



## Regional Renewable Energy Advisory Council (RREAC)

### Mayor

Oscar Leeser

### City Council

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Peter Svarzbein

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Cortney C. Niland

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Tommy Gonzalez

## MEETING NOTES, FEBRUARY 14, 2017

### Attendance

Name	District	Position	Present
Frederic Dalbin	Mayor	Member	x
Ernest Eisenberg	1	Member	x
Crystal Arrieta	2	Member	x
Shelby Diego Ruff	3	Vice Chair	Not present
Blanca Gadney-Moss	4	Member	x
Jonathan Childress	5	Member	Not present
Fareed Issa Klayel	6	Member	Not present
Xavier Miranda	7	Chair	x
Patrick Schaefer	8	Member	Not present
Eddie Gutierrez	N/A	El Paso Electric (EPE) Technical Advisor	x

### 1. MEETING CALLED TO ORDER WITH QUORUM AT 5:28 PM

#### a. Members present (as noted above)

#### b. Approval of minutes from 01/10/2017 meeting

- i. Minutes approved

#### c. Request to excuse absent members

- i. Request approved to excuse absent members (Patrick Schaefer, Shelby Ruff, Jonathan Childress, and Fareed Klayel).

### 2. GOAL 8 ALIGNMENT: NURTURE AND PROMOTE A HEALTHY, SUSTAINABLE COMMUNITY

#### 4.1 Presentation on the rate case process generally (Norman Gordon, City of El Paso Outside Counsel)

- i. See presentation (<http://www.elpasotexas.gov/ors/RREAC>)

- ii. **Blanca Gadney-Moss, Member:** In looking at different rate classes that are listed, as far as the rates would be distributed when it comes down to it, do you represent all of the rate classes or specifically rates for the city?

- 1. The city is the regulator with original jurisdiction that means that the City Council makes its decision that is fair to the utility, all of the rate classes, and all the various customers. So they have all that to deal with --they don't represent a specific group. The City Council, having original jurisdiction, is the party, just like the public utility, that is charged with deciding what is fair for everyone. This includes the utility. (Norman Gordon, COEP Outside Counsel).

- iii. **Norman Gordon, COEP Outside Counsel:** There is an opportunity "to earn" which is different than an opportunity to earn a profit. If we look back on that slide in the presentation, the term is *reasonable return* or *reasonable opportunity*. *Reasonable return* is looked at essentially as a weighted average of a company's capital structure or an appropriate capital structure. So you look at the appropriate amount of debt or reasonable cost of the debt and that is usually cut and dry because its contractual and then you look at the percentage of equity that the company ought to have and what is the reasonable return on the equity portion. Then the weighted average is



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essentially calculated to get to the number (Norman Gordon, COEP Outside Counsel).

- iv. **Norman Gordon, COEP Outside Counsel:** In the presentation, 10.5 was the equity the weighted average cost of capital they are claiming is approximately 8.
- v. **Ernest Eisenberg, Member:** I think what is relevant to this group is talking about the *solar component and a presentation that says solar actually subsidizes the non-solar rate payers*. The Electric Company says it's the other way around--that non-solar rate payers subsidize the solar rate payers. I'd like to know what kind of data is available to really get to the bottom of that specific issue which is really what is relevant to this Council.
- vi. **Norman Gordon, COEP Outside Counsel:** Everyday there is more and more data on the process and how you look at those costs. We will engage City Council and they will authorize us to engage an economist rate consultant who is doing this and looking at these types of issues for more than 30 years. We will look at all of the aspects of it.
  - 1. There are two ways to determine these costs:
    - a. One way is to calculate certain amounts that are embedded costs to cover every customer
    - b. Then the other way is to calculate the benefits that are provided by distributed generation, particularly solar in this area, and calculate the benefits to the system, or benefits to society, and then consider and quantify those benefits in the process.
- vii. **Ernest Eisenberg, Member:** And when they take all that and put it together they include the benefits of the other ratepayers' potential deferral of future capital investments based upon this generating capacity
  - 1. Well that may be a consideration if it exists—in large part it depends on the concentration of the market (Norman Gordon, COEP Outside Counsel).
- viii. **Ernest Eisenberg, Member:** What was the City's position in the last rate case?
  - 1. In the last case, the City's position was that the Electric Company did not justify setting up the separate class charges (Norman Gordon, COEP Outside Counsel).
- ix. **Blanca Gadney-Moss, Member:** I would like clarification on the new power plants that have been recently approved.
  - 1. Under state law, there is a process—a utility company that wants to build a generation plant applies to amend a certificate of public convenience to show a probable need for that plant. The utility company will want that for its construction of the plant because it is totally at risk if that certificate didn't happen otherwise. The fact that EPE has that amendment to their certificate of convenience doesn't mean the cost of the plant is established in that case-- they still have the burden to prove the cost for that plant and then they have the



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burden to prove that that plant is needed to provide useful services (Norman Gordon, COEP Outside Counsel).

