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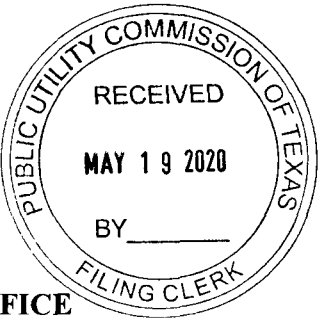

SOAH DOCKET NO. 473-20-2278

DOCKET NO. 50277

APPLICATION OF EL PASO ELECTRIC COMPANY TO AMEND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY FOR AN ADDITIONAL GENERATING UNIT AT THE NEWMAN GENERATING STATION IN EL PASO COUNTY AND THE CITY OF EL PASO	§	**STATE OFFICE OF ADMINISTRATIVE HEARINGS**

REBUTTAL TESTIMONY

OF

GEORGE NOVELA

FOR

EL PASO ELECTRIC COMPANY

MAY 2020

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I. Introduction

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is George Novela. My business address is 100 North Stanton Street, El Paso, Texas, 79901.

Q. ARE YOU THE SAME GEORGE NOVELA WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

II. Purpose of Rebuttal Testimony

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to respond to City of El Paso witness Scott Norwood's direct testimony filed in this proceeding, specifically with regard to his contention that the potential impact of the COVID-19 pandemic has not been addressed.

III. Rebuttal to City of El Paso Witness Scott Norwood

Q. DO ANY OF THE LONG-TERM SYSTEM SALES AND PEAK DEMAND FORECASTS SUBMITTED IN THIS CASE INCLUDE THE IMPACTS OF THE COVID-19 PANDEMIC ON FUTURE SALES AND PEAK DEMAND?

A. No. The selection of the resource portfolio that included Newman Unit 6 via the 2017 All-Source Request for Proposals ("RFP" or "All Source RFP") was completed at the end of 2018; therefore, the potential effects of the coronavirus pandemic were not accounted for in El Paso Electric Company's ("EPE") analysis of the need for Newman Unit 6.

EPE's most recent long-term forecast, 2020 Long-Term Forecast, was released on March 13, 2020. Due to timing, the inputs and analysis used in this document do not capture any impacts resulting from the COVID-19 pandemic.

Q. ON PAGES 13-14 OF HIS DIRECT TESTIMONY, MR. NORWOOD CLAIMS THAT EPE DOES NOT NEED TO ADD NEWMAN UNIT 6 BY 2023 TO PROVIDE RELIABLE AND ADEQUATE SERVICE TO ITS TEXAS CUSTOMERS BECAUSE,

AMONG OTHER CONTENTIONS, EPE'S PEAK DEMAND FORECAST DOES NOT CONSIDER THE IMPACT OF THE PANDEMIC. WHAT IS YOUR RESPONSE?

A. EPE has concluded that additional generation will be needed by summer of 2023 to meet its peak demand. It remains in our customers' best interests to maintain the results of the original econometrically-derived peak demand forecast and the subsequent selection of Newman Unit 6 via the All-Source RFP completed at the end of 2018.

The impact of the pandemic on EPE's load in 2023 and thereafter is a known factor with unknown consequences. EPE has to plan for such uncertainties by forecasting with what it knows. EPE cannot plan for the future by abandoning its long-term forecast as a result of uncertainties and external factors which cannot be quantified at this time.

The two central sources of uncertainty come from the unknown magnitude of the impact on EPE's various customer classes, on both a demand and energy basis, as well as the duration of the pandemic. Meaningful long-term forecasts that take into account the effect of the pandemic on EPE's forecasted energy and demand are not possible at this time. However, I believe that although there will be an impact on a year-over-year basis to energy consumption due to the COVID-19 pandemic, EPE's historical peak record indicates there would be little to no impact to EPE's native system peak demand due to the COVID-19 pandemic.

Q. WHY DOES EPE BELIEVE ITS NATIVE SYSTEM PEAK DEMAND WILL BE LESS AFFECTED BY THE COVID-19 PANDEMIC THAN ITS ENERGY SALES?

A. EPE's historical peak record indicates there could be little to no impact to EPE's native system peak demand due to the COVID-19 pandemic. A higher level of understanding regarding EPE's peak load behavior can be gained by looking at the table below that has EPE's native system peak load data for the past 20 years (2000-2019).

