BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN PUBLIC SERVICE COMPANY'S APPLICATION FOR: (1) REVISION OF ITS RETAIL RATES UNDER ADVICE NOTICE NO. 312; (2) AUTHORITY TO ABANDON THE PLANT X UNIT 1, PLANT X UNIT 2, AND CUNNINGHAM UNIT 1 GENERATING STATIONS AND AMEND THE ABANDONMENT DATE OF THE TOLK GENERATING STATION; AND (3) OTHER ASSOCIATED RELIEF,	)	**CASE NO. 22-00286-UT**
SOUTHWESTERN PUBLIC SERVICE COMPANY,	)	
APPLICANT.	)	

DIRECT TESTIMONY

of

BROOKE A. TRAMMELL

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
12-CP	12-coincident peak
Adjusted Base Period	July 1, 2021 through June 30, 2022
AGA	American Gas Association
Base Period	July 1, 2021 through June 30, 2022
CCN	Certificate of Public Convenience and Necessity
Commission	New Mexico Public Regulation Commission
CPUC	Colorado Public Utilities Commission
Cunningham 1	Cunningham Generating Station Unit 1
CSAPR	Cross State Air Pollution Rule
CWC	cash working capital
EAP	Electric Affordability Program
EPA	Environmental Protection Agency
EPE	El Paso Electric
ERCOT	Electric Reliability Council of Texas
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Future Test Year	July 1, 2023 through June 30, 2024
FPPCAC	Fuel and purchased power cost adjustment clause

Acronym/Defined Term	Meaning
Future Test Year Rule	Sections 62-8-7, 62-3-3(P), and 62-6-14(D) of the Public Utility Act and 17.1.3 NMAC
GWhs	gigawatt-hours
Hinkle Firm	Santa Fe office of Hinkle Shanor LLP
IT	information technology
kV	kilovolt
kW	kilowatt
LIHEAP	Low-Income Home Energy Assistance Program
LP&L	Lubbock Power & Light
Linkage Period	July 1, 2022 through June 30, 2023
MW	megawatt
NCF	Net Capacity Factor
Nichols 1	Nichols Generating Station Unit 1
Nichols 2	Nichols Generating Station Unit 2
NMHSD	New Mexico Human Services Department
NMSU	New Mexico State University
NSPM	Northern State Power Company, a Minnesota corporation
NSPW	Northern States Power Company, a Wisconsin corporation

Acronym/Defined Term	Meaning
O&M	operation and maintenance
Operating Companies	NSPM, NSPW, PSCo, and SPS
Plant X 1	Plant X Generating Station Unit 1
Plant X 2	Plant X Generating Station Unit 2
PNM	Public Service Company of New Mexico
PPA	Purchased Power Agreement
PSCo	Public Service Company of Colorado, a Colorado corporation
PUA	Public Utility Act
PUCT	Public Utility Commission of Texas
PwC	PricewaterhouseCoopers LLP
RFP	Rate Filing Package
ROE	return on equity
Rule 530	17.9.530 NMAC
SIP	State Implementation Plans
SPS	Southwestern Public Service Company, a New Mexico corporation
Staff	Commission Utility Division Staff
Tolk	Tolk Generating Station
total company	Total SPS (before jurisdictional allocation)
TNMP	Texas-New Mexico Power Company

Acronym/Defined Term	Meaning
WACC	weighted average cost of capital
Winstead Firm	Austin office of Winstead PC
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Attachment	Description
BAT-1	List of Witnesses (*Filename:* BAT-1.doc)
BAT-2	Total Company Amounts and Jurisdictional Percentages (*Filename:* BAT-2.xlsx)
BAT-3	Prior Case Commitments (*Filename:* BAT-3.doc)
BAT-4	Summary of Proposed Revenue Increase *(Filename:* BAT-4.xlsx)
BAT-5	Summary of Future Test Year Revenue Deficiency Drivers *Non-native format*
BAT-6	Donations and Contributions (*Filename:* BAT-6.xlsx)
BAT-7	Rate Case Expenses (*Filename:* BAT-7.xlsx)
BAT-8	Pricewaterhouse Coopers Memo *Non-native format*

Case No. 22-00286-UT
Direct Testimony
of
Brooke A. Trammell

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Brooke A. Trammell. My business address is 790 South Buchanan Street, Amarillo, Texas 79101.

Q. On whose behalf are you testifying in this proceeding?

A. I am filing testimony on behalf of Southwestern Public Service Company, a New Mexico corporation ("SPS") and wholly-owned electric utility subsidiary of Xcel Energy Inc. ("Xcel Energy"). Xcel Energy is a utility holding company that owns several electric and natural gas utility operating companies, a regulated natural gas pipeline company, and three electric transmission companies.[1]

Q. By whom are you employed and in what position?

A. I am employed by SPS as Regional Vice President, Regulatory and Pricing.

[1] Xcel Energy is the parent company of four utility operating companies: Northern States Power Company, a Minnesota corporation ("NSPM"); Northern States Power Company, a Wisconsin corporation ("NSPW"); Public Service Company of Colorado, a Colorado corporation ("PSCo"); and SPS (collectively, "Operating Companies"). Xcel Energy's natural gas pipeline company is WestGas InterState, Inc. Through a subsidiary, Xcel Energy Transmission Holding Company, LLC, Xcel Energy also owns three transmission-only operating companies: Xcel Energy Southwest Transmission Company, LLC; Xcel Energy Transmission Development Company, LLC; and Xcel Energy West Transmission Company, LLC, all of which are regulated by the Federal Energy Regulatory Commission ("FERC").

Q. Please briefly outline your responsibilities as Regional Vice President, Regulatory and Pricing.

A. I am responsible for providing leadership, direction, and technical expertise related to regulatory processes and functions for SPS. I manage and oversee regulatory staff assigned to ratemaking, planning, policy, and resource transition matters. My duties include the design and implementation of SPS's regulatory strategy and programs, as well as the direction and supervision of SPS's regulatory activities, including oversight of rate filings, administration of tariffs, rules and forms, regulatory case direction and administration, compliance reporting, and complaint responses. I oversee the facilitation of the development of policy issues and advocacy to be included in regulatory filings, as well as the coordination of overall preparation of filed testimony, attachments, schedules, and workpapers to produce filings in accordance with applicable rules and procedures in the regulatory jurisdictions in which SPS operates.

Q. Please describe your educational background.

A. I hold a Master of Business Administration degree from West Texas A&M University along with a Master of Arts degree in Economics with a specialization

in Public Utility Regulation and a Bachelor of Science degree in Agricultural Economics and Agricultural Business from New Mexico State University ("NMSU").

I have completed executive, professional, and technical education programs at the University of St. Thomas – Minnesota and the University of Wisconsin – Madison's Wisconsin Public Utility Institute, as well as attended the American Gas Association's ("AGA") Next Level Leadership Women's program. Over my career, I have also attended numerous professional development programs facilitated by Edison Electric Institute and AGA focused on regulation, ratemaking, and utility accounting topics.

Q. Please describe your professional experience.

A. I have worked within Xcel Energy for over a decade. I began my career with SPS in September 2012 as a Case Specialist. From January 2014 to June 2016, I was Manager, Rate Cases and was responsible for the strategic oversight of SPS's regulatory activity in Texas. Beginning in June 2016, I joined the SPS operating company leadership team as the Director of Customer and Community Relations. In June 2018, I accepted the position of Regional Vice President, Rates & Regulatory Affairs for Public Service Company of Colorado ("PSCo"), the

operating company subsidiary of Xcel Energy in Colorado, and, in June 2022, returned to SPS in my current role as Regional Vice President, Regulatory and Pricing.

I served on the Investor-owned Utility Review Interim Study Committee of Colorado's 73rd General Assembly, testified in multiple Colorado legislative hearings, and for the last several years, I have also served as a member of the NMSU Center for Public Utilities' Advisory Council.

Prior to Xcel Energy, I was employed with PNMR Services Company, a wholly owned subsidiary of PNM Resources, Inc., the parent holding company of Public Service Company of New Mexico ("PNM") and Texas-New Mexico Power Company ("TNMP"). I held various roles in the then pricing and regulatory services department including Rates Analyst II, Senior Rates Analyst, and Project Manager - Federal Regulatory Affairs. In these positions, I provided cost of service, cost allocation, pricing, and rate design analysis to support general rate cases, audited rate calculations and filing packages, and managed regulatory filings and proceedings in the company's retail jurisdictions before managing PNM's regulatory proceedings before the Federal Energy Regulatory Commission and leading strategic regulatory and transmission policy initiatives.

Q. Have you testified before any regulatory authorities?

A. Yes. I have previously submitted written testimony on behalf of SPS in New Mexico Public Regulation Commission ("Commission") Case No. 22-00178-UT, SPS's currently pending grid modernization application. I have also submitted written testimony in Public Utility Commission of Texas ("PUCT") Docket Nos. 42004, 45560, 44498, and 53529 as well as testified in Docket Nos. 42004 and 53034 on behalf of SPS, and submitted written testimony in Docket No. 39362 on behalf of TNMP. On behalf of PSCo, I testified in numerous proceedings before the Colorado Public Utilities Commission on a variety of topics related to PSCo's electric, natural gas, and steam utility services.

II. PURPOSE AND SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. What is the purpose of your direct testimony in this proceeding?

A. Overall, and in support of SPS's Future Test Year[2] rate case filing, I explain why SPS is filing this rate case, discuss various factors impacting SPS's cost of providing electric service, provide an overview of SPS's application and Future Test Year proposal, and summarize SPS's proposed base rate revenue change. Additionally, I demonstrate the alignment of SPS's investments and proposals in this case with New Mexico's energy policy goals and discuss how approval of SPS's Future Test Year proposal supports SPS's continued leadership in New Mexico's clean energy transition. Specifically, I support certain requests of SPS in this proceeding related to several items included in the cost of service as well as areas where supportive cost recovery frameworks are needed to enable SPS to manage costs that are highly variable in nature and outside of its operational control. I conclude my testimony with a summary of the specific relief that SPS is requesting of the Commission. Finally, Attachment BAT-1 to my testimony identifies the witnesses supporting SPS's requested relief and summarizes each witness's testimony.

[2] SPS is using a future test year in this rate case based on the period July 1, 2023 through June 30, 2024.

Q. Why is this Future Test Year filing important?

A. This case is important not only to our employees, customers, communities, and SPS itself, but also for New Mexico's economy and clean energy future. The Future Test Year presented in this filing outlines our investment plans into 2024 to meet the evolving and increasing needs of our customers, support economic vitality of the communities we are honored to serve, as well as lay the foundation for continued progress towards Xcel Energy's and New Mexico's future clean energy goals, consistent with the New Mexico Energy Transition Act.

Q. How does this filing address the needs of customers, communities, and employees, as well as the Commission and regulatory stakeholders?

A. This filing addresses items of importance to our ***customers***: actions we are taking to ensure reliable and resilient service while responsibly planning for the future, decisions and investments we are making to secure overall cost savings for customers, and proposals for additional ways customers can lower their overall household energy costs.

This filing addresses items of importance to our ***communities***: supporting growth in local and regional economies while managing costs through a high inflationary environment, increasing reliability by upgrading neighborhood distribution feeders and aligning voltage levels on older systems so power can be

easily rerouted without outages in response to a variety of system conditions, and providing relative future price certainty for the energy services we provide.

This filing addresses items of importance to our bargaining and non-bargaining ***employees and contractors***: recovery of the costs necessary for the provision of electric service, support for employee programs and compensation levels, and Commission determinations related to the retirement dates of certain generation facilities.

And finally, this filing addresses items of importance to ***the Commission and our regulatory stakeholders***: clarity and transparency into investments to serve increasing and evolving load growth, assurances that we are answering the call from customer and economic growth in the region as well as addressing the needs of our customers in our service territory, and credible information upon which the Commission can have confidence utilizing in its review of and ultimate decision making in this rate case.

Q. Can you please provide a high-level summary of what is driving SPS to file a rate case at this time?

A. Yes. To aid the Commission's and interested parties' review of this rate case filing, I provide a summary discussion of the major factors impacting SPS's overall cost of providing the energy services our customers need and value, including:

1) *Allocation changes:* shifts in customer concentration between retail and wholesale customers on the SPS system, resulting in shifts in the allocation of cost responsibility to SPS's New Mexico retail jurisdiction but also increased allocation of production tax credits and avoided fuel costs savings from SPS's Sagamore and Hale wind facilities to our New Mexico retail customers;

2) *Resilient grid investments to support retail load growth:* new investments to meet increased retail customer load growth in New Mexico along with the increased base rate revenue from that load growth that offsets our revenue ask in this proceeding; and

3) Generation fleet transition: generation unit retirements, proposed generation unit life extensions, and updated modeling information to support retirement decisions in this proceeding that will inform upcoming resource planning processes, ensure SPS's continued ability to reliably lead the clean energy transition, and secure millions of dollars in estimated customer cost savings.

Q. Do you sponsor specific requests of the Commission in this proceeding?

A. Yes. I sponsor or co-sponsor certain Commission filing requirements, including SPS's compliance with obligations from prior cases[3], and Rate Filing Package ("RFP") Schedules B-7, D (all), E-1, G-2, H-2, H-3, H-5, P-12, and Q-2.

I also sponsor a proposal related to a jurisdictional allocation change SPS will experience in the Future Test Year period. Specifically, this proposal relates to the treatment of the payment expected from Lubbock Power and Light ("LP&L") as a result of a Settlement Agreement between SPS and LP&L related to LP&L's plan to terminate its Partial Requirements Power Service Agreement with SPS. The treatment of this change impacts jurisdictional allocation factors utilized in the revenue requirement calculation as well as the calculation of SPS's test year present revenues. SPS's proposed treatment of the LP&L payment seeks to appropriately align the departure of LP&L's remaining wholesale load, which will increase the allocation of federal production tax credits and avoided fuel cost benefits from SPS-owned wind facilities to New Mexico retail customers, with the reflection of the jurisdictional allocation change in base rates in this proceeding.

[3] The Commission has recently amended 17.1.2.10 NMAC to require utilities to provide information regarding compliance with prior orders in an annual report instead of in base rate filings. SPS is providing the information in this case and will also provide it as a part of SPS's annual report.

I also sponsor certain proposed adjustments to SPS's base rate revenue requirement calculation, including:

- SPS's requests related to the depreciable service lives of certain generation assets. SPS proposes to retire and abandon the Plant X Generating Station Unit 1 ("Plant X 1"), Plant X Generating Station Unit 2 ("Plant X 2"), and Cunningham Generating Station Unit 1 ("Cunningham 1") in 2023, authority to retire and abandon coal operations at the Tolk Generating Station ("Tolk") by December 31, 2028, and authority to extend the depreciable service lives of Nichols Generating Station Unit 1 ("Nichols 1") and Nichols Generating Station Unit 2 ("Nichols 2") until 2028 and 2027, respectively. In accordance with these proposed changes, SPS has appropriately aligned the depreciable service lives of the units in the base rate revenue requirement with those dates.
- SPS's proposed treatment of cash working capital;
- The reasonableness of costs included in the revenue requirement related to SPS's professional and industry dues, donations, and contributions; and
- The level of rate case expenses included in base rates.

Importantly, I also address the broader need for the establishment of supportive recovery frameworks to enable SPS to manage certain cost pressures that are significantly variable in nature and outside its direct control. These pressures are driven by environmental regulations, natural gas prices, tax assessments, or taxing authorities and a result of increased customer demand. Specifically,

- SPS's request to recover the cost of environmental credit allowance purchases through the Fuel & Purchased Power Cost Adjustment Clause

("FPPCAC"), consistent with SPS's regulatory treatment in its other jurisdictions and in light of likely implications of the U.S. Environmental Protection Agency's ("EPA") proposed Good Neighbor Rule;

- SPS's request for authorization to defer incremental operational and maintenance costs associated with the continued flexible dispatch of Tolk, consistent with the revised annual production targets under the Tolk Optimization Plan;

- SPS's request for authorization to defer incremental regulatory expenses recorded in FERC Account No. 928 above levels included in the cost of service and record the costs in a regulatory asset; and

- SPS's request to establish a property tax tracker to track property tax expenses incurred above the Future Test Year baseline amount for recovery in future rate proceedings.

Finally, I support SPS's request for authorization to defer costs associated with Technosylva software and record the costs in a regulatory asset and also SPS's request to establish an Electric Affordability Program to provide supplemental customer assistance to income-qualified residential customers in our service territory.

Q. How were New Mexico retail jurisdictional amounts in your direct testimony and attachments calculated?

A. Throughout my direct testimony, I quantify the expense amounts and asset balances that I may address on a New Mexico retail basis, based upon the jurisdictional allocation percentages SPS witness Stephanie N. Niemi uses to develop the New

Mexico retail revenue requirement.[4] Ms. Niemi is responsible for applying the jurisdictional allocation percentages to the appropriate cost components in the cost of service study. I conferred with Ms. Niemi to determine these New Mexico retail jurisdictional amounts presented in my testimony and attachments. If the percentages used to allocate amounts to the New Mexico retail jurisdiction change, those new allocation percentages will need to be applied to the total company numbers[5] to derive updated New Mexico retail amounts. Attachment BAT-2 contains the total company numbers and the jurisdictional percentages used to derive the New Mexico retail amounts in my testimony.

Q. Has SPS complied, or is SPS in the process of complying, with the Commission's final orders issued during the preceding five-year period?

A. Yes. Over the last five calendar years (2017–2021), various reporting and program obligations have been imposed on SPS by the Commission in a variety of cases. SPS's cases during the past five years have included: (1) annual renewable energy procurement filings; (2) energy efficiency program filings; (3) securities and related financial filings; (4) purchased power agreement ("PPA") approval filings;

[4] SPS's New Mexico retail revenue requirement is provided in Attachment SNN-6 to Ms. Niemi's direct testimony.

[5] Total SPS (before jurisdictional allocation)

(5) certification of generation and transmission facilities; (6) FPPCAC filings; and (7) base rate cases. SPS's compliance matters, commitments, and obligations from prior cases are detailed in Attachment BAT-3 to my testimony.

Q. Were Attachments BAT-1 through BAT-7 prepared by you or under your direct supervision or control?

A. Yes.

Q. Is Attachment BAT-8 a true and correct copy of the document you have represented it to be?

A. Yes.

Q. Do you incorporate the RFP schedules that are sponsored or co-sponsored by you into your testimony?

A. Yes. I sponsor or co-sponsor RFP Schedules B-7, D (all), E-1, G-2, H-2, H-3, H-5, P-12, and Q-2 and incorporate them into my testimony.

