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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 JOHN LOWE**

The Renewable Energy Coalition, (the "**Coalition**") hereby submits the attached Surrebuttal Testimony of John Lowe 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 John Lowe was served on this 21st day of November, 2017 upon the following as indicated below:

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SURREBUTTAL TESTIMONY
OF
JOHN LOWE

FOR

RENEWABLE ENERGY COALITION

November 21, 2017

Docket No. 17-035-T07
Docket No. 17-035-37

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is John R. Lowe. I am the director of the Renewable Energy Coalition (the "**Coalition**"). My business address is PO Box 25576 Portland, Oregon 97298.

Q. Are you the same John R. Lowe who previously provided direct testimony in this case on behalf of the Coalition?

A. Yes.

Q. Please summarize your surrebuttal testimony.

A. The Coalition responds to some issues discussed in rebuttal testimonies of Daniel J. MacNeil of Rocky Mountain Power Co. ("**Rocky Mountain Power**" or the "**Company**"), Abdinasir Abdulle of the Division of Public Utilities ("**DPU"**), Ken Dragoon of Utah Clean Energy ("**UCE"**), and Cheryl Murray of the Office of Consumer Services ("**OCS**"). I will explain why offering a renewable avoided cost rate is not inconsistent with the customer indifference standard under the Public Utilities Regulatory Policies Act ("**PURPA**"), discuss several assertions made by Rocky Mountain Power about its avoided cost methodology, discuss the Coalition's renewable energy certificate ("**REC**") ownership proposal, and explain that the Wyoming wind resource is deferrable because RMP has stated that it will incrementally reduce the size of its Wyoming projects based on new QF-related power.

Although the Coalition did not make a detailed recommendation earlier regarding the queue, the Coalition opposed RMP's approach and remains concerned over RMP's presentation of that issue. The Coalition specifically recommends that the Commission adopt a more reasonable approach to the queue, which does not include all QFs that have requested contracts in the entire QF queue. Finally, the Coalition supports UCE's recommendations to set a renewable price floor or include avoided line losses. More specifically, if the Commission declines to adopt a separate renewable price stream, which UCE claimed may be a more durable option, then the Commission should consider setting a renewable price floor. Likewise, the Commission should consider including avoided line losses where applicable.

Q. Is the Coalition sponsoring any additional surrebuttal testimony?

A. Yes. Neal Townsend is presenting testimony addressing ad hoc changes to the avoided cost methodology made by Rocky Mountain Power that appear to respond to the Coalition's testimony on the 2021 Wyoming wind resource. As Mr. Townsend explains, after accounting for the loss of the production tax credits, avoided costs are higher under Rocky Mountain Power's proposal then when the deferral of 2021 wind resource is assumed.

II. A SEPARATE RENEWABLE RATE IS NOT INCONSISTENT WITH PURPA'S CUSTOMER INDIFFERENCE STANDARD

Q. Can you summarize your impression of Mr. MacNeil's testimony on PURPA's customer indifference standard?

A. Mr. MacNeil suggests that a separate renewable avoided cost rate would be inconsistent with PURPA's customer indifference standard, presumably because Utah does not have a renewable portfolio standard ("**RPS**") requirement.

Q. Do you agree with Mr. MacNeil?

A. No. Although Mr. MacNeil does not directly claim, or explain, why a separate renewable rate would be inconsistent with PURPA's customer indifference standard, the Federal Energy Regulatory Commission ("**FERC**") has been quite clear on the subject and many states have already implemented PURPA to allow for both a renewable and nonrenewable avoided cost rate.

