NEW MEXICO
PUBLIC REGULATION
COMMISSION
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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

2015 FEB 16 PM 3 00

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR APPROVAL OF ELECTRIC ENERGY EFFICIENCY PROGRAMS AND PROGRAM COST TARIFF RIDER PURSUANT TO THE NEW MEXICO PUBLIC UTILITY AND EFFICIENT USE OF ENERGY ACTS,	)	**Case No. 14-00310-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant.	)	

PREPARED REBUTTAL TESTIMONY

OF

JOHN J. REYNOLDS

FEBRUARY 16, 2015

Q. Please state your name and occupation.

A. My name is John J. Reynolds. I am employed by the New Mexico Public Regulation Commission ("NMPRC" or "Commission") as a Utility Economist in the Utility Division. I have previously filed Testimony in Support of Partial Stipulation in this case in which my academic credentials, professional background and qualifications were described.

Q. Did you review the testimony filed by other parties that are opposing the Stipulation in this case?

A. I have reviewed the testimony filed by Howard Geller on behalf of the Coalition for Clean Affordable Energy ("CCAE") and the testimony filed by Douglas J. Howe on behalf of Western Resource Advocates ("WRA").

Q. What is the purpose of your rebuttal testimony?

A. I will respond to CCAE witness Geller's assertions about the benefits of energy efficiency ("EE) and load management ("LM") programs to PNM's customers and to his program and funding related recommendations for PNM's 2014 Energy Efficiency and Load Management Program Plan ("2014 Plan" or "Plan"). I will also address WRA witness Howe's recommendations concerning the performance basis of the stipulated profit incentive as well as the timing of incentive recovery.

Q. How does CCAE witness Geller explain the benefit to PNM's customers of its energy efficiency and load management programs?

A. He states in part that the programs "help customers save energy and thereby lower their electricity bills"[1].

Q. Do you believe that the electricity bills of PNM's customers are lower as a direct result of PNM's energy efficiency and load management programs?

A. A definitive answer to that question is likely to remain elusive for a significant period of time. PNM ratepayers are clearly paying for PNM's costs of implementing the programs and for a profit incentive. Assuming the 2014 Plan as stipulated is approved by the Commission in this case, PNM's ratepayers are immediately out-of-pocket for roughly $27.8 million annually ($26 million for programs and $1.8 million for profit incentive)[2]. It is therefore necessary for the value of program benefits to at least exceed $27.8 million annually in order to reasonably suggest a beneficial impact on customers' electricity bills.

Q. How is the monetary value of program benefits computed?

A. Based on the review of programs by the statewide independent evaluator, program benefits are computed on a net present value basis and this value represents the stream of avoided fuel and deferred generation capacity for the

[1] Geller Direct; p. 2, line 5.

[2] I have rounded 2014 Plan annual program costs and profit incentives to $26 million and $1.8 million for the purposes of this discussion about the impact of EE and LM programs on customers' electricity bills.

ungenerated and unbilled electricity directly attributable to the programs over each program's effective useful life ("EUL"). Since PNM began implementing EE and LM programs in 2008, the portfolio EUL determined annually has hovered between 8.5 and 9 years. In order for PNM's customers to collectively derive any benefits for being out-of-pocket for $27.8 million at the outset, the net present value of a stream of benefits over 8.5-9 years should be more than $27.8 million.

Q. What is the value of benefits PNM is projecting for its 2014 Plan over its effective useful life?

A. Based on the assumptions necessary to make such projections[3], PNM projects that the net present value of the stream of benefits for a year of implementation of the 2014 Plan is about $42.9 million[4] over its 9-year EUL[5].

Q. Since the net present value of the 9-year stream of benefits exceeds the ratepayers' collective out-of-pocket contribution, is it not reasonable to infer that PNM customers' electricity bills will be lower than they otherwise would be?

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[3] As I stated in my Testimony in Support of Partial Stipulation, Staff reserves the right in any future proceedings to contest the basis of PNM's cost effectiveness projections in this case and Staff only agrees with the projections for purposes of the Stipulation.