III. ALIGNMENT WITH NEW MEXICO'S ENERGY POLICY GOALS

Q. What will you discuss in this section of your testimony?

A. In this section of my testimony, I discuss SPS's demonstrated progress towards the requirements of the Energy Transition Act and how approval of SPS's Future Test Year proposal supports SPS's continued leadership in New Mexico's clean energy transition. SPS has and will continue to invest in infrastructure to ensure its transmission and distribution grid is ready for the energy transition that will occur in the latter half of this decade. Thus, timely recovery of these costs is essential to ensuring SPS has the sound financial foundation needed for our company to affordably meet customer demand and transition its generation fleet.

Q. Has New Mexico adopted a public policy of promoting clean energy?

A. Yes. The New Mexico Legislature has established a public policy of promoting increasing levels of renewable energy penetration and further supporting the clean energy transition through a variety of enactments that include the Renewable Energy Act (NMSA 1978, §§ 62-16-1 through -10), Energy Transition Act (NMSA 1978, §§ 62-18-1 through -23) Efficient Use of Energy Act (NMSA 1978, §§ 62-17-1 through -11), Grid Modernization Statute (NMSA 1978, § 62-8-13), and Transportation Electrification Statute (NMSA 1978, § 62-8-12). Collectively, these statutes support utility investments in grid modernization and clean energy

resources, as well as utility investments that support the electrification of the transportation sector. These statutes also provide requirements and mechanisms for utilities to implement renewable energy initiatives, adopt technology that facilitates energy savings, reduce carbon emissions, and support customer adoption of electric vehicles. The Commission has adopted rules related to these statutes that similarly prioritize renewable energy and the clean energy transition and is currently considering rules related to the filing of Transportation Electrification Plans by electric utilities and possibly Grid Modernization Plans as well.

Q. What is New Mexico's trajectory for the clean energy transition?

A. The requirements of the Energy Transition Act include milestones for percentages of New Mexico retail sales served by renewable energy through 2040 with an ultimate goal that all New Mexico retail sales are served by carbon-free resources by 2045.

Q. What progress has SPS made with regard to the milestones outlined in the Energy Transition Act?

A. Currently, approximately 40% of SPS's retail sales in New Mexico are served by renewable energy, placing SPS several years ahead of the Energy Transition Act's January 1, 2025 requirement. While SPS's proposed accelerated retirement of coal operations at Tolk is driven by advantageous customer cost savings, and it's revised

Tolk Optimization Plan is reflective of the ongoing need to manage scarce remaining water resources in the region, retiring coal operations at Tolk by December 31, 2028 will further advance the clean energy transition in New Mexico. Due to the passage of the Inflation Reduction Act, which includes sweeping tax reform that supports clean energy technologies, SPS expects that a diverse portfolio of generation technologies will replace the nameplate generation of Tolk, along with the nameplate capacity of other generating resources that will retire on SPS's system by 2030. Future replacement technologies will likely include significant levels of wind, solar, storage, and additional flexible dispatchable generation. As I discuss later in my testimony, and as detailed by SPS witness Ben R. Elsey, retiring coal operations at Tolk in 2028 as opposed to 2032, along with revising the Tolk Optimization Plan to increase the annual generation of the Tolk units, is projected to save approximately $100 million on a present value of revenue requirement basis.

Q. What are the key regulatory policy considerations that will help ensure a successful generation fleet transition for SPS?

A. In order to facilitate this clean energy transition, SPS must secure timely decisions related to replacement generation needs and acquisition processes in integrated resource planning processes and other associated regulatory proceedings.

Additionally, the electrical grid must be ready for this generation fleet transition. SPS has been prudently planning and expanding its transmission and distribution system to support customer growth but also to support the future needs and capabilities of the grid. Those necessary investments are presented for recovery in this base rate case proceeding and SPS's ability to recover these costs in a timely manner is critical to ensuring we have the financial footing to continue reliably and affordably leading the clean energy transition. This Future Test Year rate case, which presents our costs through June 30, 2024, is a critical component of the future of clean energy development in New Mexico.

Q. How does SPS's use of a future test year support New Mexico's energy policy and regulatory goals?

A. A supportive regulatory framework with timely cost recovery allows SPS to implement technology and programs that facilitate the clean energy transition in accordance with New Mexico public policy. For example, since 2020 and through the end of the Future Test Year, SPS has and will continue to make significant investments to expand the capacity of our transmission and distribution facilities to meet customer load growth, invest in distribution infrastructure that will increase the reliability and resiliency of the grid, as well as invest in information technology ("IT") solutions that will increase the operability and efficiency of our systems. As

SPS is spending significant capital in making those investments, it is reasonable and appropriate for SPS to be able to recover the associated costs without the regulatory lag that occurs when a rate case is based on a historical test year. By using a future test year, SPS can recover costs in a timely manner and, as a result, provide programs and services that benefit customers and the public and that have been prioritized by the Legislature and the Commission.

Q. Does SPS's use of a future test year likely reduce the number of rate cases SPS would otherwise file and thereby conserve resources of SPS, the parties, and the Commission?

A. Yes. SPS expects that the use of a future test year, as well as supportive regulatory treatment for variable costs outside of SPS's direct control, would result in fewer base rate case filings than would be necessary if SPS's filings were based on historic test years. Because rate case filings consume significant resources, reducing the number of rate cases SPS must file benefits SPS and its customers, the parties, and the Commission.

IV. OVERVIEW OF SPS'S APPLICATION AND REQUESTS OF THE COMMISSION

Q. What topics will you address in this section of your testimony?

A. In this section of my testimony, I discuss the components of SPS's rate filing, address how SPS has met the requirements of the Commission's future test year rule, summarize the revenue change as a result of SPS's requests in this proceeding, discuss the primary cost drivers from the Base Period and Adjusted Base Period through the Linkage Period and ending with the Future Test Year.

Q. Please describe the components of SPS's rate filing.

A. SPS's rate filing is comprised of a Base Period, Adjusted Base Period, Linkage Period, and Future Test Year as allowed under Sections 62-8-7, 62-3-3(P), and 62-6-14(D) of the Public Utility Act and 17.1.3 NMAC ("Future Test Year Rule"). The information supporting the Future Test Year revenue requirement has been developed using 17.9.530 NMAC ("Rule 530") and the Future Test Year Rule.

- *Base Period*. The Base Period is July 1, 2021 through June 30, 2022 ("Base Period"). The data presented as the Base Period in this case is unadjusted raw data from the books of SPS, recorded for the Base Period, in accordance with the Future Test Year Rule.
- *Adjusted Base Period*. The Adjusted Base Period is July 1, 2021 through June 30, 2022 (Adjusted Base Period) and includes adjustments such as unblending depreciation rates for plant, accounting annualizations and normalizations, and weather normalization of revenues. SPS witnesses Stephanie N. Niemi and

Richard M. Luth discuss these adjustments in more detail in their testimony.

- *Linkage Period*. The Linkage Period is July 1, 2022 through June 30, 2023 ("Linkage Period").
- *Future Test Year*. The Future Test Year is July 1, 2023 through June 30, 2024, and includes: capital additions that have been placed in service since July 1, 2021 and capital additions that will be placed in service through June 30, 2024; and expenses for the Adjusted Base Period with known and measurable adjustments, including adjustments for labor-related increases (compensation and benefits); normalization of storm damage expenses; budgeted non-mine non-freight coal procurement costs for the FutureTest Year;

Q. Does SPS's filing meet the requirements of the Future Test Year Rule?

A. Yes. In accordance with the rule, SPS has fully explained and justified its Future Test Year costs, has broken down costs by cost center and elements of cost on a jurisdictional basis, and has explained material changes between the Adjusted Base Period and Future Test Year.

SPS has also provided data in fully functional electronic format that is electronically linked to SPS's model. These electronic files are stored on a sharefile site and are available to the parties, Commission, and hearing examiner.

Q. What percentage change is SPS requesting with respect to base rates?

A. SPS's requested New Mexico retail base revenue increase, excluding fuel and purchased power and any riders, is $77,636,954. This represents an approximate 16.43% in base revenues and an approximate 10.18% in total revenue, for the

Future Test Year, as shown on Attachment BAT-4. Base rate revenue increases are necessary to ensure recovery of and a reasonable return on SPS's capital investment and to enable the fuel component of SPS's New Mexico retail customer bills to be lower than it would be absent SPS's investment in economical renewable generation. As also shown on Attachment BAT-4, the estimated benefits of federal production tax credits and avoided fuel costs in the Future Test Year associated with SPS's Hale & Sagamore Wind Projects exceed the base rate revenue change requested in this proceeding.

Q. What rate of return is SPS requesting in the case?

A. In this case, SPS is requesting an overall weighted average cost of capital ("WACC") of 7.85% for the Future Test Year, which reflects an equity ratio of 54.70% percent, an authorized return on equity ("ROE") of 10.75%, and a cost of debt of 4.34% percent. In contrast, if no changes are made to SPS's rates, then in the Future Test Year, SPS would earn a 5.38% rate of return.[6] As discussed by SPS witness Patricia L. Martin, financing costs have increased significantly in 2022. As of October 14, 2022, treasury rates have risen approximately 209 basis points and credit spreads have widened by approximately seven basis points since the end of

[6] Refer to Attachment RML-4 to the Direct Testimony of Richard M. Luth.

2021.[7] The result is that debt is more expensive to issue and access to capital has become somewhat more limited,[8] where year-over-year issuances have decreased approximately 10 percent with investors demanding a higher premium. In these circumstances, it is important that SPS receive a return that is sufficient to attract investment.

Q. What are the primary factors driving SPS's need for a base rate revenue change?

A. As I will discuss in more detail below, the major factors driving the need for this case are: (1) changes in jurisdictional allocations resulting from the departure of SPS's wholesale sales; (2) retail load growth and investment to serve SPS's New Mexico retail customers; and (3) changes related to SPS's generation fleet transition. Attachment BAT-5 is a graph that summarizes the change in SPS's New Mexico retail base rate revenue requirement established in SPS's last base rate case, Case No. 20-00238-UT, to the Future Test Year.

[7] Source: federalreserve.gov; Source: Bloomberg. Spread is for BBB Rated Utilities, such as SPS. The increase in "A" rated utilities Spreads through the same time period (December 31, 2021 through October 14, 2022) is approx. 44 basis points.

[8] YTD October 14, 2021 utility debt issuance = $96.5 billion vs. YTD October 2022 issuance = $89.2 billion. Source: Bloomberg.

A. Changes in Jurisdictional Allocations

Q. Please generally describe the changes that have occurred in the allocation of costs among SPS's New Mexico retail, Texas retail, and wholesale customers.

A. Between the Base Period and the Future Test Year, significant changes occur to the allocation of costs among SPS's New Mexico retail, Texas retail, and wholesale customers. Drivers for the change in the allocation of costs include the transfer of LP&L's remaining load to the Electric Reliability Council of Texas ("ERCOT") and the decline in SPS's wholesale sales due to the New Mexico cooperatives becoming partial requirements customers of SPS in June of 2022. SPS witness Richard M. Luth has incorporated these changes into his calculated jurisdictional allocation factors used to apportion costs among SPS's regulatory jurisdictions. In addition, the greater continued load growth that SPS has experienced in its New Mexico service territory, compared to its Texas service territory, also impacts the allocation of production and transmission investment and associated expenses to the New Mexico retail jurisdiction. With changes in cost responsibility also come associated changes in the allocation of customer benefits. As I discuss later in my testimony, although New Mexico retail receives a larger allocation of production cost responsibility as a result of the wholesale load departures, SPS's New Mexico retail jurisdiction will also receive a larger allocation of customer cost savings from

projects like SPS's owned wind generation facilities through the FPPCAC following the departure of this wholesale load.

Q. Have SPS's wholesale sales declined?

A. Yes. Historically, wholesale power sales and transmission services, which are regulated by FERC pursuant to the Federal Power Act, have been a significant business segment for SPS. However, SPS's wholesale sales have steadily declined in recent years as a result of agreements that SPS entered into with its wholesale customers during the period from 2007 through 2010.[9] On June 1, 2022, the New Mexico cooperatives that have been served by SPS under full requirements contracts have transitioned to partial requirements service.

[9] SPS ended the contractual wholesale power sales to West Texas Municipal Power Agency in accordance with the agreements approved in Case Nos. 04-00426-UT and 05-00341-UT and reduced its wholesale sales to four New Mexico electric cooperatives in accordance with the agreement approved in Case No. 10-00074-UT. In the Matter of the Petition by the Staff of the New Mexico Public Regulation Commission for a Review of the Operations of Southwestern Public Service Company's Fuel and Purchased Power Cost Adjustment Clause, Case No. 04-00426-UT, and In the Matter of Southwestern Public Service Company's Application for Approval of (1) Continued Use of Its Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC") Using a Monthly Adjustment Factor Pursuant to NMPRC Rule 550, (2) The Existing Variance From Rule 550.14(A), and (3) The Report Regarding Collections Under the Previous Annual FPPCAC Adjustment Clause in Effect During the Period October 2001 Through January 2002, and Collections Under the Existing Monthly FPPCAC for the Period February 2002 Through May 2005, Case No. 05-00341-UT, Final Order Approving Stipulation at 5 (Aug. 26, 2008); In the Matter of the Application of Southwestern Public Service Company for Approval of System Average Cost Assignments in the Replacement Power Sales Agreements with Central Valley Electric Cooperative, Inc., Farmers' Electric Cooperative of New Mexico, Inc., Lea County Electric Cooperative, Inc., and Roosevelt County Electric Cooperative, Inc., in Accordance with the Final Orders in Case Nos. 04-00426-UT and 05-00341-UT, Case No. 10-00074-UT, Final Order Adopting Certification of Stipulation at 2 (Aug. 19, 2010).

Q. Do the reductions in wholesale sales volumes affect SPS's retail customers?

A. Yes. Those reductions affect SPS's retail customers in three ways. First, reducing wholesale sales provides for greater flexibility in system dispatch. As wholesale sales decline, lower-cost generating resources may be used to serve retail customers, which has the effect of lowering the system average fuel costs paid by retail customers.

Second, the reduction in wholesale sales enables SPS to avoid or defer the need to either construct or acquire new generating resources to serve these wholesale loads. Historically, this has benefited SPS's retail customers through the deferral of investment in new generation capacity.

Finally, the reduction in wholesale sales means that a greater share of SPS's costs will be allocated to the New Mexico and Texas retail jurisdictions. In this case, SPS has adjusted the jurisdictional allocation factors to reflect the departure of LP&L load and reduced wholesale sales to the New Mexico cooperatives, which has the effect of shifting cost responsibility to the remaining retail jurisdictions. However, as mentioned above, departing wholesale load will also result in increased allocation of cost savings associated with the Hale and Sagamore wind facilities to SPS's New Mexico retail customers.

B. Retail Load Growth and Investment to Serve Customers

Q. Is SPS experiencing retail load growth in its New Mexico service area?

A. Yes. As discussed by SPS witness John M. Goodenough, during the Adjusted Base Period (July 1, 2021 through June 30, 2022), the total number of SPS's New Mexico retail customers grew by 1.0%, and retail sales grew by 14.2%, after accounting for normal weather. During the Linkage Period (July 1, 2022 through June 30, 2023), the number of SPS's retail customers is expected to grow by 0.9% and retail sales are expected to grow 7.1%. During the Future Test Year, the number of SPS's retail customers is expected to grow by 1.1% and retail sales are expected to grow 9.4%. The expected growth in retail sales is largely driven by growth in the Commercial and Industrial classes due to expansion of the oil and gas industry in southeast New Mexico.

Q. Is SPS making capital investment to accommodate its load growth?

A. Yes. SPS is making significant capital investment to accommodate its New Mexico retail load growth, particularly with respect to its distribution and transmission systems. During the Base Period, the capital additions closed to plant-in-service totaled $185,506,366 on a New Mexico retail basis ($560,575,902 total company). The capital additions that are expected to close to plant-in-service balance during the Linkage Period total $213,714,744 on a New Mexico retail basis ($650,487,042

total company), and the capital additions that are expected to close to plant-in-service balance during the Future Test Year Period total $210,230,963 on a New Mexico retail basis ($604,754,821 total company). The total amount of SPS's capital additions, $1.82 billion (total company) and $609.5 million (New Mexico retail), is similar in magnitude to those requested in its last base rate case, Case No. 20-00238-UT, but the amount of distribution and general capital investment requested has increased while production and transmission investment has decreased.

Q. What amount of new capital investment does SPS seek to recover in this case?

A. SPS seeks to begin recovering approximately $609.5 million, on a New Mexico retail basis, of new capital investment that SPS either placed in service or expects to place in service during the period from July 1, 2021 through June 30, 2024. These capital investments were and will be prudently incurred for the benefit of SPS's customers, support and promote economic development within SPS's service area, and maintain and improve SPS's operations.

Q. Please summarize the new capital investment by function and by time period.

A. Table BAT-1 contains a summary of the amount of capital additions placed in service or to be placed in service on a New Mexico retail basis.

Table BAT-1
New Mexico Retail Amount Placed in Service

Function	Additions to Plant in Service July 1, 2021 – June 30, 2022	Additions to Plant in Service July 1, 2022 – June 30, 2023	Additions to Plant in Service July 1, 2023 – June 30, 2024	Total Requested Additions to Plant in Service
Production	$ 15,934,794	$ 33,309,150	$ 30,433,271	$ 79,677,215
Transmission	$ 66,439,299	$ 77,589,738	$ 49,360,900	$193,389,937
Distribution	$ 69,165,217	$ 53,017,339	$ 78,445,677	$200,628,233
General	$ 21,525,786	$ 34,740,389	$ 37,266,525	$ 93,532,700
Intangible	$ 12,441,269	$ 15,058,128	$ 14,724,590	$ 42,223,987
Total	$185,506,366	$213,714,744	$210,230,963	$609,452,073

Q. Of the $1.82 billion total company capital investment identified in Table BAT-1, what is the dollar amount that SPS has invested within the State of New Mexico?

A. Of the total company capital investment identified above, SPS has invested approximately $448 million (total company) physically located within the State of New Mexico. These investments drive incremental costs like property taxes, which are determined and assessed by state, county, and local taxing authorities. As SPS continues to invest in infrastructure to meet the customer demand, incremental expenses associated with that investment become increasingly difficult to manage if SPS's rates do not reflect recovery of these costs. I discuss SPS's request to

establish a mechanism to track incremental property tax expense for recovery in future rate proceedings later in my testimony.

Q. Is SPS including in rate base capital investment associated with the implementation of advanced metering infrastructure?