The Coalition will address this issue in legal briefing in more depth, but it is my understanding that FERC has consistently allowed states "a wide degree of latitude" in implementing PURPA and establishing avoided cost prices.[1] According to FERC, "a state may determine that capacity is being avoided, and so may rely on the cost of such avoided capacity to determine the avoided cost rate,"[2] or "a state may, through state action, influence what costs are incurred by the utility in order to *encourage* renewable generation, and that a state may, in fact, 'order utilities to purchase renewable generation.'"[3] FERC has also emphasized, "while the Commission provided guidance on the concept presented by the [California Public Utility Commission], states may have other ways of establishing avoided cost rates that may be consistent with the Commission's PURPA regulations."[4] The Coalition's recommendation better ensures that avoided costs are based on Rocky Mountain Power's avoided capacity costs as well as accounting for the fact that state actions have encouraged and required PacifiCorp to acquire renewable resources.

Q. Please comment on Dr. Abdulle's testimony on PURPA's customer indifference standard?

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1 California Public Utilities Commission, 134 FERC ¶ 61,044 at P.34 (2011) (citing Signal Shasta Energy Co. Inc., 41 FERC ¶ 61,120 at 61,295 (1987)).

2 Id. at P.32 (citing Order 69, FERC Stats & Regs. ¶ 30, 128, 30,884-85 (1980)).

3 Id. at n.75 (citing Southern California Edison Co., 71 FERC ¶ 61,269, 62,080 (1995)) (emphasis added).

4 Id. at P.36.

A. Dr. Abdulle seems to suggest that allowing QFs to select between a renewable and non-renewable rate is inconsistent with the customer indifference standard, because QFs cannot choose the resource that it helps defer or avoid.

Q. How do you respond?

A. First, Dr. Abdulle is incorrect about the customer indifference standard because FERC has approved a "menu of pricing options from which QFs could choose."[5] Second, Dr. Abdulle appears to misunderstand the Coalition's proposal. The QF is not choosing the rate that provides it higher benefits; it is choosing the proxy resource that best matches its own operating characteristics. For example, hydro QFs operate more like non-renewable facilities than intermittent renewable facilities that are most likely the next planned resource acquisition. Thus, due to the way renewable avoided costs are calculated, a hydro facility would essentially be penalized if it were paid a renewable rate based upon a planned wind plant.

Ultimately, the Coalition's goal is customer indifference too. There is no customer indifference, however, if Rocky Mountain Power acquires 1000 MW of Wyoming wind that could have been deferred with Utah solar facilities. Customers are harmed if the Company unnecessarily acquires Wyoming wind when it could have acquired Utah solar from QFs at the same value. Under Rocky Mountain Power's proposal, the Company will pay more for utility-owned Wyoming wind than nonutility-owned Utah solar.

From a broader perspective, not having a separate renewable rate would actually be inconsistent with the customer indifference standard. Rocky Mountain Power is not planning on acquiring thermal resources for a long period

[5] Id. at P.34 (citing Signal Shasta at 61,294)

of time, but is planning on acquiring renewable resources. Under Rocky Mountain Power's approach, customers will be harmed because the Company will only be acquiring utility-owned renewable projects, but not renewable QF projects. The only way to achieve customer indifference when there are significant different planned dates of the next renewable and non-renewable resource acquisition is to provide renewable QFs an opportunity to be paid a renewable rate.

Q. Is there anything else about Dr. Abdulle's testimony on PURPA's customer indifference standard worth pointing out?

A. Yes. In arguing against the Coalition's proposal to offer a renewable rate, Dr. Abdulle states, "[t]here should be no gaming in the calculation of avoided costs."[6] It strikes me as odd that Dr. Abdulle does not support QFs choosing between a renewable and nonrenewable rate, but does support Rocky Mountain Power's "like-for-like" proposal, which allows the Company to choose which planned resource each type of QF is allowed to defer. The Company's IRP date for solar is not reasonable, especially in light of the Company's already-issued solar RFP. Utah solar QFs should be allowed to defer Rocky Mountain Power's existing needs.

