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IDAHO PUBLIC
UTILITIES COMMISSION

Dean J. Miller (*ISB No. 1968*)
Chas. F. McDevitt (*ISB No. 835*)
McDEVITT & MILLER LLP
420 West Bannock Street
P.O. Box 2564-83701
Boise, ID 83702
Tel: 208.343.7500
Fax: 208.336.6912
joe@mcdevitt-miller.com
chas@mcdevitt-miller.com

*Attorneys for The New Energy Company LLC
and Western States Equipment Company, Inc.*

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

The New Energy Company LLC,
An Idaho Limited Liability Company, and
Western States Equipment Company, Inc.,
An Idaho Corporation,

Complainants

v.

Idaho Power Company,
A Regulated Public Utility,

Respondent.

Case No. IPC-E-10-13

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF JAY KESTING

1 Q. Please state your name.

2 A. My name is Jay Kesting.

3 Q. By whom are you employed and in what capacity?

4 A. I am employed by Western States Equipment Company Inc., (Western States) in
5 the capacity of Engine Business Manager.

6 Q. Please describe Western States.

7 A. Western States is the authorized Caterpillar dealer for Idaho, eastern Washington
8 and Oregon, western Montana and part of Wyoming. Our roots began in the
9 1930's as J.A. Terteling and Sons which grew into one of the largest construction
10 companies in the country building dams, canals and projects like the Umatilla
11 Army Depot. After World War II we decided to exit the construction business
12 rather than go international and we took on the Caterpillar dealership for southern
13 Idaho. Over the past fifty years we have acquired five other Caterpillar dealers to
14 reach the footprint we have today.

15 Q. What are your duties in the capacity of Engine Business Manager?

16 A. My duties include the management of the sales of industrial engines, generator
17 sets and associated equipment throughout the territory. I am involved in training
18 for our engine technicians and sales staff. I am also part of the executive staff and
19 am involved in the development and execution of our corporate strategy.

20 Q. Is Western States experienced in providing engines and generators for the
21 generation of electric power?

22 A. Yes. We have been selling and servicing Cat powered gensets for emergency,
23 standby, prime and continuous applications for over forty years.

1 Q. Has Western States investigated the market for constructing and operating electric
2 generation facilities at dairies in southern Idaho?

3 A. Yes we have. We began researching this market about six years ago and have
4 been involved in the early development of several projects throughout our
5 territory.

6 Q. In conjunction with The New Energy Company, has Western States developed a
7 business model for anaerobic digester electrical generation that you believe will
8 make such projects feasible and sustainable? If so, please describe.

9 A. Yes. Our analysis showed that there were a variety of factors that caused dairy
10 digester projects to fail in North America. Low electricity rates and a lack of
11 renewable incentives were certainly factors but the larger issue was the lack of a
12 long term commitment to the success of the project by the developer. Unlike a
13 landfill project, which is generally backed by a government entity or a large
14 corporation, the dairy digester was usually turned over to the dairy after
15 completion. The dairyman, often lacking the technical or financial capability to
16 maintain the system, became frustrated and ultimately would abandon it . Our
17 model is to create a “cradle to grave” approach where we take the project from
18 concept to decommissioning. The digester becomes an integral part of the dairy
19 operation but is run as an independent, focused business. An entity created by
20 Western States and New Energy would own and operate the projects through their
21 lifetime. The interest of the dairyman would be limited to contractual
22 arrangements for property leases and fuel supply.

1 Q. In addition to the generation of electric power, do you believe such projects will
2 be beneficial to the dairy industry?

3 A. Yes. First there are significant operational efficiencies that are gained by the
4 dairy. The reduction in manure handling is a tremendous operational savings and
5 also frees up land for other useful purposes. The digester, when combined with an
6 effective wastewater management system, provides significant improvements in
7 nutrient management. Odors and flies are also significantly reduced. I believe that
8 the long term viability of the dairy industry in Idaho and other parts of our
9 territory will be significantly enhanced by these projects.

10 Q. In addition to the generation of electric power, do you believe such projects will
11 have a positive environmental effect?

12 A. Yes I do. Methane emissions from CAFO's are considered to be a major source of
13 greenhouse gas emissions worldwide. By converting this methane through
14 combustion we reduce the GHG emissions by a factor of 21 times. This is
15 substantiated by verifiable carbon credits that are sold in exchange markets. In
16 addition, surface water and groundwater contamination, from nutrients such as
17 phosphorus, and the subsequent contamination of rivers are significantly reduced
18 in a more cost effective manner.

19 Q. Is Western States working to implement the business model you have described at
20 dairies in southern Idaho?

21 A. Yes, as explained in the Direct Testimonies of Ms Leslie White and Ms. Laura
22 Knothe we are actively developing projects at the Rock Creek Dairy in Filer, the
23 Double B Dairy in Murtaugh and the Swager Farms Dairy in Filer.

1 Q. What is the nature of Western States financial commitment to these projects?

2 A. Western States has committed to equity participation and in conjunction with
3 New Energy has created a separate LLC to manage that participation. We are also
4 working with Caterpillar Financial to provide the debt finance if we opt to use it.

5 Q. Does Western States have the financial strength to undertake the project
6 investments you have described?

7 A. Yes it does. We have the ability to fund these projects solely from our operating
8 capital if we choose.

9 Q. Was the business model you have described predicated on the PURPA published
10 avoided cost rates that were in effect prior to March 16, 2010.

11 A. Yes it was. As noted previously, one of the causes of failures has been low rates
12 and lack of incentives. Our more sustainable model required those two factors to
13 come into a range of acceptable risk. At those rates the financial risk associated
14 with the projects was tolerable to Western States. The rates established by Order
15 No. 31025 create a much higher level of financial risk for the projects. It is
16 doubtful that the owners of Western States would be willing to take on that much
17 higher level of risk.

18 Q. Does that conclude your testimony?

19 A. Yes it does.