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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of Rocky Mountain Power's
Proposed Tariff Revisions to Electric
Service Schedule No. 37, Avoided Cost
Purchases from Qualifying Facilities

Docket No. 17-035-T07

Docket No. 17-035-37

In the Matter of Rocky Mountain Power's
2017 Avoided Cost Input Changes
Quarterly Compliance Filing

**SURREBUTTAL TESTIMONY OF
NEAL TOWNSEND**

The Renewable Energy Coalition, (the “**Coalition**”) hereby submits the attached
Surrebuttal Testimony of Neal Townsend on behalf of the Coalition in this combined docket.

Respectfully submitted this 21st day of November, 2017.

SMITH HARTVIGSEN, PLLC

/s/ Adam S. Long

Adam S. Long
Attorney for Renewable Energy Coalition

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the Surrebuttal Testimony of Neal Townsend was served on this 21st day of November, 2017 upon the following as indicated below:

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/s/ Adam S. Long

SURREBUTTAL TESTIMONY OF NEAL TOWNSEND

On behalf of the Renewable Energy Coalition

Docket Nos. 17-035-T07 & 17-035-37 (Consolidated)

November 21, 2017

1 **INTRODUCTION**

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

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

5 **Q By whom are you employed and in what capacity?**

6 A I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private
7 consulting firm specializing in economic and policy analysis applicable to energy
8 production, transportation, and consumption.

9 **Q Are you the same Neal Townsend who provided Direct Testimony, on October 3,**
10 **2017, on behalf of the Renewable Energy Coalition (the “Coalition”) in this docket?**

11 A Yes, I am.

12

13 **OVERVIEW AND CONCLUSIONS**

14 **Q What is the purpose of your surrebuttal testimony in this proceeding?**

15 A My surrebuttal testimony responds to the rebuttal testimony of Rocky Mountain Power
16 (“RMP”) witness Daniel J. MacNeil regarding the use of the 2021 Wyoming Wind plant
17 as the next deferrable resource.

18 **Q What are your primary conclusions and recommendations?**

19 A In his rebuttal testimony, Mr. MacNeil asserts that Schedule 37 prices would be higher
20 under the current Schedule 38 methodology by deferring 2031 wind rather than the
21 deferring 2021 Wyoming Wind project. In reaching this conclusion, Mr. MacNeil makes
22 an ad hoc change to the avoided cost calculation method that is inconsistent with the
23 Company’s Integrated Resource Plan (“IRP”); specifically, instead of measuring the

24 value of the PTCs using the real levelization calculation employed in the Company's IRP,
25 Mr. MacNeil measures the PTC value only over the first ten years of the project. I
26 recommend that the Commission reject any attempt by RMP to make such an ad hoc
27 change to the avoided cost calculation method.

28 I continue to recommend that the Commission rule affirmatively that the 2021
29 Wyoming Wind resource should be considered as an appropriate proxy for the purpose of
30 determining avoided capacity and energy costs for all renewable QFs seeking avoided
31 cost pricing under either Schedule 38 or Schedule 37, unless and until PacifiCorp
32 declares that it is not going to pursue this project, whether that declaration results from a
33 Commission order rejecting preapproval for the project in Docket 17-035-40 or for any
34 other reason.¹ In addition, the Commission should consider whether Schedule 37 and
35 Schedule 38 renewable QFs should be credited with (the equivalent of) avoided
36 transmission costs given the linkage between development of the 2021 Wyoming Wind
37 resource and the addition of the related new Wyoming transmission capability.

38 **Q. In your direct testimony you argued that RMP's proposal to limit the displacement**
39 **of a renewable resource to resources of the same type as the QF is unduly restrictive**
40 **and unreasonable. Is that still your position?**

41
42 A. Yes. Any renewable QF seeking pricing under either Schedule 37 or Schedule 38 should
43 be able to have its avoided cost pricing determined based on displacement of the next
44 renewable resource irrespective of type, with appropriate adjustments for capacity
45 equivalence. If the Commission adopts the Company's proposed Proxy/PDDRR method

¹ At that point, I would recommend that this resource be removed from the avoided cost calculation until a new IRP is issued or PacifiCorp otherwise announces a new major planned resource acquisition.

