

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)
APPLICATION OF ROCKY) **CASE NO. PAC-E-21-07**
MOUNTAIN POWER FOR)
AUTHORITY TO INCREASE ITS) **Direct Testimony of Craig M. Eller**
RATES AND CHARGES IN IDAHO) **REDACTED**
AND APPROVAL OF PROPOSED)
ELECTRIC SERVICE SCHEDULES)
AND REGULATIONS)

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-21-07

May 2021

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ATTACHED EXHIBITS

Exhibit No. 36—Interruptible Product Value Update

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, business address, and present position with PacifiCorp**
3 **d/b/a Rocky Mountain Power (the “Company”).**

4 A. My name is Craig M. Eller. My business address is 1407 West North Temple Street,
5 Suite 310, Salt Lake City, Utah 84116. My present position is Vice President, Business
6 Policy and Development for Rocky Mountain Power.

7 **Q. Please describe your education and business experience.**

8 A. I have a B.S. in Mechanical Engineering from the University of Nebraska. I have been
9 employed with PacifiCorp since July 2020 as the Vice President of Business Policy and
10 Development responsible for strategic planning, stakeholder engagement, regulatory
11 support, and development and execution of major transmission projects. Prior to my
12 current role, I worked at Northern Natural Gas Company, an affiliate of the Company,
13 from 2007 through 2020 in various business development, commercial and engineering
14 roles.

15 **II. PURPOSE OF TESTIMONY**

16 **Q. What is the purpose of your testimony?**

17 A. The purpose of my testimony is to describe the current status of the contract
18 negotiations between Rocky Mountain Power and its largest special contract customer
19 in Idaho, P4 Production (formerly Monsanto) (“P4”). I provide a recommendation and
20 analysis regarding the economic valuation of the interruptible products offered by P4
21 to the Company to establish the interruptible credit amount for inclusion in P4’s electric
22 service agreement. My testimony will address the following areas:

- 1 • provide a summary of the current status of the contract negotiations between
- 2 Rocky Mountain Power and P4;
- 3 • provide a summary of how the Company updated the valuation of the P4
- 4 interruptible products consistent with the methodology set out in Commission
- 5 Order No. 32196;
- 6 • provide other relevant information

7 **Q. Why is the Company making a recommendation on P4's contract in conjunction**
8 **with the general rate case?**

9 A. In compliance with Commission Order Nos. 30197 and 32196, the Company is making
10 a recommendation regarding P4's contract and curtailment credit.¹

11 **III. CURRENT STATUS AND BACKGROUND OF CONTRACT**
12 **NEGOTIATIONS**

13 **Q. What is the status of the contract negotiations between Rocky Mountain Power and**
14 **P4?**

15 A. Rocky Mountain Power and P4 have been engaged in contract negotiations since August
16 of 2019. Both companies are fully engaged in seeking an agreement and have been
17 meeting weekly to further discussions. While an agreement has not yet been reached,
18 negotiations have been moving in a positive direction and both companies hope to have
19 an agreement to bring to the Commission prior to the end of this proceeding.

¹ *In the Matter of the Application of PacifiCorp dba Rocky Mountain Power for Approval of an Electric Service Agreement with Monsanto Company*, Case No. PAC-E-06-09, Order No. 30197 (Dec. 18, 2006).
In the Matter of PacifiCorp dba Rocky Mountain Power for Approval of Changes to Its Electric Service Schedules, Case No. PAC-E-10-07, Order No. 32196 (Feb. 28, 2011), at pp. 48-57.

1 **Q. What changes in circumstances are being considered in the contract negotiations?**

2 A. P4's parent company, Bayer AG ("Bayer") has recently announced a goal to be carbon-
3 neutral at its owned facilities, such as P4's facility in Soda Springs, Idaho, by the year
4 2030.² As part of Bayer's carbon-neutral goal, it intends to be served by 100 percent
5 renewable energy. Bayer has indicated that it would like to make incremental steps
6 toward fulfilling its goal prior to 2030.