Q. Is an RPS obligation required to justify a separate renewable avoided cost rate?

A. No. FERC has expressly stated that an RPS obligation *can* serve the basis for a state's implementation of a renewable rate; but, as described above, but FERC has never said that an RPS obligation was *required* to offer tiered rates, or a separate renewable rate. To the contrary, FERC has said that states could use a renewable

[6] DPU Rebuttal Testimony of Abdulle at 6.

rate to encourage renewable generation or more accurately reflect the avoided resource, which could be a renewable rather than thermal resource. Given the latitude provided by FERC to states to implement PUPRA, Utah's renewable portfolio goal provides an adequate basis for a renewable rate. In addition, the fact that Rocky Mountain Power is in the process of acquiring renewable (wind and solar) but not thermal resources is an adequate basis by itself to create renewable rate.

Q. Please respond to Mr. MacNeil's testimony regarding the REC Ownership?

A. Mr. MacNeil appears to miss the Coalition's point. When Rocky Mountain Power plans to build a renewable resource, which has environmental attributes, then QFs should sell their renewable power and RECs to the Company—if they are being paid based on the costs of the renewable resource. If QFs are being paid based on the costs of a thermal resource, then they should keep their RECs. The Coalition's proposal is consistent with Rocky Mountain Power's like-for-like approach in which a renewable QF is paid based on the costs of "like" renewable resources and transfers over the RECs. The only substantive difference is that the Coalition is expanding this proposal to allow any renewable resource to defer (and be compensated for) Rocky Mountain Power's next renewable resource acquisition.

Q. Finally, do you agree with Mr. MacNeil that if avoided costs are too low they violate the customer indifference standard?

A. Yes. I am glad to see the Company acknowledge that the ratepayer indifference standard means that Rocky Mountain Power should not pay less for renewable resources than it would otherwise incur.[7] This raises another issue: if the Commission declines to adopt a separate renewable rate, it must include cost-effective renewable resource acquisition in the Company's avoided cost pricing in order to ensure the customer indifference standard is met. Ignoring certain cost-effective renewable resource acquisitions would result in avoided costs that are not based on the Company's plans, which makes them both too low and inconsistent with PURPA.

III. ROCKY MOUNTAIN POWER'S AVOIDED COST METHODOLOGY

Q. How do you respond to Mr. MacNeil claims that unacknowledged data is not used in the calculation of avoided cost prices?

A. Although Mr. MacNeil is correct that parties have the opportunity to review quarterly updates to its pricing or submit data requests, that does not change the fact that the Company is effectively using a black box to calculate its avoided cost rates and making ad hoc changes with near impunity.

Q. What do you make of Dr. Abdulle's claim that it might be premature to include Wyoming wind resource, because it is not approved?

A. This speaks to the issue above, and—like PURPA's customer indifference standard—should cut both ways. In Utah, Rocky Mountain Power's Schedule 38 avoided cost rates include unacknowledged IRP inputs and assumptions. If the basis for Rocky Mountain Power's avoided cost prices is its next planned acquisition (from its not yet approved IRP), then as soon as it has a new IRP it is not premature to include those resources in the next avoided cost pricing. The Company's avoided cost prices must accurately reflect its incremental costs. And

[7] Rebuttal Testimony of Daniel J. MacNeil at 10.

if some unacknowledged information is included in the avoided cost calculation, then all of the relevant acknowledged information should be included. The Company should not be allowed to "cherry pick" inputs to lower its costs.

Q. How do you respond to Mr. MacNeil suggestion that a QF's operational characteristics must perfectly align with the proxy resource to maintain the least cost, least risk characteristics of the preferred portfolio?

