ROCKY MOUNTAIN POWER
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IDAHO PUBLIC
UTILITIES COMMISSION

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

June 29, 2012

VIA OVERNIGHT DELIVERY

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

RE: CASE NO. GNR-E-11-03
IN THE MATTER OF THE COMMISSION'S REVIEW OF PURPA QF CONTRACT PROVISIONS INCLUDING THE SURROGATE AVOIDED RESOURCE (SAR) AND INTEGRATED RESOURCE PLANNING (IRP) METHODOLOGIES FOR CALCULATING PUBLISHED AVOIDED COST RATES.

Dear Ms. Jewell:

Please find enclosed for filing an original and nine (9) copies of Rocky Mountain Power's rebuttal testimony in the above-captioned case.

All formal correspondence and regarding this Application should be addressed to:

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Communications regarding discovery matters, including data requests issued to Rocky Mountain Power, should be addressed to the following:

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

Sincerely,

Jeffrey K. Larsen/ca

Jeffrey K. Larsen
Vice President, Regulation & Government Affairs

Cc: GNR-E-11-03 Service List

CERTIFICATE OF SERVICE

I hereby certify that on this 29th day of June, 2012, I caused to be served, via E-mail, a true and correct copy of Rocky Mountain Power's Rebuttal Testimony in Case No. GNR-E-11-03 to the following:

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S REVIEW OF PURPA QF CONTRACT PROVISIONS INCLUDING THE SURROGATE AVOIDED RESOURCES (SAR) AND INTEGRATED RESOURCE PLANNING (IRP) METHODOLOGIES FOR CALCULATING PUBLISHED AVOIDED COST RATES	))))))))	**CASE NO. GNR-E-11-03** **Rebuttal Testimony of Brian S. Dickman**

ROCKY MOUNTAIN POWER

CASE NO. GNR-E-11-03

June 2012

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

A. My name is Brian S. Dickman, my business address is 825 NE Multnomah St., Suite 600, Portland, Oregon 97232, and my present title is Manager, Net Power Costs.

Q. Have you previously sponsored testimony in this proceeding?

A. No. I am adopting the direct testimony of Company witness Ms. Kelcey Brown that was submitted as part of the Company's original filing in this proceeding. I am the Company witness responding to issues raised by intervening parties concerning the Company's avoided cost methodology, including any issues concerning the direct testimony and exhibits submitted by Ms. Brown.

Qualifications

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 Idaho Public Utilities Commission, the Wyoming Public Service Commission, and the Utah Public

Service Commission.

Testimony Summary

Q. Please provide an overview of your testimony.

A. My testimony responds to avoided cost modeling issues raised by the Idaho Public Utilities Commission Staff ("Staff") and intervening parties in this proceeding. Commercial avoided cost issues will be addressed in the testimony of Company witness Mr. Paul H. Clements. In general, PacifiCorp agrees with Staff witnesses Mr. Rick Sterling and Dr. Cathleen McHugh that the Surrogate Avoided Resources ("SAR") and Integrated Resource Plan ("IRP") methodologies are conceptually appropriate techniques to calculate avoided costs. It is critical, however, that the IRP methodology reflects the best available information to compute the avoided cost specific to each utilities system in order to ensure Idaho retail customers remain indifferent whether the utilities procure energy from qualifying facilities ("QFs") or through the pursuit of a least cost plan developed in an IRP.

Q. How is your testimony structured?

A. My testimony addresses the following issues:

- IRP Methodology Updates – PacifiCorp recommends modeling inputs be updated contemporaneously at the time of each pricing request in order to minimize the cost to retail customers from using outdated modeling assumptions.

- Choice of Model – The proposal that the Company be restricted from using the Generation and Resource Integrated Decisions ("GRID") model should be rejected.
- Timing of Capacity Payments – The Company's IRP process accounts for the incremental need and cost of capacity on its system, and accordingly, capacity payments should be determined based on the timing of the next deferrable resource in the IRP preferred portfolio.

IRP Methodology Updates

Q. Please identify the issues raised regarding modeling updates in the IRP methodology.

A. The two primary questions raised by parties are: 1) which avoided cost modeling inputs should be updated between IRPs, and 2) how frequently should utilities perform these updates. Modeling inputs are the key drivers for the price that is offered to a QF using the IRP methodology and it is critical to use the best available information.

Q. What updates did Staff recommend as appropriate to be made between IRPs?

A. Staff witness Mr. Sterling proposes updates be made for fuel price forecasts, load forecasts, and new long-term contract obligations (including new signed QF contracts).

Q. Do you agree?

A. Yes. I agree that each of these inputs should be subject to update between IRPs, with some clarification. For PacifiCorp in particular, in order to maintain consistency within the GRID model used for the IRP methodology, updating the cost of fuel also requires updating forecast market prices for electricity. In addition to Mr. Sterling's recommendation, PacifiCorp believes updates to all executed purchase and sale agreements for power, fuel, transportation and transmission (including short term agreements) are necessary to achieve a matching of the best available information at the time of the pricing request.[1] PacifiCorp also agrees with Mr. Sterling's recommendation that updates to fuel and electricity price forecasts should be from the same sources (or combination of sources) as used in the Company's IRP.