[4] Bean Direct; Exhibit SMB-1, Table 4-4.

[5] Bean Direct; Exhibit SMB-1, Table 4-3. The 2014 Plan EUL is computed by dividing the projected total lifetime kWh savings by the projected total annual kWh savings.

A. Not necessarily. This analysis of cost effectiveness is based on a comparison of the benefits derived over time from programs with the upfront costs of utility program implementation and profit incentives. It fails to address any recovery by the utility of revenues it claims to have foregone as a result of the cumulative impact of EE and LM programs.

Q. Why are PNM's foregone revenues, to the extent they can reasonably be quantified, relevant in this case?

A. Because PNM's recent Application for revision of its retail rates identifies and quantifies a revenue deficiency of $22 million annually accounted for by PNM's declining energy sales. PNM states that its "success with energy efficiency programs is a primary factor in the decline [of energy sales]"[6]. More specifically, PNM provides an analysis of the cumulative energy efficiency savings since the last rate case was decided in 2011 and quantifies the associated under-recovery in 2014 at $16.5 million[7]. This appears to be PNM's first attempt since it began implementing programs in 2008 to quantify any under-recovery directly attributed to the cumulative impact of EE and LM programs.

Combining the 2014 Plan program costs and incentives of $27.8 million with the revenue deficiency of $22 million, the total burden on PNM's ratepayers for the implementation of EE and LM programs may prospectively approach $50

[6] Direct Testimony of Gerard T. Ortiz filed on December 11, 2014 in case no. 14-00332-UT; p.11, lines 6-7.
[7] Id.; pp. 32-33.

million annually ($27.8 million + $22 million = $49.8 million). This burden on PNM's ratepayers exceeds the net present value of the 9-year stream of benefits by almost $7 million ($49.8 million - $42.9 million = $6.9 million). This preliminary analysis of the total prospective impact of PNM's EE and LM programs suggest a significant detriment to the ratepayers and not a reduction in customers' bills. That is why Staff believes the question about the lower bills that may result from EE and LM programs remains an open question.

Q. What is Staff's response to CCAE witness Geller's first recommendation that PNM be directed to increase the savings goal and the budget for the Residential Lighting Program?

A. Staff opposes any direction from the Commission to increase the budget for the Residential Lighting Program by a specific dollar amount. The flexibility that is necessary to adjust program budgets is addressed by the Stipulation in §11 which states in part that "PNM may increase the budget for any program that is reasonably anticipated to exceed the stipulated budget due to an increase in program participation costs, and may reduce the stipulated budget for any program that is reasonably anticipated to be less than the stipulated budget due to a decrease in program participation costs". Given that funding for EE and LM program costs is set at 3% of customer bills and that the Commission authorizes funding for a plan year prospectively, any increase in a program budget will necessarily be offset by an equal decrease in one or several other programs. The

Stipulation provides sufficient flexibility to make such adjustments and Staff finds that further direction from the Commission about increasing the budget for Residential Lighting is unnecessary.

Staff also disagrees with CCAE's suggestion that any available residential funding should necessarily be directed to the residential program with the highest projected Utility Cost Test ("UCT") ratio[8] for the benefit of customers. PNM's projections indicate that its Residential Lighting Program has the highest UCT of any residential program. However, PNM's concerns about the declining residential load factor which it attributes significantly to the impact of its residential lighting programs raise questions about the benefits of any incremental penetration of rebated bulbs in PNM's territory[9]. Staff therefore recommends that the Commission refrain from directing PNM to increase the budget of the residential lighting program.

Q. What is Staff's response to CCAE witness Geller's second and third recommendations that PNM be directed to continue the Home Energy Reports in 2016 and to consider expanding the Home Energy Reports in its next application for 2017?

