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SOAH DOCKET NO. 473-21-2606
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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

THE UNITED STATES DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES' NOTICE OF FILING CROSS-REBUTTAL TESTIMONY OF LARRY BLANK

The United States Department of Defense and all other Federal Executive Agencies ("DoD/FEA") files the Cross-Rebuttal Testimony of Larry Blank. This notice includes the following:

1. Affidavit of Larry Blank; and
2. Cross-Rebuttal Testimony of Larry Blank

November 19, 2021

Respectfully submitted,

/s/ Kyle J Smith
Kyle J. Smith
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CERTIFICATE OF SERVICE

I, Kyle J Smith, representative for DoD/FEA, hereby certify that a copy of DoD/FEA's Notice of Filing Cross-Rebuttal of Larry Blank was served on all parties of record in this proceeding on November 19, 2021 by electronic mail.

/s/ Kyle J Smith_____
Kyle J Smith

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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	**§ § §**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

CROSS REBUTTAL TESTIMONY

OF

LARRY BLANK

ON BEHALF OF

THE UNITED STATES DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES

November 19, 2021

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Larry Blank. My business address is: TAHOEconomics, LLC, 6061 Montgomery Road, Midlothian, TX 76065. My email address is LB@tahoeconomics.com.

Q. DID YOU PREVIOUSLY PREPARE DIRECT TESTIMONY THAT WAS FILED IN THIS CASE?

A. Yes, filed on October 22, 2021.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the U.S. Department of Defense ("DOD") and all other Federal Executive Agencies ("FEA"), which includes Fort Bliss.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?

A. I respond to Clarence L. Johnson's direct testimony on behalf of the City of El Paso. Specifically, I rebut Mr. Johnson's valuation of interruptible service on the El Paso Electric Company ("EPE") system.

Q. WHAT IS MR. JOHNSON'S BASIS FOR VALUATION OF INTERRUPTIBLE LOAD CAPACITY?

A. At page 46, lines 1-5, of Mr. Johnson's testimony, he states: "The incentive (in the form of a credit) provided to the interruptible customer should be valued based on the avoided cost of peak generation capacity, similar to an energy efficiency program. The size of the interruptible credit should not be higher than avoided generation capacity cost." He then pulls a projection from a report by the U.S. Energy Information Administration ("EIA"), which is an estimated installed cost of a combustion turbine ("CT") within the Southwest region of the Western Electricity Coordinating Council ("WECC") as his starting point for this

calculation. He also uses, as a point of comparison, the avoided cost of capacity approved for the Electric Reliability Council of Texas ("ERCOT") market for energy efficiency.

Q. DO YOU AGREE THAT THE LEVELIZED CAPACITY COST OF A COMBUSTION TURBINE IS THE APPROPRIATE WAY TO VALUE INTERRUPTIBLE LOAD CAPACITY EMBEDDED WITHIN THE EPE SYSTEM?

A. No. First, Mr. Johnson fails to include transmission capacity cost. Unlike reserve combustion turbine capacity, interruptible capacity does not require the use of the transmission system (nor distribution). Grid emergency scenarios requiring reserve capacity can include transmission faults that isolate generation units. One advantage of interruptible load is the capacity it brings to the system during an emergency, without the need for transmission. This is not true for utility reserve generation capacity. Therefore, it is important to include the cost of transmission capacity in valuation of interruptible load capacity.

Second, Mr. Johnson's use of levelized cost fails to recognize the cost to current customers if EPE made additional investments in CTs to replace the existing and near-future interruptible capacity. Additional CT capacity investment will be placed into rate base at its mostly undepreciated original cost. Therefore, for the purpose of interruptible service, the true avoided cost for current EPE customers is the revenue requirement of the asset, including initial before-tax return on rate base cost, not the levelized cost calculated by Mr. Johnson. Thus, the revenue requirement for current customers associated with a new CT is higher than the levelized cost suggested by Mr. Johnson.

Third, Mr. Johnson fails to include fuel cost in his avoided cost methodology. During certain system emergencies, such as those experienced in February 2021 during Winter Storm Uri, natural gas shortages may also develop, causing natural gas prices to increase dramatically. Interruptible capacity requires no fuel purchases by the utility and helps mitigate utility risk exposure to high natural gas prices during a system emergency.

Finally, there is additional reliability value to the City of El Paso ("City") customers in having generation capacity and/or interruptible capacity embedded within that portion of the EPE system. Because of generation siting limitations within the City, the presence of interruptible customer loads may have an advantage over utility generation to bring this added local reliability value. This reliability value is difficult to quantify. The upper bound of such an estimate would be the millions of dollars in economic losses incurred if the City customers experienced an extended blackout during a system emergency. Although precise quantification of this reliability value in having embedded interruptible capacity is difficult, a qualitative description is worthy of consideration. The ability to drop large customer loads within the City helps to enhance EPE's ability to continue service to other loads within El Paso during a system emergency, especially when EPE generation and transmission capacity are constrained. Because interruptible capacity does not require transmission, this frees up transmission capacity to serve the remaining non-interruptible customers during a system emergency. If EPE must implement rolling blackouts during an emergency, the duration of these rolling blackouts will be mitigated by the presence of interruptible loads that have been shed from key transmission feeders serving the areas in and around the City. The City should be encouraging more interruptible load within its portion of EPE's

system and not discouraging interruptible load, as would be the case if the Public Utility Commission of Texas ("Commission") were to accept Mr. Johnson's myopic and flawed analysis.

