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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 Utah Clean Energy Exhibit 2.0

SURREBUTTAL TESTIMONY OF SARAH WRIGHT
ON BEHALF OF
UTAH CLEAN ENERGY

October 28, 2015

RESPECTFULLY SUBMITTED,
Utah Clean Energy

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INTRODUCTION

Q: Please state your name and business address.

A: My name is Sarah Wright. My business address is 1014 2nd Ave, Salt Lake City, Utah 84103.

Q. Have you previously filed testimony in this docket?

A. Yes. I filed direct testimony in which I (1) explained why reducing the current 20 year contract term to three years will end renewable QF development in Utah; (2) provided an overview of the background and purpose of PURPA and Utah PURPA and explained that Rocky Mountain Power's (the Company) Application for modification of the contract term of PURPA Power Purchase Agreements (PPA) with Qualifying Facilities (QF) is inconsistent with PURPA and Utah PURPA; (3) provided background on the development of the 20 year contract term in Utah and explained that the Company has acknowledged that a 20 year contract is necessary under PURPA because it allows a QF to secure financing; (4) explained that the Company's hedging and trading practices and policies do not apply to PURPA PPAs; and (5) provided information about the benefits of renewable QF projects and explained how a reduction in the contract term undermines the intent of PURPA and state policy and effectively removes a vehicle for independent renewable energy developers to build risk mitigating resources for Utah ratepayers.

Q: What is the purpose of your surrebuttal testimony in this Docket?

A: I respond to arguments raised in the rebuttal testimony of Mr. Paul Clements. I have limited my surrebuttal testimony to specific issues, and my silence on a given topic should not be construed as agreement. In particular, I explain that one of the purposes of PURPA is to encourage a diverse array of power producers and remove unnecessary barriers to energy transactions between these power producers and traditional utilities. However, the Company is attempting to circumvent the must purchase obligation of PURPA because this purpose is now being realized. To achieve this goal, the Company argues that the contract term for QF contracts should be reduced in order to protect the ratepayer indifference standard set forth under PURPA. However, the avoided cost pricing method, and not the QF contract term, is the proper mechanism to protect this standard.

Additionally, I explain that the application of the Company's hedging and trading practices and policies to QF contracts is completely unfounded, because QF contracts are not hedging instruments and do not impact customers the same way the commodity hedges impact customers. Finally, I explain that now, in the face of impending carbon regulation and increasing climate instability, is not the time to thwart the development of fixed-price renewable energy projects.

The Public Utility Regulatory Policy Act (PURPA) is an important mechanism for facilitating renewable energy development. Indeed, recent QF development shows that it has been a critical tool for diversifying PacifiCorp's resource mix and reducing our reliance on finite and polluting fossil fuels. Utah Clean Energy's interest in this docket is safeguarding Utah's proper implementation of PURPA laws and regulations.

RESPONSES TO THE COMPANY

Q: In his rebuttal testimony, Mr. Clements states that you (and other parties), "suggest PacifiCorp is trying to eliminate the PURPA must-purchase obligation."[1] Is this an accurate summary of your testimony and your position?

A: No. As the Company explains in rebuttal testimony, the must-purchase obligation is a requirement under the law and will remain as long as PURPA is in force. However, in this docket the Company advances a position that would allow them effectively to *avoid* the must-purchase obligation because a reduction of the contract term for PURPA QFs will destroy the market for independent power production in the state. Limiting the contract terms to three years will make these projects much more risky and costly to finance, therefore making it impossible for even the most viable of projects to provide energy at QF avoided cost prices.

Q: Mr. Clements states that,"[n]owhere in PURPA does it specifically state that contract terms for a QF must be of sufficient length for a QF to obtain financing"[2] Do you agree?

A: Of course. PURPA does not explicitly require a specific contract term. As Mr. Clements states, PURPA has two "foundations," 1) the purchase obligation (at non-discriminatory rates), and 2) the ratepayer indifference standard.[3] Regarding the first requirement, and as discussed above, reduction of the PPA contract term would allow the Company to effectively circumvent

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[1] Rebuttal Testimony of Clements, pg. 2 lines 35-37.
[2] Rebuttal Testimony of Clements, pg. 6 lines 124-25.
[3] *See* Rebuttal Testimony of Clements, pg. 6, lines 123-34.

the PURPA must-purchase obligation. Regarding the second requirement, and as discussed in more detail below, the ratepayer indifference standard is addressed through the pricing method.

