

Stephen F. Mecham (USB No. 4089)
CALLISTER NEBEKER & McCULLOUGH
10 East South Temple Suite 900
Salt Lake City, Utah 84133
Telephone: (801) 530-7300
Facsimile: (801) 364-9127
Attorneys for Spring Canyon Energy, LLC

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

IN THE MATTER OF THE PETITION OF
SPRING CANYON ENERGY, LLC FOR
THE APPROVAL OF A CONTRACT
FOR THE SALE OF CAPACITY AND
ENERGY FROM ITS PROPOSED QF
FACILITY

Docket No. 03-035-08

Spring Canyon Exhibit 2

**PRE-FILED DIRECT TESTIMONY OF DAVID L. OLIVE FOR
SPRING CANYON ENERGY, LLC**

February 28, 2005

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

2 A. My name is David L. Olive and my business address is 500 S. Taylor, Suite 400,
3 Amarillo, TX 79101.

4

5 **Q. By whom are you employed and for whom are you appearing in this**
6 **proceeding?**

7 A. I am currently employed as Director, Project Development and Power Marketing
8 with Quixx Corporation (“Quixx”). Quixx is an investor in the Spring Canyon
9 project and I am appearing on behalf of Spring Canyon Energy, LLC (“Spring
10 Canyon”). Spring Canyon is wholly-owned by USA Power Partners LLC and
11 was formed to develop and ultimately construct a Combined Cycle power plant
12 close to Mona, Utah

13

14 **Q. What is your experience and educational background?**

15 A. During my career in the power industry, I have been employed at various
16 operational and management levels by regulated and unregulated entities. My
17 previous experience includes power plant operations, system prescheduling, real-
18 time scheduling, real-time and forward power trading, and management of a
19 power trading group.

20

21 My present responsibilities as Director, Project Development and Power
22 Marketing at Quixx include developing cogeneration and other independent
23 power projects throughout the domestic market. In addition to project

24 development and other duties, I support the investment and acquisition functions
25 at Quixx by providing detailed market analyses and price forecasts. I have
26 developed price forecasts and market analyses for most NERC regions and some
27 international markets. I currently hold undergraduate and graduate degrees in
28 Business Administration.

29 pose

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

31 A. The purpose of my testimony is to address issues the Commission mentioned in
32 the Scheduling Order dated February 24, 2005:

- 33 1. Does the Stipulation approved in Docket No. 03-035-14 (“Stipulation”)
34 still reflect PacifiCorp’s avoided costs such that it remains the applicable
35 interim method for determining avoided costs?
36 2. If the answer to question (1) is yes, how many megawatts are remaining
37 under the cap contained in Paragraph 10 of the Stipulation?

38

39 **Q. Does the Stipulation still reflect PacifiCorp’s avoided costs?**

40 A. To answer this question, I performed an analysis comparing “corrected” avoided
41 costs PacifiCorp calculated for a 500 MW qualifying facility (“QF”) and avoided
42 costs previously approved by the Commission in Docket No. 03-035-14.
43 PacifiCorp distributed the aforementioned avoided costs to various parties
44 February 16, 2005. The contents of that e-mail are included as Exhibit 1.

45

46

47 **Q. Mr. Olive, please explain your analysis.**

48 A. The analysis was developed to compare Stipulation pricing to 500 MW QF
49 pricing during the 2006-2025 period. This selected period is a reasonable choice
50 since the 500 MW QF and Stipulation both contain annual avoided cost prices for
51 the entire forecasted term. Stipulation energy and capacity prices were used to
52 extrapolate Stipulation all-in capacity and energy prices. PacifiCorp did not
53 provide separate capacity and energy prices with the corrected 500 MW QF
54 avoided costs, so the corrected avoided cost pricing for the 500 MW QF case
55 were used in my analysis.

56

57 **Q. What capacity factor was used in the analysis?**

58 A. PacifiCorp assumed a capacity factor of 100% in their 500 MW QF analysis.
59 Therefore, a 100% capacity factor was assumed in the Stipulation to arrive at the
60 resultant hourly capacity and all-in prices expressed in \$/MWh.

61

62 **Q. What are the results of your analysis?**

63 The results of my analysis (Exhibit Spring Canyon DLO 2) show that the
64 corrected 500 MW QF levelized avoided costs are *higher* than Stipulation pricing
65 approved by the Commission. Therefore, Stipulation pricing is within a
66 reasonable range that reflects PacifiCorp's avoided costs.