7 **Q. Has the Company been working with Bayer to facilitate its carbon-neutral goals?**

8 A. Yes. The two companies recently filed an agreement under which the Company agreed
9 to retire, rather than sell, P4's allocated share of RECs generated from system resources
10 ("REC Retirement Agreement").³ Subject to Commission approval, the Agreement will
11 be effective starting calendar year 2021.

12 **Q. Does the REC Retirement Agreement significantly advance achievement of P4's**
13 **carbon-neutral goals?**

14 A. Yes. A large portion of P4's renewable energy goal can be achieved from the Company's
15 own fleet. Based on the 2020 Fuel Mix report, when hydro production is included over
16 22 percent of the energy from the Company's fleet is generated by renewable resources.
17 That percentage will continue to increase and is expected to approach 50 percent by
18 2030.

² See Our Targets to Be Met by 2030, available at <https://www.bayer.com/en/sustainability/targets> (last accessed May 24, 2021).

³ *In the Matter of the Joint Application between Rocky Mountain Power and P4 Production, L.L.C. Requesting Approval of an Agreement to Retire RECS*, Case No. PAC-E-21-08 (March 29, 2021).

1 **Q. Does the REC Retirement Agreement impact P4's rates?**

2 A. Yes. To retire system RECs, the Company will discontinue sale of Idaho-allocated
3 system RECs associated with P4's load. The REC revenue that P4 would otherwise have
4 been allocated from the sale of system RECs generated after 2020 will be discontinued.
5 P4 will continue to receive REC revenue from the sale of any RECs generated prior to
6 2021. As part of this rate case, the Company will remove P4's allocation of REC
7 revenues from the results of operation. This will establish zero REC revenues as P4's
8 base in rates and for the energy cost adjustment mechanism ("ECAM").

9 **Q. Does the REC Retirement Agreement impact other customer's rates?**

10 A. No. Treatment of Idaho's remaining share of RECs will be unchanged. The Company
11 will continue best efforts to monetize the RECs and pass any REC revenue on to
12 customers. This Agreement will not impact other customers because revenue from the
13 sale of P4's share of system RECs was previously passed back to P4 and not to other
14 customers.

15 **Q. Are the Company and P4 working together in any other ways to facilitate its
16 carbon-neutral goals?**

17 A. Yes. The two companies are in continuing discussions to find additional contract
18 structure changes that will enable P4 to reach its 100 percent renewable energy goals
19 while allowing the Company to continue providing low-cost rates and avoiding impact
20 on other customer rates.

1 **Q. Have the companies also been negotiating the structure and economic value of P4's**
2 **reserve products?**

3 **A. Yes. Over the same period, the companies have also been negotiating new terms for the**
4 **reserve products P4 is offering.**

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

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- 14 **Q. Have circumstances changed regarding the value of the P4 reserves products?**
- 15 A. Yes. Since the Commission last set the economic value of P4's reserve products in
16 Order No. 32196, the forward energy market prices have decreased significantly.
17 Forward market prices at Mid-Columbia and Palo Verde for calendar year 2022 are
18 down from an average of \$91/MWh in June 2010 to an average of \$42/MWh in
19 March 2021.
- 20 **Q. Has the Commission issued findings in the past about the value of P4's**
21 **interruptible products?**
- 22 A. Yes. In Attachment C of Order No. 32196 in Case No. PAC-E-10-07, the Commission
23 established the value for each of the interruptible products provided by P4. In its

1 detailed findings in that Order, the Commission provided an explanation of how the
2 values were derived. In most instances, the Commission's values were established
3 using selected results from the various models and methodologies proposed by the
4 different parties in the proceeding.

