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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ORDER APPROVING THE METHODOLOGY FOR AVOIDED COST RATE NEGOTIATIONS WITH QUALIFYING FACILITIES LARGER THAN 1 MEGAWATT.	)	**CASE NO. IPC-E-95-9**

REBUTTAL TESTIMONY OF RICK STERLING

IDAHO PUBLIC UTILITIES COMMISSION

JUNE 25, 1996

Q. Please state your name and business address for the record.

A. My name is Rick Sterling. My business address is 472 West Washington Street, Boise, Idaho.

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

A. I am employed by the Idaho Public Utilities Commission as a Staff engineer.

Q. Are you the same Rick Sterling that previously presented testimony in this case?

A. Yes, I am.

Q. In direct testimony filed by Idaho Power witness John Willmorth and PacifiCorp witness Rodger Weaver, both argue that since utilities today are generally not making power sales agreements lasting more than five years, utilities should not be obligated to make agreements with QFs for longer than five years. Do you agree with them?

A. No, I do not. All resources, both short and long term, represent a utility's actual avoided costs. It is true that utilities are not currently making long term sales agreements. It is also true that the short term market purchases which utilities are presently making represent their avoided costs – but, <u>only</u> for the duration of those purchases, perhaps five years. Beyond

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that time, utilities are uncertain about the resources they may be acquiring. To presume that they will continue to make market purchases to meet most of their needs is pure speculation, and is, in fact, contrary to the resources they plan to acquire according to their IRPs. Each utility still bases its long term planning on the acquisition of a portfolio of long-lived generating resources over a 20-year planning horizon. Utilities' IRPs are intended to reflect their best estimates of the resources they intend to acquire in the future; consequently, the IRPs are the best information available on which to base avoided costs over a 20-year contract period. As long as the Commission requires that IRPs be used to calculate avoided costs, contract lengths for QFs should continue to be comparable to the resources lives of the long-term resource acquisitions planned in the IRPs.

Utilities are permitted, and, in fact, encouraged to include short term market purchases as resources in their IRPs. Acquisition of longer term market resources should also be included as soon as utilities are able to develop the planning tools needed to predict the cost and availability of those resources.

Q. Idaho Power and PacifiCorp continue to argue that levelization should not be required for future QF contracts. You do not believe it is an issue in this case. Please elaborate.

A. In my direct testimony, I quoted from Commission Order Nos. 25882, 25883 and 25884 in which the Commission ordered that levelized rates should continue to be offered to all QF projects who desire it. These orders were issued on January 31, 1995 in what has been referred to as the combined avoided cost case. Since the primary purpose of this case is to devise an IRP-based methodology as directed by the Commission in the combined avoided cost case, I believe that the Commission's order to offer levelized rates still stands until changed by a subsequent order.

I do agree that the issues of contract length and levelization are related. If the Commission orders that utilities not be required to offer 20-year contracts to QFs, and instead, only requires five-year contracts, for example, then levelization would provide little benefit to a QF and would probably be unnecessary.

I also believe that it is still necessary for the Commission to include provisions governing standard contract length and rate levelization in the IRP-based avoided cost methodology ultimately approved by the Commission. Both of these issues have historically been contentious in proceedings before the Commission.

Leaving them up to the utility and the QF to negotiate would only provide another stumbling block in negotiations, which ultimately could come before the Commission for resolution.

Q. In negotiations leading up to the stipulation and in the direct testimony of Willmorth and Rosebud Enterprises, Inc. witness Dr. Richard Slaughter, deferrability has been identified as an issue. Do you still believe it is an issue in this case?

A. No, I do not. Deferrability was primarily an issue with regard to Idaho Power's Shoshone Falls Expansion project. Since that project has been dropped from Idaho Power's base case plan, it is no longer an issue in this case. The Jim Bridger plant upgrade project is the only other non-deferrable Idaho Power project, but since work is already underway on the upgrade, it is no longer an issue in this case either.

I am not aware of any other projects of either PacifiCorp or Washington Water Power that are considered non-deferrable.

Q. In the direct testimony of PacifiCorp witness Rodger Weaver, he suggests that a market-based adjustment mechanism may be an appropriate way of insuring that avoided cost rates are reflective of a utility's true avoided costs and of lessening the risk to the utility and its ratepayers of overpaying for QF resources. Do you support a market-based adjustment mechanism?

A. Yes, I do. In fact, I proposed a market-based adjustment mechanism in the negotiations leading up to the settlement stipulation in this case. While some parties supported it, others did not, or felt it was unnecessary. As a result, no adjustment mechanism was included in the stipulation.

Q. PacifiCorp, through Company witness Laren Hale, has proposed numerous changes to the input data used in the Company's IRP model to calculate avoided cost rates that are different than data contained in RAMPP-4, the Company's most recent IRP. Do you believe these changes should be allowed?

A. I believe all of the changes should be allowed, with one exception – reducing the reserve margin from 12% to 10%. All of the changes which I believe should be allowed are either identified in the section of the Company's IRP titled "Revisions to Inputs," are necessary in order to use the model for avoided cost calculation purposes, or are allowed, according to the stipulation, to be updated an a semi-annual basis. A reduction in reserve margin, however, was not identified in the IRP or its revisions, was not discussed in negotiations and is not permitted by the stipulation.

Q. PacifiCorp alleges that the changes were discussed as part of the settlement stipulation, and thus should be allowable. Do you agree?

A. No. What was discussed as part of the settlement stipulation was to allow the utilities 45 days in which to make amended IRP filings for the purpose of making avoided cost calculations. This invitation to make amended filings was made in the Notices of Scheduling in Case Nos. IPC-E-95-8, UPL-E-95-5, and WWP-E-95-2, the utilities' pending IRP cases. The orders were issued on February 9, 1996. Since PacifiCorp did not make an amended filing in response to this invitation, I do not believe the Company should be allowed to amend its input data now.

Q. Some of the updated information shown on PacifiCorp witness Hale's Exhibit No. 303 does not agree with information contained in the IRP "Revisions to Input" section. Hale explains that the Company has chosen to use even more updated information than that described in the IRP "Revisions to Input" section since it is more representative of today's actual values. Do you believe these changes should be allowed?

A. Yes, I do. The settlement stipulation, on pages 7-9, includes a detailed discussion of which variables can be updated and when they can be updated. Except for reserve margin, PacifiCorp has updated variables within the scope allowed in the stipulation. Some variables, including fuel prices, fuel price escalation rates, and wholesale power prices are proposed to be updated semi-annually. In the case of updating wholesale market short-term prices however, the stipulation requires that Commission approval be obtained before this variable can be updated on a semi-annual basis.

Q. Does this conclude your rebuttal testimony in this proceeding?

A. Yes, it does.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 25TH DAY OF JUNE 1996, SERVED THE FOREGOING **REBUTTAL TESTIMONY OF RICK STERLING** IN CASE NO. IPC-E-95-9, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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