

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF EL PASO)
ELECTRIC COMPANY'S 2017)
RENEWABLE ENERGY PLAN)
PURSUANT TO THE RENEWABLE)
ENERGY ACT AND 17.9.572 NMAC)**

CASE NO. 17-00090-UT

DIRECT TESTIMONY

MAY 1 '17 PM2:09

OF

JAMES SCHICHTL

MAY 1, 2017

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EXHIBITS

Exhibit JS-1	Historical Requested Renewable Portfolio Standard Costs
Exhibit JS-2	Proposed Rate Schedule No. 38 - Renewable Portfolio Standard (RPS) Cost Rider

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 **A.** My name is James Schichtl, and my business address is 100 North Stanton Street,
4 El Paso, Texas, 79901.

5

6 **Q. HOW ARE YOU EMPLOYED?**

7 **A.** I am employed by El Paso Electric Company ("EPE") as Vice President of
8 Regulatory Affairs.

9

10 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND BUSINESS**
11 **BACKGROUND.**

12 **A.** I have been employed by EPE since February 2012. In June 2016, I was
13 promoted from director of regulatory affairs to vice president. Prior to becoming
14 director, I was manager of EPE's economic & rate research group, responsible for
15 EPE's jurisdictional cost of service, rate design analysis, and developing EPE's
16 retail rate schedules and charges. Prior to that, I was a senior regulatory case
17 manager, responsible for the production, filing, and execution of regulatory
18 applications before both the public utility commission of Texas ("PUCT") and the
19 New Mexico Public Regulation Commission ("NMPRC" or "Commission").

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1 Prior to joining EPE in February 2012, I spent 18 years in various
2 regulatory functions at Southern California Edison Company ("SCE"), 12 of those
3 in a managerial capacity. As manager of pricing design and research, I was
4 responsible for SCE's rates and tariffs during deregulation and changes required in
5 following the California power crisis in 2001. I was subsequently promoted to
6 manager of tariffs and advice letters, with broad responsibility within regulatory
7 for evaluating California statute, rules, and regulations and managing regulatory
8 efforts at the California Public Utilities Commission ("CPUC"). Those efforts
9 included significant involvement in the transition back to a deregulated generation
10 market as well as significant expansion of distributed generation in California.

11 I graduated with a bachelor of science in mechanical engineering in 1987
12 from the University of Texas at El Paso, where I also studied economics and
13 econometrics. Throughout my career at EPE, I have attended and presented
14 material for numerous seminars and workshops related to cost of service, rate and
15 program design, and regulation.

16
17 **Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES WITH EPE.**

18 **A.** As Vice President of Regulatory Affairs, I am responsible for the oversight and
19 direction of EPE's Economic Research and Rate Research groups as well as EPE's
20 Regulatory Case Management group. Economic Research performs EPE's load

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1 research and forecasting functions. Rate Research encompasses EPE's rate
2 research function, jurisdictional and class cost of service studies, rate design
3 analysis, and the development of EPE's retail rate schedules and charges. The
4 Regulatory Case Management group coordinates and oversees regulatory filings
5 made by EPE with the PUCT, NMPRC, the Federal Energy Regulatory
6 Commission ("FERC"), and local municipal regulators.

7
8 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS FILING?**

9 **A.** Yes, I am sponsoring Exhibit JS-1, which shows historical Renewable Portfolio
10 Standard costs for EPE, and Exhibit JS-2, which includes EPE's proposed Rate
11 Schedule No. 38 - Renewable Portfolio Standard (RPS) Cost Rider.

12
13 **Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE**
14 **UTILITY REGULATORY BODIES?**

15 **A.** Yes, I have previously filed testimony with and testified before the NMPRC,
16 PUCT, FERC and the CPUC.

17
18 **II. PURPOSE OF TESTIMONY**

19 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

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1 **A.** I introduce EPE's other witnesses in this case, and discuss Renewable Portfolio
2 Standard ("RPS") issues from a regulatory policy perspective. I briefly describe
3 issues included in the Final Order in Case No. 16-00109-UT, EPE's 2016 Plan
4 proceeding, and I provide an overview of EPE's existing waivers and variances
5 from its 2017 and 2018 plan year RPS and diversity requirements. I discuss
6 EPE's opportunity to purchase wind RECs which, if approved by the
7 Commission, would allow EPE to achieve total RPS and full wind diversity
8 compliance for the 2018 Plan Year through 2022 at minimal impact to the RCT. I
9 also describe and discuss EPE's proposal to implement an RPS Cost Rider for
10 recovery of EPE's Commission-approved RPS procurement costs. These
11 proposals are also addressed by EPE's other witnesses and included in their
12 testimony and analysis. Additionally, I provide an update on participation in
13 EPE's Distributed Generation ("DG") programs previously approved by the
14 Commission and on customer expansions to existing DG systems.

15
16 **Q. WHO ARE THE OTHER WITNESSES TESTIFYING FOR EPE IN THIS**
17 **CASE?**

18 **A.** EPE employees Omar Gallegos and Manuel Carrasco provide testimony in
19 support of EPE's application. EPE witness Gallegos presents the requirements of
20 the Renewable Energy Act ("REA") and Rule 17.9.572 NMAC ("Rule" or "Rule

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1 572”), EPE’s 2017 Procurement Plan (“2017 Plan”) for plan year approval, and
2 also discusses the wind REC procurement option. Mr. Gallegos additionally
3 addresses EPE's request for a partial waiver from the 2019 total RPS requirement
4 as well as a required variance to the 2019 Wind and Biomass/Other diversity
5 requirements. The partial waiver of 2019 total RPS and wind diversity variance
6 would not be required if the wind REC option is approved. EPE witness Carrasco
7 describes and supports EPE's application of the Renewable Cost Threshold
8 ("RCT") calculation relative to the RPS portfolio cost, and the determination of
9 the large customer adjustment to EPE's annual RPS requirement. Mr. Carrasco
10 also calculates EPE’s proposed RPS Cost Rider rate for 2018 and 2019 for
11 recovery of approved RPS costs.

