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October 15, 2015

VIA ELECTRONIC MAIL ONLY

Attention: Filing Center
Public Utility Commission of Oregon
201 High Street, Suite 100
P.O. Box 1088
Salem, OR 97308-1088

Re: *In the Matter of PACIFICORP, dba PACIFIC POWER's Application to Reduce the Qualifying Facility Contract Term and Lower the Qualifying Facility Standard Contract Eligibility Cap*
OPUC Docket No.: UM 1734
DOJ File No.: 330030-GN0193-15

Filing Center:

On behalf of the Oregon Department of Energy, enclosed for filing today with the Commission in the above-captioned matter is the following document:

October 15, 2015 Testimony of John Hobbs, Exhibit ODOE/100.

Sincerely,

Renee M. France
Senior Assistant Attorney General
Natural Resources Section

Enclosures
RMF:jrs/#6853629

DOCKET NO. UM 1734
EXHIBIT: ODOE/100
WITNESS: Hobbs

Before the

PUBLIC UTILITY COMMISSION OF OREGON

OREGON DEPARTMENT OF ENERGY

Testimony of John Hobbs

October 15, 2015

Q. Please state your name and organization.

A. I am John Hobbs with the Oregon Department of Energy (ODOE). The business address is 625 Marion Street NE, Salem, Oregon. I am testifying on behalf of ODOE.

Q. Please summarize your qualifications.

A. I have a bachelor's degree in economics from the University of Oregon (1998). I have worked at ODOE since 2014 as a project development officer with the Small-scale Energy Loan Program (SELP), in which capacity I assess loan applications for proposed renewable energy projects. Prior to joining ODOE I worked for fifteen years in private sector commercial banking in Oregon.

Q. What is the purpose of this testimony?

A. I will explain how the changes in standard contract terms for qualifying facilities (QFs) proposed by PacifiCorp would likely affect the ability of QF wind and solar projects to obtain financing.

Q. Please summarize your testimony.

A. A reduction to the standard QF contract length from 20 years to 3 years as proposed by PacifiCorp will reduce the availability of commercial financing for eligible projects. A reduction in the eligibility for a standard contract from 10MW to 100kW will potentially reduce the feasibility of some commercial solar and wind projects.

Q. What factors does the SELP program consider when assessing whether to loan money to a commercial solar or wind project?

A. A loan requires assuredness of repayment either through the projected cash flow generated by a borrower or via the liquidation of pledged collateral. Commercial solar and wind projects are entirely dependent upon cash flow secondary to the sale of generated electricity for debt service; the liquidation value of renewable energy system equipment is generally not sufficient to support any level of debt in my experience. Therefore the utility power purchase agreement (PPA), and by extension the interconnection agreement, is the most important determinant of project viability because these agreements establish the playing field for revenue generation.

Q. How does the length of a project's PPA affect the ability of that project to obtain financing?

A. Financiers prefer a project have a power purchase agreement that spans the life of the loan as it eliminates down-side pricing risk and makes underwriting the loan easier. Any reduction in contract length that would introduce re-pricing during the lifetime of the loan will add risk which will increase the funding cost. The proposed reduction to the standard contract length could introduce an additional five or six potential re-pricing events into the term of a traditional commercial loan, provided the use of a three year pricing contract is continued. This level of potential revenue volatility is not unusual in industry per se as the productivity of most pieces of financed equipment is subject to *open* market forces. However, three year QF standard contracts introduce too much price risk into an essentially *closed* market for the risk tolerance of most lenders, in my experience.

My understanding is that electricity generated by a QF is not easily fungible in the electricity marketplace; a QF is generally selling to a single regulated utility. The interconnected utility has the leverage to dictate the terms and conditions of non-standard power purchase contracts and potentially the interconnection agreement. There is no assurance a mutually satisfactory agreement on a non-standard contract can be reached with only a single consumer in the market, therefore most lenders would not put capital at risk for the benefit of a QF under the proposed standard contract term reduction without having the terms of the subsequent non-standard contract already agreed upon.

Q. What do you think would be the effect of reducing the eligibility cap for standard QF contracts from 10MW to 100kW?

A. Reducing the eligibility for standard contracts from 10MW to 100kW would decrease the use of the standard contract in commercial QF projects. Every non-standard contract could be different so it is difficult to forecast the effect fewer standard contracts will have on QF access to capital outside of the pricing risk issues I have previously discussed. My assumption is that it would be difficult for QFs between 100kW and 10MW to obtain contract terms that would be viewed favorably by lenders in most cases because QFs would be negotiating with utilities that have superior market information and no competitors. Given less favorable prospective contract terms, it is likely fewer commercial solar and wind projects will be economically feasible, reducing the rate at which new privately owned renewable generation is brought online.

Q. Does this conclude your testimony?

A. Yes.