67

68

69 **Q. Does the Stipulation remain the applicable interim method for determining**
70 **avoided costs?**

71 A. The Stipulation pricing appears to be a reasonable reflection of PacifiCorp's
72 avoided costs. However, I am concerned that Stipulation pricing may understate
73 the Company's avoided costs given fundamental changes in the market, such as
74 fuel costs that may have increased since the Stipulation was agree to. Increased
75 fuel costs may also result in increased wholesale electricity prices.

76

77 **Q. Mr. Olive, How many megawatts remain under the cap contained in**
78 **Paragraph 10 of the Stipulation?**

79 A. That is certainly a question that has elicited much debate in recent weeks. To
80 date, the Commission has approved four (4) contracts under the Stipulation.
81 These contracts include the following parties and amounts as described either in
82 the related Report and Order issued by the Commission, or the QF contract with
83 the Company:

- 84 • Desert Power – 95 MW;
- 85 • Kennecott – 31.8 MW;
- 86 • Tesoro – 10 MW; and
- 87 • U.S. Magnesium – 36 MW.

88 Of these four (4) contracts, only Desert Power is for a period of a twenty years,
89 offering capacity and energy to the Company. The other three (3) contracts are
90 non-firm energy sales with terms no longer than six years. In fact, the Kennecott
91 and Tesoro contracts have maximum terms that will expire at the end of 2007.

92 The Stipulation does allow for such shorter-term contracts, but capacity and
93 energy are still mentioned. To my knowledge, non-firm sales from Kennecott,
94 Tesoro, and U.S. Magnesium do not include capacity, while firm sales such as
95 Desert Power do.

96

97 **Q. Does the Stipulation cap apply to projects that *do not* offer capacity and**
98 **energy?**

99 A. I submit the cap does not apply to non-firm contracts approved during the Interim
100 Period. Therefore, if one subtracts these non-firm sales from the capacity cap
101 under the Stipulation, approximately 180 MW remain. If one *includes* non-firm
102 sales as part of the cap, then approximately 102 MW remain as of December 16,
103 2004.

104 **Q. You mentioned contracts with terms shorter than 20 years. Should a QF**
105 **project be allowed to claim capacity as contracts expire?**

106 A. Yes, provided the QF meets all the requirements of the Stipulation, e.g. online by
107 June 1, 2007, etc. Paragraph 9 of the Stipulation says:

108 “The Parties agree that the Appendix A prices should be available to *any* QF
109 contract approved during the Interim Period *so long as power from the QF*
110 *project will be available to PacifiCorp by no later than June 1, 2007*, up to a
111 cumulative cap of 275 MWs for all QF projects approved during the Interim
112 Period combined. In the event a proposed QF project will cause the 275 MW
113 cap to be exceeded, any party may request a determination by the Commission

114 as to whether the cap should be increased or whether different terms or prices
115 should apply.”

116 B. Therefore, as Exhibit 3 shows, at least 180 MW remain available for QFs for the
117 majority of the twenty-year period through 2025. Provided the Commission
118 reaches a timely decision and contract negotiations with the Company are
119 successful, Spring Canyon will have power available to PacifiCorp by June 1,
120 2007 and would like a 20-year QF contract for 180 MWs. This is a desirable
121 level to maximize the greater efficiencies offered by a large-frame combined-
122 cycle configuration. Spring Canyon is seeking a decision by the Commission to
123 increase the cap to accommodate Spring Canyon and possibly other parties’
124 interests. If the Commission concludes that fewer than 180 MWs are available,
125 Spring Canyon would still be interested in the remaining capacity determined by
126 the Commission to be available.

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

128 A. Yes it does.

129

CERTIFICATE OF SERVICE

130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171

I hereby certify that a true and correct copy of the foregoing Petition was emailed or mailed, postage prepaid, this 28th day of February 2005, to the following:

Edward Hunter
Jennifer Horan
STOEL RIVES
201 South Main Street, Suite 1100
Salt Lake City, UT 84111
eahunter@stoel.com
jehoran@stoel.com
Michael Ginsberg
Patricia Schmid
ASSISTANT ATTORNEYS GENERAL
Division of Public Utilities
Heber M. Wells Building, 5th Floor
160 East 300 South
Salt Lake City, UT 84111
mginsberg@utah.gov
pschmid@utah.gov
Paul Proctor
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111
pproctor@utah.gov
Roger Swenson
238 North 2200 West
Salt Lake City, UT 84116
Roger.swenson@prodigy.net
Gary Dodge
Hatch James & Dodge
10 West Broadway
Salt Lake City, Utah 84101
gdodge@hjdllaw.com

Exhibit Spring Canyon DLO 1

There is a cell reference error in the IRP Differential Revenue Requirement summary (QF500MW summary.xls). The original and corrected numbers are shown below.

