

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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

Surrebuttal Testimony of Bruce W. Griswold

September 19, 2005

1 **Q. Are you the same Bruce W. Griswold that filed direct and rebuttal testimony in**
2 **this case?**

3 A. Yes.

4 **Purpose of Testimony**

5 **Q. What is the purpose of your surrebuttal testimony?**

6 A. I will be rebutting the assertions of UAE, US Magnesium, Pioneer Ridge and Wasatch
7 Wind dealing with the following issues: payments for avoided transmission costs,
8 avoided capacity payments, conflict resolution process, tolling agreements and
9 avoided costs associated with a non-firm QF.

10 **Q. Would you please summarize your testimony?**

11 A. I will show the following:

12 1) Transmission costs can be determined on a QF-specific basis and that
13 transmission, unlike generation, cannot typically be built in a reliable or cost effective
14 manner in stages or sized to accommodate different increments of resource sizes. For
15 these reasons, the Company does not agree that the avoidance of additional
16 transmission costs should be included in the avoided capacity payment.

17 2) Levelizing the value of the capacity payment stream starting in 2006, instead of
18 2009, effectually turns the Company into a lending institution and unacceptably
19 increases risks to the company and its ratepayers, and therefore should be rejected.

20 3) PacifiCorp continues to support the use of the DRR method with adjustments to set
21 avoided cost prices for all QF projects between 3 and 99 MWs, including renewable
22 projects. However, if the Commission is convinced by other parties that using the
23 market to determine avoided costs for renewable resources has merit, PacifiCorp

24 submits as an alternative proposal that wind resources be entitled to competitive
25 bidding prices but only if those resources participate in and are selected as the winner
26 of a renewable RFP. Otherwise, the pricing of the winning bid is irrelevant to the
27 next renewable QF contract and should be ignored for that purpose. For all other
28 renewable QFs under this alternative proposal, they could put their energy to
29 PacifiCorp and receive an energy-only payment with the appropriate wind resource
30 project adjustments.

31 5) An efficient and speedy conflict resolution process already exists before the
32 Commission for disputes between QFs and the Company. No further process needs to
33 be established in this proceeding.

34 6) No party has provided any compelling evidence to demonstrate that tolling
35 agreements should be established for natural gas fueled QFs or that they are a
36 reasonable QF pricing option. Instead, such arrangements unreasonably shift an
37 unspecified level of fuel price risk from QF developers to the Company. As such, the
38 Commission should not adopt a tolling option for QFs.

39 **Q. UAE and Wasatch Wind have proposed that transmission capital costs or**
40 **benefits should be included in the avoided capacity payment. In rebuttal, Mr.**
41 **Hayet discusses the specific types of analysis involved in determining**
42 **transmission costs for QFs in his rebuttal. Please comment.**

43 A. The type of analysis requested by Mr. Hayet is not feasible or necessary. First, when
44 a QF developer exercises its right to sell to PacifiCorp, PacifiCorp is required to add
45 the QF resource to the system as a network resource. In order to meet the designation
46 of a network resource, PacifiCorp requests a System Impact Study from PacifiCorp's

47 transmission function. This study determines the expected costs and reliability
48 implications, if any, associated with adding the new network resource. However, Mr.
49 Hayet is not correct in asserting that this analysis can determine costs and benefits.
50 Instead, PacifiCorp Transmission does not determine if the resource defers capital by
51 adding the resource in one location or another.

52 **Q. Why do you say the types of analysis discussed by Mr. Hayet are not necessary?**

53 A. Transmission capital costs are not avoidable to the same extent and in the same
54 manner as generation or purchased power costs and therefore, should not be included
55 in the avoided cost capacity calculation. Accordingly, while it is necessary for
56 Transmission to calculate the costs on the PacifiCorp system imposed by
57 interconnecting and integrating a new QF resource, it is not necessary to compare
58 those costs to some proxy transmission capital costs as asserted by UAE and Wasatch
59 Wind.

60 The Company's methodology for calculating avoided generation capacity
61 costs for QFs is based on the costs of a proxy plant. Each QF in the 3 to 99 MW
62 range gets a pro rata share of those capital costs until such time as that unit is deferred
63 and the next deferrable IRP resource takes the place of the proxy plant currently being
64 used. This method assumes to pay QFs capacity costs based on avoiding the proxy
65 resource even if there are never enough new QF MWs to defer that unit. This
66 assumption is reasonable because generation and/or purchases are scalable and
67 obtainable at different locations to offset the remaining MWs of the proxy plant. In
68 other words, a MW delivered to the Wasatch Front, whether acquired in different

69 MW increments and at different locations, has the similar value to the Company in
70 terms of its ability to defer the next unit.

