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Coalition for Renewable Energy

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Modification of Contract Term of PURPA Power Purchase Agreements with Qualifying Facilities	**Docket No. 15-035-53**

PREFILED REBUTTAL TESTIMONY AND EXHIBITS OF HANS ISERN

The Rocky Mountain Coalition for Renewable Energy hereby submits the Prefiled Rebuttal Testimony of Hans Isern in this docket.

DATED this 14th day of October 2015.

HATCH, JAMES & DODGE

/s/ ________________________
Gary A. Dodge
Attorneys for the Coalition

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served by email this 14th day of October 2015 on the following:

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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

	)	
In the Matter of the Application of Rocky	)	
Mountain Power for Modification of	)	Docket No. 15-035-53
Contract Term of PURPA Power Purchase	)	
Agreements with Qualifying Facilities	)	
	)	

Rebuttal Testimony of Hans Isern

On Behalf of the

Rocky Mountain Coalition for Renewable Energy

October 14, 2015

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

A. My name is Hans Isern. My employer is headquartered at 2180 South 1300 East, Suite 600 Salt Lake City, UT 84106-2749, and I am based in its San Francisco office at 2 Embarcadero Center Suite 410, San Francisco, CA 94111. I am the Senior Vice President of Origination for Sustainable Power Group ("sPower").

Q. Are you the same Hans Isern who submitted Direct Testimony in this docket on behalf of the Rocky Mountain Coalition for Renewable Energy ("Coalition")?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. I will respond to the prefiled direct testimony of Division of Public Utilities witness Charles E. Peterson. Specifically, I will explain why none of the "new financing vehicles" suggested in Mr. Peterson's testimony will alleviate or affect the need for long term PPAs, and why the Division's suggestion for a five-year PPA term will make financing of renewable energy projects virtually impossible.

Q. What "new financing vehicles" does Mr. Peterson reference?

A. His testimony mentions "yeildcos," "crowdfunding" and financing by "traditional bond and stock issuances based more on the size and reputation of the company."[1]

Q. In your direct testimony you testified that a three-year PPA term would make project financing for new renewable energy projects very difficult, as would any PPA term of less than the industry standard.[2] Could any of these alleged

[1] DPU Exhibit 1.0 DIR, lines 253 - 294.
[2] Coalition Exhibit 3.0, lines 65-67.

"new financing vehicles" mentioned by Mr. Peterson make the financing of renewable energy projects more viable?

A. No, none of his "vehicles" reduce the need for long-term price to finance a renewable energy project.

With respect to a "yieldco," it is true that this is a relatively new financing mechanism for sponsor equity placement into renewable energy projects. However, the existence of a yieldco does nothing to reduce the requirement for long-term pricing certainty to finance a renewable energy project. No reasonable source of equity, tax equity, or debt will be available for such a project absent long-term PPA price certainty. Almost all publicly-traded yieldcos disclose remaining contract length, which is analyzed by the financial community as a metric of safety of long-term cash flows and distributions. Of the major yieldcos the average remaining contract life is typically in the 15 to 20 year range, and this includes projects that already have an operational history. The use of a yieldco may help increase availability of sponsor equity generally, but it does nothing to eliminate the need for long-term pricing certainty. The emergence of a publicly traded entity to hold equity in projects does not change the fundamentals of renewable project financing. A project structure involving a yieldco has nothing to do with the critical need for long-term PPA pricing certainty.

I am unaware of any crowdfunding mechanism for financing power projects and I am not aware of a single utility-scale renewable project that has previously utilized crowdfunding. Mr. Peterson's testimony describes crowdfunding as "… a developer solicits funds directly from large numbers of people, typically over the internet." This is not a viable option for a large power plant costing tens or hundreds of millions of dollars. Furthermore, the inability to pass tax equity through individuals would rule out crowdfunding for a significant portion of the project capital. For these reasons, I do not believe that crowdfunding is viable or able to alleviate the need for price certainty via a long-term PPA.

Mr. Peterson's suggestion for the use of "traditional bond and stock issuances" based on a company's assets rather than a project is not viable. Most renewable projects are held in special purpose entities and use a variety of types of non-recourse financing, including tax equity and debt. It is almost certain that no third party tax equity or debt issuers will provide capital to projects with short-term PPAs, and third party financiers are involved in the vast majority of renewable project finance, even for entities such as SunEdison, to whom Mr. Peterson specifically refers. Furthermore, even if it is *possible* for a select few companies to balance-sheet finance renewable projects in their entirety with no debt or third party tax equity, I find it hard to believe that any sponsor actually *would* do this. Capital allocation decisions are not made in a vacuum. It is much more likely that such sponsors would deploy capital in other states, leaving Utah with a broken and unused QF program.

In summary, none of these "new" financing options alleviate the need for long-term price certainty. If the Commission intends to end its QF program it would be preferable to state so as such rather than implement drastic program changes that make it nearly impossible for the vast majority of potential participants.

Q. What do you believe would be the impact on Utah renewable energy development if the maximum QF PPA term were reduced to five years?

A. I believe the result will no new development of significant renewable energy resources in Utah by anyone other than a utility, which has a captive customer base to serve as security.

Q. Mr. Peterson states that it is not the place of Utah regulators to "ensure that QF projects are economically viable."[3] Do you agree?

A. Yes, but to my knowledge no developer is asking for an assurance of economic viability. Economic viability depends upon a project's costs and returns compared to other competitors and opportunities. We are not seeking a guarantee that our revenues will exceed our costs, only that our price, whatever it ends up being, will be fixed across a reasonable time period that is standard in almost every other utility-scale renewable transaction.

Our need for pricing certainty is not a guarantee of economic viability of development projects. Rather, we are seeking to maintain an industry-standard structure that is required for project financing for non-utility renewable energy projects when a project's costs and returns make it economically viable. As I understand it, the intent and purpose of existing federal and state laws and policies is to promote the development of renewable energy projects. In my opinion, failure

[3] DPU Exhibit 1.0 DIR, lines 213 - 216.

to retain a rational financing structure will frustrate the intent and purpose of those laws.

Q. Mr. Peterson also expresses a concern that a utility might potentially be forced to buy more renewable power than it needs. How do you respond?

A. I do not believe this is a realistic concern, particularly if avoided cost rates are reasonably determined. All other things being equal, each succeeding QF PPA will typically receive a lower price. If a utility does not project the need for new capacity additions for many years, avoided cost rates will consist primarily of avoided energy costs. As avoided costs decline, project development becomes less feasible, and PPAs entered into at low energy-based rates will reduce prices and price risks for all Utah consumers, as the supply of energy at marginal costs increases. Please remember that we are not seeking a guarantee of economic viability for each development project, so declining avoided cost pricing will provide a market-based regulation of development project queues while also helping provide lower costs to Utah energy consumers.

Q. Does this conclude your rebuttal?

A. Yes, it does.