BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF EL PASO )
ELECTRIC COMPANY'S 2017 )
RENEWABLE ENERGY PLAN )
PURSUANT TO THE RENEWABLE ) CASE NO. 17-00990-UT
ENERGY ACT AND 17.9.572 NMAC )

DIRECT TESTIMONY

OF

JAMES SCHICHTL

MAY 1, 2017
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EL PASO ELECTRIC COMPANY
DIRECT TESTIMONY OF
JAMES SCHICHTL

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q. HOW ARE YOU EMPLOYED?

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

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

A. I have been employed by EPE since February 2012. In June 2016, I was promoted from director of regulatory affairs to vice president. Prior to becoming director, I was manager of EPE's economic & rate research group, responsible for EPE's jurisdictional cost of service, rate design analysis, and developing EPE's retail rate schedules and charges. Prior to that, I was a senior regulatory case manager, responsible for the production, filing, and execution of regulatory applications before both the public utility commission of Texas ("PUCT") and the New Mexico Public Regulation Commission ("NMPRC" or "Commission").
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Prior to joining EPE in February 2012, I spent 18 years in various regulatory functions at Southern California Edison Company ("SCE"), 12 of those in a managerial capacity. As manager of pricing design and research, I was responsible for SCE's rates and tariffs during deregulation and changes required in following the California power crisis in 2001. I was subsequently promoted to manager of tariffs and advice letters, with broad responsibility within regulatory for evaluating California statute, rules, and regulations and managing regulatory efforts at the California Public Utilities Commission ("CPUC"). Those efforts included significant involvement in the transition back to a deregulated generation market as well as significant expansion of distributed generation in California.

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

Q. PLEASE DESCRIBE YOUR CURRENT RESPONSIBILITIES WITH EPE.

A. As Vice President of Regulatory Affairs, I am responsible for the oversight and direction of EPE's Economic Research and Rate Research groups as well as EPE's Regulatory Case Management group. Economic Research performs EPE's load
research and forecasting functions. Rate Research encompasses EPE's rate
research function, jurisdictional and class cost of service studies, rate design
analysis, and the development of EPE's retail rate schedules and charges. The
Regulatory Case Management group coordinates and oversees regulatory filings
made by EPE with the PUCT, NMPRC, the Federal Energy Regulatory
Commission ("FERC"), and local municipal regulators.

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS FILING?
A. Yes, I am sponsoring Exhibit JS-1, which shows historical Renewable Portfolio
Standard costs for EPE, and Exhibit JS-2, which includes EPE's proposed Rate
Schedule No. 38 - Renewable Portfolio Standard (RPS) Cost Rider.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE
UTILITY REGULATORY BODIES?
A. Yes, I have previously filed testimony with and testified before the NMPC, PUCT, FERC and the CPUC.

II. PURPOSE OF TESTIMONY
Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
A. I introduce EPE’s other witnesses in this case, and discuss Renewable Portfolio Standard ("RPS") issues from a regulatory policy perspective. I briefly describe issues included in the Final Order in Case No. 16-00109-UT, EPE’s 2016 Plan proceeding, and I provide an overview of EPE’s existing waivers and variances from its 2017 and 2018 plan year RPS and diversity requirements. I discuss EPE’s opportunity to purchase wind RECs which, if approved by the Commission, would allow EPE to achieve total RPS and full wind diversity compliance for the 2018 Plan Year through 2022 at minimal impact to the RCT. I also describe and discuss EPE’s proposal to implement an RPS Cost Rider for recovery of EPE’s Commission-approved RPS procurement costs. These proposals are also addressed by EPE’s other witnesses and included in their testimony and analysis. Additionally, I provide an update on participation in EPE’s Distributed Generation ("DG") programs previously approved by the Commission and on customer expansions to existing DG systems.