71 In contrast, the same simplifying assumption is not reasonable for
72 transmission. First, there are some limits on the scalability of transmission resources.
73 PacifiCorp Transmission has a mandate to maintain system reliability in compliance
74 with Western Electricity Coordinating Council (WECC) and the Minimum Operating
75 Reliability Council (MORC). Transmission is not sited and/or constructed in
76 increments as in the case of generation. Bulk transmission additions typically
77 increase transmission capacity by 300 to 700 MW. The addition of scattered QF
78 generation at different locations is not likely to impact the timing or the scope of a
79 needed transmission addition. Second, the Company cannot aggregate transmission
80 from different parts of the system to avoid a transmission line in one place. In other
81 words, it is not reasonable to assume, as in the case of generation, that transmission
82 from various different locations will have the same value to the Company in its ability
83 to defer the need to build the transmission line certain intervenors wish to include in
84 QF avoided capacity cost payments.

85 **Q. Are there any wind-specific issues associated with transmission capital cost**
86 **deferral?**

87 A. Yes. In the case, of wind-based generation, the assured generation availability would
88 not avoid any transmission as it could not be relied on to displace transmission
89 upgrades or improvements necessary to meet reliability criteria.

90 **Q. UAE argues that the company should levelize the value of the capacity stream**
91 **payments beginning in 2006 to equal the levelized value of the capacity stream**
92 **payments that would have begun in 2009. Does the Company agree?**

93 A. No. Levelizing the value of the capacity payment stream starting in 2006, instead of
94 2009, effectually turns the Company into a lending institution where the Company
95 and its rate payers will be prepaying for a benefit that is to be provided in the future.
96 This situation increases both the Company's and ratepayer's exposure to the QFs
97 credit and risk of default. Accordingly, this proposal should be rejected.

98 **Q. Pioneer and Wasatch Wind contend that the Company should use the results of**
99 **the renewable RFP (RFP 2003B) to set the costs for all renewable QF contracts.**
100 **Does the Company agree?**

101 A. No. The Company continues to believe that the DRR method provides the best
102 approximation of the Company's avoided costs because it is the method that takes
103 into account a QFs actual impact on the Company's system operations in all hours. In
104 addition, as I explained in my rebuttal testimony, while the Idaho contract that
105 resulted from RFP 2003B was prudent based on the nature of the RFP and the
106 assumptions and cost estimates known at the time, the Company believes that it does
107 not represent avoided costs for wind-based resources in the future as the overall wind
108 project market matures and as the structure of future renewable RFPs changes.

109 Nevertheless, the Company does agree with the parties' assertions that the
110 market can be a good proxy for determining the Company's avoided costs for certain
111 intermittent or renewable resource types such as wind, as opposed to administratively
112 determined avoided cost calculations. However, Pioneer Ridge and Wasatch Wind's

113 proposals entirely miss the concept of a market-based avoided cost methodology.
114 These parties assert that the results of a RFP should be applied to all future QFs with
115 some (undefined) adjustments for site-specific characteristics.

116 PacifiCorp submits that if the Commission agrees that the market can serve as
117 a reasonable proxy of the Company's avoided costs for a wind-based and/or other
118 intermittent or renewable QFs, then a reasonable alternative approach to the use of the
119 DRR, is the use of a competitive bidding model similar to the one proposed by
120 PacifiCorp for QF contracts over 100 MWs and greater than 10 years.

121 Specifically, PacifiCorp's alternative proposal is that the Commission could
122 require that all renewable QFs (over the Schedule 37 threshold) participate in
123 renewable RFPs. The renewable QF project that puts forth the best bid in the RFP
124 would be the winning bidder. The winning bid price would be the market price set in
125 that RFP (e.g., its economic bid). In the event the winning QF project did not satisfy
126 the RFP requested capacity then that winning bid price would be offered to the next
127 bidder(s) in the queue, each subject to site specific adjustments for the specific wind
128 QF project (i.e., different wind profile, losses, etc.), until the MW capacity identified
129 in the current filed IRP Action Plan or the amount requested through the RFP. All
130 other renewable projects in the RFP that did not receive the winning bid price would
131 still be entitled to exercise their PURPA right to put power to the Company and
132 receive non-firm prices based on the DRR method as proposed by the Company. This
133 proposal has the benefit of being market-based, as apparently preferred by these
134 parties, but also QF specific. It also has the benefit of access to the most current
135 market information as PacifiCorp seeks to acquire cost-effective wind resources to

136 meet the targets established in the IRP preferred portfolio. Such a proposal would
137 overcome the subjective adjustments that would need to be applied if the best RFP
138 price was simply indiscriminately transported to all other wind QFs with the
139 unspecified adjustments proposed by Pioneer Ridge and Wasatch Wind.

