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April 22, 2011

VIA HAND DELIVERY

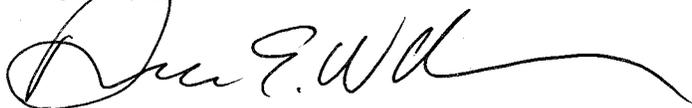
Jean D. Jewell, Secretary
Idaho Public Utilities Commission
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Re: Case No. GNR-E-11-01
*IN THE MATTER OF THE COMMISSION'S INVESTIGATION INTO
DISAGGREGATION AND AN APPROPRIATE PUBLISHED AVOIDED
COST RATE ELIGIBILITY CAP STRUCTURE FOR PURPA QUALIFYING
FACILITIES*

Dear Ms. Jewell:

Enclosed for filing in the above matter are an original and eight (8) copies of the Rebuttal Testimony of M. Mark Stokes. One copy of Mr. Stokes' testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Stokes' testimony is enclosed for the Reporter.

Very truly yours,



Donovan E. Walker

DEW:csb
Enclosures

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S)
INVESTIGATION INTO DISAGGREGATION)
AND AN APPROPRIATE PUBLISHED) CASE NO. GNR-E-11-01
AVOIDED COST RATE ELIGIBILITY CAP)
STRUCTURE FOR PURPA QUALIFYING)
FACILITIES.)
_____)

IDAHO POWER COMPANY

REBUTTAL TESTIMONY

OF

M. MARK STOKES

1 Q. Please state your name and business address.

2 A. My name is M. Mark Stokes and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. Are you the same Mark Stokes that submitted
5 direct testimony in this case?

6 A. Yes, I am.

7 Q. What is the purpose of your rebuttal
8 testimony?

9 A. The purpose of my rebuttal testimony is as
10 follows:

11 (1) To reiterate Idaho Power Company's
12 ("Idaho Power") position that the solution to fixing the
13 issues associated with disaggregation of the Public Utility
14 Regulatory Policies Act of 1978 ("PURPA") projects lies in
15 addressing the underlying economics used in setting avoided
16 cost rates;

17 (2) Using the utilities' Idaho Public
18 Utilities Commission ("Commission")-approved integrated
19 resource plan ("IRP")-based pricing to set avoided cost
20 rates addresses the underlying economic issues for PURPA
21 projects; and

22 (3) The "criteria" proposed by various
23 parties in this docket does nothing to address the
24 underlying economic issues associated with PURPA pricing

1 and will continue to be susceptible to manipulation and
2 gamesmanship, thus failing to resolve the disaggregation
3 issue as requested by the Commission.

4 Q. What is the Commission requesting in this
5 case?

6 A. In Order No. 32915, the Commission stated that
7 it wants "information and investigation of a published
8 avoided cost rate eligibility cap structure that: (1)
9 allows small wind and solar QFs to avail themselves of
10 published rates for projects producing 10 aMW or less; and
11 (2) prevents large QFs from disaggregating in order to
12 obtain a published avoided cost rate that exceeds a
13 utility's avoided cost." Order No. 32915 at 3.

14 Q. Has Idaho Power provided information that
15 responds to these two issues?

16 A. Yes. In my direct testimony, I provided the
17 following Idaho Power recommendations that would resolve
18 both of these issues: (1) make permanent the 100 kilowatt
19 published rate eligibility cap or, alternatively, (2)
20 should the Commission wish to raise the published rate
21 eligibility cap to 10 megawatts or 10 average megawatts,
22 that published rates be established using the IRP-based
23 pricing methodology to determine published rates that are
24 consistent with the utility's avoided costs. The IRP-based

1 methodology examines the unique characteristics of each
2 PURPA project (e.g., size, location, generation profile,
3 etc.) and provides a price the electric utility would
4 otherwise have to pay to acquire similar generation. This
5 truly results in the closest thing to an "apples-to-apples"
6 comparison of the rate the utility should pay for PURPA
7 generation versus the incremental cost the utility avoids
8 by not purchasing generation on its own.

9 Q. Why would addressing the disaggregation
10 problem without addressing the underlying economic issues
11 not solve the disaggregation problem?

