups of clients in regulatory and
12 policy proceedings, and providing other services.

13 **Q. Who are you representing in this proceeding?**

14 **A.** I am presenting testimony on behalf of the Utah Association of Energy Users
15 Intervention Group (“UAE”).

16 **Q. Have you testified in a PacifiCorp avoided cost case prior to this case?**

17 **A.** Yes, but it was a very long time ago. In the mid 1980’s I testified in a Utah
18 Power & Light avoided cost case before the Utah Commission. Coincidentally,
19 many of the same issues UP&L raised in the 1980’s have been raised by
20 PacifiCorp in this case.

21 **Q. What is the purpose of your testimony?**

22 **A.** The purpose of my testimony is to describe why UAE has intervened in this case,
23 to introduce other UAE witnesses and to rebut other witnesses.

1 **PURPOSE OF UAE'S TESTIMONY**

2 **Q. Why has UAE intervened in this case?**

3 **A.** UAE has intervened for two primary reasons. The first reason is that UAE
4 members believe that avoided capacity and energy cost payments should be set so
5 that ratepayers are indifferent whether power is provided from a QF or a
6 PacifiCorp self-build resource. Furthermore, UAE members support QF
7 development because additional benefits will result from the development of
8 efficient cogeneration projects that otherwise would not be available to those
9 ratepayers.

10 Additional benefits to ratepayers of QF development include diversity of
11 generation type, the location of particular QF generation (for example, inside the
12 Utah bubble), the size of cogeneration projects as a hedge against load forecast
13 changes, faster installation time, the avoidance of transmission investment, the
14 avoidance of transmission and distribution losses and other factors.

15 The second reason for UAE's intervention is that some UAE members
16 may have opportunities to install cogeneration facilities as part of their operations.
17 In this case a member will not only deliver benefits to ratepayers but will also
18 benefit the State and themselves by becoming more competitive.

19 Furthermore, UAE supported and participated in the creation of the
20 general State policy positions outlined by Mr. Swenson in his Direct Testimony.
21 Support for these policies still exists today.

1 **Q. With respect to the your comment about UAE members having the potential**
2 **to develop Qualifying Cogeneration Facilities, have you surveyed UAE**
3 **members to determine what potential if any may exist.**

4 **A.** I have not; however, I am aware that recently Questar and PacifiCorp conducted a
5 joint survey in which at least 40 potential sites were identified.

6 **Q. Please describe a cogeneration facility.**

7 **A.** A cogeneration facility or Combined Heat & Power (CHP) project, as it is more
8 typically referred to in today's jargon, is a facility that produces thermal and
9 electric energy simultaneously. A CHP project will typically have an overall
10 energy efficiency of 75 to 85% and will meet the FERC's Qualifying Facility
11 (QF) requirements thus making such a project eligible to receive full avoided cost
12 payments from a utility.

13 A CHP project may or may not, depending on the particular circumstances
14 of the site, have excess capacity and energy to sell to the utility. In some
15 instances a CHP project may have no excess capacity and energy to sell to the
16 utility. In such a case the project is essentially a Demand Side Resource and
17 provides the same value to ratepayers that DSM projects provide.

18 **INTRODUCTION OF UAE WITNESSES**

19 **Q. Who else is testifying on behalf of UAE in this proceeding?**

20 **A.** Rich Collins is UAE's other witnesses in this proceeding. His testimony
21 primarily rebuts the pre-filed testimony of PacifiCorp, the Division of Public
22 Utilities (DPU), the Committee of Consumer Services (CCS) and US Magnesium
23 (USMag). His testimony also makes rebuttal comments to the Commission

1 concerning the appropriate methodology to use in determining PacifiCorp's
2 avoided capacity and energy payments to QF's and summarizes UAE
3 recommendations.

4 **REBUTTAL ANALYSIS**

5 **Q. Do you have rebuttal testimony to present in this proceeding?**

6 **A.** Yes, I have rebuttal testimony concerning several witnesses of other parties.

7 **Rebuttal of PacifiCorp Witness Tallman**

8 **Q. Do you agree with PacifiCorp's testimony that the ratepayer indifference**
9 **standard should be one of the factors in establishing an avoided cost**
10 **methodology?**

11 **A.** Yes.