Q. WHO ARE THE OTHER WITNESSES TESTIFYING FOR EPE IN THIS CASE?

A. EPE employees Omar Gallegos and Manuel Carrasco provide testimony in support of EPE’s application. EPE witness Gallegos presents the requirements of the Renewable Energy Act ("REA") and Rule 17.9.572 NMAC ("Rule" or "Rule
572”), EPE’s 2017 Procurement Plan ("2017 Plan") for plan year approval, and also discusses the wind REC procurement option. Mr. Gallegos additionally addresses EPE's request for a partial waiver from the 2019 total RPS requirement as well as a required variance to the 2019 Wind and Biomass/Other diversity requirements. The partial waiver of 2019 total RPS and wind diversity variance would not be required if the wind REC option is approved. EPE witness Carrasco describes and supports EPE's application of the Renewable Cost Threshold ("RCT") calculation relative to the RPS portfolio cost, and the determination of the large customer adjustment to EPE's annual RPS requirement. Mr. Carrasco also calculates EPE’s proposed RPS Cost Rider rate for 2018 and 2019 for recovery of approved RPS costs.

III. **RENEWABLE PORTFOLIO STANDARD ISSUES**

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

A. Yes. In the Final Order in Case No. 16-00109-UT, the Commission approved and ordered EPE’s continued use of the "Direct Comparison Methodology", or Direct Method, in determining the net cost of the RPS portfolio for RCT purposes. As
discussed by Mr. Carrasco in his testimony, EPE evaluates the RPS portfolio for RCT purposes identically to EPE’s evaluation in the 2016 Plan application.

Q. PLEASE DESCRIBE THE DIRECT COMPARISON METHODOLOGY IN EVALUATING THE RCT.

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

As described in the testimony of EPE witness Carrasco, EPE determines the net cost of the RPS portfolio using the "Direct Methodology", which was approved and ordered by the Commission in its Final Orders in EPE's 2015 RPS and 2016 RPS cases. This approach is consistent with the requirements of Rule 572.14(C) in determining a utility's plan year revenue requirement. EPE's plan year total revenues are calculated based on forecasted sales and currently effective base rates, including the current energy efficiency rider. EPE does not currently have an RPS rider. Plan year total revenues include total revenue attributable to the large customers reflected in EPE's large customer adjustment. Plan year total costs include Commission authorized WREGIS costs and carrying costs.
Q. HAS EPE USED COMPLIANCE COST IN DETERMINING IF A LARGE CUSTOMER ADJUSTMENT APPLIES?
A. Yes. As EPE witness Carrasco demonstrates in his testimony, EPE uses the average cost of the RPS portfolio, net of avoided energy costs, to calculate the amount of renewable energy that can be provided to eligible large customers within the statutory cap for each plan year. To the extent that amount is less than the full RPS percentage (15% in 2018 and 2019) a large customer adjustment is made to the total RPS requirement.

Q. DID EPE INCLUDE ANY BASE RATE AMOUNTS OF DEFERRED RPS COSTS, AUTHORIZED FOR RECOVERY IN EPE’S RECENT GENERAL RATE CASE NO. 15-00127-UT, IN ITS 2018 AND 2019 PLAN YEAR REVENUE REQUIREMENTS; AND IF NO WHY NOT?
A. No. The base rate recovery amounts for REC costs previously authorized by the Commission were included in prior year evaluations of the portfolio costs for purposes of the RCT, when those costs were originally incurred.

IV. OVERVIEW OF EPE’S TOTAL RPS AND DIVERSITY REQUIREMENTS
Q. BASED ON EPE’S COMMISSION APPROVED RPS PLANS, PLEASE PROVIDE AN OVERVIEW OF HOW EPE HAS MET ITS TOTAL RPS AND DIVERSITY REQUIREMENTS?

