

**CASE NO. 04-00253-UT
PREPARED DIRECT TESTIMONY
OF R. PRASAD POTTURI**

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1Q. Please state your name and business address.

2A. My name is R. Prasad Potturi. My business address is the New Mexico
3 Public Regulation Commission (Commission or NMPRC or PRC), Marian Hall, 224 E
4 Palace Avenue, Santa Fe, NM 87501.

5

6Q. What is your position with the Commission?

7A. I am the Electrical Engineering Bureau Chief in the Utility Division.

8

9Q. Please describe your educational background and experience.

10A. I received my Masters in Business Administration in 1985; my Master of Science in
11 Electrical Engineering in 1976; and my Bachelor of Electrical Engineering degree in
12 1968. I have been employed by the Commission for over 21 years; most of the time
13 as Electrical Engineering Manager.
14 Prior to that I worked for electric utilities for the most part as engineering manager
15 for 13 years in the areas of system planning, power plant operation and coal fired
16 power plant design. I am a registered professional engineer in the State of New

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1 Mexico (Certificate No. 6568), a member of the Institute of Electrical & Electronics
2 Engineers (IEEE) and a
3 member of the National Society of Professional Engineers.

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5Q. Have you previously testified before this Commission?

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1A. Yes. Appendix A shows the cases in which I have furnished testimony.

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3Q. What is the purpose of your testimony?

4A. The purpose of my testimony is to present Commission staff's (Staff)
5 recommendations on the reasonable cost threshold (RCT) in this case.

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7Q. What is the RCT?

8A. The RCT is a cost threshold above which level a public utility shall not be required to
9 add renewable energy to its electric energy supply portfolio pursuant to the
10 renewable portfolio standard. Section 62-16-4-(C) of the Renewable Energy Act of
11 2004 (REA) requires the Commission to establish the RCT by December 31, 2004.

12

13Q. What is the renewable portfolio standard (RPS)?

14A. Section 62-16-4 (A) of the REA specifies the RPS. The RPS requires that by no
15 later than January 1, 2006, renewable energy shall comprise no less than 5% of
16 each public utility's total retail sales to New Mexico customers. The RPS increases
17 by 1% per year until January 1, 2011, when the RPS will reach 10% of a public

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1 utility's annual retail sales in New Mexico and will remain fixed at 10% for each year
2 thereafter.

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4Q. Can the Commission modify the RCT after December 31, 2004?

5A. Yes. Section 62-16-4 (C) provides that the Commission can modify the RCT as
6 changing circumstances warrant, after notice and hearing.

**7Q. What factors should be taken into account by the Commission in establishing or
8 modifying the RCT?**

9A. Section 62-16-4 (C) of the REA provides that the Commission should take into account
10 the following in establishing or modifying the RCT:

- 11 1. the price of renewable energy at the point of sale to the public utility;
- 12 2. the transmission and interconnection costs required for the delivery of renewable
13 energy to retail customers;
- 14 3. the impact of the cost for renewable energy on overall retail customer rates;
- 15 4. the overall diversity, reliability, availability, dispatch flexibility, cost per kilowatt-hour
16 and life cycle cost on a net present value basis of renewable energy resources
17 available from suppliers, and

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5. other factors, including: public benefits, the Commission deems relevant; provided that nothing in the REA shall be construed to permit regulation by the Commission of the production of the renewable energy.

5Q. Please Provide a brief summary of utilities' recommendations on the RCT.

6A. On September 9, 2004 Texas-New Mexico Power Company (TNP), El Paso Electric Company (EPE), Southwestern Public Service Company (SPS) and Public Service Company Of New Mexico (PNM) filed their recommendations to the Commission on the RCT. In brief, the following are their recommendations:

1. TNP: Recommends both individual cost thresholds for wind, biomass, geothermal, solar and hydro resources and an overall RCT which caps the overall upward impact on rates to customers.
2. EPE: Recommends a per kWh cost cap mechanism that applies uniformly to all utilities. It points out that in case 3109, the Commission set a cost cap of \$0.001 per kWh.
3. SPS: Recommends RCTs for wind, biomass and solar resources, with and without federal production tax credits (PTC). SPS's recommendation on RCT for wind,

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biomass and solar without PTC are \$49.00/MWh, \$62.54/MWh and \$76.08/MWh respectively. Its recommendation with PTC for the same three resources are \$35.46, \$42.54 and \$56.08 respectively.

4. PNM: Recommends that the Commission set the RCT at a level that allows system average retail rates to increase up to 2% on average over the period 2006 through 2015 over what the average rates would be without renewables. They say that their proposal would allow system average retail rates to increase more than 2 percent in some years during that 10 year period, provided that the average increase does not exceed the 2 percent RCT level over the entire period.

11Q. Have the utilities met the requirements of the Commission order?