However, Mr. Clements states that the Company's application is primarily concerned with the ratepayer indifference standard.[4] This is troubling because it is improper to raise one "foundation" above another; they are two sides of the same coin. The ratepayer indifference standard may not be prioritized above the company's obligation to purchase from QFs at non-discriminatory rates, or PURPA will be thwarted.

Also, in addition to the "foundations" of PURPA are the purposes of, or the policy behind, PURPA. As Mr. Vastag points out in his rebuttal testimony, the purposes of PURPA include, "'equitable retail rates for electric consumers' and improvement of 'the reliability of electric service.'"[5] I discuss additional purposes at length in my direct testimony,[6] but will summarize them here. Of particular note are Congress' and the Utah legislature's acknowledgement of the importance of encouraging a diverse array of small and independent power producers and removing unnecessary barriers, both financial and regulatory, to energy transactions between such power producers and traditional utilities, the reluctance of traditional utilities to purchase electricity from small and independent power producers, and the resulting need to encourage small power production through laws and regulations.[7]

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[4] Rebuttal Testimony of Clements, pg. 6 lines 129-30.

[5] Rebuttal Testimony of Vastag, pg. 6 lines 99-100 (citing 16 U.S.C. § 2601).

[6] Direct Testimony of Wright, pg. 5-9 lines 77-191.

[7] 16 U.S.C. § 2611; U.C.A. § 54-12-1; *FERC v. Mississippi*, 456 U.S. 742, 750-51 (1980); *American Paper Institute v. AEP*, 461 U.S. 402, 404-06 (1983).

Q: In his rebuttal testimony, Mr. Clements states that you "are more concerned with ensuring continued QF development under any scenario, despite the lack of an identified need for new generation, than [you] are with balancing customer rate and risk impacts with QF rights under PURPA."[8] Is this an accurate summary of your testimony and your position?

A: No. In my direct testimony I argue that reducing the contract term for PURPA QF projects to three years will end the development of QF projects in Utah because, practically speaking, it will make it impossible for these projects to secure financing.[9] This does not mean that continuing the current policy of allowing 20 year contracts will "ensure continued QF development under any scenario," nor is this my desire. To the contrary, as I explain in my direct testimony,[10] and as the Office explains in its testimony, "if avoided cost pricing is set properly, ratepayers will be indifferent to the cost of QF power and be protected from too many QFs executing PPAs with the Company."[11]

The Commission-approved avoided cost pricing method is the mechanism by which the Commission ensures that rates are just and reasonable to ratepayers and non-discriminatory to QFs, consistent with the requirements of PURPA. This pricing method has been litigated at length, and over the years *has been built around the assumption that QF contracts with terms up to 20 years are permissible*.

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[8] Rebuttal Testimony of Clements, pg. 2 lines 38-40.
[9] Direct Testimony of Wright, pg. 4-5 lines 60-74.
[10] Direct Testimony of Wright, pg. 11 lines 224-29.
[11] Rebuttal Testimony of Vastag, pg. 4 lines 72-74.

As I outline in my direct testimony, the Commission-approved avoided cost pricing method accounts for the type and timing of identified resource needs, as based on PacifiCorp's bi-annual integrated resource plan. If there is no capacity need over the contract horizon, then the avoided cost price is lower because it does not include a capacity payment. To the extent capacity is not needed until a date in the future, or if there are a number of QFs ahead of a given project in the pricing queue, then the capacity payment is adjusted to compensate for this lack of need for capacity in the near term. Furthermore, the addition of QFs into the resource portfolio impacts future resource planning by offsetting the need for front office transactions or additional capacity—which further reduces the avoided cost price. The avoided cost pricing method, which is based on integrated resource planning projections, is an iterative and dynamic tool, and is designed to protect customers based on the Company's IRP and more regularly updated forecasts.

On the other hand, reducing the maximum QF contract length from 20 years to three years will not necessarily protect ratepayers, but may significantly *harm* ratepayers because it will most certainly prevent any future QF development in Utah, contrary to federal and state policy.

Q: Mr. Clements argues that the Company's prior position regarding the 20 contract term has changed because QF projects are being developed. Do you agree with his logic?