A. Staff opposes CCAE's recommendation that the Commission direct PNM to continue the Home Energy Reports in 2016 in spite of negative customer

[8] Geller Direct; p. 2, line 24 to p. 3, line 3.
[9] Direct Testimony of Gerard T. Ortiz filed December 11, 2014 in case no. 14-00332-UT; p. 15, line 17 to p. 17, line 10.

feedback[10]. CCAE's recommendation to reallocate $501,115 from other programs to the recommended continuation of a marginally cost effective program in 2016[11] is inconsistent with CCAE's stated approach of allocating program dollars to programs with the highest UCTs. PNM should be given the discretion necessary to respond to customer feedback in an appropriate manner and should be permitted to discontinue the Home Energy Reports program after 2015.

With respect to the possible expansion of the Home Energy Reports program in 2017, Staff finds no such direction is needed from the Commission. If the Stipulation is approved in this case, PNM will file its application for 2017 by April 15, 2016. Until then, PNM will have ample opportunity to consider the most effective mix of measures and programs for that plan. CCAE witness Geller has been a regular participant in PNM's public advisory process that normally precedes PNM's applications and I expect that the renewal of the Home Energy Reports program will be considered during PNM's preparations for its next application.

Q. What is Staff's response to CCAE witness Geller's fourth recommendation that PNM be directed to increase the savings goal to 45 million kWh and

[10] The negative customer feedback about the Home Energy Reports Program was described earlier by PNM (Bean Direct; pp. 22-23) and may be further addressed by PNM in rebuttal.
[11] PNM's projected UCT for Home Energy Reports for 2015 is 1.25.

expand the budget by $176,781 for the Commercial Comprehensive Program?

A. As I stated earlier with respect to CCAE's recommendation about increasing the budget for the Residential Lighting Program, the stipulation adequately addresses the broad flexibility PNM has in this regard and Staff opposes CCAE's recommendation that the Commission direct PNM to make this specific budget change.

Staff has no position with respect to CCAE's recommendation that the savings goal for the Commercial Comprehensive Program should be increased to 45 million kWh from 36.9 million kWh projected by PNM in its 2014 Plan. While CCAE's analysis of prior independent evaluations of aggregate savings from the Commercial Comprehensive Program suggest it is reasonable for the savings goal to be higher, PNM's methodical projections are likewise based on a number of technical assumptions derived from the 2013 independent evaluation of this program[12].

Staff's continuing concern with the large Commercial Comprehensive Program and its place in the portfolio of programs is about the extent of any resulting disparity in program benefits among rate classes with the opportunity to participate relative to the distribution of the burden on ratepayers for recovery of all program costs. While PNM has made a reasonable attempt to address this matter showing that the distribution of recovery of program costs across rate

[12] Bean Direct; Exhibit SMB-1, p.44

classes is approximately equivalent to the distribution of program availability based on the budget[13], PNM indicates in response to interrogatories in this case that for the 2014 Plan it does not break down projected energy savings, demand savings, or rebates by rate class. It therefore remains a challenge for Staff to analyze the distribution of program benefits among rate classes.

Q. What is Staff's response to CCAE witness Geller's fifth and sixth recommendations that PNM be directed to reduce the budgets for the two load management programs – Power Saver and Peak Saver?

A. It is unclear to Staff whether PNM is even able to unilaterally adjust the budget for these load management programs to the extent recommended by CCAE without violating the long term contracts between PNM and the two program implementers. Staff concurs with CCAE that the cost effectiveness for these load management programs as measured by the UCT ratio is lower than if measured by the formerly used TRC ratio. In any case, Staff would not support (and CCAE does not suggest) any violation of the existing contracts to meet the funding reallocation recommended by CCAE. Unless it can be conclusively determined that a unilateral budget reduction by PNM does not violate any contractual commitment, Staff recommends that the Commission refrain from directing PNM to reduce funding for these two LM programs. If it is determined that this would not violate their contractual commitments, Staff believes that the

[13] Bean Direct; pp.8-10.

Stipulation adequately addresses PNM's flexibility to reallocate program funding in a cost effective manner. Staff further expects that CCAE's constructive suggestions would be seriously considered in such a process.

