

**CASE NO. 05-00352-UT
PREPARED DIRECT TESTIMONY
OF R. PRASAD POTTURI**

1 **Q. Please state your name and business address.**

2 A. My name is R. Prasad Potturi. My address is the New Mexico
3 Public Regulation Commission ("Commission" or "NMPRC"),
4 Marian Hall, 224 E. Palace Avenue, Santa Fe, New Mexico
5 87501.

6

7 **Q. What is your position with the Commission?**

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

9

10 **Q. Please describe your educational background and**
11 **experience.**

12 A. I received my Master of Business Administration in 1985; my
13 Master of Science in Electrical Engineering in 1976; and my
14 Bachelor of Electrical Engineering degree in 1968. I have been
15 employed by the Commission for over 23 years, most of the time
16 as Electrical Engineering Manager. Prior to that I worked for
17 electric utilities for the most part as engineering manager for 13
18 years in the areas of system planning, power plant operation and
19 coal fired power plant design. I am a registered professional
20 engineer in the State of New Mexico (Certificate No. 6568), a
21 member of the Institute of Electrical & Electronics Engineers

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1 (IEEE) and a member of the National Society of Professional
2 Engineers.

3

4 **Q. Have you previously testified before this Commission?**

5 A. Yes, Appendix A shows the cases in which I have furnished
6 testimony.

7

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to present Utility Division Staff's
10 (Staff) recommendations in this case.

11

12 **Q. Please provide Staff's recommendation on Issue #1
13 contained in the Hearing Examiner's (HE) Notice in this case.**

14 A. Issue #1 in the Notice reads: "Whether a public utility has
15 discretion to acquire, or not to acquire, RECs from a QF from
16 which it purchases renewable energy under NMPRC Rule
17 17.9.570 NMAC".

18 Staff believes that 62-16-5 (B) (1) (a)2 NMSA 1978 of the
19 Renewable Energy Act (REA) gives public utilities this discretion.
20 This discretion should be exercised in a prudent manner. This
21 can ensure that certificates from QFs are acquired by a public

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1 utility only to meet its Renewable Portfolio Standard (RPS)
2 obligation. If the public utility exercises its discretion under the
3 REA not to acquire RECs when it buys QF energy, as required by
4 federal law, the price to be paid should be avoided cost calculated
5 pursuant to NMPRC Rule 17.9.570.11, subsections A-D. If a
6 public utility exercises its discretion to acquire RECs along with
7 the QF energy, then the price paid for the combination should be
8 less than or equal to the Reasonable Cost Threshold (RCT)
9 established by the Commission in its latest RCT docket. Today,
10 RCT values are as contained in the Commission's Final Order
11 dated December 14, 2004, in NMPRC Case No. 04-00253-UT.

12
13 **Q. Please address Issue #2.**

14 **A.** Issue #2 reads: "Whether it is reasonable and prudent for a
15 public utility to pay value for RECs, whether or not acquired with
16 the associated energy".

17 Staff believes that pursuant to the provisions of 62-16-5-(B) (1) b
18 of the REA, it is reasonable and prudent for a public utility to pay
19 value for RECs purchased to satisfy its RPS requirements, even
20 if it does not buy the associated energy, if it satisfies the following
21 requirements:

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- 1 (1) It should be the least cost option for the public utility;
- 2 (2) The associated energy must meet the requirements of
- 3 62-16-3 (E); 62-16-4-(A) (1) and 2; and, 62-16-5 (B) (1)
- 4 (b) and (c) of the REA. Together, these statutory
- 5 provisions require that the associated energy be
- 6 delivered in New Mexico (unless the Commission
- 7 determines that there is a regional market for
- 8 exchanging RECs) and sold to retail customers of public
- 9 utilities in New Mexico.

10 If a public utility buys RECs with the associated energy, then

11 the price paid for RECs plus energy must be reasonable,

12 prudent and should be less than or equal to the RCT set by

13 the Commission.

