

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	Docket No. 16-035-27
Rocky Mountain Power to for Approval)	
Of a Renewable Energy Service Contract)	Direct Testimony of
Between Rocky Mountain Power and)	Philip Hayet
Facebook, Inc. Pursuant to Tariff Electric)	On Behalf of the
Service Schedule 34)	Utah Office of
)	Consumer Services

REDACTED

August 2, 2016

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Philip Hayet. My business address is 570 Colonial Park Drive, Suite 305,
3 Roswell, Georgia, 30075.

4 **Q. PLEASE STATE YOUR OCCUPATION, EMPLOYMENT, AND ON WHOSE**
5 **BEHALF YOU ARE TESTIFYING.**

6 A. I am a utility regulatory consultant and Vice President of J. Kennedy and Associates, Inc.
7 (“Kennedy and Associates”). I am appearing on behalf of the Office of Consumer Services
8 (“Office”).

9 **Q. WHAT CONSULTING SERVICES ARE PROVIDED BY KENNEDY AND**
10 **ASSOCIATES?**

11 A. Kennedy and Associates provides consulting services related to electric utility system
12 planning, energy cost recovery, revenue requirements, regulatory policy, and other
13 regulatory matters.

14 **Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND APPEARANCES.**

15 A. My qualifications and appearances are provided in Exhibit OCS - 3.1D Hayet. I have
16 participated in numerous PacifiCorp and Rocky Mountain Power (or the “Company”) cases
17 including, PacifiCorp’s 2014 General Rate Case (“GRC”) (Docket No. 13-035-184),
18 PacifiCorp’s 2015 EBA proceeding (Docket No. 15-035-03), and PacifiCorp’s Net
19 Metering docket (Docket No. 14-035-114).

20
21

I. INTRODUCTION AND SUMMARY

22 **Q. PLEASE PROVIDE BACKGROUND ASSOCIATED WITH THIS PROCEEDING.**

23 A. In this proceeding, the Company seeks approval of a proposed contract to provide
24 renewable energy retail service to a new customer, Facebook, Inc. This is the first contract
25 the Company has entered into under the new Renewable Energy Tariff authorized by the

26 Utah Sustainable Transportation and Energy Plan (“STEP”) legislation (“SB 115”) that
27 was signed by the governor in March 2016. The new Schedule 34 Renewable Energy
28 Tariff (“RET”), currently in front of the Commission for approval in Docket No. 16-035-
29 T09, is intended to provide large customers the ability to have renewable energy purchased
30 on their behalf, without causing costs to increase for other customers.

31 Facebook plans to build a new data center in Utah in phases, and it has entered into
32 a special contract with PacifiCorp pursuant to Utah Code Annotated § 54-17-806, as
33 allowed by the recently enacted STEP legislation. The legislation contains two alternative
34 options that can be used to charge qualified customers for service under the RET. Qualified
35 customers are defined as customers whose load is at least 5 MW. Under the first option,
36 the customer would be required to pay its normal tariff rate, plus an incremental amount
37 derived as the difference between the utility’s cost to supply renewable generation and the
38 Company’s avoided cost. Under the second option, and the one that has been selected for
39 the Facebook contract, the customer would pay based on a “different methodology
40 recommended by the qualified utility.” In the case of this contract, the Company and
41 Facebook have negotiated an agreement under this option, and have developed terms that
42 are intended to leave other customers unaffected.

43 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

44 A. I evaluated the Facebook contract on behalf of the Office in an attempt to determine if the
45 revenue from the contract would likely result in fair compensation to the Company, such
46 that other retail customers would not ultimately have to subsidize the contract. My
47 testimony discusses the investigation I conducted.

48 **Q. WHAT ANALYSIS DID YOU PERFORM?**

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49 A. I conducted an analysis to determine the amount that net power costs would increase with
50 the new Facebook load and renewable resources, and I netted that increase against the
51 revenues that Facebook would provide. I then considered whether those excess revenues
52 would be sufficient to cover any additional costs that Facebook would be expected to cause
53 the Company to incur including transmission and balancing services costs.