46 for Schedule 37 rates, then the total avoided capacity and energy cost that results from
47 removing the “like for like” restriction will more reasonably reflect the avoided cost of
48 the deferred resource.

49

50 **RESPONSE TO RMP WITNESS DANIEL J. MACNEIL**

51 **Q What is RMP’s position regarding the use of the proposed 2021 Wyoming Wind**
52 **plant as the next deferrable resource for determining avoided cost pricing for Utah**
53 **Qualifying Facilities (“QFs”)?**

54 **A** RMP objects to using the proposed 2021 Wyoming Wind plant in the determination of
55 avoided cost pricing for Utah QFs. The Company maintains that this resource is “non-
56 displaceable” by Utah QFs. Further, in his rebuttal testimony, Mr. MacNeil asserts that
57 Schedule 37 prices would be higher under the current Schedule 38 methodology by
58 deferring 2031 wind rather than deferring 2021 Wyoming wind. As I will discuss below,
59 Mr. MacNeil comes to this latter conclusion by making an ad hoc change in the avoided
60 cost methodology that is inconsistent with the assumptions and method used to evaluate
61 renewable resources in the Company’s IRP.

62 **Q In your direct testimony, you challenged RMP’s opposition to using the proposed**
63 **2021 Wyoming Wind plant for avoided cost purposes by pointing out that RMP**
64 **apparently considered the 2021 Wyoming Wind to be such a good deal that the**
65 **Company would acquire as much of this wind resource as it physically could,**
66 **limited only by the transfer capabilities of the transmission system. Does RMP**
67 **agree with your characterization of its demand for the 2021 Wyoming Wind?**

68 **A** Yes, on page 12 of his rebuttal testimony, Mr. MacNeil agrees that this statement is
69 accurate.

70 **Q In your direct testimony, you also stated that RMP’s demand for long-term power**
71 **supply at the price of the 2021 Wyoming Wind is open-ended over some significant**
72 **range. Does RMP agree with that assessment as well?**

73 A Yes, on page 13 of his rebuttal testimony, Mr. MacNeil acknowledges this
74 characterization is accurate as well.

75 **Q If RMP acknowledges those statements are accurate, why does RMP object to using**
76 **the 2021 Wyoming Wind plant as the next deferrable resource for purposes of**
77 **avoided cost pricing?**

78 A On page 14 of his rebuttal testimony, Mr. MacNeil asserts that Schedule 37 prices would
79 be higher under the current Schedule 38 methodology by deferring 2031 wind rather than
80 deferring 2021 Wyoming wind.

81 **Q What is your response to this contention?**

82 A To arrive at this conclusion, Mr. MacNeil makes an ad hoc change to the avoided cost
83 calculation method that is inconsistent with the Company’s IRP. Recall that in the
84 avoided cost calculation, the Production Tax Credits (“PTCs”) which would have been
85 generated by a deferred Company resource are treated as a cost that is charged to QFs.
86 This cost, or “avoided benefit,” is netted against the avoided cost valuation.²

87 PTCs are modeled in the IRP using a thirty-year real levelization technique that is
88 employed to make projects of disparate life expectancies comparable. The same
89 technique is in the IRP used for capital costs. However, instead of measuring the value of
90 the PTCs using the real levelization calculation employed in the IRP, Mr. MacNeil

² Note that the avoided benefit of PTC displacement is grossed up for taxes. This means that if corporate income tax rates are reduced below 35%, as is currently contemplated by Congress, the avoided benefit of PTC displacement in RMP’s avoided cost calculation will be reduced, all other things being equal.