III. RENEWABLE PORTFOLIO STANDARD ISSUES

14 **Q. IN ITS FINAL ORDER APPROVING EPE'S 2016 PLAN, DID THE**
15 **COMMISSION IDENTIFY ANY ISSUE RELEVANT TO EPE’S 2017**
16 **APPLICATION?**

17 **A.** Yes. In the Final Order in Case No. 16-00109-UT, the Commission approved and
18 ordered EPE's continued use of the "Direct Comparison Methodology", or Direct
19 Method, in determining the net cost of the RPS portfolio for RCT purposes. As

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1 discussed by Mr. Carrasco in his testimony, EPE evaluates the RPS portfolio for
2 RCT purposes identically to EPE's evaluation in the 2016 Plan application.

3
4 **Q. PLEASE DESCRIBE THE DIRECT COMPARISON METHODOLOGY IN**
5 **EVALUATING THE RCT.**

6 **A.** The purpose of the RCT calculation is to project whether the cost of a utility's
7 procurements will be more than 3 percent of its plan year total revenues. EPE
8 divides the plan year RPS portfolio cost, net of avoided costs savings attributable
9 to the portfolio, by plan year total revenues.

10 As described in the testimony of EPE witness Carrasco, EPE determines
11 the net cost of the RPS portfolio using the "Direct Methodology", which was
12 approved and ordered by the Commission in its Final Orders in EPE's 2015 RPS
13 and 2016 RPS cases. This approach is consistent with the requirements of Rule
14 572.14(C) in determining a utility's plan year revenue requirement. EPE's plan
15 year total revenues are calculated based on forecasted sales and currently effective
16 base rates, including the current energy efficiency rider. EPE does not currently
17 have an RPS rider. Plan year total revenues include total revenue attributable to
18 the large customers reflected in EPE's large customer adjustment. Plan year total
19 costs include Commission authorized WREGIS costs and carrying costs.

20

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1 **Q. HAS EPE USED COMPLIANCE COST IN DETERMINING IF A LARGE**
2 **CUSTOMER ADJUSTMENT APPLIES?**

3 **A.** Yes. As EPE witness Carrasco demonstrates in his testimony, EPE uses the
4 average cost of the RPS portfolio, net of avoided energy costs, to calculate the
5 amount of renewable energy that can be provided to eligible large customers
6 within the statutory cap for each plan year. To the extent that amount is less than
7 the full RPS percentage (15% in 2018 and 2019) a large customer adjustment is
8 made to the total RPS requirement.

9

10 **Q. DID EPE INCLUDE ANY BASE RATE AMOUNTS OF DEFERRED RPS**
11 **COSTS, AUTHORIZED FOR RECOVERY IN EPE'S RECENT**
12 **GENERAL RATE CASE NO. 15-00127-UT, IN ITS 2018 AND 2019 PLAN**
13 **YEAR REVENUE REQUIREMENTS; AND IF NO WHY NOT?**

14 **A.** No. The base rate recovery amounts for REC costs previously authorized by the
15 Commission were included in prior year evaluations of the portfolio costs for
16 purposes of the RCT, when those costs were originally incurred.

17

18 **IV. OVERVIEW OF EPE'S TOTAL RPS AND DIVERSITY REQUIREMENTS**

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1 **Q. BASED ON EPE'S COMMISSION APPROVED RPS PLANS, PLEASE**
2 **PROVIDE AN OVERVIEW OF HOW EPE HAS MET ITS TOTAL RPS**
3 **AND DIVERSITY REQUIREMENTS?**

4 **A.** EPE has met 100 percent of its total RPS requirements through 2015 as
5 demonstrated through EPE's annual RPS reports on file with the Commission.
6 EPE's 2016 Report, filed concurrently with this 2017 Plan Year application,
7 shows that EPE was required to use a Commission-approved waiver from total
8 RPS for the first time in the 2016 Plan Year. EPE's 2016 Report filed concurrent
9 with this plan year filing shows that EPE retired RECs representing 13.9% of its
10 NM adjusted energy requirements in 2016, or 94.6% of required RECs. EPE was
11 also required to use approved variances from 2016 wind and biomass/other
12 diversity targets in the 2016 Plan Year. The Commission approved that waiver
13 and those variances in EPE's 2014 Plan proceeding, Case No. 14-00121-UT.

14

15 **Q. IN EPE'S 2016 PLAN PROCEEDING, CASE NO. 16-00109-UT, THE**
16 **COMMISSION GRANTED EPE A WAIVER FROM THE 2018 TOTAL**
17 **RPS REQUIREMENT AND VARIANCES FROM 2018 WIND/"OTHER"**
18 **DIVERSITY REQUIREMENTS. DOES EPE ANTICIPATE THAT IT**
19 **WILL BE REQUIRED TO USE THOSE APPROVALS FOR 2017 PLAN**
20 **YEAR COMPLIANCE?**

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1 **A.** EPE’s need for the approved waivers and variances will depend on the
2 Commissions disposition of the wind REC option presented below and in the
3 testimony of Mr. Gallegos. If a wind REC procurement contract were approved
4 by the Commission and added to EPE’s RPS portfolio, EPE anticipates that it
5 would meet the total RPS and wind diversity requirements in 2018, as well as
6 through 2022 under the higher 20% requirement which begins to apply in 2020.

