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In the Matter of the Petition of Spring Canyon LLC for Approval of a Contract for the Sale of Capacity and Energy from its Proposed QF Facility; In the Matter of the Petition of Pioneer Ridge LLC & Mountain Wind for Approval of a Contract for the Sale of Capacity and Energy from its Existing and Proposed QF Facilities Docket Nos. 05-035-08 and 05-035-09

DPU Exhibit 1

Direct Testimony of Andrea Coon
Division of Public Utilities

March 18, 2005

1 **Q. Please state your name and employer.**

2 A. My name is Andrea Coon; I work for the Division of Public Utilities
3 (Division).

4 **Q. What is your position with the Division?**

5 A. I am a Technical Consultant for the Energy Group.

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

7 A. I have a B.S. in Economics and a Masters degree in Communications. I have
8 also completed all the coursework towards a PhD. in Economics from the
9 University of Utah. I have been working in electricity regulation for about 3.5
10 years, first at the Committee of Consumer Services, and now at the Division.
11 Over this time I have worked on a variety of energy issues. I have recently
12 filed testimony before the Commission regarding special contract rates and
13 plant certification proceedings.

14 **Q. What is the purpose of this direct testimony?**

15 A. The purpose of this testimony is to respond to the Commission's request at its
16 February 18, 2005, scheduling conference that the parties answer certain
17 questions pertaining to the Stipulation approved by the Commission on June
18 28, 2004, in Docket No. 03-035-14. At the scheduling conference, the
19 Commission requested that parties address issues relating to (1) modification,
20 if necessary, of the Stipulation and (2) allocation of any remaining capacity
21 under the Stipulation or the Stipulation as modified.

22

1 **Q. Does the Division believe that the Stipulation’s rates remain in the realm**
2 **of reasonableness?**

3 A. Yes, but with some caveats. The Division has examined the updated
4 Stipulation filing submitted by PacifiCorp on February 28, 2005, and has
5 found that the only instance in which the avoided cost rates do not appear to
6 be in this realm of reasonableness is when a variable energy payment (based
7 upon current projected gas costs) is made in conjunction with the stipulated
8 capacity payments. However, given the uncertainty of forecasting gas prices,
9 the Division does not believe that the price deviation for this instance is
10 sufficient to negate the Stipulation as long as all other pieces of the Stipulation
11 remain intact.

12 **Q. Does the Division believe the Stipulation is still in the public interest?**

13 A. The answer to that question is a qualified yes. The Stipulation represents a
14 compromise among diverse interests. On the one hand, the Stipulation
15 provides, on an interim basis, avoided cost prices for QFs greater than 3 MWs,
16 which is the size or capacity limitation under Schedule 37. On the other hand,
17 several of the components of the Stipulation, including the MW cap and the
18 June 1, 2007 online date, provide a limit to the amount of ratepayer risk that
19 could arise from pricing that may not perfectly match actual avoided costs.
20 Therefore, as long as the entire Stipulation remains in place without alteration,
21 the Division believes that the Stipulation is in the public interest and will
22 continue to support the Stipulation in the short-run.

23

1 **Q. Would the Division continue to support the Stipulation if the Commission**
2 **were to order an increase in the cap?**

3 A. No, not unless other alterations, such as to the capacity payment, were also
4 made. Raising the cap would undo at least part of the safeguard to ratepayers
5 that was built into the Stipulation. If the cap were raised, then the entire
6 Stipulation would need to be open for review to make sure that it continued to
7 be in the public interest.

8 With that said, the Division feels that in order for the negotiation process
9 to continue to be successful, parties must be willing to abide by agreements
10 that are made, even if some parts of the solution are later shown to be less
11 than optimal but the solution is still in the public interest when taken as a
12 whole.

13 **Q. Spring Canyon Energy has also requested that the on line date be**
14 **extended month-for-month to make up for any delay in these**
15 **proceedings. Does the Division support such an extension?**

16 A. No. The online date is part of the entire Stipulation package. If the online date
17 were changed, then the Division would advocate that other alterations
18 including, but not necessarily limited to a change in the capacity payment,
19 also be adopted.

