

BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Electric Power
Company for a Certificate of Authority to
Construct and Place in Operation a 50 MW
Biomass-Fueled Co-generation Facility to be
Located in the Village of Rothschild in
Marathon County

Docket No. 6630-CE-305

**REBUTTAL TESTIMONY OF JEFF KNITTER
ON BEHALF OF WISCONSIN ELECTRIC POWER COMPANY**

Q. PLEASE STATE YOUR NAME.

A. Jeff Knitter.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Wisconsin Electric Power Company as Manager – Special Projects.

Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS PROCEEDING?

A. Yes, I offered direct testimony in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal is to respond to three issues raised by PSCW staff witnesses Jeff Kitsembel in his direct testimony.

Q. WHAT IS THE FIRST ISSUE?

A. The first issue is the regulation cost associated with wind energy. Mr. Kitsembel ran a “no regulation cost” scenario where he removed the \$2.26/MWh Variable Operating and Maintenance charge for wind regulation. (D13.20, line 27). He states that his understanding “is that the cost of wind regulation is currently socialized” and that he is “modeling the status quo relative to the wind regulation issue.”

Q. WHAT IS YOUR RESPONSE?

A. There are two problems with removing the wind regulation cost from the economic analysis: 1) wind does impose an added cost burden on the market, and 2) MISO is working on a new charge

1 type to recover the costs of load and wind variability and uncertainty. Wind resources, along with
2 other non-dispatchable resources, contribute to higher costs in MISO by forcing the market to
3 commit more generating units, particularly faster ramping units like combined cycle units. The
4 additional units are a part of the MISO's "headroom." As more wind resources are added to the
5 market, the amount of headroom required increases. The difficult question is not "Is there a
6 cost?" but "How much is the cost?"

7 While Mr. Kitsembel is correct that there is currently no direct cost to wind for effects on
8 headroom, MISO is moving forward with just such a charge type. My data request response to
9 PSCW 2.04 (PSC REF # 133658) described MISO's efforts through June 2010 to develop new
10 products to counteract the effects of load and wind variability and volatility. MISO provided an
11 update to this effort on November 2, 2010 describing the correlation between higher renewable
12 penetration and higher net load variability and volatility. MISO is now targeting April 2011 for
13 concluding its product design phase. Typically, product implementation would follow in 2012. It
14 is too early to tell what the cost per MWh chargeable to wind resources will be but it will not be
15 \$0 as Mr. Kitsembel assumes in his scenario. My conclusion is that the "no regulation cost"
16 scenario is not realistic given the real costs involved and MISO's efforts to recover these costs
17 from wind generators, among others.

18 **Q. WHAT IS THE SECOND ISSUE WITH MR. KITSEMBEL'S TESTIMONY?**

19 A. The second issue pertains to his "Rothschild delayed to 2017" scenario in which he delayed the
20 construction of a new biomass plant (similar to Rothschild but without a steam host) until 2017
21 and added a new, 5-year wind PPA from 2012 to 2016. (D13.21, line 17).

22 **Q. WHAT IS YOUR RESPONSE?**

23 A. From a revenue requirement NPV standpoint, this scenario was the same as the "build wind in
24 2012" (optimal scenario) at \$45,351. There are two problems with the replacement 5-year wind
25 PPA assumption: 1) the cost basis is from February 2010 bids which may not be representative

1 of today's prices, and 2) the proposed project behind the PPA was behind on their project
2 schedule and had not started construction as of October 2010, which may indicate problems with
3 the project.

4 **Q. THIRD, MR. KITSEMBEL FOLLOWS THE STANDARD PRACTICE OF**
5 **ASSUMING WIND UNITS ARE RELATIVELY INTERCHANGEABLE AND**
6 **THAT THE PROJECTS CAN BE SUMMARIZED BY LOOKING AT COSTS**
7 **PER INSTALLED KW. WHAT ELSE SHOULD BE CONSIDERED?**

8 A. My economic analysis is similar to Mr. Kitsembel's in that it focuses on the installed cost of new
9 wind resources and evaluates wind project viability exclusively from an economic standpoint.
10 The other dimension that needs to be considered is new wind project siting, particularly in
11 Wisconsin. The Wind Siting Council (WSC) recently completed a lengthy and contentious
12 process that highlighted the difficulty of meeting all of the competing local interests and
13 concerns while maintaining a viable framework for new wind farm construction. The WSC
14 presented final recommendations to the PSC Commissioners who subsequently proposed Wind
15 Siting Rules to the Wisconsin Senate Committee on Commerce, Utilities, Energy, and Rail for
16 their review and approval. At this writing, the Senate Committee has sent the rules back the
17 Commission for more revision and the ultimate disposition of the Wind Siting Rules is uncertain,
18 as is their compatibility with future wind development in Wisconsin. It is far from certain that
19 wind generation should be considered a readily available source of renewable generation in
20 Wisconsin. This is an important intangible for the Commission to consider.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes.