

COMISIÓN DE ENERGÍA DE PUERTO RICO
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COMMONWEALTH OF PUERTO RICO
ENERGY COMMISSION

IN RE: INTEGRATED RESOURCE PLAN FOR THE PUERTO RICO ELECTRIC POWER AUTHORITY	ORDER NO. CEPR-2015-0002 SUBJECT: Integrated Resource Plan for the Puerto Rico Power Authority
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SUPPLEMENTARY INTERROGATORY AND REQUEST FOR INFORMATION

TO : PUERTO RICO ELECTRIC POWER AUTHORITY (PREPA)

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Comes now the "Instituto" and respectfully submits to PREPA and request the following documents and information:

I. Introduction

Complete and accurate information is necessary for good utility planning decisions. This Integrated Resource Plan ("IRP") proceeding and the upcoming decisions facing the Commission are no exceptions, especially given the gravity of PREPA's current situation. Especially with regard to its discovery responses, it is imperative that PREPA be as candid and helpful as possible. After all, in many respects, only PREPA has – or even could have – the information necessary for the Commission to ensure that PREPA's IRP best serves Puerto Rico.

As noted in its December 4, 2015 Order, "...the Commission has identified multiple deficiencies in the IRP proposal, which prevent the Commission from considering and approving an IRP that represents the least-cost alternative to manage resources, promotes the public policy of energy efficiency and conservation, ensures an adequate management of demand, and complies with pertinent environmental regulations" (page 1). Consistent with the spirit of the December 4 Order, the ICSEPR's Interrogatory and Request for Information, dated December 14, 2015 ("Interrogatory"), reflects the ICSEPR's earnest attempt to contribute to this proceeding by seeking information that would allow the development of a fair and efficient IRP for PREPA.

Included herewith are critical questions part of our initial discovery request that were vaguely or incompletely answered by PREPA. Full response of these questions are necessary for the complete evaluation of the presented plan. PREPA's answers are simultaneously revealing and concealing in related ways that cast serious doubt on the reasonableness of PREPA's proposed IRP.

II. Supplementary Discovery Request

PREPA's very direct answer to the ICSEPR's first question plainly shows a fundamental flaw that gravely undermines the reasonableness of PREPA's entire currently proposed IRP, while PREPA's incomplete and unresponsive answers to other questions deprive the Commission and Intervenor of information that is necessary (albeit not sufficient) for developing an optimal IRP. In fact, some of the missing answers could address the previously mentioned flaw. The current situation is unfortunate, because a fair and efficient IRP is a critical starting point for the PREPA reforms under Law 57 that are necessary to foster and maintain a competitive and sustainable economy for Puerto Rico. Therefore, PREPA should provide the information sought in the ICSEPR's Interrogatory as soon as possible, especially given the compressed schedule for the IRP proceeding.

First, consider PREPA's response to the first question ("Question 1") in the ICSEPR's Interrogatory, which states:

ICSEPR's Question 1: Please provide and explain the energy tariff rate assumptions (in ¢/kWh) that were used to support, or that are implied by, the peak and hourly forecasted demand and usage assumed by the proposed IRP. Please provide any related analyses or workpapers.

Astonishingly, PREPA's response begins with the following admission: "There are no energy tariff rate assumptions presented in this IRP."

That admission alone renders unreliable any demand forecasts that purport to support PREPA's proposed IRP. Simply put, demand for PREPA's electric service, as with other goods and services, is primarily a function of price. Without any price assumptions, any related demand assumptions are specious, because without compulsory purchases, future voluntary demand for PREPA's electric service will depend on PREPA's rates, as well as other factors including but not limited to PREPA's customers' incomes, locations,

or the commercial value of the goods and services that can be created or enabled by PREPA's electric service. Especially without price assumptions, PREPA's demand forecasts are patently unreliable.

In turn, the lack of a reasonable demand forecast will undermine any of PREPA's projections for Demand Side Management ("DSM") and Energy Efficiency ("EE") programs, as well as customer self-supply through Distributed Generation ("DG"). DSM, EE, and DG participation rates are significantly dependent on the prices of electric service, by rate class, that different types of customers (e.g., residential, commercial, or industrial customers) can avoid through those programs. Likewise, without reasonable assumptions regarding the price of PREPA's electric service as part of PREPA's tariff rates, PREPA cannot in any reasonable way, "co-optimize any expected renewable energy load shape and demand response programs," as directed on by the Commission's December 4, 2015 Order at page 3. Further, without reasonable tariff rate assumptions, PREPA cannot reasonably assess any future opportunities for commercial-and industrial-scale programs, much less "highly cost effective" ones. The same problem also applies to PREPA trying to seek or project residential sector demand response programs.