A. This is inconsistent with PURPA and decades of avoided cost principles from FERC. The avoided cost is not supposed to replicate all aspects of the Company's preferred portfolio. Utilities consider myriad benefits and risks, including cost, in their long term planning. The avoided cost only looks to the preferred portfolio to establish the utilities' incremental costs, not the rest of it. Attempting to add a more nuanced evaluation, i.e. capture cost and risk benefits in the avoided cost, is unnecessarily burdensome. As Mr. Dragoon succinctly states, resources with different characteristics need not be a barrier to setting avoided cost rates.[8]

Q. Is there anything else about Mr. MacNeil's operational characteristics testimony you would like to comment on?

A. Yes. Mr. MacNeil's opposition to a renewable cost floor proposal seems inconsistent with the Company's rationale for its like-for-like proposal. For example, Mr. MacNeil rejects UCE's proposal as "needlessly complicated" and suggests that avoided costs should not be based on a thermal resource and then adjusted consistent with the IRP resource. Mr. MacNeil's rationale, however, appears to be based upon the fact that those adjustments would not perfectly match the "geographic location and resource operating parameters [as] captured

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[8] Rebuttal Testimony of Ken Dragoon at 5.

through a resource's inclusion in the GRID model and its impacts on the Company's operations."[9] In my view, this underscores the distinction I make below between "precise" and "accurate" avoided cost prices. Rocky Mountain Power's modeling may be needlessly complicated, but it has selected this modeling, and that should not prohibit the Company from finding a reasonable configuration that calculates reasonable rates.

Q. Can you comment on Mr. MacNeil's comparisons between Rocky Mountain Power's avoided cost rate and the pricing it expects to receive in its upcoming RFP?

A. Yes. FERC defines avoided costs as "the incremental costs to an electric utility of electric energy or capacity or both, which but for the purchase from the qualifying facility …, such utility would generate itself or purchase from another source."[10] This means that Rocky Mountain Power's incremental costs, and not market costs or competitive bid prices (especially those without executed contracts and built projects)[11]—which in some situations could be below market costs—are relevant when setting avoided cost rates. Contrary to Mr. MacNeil's testimony, the customer indifference standard only dictates that the Company pays QFs no higher than its own incremental costs.[12]

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9 Rebuttal Testimony of Daniel J. MacNeil at 17.

10 18 CFR 292.101(b).

11 For example, PGE selected a utility owned gas fired "Carty" generation project through a competitive bidding process, which is almost $150 million over budget. This would not have occurred if the utility had entered into a power purchase agreement with an independent power producer, like a QF. See Re PGE's Application for Deferral of Incremental Revenue Requirement Associated with the Carty Generating Station and Delay of Commission Review of PGE's Application until Legal Actions are Resolved, Docket No. UM 1791, PGE Application at 2 (July 29, 2016).

12 Rebuttal Testimony of Daniel J. MacNeil at 11 ("To the extent substantial opportunities exist to acquire renewable resources at costs lower than those

Q. What do you make of Mr. MacNeil's assertion that QFs are replacing higher cost existing resources rather than new resources?

A. Rocky Mountain Power's current avoided cost rate is set at the Company's incremental costs. But, avoided cost is not set in real time. Once accepted by the Commission, they are determined reasonable until the utility makes an updated filing. When energy prices fall, avoided cost prices fall too. When energy prices rise, so do avoided cost prices. This does not mean they are inherently incorrect or unreasonable.

If anything, Mr. MacNeil seems to confirm that Rocky Mountain Power's existing resource fleet is no longer economical, and that the Company should fully consider economic shut downs to take advantage of current market conditions. In other words, if QFs are replacing higher cost existing resources, then that is appropriate and results in savings to ratepayers.

Q. Finally, Mr. MacNeil states that the Coalition has not offered any evidence that a proxy is more accurate. How do you respond?

A. First, Rocky Mountain Power has not provided any evidence that the proxy price is not reasonable. Mr. MacNeil argues that deferring "like-for-like" resources using the specific rules described in Rocky Mountain Power's rebuttal testimony produces the most accurate avoided costs by maintaining a reasonable balance of cost and risk consistent with the IRP preferred portfolio which represents least cost/least risk outcome among available alternatives. Each resource selected in the portfolio was selected based on its specific operating characteristics. Proxy/PDDRR method cannot be adjusted for operational and risk characteristics,

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identified in the 2017 IRP preferred portfolio, the customer indifference standard would dictate that the Company seek competitive bids to acquire the lowest cost opportunities, as it is currently in the process of doing.").

only capacity contributions. Thus, it is appropriate to align the operational and risk characteristics of the QFs with the resources being deferred to maintain equivalence with the preferred portfolio to maintain the customer indifference standard.

