

June 11, 2015

OVERNIGHT DELIVERY

Jean D. Jewell Commission Secretary Idaho Public Utilities Commission 472 W. Washington Boise, ID 83702

Attention: Jean D. Jewell Commission Secretary

RE: CASE NO. PAC-E-15-03 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

Please find enclosed for filing an original and nine (9) copies of Mr. Paul H. Clements' rebuttal testimony on behalf of Rocky Mountain Power in the above-referenced matter. Also enclosed is a CD containing a Word version of Mr. Clements testimony for the court reporter.

Informal inquiries may be directed to Ted Weston, Idaho Regulatory Manager at (801) 220-2963.

Very truly yours,

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feffrey K. Larsen Vice President, Regulation

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2015 JUN 1 1 AM 10: 32 IDAHO PUBLIC UTILITIES COMMISSION

201 South Main, Suite 2300 Salt Lake City, Utah 84111

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

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IN THE MATTER OF IDAHO POWER COMPANY'S PETITION TO MODIFY TERMS AND CONDITIONS OF PURPA PURCHASE AGREEMENTS CASE NO. PAC-E-15-03

CASE NO. IPC-E-15-01

IN THE MATTER OF AVISTA CORPORATION'S PETITION TO MODIFY TERMS AND CONDITIONS OF PURPA PURCHASE AGREEMENTS

CASE NO. AVU-E-15-01

ROCKY MOUNTAIN POWER

REBUTTAL TESTIMONY

OF

PAUL H. CLEMENTS

1	Q.	Please state your name, business address, and present position with Rocky
2		Mountain Power ("Rocky Mountain Power"), a division of PacifiCorp.
3	A.	My name is Paul H. Clements. My business address is 201 S. Main, Suite 2300,
4		Salt Lake City, Utah 84111. My present position is Senior Originator/Power
5		Marketer for Rocky Mountain Power. Rocky Mountain Power is a division of
6		PacifiCorp.
7	Q.	Are you the same Paul H. Clements who previously submitted direct
8		testimony in this proceeding?
9	A.	Yes.
10	PURI	POSE AND SUMMARY OF TESTIMONY
11	Q.	What is the purpose of your rebuttal testimony?
12	A.	The purpose of my rebuttal testimony is to address certain issues raised by Dr.
13		Don Reading in his direct and rebuttal testimony filed on behalf of J. R. Simplot
14		Company ("Simplot") and Clearwater Paper Corporation ("Clearwater"), and Mr.
15		R. Thomas Beach and Mr. Adam Wenner in their direct testimony filed on behalf
16		of the Idaho Conservation League and the Sierra Club. My testimony will also
17		indirectly address the same or similar issues raised by other witnesses on behalf of
18		intervenors that oppose the petition of Idaho Power Company ("Idaho Power") in
19		Case No. IPC-E-15-01 or the petition of Avista Corporation ("Avista") in Case
20		No. AVU-E-15-01.
21		My testimony will explain why:
22		(1) the citation of Dr. Reading to testimony of Mr. Gregory N. Duvall on
23		behalf of PacifiCorp in Washington Utilities and Transportation

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1		Commission ("WUTC") cases does not support the position of Simplot
2		and Clearwater that the term of power purchase agreements ("PPAs") with
3		qualifying facilities ("QFs") should not be reduced at this time;
4		(2) it is appropriate for generation resources owned and operated by public
5		utilities to be treated differently than generation resources owned and
6		operated by QFs;
7		(3) it is not a violation of the Public Utility Regulatory Policies Act of
8		1978 ("PURPA") to limit the term of PPAs with QFs to three years;
9		(4) the alternative proposal of Simplot and Clearwater to maintain a 20-
10		year term for QF contracts, but to allow the energy component of the price
11		to vary during the last ten years of the term does not significantly reduce
12		the risks which customers are exposed to by long-term contracts; and,
13		(5) providing QFs with longer term contracts than current hedging
14		guidelines is potentially harmful to customers.
15		My testimony also notes that no party has opposed the recommendation of Mr.
16		Brian S. Dickman that the Integrated Resource Plan ("IRP") Method of
17		determining indicative pricing for proposed QF projects on the Company's system
18		includes prior QF requests for indicative pricing and that Commission Staff
19		supports his recommendation.
20	Q.	Does the fact that you are not commenting on other issues raised in the direct
21		or rebuttal testimony of these or other witnesses indicate that you agree with
22		their positions?
23	A.	No. I believe that other issues raised by witnesses for parties opposing the