7 However, under the existing RPS procurement portfolio presented for
8 approval in this case, EPE anticipates that it will need to use its waiver from 2018
9 Total RPS and variances from 2018 wind/”other” targets for 2018 Plan Year
10 compliance and will require a similar waiver and similar variances for 2019.

11

12 **Q.** **PLEASE EXPLAIN WHY EPE HAS HAD TO SEEK WAIVERS FROM**
13 **TOTAL RPS REQUIREMENTS AND VARIANCES FROM DIVERSITY**
14 **TARGET FOR IN PAST AND CURRENT PLAN YEAR APPLICATION**
15 **PROCEEDINGS.**

16 **A.** Under the Commission’s current Rule’s RCT calculation, EPE’s previously
17 approved procurement costs included in EPE's recent RPS plan applications, as a
18 percentage of total retail revenues, were in excess of the RCT. Specifically, and
19 as an example, in the 2016 Plan Final Order, the Commission found that “EPE
20 will exceed the 3% RCT for Plan Year 2017 by \$6,199,761 and by \$5,953,373 in

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1 2018. The ratio of EPE's net portfolio cost, or revenue requirements to plan year
2 total revenues, is projected at 6.25% in 2017 and 6.07 percent, far exceeding the
3 RCT of 3%."

4
5 **V. EPE'S WIND REC PROCUREMENT OPPORTUNITY**

6 **Q. PLEASE DESCRIBE THE WIND REC PROCUREMENT EPE IS**
7 **PRESENTING FOR COMMISSION CONSIDERATION IN THIS RPS**
8 **PLAN PROCEEDING?**

9 **A.** EPE has put forward a wind REC procurement contract option which, if
10 authorized by the Commission, would allow EPE to meet its total RPS and 30
11 percent wind diversity requirements over the period of 2018 through 2022. The
12 contract is for wind RECs only and does not include the associated energy. The
13 new contract would result in a relatively modest increase in total RPS portfolio
14 cost.

15
16 **Q. IS THE IDENTIFIED WIND REC PROCUREMENT PERMISSIBLE**
17 **UNDER THE REA AND RULE 572?**

18 **A.** Yes. While EPE is not required under the REA to acquire additional resources if
19 the additional costs of complying with the RPS would exceed the RCT, the REA
20 does not prohibit the Commission from approving additional renewable resources

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1 where additional compliance costs would exceed the RCT. Indeed both the Act
2 and Rule provide any noncompliance with total RPS based on costs exceeding the
3 RCT is temporary, and both the Act and the Rule favor compliance at a
4 reasonable cost established by the Commission.

5 The REA and Rule 572 define the RCT as the “cost” or “cost level”
6 “established by the commission above which a public utility shall not be required
7 to add renewable energy to its electric energy supply portfolio pursuant to the
8 renewable portfolio standard”. *Section 62-16-3D and Rule 17.9.572.7C NMAC.*

9 The REA states “[i]f a public utility finds that, in any given year, the cost
10 of renewable energy that would need to be procured or generated for purposes of
11 compliance with the renewable portfolio standard would be greater than the
12 reasonable cost threshold as established by the commission pursuant to this
13 section, the public utility shall not be required to incur that cost; provided that the
14 existence of this conditions excusing performance in any given year shall not
15 operate to delay the annual increases in the renewable portfolio standard in
16 subsequent years.” *Section 62-16-4B.*

17 Similarly, Rule 572 states “[t]he reasonable cost threshold is a customer
18 protection mechanism that limits customer bill impact from annual Renewable
19 Energy Act plans as measured by plan year revenue requirements...A public
20 utility shall not be required to add renewable energy to its electric energy

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1 portfolio in any plan year, pursuant to the renewable portfolio standard, where the
2 annual renewable energy plan revenue requirement is above the reasonable cost
3 threshold established by the commission pursuant to Subsection B of this
4 section.” *Rule 17.9.572.12 NMAC.*

5 Finally, Rule 572 contains similar language regarding diversity targets and
6 states: “Public utilities shall not be required to provide a fully-diversified
7 renewable portfolio when doing so would conflict with reasonable cost thresholds
8 established by the commission or when full diversification is prevented by
9 technical transmission constraints, limitations on system integration, limited
10 availability of particular renewable resources and limitations on systems
11 reliability, but shall not include constraints or limitations that the public utility is
12 capable of overcoming at reasonable cost or effort.. Notwithstanding the
13 provisions of this Subsection B excusing the failure by a public utility to meet the
14 requirements to provide a fully diversified renewable energy portfolio, each
15 public utility must meet its overall renewable portfolio standard”. *Rule*
16 *17.9.572.11B NMAC.* Subsection C of Section 11 of the Rule further states: “[i]n
17 any year for which a public utility’s annual Renewable Energy Act plan does not
18 provide for a fully diversified portfolio, the public utility shall describe its plan for
19 achieving a fully diversified portfolio in a timely manner”.