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Table 1

YEAR	EPE Retail Sales (GWh)	YOY % Change		EPE Peak Demand (MW)	YOY % Change
2000	6,115			1,159	
2001	6,218	1.7%		1,199	3.5%
2002	6,322	1.7%		1,282	6.9%
2003	6,450	2.0%		1,308	2.0%
2004	6,581	2.0%		1,332	1.8%
2005	6,653	1.1%		1,376	3.3%
2006	6,821	2.5%		1,428	3.8%
2007	7,029	3.0%		1,508	5.6%
2008	7,034	0.1%		1,524	1.1%
2009	7,120	1.2%		1,571	3.1%
2010	7,343	3.1%		1,616	2.9%
2011	7,661	4.3%		1,714	6.1%
2012	7,715	0.7%		1,688	-1.5%
2013	7,746	0.4%		1,750	3.7%
2014	7,626	-1.6%		1,766	0.9%
2015	7,804	2.3%		1,794	1.6%
2016	7,812	0.1%		1,892	5.5%
2017	7,844	0.4%		1,935	2.3%
2018	8,035	2.4%		1,929	-0.3%
2019	8,002	-0.4%		1,985	2.9%
Average	7,197	1.4%		1,588	2.9%
	Recessionary Period				

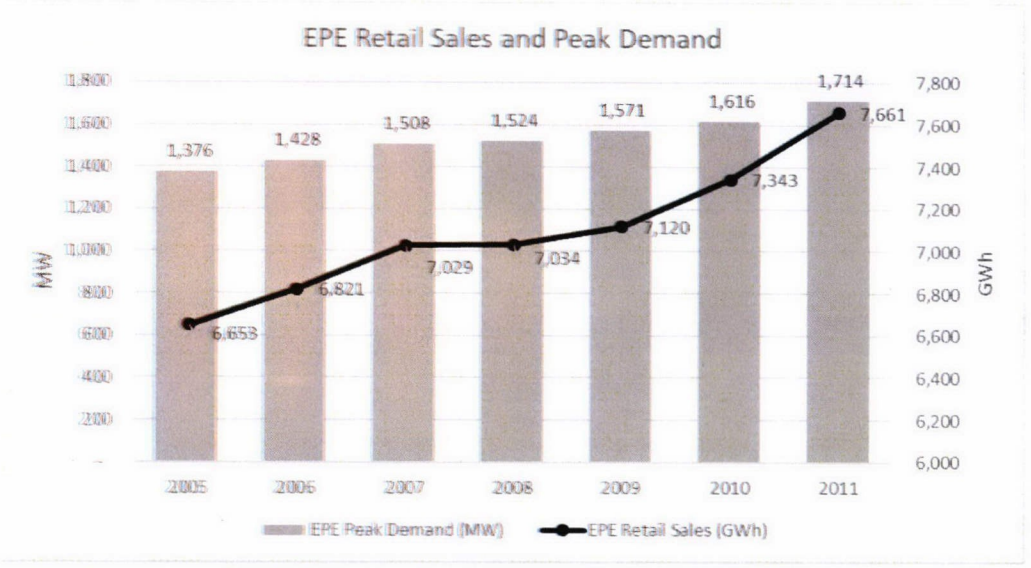
The table above indicates that over the past 20 years, EPE's native system peak demand only decreased two times. The timing of the declines also supports the position that EPE's native system peak demand is not sensitive to economic downturns, given that the two years of peak demand decreases did not occur during economic recessions.

The "dot-com bubble" of 2001 and the "Great Recession" of 2008 were two recessions that occurred over the past 20 years, and the historical data clearly demonstrates that EPE's peak load continued to grow during both of these economic downturns.

Q. CAN YOU SHOW A MORE DETAILED EXAMPLE ON THE IMPACT OF A RECESSIONARY PERIOD ON PEAK LOAD AND ENERGY CONSUMPTION?

A. Yes. The graph below displays EPE's volumetric retail energy sales (in gigawatt hours "GWh") and peak demand (in megawatts "MW") relationship during the 2008 Great Recession:

Figure 1



The Great Recession began during the fourth quarter of 2007 and retail sales remained relatively flat in 2008, growing by 5 GWh or 0.1%. However, native system peak demand continued to grow by 16 MWs or 1.1% during that year. Over the two-year period (2007-2009), retail sales increased by 1.3%; however, native system peak load increased by 4.2%.