54 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND PROVIDE YOUR**
55 **RECOMMENDATIONS.**

56 A. Given the expedited schedule allowed for this proceeding, I was only able to conduct a
57 limited analysis of the contract using a single set of production cost modeling runs.
58 Although I have some reservations, I was able to conclude that the Facebook contract will
59 likely provide the Company with sufficient revenues to pay for the incremental costs that
60 Facebook may cause the Company to incur, and I do not believe that existing customers
61 would have to subsidize the contract. However, the structure of this contract is quite unique
62 and it is entirely possible that other customers could approach PacifiCorp for similar
63 contracts in the future. Based on this, I recommend that the Commission take the
64 opportunity to acquire actual information from PacifiCorp about the performance of the
65 contract to determine if it in fact provides benefits or causes harm to existing customers. I
66 further recommend that the Company be required to file annual reports for six years
67 commencing on the receipt of the certificate of occupancy for the first facility Facebook
68 adds. **[BEGIN CONFIDENTIAL]** [REDACTED]

69 [REDACTED]

70 [REDACTED]

71 [REDACTED] **[END CONFIDENTIAL]** The reports should provide actual

72 costs and revenues, and any other information necessary to prove that the “different

73 methodology” allowed by statute and proposed by the Company is providing sufficient
74 revenue to cover all costs the Company may incur in providing services to Facebook.

75 **Q. DO YOU HAVE ANY OTHER RECOMMENDATIONS?**

76 A. Yes. One of the charges the Company will collect from Facebook is a **[BEGIN**

77 **CONFIDENTIAL]** [REDACTED]

78 [REDACTED]

79 [REDACTED]

80 [REDACTED]

81 [REDACTED]

82 [REDACTED]

83 [REDACTED] **[END**

84 **CONFIDENTIAL]**

85 **II. CONTRACT SUMMARY**

86 **Q. PLEASE DESCRIBE THE CHARACTERISTICS OF THE CONTRACT.**

87 A. **[BEGIN CONFIDENTIAL]** [REDACTED]

88 [REDACTED]

89 [REDACTED]

90 [REDACTED]

91 [REDACTED]

92 [REDACTED]

93 [REDACTED]

94 [REDACTED]

[REDACTED]

95 [REDACTED]

96 [REDACTED]

97 [REDACTED]

98 [REDACTED]

99 [REDACTED]

100 [REDACTED]

101 [REDACTED]

102 [REDACTED]

103 [REDACTED]

104 [REDACTED]

105 [REDACTED]

106 [REDACTED]

107 **Q.** [REDACTED]

108 [REDACTED]

109 [REDACTED]

110 **A.** [REDACTED]

111 [REDACTED]

112 [REDACTED]

113 [REDACTED]

114 [REDACTED]

115 [REDACTED]

116 [REDACTED]

117 [REDACTED]

118 [REDACTED]

119 [REDACTED]

120 [REDACTED]

121 [REDACTED]

122 [REDACTED]

123 [REDACTED]

124 [REDACTED]

125 [REDACTED]

126 [REDACTED]

127 [REDACTED]

128 [REDACTED]

129 **Q.** [REDACTED]

130 [REDACTED]

131 [REDACTED]

132 [REDACTED]

133 [REDACTED]

134 [REDACTED]

135 **A.** [REDACTED]

136 [REDACTED]

137 [REDACTED]

138 [REDACTED]

139 [REDACTED]

140 [REDACTED]

141 [REDACTED]

142 [REDACTED]

143 [REDACTED]

144 [REDACTED]

145 [REDACTED]

146 [REDACTED]

147 [REDACTED]

148 **Q.** [REDACTED]

149 **A.** [REDACTED]

150 [REDACTED]

151 [REDACTED]

152 [REDACTED]

153 [REDACTED]

154 [REDACTED]

155 [REDACTED]

156 [REDACTED]

157 [REDACTED]²

158 **Q.** [REDACTED]

159 [REDACTED]

160 **A.** [REDACTED]

161 [REDACTED]

162 [REDACTED]

163 [REDACTED]

164 [REDACTED]

² Paul Clements Direct Testimony, at line 191.

