



Control Number: 49737



Item Number: 124

Addendum StartPage: 0

SOAH DOCKET NO. 473-19-6862
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APPLICATION OF SOUTHWESTERN § BEFORE THE STATE OFFICE
ELECTRIC POWER COMPANY FOR §
CERTIFICATE OF CONVENIENCE § OF
AND NECESSITY AUTHORIZATION §
AND RELATED RELIEF FOR THE §
ACQUISITION OF WIND § ADMINISTRATIVE HEARINGS
GENERATION FACILITIES §

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

OCTOBER 7, 2019

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Question No. 1-1:

Refer to the Direct Testimony of Thomas Brice at 13. Please explain the following:

- a. How will the price for renewable energy credits ("RECs") that are made available for sale to customers be determined?
- b. How will the Company allocate RECs among customers if more customers want to purchase RECs than are available?
- c. How will revenues received for RECs be used to reduce costs for all customers?
- d. How will the Company treat RECs that are produced but not sold to customers?

Response No. 1-1:

As stated in the Direct Testimony of Mr. Brice, SWEPCO intends to propose the creation of a new tariff through which customers can purchase RECs created by the Selected Wind Facilities when the Commission grants SWEPCO authority to acquire the Selected Wind Facilities. SWEPCO has not yet developed that proposed tariff. Therefore, the details of such a tariff are not known at this time. However, at this time SWEPCO envisions that revenues generated by the sale of RECs to customers would be credited to customers through rates, thereby lowering costs for all customers.

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Question No. 1-2:

Refer to the Direct Testimony of Thomas Brice at 17. Please provide a list and description of events that SWEPCO would consider force majeure events that the Company cannot control in regard to production from the wind facilities.

Response No. 1-2:

The circumstances that would cause SWEPCO to invoke a force majeure event regarding the minimum production guarantee for the Selected Wind Facilities are events and circumstances which are beyond the reasonable control of SWEPCO and not caused by the fault or negligence of SWEPCO. Events of force majeure include but are not limited to (i) acts of god and natural disasters such as earthquakes, lightning, tornados, flood, and other physical natural disasters, (ii) acts of war, acts or threats of terrorism, riots, civil disturbance; (iii) labor shortages and labor unrest or disputes, (iv) disruption or curtailment of transportation services and (v) supply chain shortages or disruption.

As discussed in the direct testimony of Mr. Brice, a lack of wind velocity will not be considered a force majeure event. This guarantee is subject to curtailments in the SPP.

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Question No. 1-3:

Refer to the Direct Testimony of Thomas Brice at 18. Please explain why SWEPCO and Public Service Company of Oklahoma ("PSO") issued separate requests for proposals ("RFPs") rather than a joint RFP, and explain what impact on the number and quality of responses, if any, resulted from issuing two RFPs rather than one RFP.

Response No. 1-3:

Although the RFPs were the same in many respects, the issuance of the SWEPCO and PSO RFPs separately enabled each of the companies to identify its specific needs (see Section 2.1 "Additional Wind Resources" of the respective RFPs) in addition to describing the regulatory approvals required for each operating company (see Section 2.8 – "Regulatory Approvals" of the respective RFPs). In addition, if either operating company elected to cancel its RFP, it would have been easier to accomplish with separate RFPs. The companies believe that individual RFPs produced the same participation level (number and quality) had a joint RFP been issued.

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Question No. 1-4:

Refer to the Direct Testimony of Thomas Brice at 20-21. Please provide all documents and analyses related to the estimated cost and need for a future generation tie line to mitigate congestion or curtailment at the wind facilities.

Response No. 1-4:

See the Company's response to ETEC/NTEC 1-32.

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Question No. 1-5:

Refer to the Direct Testimony of Jay Godfrey at 7. Please provide the Louisiana Public Service Commission ("LPSC") docket number in which the LPSC reviewed the RFP.

Response No. 1-5:

The Louisiana Docket number is X-35085.

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Question No. 1-6:

Refer to the Direct Testimony of Joseph Deruntz at 11. Please explain the reasons for the differences in commercial operation dates between the wind projects. Is it the relative size of the projects, the project locations, or other factors that are significant drivers in the different dates?

Response No. 1-6:

Please see the testimony of Jay Godfrey at pages 5 through 6.

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Question No. 1-7:

Refer to the Direct Testimony of Karl Bletzacker at 11, Figure 3, and workpaper Updated Bletzacker Errata_Henry Hub Benchmarks KRB 8-19-2019. The AEP Base Case gas price is \$3.21 per MMBtu in 2019 and \$3.44 per MMBtu in 2020. The Henry Hub average spot gas price is \$2.59 per MMBtu in 2019 and the latest NYMEX average futures price is \$2.51 per MMBtu in 2020. Please identify and explain the specific drivers that account for why the 2019 and 2020 AEP gas prices are 24% to 38% higher than the corresponding Henry Hub spot price and current NYMEX prices.