A. Yes. Although SPS's current grid modernization case is currently pending before the Commission in Case No. 22-00178-UT, SPS also has included its proposed grid modernization projects in this rate case. If SPS's application in Case No. 22-00178-UT is approved, SPS will reflect any necessary adjustments in this case based on that approval. Based on the costs requested in Case No. 22-00178, any such adjustment would not reach the 5% threshold set out in NMAC 17.1.3.19(A).

Q. Is SPS including in rate base capital investment associated with the implementation of community solar programs?

A. No. Those costs will be addressed in a future proceeding.

C. Generation Fleet Transition

Q. Please explain how the transition of SPS's generation fleet impacts SPS's New Mexico this case.

A. As discussed above, SPS is leading the clean energy transition and has historically met or exceeded the renewable energy requirements of the Energy Transition Act. The specific steps SPS is taking in this case related to the energy transition include

upcoming planned generation unit retirements and SPS's proposal to accelerate the retirement of coal operations at Tolk from 2032 to 2028. Specifically, in this proceeding, SPS seeks approval of the revised retirement date for Tolk coal operations, authority to retire and abandon Plant X 1, Plant X 2, and Cunningham 1 in 2023, approval to extend the service lives of Nichols Units 1 & 2 from 2022 and 2023 to 2028 and 2027 respectively, as discussed by Mr. Elsey, and approval of new depreciation rates reflective of these retirement dates for inclusion in SPS's Future Test Year revenue requirement calculation. These requests, as well as the results of SPS's updated Tolk Analysis and revised Tolk Optimization Plan, are discussed in more detail later in my testimony.

V. PROPOSED TREATMENT OF LP&L SETTLEMENT PAYMENT

Q. What do you discuss in this section of your testimony?

A. In this section of my testimony, I discuss SPS's proposed treatment of a settlement between SPS and LP&L to terminate a partial requirements power sale agreement and a transmission letter agreement so that LP&L can transfer its remaining load to ERCOT. In particular, the settlement requires payment from LP&L to SPS to offset the increased allocation of costs to SPS's New Mexico retail and other customers as a result of LP&L moving its load to ERCOT. I will summarize the settlement agreement between SPS and LP&L and present SPS's proposal for crediting the New Mexico jurisdictional portion of the settlement payment to customers.

Q. What is LP&L and what is its relationship to SPS?

A. LP&L is a municipally-owned electric utility that serves approximately 640 MW of peak load almost entirely within the City of Lubbock, Texas. Although LP&L was a full-requirements wholesale customer of SPS in the past, LP&L currently purchases power from SPS under a partial requirements contract. Beginning June 1, 2022, the contract amount is 176 MW. In addition, LP&L is a wholesale network transmission customer of SPS.

Q. Please briefly explain why SPS and LP&L entered into the settlement agreement.

A. LP&L notified SPS of its intent to seek approval to transfer its entire remaining load from the Southwest Power Pool to ERCOT. If LP&L completes its move to ERCOT, then LP&L will no longer need the partial requirements power service being provided by SPS. Therefore, LP&L sought, and after a lengthy settlement process, SPS agreed, to terminate the partial requirements power supply contract and the transmission letter agreement in exchange for a termination payment as part of the settlement agreement.

Q. Please summarize the settlement agreement.

A. The settlement agreement allows, among other things, for LP&L to terminate the partial requirements power supply contract provided that LP&L and SPS have received all necessary approvals from the PUCT and FERC. To effectuate the termination, LP&L is required to make a payment (or series of payments) to SPS. As stated in the settlement agreement, 88.92% of all payments by LP&L constitutes compensation for power sales-related shifted costs under the PPA. The termination payment's primary purpose is to compensate SPS for wholesale power sales revenue it will lose due to the cancellation of the partial requirements power service

agreement with LP&L. The other 11.08% of the termination payment is to compensate SPS for the loss of transmission related revenue when LP&L moves its remaining transmission load to ERCOT.

Q. Please describe the amount of the contract termination payment and the method in which LP&L will remit the payment to SPS.

A. In accordance with Section 2 of the Settlement Agreement, LP&L is required to either pay SPS a lump sum payment of $77,500,000, subject to adjustment based on the actual transition date, or LP&L may choose to make up to six annual payments. Each year, LP&L can either pay the remaining lump-sum balance or pay an annual payment. If LP&L chooses to pay annual payments, LP&L pays SPS interest on the remaining balance.

Q. Please describe the lost revenue and rate impact associated with the termination of the partial requirements power supply contract.

A. Today, SPS receives wholesale revenue from LP&L for production and transmission service. When SPS's current effective base rates were determined, LP&L's production contract demand and transmission 12-coincident peak ("12-CP") demand were incorporated into the jurisdictional allocation factors used to allocate production and transmission costs among SPS's regulatory jurisdictions.

Accordingly, payments received under the partial requirements power supply contract and network transmission service agreement compensate SPS for production and transmission costs allocated to LP&L. When LP&L moves its remaining load to ERCOT, SPS will no longer receive that assumed revenue and will be under-recovering its base rate costs in its retail jurisdictions until the underlying jurisdictional allocation factors used to allocate production and transmission costs are updated to reflect the loss of the LP&L loads. Currently, LP&L has stated its plan is to move its remaining load to ERCOT on June 1, 2023. So, SPS will be under-recovering its production and transmission costs from June 1, 2023 until such time as new New Mexico retail base rates are established in this case reflecting the fact that the LP&L production demand and transmission 12-CP demand is no longer incorporated in SPS's jurisdictional allocation of costs.

Q. If there is no disposition as to treatment of the payment(s), what would happen to the proceeds of the payments?

A. Without any determination by the Commission as to ratemaking treatment of the change in cost allocation and treatment of the payment(s), SPS would retain the full proceeds of the LP&L contract termination payment.

Q. Is SPS instead proposing a means for addressing timing and rate impacts?

A. Yes. SPS is proposing to credit a pro-rata share of the payments to customers through the FPPCAC based on a three-year amortization of the payment(s), with: (a) the three-year period amortization period beginning the day SPS receives the first payment from LP&L; and (b) the FPPCAC credits beginning concurrently with the effective date of new SPS base rates that do not reflect LP&L in the jurisdictional allocators. Crediting the payment over three years balances the cost impacts to SPS and its customers by keeping rates fairly neutral for that three-year period.

Q. Please explain why SPS's proposal to amortize the credit to customers over a three-year period beginning when LP&L remits the termination payment to SPS is reasonable.

A. As I discussed above, until new base rates for SPS's New Mexico retail customers become effective as a result of this application, SPS will be under-recovering its production and transmission costs. Again, LP&L currently expects to move its remaining load to ERCOT on June 1, 2023. This means, all else being equal, SPS will be under-recovering its production and transmission costs that were previously allocated to LP&L as of that date. SPS's retention of the termination payment from

the payment date until the Commission approves new rates in this case compensates SPS for its under-collection during this interim period.

A three year amortization period is sensible because it reasonably tracks the revenue impact of LP&L resulting in overall rate stability for SPS's New Mexico customers over this period.

Q. Why is SPS proposing to flow the LP&L credit to New Mexico retail customers through the FPPCAC?

A. This proposal is consistent with the Stipulation approved by the Commission in Case No. 20-00238-UT, which provided that SPS would distribute the prior settlement payment received from LP&L to customers through the FPPCAC over a twelve-month period. Further, SPS believes it allows the Commission to track that New Mexico customers receive the appropriate amount of the LP&L termination payment.

Q. How will the monthly credits to the FPPCAC be administered?

A. After the New Mexico jurisdictional portion of the contract termination payment is determined, SPS will divide that amount by 36 to determine the applicable monthly value. For each calendar month beginning with the effective date of new SPS New Mexico base rates that do not reflect LP&L in the jurisdictional allocators and ending thirty-six (36) months after the date SPS receives the first payment from

LP&L, SPS will incorporate the monthly credit on its fuel and purchased power reports by adding a line showing the reduction to New Mexico jurisdictional fuel and purchased power costs. If the effective date of base rates in this case is anything other than the first day of a calendar month, the credit to the FPPCAC for that month will be prorated to begin on the same day base rates are effective.

Q. How does SPS propose to allocate the portion of the Contract Termination Payment to be credited to customers among SPS's retail and wholesale jurisdictions?

A. SPS proposes to allocate the 88.92% of the contract termination payment associated with production among its New Mexico, Texas, and FERC jurisdictions based on the 12-CP production demand percentages for the 12 months ended the full calendar month preceding the payment date. These 12-CP demands shall exclude the LP&L partial requirements power service agreement contract amounts. For example, if the payment date is June 15, 2023, SPS would use the 12-CP production demand percentages for the 12 months ended May 31, 2023 (excluding LP&L) to allocate the termination payment. This allocation is consistent with the Commission-approved methodology used to allocate demand-related production costs among its jurisdictions.

Similarly, SPS proposes to allocate 11.08% of the contract termination payment associated with the transmission letter agreement among its New Mexico, Texas, and FERC jurisdictions based on the 12-CP transmission demand percentages for the 12 months ended the full calendar month preceding the payment date. Similar to production, these 12-CP demands shall exclude the LP&L network transmission loads. This proposed allocation is consistent with SPS's Commission-approved allocation of transmission demand-related costs among its jurisdictions.

Q. Is SPS's proposed accounting treatment of LP&L's departure just and reasonable?

A. Yes. For the reasons discussed above, SPS's proposal balances the interests of SPS and its customers.

VI. PROPOSED CHANGES IN GENERATION UNIT SERVICE LIVES

Q. What will you discuss in this section of your testimony?

A. In this section of my testimony, I discuss SPS's proposal to retire coal operations at Tolk and for authority to abandon associated generation facilities by December 31, 2028, four years earlier than the currently approved retirement date of December 31, 2032. I also discuss SPS's request to abandon the Plant X Unit 1, Plant X Unit 2 in 2023, and Cunningham Unit 1 in 2023. SPS witness Ben Elsey discusses SPS's proposal to extend the service lives of Nichols Units 1 and 2 from 2022 and 2023 to 2028 and 2027, respectively.

A. Abandonment and Service Life of the Tolk Generating Station

Q. What will you discuss in this subsection of your testimony?

A. I will explain and support SPS's request to abandon coal operations at Tolk by December 31, 2028 and align the remaining service life with that date.

Q. Do any other witnesses discuss SPS's request to retire and abandon Tolk in 2028?

A. Yes. Mr. Low discusses the status of Tolk and the capital expenditures that would be required to maintain and operate the unit until the end of its current service life, and Mr. Belt describes the water limitations impacting Tolk. Mr. Elsey discusses the updated Tolk Analysis, which estimates approximately $100 million in

customer cost savings on a present value of revenue requirements basis due to the earlier retirement of Tolk's coal operations. As explained by Mr. Moeller and Mr. Dane A. Watson, SPS proposes to fully depreciate Tolk by the proposed abandonment date. Mr. Elsey's analysis of the customer cost savings incorporates the accelerated depreciation costs associated with Tolk's proposed earlier retirement.

Q. Please briefly describe the Tolk Generating Station Units.

A. Tolk Unit 1 began commercial operation in 1982, and Tolk Unit 2 began commercial operation in 1985. The Tolk units originally had 35-year approved service lives in New Mexico. Under those originally approved service lives, Tolk Unit 1 would have been retired in 2017, and Tolk Unit 2 would have been retired in 2020. In subsequent rate cases, however, the service lives of both units were extended from 35 years to 60 years. Thus, before the parties reached agreement on a 2032 retirement date in Case No. 19-00170-UT, Tolk Unit 1 was scheduled to retire in 2042, and Tolk Unit 2 was scheduled to retire in 2045. In Case No. 20-00238-UT, the parties entered into an Uncontested Stipulation that authorized SPS to determine Tolk's depreciation rates based on a remaining useful life through December 31, 2032.

Q. Has SPS adopted a plan to optimize generation output at Tolk?

A. Yes. SPS implemented its Tolk Optimization Plan beginning in April 2018. The Tolk Optimization Plan includes two distinct phases: the first phase included reducing the output of the Tolk Units during the off-peak months (October-May) and economically operating the Tolk units during the summer peak months (June-September); the second phase, which was implemented in early 2021, included the installation of synchronous condensers at the units to mitigate voltage stability concerns, allowing both units to be off-line in off-peak (October-May) months and economically dispatched during the Summer peak months (June-September).

Q. Are the Tolk Units always operated as synchronous condensers during off-peak months?

A. No. When it is most beneficial to customers, the Tolk Units have also been operated as generators in the off-peak months. For example, Tolk was converted to a generating facility during Winter Storm Uri. More recently, the Tolk Units have been operated as generators in off-peak months to offset a sharp increase in natural gas prices. In providing a more flexible approach, SPS has been able to lower the fuel costs the company would have otherwise incurred if the Tolk units were not available.

Q. How has Tolk's generation output been optimized under the Tolk Optimization Plan?

A. Tolk is flexibly operated in generator mode when SPS experiences higher gas prices but manages generation output to a target of 2,400 gigawatt-hours ("GWhs") per year.

Q. Why does SPS propose to retire and abandon Tolk in 2028?

A. As discussed by Mr. Elsey, SPS has performed an updated economic analysis that shows it is cost-effective for SPS to retire Tolk by December 31, 2028 instead of by December 31, 2032 due to a combination of increased natural gas prices and the Inflation Reduction Act's extension of production tax credits for various clean energy resources, which are expected to lower the cost of future replacement power. However, as discussed by Mr. Belt, water limitations continue to impact operation of Tolk. Accordingly, it is still necessary to reduce the operations of Tolk in order to preserve its scarce water resources and SPS has adjusted the annual production target in its revised Tolk Optimization Plan from 2,400 GWhs to 4,000 GWhs in order to maximize value while continuing to manage the declining groundwater well productivity in the Tolk wellfield over the shortened remaining life of the plant.

As the updated Tolk Analysis shows, the revised Tolk Optimization Plan (reflective of the 4,000 GWh annual production target) is estimated to save customers approximately $100 million compared to a 2032 retirement scenario on a present value of revenue requirements basis.

Q. What standard applies to an application to abandon facilities used to provide utility service?

A. I am not an attorney, but it is my understanding that abandonment of utility facilities is governed by NMSA 1978 § 62-9-5, which provides as follows:

> No utility shall abandon all or any portion of its facilities subject to the jurisdiction of the commission, or any service rendered by means of such facilities, without first obtaining the permission and approval of the commission. The commission shall grant such permission and approval, after notice and hearing, upon finding that the continuation of service is unwarranted or that the present and future public convenience and necessity do not otherwise require the continuation of the service or use of the facility; . . . In considering the present and future public service and convenience and necessity, the commission shall specifically consider the impact of the proposed abandonment of service on all consumers served in this state, directly or indirectly, by the facilities sought to be abandoned.

Q. In addition to the requirements of Section 62-9-5, has the Commission applied other criteria in evaluating abandonment requests?

A. Yes. In prior cases, the Commission has also applied the *Commuters' Committee* four-factor test to determine whether the public convenience and necessity requires that a utility facility continue operating:

1. the extent of the carrier's loss on the particular branch or portion of the service, and the relation of that loss to the carrier's operation as a whole;

2. the use of the service by the public and the prospects as to future use;

3. a balancing of the carrier's loss with the inconvenience and hardship to the public upon discontinuance of the service; and

4. the availability and adequacy of service to be substituted. [10]

Q. In your opinion, should the Commuters' Committee factors apply to requests to abandon fossil fuel generating facilities in the context of the Energy Transition Act?

A. No. First, the factors were adopted to apply to the retirement of a trolley line and do not easily translate to the retirement of generating facilities. Second, New

[10] *In the Matter of the Application of Southwestern Public Service Company's Application Requesting Approval to Retire and Abandon its Carlsbad Generating Station*, Case No. 17-00089-UT, Final Order Adopting Recommended Decision at 4 (Dec. 7, 2017).

Mexico has adopted a public policy of promoting renewable energy through the Energy Transition Act and the Renewable Energy Act, and the Commuters' Committee factors are not designed to apply to a situation where abandonment of certain facilities has been encouraged as a matter of public policy. Section 62-9-5 provides a flexible standard for reviewing abandonment requests to ensure the abandonment does not negatively impact customers, and that standard renders the Commuters' Committee factors unnecessary.

Q. Regardless, does SPS's request to retire and abandon Tolk satisfy these criteria?

A. Yes. As I will explain below, SPS's request to retire and abandon this unit satisfies Section 62-9-5 and the *Commuters' Committee* factors.

Q. Are any other provisions of the Public Utility Act ("PUA") relevant to SPS's requests regarding this unit?

A. Yes. Section 62-9-4 of the PUA authorizes the Commission to modify the time period that a Certificate of Public Convenience and Necessity ("CCN") remains in effect.

Q. Would retirement of Tolk in 2028 satisfy the applicable *Commuters' Committee* standards?

A. Yes. The first factor refers to the "extent of the carrier's loss on the particular branch or portion of the service, and the relation of that loss to the carrier's operation as a whole." As I understand the *Commuters' Committee* factors, the first factor refers to the amount it would cost the utility to maintain the facility in service.

Q. Please address the second factor, which refers to "use of the service by the public and the prospects as to future use."

A. As I noted above and as explained by Mr. Elsey, ceasing coal operations at Tolk in 2028 will provide economic benefits to SPS's customers, and the retirement will not negatively impact SPS's ability to provide safe and reliable service to its customers.

Q. The third *Commuters' Committee* factor refers to a "balancing of the carrier's loss with the inconvenience and hardship to the public upon discontinuance of the service." How should the Commission view that balance?

A. This factor weighs heavily in favor of retirement for the reasons I have discussed previously. The public will experience little or no inconvenience and hardship from the accelerated retirement of the units because doing so provides economic benefits,

and replacing the unit with other generation resources will ensure that SPS customers will continue to have safe and reliable service.

Q. Please address the last factor, which is the "availability and adequacy of service to be substituted."

A. As discussed elsewhere in this proceeding, SPS has sufficient capacity to cover its need in 2023 and will be issuing a request for proposals for additional capacity through 2027. Thus, substitute service is and will be available and adequate. Additionally, following the retirement of Tolk, SPS will utilize existing generation interconnection rights to add new generating resources to its system.

Q. In your opinion, is it in the best interest of SPS and its New Mexico retail customers for SPS to retire and abandon Tolk in 2028?

A. Yes. As discussed above, by Mr. Elsey, and Mr. Belt retiring and abandoning Tolk in 2028 is cost-effective and will benefit SPS's customers.

Q. Is it also in the best interest of SPS's customers to align the remaining depreciable life of the plant with the abandonment date?

A. Yes. Aligning the depreciable life of the plant with the retirement date minimizes generational equity issues by ensuring that customers who have benefitted from the plant's active operations pay the associated costs.