12 **Q. Are there other standards the Commission should adopt in establishing**
13 **avoided cost rates?**

14 **A.** Yes, the Commission should at a minimum adopt a methodology that is
15 transparent and uses models (if necessary) that are easily accessible and can
16 update results based on changing circumstances. Thus any party can replicate and
17 validate the model's results. The model among other factors should also result in
18 a calculation of full avoided capacity and energy costs.

19 **Q. Do you have any rebuttal comments concerning Mr. Tallman's testimony?**

20 **A.** Yes, I have one primary comment. In Mr. Tallman's testimony he states that total
21 installed capacity of projects that have contacted PacifiCorp could exceed 500
22 MW's and notes that the Commission should take this "potential" for QF
23 generation into account when setting full avoided capacity and energy rates.

1 While I share Mr. Tallman's desire for the Commission to set full avoided
2 capacity and energy costs so that ratepayers are indifferent, the Commission's
3 decision on avoided capacity and energy rates should not be influenced by a list of
4 potential QF's that may or may not ever be developed. Furthermore, while it is
5 unlikely that 500 MW's of QF capacity will ever be built, based on Dr. Weaver's
6 Exhibit UPL_ (RW-1) 500 MW's would only make up about 5% of the
7 Company's entire needs in 2007. Over time as system loads continue to grow
8 these QF resources would make up less and less of the Company's needs.

9 **Q. What is the basis for Mr. Tallman's 500 MW number?**

10 **A.** I can only assume that the "in excess of 500 MW" number was derived from a list
11 of potential QF Projects that was included in response to DPU Data Request #
12 1.14. Although I am not familiar with many of the projects on that potential QF
13 list I am familiar with some. The reason the list is of no value is that there is no
14 indication that all the power for these projects would displace purchases from
15 PacifiCorp, would sell power to PacifiCorp or would sell power to another utility.
16 It has also been my experience that not all projects that fall into the "potential"
17 category ever come to fruition.

18 **Q. What is the point of your testimony on this issue?**

19 **A.** My point is not to argue with anyone about the potential for QF Projects in Utah
20 or elsewhere. My point is simply that my experience tells me no projects will be
21 built if the avoided capacity and energy costs are set below full avoided costs, as
22 UAE believes PacifiCorp is proposing. Therefore the Commission should not
23 make its decision on determining avoided capacity and energy cost payments

1 based on the fear that there will be an oversupply of resources as suggested by the
2 “potential” project list that is tendered by the Company.

3 **Q. Should the PSC be concerned that in setting full avoided capacity and energy**
4 **cost rates that too much cogeneration might be developed in response to**
5 **those rates?**

6 **A.** No. If the Commission is concerned about this event, however unlikely it may be,
7 a solution would be for the Commission to require regular updates to the
8 calculation of avoided capacity payments as circumstances change over time.

9 Such a procedure should meet the standards I have identified above -
10 namely, the procedure should pay QF’s PacifiCorp’s full avoided capacity and
11 energy costs, should be transparent (i.e., any party can replicate the results and
12 has easy access to whatever models are adopted based on that particular
13 methodology), should be easy to update based on changing circumstances, and
14 should neither favor the QF nor a utility self-build option in either methodology
15 selected or in implementation through the contracting process.

16 With regular updates, the Commission can be assured that capacity
17 payments will go up or down, for example, when circumstances change. I would
18 suggest to the PSC that this capacity payment issue be revisited on the 2 year IRP
19 cycle.

20 **Q. Would the capacity payments paid to projects that have executed contracts**
21 **with PacifiCorp be subject to the upward or downward changes?**

22 **A.** No.

23 **Rebuttal of PacifiCorp Witness Griswold**

1 **Q. Do you have comments on Mr. Griswold's testimony?**

2 **A.** Yes, Mr. Griswold identified a number of operating and other factors that he then
3 states should be considered in determining the avoided cost price paid to an
4 individual QF project, as an argument to deduct payments to QF's. Some of these
5 adjustments are handled through the standard form contract that is tendered to
6 QFs.

7 My primary comment on Mr. Griswold's testimony is simply that QF's and
8 Company developed and owned resources should not be treated any differently
9 from the ratepayer's standpoint. All of the issues raised by Mr. Griswold if
10 applied to QF's should also be applied to PacifiCorp.