91 measures the PTC value only over the first ten years of the project, i.e., fully loading
92 these costs into the first ten years rather than spreading them out over the life of the
93 deferred asset using the real levelization technique.³

94 **Q Do you believe it is reasonable for RMP to change its avoided cost calculation**
95 **method in this manner?**

96 A No.

97 **Q Please explain.**

98 A Mr. MacNeil's modification to the treatment of the PTC value is not consistent with the
99 IRP nor is it consistent with the real levelization pricing approach that RMP uses in its
100 avoided cost pricing in Utah.

101 As I noted in my direct testimony, I previously challenged the use of RMP's real
102 levelization technique for QF capacity pricing in Utah because the Company's approach
103 does not reflect the front-loading of utility capital cost recovery that actually occurs when
104 a new plant (such as the deferred plant) comes into rate base. That is, the real
105 levelization technique understates actual utility capital cost recovery in the early years of
106 a deferred plant and overstates it near the end of the deferred plant's life – while yielding
107 the same net present value of avoided revenue requirements over the life of the deferred
108 project. The problem with this approach, I argued, is that the standard QF contract
109 lengths are considerably shorter than the life expectancy of the deferred plants; thus, the
110 avoided capacity cost pricing produced by RMP's real levelization technique reflects the
111 understatement of avoided capacity cost in the early years of the QF contract without ever

³ See Rebuttal Testimony of Daniel J. MacNeil, lines 296-298; 320-322

112 fully capturing the overstatement in the later years that is necessary for the avoided cost
113 calculation to “even out.”⁴⁵

114 Despite my concerns with the real levelization approach, this Commission has
115 already determined that the use of this approach (with contract terms less than the life of
116 the deferred resource) is appropriate for determining avoided avoided cost pricing.
117 However, in this proceeding, RMP has now made an ad hoc adjustment to remove the
118 PTCs from the real levelization price stream, while at the same time maintaining the real
119 levelization for the fixed capital cost of the resource. In my opinion, it is inappropriate to
120 allow RMP to selectively pick and choose the costs that it will include or exclude in the
121 real levelization price stream to adversely impact the QF avoided cost price. If real
122 levelization is to continue to be used for avoided capacity cost pricing, then it should also
123 continue to be used for avoided PTC valuation, just as occurs in the IRP.

124 The Company has been the chief protagonist in arguing for shorter QF contract
125 terms. RMP should not now be allowed to use the fact that QF contract terms are shorter
126 than the life of the deferred resource as a pretext for removing the PTC value from the
127 real levelized payment stream. From the QF’s perspective, Mr. MacNeil’s reasoning
128 would also apply when using real levelization for the fixed cost of the plant, as QFs do

⁴ See Mr. Townsend’s Direct Testimony in Utah PSC Docket No. 03-035-14 at pages 7-8. Note that the maximum QF contract term contemplated in this prior proceeding was 20 years. Currently, the maximum contract term is 15 years.

⁵ RMP’s contention that a QF signing two consecutive 15-year contracts would be “made whole” with respect to capacity payments under the real levelization approach is purely speculative. (See Mr. MacNeil’s rebuttal testimony, lines 317-319.) There is no assurance that a QF’s Utah avoided costs prices in the second 15 years would be identical to a company-owned resource measured 15 years in the future.

129 not receive the full value of the plant's fixed costs after the 15th year oo the term of the
130 plant's assumed life.

131 **Q What is your recommendation to the Commission?**

132 A I recommend that the Commission reject RMP's apparent attempt to make an ad hoc
133 change to the avoided cost calculation method by replacing the real levelized value of
134 avoided PTCs with 10-year nominal values. Further, I continue to recommend that the
135 proposed 2021 Wyoming Wind resource be used as the next deferrable resource for
136 purposes of calculating avoided costs unless and until RMP indicates, for any reason, that
137 it will not pursue this project.

138 **Q Does this conclude your surrebuttal testimony?**

139 A Yes, it does.