14

15 **Q. Please address Issue #3.**

16 A. Issue # 3 reads: "Whether renewable energy consumed on-site

17 by a QF is energy energy "contracted for delivery" and thus

18 usable to meet a utility's renewable portfolio standard".

19 62-16-5 (B) (1) (b) provides, "...transfers and use of the certificate

20 by a public utility for compliance with the renewable energy

21 portfolio standard shall require the electric energy represented by

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1 the certificate to be contracted for delivery in New Mexico unless
2 the Commission determines that there is a regional market for
3 exchanging renewable energy certificates”.

4 Staff reads the question to mean whether renewable energy
5 consumed on-site by a QF in New Mexico could result in RECs
6 that could be used to satisfy a public utility’s RPS requirements.

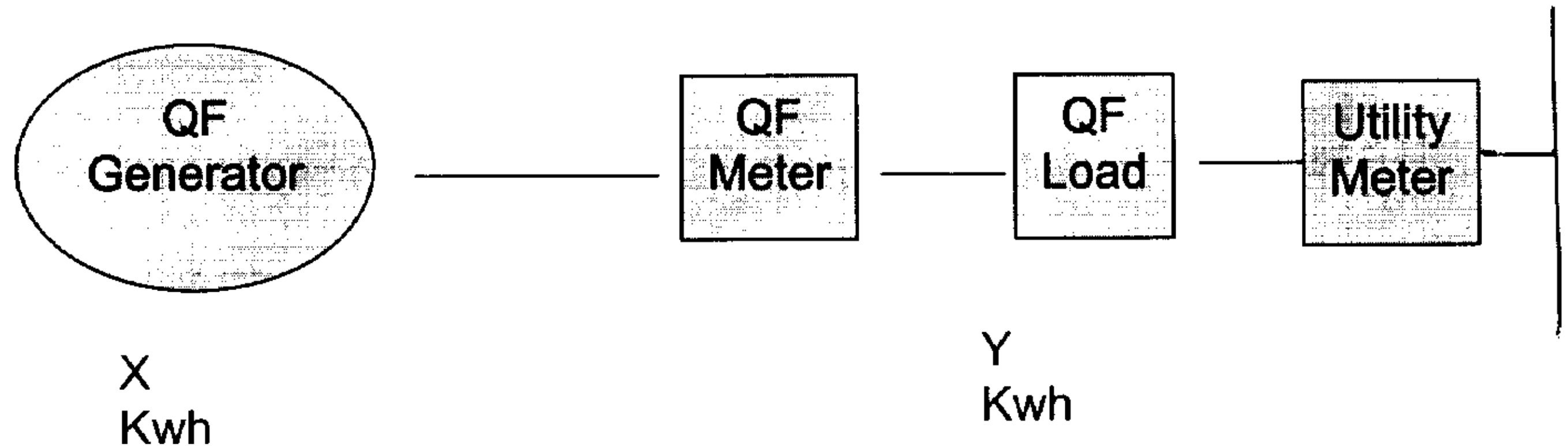
7 62-16-3 (E) defines RPS to mean “the percentage of retail sales
8 by a public utility to electric consumers in New Mexico that is
9 required by Renewable Energy Act to be supplied by renewable
10 energy”.

11 One could argue that if a QF consumes all the renewable energy
12 generated, then no energy is delivered in New Mexico and there
13 is no retail sale by the public utility, so no RECs are generated.

14 Keeping in view that both the Legislature and the NMPRC
15 encourage renewable energy generation, while protecting retail
16 ratepayers excessive cost imports, Staff recommends that RECs
17 can be recognized if the utility and the QF enter into a
18 simultaneous buy-sell agreement providing for the RECs to be
19 transferred to the public utility. In this arrangement, the QF sells
20 the entire output to the utility which simultaneously sells the same
21 quantity of energy to the QF. The QF can then be paid for the

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1 RECs. The total payment by the utility for both the energy and
2 the REC should be less than or equal to the RCT in effect at the
3 time the utility pays for the RECs. As an example (one out of
4 several metering arrangements), Staff's
5 recommendation/suggestion would work as follows:
6



7
8 There are three situations possible (payment method is the same
9 for all three). $x=y$ as posited in the question; $x > y$; and, $x < y$.
10 Each situation is discussed as follows:
11 In $x=y$, the amount generated is consumed by the load. Under
12 simultaneous buy/sell method, x kWh of renewable energy
13 (which includes x certificates) are sold to the utility. The
14 combined cost is less than or equal to the RCT. The utility sells y
15 kWh (equal to x) to the QF at the applicable retail tariff approved
16 by the Commission.

