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SOAH DOCKET NO. 473-19-6862
PUC DOCKET NO. 49737

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APPLICATION OF SOUTHWESTERN §
ELECTRIC POWER COMPANY FOR §
CERTIFICATE OF CONVENIENCE §
AND NECESSITY AUTHORIZATION §
AND RELATED RELIEF FOR THE §
ACQUISITION OF WIND §
GENERATION FACILITIES §

~~BEFORE THE STATE OFFICE~~ PUBLIC UTILITY COMMISSION
FILING CLERK

OF

ADMINISTRATIVE HEARINGS

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
PUBLIC UTILITY COUNSEL'S FOURTH REQUEST FOR INFORMATION

FEBRUARY 24, 2020

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
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Question No. 4-1:

Refer to the Rebuttal Testimony of Karl R. Bletzacker at 4. Please explain if the Company's fundamentals natural gas price forecast represents actual market transactions.

Response No. 4-1:

The Company's natural gas price forecasts are model-driven projections which result from certain assumptions as described in Mr. Bletzacker's Direct Testimony. These forecasts do not reflect previously transacted purchases and sales of natural gas.

Prepared By: Connie S. Trecuzzi

Title: Economic Forecast Anlyst Staff

Sponsored By: Karl R. Bletzacker

Title: Dir Fundamental Analysis

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Question No. 4-2:

Refer to the Rebuttal Testimony of Karl R. Bletzacker at 8 (Figure 4) and 16 (Figure 7). Please reconcile Mr. Bletzacker's criticism that Figure 4 shows that "NYMEX natural gas futures contract prices have displayed remarkable volatility" with Figure 7 that "as the natural gas industry's shale revolution progressed and Henry Hub spot prices continued to drop, so did the Company's natural gas price forecasts." Explain why these charts do not show the same thing.

Response No. 4-2:

Figure 7 of Company witness Bletzacker's Rebuttal Testimony illustrates that each successive natural gas price forecast has been less than all prior forecasts. This was intended to demonstrate that the Company recognized the advancement of the "shale revolution" as it resulted in continually lower natural gas finding and production costs. In contrast, Mr. Bletzacker's Figure 4 illustrates that the substitution of "single date" NYMEX natural gas futures contract prices is very dependent upon the date chosen. OPUC witness Nalepa showed two distinct "single-date" NYMEX natural gas futures contract price curves that suggested significantly different results. The ultimate conclusion was that the substitution of "single-date" NYMEX natural gas futures prices for the Company's long-term model-driven values is subject to significant volatility.

Prepared By: Connie S. Trecuzzi

Title: Economic Forecast Analyst Staff

Sponsored By: Karl R. Bletzacker

Title: Dir Fundamental Analysis

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Question No. 4-3:

Refer to the Rebuttal Testimony of John F. Torpey at 3. Please explain why Mr. Torpey believes that the TIEC witnesses', Messrs. Pollock and Griffey, natural gas price forecasts are unrealistically low.

Response No. 4-3:

Mr. Torpey relied primarily on Company witness Bletzacker's rebuttal testimony, specifically his critique of Mr. Griffey and Mr. Pollock's use of NYMEX natural gas futures. Mr. Torpey also pointed out on page 3 of his rebuttal testimony that Mr. Griffey and Mr. Pollock effectively assumed zero probability of future carbon costs.

Prepared By: Jon R. Maclean

Title: Resource Planning Mgr

Prepared By: James F. Martin

Title: Regulatory Case Mgr

Sponsored By: John F. Torpey

Title: Mng Dir Res Plnning&Op Anlysis

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Question No. 4-4:

Refer to the Rebuttal Testimony of John F. Torpey at 7. Mr. Torpey states that "the proposed facilities will break even at a power price curve that averages only \$21/MWh over the first ten years, regardless of the price of natural gas." Please clarify whether Mr. Torpey believes that there is no relationship between power prices and natural gas prices.

Response No. 4-4:

Mr. Torpey's statement and his breakeven power price analysis recognizes the simple fact that power generation assets sell electricity, and therefore power prices are what determines the energy revenues needed to evaluate the economics of those assets. In the case of wind assets, the price of natural gas has no direct impact on revenues or expenses. It has an indirect impact to the extent that gas prices influence power prices. Mr. Torpey does acknowledge that power prices in SPP are largely correlated with gas prices, but they are not 100% correlated. For this reason gas prices alone cannot be used to determine the reasonableness of the Company's benefits analysis. The gas price must be paired with a market heat rate in order to form a view of power prices. One party could believe the gas price is \$2.50/MMBtu and another party could believe it should be \$3.00/MMBtu but it is plausible for either of those gas prices to be prevailing prices during a period when power prices are \$21/MWh. The implied heat rate would be 8,400 Btu/kWh to get to \$21 electricity from \$2.50 gas or 7,000 Btu/kWh to get to \$21 power from \$3.00 gas. Regardless of a party's view on gas prices and heat rate and how you get to \$21, \$21 is the breakeven price. One doesn't need to know how highly correlated gas and power prices are to come to that conclusion based on the manner in which the breakeven price was computed.

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