

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application)
of PacifiCorp for Approval) Docket No. 03-035-14
of an IRP Based Avoided Cost)
Methodology for QF Projects)
Larger than 1 Megawatt)
)

Surrebuttal Testimony of Mark Tallman

May 12, 2004

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (the Company).**

3 A. My name is Mark R. Tallman, my business address is 825 N.E. Multnomah, Suite
4 600, Portland, Oregon 97232, and my present position is Managing Director of
5 Trading & Origination for the Commercial & Trading Department. My position
6 is part of PacifiCorp's regulated merchant function.

7 **Q. Are you the same Mark Tallman that filed direct and rebuttal testimony in**
8 **this case?**

9 A. Yes.

10 **Q. What is the purpose of your surrebuttal testimony in this matter?**

11 A. I rebut the testimony of Utah Association of Energy Users Intervention Group
12 (UAE Intervention Group) witness Mr. Scott Gutting and Desert Power LP/US
13 Magnesium LLC witness Mr. Roger Swenson. I also provide comments on the
14 rebuttal and early-filed surrebuttal testimony of the Division of Public Utilities
15 ("DPU") witness, Dr. Artie Powell.

16 **Q. Mr. Gutting indicates in his testimony that PacifiCorp and Questar**
17 **conducted a joint survey in which at least 40 potential cogeneration facility**
18 **sites were identified. Is this an entirely accurate representation?**

19 A. No. The survey that Mr. Gutting refers to was conducted by Primen, not
20 PacifiCorp and Questar. The survey consisted of interviews with 40 energy users
21 from the Salt Lake City region. This information was presented during a
22 PacifiCorp Integrated Resource Plan public meeting on January 29, 2004.

1 **Q. Mr. Gutting leaves the impression that PacifiCorp has represented an**
2 **oversupply of QF resources can result in avoided cost prices being set too**
3 **high. Was this the intent of the Company?**

4 A. No. Mr. Gutting is apparently referencing my direct testimony (page 5) wherein I
5 simply inform the Commission that the Company expects QF resources to play an
6 important role in PacifiCorp's overall resource portfolio. The Company was in no
7 way attempting to project a fear that there will be an oversupply of resources.
8 The Company was merely pointing out that the potential for material amounts of
9 QF purchases in the future underscores the fact that avoided cost pricing is an
10 important issue.

11 **Q. Mr. Swenson offers an alternative capacity payment methodology during the**
12 **sufficiency time period referred to by the Company. What is the relevant**
13 **issue being discussed by Mr. Swenson?**

14 A. Mr. Swenson objects to the notion that a QF should not be entitled to a capacity
15 payment during all months in a year that the Company is projected to be capacity
16 deficit for only a portion (five or six months for example) of the year. The
17 Company, Committee, DPU, and the UAE Intervention Group¹ have stated a
18 position that a capacity payment over less than twelve months is acceptable².

19 **Q. What is Mr. Swenson's methodology and what is the Company's reaction to**
20 **Mr. Swenson's "offer of an alternative"?**

¹ UAE Intervention Group witness Mr. Rich Collins concludes that capacity payments over a six-month period can be paid if a market value for summer peak capacity can be derived.

² The Company recommends capacity payments for 5-months a year during the sufficiency period whereas the DPU and Committee recommend six-months.

1 A. Mr. Swenson offers that the annual capacity payments he is in favor of be
2 summed up and divided by six for payment to a QF during six-months per year³.
3 The Company finds this “offer” as nothing short of humorous and recommends
4 that the Commission consider the testimony of the Company and other
5 intervenors in deciding the sufficiency period capacity payment issue as opposed
6 to considering Mr. Swenson’s offer of merely shoving the same number of dollars
7 into a different payment regime.

8 **Q. Have your reviewed the rebuttal testimony of Dr. Powell?**

9 A. Yes. In addition, because Dr. Powell filed his surrebuttal testimony early, I have
10 also reviewed that testimony.

11 **Q. What is the Company’s position on this testimony?**

12 A. As I understand his testimony, Dr. Powell makes four recommendations. The
13 Company agrees that these recommendations would be a reasonable resolution to
14 this proceeding.