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1 If $x > y$ or if $x < y$, the QF gets paid for x kWh energy plus x RECs.
2 The combined cost to the utility should be less than or equal to x
3 units times the per unit RCT cost specified by the Commission.
4 Utility bills the QF for y kWh at its retail tariff.
5 Staff's recommendation does justice to the provisions of the REA
6 and is mathematically the same result as if the QFs output were
7 connected to the utility system directly.

8

9 **Q. Please address Issue #4.**

10 **A.** Issue #4 reads, "Whether the Legislature has authorized the
11 Commission to approve incentives to benefit existing owners of
12 customer-owned renewable energy systems."
13 Staff found no explicit authorization in the REA to approve
14 incentives to existing customer-owned systems. The question of
15 whether there is implicit authorization has both legal and policy
16 components. From policy perspective, Staff points out the
17 following:

- 18 1. Section 62-16-2 of the REA contains the Legislature's
19 findings and purposes. It has language containing
20 encouragement of renewable energy generation and
21 protection of public utilities and their ratepayers from

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1 excessive renewable energy costs. It appears that the
2 Legislature is asking for a balance between the two.

3 2. In Section 62-16-4-(A) (5) of the REA, the Legislature
4 grandfathered existing renewable energy resources of a
5 public utility. Any purchases from customer-owned
6 renewable energy resources that are included in the
7 utility's supply portfolio on July 1, 2004, can be used to
8 meet the public utility's RPS requirement. If they were
9 not included by that date, it appears that they can not be
10 used for RPS compliance.

11 3. Section 62, 16-5 (B) (1) (a) (3) of the REA provides that
12 RECs associated with renewable energy contracts in
13 effect prior to January 1, 2004, belong to the utility.

14 There is no discretion.

15 4. The REA does not address the age of the renewable
16 resource. That is, when the facility was built. It only
17 addresses when the public utility purchased the energy
18 from the resource and included it in its supply portfolio.

19 From the above, it appears to Staff that if a public utility
20 entered into a contract to purchase renewable energy from a

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1 QF prior to January 1, 2004, the RECs belong to the utility and
2 the QF can only be paid avoided cost pursuant to Rule 570.
3 For contracts entered into after January 1, 2004, the public
4 utility has discretion to procure RECs from the QF. If RECs
5 are procured along with the energy, the total payment should
6 be less than or equal to the RCT in effect at that time. If the
7 RECs are not procured under contracts entered into after
8 January 1, 2004, the payments are limited to avoided cost
9 pursuant to Rule 570.

10
11 **Q. Please address Issue #5.**

12 A. Issue # 5 reads: "Whether there are any policy constraints the
13 Commission should consider in approving any unbundling of
14 RECs."

15 Staff makes the following recommendations:

- 16 1. Public utilities should be directed by the Commission to
17 procure RECs only for meeting their RPS requirements
18 and not for engaging in Trading activity in RECs.
- 19 2. Public Utilities should be directed to adopt strategies to
20 minimize cost impact on the ratepayers.

21 **Q. Please addresss Issue #6.**

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1 A. Issue #6 reads: Whether energy and RECs must be obtained by
2 a utility in order for an energy purchase to be considered a
3 purchase from a renewable QF and, if so, what is the avoided
4 cost which utilities should pay for bundled energy and RECs.”