B. Abandonment and Service Life of Plant X Units 1 and 2

Q. Please briefly describe Plant X Units 1 and 2.

A. Plant X Unit 1 is a 41 MW natural gas steam combustion turbine located near Earth, Texas. The plant went into service in 1952, and the current service life expired in 2019.

Plant X Unit 2 is a 90 MW natural gas steam combustion turbine that is also located near Earth, Texas. The plant went into service in 1953, and the current service life expired in 2019.

Q. What does SPS propose regarding Plant X Units 1 and 2?

A. SPS requests authority to retire and abandon the units in 2023 and align the remaining depreciable service lives of the units with the proposed retirement date.

Q. Why does SPS propose to retire and abandon Plant X Units 1 and 2 in 2023?

A. As discussed by Mr. Low, the units are at the end of their useful lives, and extensive repairs would be required to operate the units in a safe and reliable manner. Given the age of the plants, the cost of the repairs outweighs the benefits of continuing to operate the units.

Q. Does SPS's request to retire and abandon Plant X Units 1 and 2 in 2023 satisfy Section 62-9-3?

A. Yes. For the reasons discussed above and by Mr. Low, the continuation of service is unwarranted, and the present and future public convenience and necessity do not otherwise require use of the facility. The proposed retirements are in the public interest, as retiring the units will save costs, will not negatively impact customers, and will facilitate the transition to renewable resources in accordance with the Energy Transition Act.

Q. Does SPS's request to retire and abandon Plant X Units 1 and 2 in 2023 also satisfy the *Commuters' Committee* factors?

A. Yes. To the extent the Commission decides to apply the *Commuters' Committee* factors, SPS has satisfied them.

Q. Please address the first *Commuters' Committee* factor.

A. The first factor refers to the "extent of the carrier's loss on the particular branch or portion of the service, and the relation of that loss to the carrier's operation as a whole." As I understand the *Commuters' Committee* factors, the first factor refers to the amount it would cost the utility to maintain the facility in service. As discussed above, the costs of repairing the units outweigh the benefits of continued operation, especially considering the units are nearly 70 years old.

Q. Please address the second factor, which refers to "use of the service by the public and the prospects as to future use."

A. As I noted above, the units have been in service for almost 70 years, and the costs of repairing the units outweigh the benefits.

Q. The third *Commuters' Committee* factor refers to a "balancing of the carrier's loss with the inconvenience and hardship to the public upon discontinuance of the service." How should the Commission view that balance?

A. This factor weighs heavily in favor of retirement for the reasons I have discussed previously. The public will experience little or no inconvenience and hardship from the retirement of the units because it would require significant investment to keep in service, and replacing the units with other generation resources will better ensure that SPS customers will continue to have safe and reliable service.

Q. Please address the last factor, which is the "availability and adequacy of service to be substituted."

A. As discussed elsewhere in this proceeding, SPS has sufficient capacity to cover its need in 2023 and will be issuing a request for proposals for additional capacity through 2027. Thus, substitute service is and will be available and adequate. Additionally, following the retirement of Plant X Units 1 & 2, SPS will utilize

existing generation interconnection rights to add new generating resources to its system.

Q. Is it also in the best interest of SPS's customers to align the remaining depreciable lives of the units with the abandonment date?

A. Yes. As discussed above with respect to Tolk, aligning the depreciable lives of the units with the retirement date minimizes generational equity issues by ensuring that customers who have benefitted from the units' active operations pay the associated costs.

C. Abandonment and Service Life of Cunningham Unit 1

Q. Please briefly describe Cunningham Unit 1.

A. Cunningham Unit 1 is a 71 MW natural gas steam combustion turbine located near Hobbs, New Mexico. The plant went into service in 1957, and the current service life expired in 2019.

Q. What does SPS propose regarding Cunningham Unit 1?

A. SPS proposes to retire and abandon Cunningham Unit 1 in 2023 and align the remaining depreciable service life of the unit with the proposed retirement date.

Q. Why does SPS propose to retire and abandon Cunningham Unit 1 in 2023?

A. Similar to Plant X Units 1 and 2 and as discussed by Mr. Low, the unit is at the end of its useful life, and extensive repairs would be required to continue to operate the

unit in a safe and reliable manner. Given the age of the unit, the cost of the repairs outweighs the benefits of continuing to operate the unit.

Q. Does SPS's request to retire and abandon Cunningham Unit 1 in 2023 satisfy Section 62-9-3?

A. Yes. For the reasons discussed above and by Mr. Low, the continuation of service is unwarranted, and the present and future public convenience and necessity do not otherwise require use of the facility. The proposed retirement is in the public interest, as it will save costs, will not negatively impact customers.

Q. Does SPS's request to retire and abandon Cunningham Unit 1 in 2023 also satisfy the *Commuters' Committee* factors?

A. Yes, to the extent the factors apply.

Q. Please address the first *Commuters' Committee* factor, which refers to the extent of the carrier's loss on the particular branch or portion of the service, and the relation of that loss to the carrier's operation as a whole.

A. As discussed above, the costs of repairing the unit outweigh the benefits of continued operation, especially considering the age of the unit.

Q. Please address the second factor, which refers to "use of the service by the public and the prospects as to future use."

A. As I noted above, the unit is over 60 years old and the costs of repairing the unit outweigh the benefits.

Q. The third *Commuters' Committee* factor refers to a "balancing of the carrier's loss with the inconvenience and hardship to the public upon discontinuance of the service." How should the Commission view that balance?

A. This factor weighs heavily in favor of retirement for the reasons I have discussed previously. The public will experience little or no inconvenience and hardship from the retirement of the unit because it would require significant investment to keep in service, and replacing the unit with other generation resources will better ensure that SPS customers will continue to have safe and reliable service.

Q. Please address the last factor, which is the "availability and adequacy of service to be substituted."

A. As discussed elsewhere in this proceeding, SPS has sufficient capacity to cover its need in 2023 and will be issuing a request for proposals for additional capacity through 2027. Thus, substitute service is and will be available and adequate. Additionally, following the retirement of Cunningham Unit 1, SPS will utilize existing generation interconnection rights to add new generating resources to its system.

Q. Is it also in the best interest of SPS's customers to align the remaining depreciable life of the plant with the abandonment date?

A. Yes, for the reasons discussed above.

D. Service Lives of Nichols Units 1 and 2

Q. Please briefly describe Nichols Units 1 and 2.

A. Nichols Unit 1 is a 113 MW natural gas steam combustion turbine located near Amarillo, Texas. The plant went into service in 1960, and the current service life expires in 2022.

Nichols Unit 2 is a 111 MW natural gas steam combustion turbine that is also located near Amarillo, Texas. The plant went into service in 1962, and the current service life expires in 2023.

Q. What does SPS propose regarding Nichols Units 1 and 2?

A. SPS proposes to extend the service lives of Nichols Units 1 and 2 to 2028 and 2027, respectively.

Q. Why does SPS propose to extend the service lives of Nichols Units 1 and 2?

A. As Mr. Low describes in his Direct Testimony, the increase in renewable resources over the past decade has increased the need for dispatchable gas units in the Southwest Power Pool footprint. As a result, Nichols Units 1 and 2 have enabled SPS to provide customers with wind and other low-cost generation. Extending the service lives of these plants is a low-cost option to continue to provide firm and dispatchable generation. Further, as discussed by Mr. Elsey, the Southwest Power

Pool has increased its minimum planning reserve margin requirement from 12% to 15% effective in 2023. SPS, along with other stakeholders, had advocated for the increased planning reserve margin to be effective in 2025 with 1% increases in 2023, 2024, and 2025. The Southwest Power Pool did not adopt this recommendation and instead required all load-responsible entities comply with the increased minimum planning reserve margin requirement of 15% by 2023. Accordingly, extension of the Nichols units' service lives is necessary to meet this immediate requirement to carry additional capacity on SPS's system. Extending the service lives of the Nichols units will benefit SPS's New Mexico retail customers through cost-effective compliance with this new requirement.

VII. PROFESSIONAL AND INDUSTRY DUES, DONATIONS, AND CONTRIBUTIONS

Q. Has SPS included expenses for professional and industry dues, donations, and contributions in its requested Future Test Year revenue requirement?

A. Yes. In accordance with 17.3.350.10 NMAC, SPS is seeking to recover the reasonable costs of certain membership dues, donations, and contributions. These costs, which total $99,295 for the New Mexico retail jurisdiction, are shown on Attachment BAT-6.

Q. Do the Commission's rules provide for the inclusion of SPS's professional and industry dues, donations, and contributions in SPS's cost of service?

A. Yes. The professional and industry dues, donations, and contributions that SPS seeks to recover are within the scope of 17.3.350.10 NMAC, which expressly authorizes utilities to recover dues paid to professional or trade associations that contribute to the professional education and standing of employees as well as other reasonable donations and contributions. Paragraph C of 17.3.350.10 NMAC states that contributions, donations, dues, subscription, and membership fees *other than for dues to professional or trade associations and subscriptions to publications* will not be included in the determination of cost of service unless a utility affirmatively demonstrates that such expenditures are reasonable. Thus, 17.3.350.10 NMAC

creates a presumption that dues to professional or trade associations are reasonable and should be recovered in the cost of service and allows for the inclusion of other contributions and donations if the utility establishes they are reasonable.

As discussed below, SPS's membership dues, donations, and contributions are reasonable, benefit SPS's New Mexico retail customers and SPS, and are recoverable.

A. Professional and Industry Dues

Q. What types of professional and industry dues has SPS included in the cost of service?

A. SPS seeks to recover dues that have been paid to professional and trade associations in the total amount of $45,236. As shown on Attachment BAT-6, these dues include the following categories and amounts: (1) Professional Organizations - $19,872; (2) Business/Economic Organizations - $13,545; and (3) Industry Organizations - $11,819.

Q. What do these professional and industry dues include?

A. As detailed in Attachment BAT-6, SPS seeks to recover membership dues that include licensing fees for engineers, attorneys, accountants, land surveyors, and notaries, among others. These expenses contribute to the professional standing and

education of SPS's employees, benefit SPS and its New Mexico retail customers, and are recoverable under 17.3.350.10 NMAC.

Q. What types of organizations are included in the "Professional Organizations" category?

A. These organizations include entities that license and certify the engineers, architects, attorneys, accountants, financial analysts, appraisers, notaries, and other employees who perform work for SPS. Many of these organizations also provide resources, education, and training that benefits those employees.

Q. What types of organizations are included in the "Business/Economic Organizations" category?

A. This category includes chambers of commerce and related economic development organizations in SPS's service area. Membership in these organizations contributes to the education and professional standing of SPS's employees by providing opportunities for them to regularly communicate with business and civic leaders and obtain information regarding community concerns and interests. This knowledge allows SPS to better serve its New Mexico retail customers. These organizations also promote economic development, which is in the interest of the communities that SPS serves.

Q. What types of organizations are included in the "Industry Organizations" category?

A. Organizations included in this category provide resources, education, and training for the employees who perform work on behalf of SPS.

Q. Does SPS seek to recover any professional or industry dues that support lobbying activities?

A. No.

Q. Do all of the membership dues that SPS seeks to recover contribute to the professional education and standing of SPS's employees?

A. Yes. The organizations to which SPS has paid dues provide resources, education, training, and information that contributes to the professional education and standing of SPS's employees.

Q. Do the membership dues that SPS seeks to recover benefit SPS's New Mexico retail customers?

A. Yes. It is in the best interest of SPS's New Mexico retail customers for SPS to ensure that its employees are appropriately credentialed and trained and that employees have access to the information they need to perform their jobs to the best of their ability.

Q. Are the membership dues that SPS seeks to recover reasonable?

A. Yes. Considering the many benefits provided by the organizations discussed above, the membership dues that SPS seeks to recover are reasonable.

B. Donations and Contributions

Q. Does SPS regularly make significant donations to charitable, educational, and cultural organizations within its service area?

A. Yes. SPS regularly contributes to organizations that benefit the communities in which SPS operates, including, among others, youth programs, educational programs, and organizations that support the arts.

Q. Does SPS seek to recover all of the donations and contributions it has made to organizations within its service area?

A. No. SPS seeks to recover a small portion of its donations and contributions.

Q. What types of donations and contributions has SPS included in the cost of service?

A. SPS seeks to recover donations and contributions to community and economic development organizations in SPS's service area in the total amount of $54,058. As shown on Attachment BAT-6, these donations and contributions consist of the following categories and amounts: (1) Community - $39,880; and (2) Economic Development - $14,178.

Q. Please describe the organizations that are included in the "Community" category.

A. The organizations included in this category support and benefit communities in SPS's service area through various activities and services.

Q. Please describe the organizations that are included in the "Economic Development" category.

A. This category includes organizations that promote economic development in SPS's service area, such as chambers of commerce and other related entities. SPS's contributions to these organizations differ from the membership dues discussed above because they relate primarily to event sponsorships.

Q. Do these donations and contributions benefit SPS's New Mexico retail customers?

A. Yes. SPS's donations and contributions to Community organizations benefit SPS's New Mexico retail customers by providing service and other support for their communities.

The programs and organizations that receive Economic Development contributions have missions that assist existing businesses, encourage the expansion of existing commercial and industrial customers, attract new businesses, and stimulate economic development in eastern New Mexico. The organizations

that receive Economic Development contributions also promote the development of a workforce that will be needed to meet the employment needs of the growing economy.

Because these donations and contributions are reasonable and benefit SPS and its New Mexico retail customers, SPS is entitled to recover them under 17.3.350.10 NMAC.

Q. Has SPS made these donations and contributions solely to maintain corporate good will or good corporate citizenship?

A. Although it is important for SPS to maintain corporate good will and good corporate citizenship, that is not the only reason SPS has contributed to the organizations discussed above. Rather, the organizations to which SPS has donated support the communities that supply SPS's workforce. It is important for SPS and other employers in eastern New Mexico to have access to educated and capable employees, and these organizations promote that goal.

Q. Are these donations and contributions reasonable?

A. Yes. Considering the many benefits provided by these organizations, the donations and contributions that SPS seeks to recover are reasonable.

VIII. RATE CASE EXPENSES

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I discuss the reasonableness, necessity, and recoverability of SPS's rate case expenses. These expenses include: (1) the fees and expenses of both outside counsel and consultants who performed work on the current rate case and other litigation matters for SPS; and (2) expenses incurred by SPS personnel associated with the current rate case and prior rate-related matters.

Q. Are New Mexico utilities allowed to recover rate case expenses through rates?

A. Yes. Although I am not an attorney, it is my understanding that New Mexico law requires recovery of expenses that are necessary in providing utility service that benefits customers and that are prudently incurred.[11] Accordingly, along with its other reasonable and prudent operating expenses, a utility is generally allowed the opportunity to recover its rate case expenses through its service rates.[12]

[11] *Zia Natural Gas Co. v. New Mexico Public Util. Comm'n,* 2000-NMSC-011, ¶ 13, 128 N.M. 728, 998 P.2d 564 (stating that "the Commission has an *obligation* to allow a utility expenses that are necessary in providing service, that benefit ratepayers, and that are prudently incurred" (emphasis added)); *see In re Rates and Charges of Mountain States Tel. & Tel. Co.*, 1982-NMSC-127, ¶¶ 15-16, 99 N.M. 1, 653 P.2d 501.

[12] *West Ohio Gas Co. v. Public Commission,* 294 U.S. 63, 73 (1935); *In re Petition of PNM Gas Services, PNM Gas Services v. New Mexico Pub. Util. Comm'n,* 2000-NMSC-12 at ¶¶ 68, 129 N.M. 1, 24, 1 P.3d 383, 406 ("*PNM Gas Services")*.

Q. Has the New Mexico Supreme Court recognized that rate case proceedings are necessary in providing utility services and that those proceedings benefit customers?

A. Yes. In *PNM Gas Services*, the New Mexico Supreme Court expressly recognized that rate case proceedings are necessary in providing utility service and that such proceedings benefit customers:

> Because rate proceedings are a part of the normal course of business for a utility and because rate proceedings, by establishing just and reasonable rates, are conducted for the benefit of both ratepayers and shareholders, it is widely accepted that rate case expenses are one aspect of a utility's operating costs and are recoverable in a general rate proceeding.[13]

Therefore, as long as the rate case expenses are prudently incurred, those expenses are recoverable.[14]

Q. Are particular evidentiary standards applicable to the recovery of rate case expenses?

A. Yes. Absent evidence to the contrary, a utility's operating expenses are generally presumed to have been made in good faith and with reasonable judgment, and

[13] *In re PNM Gas Servs.*, 2000-NMSC-012, ¶ 68, 129 N.M. 1, 1 P.3d 383.

[14] *Id.* ¶ 77, 1 P.3d at 409-410 (holding that the Commission could not deny recovery of rate case expenses in their entirety when the utility presented evidence that it had incurred such expenses).

recovery is therefore allowed in rates.[15] In New Mexico, however, rate case expenses do not benefit from this presumption, and a utility must demonstrate that its rate case expenses are reasonable.[16]

Q. Does the absence of a presumption of reasonableness preclude the use of estimated rate case expenses?

A. No. In *PNM Gas Services*, the New Mexico Supreme Court recognized that a utility may estimate its rate case expenses in lieu of providing actual expenses, provided that it demonstrates the estimates are reasonable.[17]

Q. Did the Supreme Court provide any guidance regarding proof of reasonableness?

A. Yes, the Court noted that it did not intend to preclude the use of actual expenses as a measure of the reasonableness of the utility's estimate and that the Commission could order the utility to produce evidence of actual expenses for that purpose. The Court added that the Commission could also utilize its own expertise and experience with expenses generally incurred by utilities in comparable proceedings,

[15] *West Ohio Gas Co.,* 294 U.S. at 73*; PNM Gas Services,* 2000-NMSC-12 at ¶ 72, 129 N.M. at 25, 1 P.3d at 407; *see, also,* 1 A.J.G. Priest, *Principles of Public Utility Regulation* 50 (Michie 1969) (expenses should not be disallowed unless shown to be excessive, unwarranted, or incurred in bad faith and agency must allow expenses that are fair and reasonable expenses of operation).

[16] NMSA 1978, § 62-13-3; *PNM Gas Services,* 2000-NMSC-12 at ¶¶ 70-77, 129 N.M. at 25-26, 1 P.3d at 407-408.