11 The Commission should treat QF's no differently than the Company is
12 treated in regards to performance metrics in standard QF contracts. Contract
13 terms the Company has inserted in the standard agreement that address penalties
14 on delivery date, capacity performance and payment and replacement power
15 issues should if applied to QF's also be applied to the Company's own generation.

16 As a specific example, the standard contract requires that if a QF fails to
17 meet a commercial operation date (COD) then liquidated damages would kick in
18 and the QF should pay the Company a penalty for late delivery. In concept, I do
19 not have a problem with this type of "incentive" for a QF to make delivery
20 schedule it commits to if the application of this clause is reasonable. However, if
21 the Company or Commission for that matter includes such penalties in a contract
22 with a QF then PacifiCorp not ratepayers should be held to the same standard for
23 their self-build facilities.

1 **Q. Do you have any comments on the Operating Reserve Criteria issue raised by**
2 **Mr. Griswold?**

3 **A.** Yes, Mr. Griswold states that non-firm QF payments should be discounted by 7%.
4 I assume he says this because if a QF chooses not to commit to deliver capacity
5 then the energy the QF delivers is not firm either. As an alternative to discounting
6 payments I suggest the Commission allow the QF to be able to arrange with a
7 third party marketer to provide operating reserves to firm up their project output if
8 desired.

9 **Q. How much power would have to be acquired to meet the 7% operating**
10 **reserve by QF's?**

11 **A.** It depends on how many QF's there are in Utah. Assuming for example that all of
12 the 238 MW's of QF's referenced in the DPU memo dated April 9 then 7% of 238
13 MW's equals only 17 MW's. I am confident that these MW's are available in the
14 market in Utah to support the Operating Reserve Requirement addressed in
15 PacifiCorp testimony hence there would be no need for the 7% discount.

16 **Rebuttal of PacifiCorp Witness Weaver**

17 **Q.** Do you have any comments on the testimony of Dr. Weaver?

18 **A.** Yes, the main comment I have concerns the Company's use of gas forecasts to
19 determine the Company's avoided energy costs. As USMAG Witness Swenson
20 has testified, the use of a forecast of energy prices is inherently flawed because no
21 matter what the future holds, you can count on the forecast being wrong. A vastly
22 superior approach to determine avoided energy costs from both a ratepayer and

1 QF perspective is to pay QF's on the actual energy cost approach recommended
2 by Mr. Swenson and endorsed by DPU Witness Powell.

3 The Swenson approach is easily measurable, eliminates forecast error and
4 pays the QF PacifiCorp's actual avoided and avoidable costs.

5 **Q. Do you have a recommendation on what gas index to use?**

6 **A.** Yes, the Gas index to be used should be the Inside FERC Gas Market Report First
7 of the Month Index for Kern River Opal. This index is used by many gas buyers
8 and sellers as a pricing tool for gas supply in the Rocky Mountains.

9 **Q. Both Dr. Weaver and Mr. Griswold spend a considerable amount of time**
10 **arguing that during the short run period QF's cannot avoid any capacity and**
11 **therefore capacity payments should be "discounted" either through the**
12 **methodology adopted or through standard form contractual terms. Can you**
13 **comment on this general position of these witnesses?**

14 **A.** This argument is primarily addressed by UAE witness Collins. However I will
15 note that this is one of the oldest arguments made by utilities against paying QF's
16 full avoided capacity costs. A similar argument was made by the Company but
17 rejected by the Utah Commission 20 years ago and should be rejected again
18 today. Efficient cogeneration projects are long-term valuable resources for
19 ratepayers to have at their disposal. In today's environment in which the
20 Company is projecting record growth in capacity demand the argument that the
21 Company should not make capacity payment to QF's has no merit and should be
22 rejected in its entirety by the Commission.

23 **Q. Do you have any rebuttal for any other PacifiCorp Witnesses?**

1 A. Not directly. I do however have comments that relate to Direct Testimony of the
2 Pacific witnesses that address accounting issues. I address these comments in
3 rebuttal to CCS Witness Francone.