140 **Q. Are there any caveats on this alternative proposal?**

141 A. Yes, a very important one. As I discussed in my rebuttal testimony, in order for
142 PacifiCorp to be able to characterize any resource as renewable, and thus applicable
143 toward the targets in the IRP preferred portfolio, the Company must obtain the green
144 tags on an absolute basis. If the wind developers intend to keep, or have the option to
145 keep, the green tags, the energy would not be considered green energy by the
146 Company and the pricing should be established using the DRR model as originally
147 proposed.

148 **Q. Pioneer Ridge argues that no party has provided evidence to support the use of**
149 **the DRR methodology with integration and capacity cost adjustments for setting**
150 **avoided costs for wind QFs. Is that accurate?**

151 A. No. While Mr. Swenson may not agree with the analysis provided by the Company,
152 the Division and the Committee, his disagreement with our positions, does not make
153 the evidence we offered in support of those positions invalid. Instead, the Company
154 has provided evidence in this proceeding that its capacity cost calculation is based on
155 its experience with wind projects in its control areas and the studies conducted for the
156 2003 and 2004 IRPs, as well as looking at data available in the industry. With respect
157 to integration costs, Mr. Duvall filed rebuttal testimony which indicates that the
158 Company has determined that the DRR method has the capability to capture wind

159 resource integration costs in the modeling of individual wind QFs as suggested by Mr.
160 Hayet. Accordingly, Mr. Swenson's comments on integration costs are no longer
161 relevant.

162 **Q. Ms. Coon asserts that there is no need for the Commission to establish issue**
163 **resolution procedures to solve contract disputes between the Company and QFs.**
164 **Does the Company agree that there is already an efficient issue resolution**
165 **process in place?**

166 A. Yes, the Company agrees that there is currently an efficient and speedy issue
167 resolution process available to QFs and the Company. No additional process needs to
168 be established by the Commission at this time.

169 **Q. UAE witnesses have argued that tolling price structures should be available to**
170 **QFs because the Company hedges its gas forward and therefore should be able**
171 **to offer tolling structures. Does the Company agree?**

172 Q. A. No. As I explained in my rebuttal testimony, tolling arrangements
173 unreasonably shift unspecified levels of risk away from the QF developer and onto
174 the Company. No party has explained why it is reasonable for the Company and its
175 ratepayers to establish a tolling feature for QFs in general or for a specific class of
176 QF (natural gas-fired in this instance). In addition, no party has explained why it is
177 reasonable for the Company to hedge the fuel price risk for QF developers. There is
178 a market for this type of risk management service and it is unreasonable to force
179 PacifiCorp and its customers to perform this function for a QF. Additionally, to
180 establish a tolling feature for one class of QF (natural gas-fired QFs) can reasonably
181 be expected to result in other QF classes, biomass for example, seeking pricing

182 features that are based on the QFs actual fuel price as opposed to established avoided
183 cost methodologies. Finally, under the current regulatory mechanisms that do not
184 included a power cost adjustment mechanism (PCAM) for PacifiCorp, ratepayers do
185 not pay PacifiCorp's actual fuel costs. Instead, ratepayers pay normalized fuel costs
186 as determined through the GRID model. The UAE proposal would shift this
187 regulatory scheme and unreasonably require the Company to pay for any cost
188 differentials between actual fuel costs and those recovered through the rate case
189 process. That is not a reasonable solution under PURPA to establish a pricing
190 mechanism that will virtually guarantee that prudently incurred avoided cost
191 payments are not recovered. If developers believe it is reasonable to shift costs away
192 from themselves, it is necessary to establish a PCAM for the Company. Under those
193 circumstances, a tolling option for QFs would be reasonable because the variance of
194 costs from the normal level included in rates would be recoverable from customers
195 who are served by this QF power.

196 **Q. Does this conclude your testimony?**

197 A. Yes, it does.