20

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1 **Q. WHAT ARE THE COSTS OF THE WIND REC PROCUREMENT**
2 **CONTRACT?**

3 **A.** EPE estimates the annual cost to procure sufficient wind RECs to achieve total
4 RPS and wind diversity compliance each year for the next five years to range
5 from approximately \$300,000 to \$400,000. Mr. Gallegos addresses the contract
6 and the impact on plan year RPS and diversity requirements in more detail in his
7 testimony.

8
9 **Q. ARE THE WIND REC PROCUREMENT COSTS REASONABLE?**

10 **A.** Yes. The anticipated range of per wind REC costs is in line with current prices
11 for wind RECs in markets in the southwest, and is considerably lower than the
12 \$15 per REC cost under the Southwestern Public Service (“SPS”) wind REC
13 contract that had previously been included in EPE’s authorized portfolio until it
14 expired in 2015. The final price authorized for solar RECs purchased from DG
15 customers, prior to the closure of the REC purchase programs last year, was \$20
16 per REC, and the average cost annually for solar RECs in the REC program is
17 almost \$60 per REC. The current average procurement cost for RECs in EPE’s
18 portfolio in the plan year is \$81 per REC.

19

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1 **Q. ARE THE COSTS OF THE WIND REC PROCUREMENT CONSISTENT**
2 **WITH THE CUSTOMER PROTECTION PURPOSES OF THE RCT?**

3 **A.** Yes. The Rule allows EPE to not engage in additional procurement needed to
4 meet total RPS or diversity requirements if to do so would impact customers
5 beyond the RCT limitation provided for in the Rule and REA. The circumstances
6 contemplated under the Rule relate to limitations in availability or technical
7 constraints which can only be overcome at a high price. In this case EPE has the
8 opportunity to procure needed wind RECs to satisfy the current diversity and total
9 RPS requirements, as well as the higher RPS requirements which become
10 effective in 2020. At the same time, the low per REC price allows for these
11 significant gains at a minimal impact to customers. In fact, as I show in Exhibit
12 JS-1, the projected portfolio compliance costs in 2018 and 2019 after the addition
13 of the proposed wind REC contract would be lower than the Commission-
14 authorized 2015 procurement costs which included the final year of the SPS wind
15 contract.

16

17 **Q. HOW DOES THE WIND REC PROCUREMENT IMPACT EPE'S**
18 **PROPOSED RPS PLAN?**

19 **A.** EPE was granted a waiver for its total RPS requirement and a variance for wind
20 diversity for 2018 in its 2016 RPS Plan proceeding. As discussed by Mr.

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1 Gallegos, if the wind REC purchase is not approved EPE will require a similar
2 waiver and variance for 2019.

3
4 **VI. EPE'S RPS COST RIDER PROPOSAL**

5 **Q. DOES EPE CURRENTLY HAVE A RATE RIDER FOR PURPOSES OF**
6 **RECOVERING COSTS ASSOCIATED WITH THE RPS?**

7 **A.** No.

8
9 **Q. HOW DOES EPE CURRENTLY RECOVER COSTS ASSOCIATED WITH**
10 **APPROVED RENEWABLE ENERGY ACT PLANS?**

11 **A.** EPE's approved plan year RPS costs are currently recovered through the Fuel and
12 Purchased Power Cost Adjustment Clause ("FPPCAC") mechanism or deferred
13 for recovery pursuant to the Rule. EPE defers the cost of stand-alone REC
14 purchases and costs associated with registering RECs with WREGIS.

15
16 **Q. ARE ANY OF EPE'S RPS COSTS RECOVERED THROUGH BASE**
17 **RATES?**

18 **A.** Yes. All of the costs associated with RPS compliance for EPE are recovered
19 through the FPPCAC, except for those previously deferred pursuant to the Rule.
20 In the Final Order in EPE's 2015 rate case (Case No. 15-00127-UT), the

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1 Commission authorized recovery of \$1.115 million of deferred REC costs through
2 base rates annually for 5 years.

3

4 **Q. WHY IS EPE PROPOSING A RPS COST RIDER AT THIS TIME?**

5 A. There are several reasons for EPE's proposal to institute a rider at this time. A
6 renewable rider provides transparency to EPE customers as to the average cost of
7 renewable resources procured on their behalf under the RPS. In addition, because
8 EPE's proposed rider would include all RPS costs, the total impact over time
9 would be reduced. Finally, use of a renewable rider also enables EPE to limit the
10 amount charged to qualifying large customers consistent with the RPS adjustment
11 provided for under the Rule.

12

13 **Q. IS EPE'S PROPOSED RPS COST RIDER CONSISTENT WITH THE
14 REA, RULE 572 AND THE PUBLIC INTEREST?**

15 A. Yes. The Rule explicitly provides for the recovery of authorized RPS compliance
16 costs through the ratemaking process, which includes the use of riders. The
17 Commission has approved riders for these purposes for both Public Service
18 Company of New Mexico and Southwestern Public Service Company.

19

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1 **Q. HOW IS A RATE RIDER A MORE TRANSPARENT RECOVERY**
2 **MECHANISM THAN EPE’S CURRENT METHOD OF RECOVERING**
3 **RPS COSTS THROUGH THE FPPCAC AND BASE RATES?**

4 **A.** EPE’S current method for recovering RPS costs blends the cost of purchased
5 power from RPS resources with other fuel costs within the monthly FPPCAC or
6 defers recovery of stand-alone REC and administrative costs until a later date.
7 Use of a rider clearly shows the cost of the renewable portfolio on an energy basis
8 (\$/kWh) and as a component of the customer’s monthly bill. This provides
9 important information to enable customers to evaluate the cost of the RPS
10 program in New Mexico.