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

Q. IN EPE’S 2016 PLAN PROCEEDING, CASE NO. 16-00109-UT, THE COMMISSION GRANTED EPE A WAIVER FROM THE 2018 TOTAL RPS REQUIREMENT AND VARIANCES FROM 2018 WIND/"OTHER" DIVERSITY REQUIREMENTS. DOES EPE ANTICIPATE THAT IT WILL BE REQUIRED TO USE THOSE APPROVALS FOR 2017 PLAN YEAR COMPLIANCE?
A. EPE's need for the approved waivers and variances will depend on the
Commissions disposition of the wind REC option presented below and in the
testimony of Mr. Gallegos. If a wind REC procurement contract were approved
by the Commission and added to EPE's RPS portfolio, EPE anticipates that it
would meet the total RPS and wind diversity requirements in 2018, as well as
through 2022 under the higher 20% requirement which begins to apply in 2020.

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

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

A. Under the Commission's current Rule's RCT calculation, EPE's previously
approved procurement costs included in EPE's recent RPS plan applications, as a
percentage of total retail revenues, were in excess of the RCT. Specifically, and
as an example, in the 2016 Plan Final Order, the Commission found that "EPE
will exceed the 3% RCT for Plan Year 2017 by $6,199,761 and by $5,953,373 in
2018. The ratio of EPE’s net portfolio cost, or revenue requirements to plan year total revenues, is projected at 6.25% in 2017 and 6.07 percent, far exceeding the RCT of 3%.”

V. EPE’S WIND REC PROCUREMENT OPPORTUNITY

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

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

Q. IS THE IDENTIFIED WIND REC PROCUREMENT PERMISSIBLE UNDER THE REA AND RULE 572?

A. Yes. While EPE is not required under the REA to acquire additional resources if the additional costs of complying with the RPS would exceed the RCT, the REA does not prohibit the Commission from approving additional renewable resources
where additional compliance costs would exceed the RCT. Indeed both the Act and Rule provide any noncompliance with total RPS based on costs exceeding the RCT is temporary, and both the Act and the Rule favor compliance at a reasonable cost established by the Commission.

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

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

Similarly, Rule 572 states "[t]he reasonable cost threshold is a customer protection mechanism that limits customer bill impact from annual Renewable Energy Act plans as measured by plan year revenue requirements...A public utility shall not be required to add renewable energy to its electric energy
portfolio in any plan year, pursuant to the renewable portfolio standard, where the annual renewable energy plan revenue requirement is above the reasonable cost threshold established by the commission pursuant to Subsection B of this section. “Rule 17.9.572.12 NMAC.

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

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

Q. ARE THE WIND REC PROCUREMENT COSTS REASONABLE?

A. Yes. The anticipated range of per wind REC costs is in line with current prices for wind RECs in markets in the southwest, and is considerably lower than the $15 per REC cost under the Southwestern Public Service ("SPS") wind REC contract that had previously been included in EPE’s authorized portfolio until it expired in 2015. The final price authorized for solar RECs purchased from DG customers, prior to the closure of the REC purchase programs last year, was $20 per REC, and the average cost annually for solar RECs in the REC program is almost $60 per REC. The current average procurement cost for RECs in EPE’s portfolio in the plan year is $81 per REC.
Q. ARE THE COSTS OF THE WIND REC PROCUREMENT CONSISTENT WITH THE CUSTOMER PROTECTION PURPOSES OF THE RCT?

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

Q. HOW DOES THE WIND REC PROCUREMENT IMPACT EPE’S PROPOSED RPS PLAN?

A. EPE was granted a waiver for its total RPS requirement and a variance for wind diversity for 2018 in its 2016 RPS Plan proceeding. As discussed by Mr.
Gallegos, if the wind REC purchase is not approved EPE will require a similar waiver and variance for 2019.

VI. EPE’S RPS COST RIDER PROPOSAL

Q. DOES EPE CURRENTLY HAVE A RATE RIDER FOR PURPOSES OF RECOVERING COSTS ASSOCIATED WITH THE RPS?
A. No.

Q. HOW DOES EPE CURRENTLY RECOVER COSTS ASSOCIATED WITH APPROVED RENEWABLE ENERGY ACT PLANS?
A. EPE’s approved plan year RPS costs are currently recovered through the Fuel and Purchased Power Cost Adjustment Clause (“FPPCAC”) mechanism or deferred for recovery pursuant to the Rule. EPE defers the cost of stand-alone REC purchases and costs associated with registering RECs with WREGIS.