5 **Q. Please summarize the components in the Commission-ordered value for P4's**
6 **Operating Reserve product.**

7 A. In Order No. 32196, the Commission found that the value of interruptibility "must
8 consist of forecasted energy prices and, where appropriate, the capital cost of
9 capacity."⁴ The Commission established an energy value using the average of the GRID
10 and Front Office Model results proposed by the Company. The Commission established
11 a capacity value based on an average of the capacity costs of Currant Creek using data
12 from FERC Form 1, as proposed by Staff, and an Aero-Derivative simple cycle
13 combustion turbine ("SCCT") using the Company's 2008 Integrated Resource Plan
14 ("IRP") data, as proposed by P4 (formerly Monsanto).

15 **Q. Has Rocky Mountain Power prepared an updated energy value for the Operating**
16 **Reserve product based on current values for the inputs established by the**
17 **Commission in Order No. 32196?**

18 A. Yes. The Company estimated the energy value of the Operating Reserve product in
19 calendar year 2022 using its current long-term GRID model, which incorporates
20 planning assumptions and modeling techniques developed in the Company's 2019 IRP.
21 Two changes in circumstances have led the Company to cease using its Front Office
22 Model for valuing reserves since the prior proceeding.

⁴ Order No. 32196, p. 56.

1 First, falling market prices have led to significantly more periods when market
2 prices are below the incremental cost of the Company's coal and gas resources. When
3 this occurs, those resources can provide operating reserves at no cost. These periods of
4 low market prices are driven in part by significant increases in wind and solar
5 generation both in the Company's portfolio and across the west. As a result, the
6 Company's resource position changes dramatically across the day with solar output and
7 from day to day with wind output. The GRID model evaluates every hour in the year
8 such that it can account for these variations, whereas the Front Office Model did not
9 capture these variations.

10 Second, the rise in wind and solar resources in the Company's portfolio has
11 increased the need for flexible resources that can adjust their output to compensate for
12 changes in load or variable resources such as wind and solar. In the past, an "integration
13 cost" was added to the cost of wind resources to capture these requirements. In the
14 current GRID model, an hourly operating reserve requirement that represents the
15 uncertainty in load, wind, and solar is included as part of system dispatch. When the
16 GRID model sets aside otherwise economic generating resources to meet the operating
17 reserve requirement, it results in more expensive resources being deployed and/or
18 foregone wholesale sales revenues, which increases net power costs. The increase in
19 operating reserve requirements associated with what were formerly referred to as
20 integration costs increases the value of P4's Operating Reserve product, as both reflect
21 demand for flexible capacity.

22 In light of changes in market prices and operating reserve demand, the
23 Company's Front Office Model no longer provides an adequate granularity to

1 reasonably assess the value of the P4 Operating Reserve product. Therefore, the
2 Company only forecasted Operating Reserve product values using the GRID model.

3 **Q. Does Rocky Mountain Power propose modifications to the Commission's**
4 **previously established Operating Reserve product valuation?**

5 A. Yes. First the Company's 2019 IRP preferred portfolio includes a SCCT at Naughton
6 in 2026. As evidenced by its selection in the IRP preferred portfolio, this resource is
7 cost-effective and thus best represents the Company's current cost of meeting its
8 capacity needs. Second, capacity costs and energy costs are inter-related. If the
9 Company were to acquire a SCCT, the energy benefits associated with that plant would
10 flow to customers in the form of a reduced revenue requirement, reflecting the value of
11 the operating reserves it can provide and the margin between its operating cost and that
12 of the higher-priced alternatives the Company would otherwise rely upon. Thus, it is
13 appropriate to net the expected energy benefits of the SCCT resource from the energy
14 value of P4's operating reserve product.

15 **Q. Can you provide a summary of the Operating Reserve product values you have**
16 **discussed?**

17 A. Yes. Table 1 contains a summary of the components of the Operating Reserve product
18 valuation. For comparison, the table includes three values. Column "a" represents the
19 value determined in Order No. 32196. Column "b" represents updates to the value of
20 the operating reserves only and retains the capacity value from Order No. 32196.
21 Finally, Column "c" represents the Company's proposed valuation which updates the
22 operating reserves and capacity value.

