BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF ROCKY MOUNTAIN POWER FOR MODIFICATION OF TERMS AND CONDITIONS OF PURPA PURCHASE AGREEMENTS AND FOR MODIFICATION OF ITS AVOIDED COST METHODOLOGY	**CASE NO. PAC-E-15-03** **PETITION OF ROCKY MOUNTAIN POWER**

PACIFICORP

DIRECT TESTIMONY

OF

BRIAN S. DICKMAN

Q. Please state your name, business address, and present position with Rocky Mountain Power ("the Company"), a division of PacifiCorp.

A. My name is Brian S. Dickman. My business address is 825 NE Multnomah Street, Suite 600, Portland, Oregon 97232. My title is Director, Net Power Costs.

Q. Briefly describe your education and business experience.

A. I received a Master of Business Administration from the University of Utah with an emphasis in finance and a Bachelor of Science degree in accounting from Utah State University. Prior to joining the Company, I was employed as an analyst for Duke Energy Trading and Marketing. I have been employed by the Company since 2003 including positions in revenue requirement and regulatory affairs, and I assumed my current role managing the Company's net power cost group in March 2012.

Q. Have you testified in previous regulatory proceedings?

A. Yes. I have filed testimony in proceedings before the public utility commissions in California, Idaho, Oregon, Utah, and Wyoming.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony supports the Company's application to modify the non-standard avoided costs in Idaho. I describe a significant shortcoming of the currently-approved method for calculating non-standard avoided cost prices in Idaho (the "IRP Method"). In particular, the IRP Method does not recognize the impact of proposed qualifying facility ("QF") contracts that are not yet signed but have requested indicative avoided cost prices and are actively pursuing a power purchase agreement with the Company.

IRP Method Background

Q. Please describe the IRP Method approved for calculating avoided costs in Idaho.

A. The IRP Method was adopted by the Commission December 18, 2012, in Case No. GNR-E-11-03, and is applicable to wind and solar QF projects larger than 100 kW.[1] The IRP Method focuses on identifying the incremental costs that can be avoided when a QF is added to a utility's system and is intended to be consistent with the Company's biennial Integrated Resource Plan ("IRP"). Avoided cost prices are composed of displaceable energy costs plus the capacity costs of a simple cycle combustion turbine ("SCCT") beginning when the utility adds a new thermal resource in its IRP. To calculate the avoided energy costs, the Company's production cost dispatch model ("GRID") is used to identify the highest displaceable incremental cost (i.e. generation from Company-owned resources or displaceable power purchases) for each hour of the QF's proposed contact term.

Q. Is the concept embodied in the IRP Method a reasonable approach to calculating avoided costs?

A. Yes. In concept, the IRP Method is a reasonable approach to calculating avoided costs for several reasons. In particular, the IRP Method relies on the Company's GRID model in order to capture the impact to PacifiCorp's entire system when a QF is added. The GRID model is configured to recognize the attributes of

[1] The IRP Method is also applicable to other types of QF projects that are 10aMW or larger.

individual QF projects – such as size, generation profile, and location – as well as the Company's ability to integrate the QF's output onto its system subject to transmission constraints. Furthermore, the IRP Method recognizes that avoided capacity costs should only be included when the Company will actually avoid building new resources. These concepts help maintain the customer indifference between QF generation and generation or purchases that the Company would otherwise require.

Q. Have you identified any shortcomings in the Commission's methodology for implementation of the IRP Method in Idaho?

A. Yes. The IRP Method does not recognize the impact of proposed QF projects that do not yet have a signed contract but are at some stage in the process of receiving indicative avoided cost prices and pursuing a power purchase agreement with the Company.