Q. Did others make recommendations regarding which updates should be allowed?

A. Yes. Mr. Don Schoenbeck recommended only updating natural gas prices from a third party source and executed QF purchase power agreements. Dr. Don Reading proposed that only natural gas prices from a third party source be updated.

Q. Do you agree with these recommendations?

A. No. These proposals limit the Company's ability to accurately calculate avoided costs. Updating the natural gas price in isolation is appropriate for the SAR methodology since the SAR model only considers the overall cost of a Combined Cycle Combustion Turbine ("CCCT"). On the other hand, the IRP methodology relies on the overall value a QF would provide when added to the Company's resource portfolio. To accurately calculate that value requires the use of a production cost model such as GRID updated with the most current information

[1] Contrary to Dr. Reading's statement on page 25 of his direct testimony, to avoid skewing the calculation of avoided costs, modeling updates are made to both the base case and the incremental case that includes the zero-cost QF resource.

available. Updating natural gas prices in isolation could produce unintended results. As mentioned above, the GRID model requires an update to the forward market prices for electricity coincident with changes in natural gas prices. Increasing natural gas prices without increasing wholesale power market prices, as some have proposed, could result in natural gas-fired resources not generating due to the inaccurate spark-spread. This does not reflect reality since wholesale power market prices would likely increase in parallel with increases in natural gas prices allowing natural gas-fired resources to continue to operate economically.

Q. What recommendations were made regarding the frequency of modeling updates?

A. Mr. Sterling recommends annual updates for load and fuel forecasts, while updates for new contracts would be done whenever a new long-term purchase or sale commitments is made. Mr. Schoenbeck and Dr. Reading each propose to limit updates to once per year.

Q. Do you agree?

A. No. PacifiCorp recommends updating all modeling inputs, other than the incremental resource additions outlined in the IRP preferred portfolio, at the time the QF pricing is prepared. This will ensure that the IRP methodology provides the most accurate avoided costs and will maintain retail customer indifference. These types of updates are routinely made for the Company's avoided cost calculations in Utah and Wyoming.

Q. **Have you calculated an example of the effect using outdated modeling inputs can have on avoided cost prices?**

A. Yes. Table 1 below provides two calculations of avoided cost rates for the hypothetical 22 megawatt ("MW") wind resource included in Table A of Ms. Brown's direct testimony, which I have adopted. The illustrative wind avoided cost price in Ms. Brown's direct testimony was based on modeling inputs current as of January 2012. Alternatively, I have calculated the avoided cost for the same wind resource using modeling inputs current as of May 2011, eight months earlier.

Table 1
Impact of Using Outdated Modeling Inputs
Idaho Wind: 22 MW 34.4% CF

	Model Updates Through		
	January 2012	May 2011	Delta
Avoided Cost Rate ($/MWH) (a)	$ 33.09 (b)	$ 53.22 (c)	$20.13
Annual Generation (MWH)	66,576	66,576	-
Annual Ratepayer Cost	$ 2,202,784	$ 3,542,843	$ 1,340,059
20 Yr. Ratepayer Cost	$ 44,055,679	$ 70,856,856	$ 26,801,177

(a) Nominal Levelized 2013 - 2032
(b) IRP Methodology avoided cost from the direct testimony of Ms. Brown.
(c) Recalculated avoided cost using model inputs dated May 2011

As shown in the first column of Table 1, using more recent modeling inputs resulted in annual avoided cost payments of $2.2 million or $44.0 million over a 20 year contract term. Using model inputs from only eight months earlier would have result in annual avoided cost payments of $3.5 million or $70.9 million over a 20 year contract term. If the Company did not have the ability to base pricing on the most accurate information known to the utility at the time of the request, $26.8 million of additional cost would be imposed on retail customers over the life of the contract.

Q. Does the impact of using outdated inputs have the potential to exceed $26.8 million?

A. Yes. Had the same pricing been provided to an 80 MW wind facility, the impact of using outdated modeling inputs would exceed $97 million[2] over a 20 year contract term.

Q. What arguments are made to justify less frequent updates to modeling inputs?

A. Parties have presented three general arguments to justify the use of non-contemporaneous modeling inputs. The first argument, made by witnesses Dr. Reading and Mr. Schoenbeck, is that performing due diligence on contemporaneous model inputs imposes an undue burden on QF developers. The second argument, made by Mr. Sterling, is that the use of contemporaneous model inputs would complicate contract negotiations. The third argument, made by Mr. Schoenbeck, is that the use of contemporaneous data enables utilities to manipulate prices.

Q. Are these arguments persuasive?

A. No. The merits of these arguments must be weighed against the tens of millions of dollars of needless cost that limiting updates to an annual cycle could impose on retail customers. As demonstrated in Table 1 even a relatively small QF contract commits customers to significant costs over the life of the QF obligation.

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[2] $26.8 million * 80 MW / 22 MW.