Thus, the historical data indicates that EPE's volumetric energy sales and native system peak demand are not equally sensitive to economic recessions, and peak demand is especially resistant to economic downturns. And, as EPE witness Omar Gallegos explains in his Direct Testimony, EPE's reserve margin planning—including that for Newman Unit 6—is based on peak demand.

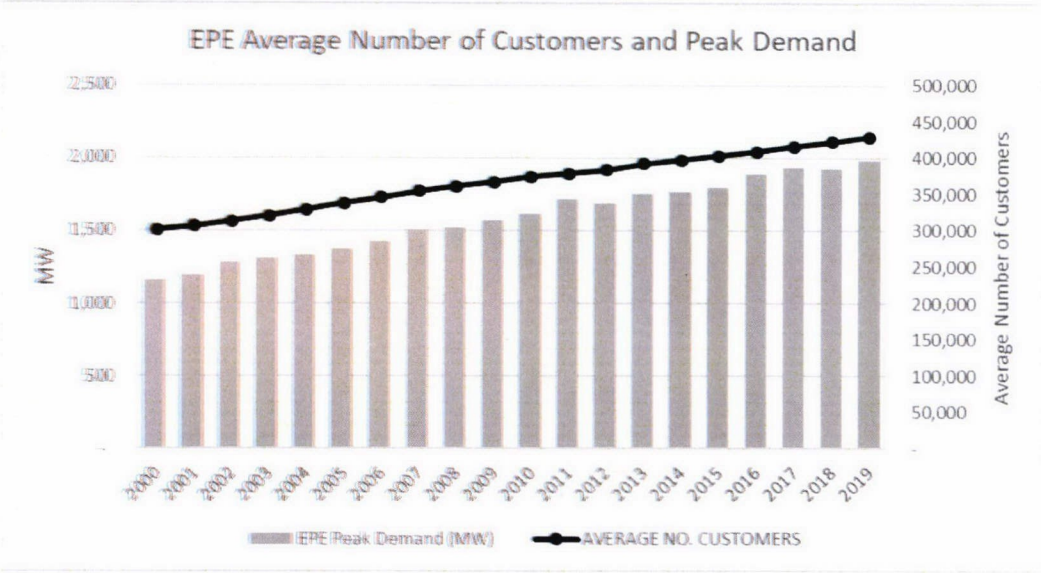
Q. YOU SHOW ABOVE THAT VOLUMETRIC ENERGY SALES AND NATIVE SYSTEM PEAK DEMAND ARE NOT EQUALLY SENSITIVE TO ECONOMIC RECESSIONS. WHAT ARE THE PRIMARY DRIVERS THAT DETERMINE THE BEHAVIOR OF EPE'S PEAK DEMAND?

A. A factor that could help to explain the growth in peak demand would be the average number of retail customers. The chart below displays the similarities in growth between demand and the average number of customers. EPE's average number of customers increased over the twenty-year period (2000-2019) at a steady compound annual growth rate of 1.9%.

EPE's annual peak load also increases at a steady pace and at a compound annual growth rate of 2.9%.

The chart below and the correlation between the two datasets help to explain why peak demand is less sensitive to economic downturns compared to volumetric energy sales. Although there may be a decline in energy usage per customer in response to an economic downturn, the growth in EPE's customer base more than makes up for that decline.

Figure 2



Peak demand is a "snapshot" of energy consumed during a single point in time and is driven more by customer growth and weather conditions than by economic recessions. A consumer of energy may adjust their energy usage over a period of time to account for a worsening of the economy, but if the temperature reaches triple digits during the middle of a summer heat-wave, the air conditioner will most likely be running at maximum capacity regardless of economic conditions.

The EPE system load factor has been declining over time in response to two principal factors: a decreasing share of energy consumption by large industrial customers and an increasing saturation rate for refrigerated air conditioners relative to evaporative coolers. In both instances, loads with higher load factors are being replaced by lower load factor loads, resulting in a declining system load factor.

Energy consumption by large industrial customers is decreasing as a share of overall energy sales while the share of sales to residential customers is growing. Residential customers are more weather-sensitive and as a result have lower load factors.