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1		petitions of the utilities in these consolidated cases have been more than
2		adequately addressed in the direct testimony filed by the utilities or in the direct
3		and rebuttal testimony of Mr. Rick Sterling filed on behalf of the Staff of the
4		Commission. I also understand that Idaho Power and Avista are filing rebuttal
5		testimony addressing the issues raised by opponents to their petitions.
6	Q.	Is Rocky Mountain Power filing rebuttal testimony of any other witness in
7		these consolidated cases?
8	A.	No.
9	TEST	TIMONY OF MR. GREGORY N. DUVALL IN WASHINGTON
10	Q.	Dr. Reading cites testimony of Mr. Duvall in two Washington Utilities and
11		Transportation Commission ("WUTC") cases in support of his argument
12		that it is inappropriate to compare the price of PURPA resources to market
13		prices. (Reading Direct. page. 17, line 1 - page 18, line 2.) Does Mr. Duvall's
14		testimony support Simplot's and Clearwater's opposition to the petitions of
15		the utilities to shorten the term of QF contracts?
16	A.	No. Mr. Duvall's testimony did not address the subject of the appropriate term of
17		QF contracts in the current environment and did not in any way suggest that QF
18		contracts need to have a term of 20 years to ensure that they include capacity
19		payments.
20	Q.	What did Mr. Duvall's rebuttal testimony in the 2013 WUTC docket
21		address?
22	A.	Mr. Duvall's rebuttal testimony in WUTC Docket UE-130043 was offered in
23		response to claims by parties in that general rate case that the costs of

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1 PacifiCorp's contracts with QFs located in California and Oregon should not be 2 included in its net power costs for purposes of determining rates for customers in 3 Washington even though those projects were located in PacifiCorp's West 4 Control Area. As this Commission is aware, Washington has a unique position among PacifiCorp's states in refusing to include an attributable share of system 5 6 wide resources in Washington's cost of service and limiting the cost of service to 7 include only certain West Control Area resources. Parties in the general rate case 8 took the position that the costs of existing contracts with OFs located in California 9 and Oregon should not be included even though power purchased under those 10 contracts supported service to customers in Washington.

11 One of the party's arguments in support of that position was that excluding 12 the Oregon and California QF contracts from West Control Area net power costs is equivalent to replacing these resources with market purchases. The sentence 13 14 from Mr. Duvall's testimony quoted by Dr. Reading was in response to that 15 argument. Mr. Duvall explained that PacifiCorp's Schedule 37 in Washington 16 requires the Company to pay QFs located in Washington a payment for both energy and capacity, with energy payments reflecting the Company's incremental 17 18 cost of market transactions and thermal output, and capacity payments reflecting 19 the fixed costs associated with a simple cycle combustion turbine for three months 20 per year. Thus, Mr. Duvall was pointing out that the argument of the party was 21 inconsistent with current Washington regulations.¹

¹ Exhibit 204 at 11 (Rebuttal Testimony of Gregory N. Duvall) WUTC Docket UE-130043 (Aug. 2, 2013), p. 22.).