Proposed QF Projects

Q. Please explain what is meant by a proposed QF contract.

A. A proposed QF contract is one that has begun the process required to enter into a power purchase agreement with the Company, but for which a signed contract has not yet been executed. At the time a new QF in Idaho submits a request to receive indicative avoided cost prices, there may be dozens of other projects (in Idaho or in any of the other states served by PacifiCorp) that have also already requested prices and started down the path of executing a power purchase agreement. Under the current IRP Methodology, however, only signed long-term power purchase contracts can be included in the GRID model, so each new QF is priced as if it was the only proposed QF project to request prices. All other proposed QF projects are ignored even though they too are seeking PURPA contracts.

Q. What is the impact on avoided costs due to ignoring the proposed QF projects in the pricing queue when calculating prices?

A. Avoided costs for the first QF in the queue are based on displacement of the highest cost resources on the Company's system. Each successive QF should displace lower and lower cost resources, resulting in lower avoided costs. More importantly, recognizing additional QFs on the Company's system defers the need to build new resources. Accumulating several QF projects may completely displace planned thermal resources additions and delay the payment of capacity costs to the next QF in line. If the queued QFs are ignored, the IRP Method will result in payments to QFs that exceed avoided costs.

Q. But doesn't PURPA envision imperfections in avoided cost rates?

A. Yes. In its order implementing PURPA regulations, the Federal Energy Regulatory Commission ("FERC") stated that it "believes that, in the long run, 'overestimations' and 'underestimations' of avoided costs will balance out."[2] However, ignoring other proposed QF projects is an avoided cost methodology error that results in a one way imperfection – overestimations that will not, in fact, balance out in the long run. This is in direct conflict with FERC's PURPA regulation, which makes it clear that an electric utility is under no circumstances required to pay more than avoided cost for QF purchases.[3] By contrast, the same regulations allow state commissions to set a rate for purchases that is *lower* than

[2] *See Small Power Production and Cogeneration Facilities – Rates and Exemptions*, Order No. 69, Final Rule Regarding the Implementation of Section 210 of PURPA, 45 Fed. Reg. 12214, at 12224 (1980).

avoided cost, so long as it is just, reasonable, nondiscriminatory and is sufficient to encourage small power production.[4]

Q. Has the Commission recognized the importance of reflecting new long-term contracts in the determination of avoided costs?

A. Yes. In Order No. 32697 the Commission determined it was appropriate to update the IRP Method modeling to account for new "long-term contract commitments because of the potential effect that such commitments have on a utility's load and resource balance."[5] However, the Commission limited the recognition of new long-term commitments to only signed contracts.

Q. Was the issue of reflecting proposed QFs in the determination of avoided costs raised in that proceeding?

A. Yes. Idaho Power Company ("Idaho Power") proposed that any QF with signed contracts and any proposed QF that has requested pricing be included in Idaho Power's resource portfolio for purposes of calculating future avoided costs because they can impact future avoided costs.[6] For purposes of calculating avoided costs, Idaho Power proposed that a QF would be designated as "in the queue" upon receipt of a written request from a QF for contract pricing.[7]

Q. What was Idaho Power's rationale for proposing to reflect proposed QFs in the determination of avoided costs?

A. Idaho Power explained that if proposed QFs and QFs with signed contracts are

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[3] 18 C.F.R. § 292.304(a)(2).
[4] 18 C.F.R. § 292.304(b)(3).
[5] *In re Review of PUPA QF Contract Provisions*, Case No. GNR-E-11-03, Order No. 32697 at 22 (Dec. 2012).
[6] Case No. GNR-E-11-03, Idaho Power Company, Direct Testimony of Karl Bokenkamp at 28 (Jan. 31, 2012).
[7] *Id.*

considered part of the resource portfolio, then avoided cost rates for energy and capacity could change for each new QF as a result of the total amount of capacity and energy provided by all projects in Idaho Power's portfolio – changes that are not captured if the recognition of new long-term commitments is limited to signed contracts.

