

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application)	
of PacifiCorp for an Order)	Docket No.
Approving an Amendment to)	
Its Power Purchase Agreement)	Direct Testimony of
With Sunnyside Cogeneration)	Bruce W. Griswold
Associates)	

May 2005

1 **Q. Please state your name, business address and position with PacifiCorp dba Utah**
2 **Power & Light Company (the Company).**

3 A. My name is Bruce W. Griswold. My business address is 825 N. E. Multnomah, Suite
4 600, Portland, Oregon 97232. I am a Manager in the Origination section of the
5 Company's Commercial and Trading Department.

6 **Qualifications**

7 **Q. Please briefly describe your education and business experience.**

8 A. I have a B.S. and M.S. degree in Agricultural Engineering from Montana State and
9 Oregon State, respectively. I have been employed with PacifiCorp over eighteen
10 years in various positions of responsibility in retail energy services, engineering,
11 marketing and wholesale energy services. I have also worked in private industry and
12 with an environmental firm as a project engineer. I currently work in the Commercial
13 and Trading Business unit of PacifiCorp. My responsibilities are wholesale,
14 qualifying facility and large retail transactions including the negotiation and
15 management of the non-tariff power supply and resource acquisition agreements with
16 PacifiCorp's largest retail customers.

17 **Q. Have you previously appeared in any regulatory proceedings?**

18 A. Yes. I have appeared in proceedings in Utah and Idaho.

19 **Purpose of Testimony**

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

21 A. The Company is seeking Commission approval of a fourth amendment to its power
22 purchase agreement with Sunnyside Cogeneration Associates. The purpose of my
23 testimony is to provide the Commission with some brief background information

24 regarding that power purchase agreement, including the way avoided energy cost
25 prices are currently calculated under the agreement; to describe the way avoided
26 energy cost prices would be calculated under the fourth amendment to the agreement;
27 to discuss allocation and accounting issues raised by the fourth amendment; and to
28 explain the reasons why approval of the fourth amendment is in the public interest.

29 **Q. Please provide some background regarding the power purchase agreement.**

30 A. PacifiCorp is a party to a power purchase agreement (“Agreement”) dated January 30,
31 1987 with Sunnyside Cogeneration Associates (“SCA”). The Agreement and its three
32 prior amendments have been approved by the Commission. Under the terms of the
33 Agreement, PacifiCorp is required to purchase up to 53 megawatts of capacity and
34 energy from SCA’s generating facility, which is a qualifying facility under FERC
35 rules. The fourth amendment only changes the calculation of the energy prices under
36 the Agreement. The calculation of capacity prices is not affected.

37 **Q. How are avoided energy cost prices currently calculated under the Agreement?**

38 A. Under Section 3 of the Agreement, SCA’s avoided energy cost price is based on
39 PacifiCorp’s “actual hour-by-hour avoided energy costs . . . including purchases, fuel
40 costs and avoidable operations and maintenance costs related to energy production.”
41 The Company calculates its avoided energy costs using a computer program that sorts
42 dispatch data to select the highest variable energy cost on the Company’s system for
43 each hour of a six month period. The average of those hourly energy costs becomes
44 the energy price for Sunnyside during the next six months. This method, which is
45 referred to as the RMEC method, has proven to be a continuing source of controversy
46 between SCA and the Company. Indeed, SCA currently has an action pending before

47 the Commission in which it challenges the calculation of avoided energy costs under
48 the method. The fourth amendment to the Agreement would resolve that action.

49 **Q. How would avoided energy cost prices be calculated under the fourth**
50 **amendment to the Agreement?**

51 A. Under the fourth amendment, the total volume of energy produced by SCA will
52 continue to be separated into three categories; Base Energy, Additional Energy and
53 Excess Energy, but each of those categories will now be time differentiated for On-
54 Peak, Off-Peak and Sunday deliveries. The Company will then pay SCA a price,
55 subject to ceiling and floor provisions, for the energy produced in each category based
56 on a percentage of the Dow Jones Palo Verde Firm Index for the period in which the
57 energy is delivered. The ceiling will provide the maximum price that SCA will be
58 paid for its energy and the floor will provide the minimum price for energy deliveries
59 from SCA. Specifically, for all Base and Additional Energy produced in the On-Peak
60 period in each month, the Company will pay SCA under the fourth amendment an
61 amount equal to the monthly volume of Base and Additional Energy produced during
62 the On-Peak period, multiplied by 0.85, multiplied by the simple average for that
63 month of the Dow Jones Palo Verde Electricity Price Index for Firm Daily On-Peak
64 power. This calculation is repeated for the Base and Additional Energy produced in
65 the Off-Peak and Sunday periods. Each period is book-ended by a ceiling and floor
66 price for the year in which the month occurs. For example, if the simple average of
67 the Dow Jones Palo Verde Electricity Price Index for Firm Daily On-Peak power for
68 May 2005 is \$52.45 per MWh, the calculated monthly payment price would be 0.85
69 times \$52.45 or \$44.58 per MWh. Under the Amendment, the On-Peak ceiling for