11
12 **Q. HOW WILL THE RPS COST RIDER SAVE CUSTOMERS MONEY IN**
13 **THE LONG TERM?**

14 **A.** EPE currently defers costs associated with RECs purchased without associated
15 energy as well as administrative costs for reporting and retiring RECs at WREGIS
16 for recovery at a later date. The Rule allows EPE to also recover carrying charges
17 for these costs over the deferral period, which increases the total cost to
18 customers. By including these costs in the rider for recovery at the same time
19 they are incurred, the total cost to customers is reduced and the rider is reflective
20 of the actual costs incurred.

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1 **Q. HOW IS EPE’S PROPOSED RPS COST RIDER CALCULATED AND**
2 **RECONCILED?**

3 **A.** EPE calculates the renewable rider by dividing the forecasted cost of the RPS
4 portfolio in each plan year, reduced by the capped contribution of qualifying large
5 customers, by the total forecasted energy (kWh) for the plan year, excluding
6 projected annual sales for qualifying large customers. The resulting \$/kWh rider
7 will apply to all customers (excluding qualifying large customers) on a monthly
8 basis. On an annual basis in its RPS plan filing, EPE will provide a reconciliation
9 of renewable rider revenues to actual RPS portfolio costs for the prior plan year.
10 The difference will then be reflected in the next plan year renewable rider. EPE
11 witness Carrasco presents EPE’s calculation of its proposed RPS Cost Rider

12
13 **Q. WILL ANY RPS COSTS BE DEFERRED IN FUTURE PLAN YEARS IF**
14 **EPE’S RENEWABLE RIDER IS APPROVED?**

15 **A.** No. EPE would propose to include all RPS compliance costs in the renewable
16 rider annually, including stand-alone REC purchases and administrative costs
17 such as WREGIS costs. EPE proposes to include RPS costs which have been
18 deferred since EPE’s 2015 rate case in the new rider, as Mr. Carrasco shows in his
19 testimony.

20

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1 **Q. IS EPE PROPOSING TO INCORPORATE ITS PREVIOUSLY**
2 **DEFERRED REC COSTS THAT ARE BEING RECOVERED IN BASE**
3 **RATES INTO THE NEW RIDER?**

4 **A.** No. EPE's currently effective base rates include the amortization of deferred
5 REC costs authorized in prior RPS proceedings, and recovery of those costs
6 should remain in base rates.

7

8 **Q. IS EPE PROPOSING TO RECOVER ANY DEFERRED COSTS,**
9 **CURRENTLY NOT INCLUDED IN BASE RATES, THROUGH THE**
10 **PROPOSED RENEWABLE RIDER?**

11 **A.** Yes

12

13 **Q. PLEASE IDENTITY THOSE DEFERRED COSTS.**

14 **A.** EPE proposes to include costs for registering RECs with WREGIS and for stand-
15 alone REC purchases from SPS in the amount of \$806,762 as shown in Exhibit
16 MC-3 of the direct testimony of Mr. Carrasco. Those costs currently are not
17 include in base rates and were deferred pursuant to Final Orders in Case Nos. 14-
18 00121-UT, 15-00117-UT and 16-00109-UT.

19

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1 **Q. IS EPE PROPOSING TO IMPOSE RATE CAPS ON ITS LARGE**
2 **CUSTOMERS THROUGH ITS PROPOSED RPS COST?**

3 **A.** Yes. As shown in the direct testimony and exhibits of Mr. Carrasco, EPE expects
4 that three of its largest New Mexico customers would qualify under the large
5 customer adjustment criteria in the Rule, based on their historical usage for 2016.
6 EPE's RPS procurement for those large customers is limited to two percent of
7 their annual bills. EPE is proposing to bill these customers on a monthly basis
8 under the new renewable rider by multiplying the applicable portions of their bill
9 by two percent. This approach ensures that these large customers pay no more
10 than the limit provided for under the Rule.

11

12 **Q. WHAT WILL BE THE RATE IMPACT TO OTHER CUSTOMERS OF A**
13 **CAP TO THE RPS AMOUNTS CHARGED TO LARGE CUSTOMERS?**

14 **A.** EPE witness Carrasco calculates the proposed renewable rider, as well as the
15 large customer adjustment. Exhibit MC-2 shows both the determination of the
16 forecasted capped large customer RPS revenues and the reduction to EPE's RPS
17 requirements for the plan year and next plan year. The difference between the
18 cost of procuring the full RPS percentage for these customers and the capped
19 revenue equals the additional RPS cost to be recovered from other (uncapped)
20 customers in 2018 and 2019.

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1 **Q. IS EPE INCLUDING A PROPOSED RATE RIDER TARIFF IN THIS**
2 **APPLICATION?**

3 **A.** Yes, a proposed Rate Schedule No. 38 - Renewable Portfolio Standard (RPS)
4 Cost Rider is included with my testimony as Exhibit JS-2. If EPE's proposal to
5 establish the RPS Cost Rider is approved, EPE would file an advice notice with
6 the approved tariff as well as other retail rate schedules to include language
7 referencing the new rider.

