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

REBUTTAL TESTIMONY

OF

DAVID C. HAWKINS

FOR

EL PASO ELECTRIC COMPANY

NOVEMBER 19, 2021

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I. Introduction and Qualifications

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is David C. Hawkins. 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" or "Company") as Vice President of Strategy and Sustainability.

Q. ARE YOU THE SAME DAVID C. HAWKINS WHO SUBMITTED DIRECT TESTIMONY?

A. Yes, I am.

II. Purpose of Rebuttal Testimony

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to testimony from Office of Public Utility Counsel ("OPUC") witness Constance Cannady and Freeport-McMoran, Inc. ("FMI") witness Billie LaConte recommending: (a) the removal from base rates of invested capital and operations and maintenance ("O&M") expenses related to EPE generating units Rio Grande Unit 7, Newman Unit 1, and Newman Unit 2, and (b) the recovery of such investment and expenses through a separate rider. This recommendation is inappropriate and unreasonable because these units were fully operational during the test year and will not be retired before the rate year. Further, the timing of the retirement of these units is not as certain as those witnesses assume.

I also address City of El Paso witness Scott Norwood's recommendation that EPE be required to present documentation, in its next fuel reconciliation proceeding, of curtailments of Palo Verde Generating Station ("PVGS") energy deliveries to EPE's retail service area caused by transmission constraints.

Finally, I also respond to Mr. Norwood's recommendation that EPE's test-year transmission operations and maintenance ("O&M") expenses be reduced by $2,389,050 and explain why those costs were not unjustified or extraordinary as Mr. Norwood alleges but were reasonable and necessary to provide reliable service to EPE customers.

III. Planned Generating Unit Retirement Rider

Q. PLEASE DESCRIBE MS. LACONTE'S ARGUMENT THAT EPE'S GENERATING UNITS PLANNED FOR RETIREMENT SHOULD BE REMOVED FROM RATE BASE.

A. On pages 40-44 of her direct testimony, Ms. LaConte argues that Rio Grande Unit 7 and Newman Unit 2 capital and O&M expenses should be removed from EPE's base rates because the Company's recently published Integrated Resource Plan ("IRP") indicates that EPE plans to retire these units by the end of 2022. She advocates for EPE to recover costs associated with Rio Grande Unit 7 and Newman Unit 2 through a rider taking effect with the new base rates established in this case and running through December 2022. Ms. LaConte argues that recovery of these costs through the proposed rider will prevent customers from having to pay the full cost of service once these units are retired and no longer used and useful.

Q. PLEASE DESCRIBE MS. CANNADY'S ARGUMENT THAT EPE'S GENERATING UNITS PLANNED FOR RETIREMENT SHOULD BE REMOVED FROM RATE BASE.

A. On pages 9-14 of Ms. Cannady's Direct Testimony, she makes a similar recommendation for recovery of capital and O&M expenses related to EPE's generating units planned for retirement at the end of 2022 through a rider. Ms. Cannady includes Newman Unit 1 capital and O&M expenses in the proposed rider, in addition to Newman Unit 2 and Rio Grande Unit 7.

Q. DO YOU AGREE WITH THE RECOMMENDATIONS OF MS. LACONTE AND MS. CANNADY?

A. No, I do not. Ms. Cannady suggests that the Commission's treatment of Southwestern Electric Power Company's ("SWEPCO") Welsh Unit 2 in Docket No. 46449 established a precedent for removing capital and O&M expenses related to a retired unit from rate base and recovery of such costs through a rider. When the Commission considered this issue in Docket No. 46449, Welsh Unit 2, unlike EPE's three units, was already retired. Ms. LaConte relies on the Proposal for Decision recently issued in SWEPCO's current base rate case (Docket No. 51415) and the ALJs' recommendation to remove capital investment and O&M expenses related to a retiring unit (Dolet Hills) from rate base and recovery of the costs through a rider. Although the Commission has adopted that recommendation, the circumstances there are also different from those with respect to Rio Grande Unit 7 and Newman Units 1 and 2 in that SWEPCO has committed to retiring Dolet Hills at the end of this year. Further, the proposals of Ms. LaConte and Ms. Cannady both depend upon and assume the retirement of these generating units in December 2022.

EPE has not set definitive retirement dates for Rio Grande Unit 7 or Newman Units 1 and 2. The results of EPE's current request for proposal process will help EPE determine whether the replacement resources forecasted in the IRP match the actual offers for replacement resources such that retirement of any existing generating units is in the best interests of EPE customers. It is premature to assume the retirements of Rio Grande Unit 7 or Newman Units 1 and 2 at any specific point in time in the future. The Loads & Resources (L&R) in the Company's IRP are forecasts and plans based on current conditions and projections, and they are subject to change over time. The L&R and IRP do not constitute formal or final decisions or determinations regarding retirement of the Company's generating units or acquisition of replacement resources.

