BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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In the Matter of the Application of Rocky	)	
Mountain Power for Modification of	)	Docket No. 15-035-53
Contract Term of PURPA Power Purchase	)	
Agreements with Qualifying Facilities	)	
	)	

Surrebuttal Testimony of Kevin C. Higgins

On Behalf of the

Rocky Mountain Coalition for Renewable Energy

October 28, 2015

DEPOSITION EXHIBIT
PENGAD 800-631-6989
RMP Cross 10
17-035-39

I. INTRODUCTION

Q. Please state your name and business address.

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

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

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

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

II. RESPONSE TO MR. CLEMENTS AND MR. PETERSON

Q. In objecting to longer-term QF contracts, both Mr. Clements and Mr. Peterson point to the risk that long-term power purchase agreement ("PPA") prices may not remain consistent with long-term avoided costs over time.[1] What is your response?

[1] E.g., Clements Rebuttal, lines 209-211; Peterson Rebuttal, lines 202-209.

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

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

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

price PURPA contracts even though its IRP shows that "no new resource is required until 2028."[2] Do you have any comments on this characterization?

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

Q. Mr. Clements disagrees with your suggestion that no changes should be made in the term of QF PPAs at this point in time in light of the uncertainties of environmental regulations, pointing out that developers retain ownership of RECs.[3] How do you respond?

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

[2] E.g., Clements Rebuttal, lines 29-33.
[3] E.g., Clements Rebuttal, lines 301-325.

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

Q. Office witness Bela Vastag notes that the policy of encouraging renewable energy development must be reconciled with another goal of PURPA to set QF prices so as to protect ratepayers.[4] Do you agree?

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

Q. Mr. Clements attempts to support his argument for dramatically reducing the term of QF PPAs by pointing to reductions in RMP's avoided cost prices over the last few years.[5] Do you think this supports his contention?

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

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[4] E.g., Vastag Rebuttal, lines 98-103.
[5] E.g., Clements Rebuttal, lines 196-200.

Q. How do you respond to Mr. Clements' assertion that long-term QF PPAs are inconsistent with the Company's hedging policies?[6]

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

Q. Mr. Peterson claims that the current uncertain environment makes it "premature to make definitive resource decisions."[7] What is your response?

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

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[6] E.g., Clements Rebuttal, lines 225-233.
[7] E.g., Peterson Rebuttal, lines 138-139.

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

Q. Mr. Peterson complains that a utility must take QF energy whether or not it needs it and whether or not it is economic.[8] Do you agree?

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

PURPA imposes a must-take obligation, but only at the cost the utility is expected to avoid when purchasing QF power. Thus, it is not a matter of taking unneeded or uneconomic energy, but rather substituting one source of energy (which federal and state policy makers have decided to encourage) for another source. And, while Mr. Peterson is correct that prices in any long-term contract might be different than then-available resources over time, the same is true of any long-term resource, and the opposite is also always possible – that then-available resources may be much more expensive than the long-term committed prices. Such risks are unavoidable and are best addressed through a reasonable and diverse portfolio of various resource types and contract lengths, and through the use of reasonable projections and assumptions in setting avoided cost rates.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

[8] E.g., Peterson Rebuttal, lines 176-179.