15 1. Establish a task force to study a long-term avoided cost
16 methodology. The Company agrees with the testimony of Dr. Powell that it
17 would be a worthwhile effort of the parties to study further a differential revenue
18 requirement methodology for setting avoided costs. However, as Dr. Powell
19 noted, the Company currently does not have resource picking logic in its
20 production cost models. For this reason, the Company believes that the method
21 should not be adopted in this proceeding at this time but should be studied in a
22 task force. In his surrebuttal testimony, Dr. Powell indicated that the DPU
23 supports the position of UAE witness Dr. Collins to charge the task force with

³ During the sufficiency period.

1 also studying a “more practical” proxy method. The Company also agrees this
2 recommendation is reasonable.

3 2. Task Force Timelines. Dr. Powell recommends that the Task
4 Force complete its work by the end of the year. Likewise, Dr. Collins
5 recommends that a timeline of six months be imposed on the work of the Task
6 Force. Each recommendation would result in the work of the Task Force be
7 concluded approximately in December of this year. The Company agrees with
8 these recommendation.

9 3. Interim Methodology. Dr. Powell proposes an interim
10 methodology that would apply until the Task Force completed its work. The
11 methodology is discussed in Dr. Powell’s rebuttal testimony and exhibit. The
12 Company agrees that this “hybrid” methodology is a reasonable interim approach.
13 The Company recommends that during the interim period, the starting negotiation
14 rates for QFs during the deficiency period be based on an all CCCT-based
15 number, which is reflected in the higher end of the price range proposed by Dr.
16 Powell. The higher price is a reasonable place to begin negotiations and is
17 comparable to the proposed Schedule 37 rate with the DPU and CCS adjustments
18 the Company has conceded. UAE witness, Mr. Gutting, recommends that if the
19 Commission adopts the DPU method and sets a price in this docket that it be
20 available to all large QFs until the Task Force completes its work, not just the QF
21 intervenors, US Magnesium and Desert Power. The Company agrees with this
22 recommendation and believes that to be the intent of the DPU’s recommendation.

1 4. Griswold Adjustments Apply to the Interim Methodology.

2 Dr. Powell testifies in his rebuttal testimony that the adjustments to full avoided
3 cost prices proposed in the direct testimony of Mr. Griswold are reasonable in
4 concept, noting however that if the QF operates similar to the operating
5 characteristics embedded in the avoided costs, the adjustments may not be
6 necessary with the exception of the green tag and accounting adjustment. The
7 Company agrees that the any new QF contracts entered into during the interim
8 period are subject to the adjustments described by Mr. Griswold to the extent they
9 do not have similar operating characteristics as discussed in Mr. Griswold's
10 testimony. The accounting adjustment also would apply in the interim in the
11 manner described in Mr. Williams' and Mr. Griswold's testimony. The Company
12 agrees with CCS witness, Ms. Francone's recommendation to establish a task
13 force to study the green tag issue or to assign that issue to the Task Force
14 recommended by Dr. Powell. The Company agrees that the adjustments would
15 need to be further discussed in the Task Force.

16 **Q. Do you have any other comments regarding the Division's proposal?**

17 A. Yes. The Company would support the Division's proposal as discussed in the
18 previous response. However, if the Commission does not agree that this is a
19 reasonable way to proceed, the fact that the Company agrees with this testimony
20 should not be understood to signify that the Company believes that the long-term
21 avoided cost methodology should be as proposed by the Division without the
22 work of a Task Force. Instead, the Company believes that if the Commission
23 chooses not to adopt the Task Force recommendation, the only methodology

1 reasonably and fully supported in the testimony for the long-term is the
2 Company's methodology.

3 **Q. Does this conclude your surrebuttal testimony?**

4 **A. Yes**

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