5 The definition of a QF comes from Public Utility Regulatory
6 Policies Act (PURPA) of 1978. PURPA defined QFs can be of
7 two types: 1) Small Power Production Facilities (SPPF) with a
8 size limit of 80 MW. The source of energy for these plants should
9 be of renewable type, like...solar, wind, geothermal, hydro,
10 biomass and waste. 2) Cogeneration facilities with heat and
11 electricity being produced and used sequentially. These have no
12 size limit and have to pass efficiency tests prescribed in FERC
13 rules.

14 There is an ownership restriction on QFs which is not relevant to
15 this case. EPACT of 2005 made some modification to PURPA
16 but in NM, Rules 570 and 571 are not affected by those
17 modifications.

18 Pursuant to PURPA, New Mexico public utilities have to purchase
19 energy and capacity, as applicable, from QFs at avoided cost as
20 specified in Rule 570. There are no RECs pursuant to Rule 570.

21 The NMPRC, specified in Rule 570 how avoided costs are

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1 computed. Even though payment for capacity is provided for in
2 Rule 570 most, if not all, QF payments are for energy only. QFs
3 taking advantage of “net metering” get retail rate for the QF
4 energy produced. As retail rate contains generation (both
5 capacity and energy), transmission and distribution, administrative
6 and general operation and maintenance, taxes etc, “net metering”
7 is the most beneficial to a QF.

8 It is Staff’s understanding that FERC clarified that the avoided
9 cost pursuant to PURPA does not contain any payment for RECs
10 RECs costs are pursuant to state law.

11 The REA creates the value for RECs. Section 62-16-5 of the
12 REA deals with RECs. As explained before, public utilities have
13 discretion to purchase RECs. If no REC is purchased from a QF,
14 the public utility must pay avoided costs as defined by Rule 570.
15 If energy and RECs are purchased, the payment for energy
16 should be less than or equal to the RCT amount per unit of
17 energy. If only RECs are purchased within New Mexico, it should
18 be at the lowest price the utility has to pay for REC and subject to
19 the condition that cost of energy plus REC should be no higher
20 than the RCT value for unit of energy. The concept of avoided
21 cost is not applicable to the REA.

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1

2 **Q. Does this conclude your testimony?**

3 **A. Yes, it does.**

APPENDIX A

<u>CASE NO.</u>	<u>COMPANY</u>	<u>TYPE OF PROCEEDING</u>
1528	Plains Electric G & T	CCN
1577	Plains Electric G & T	Capital Expansion
1803	Southwestern Electric Coop.	Rate Schedule
1817	Southwestern Electric Coop.	Rate Adjustment
1825	Navopache Electric Coop.	Rate Adjustment
1834	Mora-San Miguel Elec. Coop.	Rate Adjustment
1835	Public Service Co. of NM	Rate Adjustment
1854	Farmers Electric Coop., Inc.	Rate Adjustment
1855	Jemez Mountains Elec. Coop.	Rate Adjustment
1860	La Plata Electric Association	Abandonment of Service
1865	Kit Carson Elec. Coop., Inc.	Rate Adjustment
1874	Columbus Elec. Coop., Inc.	Rate Adjustment
1878	Socorro Elec. Coop., Inc.	Rate Adjustment
1899	Echo Valley Water Company	Rate Adjustment
1905	Rio Grande Elec. Coop., Inc.	Rate Adjustment
1906	Southwestern Public Serv. Co.	Rate Adjustment
1909	Sierra Elec. Coop., Inc.	Rate Adjustment
1936	River Valley View Water System	Rate Adjustment
1949	Northern Rio Arriba Elec. Coop.	Rate Adjustment
1957	Southwestern Public Serv. Co.	Rate Adjustment
2009	El Paso Electric Company	Rate Moderation Plan
2033	El Paso Electric Company	PVNGS Evaluation
2034	Public Service Company of NM	PVNGS Evaluation
2044	El Paso Electric Company	CCN
2087	Public Service Company of NM	PVNGS Prudence