12 A. Addressing disaggregation without addressing
13 the underlying pricing and economic issues will not solve
14 the problem, and, indeed, will likely perpetuate it. As
15 long as PURPA developers can select from the different cost
16 and price calculations, they will seek out the higher of
17 the two calculations. They will have a strong economic
18 incentive to disaggregate in order to avail themselves of
19 the published avoided cost rate whenever it is higher than
20 the alternative calculation. For example, the Direct
21 Testimony of Bruce Griswold relates Rocky Mountain Power's
22 experience in Oregon where Oregon electric utilities and
23 PURPA developers, together with the Public Utility
24 Commission of Oregon, entered into a stipulation designed

1 to solve the disaggregation problem by prohibiting
2 qualifying facility ("QF") generators from locating within
3 a five-mile radius of one another if they were owned or
4 affiliated with one another. Griswold, p. 18, line 7
5 through page 20, line 3; see also Direct Testimony of Clint
6 Kalich, p. 32, line 10 through p. 33, line 12. Nonetheless,
7 a single, large PURPA wind project of 64.5 MW was able to
8 manipulate Oregon's five-mile separation rule and
9 disaggregate into nine discreet projects within an eight to
10 ten mile footprint so as to receive the published avoided
11 cost rate in Oregon. *Id.* Similar gamesmanship of the
12 disaggregation rules is likely to occur in Idaho if the
13 underlying economic issues associated with its current
14 PURPA pricing methodology are not addressed.

15 Q. Has the Commission previously examined the
16 disaggregation problem in the PURPA context?

17 A. Yes. Idaho Power has seen the issue of
18 disaggregation as a potential problem for a number of
19 years, and attempted to address the same in Case No. IPC-E-
20 07-04. In that case, Idaho Power proposed that a five-mile
21 separation be implemented between related PURPA projects,
22 rather than the currently accepted one-mile separation
23 required by Federal Energy Regulatory Commission to be
24 certified as a QF, in order to address the issue of

1 disaggregation. This proposal was rejected by Commission
2 Staff ("Staff"), and ultimately by the Commission. Order
3 No. 30415. The Commission rejected Idaho Power's five-mile
4 separation proposal, specifically finding that such a rule
5 "would encourage and might actually promote gamesmanship"
6 by PURPA project developers. Order No. 30415 at 11. The
7 above example of the PURPA project(s) that was able to
8 successfully disaggregate under Oregon's similar five-mile
9 rule shows that the Commission was correct in its finding
10 that a five-mile rule would be subject to gamesmanship and
11 manipulation, just as the current one-mile rule is. I am
12 convinced, as evidenced by the Oregon example mentioned
13 above, that given the underlying economics of the published
14 avoided cost rate, PURPA developers will find a way to
15 engage in gamesmanship with regard to any disaggregation
16 rule set by this Commission to avail themselves of the
17 higher published avoided cost rate.

18 Q. Do any of the other parties to this proceeding
19 support maintaining the 100 kW published rate eligibility
20 cap on a permanent basis?

21 A. Yes, in fact four of the six parties that
22 submitted direct testimony in this proceeding recommend
23 making the 100 kW published rate eligibility cap permanent
24 as a feasible solution to the issue of disaggregation.

1 Those parties include the three utilities, Idaho Power,
2 Avista Corporation, and Rocky Mountain Power, as well as
3 Staff.

4 Q. Do you have any comment or response to the
5 Staff's proposal?

6 A. Yes. Idaho Power fully supports and agrees
7 with Staff's second proposal: "To make permanent the
8 Commission's prior Order to temporarily lower the
9 eligibility cap for published rates to 100 kW for wind and
10 solar resources." Sterling Direct, p. 11. Staff correctly
11 identifies that under this approach, wind and solar
12 projects would still be entitled to contract under PURPA,
13 but the avoided cost rates in those contracts would be
14 based on the IRP methodology. *Id.* Staff believes this to
15 be a feasible option for the Commission and further states
16 that "the IRP methodology can be used for projects of any
17 size and is well suited for wind and solar resources
18 because it can take into account generation characteristics
19 that are unique to wind and solar, in addition to the
20 utility's need for new resources." *Id.* This
21 recommendation by Staff correctly addresses the underlying
22 problem, or the root cause of disaggregation, by
23 eliminating the economic incentive for projects to
24 disaggregate. In addition, this recommendation also

1 addresses the disparity of PURPA projects obtaining a rate
2 that is not an accurate reflection of the utility's avoided
3 cost for such purchases.

4 Q. Do you have any comment or response to Staff's
5 proposed Single Project Criteria?

6 A. Yes. I do not believe that Staff's proposed
7 criteria will alleviate the disaggregation issue as PURPA
8 project developers will still be motivated to game the
9 disaggregation criteria so long as they are economically
10 incented to seek a higher published avoided cost rate.
11 Staff's Single Project Criteria does not address the
12 underlying problem of economics and avoided cost pricing,
13 and so long as the underlying economic issue is
14 unaddressed, PURPA developers will find a way to game the
15 disaggregation criteria when economically incented to do so
16 by different published avoided cost rates. Additionally,
17 Staff's proposal creates a policing role for the electric
18 utilities that are required to purchase power from PURPA
19 projects, requiring the electric utility to make the first
20 determination as to whether a project satisfies the
21 proposed eligibility criteria. This not only creates
22 additional and burdensome administrative roles and
23 responsibilities for the utility, already taxed with
24 onerous administrative duties related to the PURPA

1 contracting process, but also places the utilities in the
2 precarious position of having to, on the one hand, engage
3 in good faith negotiations with a PURPA counter-party
4 while, on the other hand, refuse to negotiate with a PURPA
5 project developer if the utility perceives that the project
6 fails to comply with the proposed eligibility criteria.
7 The utility should not be further forced into this dual
8 role of enforcer and contracting party.