Q. DOES EPE DEVELOP THE L&R TO DETERMINE WHEN TO ADD NEW GENERATION CAPACITY TO MEET ITS LONG-TERM RESERVE MARGIN NEEDS?

A. Yes, it does. EPE forecasts its multi-year energy and demand needs on an annual basis. As part of this process, EPE compiles supply, demand and reserve margin information into the L&R document, which compares the Company's owned generation and purchased power resources to expected loads, taking into consideration EPE's reserve margin and assuming no capacity is added. The L&R is a tool to ensure the Company is not capacity short or capacity long and help determine when additional generation capacity will be needed.

Q. DOES THE L&R INCLUDE PLANNED GENERATION UNIT RETIREMENTS TO CALCULATE RESERVE MARGIN NEEDS?

A. Yes, it does. The L&R considers EPE's planned retirements of older generation units in conjunction with its other existing generation resources in determining whether additional capacity will be needed. For instance, the 2017 L&R showed a need for Newman Unit 6 based on several factors, including the Company's load forecast at that time, its reserve margin criteria, and the planned retirements of Newman Units 1 and 2 and Rio Grande Unit 7. The Company must plan to have sufficient capacity to serve expected future load and take steps to add generation units to ensure reliable service in the future based on projections and forecasts, which is why EPE sought a Certificate of Convenience and Necessity ("CCN") amendment for Newman Unit 6.

Q. SO THE COMPANY USES THE L&R TO DETERMINE WHEN NEW GENERATION CAPACITY SHOULD BE ADDED BUT NOT TO DETERMINE WHEN GENERATION UNITS WILL BE RETIRED?

A. The L&R is not a final determination of whether or when to retire any specific generation unit. Several factors can affect the planned retirement dates for generation units that are part of the L&R. Of primary importance is that new resources that replace the retiring generating capacity are completed and in-service. EPE must and does continually reevaluate how to reliably serve its load at reasonable costs and take appropriate measures to maintain reliability and account for unforeseen contingencies in the construction or operation of the new resources that will be brought into its generation portfolio. In addition, changes in projected operating conditions can impact the estimated remaining useful life of the resources. Changes in load growth versus projections can also affect decisions on when to retire older generation units, as can regulatory mandates.

Q. HOW WILL THE RETIREMENT DATES OF NEWMAN UNITS 1 AND 2 AND RIO GRANDE UNIT 7 BE DETERMINED?

A. As EPE witness Omar Gallegos explained in the Newman Unit 6 CCN case, Docket No. 50277, the planned December 2022 retirements of Rio Grande Unit 7 and Newman

Units 1 and 2 depend on a new solar Purchased Power Agreement and a new solar Purchased Power Agreement paired with battery storage coming online by 2022 and the new Newman Unit 6 and stand-alone battery resource both becoming operational by 2023.[1] If these new resources are not timely completed and operating as planned by the 2023 summer peak, the timing of the retirements of Rio Grande Unit 7 and Newman Units 1 and 2 will most likely change. Because there is risk inherent in constructing new resources to add to the Company's generation portfolio, and given EPE's obligation to ensure reliable service, EPE plans to keep Newman Units 1 and 2 and Rio Grande Unit 7 available to serve its customers until all of the new resources are completed and operational.

Q. HAVE THERE BEEN CHANGES IN THE TIMING OF NEW RESOURCES PLANNED FOR THE REPLACEMENT OF NEWMAN UNITS 1 AND 2 AND RIO GRANDE UNIT 7 SINCE THE CCN AMENDMENT FOR NEWMAN UNIT 6 WAS APPROVED?

A. Yes. First, EPE is no longer pursuing the 50 MW stand-alone battery storage facility as regulatory approvals and contractual issues could not be resolved. In addition, in the last week, EPE was notified that there would be a delay in the completion of the 100 MW Hecate solar facility. Other events including shipping delays could impact the timing of completion of other resources.

Q. DOES EPE PLAN TO IMMEDIATELY RETIRE NEWMAN UNITS 1 AND 2 AND RIO GRANDE UNIT 7 WHEN NEW RESOURCES ARE COMPLETED AND AVAILABLE?

A. No. As discussed in the direct testimony of Mr. Gallegos in Docket No. 50277, EPE plans to place the units in inactive reserve for a minimum of two years following the completion of new resources. By placing the units in inactive reserve, EPE will maintain the ability to bring the units back into service if needed to address potential issues with other units or unexpected increases in demand. By maintaining the units in inactive reserve, EPE maintains contingency resources for minimal costs. As of the end of the test year, EPE's net rate base investment in these three units was only $4.9 million, total company, or

[1] See Mr. Gallegos November 2019 direct testimony in Docket No. 50277, at pages 12-15.

$25 per kW, and EPE would incur minimal operating expenses to bring the units back into service if needed.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE PROPOSAL BY MS. LACONTE AND MS. CANNADY TO REMOVE THE NET INVESTMENT IN NEWMAN UNITS 1 AND 2 AND RIO GRANDE 7 FROM RATE BASE ALONG WITH O&M COSTS, DEPRECIATION AND TAXES OTHER THAN INCOME TO BE RECOVERED IN A SEPARATE RATE RIDER?