8

9 **Q. IF THE COMMISSION REJECTS EPE'S PROPOSED RPS COST RIDER**
10 **HOW WOULD EPE PROPOSE TO RECOVER RPS COSTS**
11 **AUTHORIZED FOR THE PLAN YEAR AND NEXT PLAN YEAR?**

12 **A.** Absent a renewable rider, EPE proposes that RPS costs continue to be recovered
13 in the manner authorized for EPE by Commission order in prior RPS proceedings.
14 The cost of renewable energy purchased with associated RECs under a contract
15 authorized by the Commission is currently recovered monthly through the
16 FPPCAC. All other RPS costs (standalone RECs and administrative costs) are
17 deferred for recovery in a subsequent ratemaking proceeding.

18

19 **VII. DISTRIBUTED GENERATION REC PURCHASE PROGRAMS**

20 **Q. PLEASE DESCRIBE EPE'S SYSTEM REC PURCHASE PROGRAMS.**

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1 **A.** Pursuant to previous Commission approvals, EPE established a Small System
2 REC Program to purchase RECs from customers' solar and wind DG facilities
3 with maximum rated capacity of 10 kW or less and a Medium System REC
4 Program to purchase RECs from customers' solar and wind DG facilities with
5 maximum rated capacity greater than 10 kW and up to 100 kW. In NMPRC Case
6 No. 11-00263-UT, the Commission adopted a tiered pricing system for EPE's
7 small and medium customer-owned DG REC purchase programs that set REC
8 program prices through calendar year 2013. The Tier 5 price established for
9 January 1, 2014 was to continue thereafter, and the Commission established a
10 common termination date of December 31, 2020 for all new Small and Medium
11 REC Program contracts ("REC Agreements") beginning January 21, 2012.

12 The incentive prices for Medium System REC Program systems originally
13 differed from the prices for small systems because these prices were developed
14 based upon the costs for solar and wind facilities of that size. The Tier 5 REC
15 pricing for the two programs is now the same, \$0.02 per kWh (\$20 per REC) for
16 solar and wind generation participants.

17 EPE offers these programs through the Commission-approved Small and
18 Medium System Renewable Energy Certificate Purchase rate schedules in
19 conjunction with the Commission-approved applications to participate in REC
20 purchase programs. The Applications set forth the terms of program

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1 participation. Customers are also required to interconnect their facilities in
2 accordance with the DG interconnection rules and agreements established by the
3 Commission. Pursuant to changes adopted by the Commission in EPE's 2013
4 Plan Final Order, participating customers are no longer required to own the
5 renewable generation system interconnected behind their meter and supplying
6 them energy. Participating customers can either own or lease the renewable
7 generation system interconnected behind their meter.

8 EPE also has an authorized Large System REC Program for systems with
9 capacity greater than 100 kW and less than 1 MW. The REC prices paid under
10 the Large System REC Program are established under individual contracts and are
11 limited by a cap tied to the Medium System REC Program prices.

12
13 **Q. ARE THE REC PURCHASE PROGRAMS CURRENTLY OPEN TO NEW**
14 **CUSTOMERS WITH RENEWABLE GENERATION?**

15 **A.** No. In its final order in Case No. 16-00109-UT adopting EPE's 2016 RPS Plan,
16 the Commission approved EPE's proposal to close the REC purchase programs to
17 new customers effective January 1, 2017. Customers who submitted to EPE an
18 application to participate in a REC purchase program as set forth in EPE's tariffs
19 prior to January 1, 2017 remain eligible to participate in the REC purchase
20 programs and receive the applicable REC credit once their system becomes

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1 operational. Customers with interconnection agreements for renewable
2 generation installations approved after that date are not eligible for the REC
3 purchase programs.

4
5 **Q. HOW DID THE PROGRAM CLOSURE IMPACT EXISTING PROGRAM**
6 **PARTICIPANTS?**

7 **A.** Participating customers with DG systems interconnected and operating prior to
8 January 1, 2017 are eligible to continue to participate under the tariffs and
9 continue to receive their designated REC credit, based on the date they originated
10 service under the applicable schedule, at the Commission approved REC price.
11 Customers with eligible systems are also able to expand their existing systems
12 pursuant to the conditions of the REC purchase tariffs and interconnection
13 agreement.

14
15 **Q. DOES CLOSURE OF THE REC PURCHASE SCHEDULES IMPACT THE**
16 **ABILITY OF NEW DG CUSTOMERS TO INTERCONNECT WITH EPE**
17 **OR PARTICIPATE IN NET ENERGY METERING?**

18 **A.** No. New customers continue to be allowed to interconnect their generating
19 facilities and participate under the existing tariff provisions for metering options
20 and purchase of exported energy by EPE.

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1 **Q. HOW MANY SMALL RENEWABLE DG FACILITIES ARE ELIGIBLE**
2 **TO PARTICIPATE IN EPE'S CURRENT SMALL SYSTEM REC**
3 **PROGRAM?**

4 **A.** As of December 31, 2016, 2,445 customer-owned small renewable DG facilities
5 were connected to or had submitted applications to connect to EPE's system in
6 New Mexico. These customers are participating or are allowed to participate in
7 the Small System REC Program. Of these facilities, 2,439 are solar DG facilities
8 and the remaining 6 are wind DG facilities. The total capacity for all the REC
9 program eligible small DG systems (the sum of nameplate rated capacity) is 11.7
10 MW.

11

12 **Q. WHAT IS EPE'S CURRENT PARTICIPATION IN THE MEDIUM**
13 **SYSTEM REC PROGRAM?**

14 **A.** As of December 31, 2016, 134 customer-owned medium renewable DG facilities
15 were connected to or had submitted applications to connect to EPE's system in
16 New Mexico. All of these facilities are solar PV. The total capacity for all the
17 REC program eligible medium DG systems (the sum of nameplate rated capacity)
18 is 3.06 MW.