Q. What is Staff's response to CCAE witness Geller's seventh recommendation that PNM be directed to instantly designate 3% of any incremental revenue that may result from the outcome of PNM's application for revised rates in case no. 14-00332-UT to expand EE and LM programs approved in this case?

A. CCAE's recommendation that program budgets should be adjusted on the fly as program funding fluctuates based on PNM's changing retail revenue is inconsistent with the EE rule. Staff recommends that the Commission reject CCAE's recommendation for midstream budget adjustments and instead affirm the procedure in the EE rule that provides for the authorization of prospective funding for program costs on a calendar year basis. In this case, the Commission should authorize funding for plan years 2015 and 2016. In PNM's next docketed application for EE and LM plan approval in April 2016 (assuming the Stipulation is approved), the Commission should authorize funding for plan year 2017. This orderly annual process to estimate and authorize plan year funding set out in the EE rule should be adhered to. The outcome of PNM's application for a revision of rates in case no. 14-00332-UT is far from clear at this stage and, even if it were clear to CCAE, it does not justify abandoning the detailed procedure spelled out in the EE rule that only just became effective six weeks ago[14].

Q. What is Staff's response to the proposal of WRA witness Howe to introduce a sliding scale incentive mechanism based on cumulative savings where the maximum incentive for 2015 and 2016 is equal to the stipulated incentive of $1.75 million and $1.85 million respectively?

A. WRA's proposal is essentially a modification of the stipulated profit incentive mechanism that raises the satisfactory performance bar with a sliding performance scale that begins at the low end with the stipulated performance requirements of 452 GWh of cumulative savings during 2015 and 493 GWh of cumulative savings during 2016. With this performance, WRA's proposal would result in profit incentives for PNM of $1 million and $1.1 million for 2015 and 2016. Additional savings would result in additional profit incentives for PNM up to $1.75 million and $1.85 million.

Based on the information provided by WRA about practices in other states, it is clear that there are a variety of incentive mechanisms that should be considered including the stipulated "management fee" approach. In New Mexico, the establishment of an equitable profit incentive mechanism that is in the public interest remains a challenge. Staff is prepared to work with other parties to seek

[14] The procedure surrounding "Commission authorized funding" for EE and LM programs is set out in (1) the definitions of "plan year", "plan year overage" and "plan year underage" in 17.7.2.7 NMAC and in (2) the annual process described in 17.7.2.8 (C), (D) and (E) for reconciling the 3% EUEA funding requirement with "Commission authorized funding".

an alternative approach. Until then, the stipulated profit incentive in this case is a simplified mechanism that sets a maximum burden on ratepayers and includes a performance benchmark specific to PNM based on the EUEA savings requirement that must be met for PNM to earn this reward.

Q. What is Staff's response to WRA's recommendation that the incentive recovery by PNM should take place after independently evaluated savings demonstrate that PNM has met its performance benchmarks?

A. The matter of the timing of incentive remains unresolved. As I argue in my earlier testimony in this case, Staff clearly believes that the current practice by PNM of wholly recovering profit incentive from ratepayers contemporaneously with program costs is inappropriate. Staff's proposal that PNM should recover about half of its anticipated profit incentive contemporaneously with program costs and the remaining half 12 months later is a balanced approach that preserves some of PNM's recovery expectation based on current practice and allows for satisfactory performance to be demonstrated before a significant portion of the profit incentive is recovered.

Q. Does this conclude your testimony?

A. Yes.

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Applicant.	)	

AFFIDAVIT OF JOHN J. REYNOLDS

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

I, JOHN J. REYNOLDS do hereby swear, depose and state as follows:

I hereby attest that I have read the foregoing **PREPARED REBUTTAL TESTIMONY OF JOHN J. REYNOLDS.** and the statements contained therein are true and accurate to the best of my knowledge and information.