PREPA's answers were incomplete and unresponsive.

ICSEPR's Question 4: Please provide any audited Financial Statements that support the tariff used to project energy demand and usage for the proposed IRP. Please provide any related analyses or workpapers.

PREPA's Answer 4 simply refers to PREPA's Answer 1, which says nothing about financial statements, audited or otherwise. PREPA should respond fully to this question because audited financial statements provide information that is crucial in several ways for developing a reasonable IRP. For example, the information is necessary for verifying PREPA's internal cost allocations. In addition, the actual cost information gleaned from the financial statements serves as an important comparative reference for future costs implied by the proposed IRP. Further, the information allows for an important check on the extent to which PREPA is currently following good utility practices, which will help identify the areas in which PREPA reform efforts should focus.

ICSEPR's Question 14: On Vol. I, page 1-2, EPA MATS compliance is mentioned and Volume IV provides additional environmental compliance measures.

- a. Did the IRP include the impact of the RICE-NESHAP rule and any impacts to number of operating hours? Please provide any related analyses or workpapers.
- b. If yes, then please describe facilities impacted (including generation at the sub-transmission and distribution system) and operating hours for each facility. Please provide any related analyses or workpapers.

PREPA's Answer 14 simply states: "RICE-NESHAP applies only to internal combustion engines. The only generators of this type in PREPA's system are very small units, strictly for emergency backup use, and these do not impact the dispatch modeling."

This answer is vague and incomplete. Just because PREPA's dispatch modeling does not account for the impacts of RICE-NESHAP compliance does not mean those EPA rules will not affect the number of operating hours of the associated generators. Indeed, RICE-NESHAP compliance could force a sufficiently large reduction in the affected generators output to require the use of other generators or create the need for more or different generation build-out than what is included in PREPA's proposed IRP. PREPA should answer completely, with related analyses or workpapers that indicate the actual expected impact of the EPA's RICE-NESHAP rules.

ICSEPR's Question 20: Please provide the Emergency Operating Procedures assumed under all Futures.

PREPA objects to this question as irrelevant, but this question is certainly relevant and PREPA's answer is certainly important for developing a reasonable IRP. Information about the assumed emergency procedures will shed light on expected operations of the emergency generators. Not only will such information indicate the reasonableness of PREPA's apparent IRP assumption that the RICE-NESHAP rules will have a negligible impact, but it will also allow the Commission to verify that PREPA's proposed IRP and emergency procedures are compatible, which is critical for maintaining safe and reliable operations.

ICSEPR's Question 29: Please provide and explain assumptions on delivered fuel prices – separated into transport, storage (if any) and underlying fuel costs to include any transactions meant to hedge the fuel price (e.g., swaps, options) as part of the proposed IRP. Please provide any related analyses or workpapers.

PREPA's Answer 29 only generally describes fuel cost adders, and says nothing about PREPA's future fuel cost hedging plans. Hedges like swaps and options have strict credit requirements that could put considerable financial strain on PREPA's ability to maintain its system and provide safe, reliable service. Thus, it is very important for PREPA to provide the requested information in order to assess the appropriateness of PREPA's IRP with regard to the use and cost of various fuels needed for electric generation.

ICSEPR's Question 35: On Vol. I, page 4-7, the IRP states, "It has some hidden costs to PREPA however as much of this generation is photovoltaic and PREPA needs to supply the load during night time. Thus there are no savings in the generating fleet capacity or the transmission and distribution system, but the energy is priced as if there were. Also Distributed Generation changes the voltage profile of the distribution system resulting in the need for advanced voltage compensation." Please provide answers to the following questions:

- a. Please explain the significance of the following statement: “but the energy is priced as if there were.” Please provide any related analyses or workpapers.
- b. Please explain how the current pricing of power was incorporated into the IRP study, including any elements of the study that would be altered if a different pricing strategy (i.e. different retail tariffs) were to be assumed effective. Please provide any related analyses or workpapers.
- c. Please explain the extent to which any potential situation in which the addition of distributed generation might result in the need for less voltage support? Please provide any related analyses or workpapers.

PREPA’s Answer 35.b states, “The pricing of power was not a consideration of the study, but rather the minimization of production costs, while maintaining acceptable levels of reliability and performance.”

Like PREPA’s Answer 1, this answer defies the logic of any reasonably developed IRP. Power pricing determines demand for electricity, which determines the appropriate size and characteristics of PREPA’s system, which then and only then defines the system constraints relevant for the cost-minimization aspect of IRP development. Beyond that, however, PREPA should explain which elements of the IRP study would be altered if a different pricing strategy (i.e. different retail tariffs) were to be assumed effective. PREPA should also provide any related analyses or workpapers.