2137	Southwestern Public Serv. Co.	Subsidiary Formation
2164	Southwestern Public Serv. Co.	Capital Contribution
2258	Public Service Company of NM	Variance
2282	Southwestern Public Service Co.	CCN
2326	Public Service Company of NM	Investigation
2399	Public Service Company of New Mexico	Interruptible Rate
2408	Public Service Company of New Mexico	SJ4 Sale to Anaheim
2429	Public Service Company of	Diversification Plan
2457	El Paso Electric Company	Line Extension Policy
2492	Public Service Company of New Mexico	Fuel Clause
2553	Public Service Company of New Mexico	SJ4 Sale to UAMPS
2567	Public Service Company of New Mexico	Rate Reduction
2989	Plains Electric G&T	Merger with Tri-State
2989	Plains Electric G&T	Testimony in support of Stipulation
3137	Public Service Company New Mexico	Transition Plan, (Part II)
3137	Public Service Company of New Mexico	Transition Plan (Part III, SOS)
3170	El Paso Electric Co.	Transition Plan, (Part I, Phase I)
3170	El Paso Electric Co.	Transition Plan, (Phase I)
3170	El Paso Electric Co.	Transition Plan, (Phase II SOS)
3421	Duke Energy	Location Approval
3137	Public Service Company of New Mexico	Transition Plan (Holding Company)
3170	El Paso Electric Co.	Transition Plan (Holding Company)

3606	El Paso Electric Co.	Fuel Factor
3638	Public Service Co. of NM	Variance Request
3686	Springer Electric Coop	QF Tariff
3687	Continental Divide Electric	QF Tariff
3688	Jemez Mountain Electric	QF Tariff
3689	Central NM Electric Coop	QF Tariff
3690	Southwestern Electric Coop	QF Tariff
3691	Otero County Electric Coop	QF Tariff
3692	Mora-San Miguel Electric Coop	QF Tariff
3693	Sierra Electric Coop	QF Tariff
3694	Socorro Electric Coop	QF Tariff
3695	Northern Rio Arriba Electric Coop	QF Tariff
3696	Kit Carson Electric Coop	QF Tariff
3697	Columbus Electric Coop	QF Tariff
3702	Duke Energy Curry	Location Approval
3137	Public Service Company of NM	Merchant Plant Filing
03-00101-UT	Public Service Company of NM	Voluntary Renewable Energy Rate
03-00288-UT	Southwestern Public Service Co.	CCN
03-00302-UT	El Paso Electric	Rate Case
03-00315-UT	Public Service Co. of NM	Interconnection Costs
04-00101-UT	Farmers Electric Coop	Eddie Schaap, NorthPoint Dairy – Consumer Issue
04-00253-UT	All Utilities	Reasonable Cost Threshold for Renewable Energy
04-00315-UT	PNM Resources & TNMP	Acquisition Case
05-00275-ut	Public Service Co. of NM	Afton CCN
05-00443 UT	Public Service of NM	Fiber Optic Network

05-00406-UT

Public Service Co. of NM

Abandonment of
Las Vegas Turbine

STATE OF NEW MEXICO)
) ss
COUNTY OF SANTA FE)

AFFIDAVIT

I HAVE READ the foregoing Prepared Direct Testimony of R. Prasad Potturi and the statements contained therein are true and correct to the best of my knowledge, information and belief.

R. P. Potturi

R. Prasad Potturi

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED, before me this
25th day of July, 2006.

Ernestine Dargent

NOTARY PUBLIC

My Commission Expires:

4/12/2008

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S PETITION)
FOR DECLARATORY ORDER REGARDING)
THE PURCHASE OF RENEWABLE ENERGY)
CERTIFICATES FROM QUALIFYING)
FACILITIES)**

Case No. 05-00352-UT

**PUBLIC SERVICE COMPANY OF)
NEW MEXICO,)**

Petitioner.)

2006 JUL 25 PM 2:59

NEW MEXICO
PUBLIC REGULATION
COMMISSION

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing **Prepared Direct Testimony of R. Prasad Potturi**, filed July 25, 2006, was mailed first class, postage pre-paid to the following:

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Dated this 25th day of July, 2006.

NEW MEXICO PUBLIC REGULATION COMMISSION



TINA SARGENT