19

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1 **Q. DOES EPE HAVE CUSTOMERS PARTICIPATING OR ELIGIBLE TO**
2 **PARTICIPATE IN THE LARGE SYSTEM REC PROGRAM?**

3 **A.** Yes, EPE currently has one system participating in the large REC purchase
4 program and another eligible to participate following completion of system
5 construction. These systems receive payments based on contractual arrangements
6 with EPE pursuant to the large system REC purchase tariff. The total capacity of
7 these two solar systems will be 588 kW.

8

9 **Q. WHAT IS THE EXPECTED ANNUAL COSTS OF THE SMALL,**
10 **MEDIUM, AND LARGE SYSTEM REC PURCHASE PROGRAMS IN**
11 **THE 2018 AND 2019 PLAN YEARS?**

12 **A.** EPE estimates the total cost for the REC Purchase Programs to be approximately
13 \$1.657 million in 2018 and 2019. Prices paid for RECs by EPE have varied over
14 time and are a function of when a DG system began operation. The annual costs
15 reflect rates ranging from \$0.155 to \$0.02 per kWh. With REC program tariffs
16 closed to new customers the cost of the combined programs is projected to remain
17 fairly level for 2018 and 2019, although normal variations in DG system energy
18 output would likely result in some differences as would any approved expansions.
19 The bulk of the program costs will drop off after the common termination date of
20 the program in 2020.

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1 **Q. WITH THE DG REC PROGRAMS CLOSED WILL THE NUMBER OF**
2 **DG RECS PROCURED BY EPE STABILIZE AROUND 2016 LEVELS AS**
3 **WELL?**

4 **A.** No, because the number of DG systems interconnecting to EPE's system in New
5 Mexico continues to grow, at an average of 337 per year (from the period of 2010
6 through 2016). The REC purchase programs represented voluntary payments to
7 DG system owners for the RECs generated by their systems, but EPE remains the
8 owner of DG RECs from all interconnected systems, because EPE purchases the
9 energy produced by these qualifying facility systems. The total quantity of DG
10 RECs produced and registered for RPS compliance in New Mexico, to the benefit
11 of all customers, will continue to increase as new systems interconnect and
12 commence operation.

13

14 **Q. HOW MANY DG RECS DOES EPE FORECAST WILL BE GENERATED**
15 **IN THE 2018 AND 2019 PLAN YEARS?**

16 **A.** As of the end of March 2017, EPE had 2,567 customer-owned renewable DG
17 facilities connected to EPE's system, comprised of 2,561 solar DG facilities and 6
18 wind DG facilities. In addition, applications for 52 DG facilities have been
19 submitted for interconnection or are under construction.

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1 The total capacity for all the DG systems currently operating or under
2 construction (the sum of nameplate rated capacity) is 16.3 MW. As shown in the
3 testimony of Mr. Carrasco, EPE forecasts generation of 27,999 DG RECs in 2018
4 and 32,018 DG RECs in 2019. These RECs will be registered in the WREGIS
5 and will be eligible for retirement to satisfy the DG diversity requirement and
6 contribute toward satisfaction of the total RPS requirements in those plan years.

7
8 **VIII. INTERCONNECTION AGREEMENTS AND SYSTEM EXPANSIONS**

9 **Q. WHAT CHANGES DID THE COMMISSION APPROVE FOR**
10 **INTERCONNECTION APPLICATION FORMS IN EPE'S LAST RPS**
11 **PLAN PROCEEDING?**

12 **A.** EPE modified existing interconnection application forms to include an addendum
13 for customers to report system modifications. The proposed addendum also
14 applied to customers that perform modifications to DG systems previously
15 approved by EPE.

16
17 **Q. WHAT WAS THE BASIS FOR THE CHANGES?**

18 **A.** EPE has been experiencing customer expansions of existing DG systems without
19 receiving notification by participating customers as required to amend existing
20 interconnection agreements to reflect the systems' modified maximum rated

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1 capacity. As such, these customers' interconnection agreements, as well as REC
2 Agreements and REC credits, could be subject to termination by the Company.
3 EPE made changes to rate schedules and forms to clarify the requirement that
4 customers must notify EPE of any changes they plan to make, or have made, to
5 their DG systems which would alter the capacity from that indicated in their
6 signed interconnection agreement and to provide customers a reasonable
7 opportunity, after written notice from EPE, to amend their existing
8 interconnection agreements.

9
10 **Q. WHY IS EPE CONCERNED WITH UNREPORTED DG SYSTEM**
11 **EXPANSIONS?**

12 **A.** EPE uses the Western Renewable Energy Generation Information System
13 (WREGIS) to record, track and retire RECs purchased from DG customers under
14 the REC tariffs. For each megawatt hour (MWh) of renewable energy reported
15 and approved by WREGIS, the system issues REC certificates that EPE uses for
16 RPS compliance purposes.