1 Dr. Reading failed to note that one of the reasons for the opposition to 2 inclusion of contract costs associated with OFs located in California and Oregon 3 offered by WUTC Staff was that the avoided costs for QF projects entering into 4 contracts in California and Oregon were determined for terms longer than the 5 terms in Washington. In Washington, PacifiCorp's standard avoided costs are 6 available only for terms of up to five years. WUTC Staff argued, as do the utilities 7 in this case, that the longer terms in the OF contracts in California and Oregon exposed customers to unreasonable risks.² It was also apparent that there was a 8 9 recent significant increase in purchases of power from new OF projects in 10 California and Oregon, consistent with the evidence in this case.³ The Washington 11 Commission accepted the position of Staff and other parties in the 2013 general 12 rate case and excluded Washington's allocated share of the costs associated with 13 contracts with QF projects located in California and Oregon from PacifiCorp's net 14 power costs in Washington.

What was addressed in Mr. Duvall's testimony in the 2014 WUTC docket? 15 0.

16 A. Mr. Duvall's testimony in the 2014 general rate case was an effort to have the 17 Washington Commission reconsider its prior ruling. The point of his testimony 18 was that it is inappropriate for the Washington Commission to disallow costs of 19 PURPA contracts approved by other state commissions. In support of this point, 20 he explained why avoided costs determined in the past may have been reasonable then, but may differ from current market prices. He did not testify that state 21

 ² Id. at 7-9 (pages 18-20 of Duvall Rebuttal Testimony).
 ³ Id. at 8-9 (pages 19-20 of Duvall Rebuttal Testimony).

commission's should require long QF contract terms so that capacity costs are
 included or that capacity costs should be included if they are not avoided. His
 testimony is not inconsistent with Rocky Mountain Power's position in this case.

Rocky Mountain Power's position is that the Commission should approve
a modification to the current requirements for new PPAs with QFs to reduce the
term of contracts from 20 to three years because in the current environment a 20year term creates too much price risk for customers. Mr. Duvall's testimony
urging the Washington Commission to allow PacifiCorp to recover an appropriate
share of the costs of previously-approved QF contracts is unrelated to that
position.

11 UTILITY RESOURCES ARE NOT COMPARABLE TO QF FACILITIES

Q. Dr. Reading claims that reducing the term of QF contracts is unfair because
when utilities build or acquire generation plants or contract for resources,
they have or may have much longer lives. (*See, e.g.*, Reading Direct page 9
lines 8-16, page 12 lines 1-5, page 13 line 13 - page 15 line 6; Reading
Rebuttal page 7 lines 7-11, page 8 lines 13-19.) Do you agree that QFs must
be treated the same as utility resources?

18 A. No. In my direct testimony, I identified most of the differences between utility 19 resources and QFs that justify different treatment. As I discussed there, before a 20 utility builds or acquires a resource, it goes through an extensive management 21 review and integrated resource plan ("IRP") process identifying needs and 22 potential resources, including identifying the portfolio of resources that will meet 23 future requirements on a least-cost and least-risk basis. The utility may also be

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required to obtain a certificate of public convenience and necessity before constructing a new resource. This requires a demonstration that the resource is needed and that its construction is in the public interest. In addition, major utility resources are acquired only through a thorough request for proposals ("RFP") process that is often monitored by an independent evaluator. After a resource is acquired, it is used or dispatched by the utility only when its use is the best available alternative.

8 In addition, acquisition of utility resources that are viewed as hedges 9 against future price volatility, (such as market-based PPAs), are done only for 10 terms of up to three years unless interested stakeholders, including regulators and 11 customer representatives, agree that longer term hedges should be acquired. And 12 hedges are only transacted based on strict risk management policies that consider 13 need and that do not allow hedging beyond a reasonable portion of the utility's 14 anticipated load.

15 PURPA contracts, on the other hand, are based on projects built by a third 16 party without any assessment of the needs of the utility and without any of the 17 scrutiny imposed by the IRP, certificate of public convenience and necessity or 18 RFP processes, let alone the heightened management review associated with 19 longer term resources. The prices for the OF projects are based on the utility's 20 avoided costs rather than the costs of the project. Depending on the nature of the 21 PPA, the QF may sell power to the utility whenever it wishes without regard to 22 the utility's needs at any given time and without regard to the availability of lower cost resources to meet current needs. 23

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Do other witnesses agree with your position?

