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Direct Testimony of Charles E. Peterson

I. INTRODUCTION

Q. Please state your name, business address and title.

A. My name is Charles E. Peterson; my business address is 160 East 300 South, Salt Lake City, Utah 84114; I am a Technical Consultant in the Utah Division of Public Utilities (Division, or DPU).

Q. On whose behalf are you testifying?

A. The Division.

Q. Please summarize your educational and professional experience.

A. I attended the University of Utah and earned a B.A. in mathematics in 1978 and a Master of Statistics (M.Stat.) through the Graduate School of Business in 1980. In 1990, I earned an M.S. in economics, also from the University of Utah.

Between 1980 and 1991, I worked as an economic and financial consultant and business appraiser for several local firms or local offices of national firms. My work frequently involved litigation support consulting and I have testified as an expert witness in both federal and state courts. In 1991, I began working at the Property Tax Division of the Utah State Tax Commission. In 1992, I was promoted to manager over the Centrally Assessed Utility Valuation Section. I have provided expert testimony regarding valuation, economic and cost of capital issues, both in deposition and formal hearing before the Utah State Tax

24 Commission. I joined the Division in January 2005 as a Utility Analyst; in May 2006, I was
25 promoted to Technical Consultant. I have worked primarily in the energy section of the
26 Division. In 2007, I earned the Certified Rate of Return Analyst (CRRA) from the Society of
27 Utility and Regulatory Financial Analysts (SURFA).

28

29 My current resume is attached as DPU Exhibit 1.1.

30

31 **Q. Please outline the projects you have worked on since coming to the Division.**

32 A. I was involved in evaluating cost of capital issues in the 2004 rate case that was settled in
33 February 2005. In 2006 I provided written and oral testimony on cost of equity supporting
34 the stipulation that settled most issues in the PacifiCorp general rate case in Docket No. 06-
35 035-21. In May 2008 I provided written and oral testimony on cost of capital and related
36 issues in both the PacifiCorp and Questar Gas Company general rate cases (Docket Nos. 07-
37 035-93 and 07-057-13, respectively). Subsequently I provided written testimony and oral
38 cost of capital testimony in PacifiCorp general rate case Docket Nos. 08-035-38, 09-035-23,
39 10-035-124, and 11-035-200. I was the Division's primary witness in the ECAM docket
40 (Docket No. 09-035-15) and the All Source RFP docket (Docket No. 10-035-126).

41

42 For the last five years I have been the lead on QF contract cases, providing memoranda and,
43 as necessary, testimony before the Commission. In conjunction with the QF contract cases I
44 re-opened for the Division an investigation into the appropriateness of including avoided line
45 losses in non-firm QF contracts that led to the Division's adoption of the current
46 methodology.

47

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

49 A. My testimony presents the Division's current position regarding Rocky Mountain Power's
50 (Company) motion for a stay in providing indicative pricing to wind qualifying facilities
51 (WQFs) using the Commission's previously approved Market Proxy Method.

52

53 **II. DISCUSSION AND POSITION ON THE MOTION FOR STAY**

54

55 **Q. What is your understanding of the stay that the Company is requesting?**

56 A. The Commission previously ordered¹ that pricing for WQFs be based upon one of two
57 methods. At the time, the expected primary method was referred to as the Market Proxy
58 method, which was to be used for WQF resources up to an "IRP target" level; an alternative
59 method, known as the Proxy/Partial Displacement Differential Revenue Requirement method
60 (PDDRR) was to be used for WQF resources exceeding the IRP target. The PDDRR is
61 essentially the method used for determining QF pricing for non-WQFs.

62 The Company asserts that the Market Proxy method may be outdated such that it gives
63 pricing that is higher than the Company's current avoided cost contrary to what is mandated
64 by PURPA.² Specifically,

65 The Company is requesting that the Commission stay the application
66 of the October 31, 2005 Order in Docket No. 03-035-14 (2005 Order)
67 for indicative pricing based on the Market Proxy method to any wind
68 QF in excess of three (3) megawatts pending final resolution of this
69 docket. Wind QFs that request indicative pricing (either new requests
70 or updates to previous requests), after October 9, 2012, the date the

¹ Report and Order, Docket No. 03-035-14, October 31, 2005.

² See Direct Testimony of Company witness Paul H. Clements, Docket No. 12-035-100, pages 3-7.