A: No. As discussed above, one purpose of PURPA is to encourage development of a diverse array of power producers and remove unnecessary barriers to energy transactions between small and independent power producers and monopoly utilities. The Company supported this policy in 2003 with their position that:

> [T]he current allowed term length of up to twenty (20) years in Utah represents an appropriate balance between a term that allows the QF to secure financing and limiting the risks that accompany long range power price forecasting . . . The fundamental objective of the term of a QF contract is to enable eligible QFs to obtain adequate financing but also limit or minimize the possible divergence of the QF contract prices from actual avoided costs.[12]

It does not make sense for the basis of the Company's prior argument supporting a 20 year contract term to change just because projects are now being built. In other words, a 20 year contract term does not create more divergence between QF contract prices and actual avoided costs now than it did when no projects were being built.

Indeed, Mr. Clements suggests that the intent of the Company's application in this docket is to slow down QF development because projects are being built. Specifically, in his direct testimony, Mr. Clements states that the dramatic increase in PURPA contract executions in recent years, "demonstrates that additional review of the contract term for non-standard Utah QFs is warranted at this time and could not have been anticipated when the Commission reviewed the issue of contract term in previous cases."[13] Also, Mr. Clements reiterates this in his rebuttal testimony: "The Company has witnessed a dramatic increase in PURPA contract executions and pricing requests in Utah and system-wide in the past several years. This material increase could not have been anticipated by the Company when the Commission reviewed the issue of contract term in previous cases."[14]

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[12] Rebuttal Testimony of Bruce W. Griswold, Docket No. 03-035-14, 8 (September 2005).
[13] Direct Testimony of Clements, pg. 10 lines 198-202.
[14] Rebuttal Testimony of Clements, pg. 7 lines 157-61.

The fact that PURPA appears to be working is not an acceptable justification for changing the contract term to slow or otherwise prevent QF development. I will restate what I have already stated above: the availability of the 20 year contract term allows viable projects to secure financing, and the pricing method ensures that the ratepayer indifference standard is protected, and only viable projects are built.

Q: Mr. Clements continues to advance the position that "a 20-year fixed-price QF contract impacts customers in the same manner as a 20-year energy hedge and therefore should be subject to the same term limitations established for non-PURPA energy hedges."[15] Do you agree?

A: No. A 20 year fixed-price QF contract does not impact customers in the same manner that a 20-year energy hedge would. Contrary to Mr. Clements' assertion, a 20-year QF contract term impacts customer rates very differently than 20-year commodity hedge would because a 20-year QF contract is more than a fixed-price purchase of energy for a fixed duration.[16] Significantly, a 20-year QF contract also provides customers access to a physical resource with long-term capacity value, regardless of whether a capacity payment is included in the avoided cost price. Furthermore, QF pricing is adjusted to reflect the type of resource, its dispatchability, and its contribution to peak - all in an effort to ensure that rates paid to QFs keep ratepayers indifferent (from a price perspective) as to whether the electricity they are delivered comes from a monopoly-owned resource or an independent producer.

[15] Rebuttal Testimony of Clements, pg. 26 lines 559-61.
[16] *See* Rebuttal Testimony of Clements, pg. 11-12 lines 232-34.

The fact that a renewable QF project also provides *incidental* hedging value because it does not require fuel, and therefore mitigates against fuel price and other risks, does not make the QF project a hedging instrument. In his rebuttal testimony, Mr. Clements confuses this point.[17]

Because QF projects benefit customers differently than the way commodity hedges impact customers, it does not make sense for the Company's hedging and trading practices and policies to apply to these dissimilar contracts. Additionally, and as stated above, the application of the Company's hedging and trading practices and policies to QF contracts is not the proper mechanism to maintain the ratepayer indifference standard required by PURPA, because the avoided cost pricing method is designed to ensure that the ratepayer indifference standard is met.

Q. Mr. Clements characterized your testimony in Docket 12-035-100 as a prediction that energy prices would not go lower.[18] Is that the point you were trying to make in your testimony regarding asymmetrical risk?