2 Yes. In addition to the witnesses for Idaho Power and Avista, Mr. Rick Sterling of Α. the Commission Staff has explained why it is appropriate to treat utility 3 4 generation resources differently than QF resources in his rebuttal testimony. In 5 addition to some of the reasons, I have reiterated above, Mr. Sterling points out 6 that many of the differences in treatment are required by PURPA and are 7 advantageous to the QF. He also notes that the fuel and variable costs of utility 8 resources are subject to annual adjustment, but PURPA prices are fixed for the 9 entire duration of the contract. (Sterling Rebuttal, page 1 line 18 - page 2 line 22.) 10 Q. In the context of these differences, is your recommendation that the term of 11 QF contracts be reduced to three years fair in light of the fact that some 12 existing utility generation plants and other resources have longer anticipated 13 lives?

14 A. Yes. The fact that a PURPA contract only has a term of three years does not mean 15 that the project will have only a three-year life. Rocky Mountain Power will be 16 required to purchase the power produced by the project as long as PURPA 17 requirements exist and the project qualifies as a QF under PURPA. Limiting the term of the contract to three years simply means that the price Rocky Mountain 18 19 Power and its customers will be required to pay to the QF will be subject to 20 adjustment every three years and be more closely aligned with Rocky Mountain 21 Power's current avoided costs.

PURPA DOES NOT REQUIRE LONG-TERM CONTRACTS 1 Mr. Adam Wenner offers his opinion that reducing the term of OF contracts 2 0. 3 from 20 to two years as proposed by Idaho Power is inconsistent with FERC's regulations and PURPA. (Wenner Direct page 2, lines 5-8.) Do you 4 5 agree? 6 Before answering, I want to make clear that I am not an attorney and am not A. 7 offering a legal opinion. My answer is based on my knowledge of the contract 8 terms for PURPA contracts in PacifiCorp's states and my understanding of the 9 plain language of PURPA and FERC regulations. 10 As I stated in my direct testimony, this Commission previously reduced 11 the term of contracts to five years during the period from 1997 to 2002. I am not 12 aware that FERC or any Court concluded that this action by the Commission was contrary to PURPA or FERC regulations. 13 I am also aware that the Company only offers fixed standard avoided costs 14 15 in Washington for up to five years. Again, I am not aware that FERC or any court 16 concluded that these terms, significantly shorter than 20 years, are inconsistent 17 with PURPA or FERC regulations. 18 I have reviewed both PURPA and the FERC regulations under PURPA 19 and have been unable to locate any statement that contracts approved under 20 PURPA are to have any specific term. I have also reviewed Mr. Wenner's 21 testimony and fail to see any citation in his testimony that expressly requires 22 contracts approved under PURPA to have any specific term. On the other hand, as 23 noted in my direct testimony, I am aware of cases indicating that state

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1		commissions have wide discretion in establishing the key terms and conditions of
2		PURPA contracts as long as their actions are consistent with FERC's regulations.
3		(See Clements Direct, page 9 line 20 - page 10 line 7.)
4	SIMF	PLOT'S AND CLEARWATER'S ALTERNATIVE PROPOSAL IS NOT IN
5	THE	PUBLIC INTEREST
6	Q.	In his rebuttal testimony, Dr. Reading proposes an alternative that he claims
7		balances the interests of utilities and QFs. (Reading Rebuttal, page 3 lines 6-
8		16.) Does this alternative proposal satisfy the concerns of Rocky Mountain
9		Power?
10	A.	No. The primary concern of Rocky Mountain Power that led to its petition is that
11		it is currently inundated with proposals for new QF projects to provide power that
12		is not needed to meet customers' needs. Entering into contracts with these
13		proposed projects for a term of 20 years would expose customers to unreasonable
14		price risks. Dr. Reading's alternative proposal does not significantly mitigate this
15		risk.
16		The alternative QF contract terms suggested by Dr. Reading, which
17		include a fixed capacity payment for 20 years and fixed energy payments for 10
18		years, still expose customers to unnecessary long term fixed price risk for the
19		same reasons set forth in my direct testimony. Namely, they still:
20		1. exceed the Company's current hedging policies and practices;
21		2. are not consistent with the Company's IRP-based long term planning
22		approach; and,
23		3. are not consistent with the Company's RFP-based approach to obtaining long