Refrigerated air conditioning units use significantly more electricity than evaporative cooling units. The demand for electricity from refrigerated air conditioning units tends to be highest during hot summer days, when they cycle on and off in response to hot temperatures. In contrast, evaporative air conditioners have limited cycling. This contributes to a downward trend in the system load factor, which means that demand grows faster than energy. Over time, this results in swings in demand that become more pronounced during the summer months, thus requiring additional generation to meet this demand.

This high growth in low load factor customers has driven up native system peak demand at a faster rate than that of energy and helps explain why peak demand is less affected by recessionary periods and is driven by shorter periods of time where consumers are using their cooling equipment.

Q. HAS EPE CONSIDERED THE POSSIBILITY THAT THE COVID-19 PANDEMIC COULD BE MORE SEVERE THAN THE TWO ALREADY MENTIONED RECESSIONARY PERIODS AND HAVE A NEGATIVE IMPACT ON EPE'S LONG-TERM PEAK LOAD?

A. Yes. As I noted previously, the impact of the pandemic on EPE's load in 2023 is unknown. EPE has to plan for such uncertainty by forecasting with what it knows. EPE cannot plan for the future by abandoning its long-term forecast as a result of uncertainties and external factors which cannot be quantified at this time. It is not reasonable to abandon long-term econometric planning models for every recessionary period, especially given that EPE's data supports the notion that growth in EPE's system peak demand is driven more by customer growth and weather than economic conditions.

In addition, there have been unprecedented amounts of stimulus initiated by the United States Congress and Federal Reserve. EPE has concluded that it would be prudent to first allow the $2 trillion emergency relief plan to permeate throughout the economy before a decision is made regarding the magnitude of a potential recession or to re-cast the

long-term demand forecast. This stimulus is in addition to local municipal stimulus efforts that have been made.

Q. DOES EPE HAVE ANY RECENT LOAD DATA THAT SHOWS THE IMPACT ON EPE'S LOAD FROM THE COVID-19 PANDEMIC?

A. Yes. The regional "stay at-home" orders began at the end of March 2020, and many of these restrictions were lifted in EPE's service territory in early May 2020. April 2020 is the only complete calendar month of load data that includes "stay at-home" orders for the entire period. EPE does have complete native system energy and demand data for this period.

Q. HOW DOES APRIL 2020 LOAD DATA COMPARE TO THAT OF APRIL 2019 FOR BOTH NATIVE SYSTEM ENERGY AND PEAK DEMAND?

A. On a year-over-year basis, native system energy for April 2020 decreased by 33,824 megawatt hours ("MWh") or 5.7%, from 596,677 MWh to 562,853 MWh. On the other hand, native system peak demand for April 2020 increased by 124 MW, or 9.8% on a year-over-year basis, from 1,262 MW to 1,386 MW. This is only one month of data, but it is representative of the period under the stricter "stay-at-home" orders that resulted from the COVID-19 pandemic. The April 2020 data confirms the position that EPE's volumetric energy sales and native system peak demand are not equally sensitive to economic recessions, and that peak demand is especially resistant to economic downturns.

More time is needed to study what the long-term impact from COVID-19 will be; but based on 20 years of historical data and more recent April 2020 native system load data, EPE expects that the impact of the pandemic on long-term native system demand growth will be minimal.

IV. Conclusion

Q. CAN YOU SUMMARIZE YOUR TESTIMONY?

A. Yes. My rebuttal testimony responds to City of El Paso witness Scott Norwood's contention that the potential impact of the COVID-19 pandemic has not been addressed. EPE has to plan for such uncertainties by forecasting with what it knows. EPE cannot plan

for the future by abandoning its long-term forecast as a result of currently unquantifiable uncertainties and external factors. EPE has concluded that additional generating units will be needed by the summer of 2023 to meet demand. It remains in EPE customers' best interest to maintain the results of the original econometrically-derived demand forecast and the selection of Newman Unit 6 via the All-Source RFP completed at the end of 2018.

I have shown that EPE's volumetric energy sales and native system peak demand are not equally sensitive to economic recessions and that peak demand is especially resistant to economic downturns. In addition, based on recent data, the COVID-19 pandemic has impacted volumetric energy sales and native system peak demand unequally, with peak demand showing continued resistance to the negative economic impacts resulting from the COVID-19 pandemic.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.