Q. ARE ANY OF EPE’S RPS COSTS RECOVERED THROUGH BASE RATES?
A. Yes. All of the costs associated with RPS compliance for EPE are recovered through the FPPCAC, except for those previously deferred pursuant to the Rule. In the Final Order in EPE’s 2015 rate case (Case No. 15-00127-UT), the
Commission authorized recovery of $1.115 million of deferred REC costs through base rates annually for 5 years.

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

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

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

A. Yes. The Rule explicitly provides for the recovery of authorized RPS compliance costs through the ratemaking process, which includes the use of riders. The Commission has approved riders for these purposes for both Public Service Company of New Mexico and Southwestern Public Service Company.
Q. HOW IS A RATE RIDER A MORE TRANSPARENT RECOVERY MECHANISM THAN EPE'S CURRENT METHOD OF RECOVERING RPS COSTS THROUGH THE FPPCAC AND BASE RATES?

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

Q. HOW WILL THE RPS COST RIDER SAVE CUSTOMERS MONEY IN THE LONG TERM?

A. EPE currently defers costs associated with RECs purchased without associated energy as well as administrative costs for reporting and retiring RECs at WREGIS for recovery at a later date. The Rule allows EPE to also recover carrying charges for these costs over the deferral period, which increases the total cost to customers. By including these costs in the rider for recovery at the same time they are incurred, the total cost to customers is reduced and the rider is reflective of the actual costs incurred.
Q. HOW IS EPE'S PROPOSED RPS COST RIDER CALCULATED AND RECONCILED?

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

Q. WILL ANY RPS COSTS BE DEFERRED IN FUTURE PLAN YEARS IF EPE'S RENEWABLE RIDER IS APPROVED?

A. No. EPE would propose to include all RPS compliance costs in the renewable rider annually, including stand-alone REC purchases and administrative costs such as WREGIS costs. EPE proposes to include RPS costs which have been deferred since EPE's 2015 rate case in the new rider, as Mr. Carrasco shows in his testimony.
Q. IS EPE PROPOSING TO INCORPORATE ITS PREVIOUSLY DEFERRED REC COSTS THAT ARE BEING RECOVERED IN BASE RATES INTO THE NEW RIDER?

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

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

A. Yes

Q. PLEASE IDENTITY THOSE DEFERRED COSTS.

A. EPE proposes to include costs for registering RECs with WREGIS and for stand-alone REC purchases from SPS in the amount of $806,762 as shown in Exhibit MC-3 of the direct testimony of Mr. Carrasco. Those costs currently are not include in base rates and were deferred pursuant to Final Orders in Case Nos. 14-00121-UT, 15-00117-UT and 16-00109-UT.
Q. IS EPE PROPOSING TO IMPOSE RATE CAPS ON ITS LARGE CUSTOMERS THROUGH ITS PROPOSED RPS COST?

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

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

A. EPE witness Carrasco calculates the proposed renewable rider, as well as the large customer adjustment. Exhibit MC-2 shows both the determination of the forecasted capped large customer RPS revenues and the reduction to EPE’s RPS requirements for the plan year and next plan year. The difference between the cost of procuring the full RPS percentage for these customers and the capped revenue equals the additional RPS cost to be recovered from other (uncapped) customers in 2018 and 2019.
Q. IS EPE INCLUDING A PROPOSED RATE RIDER TARIFF IN THIS APPLICATION?

