EPE Response to Stephen Fischmann's Letter submitted July 5, 2017 and letter from Merrie Lee Soules, Karen Sherrouse, Don Kurtz, and Allen Downs, submitted July 5, 2017

EPE appreciates the concerns and suggestions provided by Mr. Fischmann submitted on July 5, 2017, following scheduled PAG meetings in October.

The first three items listed in the letter were requests for dates on when those specific topics would be discussed within the PAG meetings. The topics denoted have since been covered in various PAG meetings. EPE will continue to evaluate and model demand management (response) and energy efficiency options within its IRP portfolio analysis as required by Rule 17.7.3 NMAC. The evaluated demand response and energy efficiency options will be above and beyond the energy efficiency rule requirements. EPE has presented how battery storage could be utilized within a portfolio and plans to further evaluate and model this option in the IRP analysis. The battery storage analysis will appropriately represent storage as it can be utilized within a resource portfolio. Solar costs will be evaluated given the most currently available costs and reasonable assumptions for cost declines.

Retirements planned within the next 5 years will be evaluated within the portfolio analysis as retirement extensions versus retirement as planned as agreed to in the 2015 IRP Stipulation. EPE is not evaluating any *early retirements* of existing, system resources or assets. This includes not modeling a "no nukes option" which would imply modeling the portfolio without Palo Verde. EPE has also provided explanations for the distinction of purchased power agreements and spot buy purchased power. EPE is not opposed to purchased power agreements for identified resources, however, as EPE has previously explained, EPE cannot rely on spot buy purchased power for a high amount of resource needs, considering the risk that excess power from other entities will not be available at time of peak.

Additionally, the request to force the creation of portfolios biased to renewables, storage or any resource type is counter to the IRP rule requirement that EPE identify the most cost effective resource portfolio. EPE has agreed to analyze a renewable heavy resource portfolio as a sensitivity analysis alternative; however, EPE does not intend to force resource biased portfolios.

Throughout the PAG meetings, EPE has conveyed modeling inputs and assumptions in a transparent manner. EPE will continue to do so and will additionally document inputs and assumptions in the final IRP report. EPE has also provided reference to Lazard reports which include LCOE estimates for various resource types; however, EPE has also explained that LCOE itself is not input into Strategist.

The topic of power purchases and sales as referenced in item ten of the letter has also been discussed. As EPE has explained, it is not the norm for EPE to make off-system sales during peak load periods. Additionally, as EPE has stated during the PAG meetings, the sales referenced have been sales that are coupled with corresponding purchases resulting in a net-zero MW impact to load serving capability. The suggestion that EPE is building generation exclusively for the purpose of making sales is incorrect and the fact is that EPE secures Commission approved resources to meet forecasted peak load plus the planning reserve margin.

In reference to future renewable projects, EPE will consider the timing of expiring tax incentives. However, given the recent legislative discussions, there is uncertainty on when those expirations may occur.