165

166

[END CONFIDENTIAL]

167

III. CONTRACT EVALUATION

168 **Q. PLEASE EXPLAIN HOW YOU BEGAN YOUR INVESTIGATION OF THE**
169 **FACEBOOK CONTRACT.**

170 A. As mentioned earlier, the objective of our evaluation was to determine if the Company
171 would likely receive fair compensation from Facebook, so that other retail customers would
172 not be required to subsidize the contract. We began by reviewing the Company's June 21,
173 2016 direct testimony. Based on internal discussions, we decided to request net power cost
174 runs with the contract included based on the Company's GRID production cost model and
175 database. In order to work out the details of the GRID runs, and to gather additional
176 information regarding the Company's testimony, we participated in a conference call with
177 PacifiCorp personnel on July 11, 2016, including PacifiCorp's power cost witness, Mr.
178 Paul Clements. We then followed up by issuing a set of data requests to formally request
179 access to GRID and the Company's GRID database.

180 **Q. WHAT ANALYSIS DID YOU CONDUCT TO DETERMINE IF THE PROPOSED**
181 **CONTRACT WOULD POTENTIALLY HAVE A NEGATIVE IMPACT ON**
182 **RETAIL RATEPAYER'S NET POWER COSTS?**

183 A. Based on our data requests, the Company supplied us with a set of net power cost runs that
184 we used to assess whether retail ratepayers would be harmed by the Facebook contract.
185 We reviewed the Company's GRID runs, and we downloaded data from the GRID database
186 to obtain additional modeling information that we used in our investigation. In addition,
187 we performed an evaluation of the billing example and true-up calculations that the
188 Company provided in Mr. Clements' Testimony Exhibit PHC-2.

REDACTED

189 **Q. PLEASE EXPLAIN YOUR REVIEW OF THE COMPANY’S GRID ANALYSES.**

190 A. The Company provided three GRID runs that were used to isolate the impacts of the
191 Facebook load and the associated renewable energy that PacifiCorp would acquire on
192 Facebook’s behalf. Run 1 was the Base Case without the Facebook load or new renewable
193 resources, Run 2 included just the Facebook load, and Run 3 included the Facebook load
194 and the new renewable resources.

195 **Q. DO YOU HAVE AN EXHIBIT CONTAINING THE RESULTS OF THE GRID**
196 **RUNS?**

197 A. Yes, Confidential Exhibit OCS - 3.2D Hayet contains a summary of net power cost results
198 from these runs. **[BEGIN CONFIDENTIAL]** [REDACTED]

199 [REDACTED]

200 [REDACTED]

201 [REDACTED]

202 [REDACTED]

203 [REDACTED]

204 [REDACTED]

205 [REDACTED]

206 [REDACTED] **[END**

207 **CONFIDENTIAL]**

208 **Q. HAVE YOU PERFORMED AN ANALYSIS THAT INCLUDES THE FACEBOOK**
209 **REVENUE?**

210 A. Yes, Confidential Exhibit OCS - 3.3D Hayet nets the Facebook revenue against the net
211 power cost impact caused by the Facebook contract. The analysis performed to create this
212 table included some simplifying assumptions **[BEGIN CONFIDENTIAL]** [REDACTED]

213 [REDACTED]

214 [REDACTED]

215 [END CONFIDENTIAL]

216 **Q. PLEASE DESCRIBE THE REVENUES PACIFICORP WILL RECEIVE FROM**
217 **FACEBOOK THAT ARE INCLUDED IN THE TABLE.**

218 **A. [BEGIN CONFIDENTIAL]** [REDACTED]

219 [REDACTED]

220 [REDACTED]

221 [REDACTED]