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

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

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

VII. DISTRIBUTED GENERATION REC PURCHASE PROGRAMS

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

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

EPE offers these programs through the Commission-approved Small and Medium System Renewable Energy Certificate Purchase rate schedules in conjunction with the Commission-approved applications to participate in REC purchase programs. The Applications set forth the terms of program
participation. Customers are also required to interconnect their facilities in accordance with the DG interconnection rules and agreements established by the Commission. Pursuant to changes adopted by the Commission in EPE's 2013 Plan Final Order, participating customers are no longer required to own the renewable generation system interconnected behind their meter and supplying them energy. Participating customers can either own or lease the renewable generation system interconnected behind their meter.

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

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

A. No. In its final order in Case No. 16-00109-UT adopting EPE’s 2016 RPS Plan, the Commission approved EPE’s proposal to close the REC purchase programs to new customers effective January 1, 2017. Customers who submitted to EPE an application to participate in a REC purchase program as set forth in EPE’s tariffs prior to January 1, 2017 remain eligible to participate in the REC purchase programs and receive the applicable REC credit once their system becomes
operational. Customers with interconnection agreements for renewable generation installations approved after that date are not eligible for the REC purchase programs.

Q. HOW DID THE PROGRAM CLOSURE IMPACT EXISTING PROGRAM PARTICIPANTS?

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

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

A. No. New customers continue to be allowed to interconnect their generating facilities and participate under the existing tariff provisions for metering options and purchase of exported energy by EPE.
Q. HOW MANY SMALL RENEWABLE DG FACILITIES ARE ELIGIBLE TO PARTICIPATE IN EPE'S CURRENT SMALL SYSTEM REC PROGRAM?

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

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

A. As of December 31, 2016, 134 customer-owned medium renewable DG facilities were connected to or had submitted applications to connect to EPE's system in New Mexico. All of these facilities are solar PV. The total capacity for all the REC program eligible medium DG systems (the sum of nameplate rated capacity) is 3.06 MW.
Q. DOES EPE HAVE CUSTOMERS PARTICIPATING OR ELIGIBLE TO PARTICIPATE IN THE LARGE SYSTEM REC PROGRAM?

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

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

A. EPE estimates the total cost for the REC Purchase Programs to be approximately $1.657 million in 2018 and 2019. Prices paid for RECs by EPE have varied over time and are a function of when a DG system began operation. The annual costs reflect rates ranging from $0.155 to $0.02 per kWh. With REC program tariffs closed to new customers the cost of the combined programs is projected to remain fairly level for 2018 and 2019, although normal variations in DG system energy output would likely result in some differences as would any approved expansions. The bulk of the program costs will drop off after the common termination date of the program in 2020.
Q. WITH THE DG REC PROGRAMS CLOSED WILL THE NUMBER OF
DG RECS PROCURED BY EPE STABILIZE AROUND 2016 LEVELS AS
WELL?

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

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

A. As of the end of March 2017, EPE had 2,567 customer-owned renewable DG
facilities connected to EPE’s system, comprised of 2,561 solar DG facilities and 6
wind DG facilities. In addition, applications for 52 DG facilities have been
submitted for interconnection or are under construction.
EL PASO ELECTRIC COMPANY
DIRECT TESTIMONY OF
JAMES SCHICHTL

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

VIII. INTERCONNECTION AGREEMENTS AND SYSTEM EXPANSIONS

Q. WHAT CHANGES DID THE COMMISSION APPROVE FOR
INTERCONNECTION APPLICATION FORMS IN EPE’S LAST RPS
PLAN PROCEEDING?

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

Q. WHAT WAS THE BASIS FOR THE CHANGES?

A. EPE has been experiencing customer expansions of existing DG systems without
receiving notification by participating customers as required to amend existing
interconnection agreements to reflect the systems' modified maximum rated
capacity. As such, these customers' interconnection agreements, as well as REC Agreements and REC credits, could be subject to termination by the Company. EPE made changes to rate schedules and forms to clarify the requirement that customers must notify EPE of any changes they plan to make, or have made, to their DG systems which would alter the capacity from that indicated in their signed interconnection agreement and to provide customers a reasonable opportunity, after written notice from EPE, to amend their existing interconnection agreements.