9 Q. Do you have any comment or response to the
10 criteria-based proposals of Megan Decker on behalf of
11 Renewable Northwest Project ("RNP") in its direct testimony
12 and of the Idaho Conservation League's ("ICL") statement of
13 position and strawman proposal?

14 A. Yes. In general, my concerns with the RNP and
15 ICL proposals are the same concerns as those that I have
16 with the Staff's Single Project Criteria proposal; i.e., so
17 long as the underlying economic issue is unaddressed, PURPA
18 developers will find a way to game the disaggregation
19 criteria. As long as the underlying economic issue of an
20 appropriate avoided cost methodology goes unaddressed, an
21 economic incentive for PURPA developers to manipulate any
22 disaggregation criteria will still exist. In addition,
23 similar to the Commission Staff's proposal, the RNP and ICL
24 proposals require that the electric utilities police PURPA

1 eligibility criteria, placing additional burden and
2 administrative complication as well as possibly conflicting
3 interests upon electric utilities in their required
4 negotiations with PURPA developers.

5 Q. Do the Commission Staff's, ICL's, or RNP's
6 criteria-based proposals consider the impact PURPA projects
7 are having on Idaho Power's customers?

8 A. No, and this is the most troubling aspect of
9 all of the criteria-based approaches suggested to the
10 Commission. None of the proposals suggest that their
11 proposed criteria will do anything to ensure Idaho
12 customers are not paying more than the electric utilities'
13 avoided costs for PURPA energy. The proposals simply
14 establish criteria to allow PURPA developers to continue to
15 develop their projects and receive the published avoided
16 cost rate if they meet certain eligibility criteria. These
17 proposals tell only one-side of the PURPA story, the
18 developer's side. The other side of the story is the
19 customer's side, who ultimately has to pay for electricity
20 generated by PURPA projects. The Commission's directive in
21 this proceeding was not simply to devise a way that further
22 PURPA development could be encouraged and continue, but the
23 directive was also to make sure that PURPA QFs were not -
24 and do not "obtain a published avoided cost rate that

1 exceeds a utility's avoided cost," Order No. 32176, p. 11,
2 nor "obtain a rate that is not an accurate reflection of a
3 utility's avoided cost for such purchases." Order No.
4 32195, p. 1. PURPA requires that utility customers be
5 economically indifferent to the effects of whether power is
6 purchased from a QF or otherwise acquired (generated or
7 purchased) by the utility. Because the underlying economic
8 issues are not addressed by the various proposals, these
9 criteria will likely be exploited by PURPA developers so as
10 to avail themselves of the published avoided cost rate to
11 the direct and substantial detriment and financial harm of
12 all of the utilities' customers.

13 Q. Does Idaho Power's proposal to address the
14 disaggregation issue through the application of the IRP-
15 based pricing methodology to set avoided cost rates
16 consider impacts of PURPA projects on Idaho Power's
17 customers?

18 A. Yes. By setting avoided cost rates for PURPA
19 projects based upon the IRP methodology, assurance can be
20 given to customers that they will not be overpaying for
21 energy the electric utilities are avoiding by purchasing
22 PURPA energy. Because the IRP-based methodology addresses
23 the underlying economic issue with the Commission's current
24 policy on PURPA pricing, PURPA developers will have no

1 incentive to exploit disaggregation rules to receive more
2 attractive published avoided cost rates. This approach
3 addresses *both* issues that the Commission ordered be
4 addressed in this docket: (1) it solves the problem of
5 disaggregation and (2) additionally, provides assurance
6 that customers will not be overpaying for PURPA energy by
7 paying a rate that exceeds the utility's avoided cost.
8 This approach is fully supported by all three electric
9 utilities, as well as Commission Staff, and should be
10 implemented by the Commission.

11 Q. Does this conclude your testimony?

12 A. Yes.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 22nd day of April 2011 I served a true and correct copy of the REBUTTAL TESTIMONY OF M. MARK STOKES upon the following named parties by the method indicated below, and addressed to the following:

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