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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of the Application of Rocky Mountain Power for Modification of Contract Term of PURPA Power Purchase Agreements with Qualifying Facilities	<b>Docket No. 15-035-53</b>
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**PREFILED SURREBUTTAL TESTIMONY OF KEVIN C. HIGGINS**

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The Rocky Mountain Coalition for Renewable Energy hereby submits the Prefiled Surrebuttal Testimony of Kevin C. Higgins in this docket.

DATED this 28<sup>th</sup> 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 28<sup>th</sup> 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 Contract Term of PURPA Power Purchase Agreements with Qualifying Facilities )  
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**Surrebuttal Testimony of Kevin C. Higgins**

**On Behalf of the**

**Rocky Mountain Coalition for Renewable Energy**

**October 28, 2015**

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**I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Kevin C. Higgins. My business address is 215 South State  
4 Street, Suite 200, Salt Lake City, Utah, 84111.

5 **Q. Are you the same Kevin C. Higgins who prefiled direct testimony in this**  
6 **proceeding on behalf of the Rocky Mountain Coalition for Renewable**  
7 **Energy (“Coalition”)?**

8 A. Yes, I am.

9 **Q. What is the purpose of your surrebuttal testimony?**

10 A. My testimony responds to the rebuttal testimonies of Rocky Mountain  
11 Power (“RMP” or “Company” or “PacifiCorp”) witness Paul H. Clements and  
12 Division of Public Utilities (“DPU”) witness Charles E. Peterson, both of whom  
13 support reducing the maximum term for Qualifying Facility (“QF”) contracts  
14 executed under Schedules 37 and 38. I also comment briefly on the rebuttal  
15 testimony of Office of Consumer Services (“Office”) witness Bela Vastag.

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17 **II. RESPONSE TO MR. CLEMENTS AND MR. PETERSON**

18 **Q. In objecting to longer-term QF contracts, both Mr. Clements and Mr.**  
19 **Peterson point to the risk that long-term power purchase agreement (“PPA”)**  
20 **prices may not remain consistent with long-term avoided costs over time.<sup>1</sup>**

21 **What is your response?**

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<sup>1</sup> E.g., Clements Rebuttal, lines 209-211; Peterson Rebuttal, lines 202-209.

22 A. I agree that it is very difficult to accurately predict long-term costs or  
23 prices on a consistent or reliable basis. However, in pointing out this risk, Mr.  
24 Clements and Mr. Peterson appear to ignore the fact that risk goes both ways: QF  
25 prices set based on today's expectations and assumptions may prove to be either  
26 higher or *lower* than other resource options available in the future. Mr. Clements  
27 and Mr. Peterson also appear to ignore the fact that similar risks exist with respect  
28 to any long-term resource commitment, whether in the form of a power plant or a  
29 long-term PPA. Moreover, signing PPAs with short-term pricing, or not signing  
30 PPAs at all, has its own set of risks, including the risk that future prices may be  
31 higher than current projections. As with all resource decisions, judgments should  
32 be made based upon known facts and reasonable assumptions and projections –  
33 precisely the process used to set avoided cost rates for QFs.

34 It is not possible to determine in advance whether a utility-owned resource  
35 or a fixed-price PPA will prove to be more advantageous to ratepayers over time.  
36 It is thus reasonable to employ a diverse balance of resource types. Federal and  
37 state laws encourage development of independently owned renewable resources  
38 for a number of sound public policy reasons that would be thwarted by a decision  
39 to make future renewable QF development in Utah impracticable.

40 **Q. Mr. Clements claims that without the requested modification to contract**  
41 **term the Company will be forced to continue to acquire long-term, fixed-**

42 **price PURPA contracts even though its IRP shows that “no new resource is**  
43 **required until 2028.”<sup>2</sup> Do you have any comments on this characterization?**

44 A. Yes. This characterization creates the misimpression that long-term,  
45 fixed-price QF contracts would require the Company to purchase power it does  
46 not need, when in fact, the IRP anticipates a need to acquire hundreds of  
47 thousands of megawatt hours *every year* through market purchases. At the  
48 present time, these avoided market purchases constitute the primary input into the  
49 long-term avoided cost rate – as distinct from deferrable thermal generation  
50 capacity referenced by Mr. Clements, which is not included in the avoided cost  
51 calculus until the final few years of the contract term. Thus, PacifiCorp’s  
52 avoided cost pricing reflects its plan to rely upon market resources. Avoided cost  
53 pricing mirrors the utility’s best current projections of exactly the resources that it  
54 will need over the next twenty years.