2. That was a concern because this may lead the public to the perception that there is approval already. What happens there is that it stops the voice of the people from addressing their concerns (Blanca Gadney-Moss, Member).
  3. Well there has been an approval—the approval is not final. The final question is, “Do they need it, is it useful, is the amount of money that they spend reasonable?” So those are issues we will be looking at (Norman Gordon, COEP Outside Counsel).
- x. **Ernest Eisenberg, Member:** I just looked up the EPE financials—with the PE ratio being about 20 and the dividend yield being 2.5%, the market expects a 7.5% equity return—is there a reason why we would be giving them something greater than what the market expects for their earnings?
1. When we decide what the reasonable return is, we are requesting to look at the cost of the debt. Usually that’s cut and dry because it is a contraction--the cost of equity is determined to provide them a return that’s commensurate with investments with similar risks and opportunities and to provide them an opportunity to raise capital at reasonable returns. That is the way that this is done typically—we have financial consultants that look at these issues for utility companies and look to see what reasonable return on equity is. The guiding principle is “what is the market telling us based on stock and other issues... what is the market telling us that is a reasonable return that investors are requiring” and you can get different answers (Norman Gordon, COEP Outside Counsel).
- xi. **Blanca Gadney-Moss, Member:** If I understood your presentation correctly, this is really about the areas serviced by a monopoly—so in an area serviced by an open market system, they don’t have similar rate cases?
- xii. They do somewhat in most of Texas—everything except the four corners—El Paso, Van Horn, the Panhandle, Far Northeast Texas, Southeast Texas... other than that the production or the cost of actual electricity is deregulated. But the cost of part of the process, part of the enterprise transmitting the power from wherever it is being produced and distributing it to customers (with the exception of the Municipal Operating Utilities, such as in San Antonio, which are not part of that deregulation stuff), that is still a regulated monopoly (Norman Gordon, COEP Outside Counsel).

#### 4.2 Presentation on supply and demand of renewable energy from the perspective of El Paso Electric (El Paso Electric)

- i. See presentation (<http://www.elpasotexas.gov/ors/RREAC>)
- ii. Call to the public for this agenda item:
  - a. **Robert Moss, Public:** Mr. Gutierrez, can you expand on what you mean by solar specific infrastructure (mentioned in a recent article)?
    - i. It (Community Solar) is the first solar program that is volunteer-based that we will own. When they ask about



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the generation, it is then about the power rates (Eddie Gutierrez, EPE Technical Advisor)

- ii. Okay, so then it's not about the rate case? Because the community solar project has nothing to do with the rate case (Robert Moss, Public)
- iii. Correct (Eddie Gutierrez, EPE Technical Advisor)
- iv. I just feel like there needs to be some clarity on what is solar specific infrastructure and if you have special infrastructure that is strictly for solar then please elaborate on that... otherwise I don't see the cost (Robert Moss, Public)

**b. John Vandeven, Public:** What is the definition of "fair share"?

- i. The question relates to the cost of service—as Mr. Gordon explained, the request is the allocation of revenue (the distribution of which each of our customers pay in our current proposal as it stands). Now there is an elimination or a relaxed subsidy between rate classes subsidies which is what the fundamental that we are then discussing as part of this process. Traditionally, for example, small business have paid more for their part to provide services for residential rates to be lower. In this proposal, eliminating the subsidies would mean that there is actually a reduction for small businesses--residents would continue seeing an increase. This is why it's so important to understand the dynamics of the rate case process to move forward but the question of *what is fair share*--it is the relation of the cost of serving all our customers and the allocation and distribution and the attempt to capture the cost of all of our customers in way that we would hope would be equitable and fair for everyone (Eddie Gutierrez, EPE Technical Advisor)
- ii. If this passed then in Downtown El Paso, people would be paying their fair share down the road in five or ten years .....would that be a correct statement? (John Vandeven, Public)
- iii. What we are asking for is an attempt to capture the infrastructure cost for the grid entirely in relation to private solar customers. There is a three-step process: the time of use that is impacted, a demand charge, and a customer charge. As it stands now, we feel that residents don't have the technology for subsidizing those in the same way that we had seen small businesses subsidizing residents so this rate case attempt is to deal with the subsidy in general across customer classes (Eddie Gutierrez, EPE Technical Advisor)

**c. John Justice, Public:** My question was for Mr. Gordon so I asked him outside while he was leaving. People that were told that if they



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completely disconnect from the Electric Company that they were still going to be given the charge, even if they are not connected they have installed batteries and things like that that they are using so they are completely isolated. They were concerned that that they would try to be charged that based upon the rate case. I couldn't see how that would be possible unless they went to the door or something but Mr. Gordon said he didn't see anything in the rate case related to that.

iii. **Ernst Eisenberg, Member:** I think the first step is to get clarity on what Mr. Gordon said was a very difficult question on subsidies and really *ascertain whether solar is receiving a subsidy from the rest of the community or whether solar is providing a subsidy to the community* and then to figure out what that means. I don't think we have that skill set so let's get the information so that we can relay that info back to City Council to help them make a recommendation based upon what we find. Is it equitable or is it not to have a surcharge rate case? Based upon the magnitude of dollars, I question whether this is something that is worth all of these peoples' time.

3. **Blanca Gadney-Moss, Member:** Maybe our committee can look at renewables being the pathway—maybe the pathway is through renewables and as long as EPE becomes a stakeholder in the community and allows some of the revenue to hopefully open up a market a little bit so that some of this wealth stays in this community that really needs it. I believe that the best option would be to encourage renewable energy in an open market, allowing competition to step in and be helpful all the way around.

#### 4.3 Discussion and update on recommendation to city council to submit SolSmart application

- i. SolSmart application will be placed on the February 28<sup>th</sup> City Council agenda, as a result of City Council meeting date being moved from February 21<sup>st</sup> to February 28<sup>th</sup>
- ii. SolSmart Application update: Staff will review the application and reach out to RREAC members for information.

#### 4.4 Discussion on the development of Renewable Energy Standards (RES) for the City of El Paso (new construction and municipal facilities)

- i. Postponed until the March 14<sup>th</sup> meeting due to time restraints.

#### 4.5 Discussion and action on future agenda items

### 5 ADJOURNED AT 6:35 PM

- i. The next meeting will be **Tuesday, March 14, 2017 from 6 pm – 8 pm in the Main Conference Room of CITY 1, 300 N. Campbell.**

*Please note: The statements made on the agenda items above are the opinions of those individuals noted and do not necessarily represent an official position of the City of El Paso.*