71 Company filed its Request for Motion to Stay Agency Action, but
72 prior to the resolution of this docket, will receive indicative pricing
73 based on the Proxy/Partial Displacement Differential Revenue
74 Requirement (PDDRR) Method.^{3,4}
75

76 The Company exempts Blue Mountain Power Partners, LLC (Blue Mountain) from this stay
77 based upon the Commission's Order in Docket No. 12-2557-01.⁵
78

79 **Q. Has the Division previously set forth a position on this question?**

80 A. Yes. In its brief filed with the Commission on October 24, 2012 in this Docket, the
81 Division's counsel made the following recommendations in behalf of the Division:

- 82 • The Commission should examine each project that is in the "queue" at this time and
83 determine at what project stage a stay would be appropriate;
- 84 • Compliance with the criteria set forth in Schedule 38 may not be the sole appropriate
85 criteria pertaining to a stay;
- 86 • The Division supports a stay for all projects not already known.⁶
87

88 **Q. How many projects besides the Blue Mountain project are in the "queue"?**

89 A. Originally the Division had understood that there were three additional projects; however,
90 Mr. Clements identifies five in his testimony.⁷
91

³ In the 2005 Order, the Commission established two separate methodologies for calculating avoided cost prices for large wind QF resources between three (3) and 100 megawatts. The first, the Market Proxy method, is applicable to wind QF resources up to an "IRP target" level of megawatts. The second, the PDDRR method, is applicable to wind QF resources in excess of the IRP target.

⁴ Clements, page 2.

⁵ Ibid., page 2.

⁶ See "Division of Public Utilities' Response and Answer to Rocky Mountain Power's Request for Approval of Changes to Renewable Avoided Cost Methodology and Motion to Stay Agency Action," Docket No. 12-035-100, page 4.

⁷ Clements, page 8.

92

93 **Q. Does the Division support the need for a reexamination of the methodology for WQFs?**

94 A. Yes. The Division believes that there have been significant changes, particularly in the
95 Company's IRP forecast of anticipated need for future plant, that a review of the Market
96 Proxy method for WQFs is appropriate. The cost differential between the Company's last
97 signed wind contract in 2009 and current costs may also be significant and should be
98 examined. However, the Division has not performed, and has not at this point seen a
99 thorough analysis of this cost issue.

100

101 **Q. With respect to the stay do you have any recommendations for the Commission? Please**
102 **explain.**

103 A. Yes. The Division continues to support the position outlined in its counsel's brief on October
104 24, 2012. But I recommend some specific criteria for determining whether or not a project in
105 the queue should be part of the stay or not.

106

107 First, I would note that the ability of a WQF to receive pricing under the current Market
108 Proxy method should be extended to any project that is similarly situated to Blue Mountain,
109 which the Commission has already determined should get such pricing. The Division
110 supports the Company's recommended cut-off time for being in the queue of October 9,
111 2012.

112

113 Second, the Division would place a time limit, even on Blue Mountain, for receipt of the
114 Market Proxy price under the current methodology and 2009 wind project contract. The

115 Division believes that this pricing option should not be available to a project that may not be
116 completed until years into future. The Division recommends that a reasonable time limit
117 would be that a project has a signed power purchase agreement with the Company by
118 September 1, 2013. This is approximately three months after the June 2013 methodology
119 hearing in this matter and allots time for a “grace period” after the Commission may have
120 ordered changes in the way avoided costs are calculated for WQFs. The Division believes
121 that a viable current project should have the time to finish a contract within this time frame.

122

123 Third, the Division understands the need for a project to be well underway with its
124 application for studies with the Company’s transmission arm that would result in intertie
125 agreements as described by Mr. Clements.⁸ The Commission and Division have seen the
126 difficulties that can arise for a project as it works on interconnection agreements in Docket
127 No. 04-035-04 (Desert Power, LP). An actual application for interconnection is not required
128 under Schedule 38 in order for a project to comply with Schedule 38 to receive indicative
129 pricing.⁹ The Division recommends that a project that cannot demonstrate that it has applied
130 in the Company’s interconnection agreement process as of October 9, 2012, be made part of
131 the stay.

132

133

134

135

⁸ Ibid. pages 10-11.

⁹ Schedule 38 I.B.2(j) only requires that the project supply the “status of the interconnection arrangements” in order to receive indicative pricing. The Division understands that “status” may include that the project has made no applications for interconnection agreements as of the time of the request. Schedule 38 does require that interconnection agreements be in place in order to receive a power purchase contract.

III. CONCLUSIONS AND RECOMMENDATIONS

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137

138 **Q. Please summarize conclusions and recommendations**

139 A. The Division supports the reevaluation of the Market Proxy method for WQFs because of
140 significant changes in the Company's IRP since that method was approved by the
141 Commission and also because of possible significant changes in the cost of wind projects
142 since 2009.

143

144 The Division generally supports the application of a stay from Market Proxy pricing for
145 WQFs not in the queue as of October 9, 2012. Generally, the Division believes that WQFs
146 similarly situated to Blue Mountain should also be afforded the opportunity to receive the
147 Market Proxy pricing if they were in the queue by October 9. The Division, however,
148 recommends that a time limit of September 1, 2013 for a project, including Blue Mountain,
149 to be on-line in order to obtain the 2009 pricing. The Division also recommends that a project
150 that has not made an application for interconnection with the Company as of October 9, 2012
151 be included in the stay even if it had requested indicative pricing under Schedule 38.

152

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

154 A. Yes.

155