If you would like a corrected version of the worksheet, please email me and I will send it to you.

ljh

Total Avoided Cost Prices in \$/MWH		
Year	Original	Corrected
2006	41.37	41.37
2007	34.80	34.80
2008	32.03	32.03
2009	32.59	32.59
2010	33.71	44.96
2011	35.14	46.71
2012	35.30	47.16
2013	35.68	47.90
2014	37.04	49.60
2015	37.24	50.15
2016	38.92	52.17
2017	40.15	53.80
2018	42.39	56.42
2019	44.39	58.82
2020	47.98	62.77
2021	53.29	68.53
2022	56.44	72.11
2023	58.39	74.50
2024	60.39	76.91
2025	62.37	79.44
20-Yr Levelized Price	39.95	49.02

Exhibit Spring Canyon DLO 2

Stipulation Pricing					
Year	Capacity Payment \$/kW-yr	Energy Payment \$/MWh	Capacity \$/MWh	Stipulation All-in \$/MWh	PacifiCorp Corrected Avoided Costs 500 MW QF \$/MWh
2004	31.10	29.93	3.55	33.48	
2005	31.88	39.80	3.64	43.44	
2006	78.42	38.01	8.95	46.96	41.37
2007	86.71	34.52	9.90	44.42	34.80
2008	95.37	32.35	10.89	43.24	32.03
2009	97.76	32.33	11.16	43.49	32.59
2010	100.20	31.62	11.44	43.06	44.96
2011	102.71	32.25	11.72	43.97	46.71
2012	105.27	33.38	12.02	45.40	47.16
2013	107.91	34.12	12.32	46.44	47.90
2014	110.60	34.84	12.63	47.47	49.60
2015	113.37	35.76	12.94	48.70	50.15
2016	116.20	36.92	13.26	50.18	52.17
2017	119.11	37.99	13.60	51.59	53.80
2018	122.09	39.12	13.94	53.06	56.42
2019	125.14	40.28	14.29	54.57	58.82
2020	128.27	41.58	14.64	56.22	62.77
2021	131.47	42.87	15.01	57.88	68.53
2022	134.76	44.17	15.38	59.55	72.11
2023	138.13	45.45	15.77	61.22	74.50
2024	141.58	46.86	16.16	63.02	76.91
2025	145.12	48.36	16.57	64.93	79.44
2004-2025 Levelized Price				47.11	
2006-2025 Levelized Price				48.86	49.02

Exhibit Spring Canyon DLO 3

Qualifying Facility Contract Review

Current QF Contracts

Seller	QF Contract MWs	Firm/Non- firm	Contract Start Date	Contract End Date	Extensions	Maximum Contract End Date	Source
Desert Power	95	Firm	2006	2025	N/A	2025	Utah PSC Desert Power Report and Order
Kennecott	31.8	Non-firm	Oct-04	Dec-05	Up to two one-year extensions	Dec-07	Utah PSC Kennecott Report and Order
Tesoro	10	Non-firm	Sep-04	Dec-05	Up to two one-year extensions	Dec-07	Utah PSC Tesoro Report and Order
US Magnesium	36	Non-firm	Jan-05	Dec-09	none	Dec-09	Utah PSC US Mag Report and Order

Exhibit Spring Canyon DLO 3 contd.

Available Stipulation Capacity Analysis

Year	Total Available MW	QF Contracts				Spring Canyon	Available QF Capacity
		Desert Power	Kennecott	Tesoro	US Magnesium		
2004	275	0	31.8	10	36	0	197
2005	275	0	31.8	10	36	0	197
2006	275	95	31.8	10	36	0	102
2007	275	95	31.8	10	36	102	0
2008	275	95	0	0	36	144	0
2009	275	95	0	0	36	144	0
2010	275	95	0	0	0	180	0
2011	275	95	0	0	0	180	0
2012	275	95	0	0	0	180	0
2013	275	95	0	0	0	180	0
2014	275	95	0	0	0	180	0
2015	275	95	0	0	0	180	0
2016	275	95	0	0	0	180	0
2017	275	95	0	0	0	180	0
2018	275	95	0	0	0	180	0
2019	275	95	0	0	0	180	0
2020	275	95	0	0	0	180	0
2021	275	95	0	0	0	180	0
2022	275	95	0	0	0	180	0
2023	275	95	0	0	0	180	0
2024	275	95	0	0	0	180	0
2025	275	95	0	0	0	180	0
2026	275	0	0	0	0	180	95