12A. Yes. Because the Commission did not specify in detail, what should be in utilities' testimony, each utility furnished what it thought would be useful. Staff believes PNM submitted most useful testimony because it contained rate impact resulting from pursuing diversity in renewable energy resources.

17Q. What is Staff's Recommendation on the RCT?

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1A. Staff does not recommend an RCT by resource type. It recommends that actual costs of complying with RPS should be allowed to be recovered subject to a limit that overall customers rates do not increase by more than 1% in 2006, 1.2% in 2007, 1.4% in 2008, 1.6% in 2009, 1.8% in 2010 and 2.0% in 2011 and 2.0% for each year beyond 2011. That is, overall retail rates with renewable energy procured to meet RPS compared to rates with out renewable energy should be no more than the percentages specified above for the years 2006 and beyond. As provided in Section 62-16-4(B), a public utility need not meet RPS, if it cannot do so while complying with the above RCT.

10Q. What is the justification for Staff’s recommendation?

11A. The REA clearly demonstrates that the Legislature wants to encourage renewable energy resource diversity while protecting ratepayers from unreasonable cost increases. Staff’s recommended RCT balances the two interests in a reasonable manner. The following provisions of the REA illustrate the considerations:

1. Section 62-16-2 (A) (5): “public utility should not be required to acquire energy generated from renewable energy resources that could result in costs above a reasonable cost threshold”.

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2. Section 62-16-2 (B) (3): “protect public utilities and their ratepayers from renewable energy costs that are above a reasonable cost threshold”.
3. Section 62-16-4 (A) (4): “the renewable portfolio shall be diversified as to the type of renewable energy resource, taking into consideration the overall reliability, availability, dispatch flexibility and cost of the various renewable energy resources made available by suppliers and generations: and”
4. Section 62-16-4 (B): a public utility need not procure renewable energy if doing so violates RCT.
5. Section 62-16-4 (C) (3) and (C) (4): address the impact of cost of renewable energy an overall retail customer rates and mention diversity of resources.

The Legislative intent is for the utilities to develop a balanced portfolio of various renewable resources. If the entire RPS requirement is met by wind energy only, there will not be a need for any rate increase, because wind energy is, currently and for the foreseeable future, cheaper than gas generation. Biomass and photovoltaic (PV) procurement is likely to raise rates. Please see PNM’s testimony for price ranges for

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1 these resources. A balanced portfolio is likely to increase rates and Staff's proposed
2 RCT accommodates that eventuality.

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4 **Q. Does Staff's recommended RCT provide enough money to promote a reasonable**
5 **development of renewables and allow for a reasonable procurement of renewable**
6 **energy?**

7 A. Yes. As an example, please see PNM's exhibit MD-2. Application of 1.4% to 2008
8 revenue requirements produces an amount of \$8,258,166. Application of 1.6% to 2009
9 revenue requirements yields a sum of \$9,629,424 and bigger numbers for 2010 and
10 2011. A 35 MW biomass facility will not be fully funded but a 20 MW facility will be.
11 Staff is not endorsing PNM's numbers but is pointing to PNM Exhibit MD-2 to illustrate
12 the point that Staff's recommendation balances the considerations of promotion of
13 renewables with protection to ratepayers, as Legislature desired.

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15 **Q. What is the rate impact on a typical PNM residential ratepayer in 2008, if**
16 **Commission adopts Staff's RCT recommendation?**

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1 A. For illustration purposes, a typical PNM residential customer's monthly energy
2 consumption is assumed to be 500 kWh. The retail rate as shown in PNM exhibit MD-2 is
3 assumed to be 7 cents/kWh. Then, by application of 1.4% limit, the typical customer
4 monthly bill will go up by a maximum of $500 \times 0.07 \times 0.014 = 49$ cents because of
5 renewables. With the same assumptions a 2011 increase at 2% cap would be 70 cents.

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7 **Q. SPS and EPE have fuel and purchased power cost adjustment clauses (FPPCAC)**
8 **and PNM does not. How does the staff recommended RCT work for SPS and EPE?**

9 A. The FPPCAC enables SPS and EPE to pass increases or decreases of fuel and
10 purchased power costs above those built into base rates on a monthly basis. It is just an
11 additional cost recovery mechanism. The burden of proof associated with demonstration
12 of compliance with the RCT rests with the utilities. They need to demonstrate that base
13 revenues plus additional fuel clause revenues combined, with and without renewables,
14 are in compliance with the RCT. Such compliance can be demonstrated in utilities'
15 annual reports to be submitted pursuant to Rule 572.

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17**Q. How about PNM?**

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1A. Pursuant to paragraph 12 of the Stipulation in Case No. 3137, PNM can book, as
2 regulatory assets for future recovery, renewable energy costs resulting from
3 mandate of any governmental body. PNM's recovery will be addressed in its next
4 rate case, which PNM has to file in 2007.

5

6 **Does this conclude your testimony?**

7A. Yes, it does.