Response No. 1-7:

The Company's Fundamentals Forecast is a long-term (through 2053), weather-normalized energy market forecast. Actual spot natural gas prices are partly driven by near-term supply and demand factors, including weather, that can and do vary from the long-term view. Some of these near-term factors are discussed below. Further, as discussed below and on page 7 of the direct testimony of Mr. Bletzacker, it would be inappropriate to rely on NYMEX futures contract pricing for long term corporate planning, including the acquisition of the Selected Wind Facilities. It should also be noted that in this regulatory proceeding the Fundamentals Forecast is used as a basis for the calculation of customer benefits that commence in 2021 for the Sundance facility and in 2022 for the Traverse and Maverick facilities. As a result, 2019 and 2020 prices have no bearing on the net benefits calculation. In addition, looking at forecasted gas prices in isolation without also evaluating the implied market heat rate and the resulting power prices will yield an incomplete assessment of the impact of the forecasted customer benefits. Gas prices in isolation do not directly impact the economics or customer benefits of wind facilities. Wind facilities sell electricity, so the forecasted power price matters more than the forecasted gas price in this proceeding.

Regarding the comparison of (partial year) 2019 Henry Hub average spot price (\$2.59/mmBtu) to Fundamentals Forecast 2019 (full year) Base Case Henry Hub average price (\$3.21/mmBtu), this partial year to full year direct comparison is unsuitable because it ignores impending winter demand and prices. Further, there are circumstances that affected near-term partial year 2019 Henry Hub actual spot prices. Expected demand growth, including LNG exports and gas-fired electric generation, did not fully absorb the nearby increase in gas production primarily from the Bakken (due to increased processing plant capacity) and Appalachia. LNG feed-gas for export was down due to maintenance at Sabine Pass LNG and

testing at Corpus Christi LNG Train 2. US natural gas storage injections are expected to meet 5-year average inventory levels prior to the withdrawal season's November commencement.

Regarding the comparison of 2020 NYMEX average futures prices (\$2.51/mmBtu) to Fundamentals Forecast 2020 Base Case Henry Hub average price (\$3.44/mmBtu), the U.S. Commodity Futures Trading Commission Commitments of Traders Report disclosed, as of September 10, 2019, 41.3% of all NYMEX open interest was identified as "spreading" positions. NYMEX natural gas futures market participants who hedge the price spreads between time periods and different commodities are indifferent to the current or future spot market price of the commodity – they are only interested in the spread in price. For example, locking in price spreads between time periods is necessary to assure a natural gas storage operator can capture the seasonal or month-to-month values of physical natural gas injected in and later withdrawn from storage. Consequently, the identification and explanation of the specific drivers of NYMEX futures market participants who are either speculating, hedging or spreading is not practicable.

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Question No. 1-8:

Refer to the August 23, 2019 Errata Filing transmittal letter. Please identify where in the original application and the errata filing the assumptions regarding the reservation fee and transportation components of the cost of gas used in SWEPCO's analysis can be found.

Response No. 1-8:

The information responsive to this request is CONFIDENTIAL under the terms of the Protective Order. The Confidential information is available for review at the Austin offices of American Electric Power Company (AEP), 400 West 15th Street, Suite 1520, Austin, Texas, 78701, (512) 481-4562, during normal business hours.

The errata filing corrected the delivered cost of gas for SWEPCO's units that consume gas. The delivered cost of gas for each unit prepared initially was based on locational gas prices inclusive of transportation-related costs including reservation fees, if any. Additional unit-specific transportation costs were inadvertently added resulting in an overstated basis differential for the unit-specific delivered gas prices. OPUC 1-8 Confidential Attachment 1 provides the basis differential used in the modeling as originally filed and as used in the modeling for the errata. The transportation component of the cost of gas was combined with the gas commodity cost in the underlying PLEXOS inputs for each gas unit. The workpapers in the original filing showing the cost of gas reflecting the combined commodity and transportation cost (which excludes reservation fees) for the fleet of gas units as a whole were provided in TIEC 1-19 Attachment 1. These amounts are located in rows 17 through 19 (CC,CT, and Gas Steam) of the net production cost workpapers (titled SEP_ann_NPC.csv and SEP_mon_NPC.csv) found in the NPC directory for each case provided. The reservation fees found in rows 24 through 26 of those same files for each case provided are unchanged. The corresponding workpapers for the errata filing are in these same files in TIEC 1-19 Supplemental Attachment 1.

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