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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**

PREFILED SURREBUTTAL TESTIMONY AND EXHIBITS OF HANS ISERN

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

DATED this 28th 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 28th 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	)	Docket No. 15-035-53

Surrebuttal Testimony of Hans Isern

On Behalf of the

Rocky Mountain Coalition for Renewable Energy

October 28, 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 and Rebuttal Testimony on behalf of the Rocky Mountain Coalition for Renewable Energy ("Coalition")?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I intend to respond to the rebuttal testimony filed by Rocky Mountain Power (RMP) witness Paul Clements and Division of Public Utilities witness Charles Peterson in support of a drastic reduction in the maximum permissible term of QF PPAs in Utah.

Q. What is your response to Mr. Clements' claim that a 3-year PPA term is needed in order to satisfy PURPA's "ratepayer indifference" standard?[1]

A. I am not a lawyer and I will not offer legal opinions as to what is or is not necessary in order to comply with federal and state laws and regulations. Nevertheless, having read relevant portions of PURPA, PURPA regulations, and similar Utah laws, I find nothing in them that suggests that only short-term contracts should be

[1] E.g., Clements Rebuttal, lines 24-33, 134-135, 236-237, 380-382.

used. Most of the states with which I have experience allow long-term QF PPAs. Moreover, I find it very difficult to understand how the declared public policy of encouraging development of renewable resources can be squared with a dramatic structural change that will make such development impracticable.

Q. What is your response to claims by Mr. Clements and Mr. Peterson to the effect that QF PPAs cannot be compared to utility-owned resources because they go through different processes?[2]

A. I agree that utility-owned resources are different than those with long-term PPAs in many ways. For example, utilities have relative assurance of recovery of all prudently incurred costs and a reasonable return over time, even as costs and circumstances change. Renewable PPA developers have no such assurance; they assume the risk of changing costs and circumstances when they sign a long-term fixed-price contract. However, none of the differences alters the fact that all resource decisions entail risk and none of these risks makes it less prudent to enter into long-term fixed price QF contracts rather than utility-owned generation.

Additionally, please note that I am not requesting guaranteed cost recovery or a guarantee of economic viability as Mr. Peterson suggests. Each QF project is still responsible for generating and delivering energy to receive revenue, maintaining operations, and conducting and paying for O&M and compliance activities, all of which are risks that investors generally take on with renewable

[2] E.g., Clements Rebuttal, lines 240-255; Peterson Rebuttal, lines 166-181.

projects. What we are requesting is that QF projects receive contracts that specify a guaranteed price per unit of energy delivered across a reasonable portion of the asset's expected life, which is an industry-standard mechanism to balance risks for market participants.

Q. Do you agree with Mr. Vastag of the Office that a companion goal of PURPA is to protect ratepayers?[3]

A. Yes. I believe PURPA is designed to protect ratepayers through requiring the use of reasonable avoided cost pricing methods and assumptions. I support that goal.

Q. Mr. Peterson claims there is no "hard evidence" that renewable QF projects cannot be financed and developed even with short-term PPAs.[4] How do you respond?

A. I am surprised at this claim, as all of the witnesses with expertise in developing and financing renewable energy projects have testified that 3- or 5-year PPA terms will made future development of any significant renewable QF projects in Utah impracticable. In my experience, reasonable financing terms are only available for renewable QF projects with a long-term PPA. Beyond my personal experience, I have also discussed short-term PPAs with several members of our finance team and capital providers; each party holds the same opinion that short-term PPAs are impractical to finance. Any company that owes fiduciary obligations to stakeholders is highly unlikely to invest in or loan to a project costing tens or

[3] E.g., Vastag Rebuttal, lines 98-103.
[4] E.g., Peterson Rebuttal, lines 65-72, 97-101.

hundreds of millions of dollars without relative certainty as to pricing and repayment terms. Neither “yieldcos” nor “crowdfunding” are viable options for financing utility-scale renewables absent long-term PPAs in today’s markets.

Q. Will you please summarize your response to any who might suggest that renewable QF projects can access reasonable financing terms with a short-term PPA?

A. Yes. QF power plants, like any other power plant, require significant amounts of capital to build and a long-term view on return on capital. Rocky Mountain Power itself considers its power plants to have lives of 30+ years and they pay for them over a very long period of time. Without a long-term contract, a company or an investor that puts money into the construction of a new power plant takes on incredible risk that it will be able to sell its power at a rate in the future that provides for a return on its capital. A QF in Utah does not benefit from monopolistic market structures and having a near-guaranteed rate of return. Furthermore, in a highly-regulated market like Utah where Rocky Mountain Power yields so much market power and has such a massive exclusive service territory, there are few, if any, alternate options for power sales post-PPA in a broader energy market. Other states have taken steps to provide for a more a robust wholesale energy market. For example, in California or along the east coast, a QF facility with a 3 year contract would have many different options to sell energy output in year 4 because there are more robust and competitive markets for wholesale energy than there are in Utah. However, even in those states, projects are not being built on short-term revenue agreements. The problem is exacerbated, however, by the regulatory scheme in Utah and the lack of incentives such as state tax credits and high-priced REC agreements. In my opinion, the best outcome for the State of Utah and its ratepayers is not to severely hamper the QF program nor to rely on other policies to increase renewable project revenues, but rather to maintain a working QF program with long-term PPAs.

Q. Does this conclude your surrebuttal?

A. Yes, it does.