It is also important to distinguish between “accurate” and “precise” avoided cost calculations. As I stated in my direct testimony, Rocky Mountain Power’s proposal may be more precise, and based on complex computer models, but that does not mean that they are more accurate overall. Rocky Mountain Power’s configuration of the PDDRR method is not more accurate because it fails to produce accurate avoided cost rates for all resource types. The simpler proxy method is easily configured to ensure accurate avoided cost rates for all resource types.

Even Rocky Mountain Power has argued that its PDDRR methodology cannot accurately calculate capacity contributions for different types of resources.[13] This appears to be why Rocky Mountain Power believes a “like-for-like” limitation is necessary. Although the Coalition disagrees, and believes that the PDDRR methodology can be used for all types of resources, the complexity of the modeling configuration—along with fundamental differences in points of view about what should or should not be included in the Company’s avoided costs—suggests that Rocky Mountain Power’s precise modeling is unlikely to actually return accurate results.

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[13] As explained in the testimony of Neal Townsend on behalf of the Coalition, the Coalition disagrees that the Company’s computer models are unable to accurately calculate renewable avoided cost rates.

IV. THE WYOMING WIND RESOURCE IS DEFERRABLE

Q. What do you make of Dr. Abdulle's claim that the Wyoming wind resource would be deferrable if it were demonstrated that the Company would incrementally reduce the size of its Wyoming projects as new QF-related power comes on line?

A. It appears that DPU agrees with the Coalition that the Wyoming wind resource is deferrable, because the Company has already acknowledged it plans to reduce the size of its Wyoming projects to account for newly-executed QF contracts.[14]

Q. Dr. Abdulle also concludes that if the Wyoming resource is deferrable, then the Wyoming transmission should be included too, right?

A. Yes. The Coalition reads DPU's testimony as confirming that the Wyoming wind resource, along with the associated transmission, should be included in Rocky Mountain Power's avoided costs.

Q. Can you please summarize OCS's position on the Wyoming wind resource?

A. Yes. OCS takes no position on whether the Wyoming wind resource should be included in Rocky Mountain Power's avoided costs, but does suggest that if it is included that it be immediately removed if the Commission denies acknowledgement.

Q. How do you respond?

A. First, although OCS officially takes no position, it seems that OCS implicitly suggests that the Wyoming wind resource should be included. Second, because the Company includes resources in their avoided cost prices that the Company is

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14 **Exhibit A** (Response to REC Data Request 1.25 in Wyoming Schedule 37 Proceeding, WY 20000-518-EA-17).

planning to acquire, it may not be appropriate to remove certain resources until the Company indicates it is not planning to acquire them. For example, if the Company decides not to pursue the Wyoming wind resource, because it is not acknowledged or otherwise, it should make a new, updated Schedule 37 filing.

V. ROCKY MOUNTAIN POWER'S QF QUEUE

Q. How do you respond to Rocky Mountain Power's impact graphs regarding the queue issue?

A. The Coalition does not agree that it is necessary, but would not oppose some accounting for the fact that the Company will likely acquire additional QF resources during the Schedule 37 effective period, which the queue placement attempts to do. But, including all of the QFs that have requested power purchase agreements artificially lowers avoided cost prices and is not reasonable.

Q. What would the Coalition recommend instead?

A. A more reasonable position would be to use the historic percentage of QFs that are constructed as compared to the entire queue, or certain completion milestones that show a proposed project is likely to be constructed—like completing the interconnection study process or executed contracts.

VI. CONCLUSION

Q. Does this conclude your testimony?

A. Yes