1



2 **Q. Please summarize the components in the Commission-ordered value for P4's**
3 **Economic Curtailment product.**

4 A. In Order No. 32196, the Commission found that the Company's proposed valuation of
5 the Economic Curtailment product based on GRID and its Front Office Model was
6 reasonable.

7 **Q. Has Rocky Mountain Power prepared an updated energy value for the Economic**
8 **Curtailment product based on current values for the inputs established by the**
9 **Commission in Order No. 32196?**

10 A. Yes. Because the GRID model does not have intra-hour dispatch, historical EIM
11 operations provide the best insight into the value of P4's Economic Curtailment
12 product. Therefore, the Company prepared a valuation of the proposed dispatch of P4's
13 Economic Curtailment product relative to actual EIM prices from 2017-2020.

14 **Q. Does the Company propose additional changes to the valuation methodology for**
15 **the Economic Curtailment product?**

16 A. Yes. Proposed changes to the Economic Curtailment product allow the Company to
17 utilize the product as a resource in the EIM. As part of EIM participation, utilities must
18 make available flexible resources to ensure that the EIM as a whole has adequate
19 flexibility to balance the system. While the Company has always held "regulation

1 reserves” to meet these requirements, use of P4’s Economic Curtailment product can
2 assist in providing cost-effective sources of supply.

3 First, in light of these changes, the Company proposes recognizing additional
4 operating reserve value in the valuation of the Economic Curtailment product. This
5 additional value is calculated as detailed for the Operating Reserve product above.
6 Second, because the Economic Curtailment product can be recognized as a resource it
7 may be appropriate to include additional capacity credits for the product; however, any
8 recognition of capacity value should similarly recognize the net benefits of the proxy
9 unit as an offset to the capacity credit. To do this, the Company recommends a capacity
10 credit based upon a SCCT unit as described above less anticipated operating reserve
11 and economic dispatch benefits from the SCCT unit.

12 **Q. Can you provide a summary of the Economic Curtailment product values you**
13 **have discussed?**

14 A. Yes. Table 2 contains a summary of the components of the Economic Curtailment
15 product valuation. For comparison, the table includes three values. Column “a”
16 represents the value determined in Order No. 32196. Column “b” represents updates to
17 the value of the economic curtailment value based on historic EIM data. Finally,
18 Column “c” represents the Company’s proposed valuation which includes the
19 additional reserve and capacity values net of SCCT benefits as described above.

20



1 **Q. Can you provide a summary of the Company's proposed total value?**

2 A. Yes. Table 3 contains a summary of the components of the total product valuation.
3 Column "a" represents the value determined in Order No. 32196. Column "b"
4 represents updates to the value of the products using the methodology from the prior
5 order. Finally, Column "c" represents the Company's proposed valuation.

6

[REDACTED]

[REDACTED]

7

IV. RECOMMENDATION

8 **Q. Please summarize the Company's recommendation for the value of P4's**
9 **interruptible credit in this proceeding.**

10 A. The Company is continuing to meet and negotiate with P4 with the intent of reaching
11 an agreement that both parties can bring to the Commission for approval. However, if
12 Rocky Mountain Power and P4 are unable to reach an agreement on economic value,
13 the Company has updated the interruptible credit consistent with Commission Order
14 No. 32196 and recommends the Commission approve the interruptible credits proposed
15 by the Company, as outlined above.

16 **Q. How should the credit value be reflected?**

17 A. The interruptible credit value should be reflected as a line-item credit of [REDACTED]
18 per month on P4's bill, subject to the terms and conditions of the agreement.

1 **Q. Does the Company's recommended value impact the Company's general rate case**
2 **filing?**

3 A. Yes. P4's interruptible credit value for the test period has been included in the net power
4 costs described by Mr. Michael G. Wilding.

5 **Q. Please summarize your recommendation to the Commission.**

6 A. I recommend that absent an agreement between the Company and P4 the Commission
7 approve the interruptible credit value described in my testimony.

8 **Q. Does this conclude your direct testimony?**

9 A. Yes.