[17] *PNM Gas Services,* 2000-NMSC-12 at ¶¶ 70-75, 129 N.M. 25-26, 1 303 P.3d 407-408.

referring by comparison to a case involving an award of attorney fees. The Court further explained that the Commission cannot deny recovery altogether in the face of irrefutable evidence that the utility had incurred substantial, even though unquantifiable, rate case expenses.[18]

Q. What criteria have you used to evaluate the reasonableness of SPS's rate case expenses?

A. My evaluation of the reasonableness of SPS's requested rate case expenses is based on: (1) my prior experience in preparing, presenting, and managing utility rate cases; (2) my understanding of the complexity of the issues in rate cases and the need for specialized technical expertise and legal assistance; and (3) my experience and involvement in the selection of the consultants and outside attorneys, and defining and overseeing their performance of services.

A. Rate Case Expenses in this Case

Q. Will SPS incur rate case expenses to prepare and prosecute this rate case?

A. Yes. SPS proposes to recover in this case the rate case expenses incurred to prepare the rate case filing as well as the costs it will incur to pursue this base rate case before the Commission and, if necessary, on appeal.

[18] *Id.* at ¶¶ 76-77, FN 7, 8, 129 N.M. 26-27, 1 303 P.3d 408-409 (citing *Calderon v. Navarette*, 1990-NMSC-098, 111 N.M. 1, 800 P.2d 1058).

Q. How has SPS managed its current rate case?

A. SPS has reasonably managed its current base rate case by using a mix of internal resources, outside counsel, and external consultants to develop, file, and litigate its requests in this case, with an eye toward keeping expenses at a reasonable level.

As to internal resources, SPS's lead counsel for this case, Zoë Lees, is an experienced public utility lawyer who understands the details of a rate filing. SPS is also relying on three additional internal, experienced public utility lawyers, Mr. Matthew Harris, Mr. Mark Walker, and Ms. Erika Kane. Additionally, SPS has appropriately relied on its own employees to provide testimony and support for the proceedings in their respective areas of subject matter expertise.

For outside counsel, SPS has engaged the Santa Fe office of Hinkle Shanor LLP (the "Hinkle Firm"), Winstead, P.C. (the "Winstead Firm"); and Eversheds Sutherland. The Hinkle Firm, the Winstead Firm, and Eversheds Sutherland all have deep experience in handling public utility matters and rate cases. These lawyers are highly regarded and well qualified to handle their case responsibilities. The work has been staffed in a reasonable manner with appropriately experienced lawyers who charge reasonable fees for their services, and these attorneys have experience that allows them to understand SPS and efficiently perform the necessary work with a minimum amount of research.

Duplication of work is avoided through the attorney work assignment process. Witnesses are in many cases matched with attorneys who have experience in the subject matter fields of the witness, so that the case preparation process is streamlined as much as reasonably possible. Younger and less experienced lawyers are also used in an appropriate way for legal tasks, including time-intensive discovery and research matters.

Similarly, the external witnesses and outside consultants are all necessary and experienced, and they have been delegated responsibilities that could not be performed efficiently by internal resources. The use of outside consultants to support certain rate case issues is common and helps defray overall costs when their services are not needed on a day-to-day basis to operate the utility. The roles and responsibilities of the consultants are listed in Attachment BAT-7 to my direct testimony.

Q. To the extent possible, does SPS seek to limit the number of witnesses, consultants, and counsel who will provide assistance?

A. Yes. In identifying the witnesses, consultants, and counsel who will provide assistance, SPS considers how to best address issues and questions that have been raised in prior proceedings. In addition, SPS is the only Commission-regulated utility that operates within a Regional Transmission Organization and an organized

market, and it also operates in three jurisdictions (New Mexico, Texas, and FERC). SPS must present testimony to explain issues related to these unique circumstances.

Q. Is it reasonable and necessary for SPS to retain outside legal counsel?

A. Yes. All of the investor-owned electric utilities in New Mexico use outside legal counsel for rate cases because rate case work is highly specialized and requires additional resources.

As the Commission is aware, the utility has the burden of proof. This necessarily requires the utility to prepare direct and rebuttal testimony sufficient to satisfy this burden and demonstrate the reasonableness and need for the rate relief requested. Although the Commission's rate filing package instructions and required schedules provide the utility with a road map for its filing, the possible issues in a rate case are numerous, are sometimes hard to anticipate until well into the litigation, and in many cases are driven by intervening parties. In addition, the utility must have the resources required to timely respond to discovery, which is often voluminous and complex.

Additionally, outside counsel with rate case experience provide both good practice skills and a substantive knowledge of the industry as well as familiarity with accounting, operations, development, and finance issues, among other related

issues. Typical issues that must be addressed in rate proceedings include operation and maintenance ("O&M") expenses (and adjustments thereto), construction and decisional prudence, ROE, capital structure, cost of debt, employee compensation, pensions, depreciation, federal income taxes, ad valorem taxes, cash working capital, cost allocation, and rate design. These issues, as well as many other issues and sub-issues, are complex and are often the subject of intense litigation.

Q. Was it reasonable for SPS to select the Hinkle Firm, the Winstead Firm, and Eversheds Sutherland as outside counsel?

A. Yes. These firms and attorneys have extensive experience and the resources necessary to efficiently and professionally handle all the requirements of a rate case. In addition, these law firms often represent other utilities that have rate cases before the Commission, other state regulatory commissions, the FERC, or other state agencies, so the firms understand not only the substantive issues involved, but how to prepare and prosecute a rate case without learning how to litigate these types of cases from scratch. Furthermore, many of the attorneys associated with these firms have experience representing other similarly situated electric utilities. As a result, SPS enjoys access to attorneys that have deep and immediate knowledge of a wide breath of regulatory issues that could affect the utility. SPS's outside counsel can

also provide immediate and sound advice to SPS without performing the extensive research that some other firms might have to undertake.

Q. Is it reasonable for SPS to employ outside consultants for this case?

A. Yes. Even though SPS relies heavily on internal resources, which defrays costs for external resources, it is common for electric utilities to employ outside experts and non-testifying consultants to support and prepare portions of rate cases filed at the Commission. There are many subjects germane to the rate case for which expertise is not necessarily found within the utility's employees. This is true of many, if not all, utilities in New Mexico and across the country. Those subjects for which it was reasonable and necessary for SPS to obtain outside assistance include ROE, depreciation study, and the accounting opinion required by Rule 530, Schedule Q-6.

Q. Has SPS been able to realize other efficiencies and economies through the engagement of these consultants and outside legal counsel?

A. Yes. In 2023, SPS will file a general rate case with respect to its retail operations in Texas. Many of the consultants listed in Attachment BAT-7 are also assisting SPS with the Texas case. Although each case involves unique facts and circumstances, the contemporaneous engagements for two cases allow efficiencies that would not be realized were the consultants engaged for this case alone. In

addition, Mr. Watson provided testimony in Case Nos. 12-00350-UT,[19] 15-00296-UT,[20] 19-00170-UT and 20-00238-UT, and Ms. Kelly provided testimony in Case Nos. 19-00170-UT and 20-00238-UT. Accordingly, these witnesses haves prior knowledge and understanding of the issues addressed in the current rate case.

As for legal counsel, aside from their experience and qualifications, the attorneys representing SPS in this case will also represent SPS in its pending Texas rate case. Their assignments in this case include working with the same witnesses and the same issues for which they are responsible in Texas, thereby enabling SPS to realize efficiencies and economies in both consulting and legal expenses.

Q. Are the billing rates, budget projections, and terms of engagement for the consulting services reasonable in your opinion?

A. Yes. SPS (or, in some instances, Xcel Energy Services Inc. ("XES")) has professional services agreements with each of the consultants or their firms engaged for this case. These agreements detail the scope of work to be performed by the consultant, the applicable billing rates, and the maximum authorized contract

[19] *In the Matter of Southwestern Public Service Company's Application for Revision of Its Retail Electric Rates Under Advice Notice No. 245*, Case No. 12-00350-UT.

[20] *In the Matter of Southwestern Public Service Company's Application for Revision of Its Retail Rates Under Advice Notice No. 256*, Case No. 15-00296-UT.

amounts for the scheduled work. Change orders must be submitted and approved before the contract limits can be exceeded. The agreements include rigorous terms and conditions intended to control costs, assure quality, on-time performance, and protect the interests of SPS.

Based on my review of the professional services agreements, it is my opinion that SPS has reasonably and prudently engaged each of the consultants and firms to provide services needed for this case, and their rates and charges are reasonable in light of their expertise and experience.

Q. Are the outside counsel billing rates reasonable in your opinion?

A. Yes. Based upon my experience with rate proceedings in both New Mexico and Texas, the hourly billing rates for the attorneys are reasonable in light of the lawyer's experience and expertise.

Q. Are the miscellaneous expenses reasonable in your opinion?

A. Yes. All of the witnesses and the majority of the attorneys participating in this case reside out of state and may be required to travel to Santa Fe to participate in hearings and prehearing conferences and meetings, depending on the public health orders in effect at the time. Rate case filings are voluminous, and during the course of the case, SPS will likely be reproducing thousands of copies of discovery materials for distribution to Commission Utility Division Staff ("Staff") and intervenors. SPS

will be publishing and mailing notices to its customers. At key points in the case, temporary employees may be needed to produce and distribute case materials and provide other logistical support. Implementing new rates at the conclusion of the case will involve substantial reprogramming of billing and accounting systems.

Q. With regard to this case, what amount of rate case expenses is SPS seeking to recover?

A. SPS seeks to recover $2,683,868 in rate case expenses. This amount assumes a fully litigated case with a hearing, post-hearing briefing, exceptions and replies to exceptions, and motions for rehearing and replies. Please refer to Attachment BAT-7 for a summary of these rate case expenses by consultant, law firm, and expense category. The expense category includes various items of out-of-pocket expenses directly attributable to the rate case.

Q. Does SPS's request include the expense for services of SPS or XES employees who are participating in the case?

A. No. The requested rate case expenses do not include the time (and associated compensation and benefits expenses) for the services provided by SPS or XES employees, except for overtime charges for hourly employees. However, the

employees' miscellaneous out-of-pocket expenses directly incurred in connection with the rate case, such as travel expenses, are included within rate case expenses.

Q. Is SPS seeking to recover legal expenses associated with an appeal of the Commission's final order in this case?

A. Not in this case, but SPS requests authority to establish a regulatory asset to accrue expenses if there is an appeal. Based on past experience, it is reasonable for SPS to expect that if this case is fully litigated before the Commission—that is, not resolved through a unanimous or unopposed settlement approved by the Commission—one of the parties to the case will appeal the Commission's final order to the New Mexico Supreme Court. The expenses associated with an appeal are an extension of the rate case expenses associated with the rate case. Thus, SPS should be allowed to recover those appellate rate case expenses. Consequently, SPS requests authority to establish a regulatory asset to accrue, with interest at its WACC established in this case, any appellate rate case expenses incurred as part of an appeal of this case. In a later case, SPS would seek recovery of those costs.

Q. How do SPS's rate case expenses compare to the rate case expenses of New Mexico's other investor-owned electric utilities?

A. Rate cases for a particular utility often develop patterns that thwart comparisons to the cases of other utilities. Each utility tends to have unique, ongoing issues that

progress from case to case; the number of intervenors, their interests, and the intensity of their participation vary significantly among utilities; and the composition of the Staff teams assigned to the different utilities also varies. In essence, no two utilities would likely chart the same course.

With that preface, I did review rate case expense requests in the most recent rate cases filed by New Mexico's other two investor-owned electric utilities, PNM and El Paso Electric Company ("EPE").

Q. What allowances for rate cases expenses did those utilities request?

A. In Case No. 16-00276-UT, PNM requested an allowance of $2,670,000 for rate case expenses. PNM presented a future test year period, and fifteen witnesses filed direct testimony. The case was resolved through a "black box" settlement.

In Case No. 20-00104-UT, EPE presented a historical test year period and direct testimony by sixteen witnesses. EPE requested an allowance for rate case expense of $2,401,500.

There are obvious differences between this case and the cases of the other utilities. SPS, for example, is filing testimony by more witnesses, particularly to address issues raised in recent SPS proceedings. SPS's estimated expenses for this case are, however, consistent with the expenses estimated by EPE and PNM.

Q. Is SPS willing to submit its actual rate case expenses as this case progresses as a gauge to evaluate the reasonableness of its estimated expenses?

A. Yes. I caution, however, that much of the actual rate case expense is incurred in the later stages of the case, just before, during, and after the public hearing. Thus, a great portion of the actual expenses will not be known at the time this case proceeds to hearing.

B. Unrecovered Rate Case Expenses Incurred in Case No. 20-00238-UT

Q. Does the Uncontested Comprehensive Stipulation that was approved by the Commission in Case No. 20-00238-UT authorize SPS to seek recovery of its unrecovered actual rate case expenses?

A. Yes. Section IV of the Stipulation stated that the approved base rate increase included $1,877,560 million in rate case expenses, to be amortized over two years, and that SPS would track its actual rate case expenses and record any difference as a regulatory asset or liability. The regulatory asset or liability would then be addressed in SPS's next base rate case, subject to a prudence review.

Q. How was the amount of $1,877,560 million in estimated rate case expenses determined?

A. The $1,877,560 included $377,560 in unrecovered rate case expenses from Case No. 19-00170-UT and $1,500,000 of estimated rate case expenses for Case No. 20-00238-UT.

Q. Is SPS seeking to recover any rate case expense for cases prior to Case No. 20-00238-UT?

A. No, SPS's claim for costs associated with rate cases prior to Case No. 20-00238-UT were resolved as part of the stipulation.

Q. What is the amount of actual rate case expenses that SPS incurred in Case No. 20-00238-UT?

A. SPS incurred actual rate case expenses in the amount of $2,003,047.

Q. Does SPS seek to recover the difference between the estimated rate case expenses and the actual rate case expenses?

A. Yes. SPS seeks to recover $503,047 in additional rate case expenses associated with Case No. 20-00238-UT.

Q. Has SPS amortized its rate case expenses as provided in the Stipulation?

A. Yes. SPS began the amortization of approved rate case expenses at the time new rates from Case No. 20-00238-UT went into effect, February 26, 2022. The two-year amortization of these expenses is scheduled to conclude in February 2024.

Q. Will SPS have unamortized rate case expenses at the time its new rates take effect?

A. Yes. SPS expects its new rates will take effect in mid-September 2023. At that time, SPS will have unamortized rate case expenses in the amount of $421,892.

Q. How does SPS propose to recover its remaining unrecovered rate case expenses?

A. SPS proposes to continue the current monthly amortization of rate case expenses previously approved by the Commission. This will allow SPS to recover $421,892 in unamortized rate case expenses and $503,047, which is the difference between the estimated rate case expenses and the actual rate case expenses, over a twelve-month period.

Q. Did SPS subject the rate case expenses in Case No. 20-00238-UT to a similar process and analysis as the rate case expenses SPS expects to incur in this case?

A. Yes. As explained in direct and rebuttal testimony of William A. Grant in Case No. 20-00238-UT, SPS sought to maximize efficiencies and reduce its rate case expenses and followed a similar process to the one I described above.

Q. Are the additional rate case expenses that SPS incurred in Case No. 20-00238-UT reasonable?

A. Yes. For the reasons discussed above, the additional rate case expenses incurred in Case No. 20-00238-UT are reasonable.

C. Rate Case Expense Recovery Mechanism

Q. How does SPS propose to recover rate case expenses approved in this case?

A. SPS is requesting a one-year amortization of its rate case expenses.

Q. Is SPS's request to recover its rate case expenses over a one-year amortization period reasonable?

A. Yes. A one-year amortization period is reasonable because SPS remains in a significant multi-year capital spending cycle, and during that time SPS will place numerous capital projects in service, which will make it necessary for SPS to file frequent rate cases. These frequent filings are required to enable SPS to maintain sufficient investment ratings to obtain access to capital markets. To avoid overlapping amortization periods created by successive rate cases, a one-year amortization period is appropriate for rate case expense recovery.

Q. If the Commission determines that rate case expenses should be recovered over a longer period, how does SPS propose to treat these costs?

A. If the Commission spreads SPS's recovery of its rate case expenses over a period of longer than one year, SPS request that the amounts that cannot be recovered during the first year should be included in rate base.

Q. Are the rate case expenses that SPS seeks to recover reasonable and necessary?

A. Yes. In my opinion, the rate case expenses requested by SPS are reasonable and should be recovered over a one-year amortization period.

IX. OTHER COST OF SERVICE ADJUSTMENTS

Q. What will you discuss in this section of your testimony?

A. In this section of my testimony, I discuss SPS's proposed regulatory treatment of cash working capital as well as a normalization adjustment to SPS's Adjusted Base Period non-labor O&M.

Q. In connection with SPS's filing of a Future Test Year, are there other aspects of valuing rate base that SPS has updated?

A. Yes. SPS requested that PricewaterhouseCoopers LLP ("PwC") prepare a report to analyze the variety of methods for determining cash working capital ("CWC") as used by regulated utilities when determining their revenue requirement in rate cases and provide a summary of approaches accepted by regulators in various jurisdictions. As stated in the report, which is included at Attachment BAT-8, different methods are utilized, producing varying results affecting rate base. Certain methods are very complex and administratively burdensome to estimate, while other methods are less complicated yet still result in reasonable estimates. The report includes a summary graph in Exhibit B to show the results of those various methods by utility. Exhibit E of the report shows that on average, cash working capital was determined to be a small fraction of rate base, averaging approximately 0.83% of the utility's rate base.

Q. Does SPS propose an approach described by PwC?

A. Yes, SPS has utilized the 45-Day Formula approach for the CWC calculation in this proceeding.

Q. What is the 45-Day Formula Approach?

A. FERC has used a 1/8 approach for electric transmission companies that utilize formula rates, which represents 45 days of total O&M (45/365 days). This approach also has been utilized in New York and South Carolina.

Q. Why does SPS propose the 45-Day Formula Approach?

A. This method is very simple to calculate, which is appropriate for CWC as a small fraction of rate base. As mentioned in the PwC report, some methods are more complex and time consuming. The results of the complex and time consuming methods are similar to results of the 45-day Formula approach as shown on Exhibit B of the PwC report.

Q. What is the result of the proposed CWC calculation?

A. SPS requests a CWC of approximately $22.7 million, which is 0.93% of rate base. This is in line with the average of 0.83% in Exhibit E of the PwC report.

Q. Is SPS's proposed methodology reasonable?

A. Yes, for the reasons discussed above.

Q. Did SPS incorporate normalization adjustments to the Adjusted Base Period non-labor Energy Supply O&M that you would like to address?

A. Yes. As SPS Witness David Low explains in his Direct Testimony, SPS normalized the Energy Supply non-labor O&M expense to remove approximately $12.5 million in liquidated damage payments that SPS received during the Base Period from its Original Equipment Manufacturer wind service provider, Vestas. These liquidated damages payments, which were recorded as a credit to Energy Supply O&M costs, are non-recurring payments and therefore must be eliminated from the cost of service.