Q. Would reflecting proposed QFs in the determination of avoided cost rates be consistent with FERC PURPA regulations?

A. Yes. Federal regulations governing the rates for QF purchases state that, to the extent practicable, the following shall be taken into account: "[t]he availability of capacity or energy from a qualifying facility during the system daily and seasonal peak periods, including . . . [t]he individual ***and aggregate*** value of energy and capacity from qualifying facilities on the electric utility's system."[8] This language makes it clear that considering QFs in the aggregate is an important consideration because it may impact the accuracy of avoided cost rates.[9]

Q. Would reflecting proposed QFs in the determination of avoided cost rates be consistent with other FERC policies?

A. Yes. FERC's long-standing interconnection policies – policies that form the foundation for state jurisdictional QF interconnections – require interconnection studies to evaluate the impact of a proposed interconnection by considering all

[8] 18 C.F.R. § 292.304(e)(2)(vi) (emphasis added).

[9] In its 1980 order implementing these regulations, FERC explained that this provision would allow for QFs to be considered in the aggregate for purposes of allowing a group of QFs to potentially enable a purchasing utility to defer or avoid scheduled capacity additions despite that each QF, if considered individually, would not provide capacity value. *See* Small Power Production and Cogeneration Facilities – Rates and Exemptions, Order No. 69, Final Rule Regarding the Implementation of Section 210 of PURPA, 45 Fed. Reg. 12214, at 12224, 12227, 12236 (1980). However, it follows that considering QFs in the aggregate may have other impacts on avoided cost rates as well, and the language of the regulation does not preclude such an interpretation.

generating facilities that, as of the date the study is commenced, have a pending, higher-queued interconnection request to interconnect to the transmission system.[10]

Q. What is FERC's rationale for this policy?

A. This policy is designed to, among other things, allow for a fair network upgrade cost allocation mechanism. FERC has stated that it would be unfair to require an interconnection customer to sign an interconnection agreement before the interconnection studies identify its requirements for interconnection facilities and network upgrades.[11] To that end, FERC stated, "[w]e recognize that including all the higher queued projects will require a restudy when a higher queued project drops out, but it is essential to include each higher queued project in the study because the Interconnection Studies will be meaningless if higher queued projects are not included."[12]

Q. Does the same rationale apply with regard to reflecting queued QFs in the determination of avoided costs?

A. Yes. Just as each successive QF displaces lower and lower cost resources and, thus, results in lower avoided costs and defers the need to build new resources, the network upgrades necessary to accommodate each interconnection customer's interconnection (as determined in the interconnection study) impacts whether and what type of network upgrades may be required to accommodate the interconnection customer next in the queue and, thus, that next interconnection customer's network upgrade cost allocation. If, on the other hand, the higher

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[10] FERC *Pro Forma* Large Generator Interconnection Procedures, Section 7.3; FERC *Pro forma* Small Generator System Impact Study Agreement, Section 8.

[11] *See, e.g.*, *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003-A, 106 FERC ¶ 61,220 at P 161 (2004).

[12] *Id.*

queued interconnection customers were ignored, the interconnection studies would result in network upgrade cost allocations that exceed what is actually required to interconnect the customer, just as the payments to QFs exceed avoided costs if queued QFs are ignored in the determination of avoided cost rates.

Q. Did the Commission approve Idaho Power's proposed queued QF policy?

A. No. Order No. 32697 adopted Commission Staff's position on this issue – *i.e.*, that only signed QF contracts should be reflected in avoided cost rates – without comment.[13] However, Commission Staff reasoned that "[t]he mere indication of interest or request for a contract is too speculative to justify incorporating a change in the utility's load-resource balance."[14] With regard to Idaho Power's queued QF policy proposal, Commission Staff concluded that "[t]echnically, Idaho Power's avoided costs do not change until a new QF has actually been added to the resource portfolio. A QF that has not signed a contract cannot yet be considered part of the resource portfolio."[15]

Q. Why are you asking the Commission to revisit this Commission Staff conclusion?

A. Since the time of this proceeding, there have been two significant shifts in the PURPA landscape – shifts the Commission Staff could not have anticipated. First, FERC issued a series of orders clarifying that QFs can, under certain circumstances, unilaterally enter into a purchase obligation and lock in avoided cost rates. Second, there has been a drastic increase in the number of QF requests

[13] Case No. GNR-E-11-03, Order No. 32697 at 22.
[14] Case No. GNR-E-11-03, Idaho Public Utilities Commission, Direct Testimony of Rick Sterling, at 24 (May 4, 2012).
[15] *Id.*

received by the Company.