Q. WHY IS EPE CONCERNED WITH UNREPORTED DG SYSTEM EXPANSIONS?

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

WREGIS requires that each reporting entity register each renewable generator's capacity (in kW) before RECs attributable to that system can be registered in the system. Due to the small size of the systems installed by DG customers, EPE aggregates DG systems in groups of up to 240 kW and registers
the created group as a new generator in WREGIS. The WREGIS system uses the
registered group capacity to perform an engineering feasibility test to verify that
the number of REC's reported is consistent with the registered group capacity.
Recently, when a group has failed the engineering feasibility test, the WREGIS
system has automatically rejected REC's reported by the Company. Therefore, it
is important for EPE to know the customer's true system capacity to be able to
register the correct group size in WREGIS and avoid failing engineering
feasibility tests. With DG customers not accurately reporting their current
maximum rated system capacity, EPE may not be able to utilize purchased REC
certificates in the WREGIS system.

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

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

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.
Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.
El Paso Electric Company
Historical Requested Renewable Portfolio Standard Costs

<table>
<thead>
<tr>
<th>Plan Year</th>
<th>Procurement Cost</th>
<th>Compliance Cost</th>
<th>Plan Year Total Revenue (Adj)</th>
<th>RCT Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>$16,193,126</td>
<td>$13,466,047</td>
<td>$199,026,438</td>
<td>6.77%</td>
</tr>
<tr>
<td>2015</td>
<td>16,421,659</td>
<td>13,141,484</td>
<td>201,966,796</td>
<td>6.51%</td>
</tr>
<tr>
<td>2016</td>
<td>15,328,698</td>
<td>10,212,666</td>
<td>191,221,136</td>
<td>5.34%</td>
</tr>
<tr>
<td>2017</td>
<td>14,793,319</td>
<td>11,928,966</td>
<td>190,973,497</td>
<td>6.25%</td>
</tr>
<tr>
<td>2018</td>
<td>15,989,224</td>
<td>12,189,304</td>
<td>186,280,474</td>
<td>6.54%</td>
</tr>
<tr>
<td>2019</td>
<td>15,886,831</td>
<td>12,333,353</td>
<td>187,070,847</td>
<td>6.59%</td>
</tr>
</tbody>
</table>

Including projected wind REC costs - $400,000

<table>
<thead>
<tr>
<th>Plan Year</th>
<th>Procurement Cost</th>
<th>Compliance Cost</th>
<th>Plan Year Total Revenue (Adj)</th>
<th>RCT Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>$16,389,224</td>
<td>$12,589,304</td>
<td>$186,280,474</td>
<td>6.76%</td>
</tr>
<tr>
<td>2019</td>
<td>16,286,831</td>
<td>12,733,353</td>
<td>187,070,847</td>
<td>6.81%</td>
</tr>
</tbody>
</table>

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

RENEWABLE PORTFOLIO STANDARD (RPS) COST RIDER

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.

<table>
<thead>
<tr>
<th>Amount to be Recovered</th>
<th>Rate per kWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Retail Rate Schedules</td>
<td>$16,692,430</td>
</tr>
<tr>
<td>Customers Subject to Large Customer Cap</td>
<td>2% of Pre-Tax Charges</td>
</tr>
</tbody>
</table>

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
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

EL PASO ELECTRIC COMPANY,
Applicant.

Case No. 17-______ UT

AFFIDAVIT

STATE OF TEXAS

COUNTY OF EL PASO

ss

James Schichtl hereby deposes and states under oath that the information contained in the foregoing Direct Testimony of James Schichtl, together with all schedules sponsored therein and exhibits attached thereto, is true and accurate based on my personal knowledge and belief.

SIGNED this ___day of May, 2017.

JAMES SCHICHTL

Subscribed and sworn to before me this ___day of May, 2017.

My Commission expires:

October 2, 2018