70 2005 is set at \$41.82 per MWh, therefore the On-Peak energy for Base and Additional
71 Energy would be paid at the ceiling price of \$41.82 per MWh. The ceiling and floor
72 prices are shown in Appendix L and M of the fourth amendment, respectively. Lastly,
73 Excess Energy is compensated at the rate that is the lower of 1) \$10 per MWh, or 2)
74 as calculated for energy produced in the On-Peak, Off-Peak and Sunday periods
75 multiplied by 0.85 multiplied by the simple average for the month of the appropriate
76 Dow Jones Palo Verde Electricity Price Index for period. The transmission loss
77 provisions of the Agreement are not affected by the fourth amendment. Base Energy
78 will continue to be increased by 5% to reflect transmission losses, while Additional
79 and Excess Energy will still not be subject to the application of the 5% increase.

80 **Q. Would approval of the fourth amendment impact the allocation of the costs of**
81 **the Agreement among PacifiCorp's jurisdictions?**

82 A. No. The Agreement will continue to be treated as an existing QF contract under
83 MSP.

84 **Q. Would approval of the fourth amendment impact the accounting treatment of**
85 **the Agreement?**

86 A. Yes. First let me recap the specific accounting standards that apply. Generally
87 Accepted Accounting Principles ("GAAP") dictate that any modification of an
88 existing agreement requires the Company to assess or reassess how it would be
89 treated under applicable accounting standards based on Emerging Issues Task Force
90 ("EITF") 01-08, *Determining Whether an Arrangement Contains a Lease*, and
91 Financial Accounting Standard ("FAS") 13, *Accounting for Leases*. EITF 01-08
92 addresses an issue commonly known as "off balance sheet financing." Under EITF

93 01-08, the Company is required to review contracts executed or modified after July 1,
94 2003 to determine whether or not they would be considered a lease for accounting
95 purposes. If it is determined that the contract constitutes a lease for accounting
96 purposes, then the EITF 01-08 states that an evaluation must be performed under FAS
97 13 to determine if the lease is capital or operating. If, after reviewing the contract
98 under the FAS 13 criteria, it is determined to be a capital lease then PacifiCorp would
99 be required to record the contract as debt on its balance sheet with a corresponding
100 capital lease asset on the balance sheet. As a result of the fourth amendment to the
101 Agreement, the Company has reviewed the Agreement in accordance with these
102 accounting standards. Based on that review, the Company has determined that the
103 Partial Abandonment provisions of the Agreement equate to a minimum obligation
104 and, as a result, the Agreement must be designated as a capital lease. Using the
105 method the Company has proposed in the on-going qualifying facility docket before
106 the Commission (Docket No. 03-035-14), the Company has concluded that on a net
107 present value basis there is approximately a \$3.9 million adverse impact associated
108 with that capital lease designation. For illustrative purposes, I have taken the \$3.9
109 million and spread it equally by month across the remainder of the term of the
110 Agreement, as amended by the fourth amendment. This allocation amounts to a
111 monthly cost of \$18,000 per month. Even with these additional costs, the fourth
112 amendment still provides incremental cost savings to customers, as shown in
113 PacifiCorp Exhibit ___(BWG-1), which I discuss later in my testimony.

114 **Q. Please explain why the fourth amendment to the Agreement is in the public**
115 **interest?**

116 A. The fourth amendment meets the same objectives as the RMEC method by providing
117 a calculation of PacifiCorp's marginal energy costs. However, the fourth amendment
118 utilizes easily-verifiable, published information rather than depending on a complex
119 and controversial modeling exercise. The fourth amendment will avoid the on-going
120 controversy associated with the RMEC method. A second related benefit is that the
121 fourth amendment will resolve a long outstanding controversy between the Company
122 and SCA that has been the subject of an open docket before the Commission for
123 nearly ten years. In addition, the new approach established in the fourth amendment
124 will avoid the volatile swings in the energy price associated with the RMEC method
125 by providing a floor and a ceiling for monthly On-Peak, Off-Peak, and
126 Sunday/Holiday prices. As shown on my Exhibit PacifiCorp ____ (BWG-1), which
127 compares twelve months of historical SCA generation priced at both RMEC and the
128 fourth amendment, the fourth amendment would have provided benefits to customers
129 over that historical period, even with recognition of the additional capital lease costs I
130 discussed above. Finally, the amendment is easier to administer. Both parties can
131 access the same information independently and that information can be verified by
132 others such as the DPU, CCS or Commission staff because it is accessible, known,
133 and transparent.

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

135 A. Yes it does.