Q. Can you explain the first shift in more detail?

A. Yes. Historically, FERC has stated that it will defer to the states regarding the date on which a legally enforceable obligation ("LEO") is incurred. However, FERC issued four orders in recent years that curtailed state discretion on this issue.[16] All four orders ruled that a state may not require a QF to obtain a fully executed contract as a precondition to obtaining a LEO, with the final order indicating that a LEO may arise even before *any* party signs an agreement.

Q. Why would these FERC orders impact the Commission Staff conclusion regarding whether queued QFs should be reflected in avoided costs?

A. Commission Staff's conclusion was that the indication of interest or request for a contract was too speculative to justify incorporating a change in the utility's load-resource balance, and that avoided costs do not change until a new QF has actually been added to the resource portfolio, which cannot occur until a QF has signed a contract. However, the recent FERC orders on the establishment of LEOs make it clear that a QF can unilaterally establish a right to sell to a utility before the contract is signed. Therefore, to ensure ratepayers are protected against an avoided cost rate methodology that results in overestimations that will not balance out in the long run, proposed QFs should be reflected in avoided costs.

Q. Can you explain the second shift in the PURPA landscape related to the drastic increase in the number of QF requests received by the Company?

A. Yes. Company witness Paul Clements describes the significant increase in recent

[16] *Grouse Creek Wind Park, LLC*, 142 FERC ¶ 61,187 (2013); *Murphy Flat Pwr., LLC*, 141 FERC ¶ 61,145 (2012); *Rainbow Ranch Wind, LLC*, 139 FERC ¶ 61,077 (2012); *Cedar Creek Wind, LLC*, 137 FERC ¶ 61,006 (2011).

PURPA contract activity over the Company's six-state system. Of particular relevance here, more than half of the total PURPA MWs have online dates of 2014 or later.

Q. How many proposed QFs are currently in the Company's queue?

A. Company witness Paul Clements also provides the details of the current QF activity. In total, the Company currently has 3,641 MW of proposed QF projects.

Q. Have you calculated the impact on avoided costs if proposed QFs are included in the IRP Method?

A. Yes. The Company calculated the impact on the IRP Method avoided costs of including roughly 3,000 MW of proposed QFs (located in Idaho, Utah, Wyoming, Oregon) prior to the next Idaho QF. Accounting for these proposed QFs rather than just those QFs with signed contracts reduces avoided costs for the next Idaho QF in the pricing queue by approximately $18 per MWh on a 20-year levelized basis – a 37 percent reduction compared to the indicative price that same QF would receive if the queue of proposed QFs was not considered.

Q. Could you not just recalculate prices for new QF projects as other proposed QFs sign contracts?

A. No. Besides being prohibitively time consuming and problematic from a contract negotiation standpoint, there may be situations where multiple QFs progress toward a LEO at the same pace, and it would be impossible for the Company to update pricing as needed to reflect the unilateral contract commitments that occur.

Q. Do any other states served by the Company recognize proposed QFs in the calculation of avoided costs?

A. Yes. The Company includes proposed QFs in the calculation of non-standard avoided cost prices in Utah.

Recommendation

Q. What action do you recommend the Commission take to remedy the IRP method shortcomings identified in your testimony?

A. The Commission should modify the IRP Method to account for proposed QF projects on the Company's system prior to the next Idaho QF requesting indicative prices.

Q. Does this conclude your direct testimony?

A. Yes.