20 **Q. How does the Division interpret the Stipulation regarding the capacity**
21 **cap?**

22 A. The Division believes that the Stipulation does not make a distinction between
23 firm and non-firm capacity as it relates to the capacity cap. Therefore, it is the

1 Division's contention that all of the QF contracts approved since the
2 Commission adopted the Stipulation should be counted toward the 275 MW
3 cap. This means that there are approximately 100 MWs remaining under the
4 cap.

5 **Q. In this same vein, Spring Canyon Energy is advocating that as the short-**
6 **term, non-firm contracts expire over the next five years, the capacity**
7 **associated with these contracts should be available to other suppliers at**
8 **the stipulated prices. Does the Division agree with this assessment?**

9 A. Absolutely not. Nowhere in the Stipulation was any action of the kind
10 anticipated. Assuming a QF met other operating conditions specified in the
11 Stipulation, the Stipulation prices were to be available for a term of up to
12 twenty years. This does not imply in any manner that if a contract coming in
13 under the Stipulation were for less than twenty years that some other supplier
14 should be able to receive the Stipulation prices for any time period between
15 the contract term and the allowable twenty years. A supplier should only be
16 paid according to the avoided costs that are in place at the time a contract is
17 signed, not retrospective or prospective avoided costs. If the Stipulation had
18 been based upon prospective avoided costs, then the capacity payment
19 contained therein would have accounted for the two large plants, Currant
20 Creek and Lake Side, for which PacifiCorp was hoping to gain certification.
21 Additionally, the Stipulation itself was intended to provide pricing for QFs on
22 an interim basis only. As the Stipulation states, the pricing under the
23 Stipulation is available to QFs meeting the operating conditions specified

1 therein until “the Commission enters an order adopting new avoided cost
2 terms and/or prices” for large QFs.

3 **Q. Pioneer Wind, LLC and Mountain Wind (Wind Projects), have requested**
4 **in their filing that an adjusted capacity payment be made based upon the**
5 **capacity payments contained within the Stipulation. Does the Division**
6 **agree with this idea?**

7 A. Based upon the above arguments for a strict reading of the Stipulation, we do
8 not. As the Division reads the Stipulation, in order to be eligible for a capacity
9 payment a QF must have an 85% availability factor either as a dispatchable
10 resource or as a day-ahead scheduled resource. Wind projects do not have this
11 availability factor. We cannot advocate that the Stipulation be read differently
12 in the case of the Wind Projects while advocating a strict reading in all other
13 cases. As we read the Stipulation, due to the non-firm nature of wind
14 resources, the Wind Projects would be eligible for the non-firm market price
15 based option only.

16 That being said, however, the Division would also like to state that it
17 supports the development of wind resources in Utah or as part of PacifiCorp’s
18 resource stack in other states. The Division believes that wind resources can
19 be a valuable tool in risk mitigation on many levels including fuel price risk,
20 pollution tax risk, and water availability risk. We therefore urge PacifiCorp to
21 work toward a viable solution for large-scale (greater than 3 MW) renewable
22 resource developments in the QF arena.

1 **Q. According to documents submitted in these two dockets, there is more**
2 **demand for the MW’s remaining under the cap than there are MW’s**
3 **remaining. Specifically, the combined requests of Spring Canyon, the**
4 **Wind Projects, and recently ExxonMobil, total more than double the**
5 **number of MW’s that remain under the cap. Given that the Division is**
6 **advocating that the cap stay firm, does the Division have any suggestions**
7 **as to how the capacity remaining should be allocated?**

8 A. Yes. Determining which projects should be awarded capacity under the
9 Stipulation should not be based solely on which QF submitted an application
10 or a letter to the Commission requesting the remaining MW’s under the
11 Stipulation cap. The Division recommends that the Commission and
12 PacifiCorp, instead, should take the following criteria into account:

- 13 1. Which QF is best able to provide energy and/or capacity by the online
14 date of June 1, 2007? The online date corresponds with the only period
15 during calendar 2007 during which PacifiCorp is short on capacity
16 (June – September). Therefore, PacifiCorp and ratepayers receive the
17 benefits that in part justified the stipulation pricing only if the power
18 can be delivered no later than June 1, 2007;
- 19 2. Which QF can provide energy and/or capacity under the pricing terms
20 of the Stipulation as written;
- 21 3. Which QF has provided sufficient information to demonstrate a level
22 of development adequate to meet the online date of June 1, 2007?
23 Meeting the informational requirements of Schedule 38 could be one

1 of the factors in determining the level of current project development.