Q. HAS MR. JOHNSON DEMONSTRATED THE PRESENCE OF A SUBSIDY TO INTERRUPTIBLE CUSTOMERS?

A. No. First, Mr. Johnson's calculations are flawed from the start, with inputs that are irrelevant to the EPE system and, as I explained above, there are avoided costs excluded from his calculations. Second, the value of reliability to the customers within the City are not captured within his calculations.

Q. HOW ARE THE INPUTS USED BY MR. JOHNSON IRRELEVANT FOR THE EPE SYSTEM?

A. Mr. Johnson begins with a $594-per-kilowatt ("kW") EIA projection for the overnight cost of an installed CT within the WECC Southwest region. Within his Schedule CJ-7, he includes the statement "Construction Cost El Paso Region" in relation to this value. The WECC Southwest region actually covers a very large geographic area, including a portion in Southern California, most of Arizona, most of New Mexico, and the relatively small EPE service territory within Texas. The $594/kW projection by EIA is an average for this entire region and not relevant to the costs within EPE's service territory, and certainly not relevant to the cost of an installed CT within the City, which would be most comparable to the interruptible customer loads and rates under consideration in this proceeding.

It is also unclear as to the assumed capacity size of the CT unit included within the $594/kW EIA estimate. Based on Table 1 of EIA's "Cost and Performance Characteristics of New Generating Technologies, *Annual Energy Outlook 2021*," it appears that EIA may be assuming a 237-megawatt ("MW") CT, which is likely

much larger than what EPE would plan to build. Larger-scale units cost less per kW capacity than smaller-scale units. Therefore, the EIA CT cost estimate further underestimates the cost of a CT added by EPE. I also note that the larger the CT unit hypothetically added by EPE through Mr. Johnson's use of this EIA estimate, the larger the rate base addition and cost to customers. This is another advantage of using smaller capacity interruptible loads rather than adding a large CT to the rate base of EPE with excess capacity.

Finally, these are overnight estimates and, therefore, they exclude accrued allowance for funds used during construction ("AFUDC"). AFUDC that accrues during the construction phase of a CT must be added to the cost.

Q. IS MR. JOHNSON'S ALTERNATIVE INPUT FOUND IN HIS SCHEDULE CJ-8 APPROPRIATE FOR THE ANALYSIS OF INTERRUPTIBLE CAPACITY?

A. No. The $700/kW or $80/kW-year value was approved by the Commission for the ERCOT region Energy Efficiency Implementation Project. It is not relevant to the cost conditions within EPE and is not relevant for the valuation of interruptible capacity. The document provided by Mr. Johnson as Schedule CJ-8 also references an EIA *Annual Energy Outlook* projection which is also flawed for valuation of interruptible load for the reasons I gave in my previous answer.

Q. ARE ENERGY EFFICIENCY PROGRAMS COMPARABLE TO INTERRUPTIBLE LOAD CAPACITY AS MR. JOHNSON SEEMS TO IMPLY IN HIS TESTIMONY?

A. Not at all, and such analogies are inappropriate. If EPE is experiencing unexpectedly high system peak demand on a particular day, or the City is facing a potential blackout during a system emergency, energy efficiency programs do

nothing in that moment to bring necessary capacity to the system. Interruptible loads, on the other hand, provide capacity that can be called upon during such moments. It is inappropriate to equate interruptible load with an energy efficiency program, and it is inappropriate to value the two as if they are substitutes for one another. The two are very different when it comes to system operations and value.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING THE CITY'S ANALYSIS AND RECOMMENDATIONS REGARDING INTERRUPTIBLE SERVICE RATES?

A. For the reasons I have provided herein, Mr. Johnson's analysis and resulting recommendations for the interruptible service rates should be rejected in their entirety. He has provided no evidence worthy of consideration in this very important system reliability matter. His analysis and recommendations, based on his false conclusion that interruptible service is over-valued or subsidized, will discourage continued participation in interruptible service, thereby creating a system reliability risk for the customers within the City.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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Affidavit of Larry Blank

STATE OF TEXAS)
COUNTY OF ELLIS) **ss:**

I, Larry Blank, being duly sworn state that the Cross Rebuttal Testimony, schedules, and attachments for introduction into evidence in Public Utility Commission of Texas Docket No. 52195 were prepared by me or under my supervision, control, and direction; that the Direct Testimony, schedules, and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony orally and would present the same schedules and attachments if asked under oath.

Dated at Ellis County, Texas, this 18th day of November, 2021.

Signature: _____
Name: Larry Blank
Date: November 18, 2021

Subscribed and sworn to before me this 18th day of November, 2021.

_____
Notary Public, State of Texas

JAMES WADE
ID #128996666
My Commission Expires
January 13, 2025

My Commission expires: _____