

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION)
OF ARKANSAS ELECTRIC COOPERATIVE)
CORPORATION FOR A CERTIFICATE OF)
PUBLIC CONVENIENCE AND NECESSITY)
FOR THE PURCHASE, OWNERSHIP,)
OPERATION AND MAINTENANCE OF THE)
WRIGHTSVILLE POWER FACILITY NEAR)
WRIGHTSVILLE, ARKANSAS)**

DOCKET NO. 05-042-U

**Public Surrebuttal Testimony of
David A. Schlissel
Synapse Energy Economics, Inc.**

**On behalf of the
General Staff of the
Arkansas Public Service Commission**

August 23, 2005

**Arkansas Electric Cooperative Corporation
Docket No. 05-042-U
Surrebuttal Testimony of David A. Schlissel**

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

2 A. My name is David A. Schlissel. I am a Senior Consultant at Synapse Energy
3 Economics, Inc, 22 Pearl Street, Cambridge, MA 02139.

4 **Q. On whose behalf are you testifying in this case?**

5 A. I am testifying on behalf of the General Staff of the Arkansas Public Service
6 Commission (“General Staff”).

7 **Q. Have you previously submitted testimony in this Docket?**

8 A. Yes. I submitted Direct Testimony on July 22, 2005.

9 **Q. What is the purpose of this Surrebuttal Testimony?**

10 A. The purpose of this Surrebuttal Testimony is to address the Rebuttal Testimony
11 filed by AECC witnesses Curtis Q. Warner, Andrew Lachowsky, and Forest C.
12 Kessinger.

13 **Q. Do you have any comment on the testimony of AECC witness Warner
14 concerning AECC’s efforts to obtain operating information about the Kinder
15 Morgan facility in Jackson, Michigan?**

16 A. Yes. I appreciate the efforts made by AECC to seek information from the power
17 group of KM. However, I remain concerned that AECC is buying a facility
18 without knowing the detailed operating history of the identical unit in Michigan. I
19 would think that AECC, as the purchaser of the identical Wrightsville facility,
20 would want, and need, to know whether any significant operating problems have
21 been experienced at the Jackson, Michigan facility. Unfortunately, Kinder
22 Morgan was not willing to provide detailed operating information regarding the
23 Jackson, Michigan facility to AECC despite the Commission’s protective order in
24 this docket.

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1 **Q. Has AECC satisfied the proposed CCN condition that you discussed in your**
2 **Direct Testimony concerning investigating the operating performance of**
3 **other Kinder Morgan generating facilities?**

4 A. Yes.

5 **Q. Do the economic studies presented by Mr. Lachowsky satisfy the General**
6 **Staff recommendation that AECC present an analysis evaluating whether the**
7 **immediate reactivation of the facility from its current extended cold storage**
8 **condition would be more economic than continued cold storage?¹**

9 A. Yes. Although I have several concerns about some of the assumptions used by
10 Mr. Lachowsky, I believe that his economic studies show that immediate
11 reactivation of the Wrightsville facility is not likely to be less economic than
12 maintaining the facility in extended cold storage through 2008.

13 **Q. Are you persuaded by Mr. Lachowsky's rebuttal to your observation that**
14 **AECC's economic analyses substantially overstate the net economic benefits**
15 **that would result from AECC's acquisition and ownership of Wrightsville?²**

16 A. No. For the reasons described in my direct testimony, AECC's economic
17 analyses overstate the net economic benefits that would result from AECC's
18 acquisition and ownership of Wrightsville. However, I believe that even if
19 adjusted to reflect the concerns I raised, Mr. Lachowsky's studies still would
20 indicate a positive net present value for the purchase of the Wrightsville facility.

21 **Q. Has AECC demonstrated a commitment to purchase economy energy in the**
22 **wholesale market?**

23 A. Yes. Mr. Lachowsky's rebuttal testimony describes AECC's established practice
24 of purchasing economy energy. Because the Wrightsville facility has a higher

¹ Rebuttal Testimony of Andrew Lachowsky, page 3, line 1, to page 6, line 13.

² Rebuttal Testimony of Andrew Lachowsky, page 8, line 11, to page 10, line 7.