Q. Why is it appropriate to eliminate the liquidated damages payment from the cost of service?

A. There are two reasons it is appropriate to eliminate the $12.5 million credit to Energy Supply O&M. First, as I mentioned above, these are non-recurring payments. Therefore, it is not appropriate for the Base Period cost of service to include the credit as the result would not represent the normal O&M for Energy Supply during a twelve-month period in which SPS did not receive liquidated damages payments.

Second, the Stipulation in Case No. 17-00044-UT requires that SPS guarantee a level of generation from the Hale and Sagamore Wind Facilities over the lives of those Facilities (an average annual 48% net capacity factor ("NCF"), starting for each of the Wind Facilities with the first calendar year after commercial operation). If the average annual generation is below the 48% NCF, SPS is required to credit to fuel expense the grossed-up Production Tax Credits not generated due to the underproduction and the additional energy costs incurred due to the underproduction. To mitigate this risk, the O&M service agreement between SPS and Vestas contains an "availability covenant" that provides a Projected Average Availability for a given production period. As Mr. Low explains in his Direct Testimony, if the contractual Measured Average Availability is less than the Projected Average Availability for a given production period, Vestas owes availability damages to Xcel Energy. Since Xcel Energy shareholders bear the risk that SPS may have to issue a credit to fuel, it is appropriate that shareholders retain the liquidated damages paid by Vestas pursuant to the availability covenant.

For these reasons, it is just and reasonable to remove the credit that represents liquidated damages paid by Vestas recorded to Energy Supply O&M in the Base Period cost of service.

X. SUPPORTIVE REGULATORY FRAMEWORKS TO MANAGE VARIABLE COSTS OUTSIDE OF SPS'S DIRECT CONTROL

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I discuss SPS's request to recover the costs of environmental allowances through fuel as opposed to base rates and requests for regulatory accounting orders that will allow SPS to accrue the reasonable and necessary costs associated with specific items for recovery in a future proceeding. These items are variable in nature, outside the direct control of SPS, and include incremental non-labor O&M expenses associated with the increased production from Tolk under the revised Tolk Optimization Plan, specifically the incremental costs associated with increasing the annual production target from 2,400 GWhs to 4,000 GWhs, regulatory expenses recorded in FERC Account No. 928; and property tax expense.

A. Recovery of Incremental O&M Costs Associated with Continued Flexible Dispatch of Tolk

Q. What will you discuss in this subsection of your testimony?

A. In this subsection of my testimony, I discuss SPS's proposal to defer incremental O&M costs associated with the continued flexible dispatch of Tolk, consistent with

the revised annual production targets under the Tolk Optimization Plan, and to record a regulatory asset for recovery of those costs in a future base rate case.

Q. Do the revised production targets for Tolk impact O&M costs associated with operation of the units?

A. Yes. As discussed above and by Mr. Elsey, SPS has been able to lower the fuel costs that SPS, and ultimately SPS's customers, would have otherwise incurred if the Tolk Units were not available. Because this flexibility provides significant economic benefits for customers, SPS proposes to increase generation output at Tolk from 2,400 gigawatt-hours per year to 4,000 gigawatt-hours per year and to cease coal operations at the units in 2028. Although dispatching Tolk in a flexible manner provides economic benefits for SPS's customers, it also causes significant variability in the O&M costs associated with operation of the units.

Q. Does SPS always control whether the Tolk units are dispatched?

A. No. Under the Tolk Optimization Plan, SPS operates Tolk in generator mode during periods of high gas prices. SPS does not control when gas prices might be elevated. Further, the Southwest Power Pool can call for the units to be dispatched when necessary based on economics or need.

Q. Has SPS included O&M costs associated with Tolk's operations in the cost of service?

A. Yes. However, those costs do not account for the incremental, variable O&M costs that SPS expects to incur at an annual production target of 4,000 GWhs under the revised Tolk Optimization plan.

Q. What does SPS propose regarding recovery of incremental O&M costs associated with the increased dispatch of Tolk?

A. SPS proposes to track the incremental costs and record them in a regulatory asset, accrueing these costs, with interest at SPS's WACC, for recovery in SPS's next base rate case.

Q. Is SPS's proposal to recover these costs through a regulatory asset just and reasonable?

A. Yes. The increased dispatch of Tolk provides significant economic benefits for SPS's customers, and SPS should be permitted to recover the associated incremental O&M costs. Because these costs are variable and depend on dispatch of the Tolk units, allowing SPS to track and record the costs will ensure recovery aligns with the incremental costs incurred.

B. Recovery of NOx Allowances through FPPCAC

Q. What will you discuss in this section of your testimony?

A. In this subsection of my testimony, I discuss SPS's proposal to recover costs associated with the purchase of NOx allowances through fuel as opposed to base rates.

Q. Please explain why SPS incurs costs associated with NOx allowances.

A. SPS owns and operates generating assets in the state of Texas that serve SPS customers, including SPS's New Mexico retail customers. Ozone season NOx emissions in Texas are regulated by the Cross State Air Pollution Rule ("CSAPR"). Ozone season is defined as May 1 through September 30 of every year. Under this rule, the EPA allocates NOx allowances to various generating units throughout affected states, including the state of Texas. These allowances are utilized to offset NOx emissions from the generating units and operate as a cap for the state. This cap is allocated to each generating unit based on historic operation or other criteria established by the EPA. In the event a generating unit or entity exceeds its allowance allocation, it must discontinue/curtail operation or secure additional allowances from other entities in the appropriate trading designation that are not using the allowances.

Q. How does SPS currently recover the cost of NOx allowances?

A. In accordance with the stipulation in SPS's 2010 base rate case, Case No. 10-00395-UT, SPS records the cost of NOx allowances in a regulatory asset or liability and recovers those costs through base rates. The amount of the regulatory asset is limited to $110,000 (total company), which was the NOx allowance cost SPS expected to incur in 2011.[21]

Q. Has the cost of NOx allowances increased since 2011?

A. Yes. The cost of NOx allowances has increased significantly over time For example, in 2022, SPS incurred NOx allowance costs in the amount of $1.8 million (total company).

Q. Please explain the cause of the significant increase.

A. Historically, ozone season allowances traded in the $100 to $300 per ton range. Due to the proposed Good Neighbor Rule (discussed below) and the increased price of natural gas, coal generation is more economical and the price of Group 2 Ozone Season allowances has recently dramatically increased to as much as $5,500 per ton.

[21] *See* Application of Southwestern Public Service Company for Revision of its Retail Rates Under Advice Notice No. 235, Case No. 10-00395-UT, Amended Certification of Stipulation at 23 (Dec. 12, 2011).

Due to high natural gas prices throughout the country, coal generation has become substantially more economical. Therefore, coal has been dispatched in greater capacity than originally planned or generated in the past in relation to NOx allocations, especially during ozone season. Therefore, coal generation has increased and is being sustained for long periods of time at maximum load, causing SPS's coal units to far exceed (in many cases doubling or more) their anticipated run hours during ozone season. This is further compounded by sustained maximum load generation, which increases NOx output and emission rates. The increased dispatch of coal units has caused SPS to exceed its allowance allocations, requiring the purchase of additional allowances to continue to operate the coal fleet. SPS purchased these allowances because the cost of securing the allowances and continuing coal generation is lower than alternative sources of energy, and therefore saves costs for customers.

Q. Do you expect that SPS's NOx allowance costs will continue to increase?

A. Yes, these costs will continue to increase as a result of the EPA's expected adoption of the Good Neighbor Rule and as natural gas prices remain high.

Q. Please generally describe the Good Neighbor Rule.

A. In 2022, the EPA rejected the State Implementation Plans ("SIP") documenting NOx compliance with ozone season NOx for twenty-two (22) states and replaced

it with a proposed Federal Implementation Plan ("FIP") implementing its own NOx compliance program for ozone season under CSAPR. Generators located in Texas are subject to this proposed rule, referred to as the "Good Neighbor" rule. Under this proposed FIP, NOx allowance allocations during ozone season would be significantly decreased from current values to comply with the "good neighbor" provisions of the Clean Air Act. Additionally, SPS units would be moved from the current Group 2 ozone season trading program to a more restrictive Group 3 ozone trading program. Allowances in this group are less available and have historically cost up to eight times more than traditional Group 2 allowances. The EPA intends to publish a final rule by the end of 2022 but could also delay until March of 2023 with implementation in the 2023 ozone season (May 1 through September 30).

Q. What does SPS propose regarding the recovery of NOx allowance costs?

A. First, SPS requests that the Commission remove the $110,000 cost recovery cap that was approved in Case No. 10-00395-UT. As discussed above, NOx allowance costs have increased significantly over time. Nearly eleven years have elapsed since that requirement was adopted, and it no longer reflects the costs that SPS reasonably expects to incur.

Second, SPS requests authorization to recover its 2022 and 2023 NOx allowance costs and amortize those costs over one year.

Third, SPS requests authorization to recover NOx allowances through SPS's FPPCAC on a going forward basis upon the effective date of new rates in this proceeding.

Q. Please explain why it is reasonable to allow SPS to recover its 2022 and 2023 NOx allowance costs and amortize those costs over one year?

A. SPS was required to incur the costs to provide service to its customers, and the costs were market-based and are just and reasonable. SPS will likely face a similar situation in the 2023 ozone season.

Q. Why does SPS propose to recover NOx allowance costs through the FPPCAC on a going forward basis?

A. NOx allowance costs fluctuate significantly, and like fuel costs, the costs are incurred so that SPS can economically dispatch its generating units, minimizing customer fuel and purchased power costs, which could increase if SPS were unable to dispatch certain units due to a lack of NOx allowances. Allowing SPS to recover the costs through the FPPCAC is just and reasonable because cost changes – both increases and decreases – are directly connected to the operation of the units, like fuel costs, and will be timely flowed through to customers.

Q. Does SPS recover the cost of NOx allowances through its fuel clause in other jurisdictions?

A. Yes. SPS recovers the cost of NOx allowances through its fuel clause in Texas. At FERC, SPS recovers the cost of NOx allowances through formula rates that allow for timely cost recovery.

Q. Is SPS's request to recover the cost of NOx allowances through the FFPCAC just and reasonable?

A. Yes, for the reasons discussed above.

Q. If the Commission does not authorize SPS to recover the cost of NOx allowances through the FPPCAC, what would SPS propose?

A. If SPS is not authorized to recover the cost of NOx allowances through the FPPCAC, SPS would propose to record a regulatory asset and recover the costs in its next base rate case.

C. Regulatory Expense included in FERC Account No. 928

Q. What types of expenses are included in FERC Account No. 928?

A. FERC Account No. 928 includes expenses incurred in connection with formal cases before regulatory commissions, including payments made for fees and filings or reports. The account includes: (1) salaries, fees, retainers, and expenses of counsel,

solicitors, attorneys, accountants, engineers, clerks, attendants, witnesses, and others engaged in the prosecution of, or defense against petitions or complaints presented to regulatory bodies; and (2) office supplies and expenses, payments to public service or other regulatory commissions, stationery and printing, traveling expenses, and other expenses incurred directly in connection with formal cases before regulatory commissions.

Q. Has SPS included those costs in the Future Test Year?

A. Yes. SPS has included approximately $7.5 million (New Mexico retail) recorded in FERC Account No. 928 in the Future Test Year.

Q. Does SPS control the amount of regulatory expenses that it incurs?

A. No. The amount of regulatory fees assessed to SPS can vary depending on sales, commodity fuel costs, and whether the Commission changes the apportionment factor. Given the volatility in natural gas prices, SPS has experienced increases in regulatory expenses incurred above levels include in base rates in prior proceedings.

Q. What does SPS propose with respect to these expenses in this case?

A. SPS proposes to establish a regulatory asset to record incremental costs associated with regulatory expenses in FERC Account No. 928 in between rate cases and recover the costs in subsequent base rate cases.

Q. Is SPS's request for authorization to establish a regulatory asset to recover these costs just and reasonable?

A. Yes. SPS is required to comply with regulatory requirements, and as a result, these costs are necessary for SPS to continue to provide safe and reliable service to its New Mexico retail customers.

D. Property Expense Tracker

Q. What type of tracker and deferral mechanism does SPS propose?

A. SPS asks that it be permitted to track the difference between the property tax expense included in rates and the actual property taxes that SPS incurs during each year that the rates set in this case are in effect. SPS further requests that it be allowed to defer the tracker balance into a regulatory asset or liability. In its next base rate case, SPS will request Commission approval to recover the regulatory asset balance or to refund the regulatory liability.

Q. What baseline does SPS propose for the property tax tracker?

A. As discussed in the Direct Testimony of SPS witness Naomi Koch, SPS requests that the Commission approve property tax expense of $30,121,738 on a New Mexico Retail basis ($86,550,000 total company) for the Future Test Year Period. SPS proposes to use that amount as the baseline for property tax expense and to

record any difference between that amount and the actual amount of property tax expense in a given year.

Q. Why is SPS proposing to institute a property tax expense tracker?

A. SPS is proposing to institute a property tax expense tracker because the expense amounts are growing year-over-year and because SPS has no realistic way to control those costs.[22] Although regulatory lag is sometimes lauded as a way to force utilities to control O&M costs, SPS cannot unilaterally reduce its property tax expense; to the contrary, it is required by law to pay the property tax expense assessed by the various taxing jurisdictions in its service territory. A tracker and deferral mechanism is also reasonable because the property taxes support the communities in which SPS provides service. As SPS's capital additions increase, so do its property taxes. Further, the ultimate level of property taxes assessed are determined by local, county, and state taxing authorities. SPS works diligently to negotiate the lowest property tax liability possible but ultimately it is the taxing authorities who determine the property tax expense amount to be paid. Finally, the tracker and deferral mechanism proposed by SPS is symmetrical, meaning that if

[22] SPS can, and nearly always does, protest the valuations used to set property taxes, but the property tax expense is rising year-over-year even after the effects of the protests are incorporated.

property tax expense declines during the period the rates set in this case are in effect, SPS will capture the difference for the benefit of customers.

Q. Are you aware of any other jurisdictions that have approved the use of a property tax tracker?

A. Yes. The Colorado Public Utilities Commission ("CPUC") has approved a property tax tracker for SPS's sister company, PSCo, for nearly a decade. The CPUC has concluded that a symmetrical property tax expense tracker such as the one SPS is proposing in this case is reasonable because it protects both the utility and its customers from variable costs outside the utility's control. The Minnesota Public Utilities Commission has similarly approved a property tax tracker for SPS's sister company, Northern States Power Minnesota.

XI. REQUEST FOR ACCOUNTING DEFERRAL

Q. What topic do you address in this section of your testimony?

A. In this section of my testimony, I describe SPS's request for an accounting order authorizing the deferral of costs associated with acquiring wildfire spread modeling software, specifically the Technosylva software solution.

Q. What is wildfire spread modeling?

A. Wildfire spread modeling utilizes software that considers a variety of data and information, such as current and forecasted weather information and ground fuel conditions for specific locations, to predict fire behavior.

Q. Describe Technosylva wildfire modeling software.

A. Technosylva is an industry leader in wildfire modeling software, and Xcel Energy has contracted with the company to utilize this technology to enhance operational decision making. SPS would like to acquire the software for use in its ongoing risk evaluation and to utilize its use of the software in SPS's service territory to inform future wildfire mitigation efforts.

Q. What does SPS request in this case with respect to costs associated with the Technosylva software?

A. SPS proposes to establish a regulatory asset and defer costs associated with the software for recovery in its next base rate case or other appropriate rate proceeding.

Q. What is the cost of the Technolsylva software?

A. Preliminary estimates from Technosylva based on the wildfire risk areas in the SPS New Mexico service territory would be $550,000 annually, which includes training, implementation, ongoing support, updated surface fuels assessment, and hosting of cloud computing resources.

Q. Are there other O&M costs associated with SPS's wildfire risk modeling research?

A. Yes. There are likely additional O&M costs that will be needed to retain wildfire consulting experts to assist with further defining high wildfire risk areas and identifying enhancements to the wildfire mitigation plan.

XII. ELECTRIC AFFORDABILITY PROGRAM

Q. What is the purpose of this section of your direct testimony?

A. In this section of my Direct Testimony, I describe SPS's proposal to establish an Electric Affordability Program ("EAP") in order to provide supplemental customer assistance for income-qualified New Mexico retail Residential customers. As part of that discussion, I propose criteria to determine eligibility for the EAP, and I describe SPS's proposal to fund the EAP. Mr. Luth sponsors SPS's proposed new EAP tariff.

A. EAP Overview

Q. Please provide an overview of SPS's EAP proposal.

A. SPS proposes to establish a new energy assistance program administered in accordance with a Commission-approved tariff. The EAP would be available to New Mexico retail Residential customers who are qualified for and receive assistance from the New Mexico Low-Income Home Energy Assistance Program ("LIHEAP").

As I explain in more detail below, SPS's proposed EAP is intended to provide supplemental assistance to households that have a high energy burden and the lowest incomes, covering a portion of customers' energy bills in either four

summer months of June, July, August, and September (for Residential customers) or four winter months of November, December, January, and February (for Residential Space Heating customers) beyond the assistance that LIHEAP provides.

Q. Please elaborate on the benefits available under SPS's proposed EAP for eligible customers.

A. SPS's proposed EAP provides two kinds of assistance: (1) affordability options; and (2) arrearage forgiveness. An EAP customer's payment schedule includes both payment of their current month's bill after inclusion of the monthly affordability bill credit, and payment of a portion of the qualified customer's pre-EAP arrears, if any.

With respect to the EAP affordability options, customers can receive a monthly bill credit through a percentage of income average monthly budget plan or a discount on their monthly bill, depending on the household's consumption and income level. Customers with no monthly income must pay $10 per month towards their current bill, and benefits provided under the EAP affordability options cannot be less than $5 per month.

Separately, under the arrearage forgiveness components of the EAP, the qualified customer can receive assistance in retiring pre-EAP arrears through either a monthly credit or a one-time credit, as permitted by the EAP Tariff. For example, if the qualifying customer is in arrears for $200 or less, SPS proposes to grant a one-time arrearage forgiveness credit for the outstanding amount. If the customer is in arrears for more than $200, SPS will place the customer on a payment arrangement for up to 24 months and retire the arrears that do not fit into that payment arrangement term as permitted by the EAP Tariff.

Q. How does SPS propose to fund the EAP?

A. SPS proposes to recover the costs necessary to fund the EAP from all customer classes based on a weighted average of each class's proportional share of the base rate revenue requirement determined in this proceeding and the number of customers in each customer class. SPS proposes the EAP costs be recovered through an adjustment to the monthly customer charge for each rate schedule.