17 WREGIS requires that each reporting entity register each renewable
18 generator's capacity (in kW) before RECs attributable to that system can be
19 registered in the system. Due to the small size of the systems installed by DG
20 customers, EPE aggregates DG systems in groups of up to 240 kW and registers

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1 the created group as a new generator in WREGIS. The WREGIS system uses the
2 registered group capacity to perform an engineering feasibility test to verify that
3 the number of RECs reported is consistent with the registered group capacity.
4 Recently, when a group has failed the engineering feasibility test, the WREGIS
5 system has automatically rejected RECs reported by the Company. Therefore, it
6 is important for EPE to know the customer's true system capacity to be able to
7 register the correct group size in WREGIS and avoid failing engineering
8 feasibility tests. With DG customers not accurately reporting their current
9 maximum rated system capacity, EPE may not be able to utilize purchased REC
10 certificates in the WREGIS system.

11

12 **Q. DOES EPE PLAN TO NOTIFY ITS CUSTOMERS OF THE**
13 **REQUIREMENT TO REPORT SYSTEM MODIFICATIONS?**

14 **A.** EPE has contacted all of its existing DG customers in New Mexico service
15 territory to notify them that they must report system modifications to EPE in order
16 to maintain a valid interconnection agreement. EPE plans additional contact with
17 all DG customers to remind them of the requirement and provide the addendum,
18 as well as more directed communications with identified customers where the
19 metered outputs of their systems exceed the expected amount based on the
20 contracted capacity reported in their interconnection agreement.

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IX. CONCLUSION

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Q. CAN YOU PLEASE SUMMARIZE YOUR TESTIMONY AND EPE'S PROPOSALS IN ITS 2017 RPS PLAN FILING?

A. As Mr. Gallegos describes in his testimony, EPE's 2017 RPS Plan filing is in full compliance with the Rule and should be approved with the necessary waiver and variances.

EPE is requesting approval of a renewable rider for purposes of RPS cost recovery which will increase the transparency of RPS compliance for New Mexico customers and lower long-term costs by eliminating deferrals. Use of a separate rider also enables EPE to cap cost recovery from qualifying large customers. The new rider is reasonable and should be approved.

Finally, EPE has presented an option for Commission consideration to add wind REC procurement to the existing RPS portfolio, which will allow EPE to meet the total RPS requirements for the 2018 and 2019 plan years as well as the higher requirements which will be effective beginning in 2020. In addition, the new contract would also satisfy the full wind diversity requirement. Although the new procurement will result in a modest increase in portfolio costs above the RCT, the total portfolio cost remains below historical levels and the low cost of the wind RECs justifies the benefits to customers through RPS compliance.

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1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes.**

El Paso Electric Company
Historical Requested Renewable Portfolio Standard Costs

Plan Year	Procurement Cost	Compliance Cost	Plan Year Total Revenue (Adj)	RCT Percentage
2014	\$ 16,193,126	\$ 13,466,047	\$ 199,026,438	6.77%
2015	16,421,659	13,141,484	201,966,796	6.51%
2016	15,328,698	10,212,666	191,221,136	5.34%
2017	14,793,319	11,928,966	190,973,497	6.25%
2018	15,989,224	12,189,304	186,280,474	6.54%
2019	15,886,831	12,333,353	187,070,847	6.59%
Including projected wind REC costs -			\$ 400,000	
2018	\$ 16,389,224	\$ 12,589,304	\$ 186,280,474	6.76%
2019	16,286,831	12,733,353	187,070,847	6.81%

Note: Costs and revenues for Plan Years as filed in EPE's annual RPS plan applications pursuant to 17.9.572 NMAC.

EL PASO ELECTRIC COMPANY**ORIGINAL RATE NO. 38**

X

RENEWABLE PORTFOLIO STANDARD (RPS) COST RIDER

X

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APPLICABILITY:

This Rider is applicable to bills for electric service provided under all of EPE's retail rate schedules. This Rider is established to recover Renewable Portfolio Standard ("RPS") compliance cost. This Rider is applicable to all customer classes except as modified by the New Mexico Public Regulation Commission (NMPRC) Rule 17.9.572.7 NMAC (M), and the limitations of NMSA 1978, Section 62-16-4(A)(2) applicable to certain nongovernmental customers. This Rider is not applicable to customers exempt from charges for renewable energy procurements pursuant to NMSA 1978, Section 62-16-4(A)(3).

TERRITORY:

Areas served by the Company in Dona Ana, Sierra, Otero and Luna Counties.

MONTHLY RATES:

This Rider, where applicable, shall be added to each customer's bill and applied as a per kilowatt-hour (kWh) charge for all kWh billed to a customer.

	<u>Amount to be Recovered</u>	<u>Rate per kWh</u>
All Retail Rate Schedules	\$16,692,430	\$0.010453
Customers Subject to Large Customer Cap	2% of Pre-Tax Charges	-----

STATUTORY CAP ON BILLING FOR CERTAIN LARGE CUSTOMERS:

NMPRC Rule 17.9.572.7(M) NMAC limits billed amounts for additional costs associated with RPS procurement for non-governmental customers with consumption exceeding 10 million kWh per year at a single location of facility.

ANNUAL RECONCILIATION FILING:

This Rider shall be adjusted annually to reconcile the previous calendar year RPS Cost Rider collections with actual RPS costs. RPS costs recovered through this rider are approved for recovery by the NMPRC. Any over-recovery of the previously approved RPS costs will represent a credit to and reduction of the approved Rider in the subsequent year, and any under-recovery of the previously approved renewable energy costs will represent a charge in addition to the approved Rider in the subsequent year. The annual reconciliation will also evaluate cost recovery from qualifying large customers pursuant to NMPRC Rule 17.9.572.7(M) NMAC.

Advice Notice No. _____

Signature/Title _____

James Schichtl
Vice President – Regulatory Affairs