4 **Rebuttal of DPU Witness Powell**

5 **Q. In Mr. Powell’s testimony he recommends a Hybrid method to determine**
6 **avoided cost rates then goes on to say that this method could be used to set**
7 **rates for Desert Power (& possibly US Magnesium) do you have any**
8 **comments on the last part of his recommendation?**

9 A. Yes, if Mr. Powell is recommending that the avoided capacity and energy rates
10 that result from this proceeding apply to only Desert Power and possibly US
11 Magnesium, then the Commission should reject this suggestion. If the
12 Commission sets full avoided cost rates in this proceeding for larger than 1 MW
13 QF’s there should be no restriction as to who can negotiate with the Company to
14 execute a contract based on those rates.

15 **Rebuttal of USMAG Witness Swenson**

16 **Q. Do you agree with Mr. Swenson’s assertion that “if PacifiCorp’s proposal is**
17 **accepted, Utah will continue to see limited or no QF development”?**

18 A. Not exactly. I believe that if PacifiCorp’s proposal is accepted, when coupled
19 with the QF contract that has been determined to be the “standard” contract, that
20 NO QF projects will be developed in Utah.

21 I would add that a few years ago UAE members started to attend the
22 avoided cost work group meetings that were created to resolve the same issues
23 being discussed in this hearing. UAE ultimately bowed out because it was clear

1 that the process was going nowhere. The recent Utah QF rate proceedings have
2 occurred during a time when electric utility loads and costs have increased
3 dramatically. Despite this I am not aware of a single Utah QF that has entered
4 into a long-term contract with PacifiCorp to sell power.

5 **Q. Mr. Swenson and Ms. Francone of the Committee both provide comments on**
6 **PacifiCorp's assertion that QF payments should be discounted due to**
7 **potential accounting and debt imputation issues. Do you agree with the**
8 **recommendation of either Mr. Swenson or Ms. Francone on this issue?**

9 **A.** Not exactly. While I appreciate their comments and their recommendations are
10 certainly a better way to address this potential issue than what the Company is
11 proposing my own views are as follows.

12 There are many complex issues that affect the Company's financial
13 statements and its overall cost of capital. While I am not by any means an expert
14 on these complex issues, I have heard the Company argue many times that having
15 to build all the generation, transmission and distribution resources needed to meet
16 customer loads over the next 10 years will have a huge negative impact on their
17 financial statements. I would guess that impact would be much larger than that
18 caused by a few QF contracts.

19 To single out this one issue and penalize QF's when the Company's filed
20 avoided cost proposal already underpays them for the power they hope to sell is
21 just one more impediment to any QF's being built in Utah thus denying ratepayers
22 overall benefits of purchasing power from QF's. The Commission should reject

1 this company proposed “adjustment.” If the Commission feels this is a legitimate
2 issue to study then it should be assigned to the Task Force.

3 **Q. You mentioned other Standards that the Commission should adopt as part of**
4 **this Case. Do you have additional comments on this?**

5 **A.** Yes, one of the standards I mentioned is that the Commission should at a
6 minimum adopt a methodology that is transparent and replicable by any party and
7 that any party would have easy access to use whatever models (if necessary) are
8 adopted based on that particular methodology. For example, if the Commission
9 were to adopt the use of the GRID model, the Prosym model, the Henwood IRP
10 model of some other model, other parties must have an opportunity to have
11 unencumbered access to run the models. Furthermore they should not be required
12 to pay for the use of the models. With this access in place future QF cases before
13 the Commission will be able to simply review what assumptions each party may
14 argue is appropriate for use in the model. This will minimize any future
15 administrative burden on regulators.

16 **Q. Do you have any comments on Mr. Swenson’s proposed methodology?**

17 **A.** Our rebuttal testimony on methodology is presented by Dr. Collins.

18 However, the simplicity and consistency of Mr. Swenson’s proposals
19 make lots of sense. By targeting a known and actually deferrable resource such as
20 the West Valley plant for use as the NDP proxy unit, ratepayers will certainly be
21 better off than if forecasts of future capacity needs and of future gas prices are
22 used to determine avoided costs. If selected by the Commission, The NDP

1 approach advocated by Mr. Swenson will assure that the ratepayer indifference
2 standard that is important to UAE is met.

3 **Q. Does that conclude your rebuttal testimony?**

4 **A. Yes.**