2 As specified in paragraph 5 of the Stipulation, “Nothing in this
3 Stipulation is intended to amend or cancel any provision of Schedule
4 38”; and

- 5 4. Which project provides the best economic benefit to ratepayers
6 associated with the lowest risk to ratepayers? This criterion could
7 serve as a tiebreaker if two or more QF facilities demanding capacity
8 greater than that available under the cap were able to meet all of the
9 other listed criteria.

10 This list of criteria is not meant to be all-inclusive, but the Division
11 recommends that the Commission adopt this criteria as a starting point in
12 which PacifiCorp undertakes the prudent acquisition of resources.

13 **Q. The Commission’s order in these dockets, dated February 24, 2005, also**
14 **states that parties should file testimony regarding what the order of the**
15 **queue should be. Has the Division applied the criteria suggested above to**
16 **the three QFs in question (Spring Canyon, Wind Projects, and**
17 **ExxonMobil)?**

18 A. We have. Before expressing an opinion on the order of the queue, however,
19 the Division would point out that in applying the criteria to the three QFs, we
20 are working with what may or may not be complete information. We would
21 also point out that the Division has not had an electrical engineer examine the
22 details of the filings. We, therefore, do not pretend that the queue order would
23 apply no matter what criteria were used, or that the order could not change if

1 further information about any single QF was obtained. This being said, the
2 Division feels that the QF that would best fit our suggested criteria is
3 ExxonMobil, in that it is currently a completed QF and is apparently willing to
4 accept Stipulation pricing, terms, and conditions.

5 Mr. Swenson, in response to queries in the March 9, 2005 technical
6 conference, indicated that the Wind Projects require a capacity payment to be
7 economically viable. However, in the Division's opinion, the Wind projects
8 are unable to meet the availability criteria specified in the Stipulation and,
9 therefore are not entitled to a capacity payment under the terms of the
10 Stipulation. This violates the Division's second criterion and, again in the
11 Division's opinion, removes the Wind Projects as a viable candidate for the
12 remaining capacity under the Stipulation cap. If Mr. Swenson (or other
13 representatives of the Wind Projects) were to indicate a willingness to accept
14 non-firm pricing as outlined in the Stipulation, the Division would
15 recommend reconsideration of the Wind Projects for the remaining capacity.

16 As for Spring Canyon, the Division believes, based upon information
17 provided by Spring Canyon, that there is still at least some uncertainty that the
18 project could meet the timeline set in the Stipulation, namely, the June 1, 2007
19 online date. According to data request responses received from Spring
20 Canyon, its optimal engineering timeline requires a 26-month lead-time. This
21 would mean that the contracts would all need to be finalized by April 1, 2005.
22 Even given a very timely order from this Commission, the Division doubts
23 that a contract with PacifiCorp could be finalized in such a short time period.

1 Desert Power's QF contract took approximately three months to negotiate.
2 Even if Spring Canyon's negotiations began with the Desert Power contract as
3 a template, the Division believes the negotiation process could take a month
4 or more. Therefore, the Division attaches some uncertainty to Spring
5 Canyon's ability to meet the June 1, 2007 online date, which violates the
6 Division's first criterion.

7 We also attach some uncertainty to Spring Canyon associated with the
8 third criterion because it appears that Spring Canyon does not as yet have a
9 completed design. In the FERC self-certification forms supplied to the
10 Division as a data request response, Spring Canyon indicated that there are
11 two possible configurations for the plant, neither of which matches exactly the
12 capacity remaining under the Stipulation. This discrepancy could also slow
13 down the contracting process. In addition, Spring Canyon indicated in the
14 March 9, 2005, technical conference that the configuration decision may not
15 be finalized based upon a contract with PacifiCorp, as they were pursuing
16 purchase agreements with other entities. This attaches additional uncertainty
17 with respect to the limited timeline.

18 **Q. Does this conclude your direct testimony?**

19 **A.** It does.