222 [REDACTED]

223 [REDACTED]

224 [REDACTED]

225 [REDACTED]

226 [REDACTED] [END CONFIDENTIAL]

227 **Q. PLEASE DESCRIBE THE COSTS PACIFICORP WILL INCUR AS A RESULT OF**
228 **THE FACEBOOK CONTRACT.**

229 **A. [BEGIN CONFIDENTIAL]** [REDACTED]

230 [REDACTED]

231 [REDACTED]

232 [REDACTED]

233 [REDACTED]

234 [REDACTED]

235 [REDACTED]

236 [REDACTED]

237 [REDACTED]

238 [REDACTED]

239 [REDACTED]

240 [REDACTED]

241 Q. [REDACTED]

242 [REDACTED]

243 A. [REDACTED]

244 [REDACTED]

245 [REDACTED]

246 [REDACTED]

247 Q. [REDACTED]

248 [REDACTED]

249 A. [REDACTED]

250 [REDACTED]³ [REDACTED]

251 [REDACTED]

252 [REDACTED]

253 [REDACTED]

254 [REDACTED]

255 [REDACTED]

256 [REDACTED]

257 [REDACTED]

³ Paul Clements Direct Testimony, at line 410.

258 Q. [REDACTED]

259 [REDACTED]

260 [REDACTED]

261 A. [REDACTED]

262 [REDACTED]

263 [REDACTED]

264 [REDACTED]

265 [REDACTED] [END CONFIDENTIAL]

266 Q. PLEASE SUMMARIZE YOUR ANALYSIS?

267 A. [BEGIN CONFIDENTIAL] [REDACTED]

268 [REDACTED]

269 [REDACTED]

270 [REDACTED]

271 [REDACTED]

272 [REDACTED]

273 [REDACTED]

274 [REDACTED]

275 [REDACTED]

276 [REDACTED]

277 [REDACTED]

278 [REDACTED]

279 [REDACTED]

280 [REDACTED]

281 [REDACTED]
282 [REDACTED]
283 [REDACTED]
284 [REDACTED]
285 [REDACTED]
286 [REDACTED]
287 [REDACTED]
288 [REDACTED] [END CONFIDENTIAL]

289 **Q. PLEASE DISCUSS YOUR RECOMMENDATION REGARDING THE**
290 **FACEBOOK CONTRACT.**

291 A. Our limited analysis indicates that other ratepayers should not be harmed by the Facebook
292 contract. However, while this contract is quite unique, it is likely that more customers will
293 want to enter into an RET structured contract. Based on this, I recommend that the
294 Commission use the Facebook contract as an opportunity to acquire actual information
295 from PacifiCorp about the performance of the contract to determine if in fact the Company
296 recommended “different methodology” provides a benefit or causes harm to existing
297 customers. To satisfy this requirement, the Company should file the same information that
298 it uses to derive the [BEGIN CONFIDENTIAL] [REDACTED] [END
299 CONFIDENTIAL] calculation of the contract. In addition, the Company should provide
300 a current estimate of the cost for providing transmission and balancing services to serve
301 the Facebook load.

302 **Q. WHAT PERIOD OF TIME WOULD YOU RECOMMEND THAT PACIFICORP**
303 **FILE THIS INFORMATION?**

304 A. While this contract could be in effect for decades, I do not believe it would be necessary to
305 obtain this information over such an extended period of time. For purposes of evaluating
306 RET structured contracts using this Company-recommended different methodology, I
307 believe it would be reasonable for the Commission to require PacifiCorp to supply these
308 reports for six years commencing on the receipt of the certificate of occupancy for the first
309 Facility Facebook adds. **[BEGIN CONFIDENTIAL]** [REDACTED]

310 [REDACTED]
311 [REDACTED]

312 [REDACTED] **[END CONFIDENTIAL]** I believe that this information
313 would be useful as parties evaluate future contracts that PacifiCorp may consider entering
314 into.

315 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

316 A. Yes it does.