A. No, and if my explanation of asymmetrical risk was not clear, I will try to explain it better here. What I meant to articulate was that risk associated with changes to natural gas price is such that the magnitude of risk associated with higher costs is greater than the magnitude of risk associated with lower costs because gas prices were, and still are, at near all-time lows. The magnitude of the risk of costs being lower is physically limited by its approach to zero and by the capital costs associated with natural gas exploration, drilling, and transport.

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[17] *See* Rebuttal Testimony of Clements, pg. 8 lines 168-72.
[18] Rebuttal Testimony of Clements, pg. 9 lines 183-85.

Q. Mr. Clements shows a graph of avoided cost pricing from 2011 to the second quarter 2015.[19] Is the forward natural gas price curve the only thing that impacts avoided cost pricing as depicted in this chart?

A. No, avoided cost prices are impacted by a number of factors. Forward price curves are one factor, but IRP projected capacity needs for the PacifiCorp system (amount, type, and timing), number of QF projects in the queue, and capacity valuation method all impact avoided cost prices. These changes have all reduced the prices derived from the avoided cost method.

Q: Mr. Clements challenges whether renewable QFs will be able to help meet future environmental compliance obligations, and argues that those obligations are not currently known and measurable.[20] Do you think that QFs can help with compliance?

A: Yes, although I agree with Mr. Clements that the pathway that Utah will choose for compliance with the Clean Power Plan (CPP) is not yet known. There are scenarios where in-state generation, even without REC ownership, could help us meet the carbon reductions required by the Clean Power Plan. For example, renewable QFs can reduce the dispatch of regulated fossil resources, thereby helping to meet required emission reductions.

More fundamentally, however, from a public policy standpoint, taking advantage of low-cost renewable QFs, which are priced via a mechanism that is designed to meet a ratepayer indifference standard, is just smart. Scientific evidence shows that climate change is occurring faster than models previously predicted. Public acceptance of climate science is higher than

[19] Paul Clements Rebuttal Testimony, pg. 10.
[20] Rebuttal Testimony of Clements, pg. 3 lines 49-54.

ever.[21] As an energy policy expert, it is my opinion that, regardless of what compliance obligations result from the Clean Power Plan, the CPP regulation is just the first step toward a lower carbon electricity system. If we seriously choose to try to protect the livability of our planet for our children and grandchildren, we will have to take more significant steps to decarbonize our electricity supply. The sooner we act, the easier and cheaper it will be to do this. Taking advantage of low-cost renewable QFs, which are priced to keep ratepayers indifferent, is a smart action.

Eliminating the 20-year fixed price QF contract and moving to a three-year contract means that we all lose because we will miss the opportunity to capitalize on the emission reductions provided by these very affordable renewable energy projects. PURPA and Utah PURPA create a market for renewable energy where one does not otherwise exist. Reducing the maximum contract length to three years would have the effect of allowing the Company to circumvent these laws. Not only is this not in the interest of Utah ratepayers, but it also is short-sighted and imprudent public policy.

Q. Please summarize your key conclusions.

A: One purpose of PURPA is to encourage a diverse array of independent power producers and remove unnecessary barriers to energy transactions between these power producers and traditional utilities. However, the Company is attempting to avoid its purchase obligation because this purpose is being realized. To achieve this goal, the Company argues that the

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[21] *Three Out of Four Americans believe Climate Change is Happening*, University of Texas at Austin (Sept. 2015), *available at* http://www.utenergypoll.com/wp-content/uploads/2014/04/October-2015-UT-Energy-Poll-Final2.pdf; *Acceptance of Global Warming Reaches Highest Level Since 2008*, National Surveys on Energy and the Environment (Oct. 2015), *available at* http://closup.umich.edu/files/ieep-nsee-2015-fall-climate-belief.pdf.

contract term for QF contracts should be reduced in order to protect the ratepayer indifference standard set forth under PURPA. However, the avoided cost pricing method, and not the QF contract term, is the proper mechanism to protect this standard.

Finally, it is irrelevant that no one disproves that the 20 year contract term is inconsistent with the Company's hedging practices or the resource acquisition policies for non-PURPA energy purchases.[22] Why would these practices or policies apply to resources for which they are not designed to apply? The application of the Company's hedging and trading practices and policies to QF contracts is completely unfounded because QF contracts are not hedging instruments.

Q: Does this conclude your surrebuttal testimony?

A. Yes.

[22] *See* Rebuttal Testimony of Clements, pg. 26 lines 553-57.