Q. How does SPS propose to administer the EAP program?

A. SPS intends to manage this program in the same manner it administers the Colorado Electric and Gas Affordability programs. These programs have been managed in-house since the inception of the pilot program in 2009, through our Customer Policy

department. Select individuals in this business area receive LEAP files from the Colorado State Leap office monthly during the heating season, between November 1 through June 1 of each year and utilize reported income data from those files for customers who have been approved for Leap grants. Customer EAP/GAP benefits are calculated with the income data received and placed into our Billing system and monitored thereafter for accuracy. This department also tracks spending and available funding throughout the year and scrubs all accounts annually until the new heating season begins again November 1.

B. EAP Eligibility and Participation

Q. Does SPS propose to determine who would be eligible for the EAP benefit?

A. No. SPS proposes to make the EAP benefit available to New Mexico income-qualified retail Residential customers who have established eligibility for the New Mexico LIHEAP program. It is my understanding that the New Mexico Human Services Department accepts applications and determines eligibility for the LIHEAP in New Mexico. SPS does not seek or desire to make an independent determination of a customer's income eligibility.

Q. Please describe the proposed PIPP Affordability option.

A. The PIPP Affordability option consists of a bill credit determined as one-twelfth of the difference between SPS's estimate of the customer's annual electric bill and five percent of the customer's annual household income as provided in the LIHEAP file. SPS would make this calculation based on the Residential customer's summer energy usage and bills, as well as the income information provided in the LIHEAP file, and the Residential Space Heating customers winter energy usage and bills, as well as the income information provided in the LIHEAP file.

Q. What customers would be eligible for the PIPP Affordability option under SPS's proposal?

A. The PIPP Affordability option would be available for customers who have a high energy burden, which for EAP purposes means that the customer's annual bills for electric service are five percent or more of their annual income, as disclosed in the LIHEAP File.

Q. Please describe the PIPP Arrearage Forgiveness components of the proposed EAP.

A. Under SPS's proposal, the PIPP Arrearage Forgiveness component consists of a monthly credit that would be applied each month after receipt of the participating customer's payment. Payments under the PIPP Arrearage Forgiveness component

cannot exceed one percent of the customer's annual income. The credit is designed to retire pre-program arrears over a period of 12 months for customers with arrears of $200 or less and over a period of 24 months for customers with arrears of more than $200.

Q. How would an eligible customer be enrolled in the EAP program?

A. Eligible customers would not need to apply for assistance through the EAP program. When SPS is notified by the New Mexico Human Services Department ("NMHSD") that a customer has enrolled in LIHEAP, SPS can automatically enroll the customer in the applicable months, so long as EAP funds remain available. As I explained earlier, SPS proposes to rely on the income verification information presented in the customer's LIHEAP File, and the current LIHEAP income eligibility guidelines, in order to evaluate customers for EAP eligibility and to calculate a customer's benefit.[23]

Q. Does SPS propose to notify customers of their eligibility for the EAP?

A. Yes. SPS proposes to notify eligible customers via an enrollment welcome letter and to give customers the option to opt out if they do not want to participate. SPS

[23] Once SPS utilizes the income data from the New Mexico LIHEAP department to calculate a customers EAP benefit, this data is destroyed.

will review LIHEAP enrollment data annually to ensure that customers are continually eligible for the EAP program from year to year.

Q. Does SPS propose to provide EAP benefits during the entire year?

A. SPS proposes to provide EAP benefits during the summer season of June through September to eligible customers taking service under SPS's Residential tariff and during the winter season of November through February for eligible customers taking service under SPS's Residential Space Heating tariff.

Q. Has SPS determined the initial budget for its proposed EAP program?

A. Yes. SPS is proposing a relatively conservative initial EAP program budget of $750,000. Estimating monthly income based upon 150% of Health and Human Services Poverty Guidelines for a household of four as a proxy, the proposed EAP program would provide supplemental assistance to income-qualified customers whose monthly electric bill exceeds $104.06.[24] Again, at this budget level, SPS proposes to provide supplemental assistance to Residential service customers during the months of June, July, August, and September and Residential Space Heating customers during the months of November, December, January, and February.

[24] $41,625 / 12 = $104.06

Assuming equal participation between the proposed summer and winter programs, and based upon SPS's proposed average monthly Residential bill of $135.50 and a proposed average monthly Residential Space Heating bill of $176.67, SPS estimates that the EAP program could support approximately 4,200 households per year. Approximately 10,000 New Mexico residential customers receive LIHEAP assistance in SPS's service territory on an annual basis. Therefore, this initial program budget level could provide supplemental assistance to approximately 43% of eligible residential customers, as demonstrated in Tables BAT-1 and BAT-2 below.[25]

Table BAT-1
Estimated Residential EAP Participation

A	B	C	D	E	F
Monthly Customer Income Proxy (HHS)	**EAP Assistance Level**	**Average Monthly Bill Under Proposed Rates**	**Estimate of Monthly EAP Assistance** (C-A)	**Estimated Assistance** (D*4)	**Estimated Households Assisted** ($375,000/E)
$104.06	3%	$135.50	$31.44	$125.75	2,982

[25] 4,273 / 10,000 = 42.73%.

Table BAT-2
Estimated Residential Space Heating EAP Participation

A	B	C	D	E	F
Monthly Customer Income Proxy (HHS)	**EAP Assistance Level**	**Average Monthly Bill Under Proposed Rates**	**Estimate of Monthly EAP Assistance** (C-A)	**Estimated Assistance** (D*4)	**Estimated Households Assisted** ($375,000/E)
$104.06	3%	$176.67	$72.61	$290.43	1,291

The tables above are only an estimate of the number of households that could receive supplemental assistance under the proposed EAP program. In actual administration of the program, SPS would utilize actual income data as reported in the eligible customer's LIHEAP file, not the HHS monthly estimate used in the illustrative example. Additionally, the illustrative example demonstrated assistance for the PIPP component of the program only, with no assumptions for receipt of arrearage forgiveness assistance.

Q. How does SPS propose to allocate the costs associated with its proposed EAP program among customer classes?

A. SPS proposes to allocate program costs to all customer classes based on a weighted average of each specific class's percentage of the total base rate revenue approved

in this proceeding and the number of customers in each rate class. Mr. Luth has incorporated this allocation methodology into his calculation of the EAP adder on the monthly customer charge for each rate schedule.

Q. How does SPS propose to recover the allocated costs from customer?

A. SPS proposes to adjust the monthly Customer Charge for each rate schedule to recover the allocated EAP costs.

Q. Has SPS calculated the customer charge component for each rate schedule based on this allocation methodology?

A. Yes. Table BAT-_ shows the monthly EAP adder, as calculated by Mr. Luth, that SPS proposes to include as a separate charge for the customer rate schedules:

TABLE BAT-X: EAP Rates

Customer Class	EAP Rate (per Month) (Part of Customer Charge)
Residential Service	$0.37
Residential Heating Service	$0.37
Small General Service	$0.37
Secondary General Service	$0.69
Irrigation Power Service	$0.68
Primary General Service	$1.11
LGS-T (69kV)	$137.75
LGS-T (115 kW+)	$137.75
Small Municipal and School Service	$0.35
Large Municipal and School Service	$0.79
Street Lighting	$0.33
Area Lighting	$0.33

Q. Are there other ways that SPS proposes to help mitigate the price impacts on its income qualified customers?

A. Yes. SPS knows that there are additional ways in which supplemental assistance could be provided to customers. For example, many utilities offer programs that allow customers to make voluntary contributions to a customer assistance fund. However, before SPS seeks to implement further programs, we believe stakeholder

engagement is necessary to adequately identify and consider an appropriate suite of options for the Commission to consider for approval. Accordingly, SPS requests that the Commission include in its Final Order in this case a directive that SPS host, and Staff and case intervenors participate in, a collaborative working group to identify and evaluate new potential income-qualified programs that SPS can offer. SPS further requests that as part of that order, the Commission require SPS, Staff, and intervenors to file a final report with the Commission outlining comments and recommendations developed in those working group meetings. SPS proposes to use the feedback and recommendations it receives from working group participants inform formal requests to the Commission for new customer assistance programs in the future.

Q. Is SPS requesting to recover its costs associated with hosting these collaborative working group sessions?

A. Yes. SPS asks that it be permitted to track the costs of hosting these workshops, including the costs of hiring a workshop facilitator, and that SPS be allowed to defer the tracker balance into a regulatory asset. SPS will request Commission approval to recover the regulatory asset in its next base rate case.

XIII. SPS'S REQUESTS FOR RELIEF

Q. What relief is SPS requesting from the Commission in this case?

A. SPS requests that the Commission:

(A) authorize SPS to increase its base rate charges for the New Mexico retail jurisdiction by $77,636,954, a 16.43% percent increase over current base rate revenue (including revenue from miscellaneous services), using a Future Test Year of July 1, 2023 through June 30, 2024, a New Mexico retail base rate revenue requirement of $550,273,134, a return on common equity of 10.75%, and a WACC of 7.85%;

1. approve SPS's request to include in rate base the capital investment SPS has placed in service or will place in service during the Base Period, Linkage Period, and the Future Test Year;

2. approve new depreciation rates in accordance with the SPS–New Mexico Technical Update Depreciation Accrual Rate Study presented in this case, including SPS's requests to extend the service lives of Nichols Units 1 and 2 from 2022 and 2023 to 2028 and 2027, respectively; extend the service lives of Plant X Units 1 and 2 from 2019 to 2023; extend the service life of Cunningham Unit 1 from 2019 to 2023; and fully depreciate the Tolk Generating Station by 2028;

3. approve SPS's proposal to credit customers with a pro-rata share of a settlement payment received from Lubbock Power and Light ("LP&L") through the Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC") based on a three-year amortization of the payment(s), with: (a) the three-year amortization period beginning the day SPS receives the first payment from LP&L; and (b) the FPPCAC credits beginning concurrently with the effective date of new SPS base rates that do not reflect LP&L in the jurisdictional allocators;

4. approve SPS's proposal to recover the reasonable and necessary costs associated with NOx allowances through SPS's FPPCAC and remove the $110,000 cap on recovery of NOx allowances that was adopted in Case No. 10-00395-UT;

5. approve recovery of SPS's rate case expenses incurred in conjunction with this case and SPS's remaining unrecovered rate case expenses incurred in Case No. 20-00238-UT;

6. approve the following regulatory accounting orders:

   i. authorize SPS to establish a regulatory asset and accrue, with interest at its WACC, expenses associated with an appeal of the Commission's order in this case for recovery in a future base rate case;

   ii. approve SPS's requested property tax tracker;

   iii. authorize SPS to establish a regulatory asset and accrue, with interest at its WACC, incremental regulatory expenses recorded in FERC Account No. 928 above the amount included in the cost of service for recovery in SPS's next base rate case;

   iv. authorize SPS to establish a regulatory asset and accrue, with interest at its WACC, incremental Operation and Maintenance costs associated with the continued flexible dispatch of the Tolk Generating Station, consistent with revised annual production targets under SPS's Tolk Optimization Plan, for recovery in SPS's next base rate case;

   v. authorize SPS to establish a regulatory asset and accrue, with interest at its WACC, expenses associated with wildfire mitigation modeling software for recovery in a future proceeding;

vi. authorize SPS to continue to recover from customers the amounts billed for historic Attachment Z2 charges and to defer, as a regulatory asset or liability, any difference between the amount assigned to New Mexico and approved in Case Nos. 17-00255-UT, 19-00170-UT, and 20-00238-UT and the New Mexico retail share of the final amount billed by SPP, excluding interest;

7. approve SPS's proposed Electric Affordability Program;

8. require SPS to host a collaborative working group to identify and evaluate new potential low-income assistance programs and

9. authorize SPS to track and record the workshop costs in a regulatory asset for recovery in SPS's next base rate case; and

10. approve SPS's proposed cost allocation, revenue distribution, and rate design, and its proposed changes to SPS's rate tariffs as shown in Advice Notice No. 312.

(B) approve SPS's requests to retire and abandon the Plant X Unit 1, Plant X Unit 2, and Cunningham Unit 1 Generating Stations in 2023 and approve an amended abandonment date for the Tolk Generating Station of 2028;

(C) suspend SPS's proposed rates for a period of no more than nine months and set a public hearing concerning the justness and reasonableness of SPS's proposed rates; and

(D) grant all other approvals, authorizations, and variances that the Commission determines are necessary for SPS to effectuate and implement the relief granted in this case.

Q. Does this conclude your pre-filed direct testimony?

A. Yes.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN PUBLIC SERVICE COMPANY'S APPLICATION FOR: (1) REVISION OF ITS RETAIL RATES UNDER ADVICE NOTICE NO. 312; (2) AUTHORITY TO ABANDON THE PLANT X UNIT 1, PLANT X UNIT 2, AND CUNNINGHAM UNIT 1 GENERATING STATIONS AND AMEND THE ABANDONMENT DATE OF THE TOLK GENERATING STATION; AND (3) OTHER ASSOCIATED RELIEF,	)	**CASE NO. 22-00286-UT**
SOUTHWESTERN PUBLIC SERVICE COMPANY,	)	
APPLICANT.	)	

VERIFICATION

On this day, November 18, 2022, I, Brooke A. Trammell, swear and affirm under penalty of perjury under the law of the State of New Mexico, that my testimony contained in Direct Testimony of Brooke A. Trammell is true and correct.

/s/ Brooke A. Trammell
BROOKE A. TRAMMELL

Southwestern Public Service Company
Witness List

Witness	Area of Testimony
Adrian J. Rodriguez	• Presents an overview of SPS's rate filing and explains the necessity for the requested base rate increase. • Describes SPS's commitments to provide reliable and affordable electricity and make smart investments for the future. • Introduces several of the main factors driving the need for a change in rates, including capital investment to support growth in New Mexico, reductions in wholesale power sales, and retirements of fossil generation assets.
Brooke A. Trammell	• Discusses various factors impacting SPS's cost of providing electric service. • Provides an overview of SPS's application and Future Test Year proposal. • Summarizes SPS's proposed base rate revenue change. • Demonstrates the alignment of SPS's investments and proposals in this case with New Mexico's energy policy goals. • Discusses how approval of SPS's future test year proposal supports SPS's continued leadership New Mexico's clean energy transition. • Discusses treatment of Lubbock Power & Light settlement payments. • Discusses adjustments to generation plant lives. • Discusses recovery of NOx allowances. • Discusses treatment of cash working capital. • Requests regulatory accounting orders. • Discusses SPS's proposed Electric Affordability Program.
Patricia L. Martin	• Discusses the financial issues that have important implications for the overall financial integrity of SPS, including the significance of Commission decisions on return on equity ("ROE"), capital structure for the Future Test Year, and associated cost of financing for SPS's utility operations that should be used for setting rates in this case for SPS's New Mexico retail operations. • Presents SPS's capital structure, cost of debt, and overall required rate of return on its investments.

Witness	Area of Testimony
	• Discusses SPS's continuing need for access to capital on reasonable terms and SPS's capital expenditure plans.
Suedeen Kelly	• Supports SPS's ROE request based on quality of service and management and discusses legal precedent that supports adjusting ROE on such a basis.
Dylan W. D'Ascendis	• Presents evidence and provides a recommendation regarding the appropriate cost of equity and capital structure for SPS. • Provides evidence and analysis regarding the appropriate ROE on SPS's New Mexico jurisdictional rate base.
Bryan R. Davis	• Explains that SPS maintains its books and records in compliance with Generally Accepted Accounting Principles. • Describes SPS's recovery of and accounting treatment of Southwest Power Pool's Attachment Z2 charges.
Jarred J. Cooley	• Recommends SPS be allowed to recover Southwest Power Pool Schedule 1-A expenses. • Discusses the increased Southwest Power Pool planning reserve margin.
Mark P. Moeller	• Summarizes capital additions for the Base Period, Linkage Period and Future Test Year. • Supports SPS's plant in service balances and describes the process for constructing and calculating Future Test Year asset balances, book and tax depreciation expense, accumulated reserve balances, and deferred tax offsets. • Supports SPS's continued use of unblended book accumulated depreciation and discusses the deferred tax adjustment associated with the depreciation unblending adjustment and calculation of Accumulated Deferred Income Tax ("ADIT") normalization. • Introduces the Technical Depreciation Update. Applies proposed depreciation rates to plant balances to develop proposed depreciation expense.
Dane A. Watson	• Explains the depreciation analysis philosophy. • Discusses the Technical Depreciation Update completed for SPS assets during the Future Test Year. • Supports and justifies the recommended depreciation rate changes for SPS assets for the Future Test Year, based on the results of the Technical Depreciation Update.

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Witness	Area of Testimony
Naomi Koch	• Supports the amounts of federal and state income tax expense included in SPS's cost of service and the amount of ADIT reflected in SPS's rate base. • Describes the normalization rules prescribed by the Internal Revenue Code and United States Department of the Treasury Regulations, and explains that SPS has calculated its rates consistent with those normalization requirements. • Discusses Internal Revenue Service requirements for calculating ADIT when utilizing a future test year for rate setting purposes. • Quantifies the amount of property taxes in the Future Test Year and explains why a property tax tracker is appropriate for SPS. • Discusses the recently-enacted Inflation Reduction Act and potential benefits for SPS's customers.
Michael O. Remington	• Supports the costs, reasonableness, and necessity of Technology Services capital additions for the Base Period, Linkage Period and Future Test Year. • Supports SPS's request to recover the reasonable and necessary costs associated with Technology Services Operation and Maintenance ("O&M") expense included in SPS's Future Test Year revenue requirement.
Casey S. Meeks	• Supports the costs, reasonableness, and necessity of Distribution capital additions for the Base Period, Linkage Period and Future Test Year. • Supports SPS's request to recover the reasonable and necessary costs associated with Distribution O&M expense included in SPS's Future Test Year revenue requirement
Reene Miranda	Supports the costs, reasonableness, and necessity of Transmission capital additions for the Base Period, Linkage Period and Future Test Year. • Supports SPS's request to recover the reasonable and necessary costs associated with Transmission O&M expense included in SPS's Test Year revenue requirement
Duane J. Ripperger	• Supports the development and output of the 2021 Line Loss Study. • Supports the Radial Line Study.
Ben R. Elsey	• Provides an overview of the process for SPS's resource planning and assessment of resource needs.