A. I recommend the Commission decline to adopt this proposal. These units have not yet been finally designated for retirement by any date certain, and they remain fully operational and continue to help EPE provide reliable service to its customers. Therefore, the assumption upon which Ms. Cannady and Ms. LaConte rely for their proposal is incorrect. EPE witness James Schichtl discusses why the Commission should continue to include the capital investments made by the Company in these used and useful generating units in rate base and operating costs in the Company's cost of service.

IV. Future PVGS Curtailments

Q. WHAT DOES MR. NORWOOD RECOMMEND WITH REGARD TO FUTURE CURTAILMENTS OF PVGS ENERGY DELIVERIES TO EPE'S RETAIL SERVICE AREA DUE TO TRANSMISSION CONSTRAINTS, AND WHY?

A. Mr. Norwood advocates for the Commission requiring the Company to "implement more precise monitoring and documentation" of these curtailments and to present such information as part of its direct case in its next fuel reconciliation filing. He contends that without documentation of these transmission constraint events, Texas customers may be at risk of a capacity shortfall.

Q. WOULD REQUIRING THE COMPANY TO KEEP RECORDS OF THE TRANSMISSION CONSTRAINTS BENEFIT EPE CUSTOMERS?

A. There would be minimal if any benefits to providing the requested records in fuel reconciliation proceedings. Should there be a transmission constraint wherein EPE was not able to import energy from its remote generation and was required to make off-system sales, EPE would engage in off-system sales and increase local natural gas generation to meet load requirements; the increased natural gas costs would be assigned to off-system sales and the cost of energy generated at Palo Verde would be assigned to native load customers. From an accounting perspective, EPE's customers would receive the benefit of the lower fuel prices from EPE's remote generation.

However, if desired by the Commission, EPE maintains records of transmission outages and can provide such information to the Commission.

V. Transmission O&M Expenses

Q. PLEASE EXPLAIN MR. NORWOOD'S RECOMMENDED REDUCTION IN THE COMPANY'S TEST-YEAR TRANSMISSION O&M EXPENSES.

A. Mr. Norwood contends that the increase in the expenses charged by the Company to Federal Energy Regulatory Commission ("FERC") Account 566, Miscellaneous Transmission Expenses, during the test year should be disallowed because, in his words, the increase was "extraordinary" and attributable to non-recurring expenses.

Q. DO YOU AGREE WITH MR. NORWOOD'S RECOMMENDATIONS?

A. No, I do not. The expenses charged by EPE to Account 566 during the test year were not extraordinarily high, but they were reasonably and necessarily incurred by the Company during the test year.

Q. WHAT WERE THE BASES FOR THE INCREASE IN MISCELLANEOUS TRANSMISSION EXPENSES CHARGED BY EPE TO FERC ACCOUNT 566 DURING THE TEST YEAR?

A. The increase in Account 566 expenses during the test year resulted from changes in the Company's charging of payroll and consulting services and in expenses related to hardware and software maintenance.

During the 2015-2016 test year for EPE's most recent prior base rate case, Docket No. 46831, the Company was in the middle of several significant transmission capital projects, including the project to replace the Energy Management System ("EMS") (discussed at pages 15 and 16 of my direct testimony). This work continued through the middle of 2017. The Company began the EMS replacement project because the legacy vendor no longer supported EPE's older EMS platform and due to new North American Electric Reliability Corporation ("NERC") Critical Infrastructure Protection ("CIP") Version 5 cybersecurity standards going into effect in 2016. Therefore, EPE charged significantly more payroll dollars to these capital projects than to O&M during this period. Therefore, charges to Account 566 were lower during these years than during the test-year.

Additionally, in order to more accurately reflect the work performed by the communications team, starting in 2020 EPE began charging communication payroll related to transmission, $856,982, to Account 566, with a corresponding reduction that was previously charged to Account 920. In 2019, communication team expenses of $1,107,559 were charged to Account 920, and in 2020, communication team expenses of $143,822 were charged to Account 920, reflecting the adjustment to Account 566. The Company also added more personnel related to cybersecurity and communication systems during the test year due to grid modernization efforts to bring high speed remote access to EPE's substations. This change in payroll accounting and additional cybersecurity and communication personnel led to an increase in charges to account 566 as compared to the average annual charges from 2016-2019.

Finally, during the implementation of the new EMS, hardware and maintenance support was reduced to a minimum. Therefore, annual charges to account 566 for hardware and software support and maintenance were lower on average during the 2016-2017 time period. However, after the new EMS and cybersecurity tools went into service, new hardware and software support and maintenance costs were incurred annually. The cybersecurity tools, including but not limited to Remote Access Management, Malicious Code Detection and Prevention, Configuration Change Management and Monitoring, were added to keep EPE in compliance with NERC CIP Version 5.

VI. Conclusion

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.