JOHN J. REYNOLDS

2/16/2015
DATE

SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me this 16th **day of February 2015**

NOTARY PUBLIC

My Commission Expires

1-24-16

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing ***Prepared Rebuttal Testimony of John J. Reynolds*** was delivered as specified below to each of the following:

Via email:

Douglas Howe	doug.howe@dhaconsulting.us
Howard Geller	hgeller@swenergy.org
Adam Bickford	abickford@swenergy.org
Ramona Blaber	monablaber@gmail.com
Tammy Fiebelkorn	tfiebelkorn@swenergy.org
Glenda Murphy	gmurphy@westernresources.org
David Van Winkle	david@vw77.com
Frank Lacey	flacey@comverge.com
Tracy Caswell	tcaswell@comverge.com
William Payne	bpayne37@comcast.net
Benjamin Phillips	Ben.Phillips@pnmresources.com
Stacey Goodwin	Stacey.Goodwin@pnmresources.com
Bradford Borman	Bradford.Borman@pnmresources.com
Steven Schwebke	Steven.Schwebke@pnm.com
Mark Fenton	Mark.Fenton@pnm.com
Cholla Khoury	ckhoury@nmag.gov
Loretta Martinez	lmartinez@nmag.gov
Steven S. Michel	smichel@westernresources.org
Charles F. Noble	Noble@energyenviornmentlaw.com
Peter J. Gould	pgouldlaw@gmail.com
Joanne Reuter	joannecreuter@comcast.net
Charles Gunter – PRC	Charles.Gunter@state.nm.us
John J. Reynolds – PRC	John.Reynolds@state.nm.us
Bruno Carrara – PRC	Bruno.Carrara@state.nm.us
Anthony Sisneros – PRC	Anthony.Sisneros@state.nm.us
Judith Amer-PRC	Judith.Amer@state.nm.us
Patrick Lopez-PRC	Patrick.Lopez@state.nm.us

Cydney Beadles-PRC
Cydney.Beadles@state.nm.us

First-Class Postage Prepaid:

Benjamin Phillips
Associate General Counsel
PNM Resources, Inc.
414 Silver Ave. SW
Albuquerque, NM 87102

Stacey Goodwin
Deputy Associate General Counsel
PNM Resources, Inc.
414 Silver Ave. SW
Albuquerque, NM 87102

Bradford Borman
Senior Corporate Counsel
PNM Resources, Inc.
414 Silver Ave. SW
Albuquerque, NM 87102

Steven Schwebke
PNM Resources, Inc.
Corporate Offices - Regulatory
Albuquerque, NM 87158-1105

Mark Fenton
PNM Resources, Inc
Corporate Offices - Regulatory
Albuquerque, NM 87158-1105

Cholla Khoury
Assistant Attorney General
Office of the Attorney General
P.O. Drawer 1508
Santa Fe, NM 87504-1508

Steven S. Michel
WRA
409 East Palace Avenue, Unit 2
Santa Fe, NM 87501

Charles F. Noble
CCAE
409 E. Palace Avenue, Unit 2
Santa Fe, NM 87501

Peter J. Gould
NMIEC
P.O. Box 34127
Santa Fe, NM 87594

Joanne Reuter
Reuter Legal & Consulting Services
12231 Academy Rd. NE
Albuquerque, NM 87111

Hand Delivery:

Cydney Beadles
NMPRC-Legal Division
1120 Paseo de Peralta
Santa Fe, NM 87504

Charles Gunter
NMPRC-Utility Division
1120 Paseo de Peralta
Santa Fe, NM 87504

John Reynolds
NMPRC – Utility Division
1120 Paseo de Peralta
Santa Fe, NM 87504

Bruno Carrara
NMPRC – Utility Division
1120 Paseo de Peralta
Santa Fe, NM 87504

Anthony Sisneros
NMPRC – Utility Division
1120 Paseo de Peralta
Santa Fe, NM 87504

Judith Amer
NMPRC - OGC
1120 Paseo de Peralta
Santa Fe, NM 87504

DATED this 16th day of February 2015.

NEW MEXICO PUBLIC REGULATION COMMISSION

Elizabeth Ramirez, Paralegal