55 **Q. Mr. Clements disagrees with your suggestion that no changes should be**  
56 **made in the term of QF PPAs at this point in time in light of the uncertainties**  
57 **of environmental regulations, pointing out that developers retain ownership**  
58 **of RECs.<sup>3</sup> How do you respond?**

59 A. Mr. Clements’ response ignores the fact that RMP can negotiate to  
60 purchase RECs (and presumably Emission Rate Credits, or ERCs, for compliance  
61 with the Clean Power Plan) if the Company wishes to own them. Moreover, by

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<sup>2</sup> E.g., Clements Rebuttal, lines 29-33.

<sup>3</sup> E.g., Clements Rebuttal, lines 301-325.

62 meeting RMP's future resource needs with renewable resources, regardless of  
63 ownership of RECs or ERCs, RMP is better positioned to manage its future  
64 carbon exposure.

65 **Q. Office witness Bela Vastag notes that the policy of encouraging renewable**  
66 **energy development must be reconciled with another goal of PURPA to set**  
67 **QF prices so as to protect ratepayers.<sup>4</sup> Do you agree?**

68 A. Yes. Ratepayers are protected by the use of avoided cost pricing methods  
69 and assumptions that are reasonable. Neither goal of PURPA trumps the other;  
70 both should be honored through careful analysis of avoided cost methods and  
71 pricing, while also maintaining a structure and permissible contract term that will  
72 encourage and facilitate development of renewable resources.

73 **Q. Mr. Clements attempts to support his argument for dramatically reducing**  
74 **the term of QF PPAs by pointing to reductions in RMP's avoided cost prices**  
75 **over the last few years.<sup>5</sup> Do you think this supports his contention?**

76 A. No. The issue at hand is the contract term for *new* QF PPAs. The  
77 downward trend in RMP's avoided costs underscores the fact that the prospective  
78 QFs which would be thwarted by RMP's proposal are those that would be willing  
79 to sell power at the lowest avoided cost rates that have been offered for many  
80 years.

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<sup>4</sup> E.g., Vastag Rebuttal, lines 98-103.

<sup>5</sup> E.g., Clements Rebuttal, lines 196-200.

81 **Q. How do you respond to Mr. Clements’ assertion that long-term QF PPAs are**  
82 **inconsistent with the Company’s hedging policies?**<sup>6</sup>

83 A. Mr. Clements made this argument in his direct testimony and I previously  
84 responded to it in my own direct testimony. I noted that the more apt comparison  
85 is not between RMP’s hedging practices and long-term QF contracts, but between  
86 long-term QF contracts and the Company’s recovery of its generation investments  
87 in rate base. In this comparison, the obligations of customers are longer-term and  
88 more open-ended when it comes to paying for utility-owned plant in contrast with  
89 QF contracts because utility generation assets are subject to ongoing  
90 environmental risks that are commonly addressed through environmental  
91 upgrades which customers are routinely required to fund pursuant to general rate  
92 case decisions. Customers are also at risk for future accelerated depreciation of  
93 utility generation assets to the extent that plant lives are shortened in response to  
94 environmental pressures.

95 **Q. Mr. Peterson claims that the current uncertain environment makes it**  
96 **“premature to make definitive resource decisions.”<sup>7</sup> What is your response?**

97 A. Reducing the term of a QF PPA to five years as proposed by Mr. Peterson  
98 is itself a de facto “definitive resource decision,” as it would make renewable QF  
99 financing and development impracticable. This will leave customers facing

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<sup>6</sup> E.g., Clements Rebuttal, lines 225-233.

<sup>7</sup> E.g., Peterson Rebuttal, lines 138-139.

100 environmental risks that likely could have been better mitigated with properly  
101 priced renewable QF PPAs.

102 **Q. Mr. Peterson complains that a utility must take QF energy whether or not it**  
103 **needs it and whether or not it is economic.<sup>8</sup> Do you agree?**

104 A. No, I do not believe that is an accurate description. The salient feature of  
105 avoided cost pricing is that by definition it is designed to reflect exactly what a  
106 utility needs and at what cost its needs will be met.

107 PURPA imposes a must-take obligation, but only at the cost the utility is  
108 expected to avoid when purchasing QF power. Thus, it is not a matter of taking  
109 unneeded or uneconomic energy, but rather substituting one source of energy  
110 (which federal and state policy makers have decided to encourage) for another  
111 source. And, while Mr. Peterson is correct that prices in any long-term contract  
112 might be different than then-available resources over time, the same is true of any  
113 long-term resource, and the opposite is also always possible – that then-available  
114 resources may be much more expensive than the long-term committed prices.

115 Such risks are unavoidable and are best addressed through a reasonable and  
116 diverse portfolio of various resource types and contract lengths, and through the  
117 use of reasonable projections and assumptions in setting avoided cost rates.

118 **Q. Does this conclude your surrebuttal testimony?**

119 A. Yes, it does.

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<sup>8</sup> E.g., Peterson Rebuttal, lines 176-179.