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1 heat rate than recently constructed 2x1 combined cycle generating units and
2 higher fuel costs than coal-fired facilities, it is likely that during many hours of
3 the year economy energy will be available at a cost lower than Wrightsville
4 generation. Therefore, AECC's continued commitment to purchasing economy
5 energy is critical. By continuing to aggressively purchase economy energy in the
6 wholesale market after acquiring Wrightsville, AECC can assure that its member
7 cooperatives will benefit from the lower cost economy power whenever it is
8 available.

9 **Q. Please summarize your concerns regarding AECC's integrated resource**
10 **planning process.**

11 A. In my Direct Testimony, I expressed my concern that AECC had not evaluated
12 any demand-side management measures or a broader range of supply-side options
13 such as renewables or long-term capacity and energy purchases. I stated that it
14 was also important to include consideration of regulatory, environmental, fuel
15 availability and cost uncertainties. Specifically, I recommended that AECC
16 would include these considerations in a four-step process for integrated planning
17 that consists of the following:

- 18 1. Load forecasts are prepared that represent the utility's best estimate of the
19 demand of generation, transmission and distribution services in the long-
20 term.
- 21 2. Opportunities to meet this demand through cost-effective energy
22 efficiency resources are assessed.
- 23 3. Supply-side options are evaluated including building power plants,
24 purchases from the wholesale market, purchasing short-term and long-
25 term forward energy contracts, purchasing derivatives as a hedge against
26 risk, developing distributed generation, building or purchasing renewable
27 resources, and expanding transmission and distribution facilities.

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1 . Mr. Lachowsky briefly discussed AECC’s evaluation of supply-side resources,
2 particularly renewables. He argued that AECC had appropriately considered
3 supply-side resources for a number of reasons: because “[AECC] had invested
4 considerably in three run-of-the-river hydroelectric plants;”⁵ because wind
5 resource maps of surrounding states indicate that Arkansas does not have a viable
6 wind resource; because “average annual solar insolation is considerably higher in
7 parts of the southwestern United States than in Arkansas”⁶ and because “there
8 may be niche applications where biomass is feasible in Arkansas.”⁷ I can agree
9 that certain resource options can be ruled out without the effort of an integrated
10 resource planning process, but it is important to continue to question those
11 assumptions and to continue to look for least-cost resource opportunities with an
12 eye towards future risks.

13 In its testimony, AECC recognizes that evaluation of both demand-side and
14 supply-side measures is critical to an integrated resource planning process,
15 however, I do want to reiterate my concern that AECC’s planning process is not
16 sufficiently thorough or rigorous to ensure that it is performing least-cost
17 planning. AECC should take steps in the future to ensure that its integrated
18 resource plan addresses when new capacity will be needed; what type of load
19 such capacity will need to serve; the potential for a diverse range of supply and
20 demand side resources to serve that load; the current and future risks of each
21 supply and demand side resource quantified to the extent possible; and modeling
22 to show the revenue requirement effects of various resource portfolios judged by
23 AECC to be most likely to serve its load at a least cost and least risk.

24 Q. Please summarize your recommendations.

⁵ Rebuttal Testimony of Andrew Lachowsky, page 6, lines 17 – 18.

⁶ Rebuttal Testimony of Andrew Lachowsky, page 7, lines 9 – 10.

⁷ Rebuttal Testimony of Andrew Lachowsky, page 7, line 14.

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1 A. Based upon the additional information provided in AECC's Rebuttal Testimony,
2 the General Staff recommends that the Commission grant AECC a CCN to
3 purchase the Wrightsville facility. Through its Rebuttal Testimony, AECC has
4 satisfied the proposed condition that it make an effort to assess the potential
5 operating characteristics of the other Kinder Morgan generating facilities. AECC
6 also stated its continued commitment to purchase economy energy in a manner
7 that will minimize its cost of power to its members by displacing generation that
8 would otherwise be attributed to Wrightsville. In addition, AECC presented an
9 analysis examining whether maintaining the facility in cold storage is superior to
10 immediate activation of the plant. Finally, AECC should continue to improve its
11 resource planning to ensure that it is acquiring the least cost resources for its
12 members. Consequently, the conditions recommended in my Prepared Testimony
13 have been satisfied.

14 **Q. Does this complete your Surrebuttal Testimony?**

15 A. Yes.

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