Q. How do you respond to the argument that the use of contemporary inputs allows for "game playing" by the utilities?

A. If there is a common understanding of what is being updated, it should be straight-forward for parties to perform a meaningful review of the model inputs. Utilities receive no unfair benefit through the use of contemporaneous inputs other than being able to provide a more accurate price. Furthermore, the timing of the pricing request is under the control of the QF developer, not the Company.

Q. Could prices could go up as well as down from updates?

A. Yes. Prices may either increase or decrease as a result of an update.

Q. Does the use of an annual model update schedule provide developers with the opportunity to choose between the outdated price and a contemporaneous price?

A. Yes. Developers are aware of changing market conditions and are responsive to changes in prices. Unlike a utility which has no control over when requests are made, a developer has the option to either request prices now or to wait until after an annual update, depending on market conditions. This asymmetry would harm retail customers and can easily be eliminated through the use of a contemporaneously calculated price.

Q. Do you agree with Mr. Schoenbeck's proposal that the eligibility cap for published prices should be set at 10MW nameplate capacity for all types of QF projects, and that the IRP method should only be used for projects above that cap?

A. No. The Company reiterates its position stated in the direct testimony of Ms.

Brown that the eligibility cap for wind and solar QFs seeking published avoided cost prices should remain at 100kW. The 100kW limit for wind and solar QFs is an appropriate tool to ensure accurate pricing developed using the IRP method and to remove the incentive for larger projects to disaggregate and seek higher published prices.

Q. Please summarize your comments regarding model updates.

A. The retail customer impact of not using contemporaneous model inputs is significant for a large QF resource. The burden on a QF developer resulting from using contemporaneous model inputs does not outweigh the potential impact of inaccurate prices. Contemporaneous and comprehensive updates of model inputs allow utilities to provide the most accurate pricing to QF developers at any point in time and ensure indifference to retail customers.

Choice of Model

Q. Please summarize Mr. Schoenbeck's recommendation regarding the use of a third-party model to develop avoided cost pricing.

A. Mr. Schoenbeck argues that internally developed models, such as PacifiCorp's GRID model, require far too many exogenous inputs that can influence avoided cost pricing and that utilities should be required to use a third-party model, such as AURORA.

Q. How do you respond to Mr. Schoenbeck's recommendation?

A. Mr. Schoenbeck's recommendation is unfounded. The GRID model has undergone extensive review in regulatory proceedings and is the same model that is used by the Company in Idaho (and the five other jurisdictions served by the

Company) to develop net power costs in rate making proceedings.

Q. Does PacifiCorp provide access to the GRID model for others to review?

A. Yes. PacifiCorp provides access and support for the GRID model. This allows developers to perform a detailed review of all of the model inputs and outputs.

Timing of Capacity Payments

Q. Please explain your understanding of Staff witness Dr. McHugh's proposal of when to include capacity payments under the proposed SAR methodology.

A. Dr. McHugh proposes to include capacity payments under the SAR methodology in the year in which a utility's IRP load and resource balance shows that the utility becomes capacity deficient. She distinguishes the capacity deficiency by summer or winter season, and bases a resource-specific capacity payment on the ability of that resource to contribute during the deficient season's peak.

Q. Are any other recommendations made regarding the trigger for applying a capacity payment?

A. Yes. Mr. Schoenbeck proposes that Idaho Power should determine the timing of capacity payments based on the results from its loss of load expectation study rather than basing it on the results of its IRP load and resource balance.

Q. Do you agree with either proposal related to the timing for including a capacity payment?

A. No. As demonstrated in PacifiCorp's IRP, the Company has access to a variety of wholesale electricity market hubs that provide flexibility around the timing of procuring capacity resources. In the Company's 2011 IRP Update the load and resource balance using existing resources indicates the Company is peak deficit beginning in 2014, excluding planning reserves. A loss of load study is utilized to determine the level of planning reserves required, which then influences the preferred resource portfolio. In PacifiCorp's IRP Update, new CCCT resources are projected to be added in 2014 and 2016. However, because the 2014 resource has already gone through the procurement process and is currently under construction, the next deferrable capacity resource in the Company's portfolio is in 2016. Consistent with the IRP, capacity payments should be included in avoided costs coincident with the timing of next deferrable resource.

Q. **Has this issue been addressed recently in any other state served by PacifiCorp?**

A. Yes. In Docket UM 1396, Order No. 10-488, the Oregon Commission determined that "the start date of the first 'major resource acquisition' in the action plan of the most recent acknowledged IRP demarcates the resource 'sufficiency' and 'deficiency' periods."

Q. **Do you agree with Dr. Reading's assertion that the Company's IRP is not subject to sufficient scrutiny to warrant its use as an input into the avoided cost process?**

A. No. PacifiCorp agrees with Avista witness Mr. Clint Kalich and Staff witness Dr. McHugh that today's IRPs are developed with input from the public, regulators, and various other interested parties and should be relied upon in the development of avoided cost prices. Given the six-state nature of PacifiCorp's system, development of the Company's IRP is a rigorous process and the results receive a significant amount of scrutiny, not just in Idaho but across our service territory.

Q. Does this conclude your testimony?

A. Yes.