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- term resources.
- 2 The terms of Dr. Reading's alternative proposal expose customers to risks that 3 they would not otherwise have absent the QF.
- 4 LONG-TERM QF CONTRACTS ARE NOT AN EFFECTIVE HEDGE

5 Q. Mr. Beach states in his direct testimony that 20-year QF contracts provide 6 hedging benefits. (Beach Direct, page 21, line 8 - page 25, line 25.) Do you 7 agree?

8 No. As discussed in my direct testimony, during the collaborative process A. 9 involving Rocky Mountain Power, regulators and customer representatives in 10 2011 and 2012, a consensus was reached that the Company should not hedge 11 beyond a three-year time horizon unless stakeholders expressed a specific interest 12 for longer term hedges based on current market conditions. Contracts with QFs for twenty years or even ten years are far beyond that time horizon found 13 reasonable in the collaborative process. They are also far beyond the term of any 14 15 other hedge implemented by the Company as set forth in its risk management 16 policy.

1	THERE IS NO OPPOSITION TO MODIFYING THE AVOIDED COST PRICING	
2	MET	HOD TO CONSIDER ALL PURPA CONTRACTS IN THE QUEUE
3	Q.	In his direct testimony, Mr. Brian Dickman proposed that the Commission
4		modify the IRP method for determining avoided costs for non-standard QF
5		projects to account for proposed QF projects on the Company's system prior
6		to the next Idaho QF requesting indicative pricing. (Dickman Direct page 11
7		lines 6-10.)
8		Did the witnesses for other parties comment on this recommendation?
9	A.	Yes. Commission Staff witness Mr. Yao Yin, supports Rocky Mountain Power's
10		proposal. (Yin Direct, page 9, line 18 - page 10, line 4.) Dr. Reading, testifying on
11		behalf of Simplot and Clearwater, states that "Rocky Mountain Power's
12		suggestion to update the resource stack more quickly to respond to large influxes
13		of QFs may also be appropriate." (Reading Direct, page 35, lines 5-7.)
14	CON	CLUSION
15	Q.	What is your conclusion and recommendation?
16	A.	Witnesses for intervenors that oppose Rocky Mountain Power's petition have not
17		provided sound reasons or evidence for the Commission to reject Rocky
18		Mountain Power's request to reduce the term of QF contracts from 20 to three
19		years.
20		My testimony that the Company has experienced a significant increase in
21		QF pricing requests in Idaho and across its six-state system, the Company has no
22		need for new resources until 2028, and the Company's hedging practices and
23		policies are short-term in nature is un-rebutted. My testimony that given the

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Clements, Re - 12 Rocky Mountain Power 1 magnitude of new QF requests, and considering the inherent uncertainties in 2 projecting avoided cost rates out 20 years or more, current Idaho avoided cost 3 rates are adversely impacting customers and will continue to do so for 20 years is 4 also un-rebutted.

5 The Company's request for approval of a permanent reduction in the 6 maximum contract term for PURPA contracts, from 20 years to three years would 7 be more consistent with the Company's hedging and trading policies and practices 8 for non-PURPA energy contracts and more aligned with the IRP cycle. This 9 change is necessary in order to maintain the ratepayer indifference standard 10 required by PURPA and to protect Idaho customers.

11 The Company's request that the Commission modify the IRP Method to 12 account for proposed QF projects on the Company's system prior to the next 13 Idaho QF requesting indicative pricing is not opposed and should be approved for 14 the reasons stated in Mr. Dickman's direct testimony.

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on this 11th of June 2015, I caused to be served, via e-mail a true and correct copy of the foregoing document in Case Nos. PAC-E-15-03/IPC-E-15-01/AVU-E-15-01 to the following:

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