ICSEPR’s Question 36: In the development of the futures contained in Vol. I, Section 6, did PREPA consider any separate future scenario with loads lower than those contained in the PREPA base/pessimistic forecast?

- a. In what magnitudes or other ways would assumed load need to drop in order for PREPA to recommend a different power supply portfolio to be selected for recommending for Commission approval? Please provide any analyses, studies, or workpapers in support of your answer.
- b. In what ways – with specific reference to generation, transmission, and distribution plans – would the selected portfolio change if load were expected to decrease annually by 5% or 10%, respectively, across all customer classes and across all hours? For each scenario (-5% and -10% annual peak load growth rates) Please provide any analyses, studies, or workpapers in support of your answer.

PREPA's Answer 36 states, "This item will be covered in the amended/supplemented IRP as required by the Energy Commission's order of December 4, 2015."

This answer does not indicate whether or how PREPA's proposed IRP considers any separate future scenario with loads lower than those contained in the PREPA base/pessimistic forecast. PREPA could and should provide that explanation immediately.

ICSEPR's Questions 37-39 ask PREPA to provide any analyses, studies, or workpapers, associated with PREPA's allocated cost of service studies for Fiscal Year 2013, for the years covered by the proposed IRP, and for any other Fiscal Years, respectively.

PREPA objects to each of these questions as irrelevant, but each of them is relevant. For example, if all of PREPA's costs are assumed to be allocated to a single class of ratepayers, then electricity demand is likely to plummet for that customer class, and PREPA's IRP would need to account for that lower demand. The allocation of costs of service is intimately related to rate design, tariff rate assumptions, and the resulting demand for electricity across customer rate classes. As explained above, such information is crucial for developing a reasonable IRP.

ICSEPR's Question 41: Please provide all major planned transmission upgrades for the next 25 years. For each upgrade, please designate the reason for the project (e.g., baseline reliability, generation interconnection, renewable delivery), the allocation of the upgrade costs to customers, and the timing of those costs, as shown in the following sample table. Please provide any related analyses or workpapers.

Transmission Project	Construction Period	In-Service Date	Project Cost	Allocation Period
Project XXXX	2016-2019	2019	\$50M	2016-2019
Project YYYY	2020-2021	2021	\$160M	2021

PREPA's Answer 41:

This answer fails to provide the requested information about the reasons for each planned transmission project. The answer also fails to provide information about the timing and expected cost allocations of each planned transmission project. This information is necessary for assessing how much transmission is related to generation expansion versus other drivers, for example. It is also necessary for assessing IRP assumptions regarding cost allocations, rate design, and electric demand across different rate cases. As explained many times above, such information is crucial for developing a reasonable IRP.

III. Conclusion

Without PREPA's full, well-documented, and accurate responses to the ICSEPR's Interrogatory, it will be difficult, if not practically impossible, to develop solid assumptions about future tariff rates. Those assumptions are critical for credibly forecast of demand, which is critical for developing a reasonable IRP. And without a fair and efficient IRP for PREPA, the PREPA reforms of Law 57 that are crucial for fostering a competitive and sustainable economy for Puerto Rico cannot be realized. PREPA should immediately answer the above questions.

I HEREBY CERTIFY that the foregoing was sent via certified mail, return receipt requested to and via email to: Nelida Ayala Jimenez, Esq. General Counsel, Puerto Rico Electric Power Authority, PO Box 36928, San Juan, Puerto Rico 00936-3928; n_ayala@aepr.com, Copy was sent via regular mail to the following parties:

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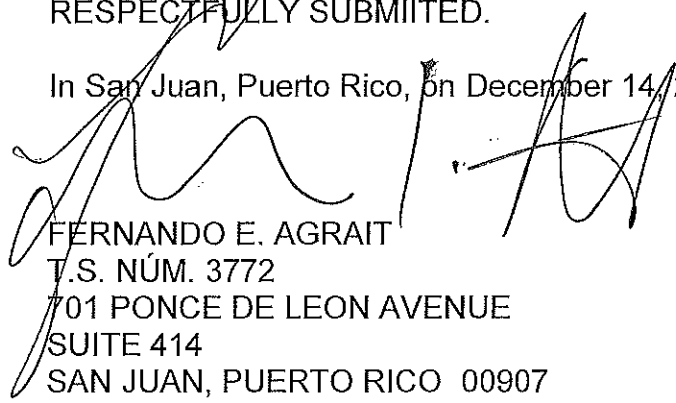
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RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, on December 14, 2015.



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