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Witness	Area of Testimony
	• Explains that SPS's capacity resources allow SPS to provide reliable service to its customers and ensure that SPS is able to meet customer demand. • Describes SPS's changing capacity position, including with respect to the service lives of Nichols Units 1 and 2. • Provides an updated Tolk Generating Station ("Tolk") Analysis that supports: (1) SPS's modification to the Tolk Optimization Plan to increase the annual generation of the Tolk Units; and (2) SPS's request for authority to retire coal operations at Tolk by end of year 2028.
Mark Lytal	• Supports the costs, reasonableness, and necessity of the production plant capital additions for the Base Period, Linkage Period and Future Test Year.
Richard L. Belt	• Discusses analyses regarding the water supply at Tolk. • Estimates water depletion range for economically available water to operate Tolk.
Adam R. Dietenberger	• Supports the costs, reasonableness, and necessity of the Property Services and Enterprise Security and Emergency Management capital additions for the Base Period, Linkage Period and Future Test Year. • Supports SPS's request to recover the reasonable and necessary costs associated with the ten Shared Corporate Services business areas' O&M expense included in SPS's Test Year revenue requirement. These business areas include Customer and Innovation; Financial Operations; Human Resources and Employee Services; Strategy Planning and External Affairs; General Counsel; Operations Services; Chairman and CEO; Risk Management; Integrated System Planning; and Corporate Other.
David A. Low	• Describes SPS's generating facilities and its power plant operation, maintenance, outages, and cost control practices. • Discusses energy supply O&M expense for the Future Test Year. • Supports SPS's request to retire Plant X Units 1 and 2 and Cunningham Unit 1 in 2023; to extend the service lives of Nichols Units 1 and 2; and to cease coal operations at Tolk Generating Station in 2028.

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Witness	Area of Testimony
Nicole Doyle	• Provides an overview of the legal structure and the business area or operational and managerial structure of Xcel Energy Service ("XES") and explains how that structure affects SPS. • Explains the XES affiliate accounting processes and how direct and allocated costs are billed from XES, Operating Companies, and other affiliates to and from SPS based on the Service Agreement. • Explains the operation and administration of XES, including the billings, allocation methods, factors, and statistics. • Provides an organization and accounting overview. • Sponsors the accounting for XES affiliate transactions and the affiliate transactions other than XES. • Discusses labor, labor-related and other overhead charges.
Richard R. Schrubbe	• Supports SPS's request to recover its reasonable and necessary actuarially determined pension and benefit expense. • Supports SPS's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured long term disability benefits. • Supports SPS's request to recover the reasonable and necessary costs incurred for workers' compensation benefits. • Supports SPS's request to recover other reasonable and necessary costs associated with benefits, such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation. • Quantifies SPS's prepaid pension asset and supports the request to continue to include that prepaid pension asset in rate base and to earn a return on the asset.
Michael P. Deselich	• Addresses compensation and benefits provided to the employees of SPS and its affiliates, specifically bargaining wage and base pay costs, annual incentive program costs, long-term incentive program costs, supplemental incentive program costs, and recognition award costs included in the Future Test Year cost of service. • Supports SPS's request to recover the reasonable and necessary costs associated with compensation and benefits included in SPS's Future Test Year revenue requirement.
H. Craig Romer	• Provides an overview of SPS's coal procurements under its Coal Supply Agreements with TUCO Inc. for SPS's Harrington and Tolk coal-fired generation stations.

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Witness	Area of Testimony
	• Supports SPS's request to recover the reasonable and necessary costs associated with fuel-handling expenses incurred under the Coal Supply Agreements.
Stephanie N. Niemi	• Presents SPS's total company and New Mexico retail jurisdictional revenue requirement and sponsors various schedules that support those revenue requirements. • Discusses the various components of the cost of service and the adjustments made to those components, including rate base, operating revenues, O&M expense, Administrative & General expense, taxes other than income taxes, income tax expense, and capital structure. • Supports the jurisdictional and functional allocation used in this proceeding.
John M. Goodenough	• Explains SPS's weather normalization methodology and adjustments to both sales and demand that have been affected by abnormal weather during the Base Period. • Describes SPS's load research function and information used for cost allocation and rate design.
Richard M. Luth	• Explains the development of the annual revenues by rate class for the Future Test Year. • Explains and supports the demand and energy allocation factors for allocating costs among SPS's New Mexico retail, Texas retail, and wholesale jurisdictions. • Summarizes how the functions involved in providing electric service are reflected in costs and how they serve as the starting point for the Class Cost of Service Study in which costs are assigned to the various New Mexico retail rate classes. • Discusses and supports the allocation of Future Test Year costs among the New Mexico retail customer classes. • Describes SPS's proposed distribution of the revenue requirement among the rate classes and presents the proof of revenue for the proposed rates. • Explains how SPS has designed the rates necessary to recover the revenue requirement. • Describes the proposed revisions to SPS's New Mexico retail rate and rule tariffs.

Southwestern Public Service Company

Total Company Amounts and Jurisdictional Percentages

Line No.	Witness	Description	Page No.	Line No.	Total Company Amount	Number Scale	Allocator (Name)	Allocator (%)	NM Amount
1	Trammell	Production Capital Investment - Base Period	27	17	$ 560,575,902	Dollars	Various	Various	$ 185,506,366
2	Trammell	Production Capital Investment - Linkage Period	27	19	$ 650,487,042	Dollars	Various	Various	$ 213,714,744
3	Trammell	Production Capital Investment - Future Test Year Period	28	2 & 3	$ 204,754,821	Dollars	Various	Various	$ 210,230,963
4	Trammell	Total Test Year Period Plant Additions	28	4	$ 1,815,817,766	Dollars	Various	Various	$ 609,452,073
5	Trammell	Production Plant Additions - Base Period	29	Table BAT-1	$ 46,477,229	Dollars	Various	Various	$ 15,934,974
6	Trammell	Transmission Plant Additions - Base Period	29	Table BAT-1	$ 246,309,010	Dollars	Various	Various	$ 66,439,299
7	Trammell	Distribution Plant Additions - Base Period	29	Table BAT-1	$ 163,072,234	Dollars	Various	Various	$ 69,165,217
8	Trammell	General Plant Additions - Base Period	29	Table BAT-1	$ 66,362,097	Dollars	Various	Various	$ 21,525,786
9	Trammell	Intangible Plant Additions - Base Period	29	Table BAT-1	$ 38,355,333	Dollars	Various	Various	$ 12,441,269
10	Trammell	Total Base Period Plant Additions	29	Table BAT-1	$ 560,575,903	Dollars	Various	Various	$ 185,506,366
11	Trammell	Production Plant Additions - Linkage Period	29	Table BAT-1	$ 86,413,635	Dollars	Various	Various	$ 33,309,150
12	Trammell	Transmission Plant Additions - Linkage Period	29	Table BAT-1	$ 265,340,175	Dollars	Various	Various	$ 77,589,738
13	Trammell	Distribution Plant Additions - Linkage Period	29	Table BAT-1	$ 157,292,772	Dollars	Various	Various	$ 53,017,339
14	Trammell	General Plant Additions - Linkage Period	29	Table BAT-1	$ 98,671,547	Dollars	Various	Various	$ 34,740,389
15	Trammell	Intangible Plant Additions - Linkage Period	29	Table BAT-1	$ 42,768,915	Dollars	Various	Various	$ 15,058,128
16	Trammell	Total Linkage Period Plant Additions	29	Table BAT-1	$ 650,487,042	Dollars	Various	Various	$ 213,714,744
17	Trammell	Production Plant Additions -Test Year Period	29	Table BAT-1	$ 79,103,070	Dollars	Various	Various	$ 30,433,271
18	Trammell	Transmission Plant Additions - Test Year Period	29	Table BAT-1	$ 168,803,924	Dollars	Various	Various	$ 49,360,900
19	Trammell	Distribution Plant Additions - Test Year Period	29	Table BAT-1	$ 209,179,829	Dollars	Various	Various	$ 78,445,677
20	Trammell	General Plant Additions - Test Year Period	29	Table BAT-1	$ 105,846,414	Dollars	Various	Various	$ 37,266,525
21	Trammell	Intangible Plant Additions - Test Year Period	29	Table BAT-1	$ 41,821,583	Dollars	Various	Various	$ 14,724,590
22	Trammell	Total Test Year Period Plant Additions	29	Table BAT-1	$ 604,754,821	Dollars	Various	Various	$ 210,230,963
23	Trammell	Total Production Plant Additions	29	Table BAT-1	$ 211,993,934	Dollars	Various	Various	$ 79,677,215
24	Trammell	Total Transmission Plant Additions	29	Table BAT-1	$ 680,453,109	Dollars	Various	Various	$ 193,389,937
25	Trammell	Total Distribution Plant Additions	29	Table BAT-1	$ 529,544,835	Dollars	Various	Various	$ 200,628,233
26	Trammell	Total General Plant Additions	29	Table BAT-1	$ 270,880,058	Dollars	Various	Various	$ 93,532,700
27	Trammell	Total Intangible Plant Additions	29	Table BAT-1	$ 122,945,831	Dollars	Various	Various	$ 42,223,987
28	Trammell	Total Test Year Period Plant Additions	29	Table BAT-1	$ 1,815,817,766	Dollars	Various	Various	$ 609,452,073
29	Trammell	Property Tax - Future Test Year	100	2 & 3	$ 86,550,000	Dollars	Various	Various	$ 30,121,738

Southwestern Public Service Company

Total Company Amounts and Jurisdictional Percentages

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Case No. 22-00286-UT

SPS Prior Case Commitments in accordance with 17.1.2.10(B)(2)(d) NMAC

RATE CASES

Case No. 16-00269-UT

The Commission's Final Order required SPS to:

- Re-file a complete rate case application and supporting testimony. SPS complied with this requirement by filing Case No. 17-00255-UT.

Case No. 17-00255-UT

The Commission's Final Order required SPS to:

- File a new advice notice and revised rates to become effective upon Staff's approval within ten days of filing. SPS complied with this requirement.
- In a new Advice Notice, cancel Rates Nos. 59, 67, 50, 60, and 61. SPS complied with this requirement.
- Amortize its non-protected excess ADIT over five years and its ADIT related to the net operating loss over 44 years. SPS is complying with these requirements.
- Implement a 15-year amortization period for a new group of large software systems. SPS is complying with this requirement.
- Revise its voltage class adjustment factors to calculate monthly FPPCAC factors. SPS has complied with this requirement.
- Upon the effective date of new rates, credit New Mexico retail customers with 100% of SPS's off-system sales. SPS has complied with this requirement.
- In SPS's next RPS case, propose to recover through its Renewable Energy Rider the cost of renewable energy PPAs that it uses to comply with the RPS. SPS complied with this requirement in Case No. 18-00201-UT.
- Prior to filing its next base rate case, meet with interested parties regarding the allocation of radial line costs and report on the results of this meeting in SPS's next base rate case filing. SPS has complied with this requirement.
- In SPS's next base rate case, report information regarding its Experimental Time of Use rates. SPS has complied with this requirement.

- In SPS's next base rate case filing, propose Time of Use Rates or explain why SPS does not propose permanent Time of Use Rates. SPS has complied with this requirement.
- Prior to filing its next base rate case, perform a New Mexico-specific study that analyzes: the reasonably determinable embedded and incremental costs to serve new interconnected customers; the reasonably determinable benefits to the utility system provided by new interconnected customers during each three-year period after which the new interconnected customer rate riders take effect; if applicable, whether the unavailability factors used in Rates 59 and 67 should be updated; if applicable, whether other changes should be made to cancelled Rates 59 and 67, including potential adjustments to the T&D Standby Charges. SPS has not proposed distributed generation standby rates.
- Within three months of issuance of the Final Order, meet with Staff and parties to discuss the depth of analysis and detail to include in the study described in the above paragraph and report on the results of this meeting in SPS's next base rate case filing. Participants shall consider the merits of SPS conducting a value of solar study and ELCC study to comply with Section 62-13-13.2. SPS has not proposed distributed generation standby rates.
- Within three months of issuance of the Final Order, meet with AG witness Crane to discuss Ms. Crane's criticisms and attempt to mitigate them in SPS's next base rate case filing, and report on those discussions in SPS's next base rate case filing. SPS has complied with this requirement.

The Commission's New Final Order on Partial Mandate from the New Mexico Supreme Court required SPS to:

- Within five days of issuance of the New Final Order on Partial Mandate: file a new advice notice and revised rates consistent with the order; file a motion to dismiss SPS's appeal of the Commission's Final Order in Case No. 18-00016-UT; and file a motion to dismiss SPS's appeal of the Commission's Final Order in Case No. 16-00269-UT. SPS complied with these requirements.

Case No. 19-00170-UT

The Final Order Adopting Certification of Stipulation provided the following:

- SPS would implement a $31 million increase in non-fuel base rate revenues for New Mexico retail service for consumption occurring on and after the date of the Commission's final order.

- SPS would amortize $1.2 million in rate case expenses over a one-year period, and track actual rate case expense and record any difference from the $1.2 million in a regulatory asset or liability that will be reviewed for prudence in SPS's next rate case.

- SPS will not recover, nor seek recovery in future cases, of any amounts associated with the rate proceeding docketed as Case No. 16-00269-UT.

- SPS's generation unit overhaul adjustment will be determined based on a four-year average.

- SPS will apply a Z2 annual amortization amount of $520,490 assigned to the New Mexico jurisdiction and will continue to maintain a regulatory asset or liability to record any differences between the amount assigned to the New Mexico jurisdiction and the New Mexico retail share of the final amount billed by SPP, excluding interest.

- The abandonment date for Tolk will be set at December 31, 2032, but Tolk's depreciation rates for this case will be calculated based on a remaining useful life through December 31, 2037. The Signatories agreed not to oppose the full application of depreciation rates associated with the 2032 abandonment date in SPS's next base rate case.

- SPS must submit by June 2021 a robust Tolk Analysis that has been reviewed by an independent third party of Tolk abandonment and potential means of replacement.

- Revise certain tariffs, including amendment of SPS's LGS-T tariff to include refunds to customers who paid for or provided CIAC for line extensions when those lines are subsequently used to provide service to other customers.

SPS has complied or will comply with the above requirements.

Case No. 20-00238-UT

The Final Order Adopting Certification of Stipulation provided the following:

- SPS will track actual rate case expenses and record any differences from the stipulated rate case expense in a regulatory asset or liability.

- SPS will apply a Z2 annual amortization amount of $520,490 and will continue to maintain a regulatory asset/liability.

- SPS will credit to New Mexico retail customers through SPS's FPPCAC $5,818,450 (New Mexico's allocated share of the Lubbock Power and Light exit fee) over a 12-month period following the Final Order in this case.

- SPS will credit to New Mexico retail customers through SPS's FPPCAC $12,269,833 over a twelve-month period following the Final Order and SPS will otherwise implement the "true-up" approach discussed in SPS witness Mr. Berger's rebuttal testimony beginning in 2023.

- SPS will maintain a range of +/- five percentage points around a target common equity to total capitalization ratio (excluding short-term debt) of 50%, resulting in a common equity range of 45% to 55%. This common equity range will be maintained through equity infusions from SPS's parent company, Xcel Energy Inc. SPS will request authorization from the Commission before changing this common equity target or range. Notwithstanding the foregoing, SPS can exceed the 55% cap for up to 90 days without further preapproval from the Commission. SPS shall not treat any equity ratio above 55% as its "actual" equity ratio for ratemaking purposes unless the Commission has approved the higher equity ratio.

- SPS will file, as a compliance filing, the rates and tariffs as set forth in the Stipulation under a new advice notice.

SPS has complied or will comply with the above requirements.

FINANCING CASES

Case No. 16-00125-UT. SPS's Application for Authority to Issue Securities ($400 Million FMB) and enter into rate hedging agreements

SPS was ordered to:

- Report each credit agreement that it enters into pursuant to the approvals and authorizations granted herein in its annual informational financing report filed in accordance with 17.1.2.8 NMAC, and in that filing, SPS shall include a cross-reference to this Order. On April 30, 2017, SPS made this filing as part of its Annual Report.
- File a notarized report within 90 days following the consummation of the subject securities transactions, stating: the consummation; the amount of the proceeds; the expenses actually incurred by SPS; and the terms and conditions of the transactions. SPS priced $400 Million FMB during 2016 and the transaction issued through the period ending December 31, 2016. SPS filed the required report on November 9, 2016.

SPS has complied or will comply with the above requirements.

Case No. 17-00100-UT. SPS's Application for Authority to Issue Securities ($550 Million FMB), recover certain refunding costs, and enter into rate hedging agreements

SPS was ordered to:

- Report each credit agreement that it enters into pursuant to the approvals and authorizations granted herein in its annual informational financing report filed in accordance with 17.1.2.8 NMAC. On April 30, 2018, SPS made this filing as part of its Annual Report.
- File a notarized report within 90 days following the consummation of the subject securities transactions, stating: the consummation; the amount of the proceeds; the expenses actually incurred by SPS; and the terms and conditions of the transactions. SPS will also demonstrate in the report that the overall cost of debt was lowered a result of any refinancing transaction. SPS priced $450 Million FMB on August 2, 2017, and the transaction closed on August 9, 2017. SPS filed the required report on November 7, 2017.

SPS has complied or will comply with the above requirements.

Case No. 18-00232-UT. SPS's Application for Authority to Issue Securities ($300 Million FMB), recover certain refunding costs, enter into rate hedging agreements, extend authorization to issue notes under revolving credit agreements, and increase the maximum amount of notes issuable under its credit agreement to $600,000,000

SPS was ordered to:

- File final documents following the close of the securities transactions and identify every change from the documents presented with SPS's Application. SPS filed the required documents on November 15, 2018.
- File a notarized report within 90 days following the consummation of the subject securities transactions, stating: the consummation; the amount of the proceeds; the expenses actually incurred by SPS; the terms and conditions of the transactions; and hedging activities and the impacts of those activities. SPS will also demonstrate in the report that the overall cost of debt was lowered a result of any refinancing transaction. SPS priced $300 Million FMB on October 29, 2018, and the transaction closed on November 5, 2018. SPS filed the required report on January 16, 2019.

SPS has complied or will comply with these requirements.

Case No. 19-00038-UT. SPS's Application for Authority to Issue Securities ($400 Million FMB), recover certain refunding costs, and enter into rate hedging agreements

SPS was ordered to:

- File final documents following the close of the securities transactions and identify every change from the documents presented with SPS's Application. SPS will file the required documents after the transaction closes. SPS filed the required report on July 3, 2019.
- File a notarized report within 90 days following the consummation of the subject securities transactions, stating: the consummation; the amount of the proceeds; the expenses actually incurred by SPS; the terms and conditions of the transactions, and hedging activities and the impacts of those activities. SPS will also demonstrate in the report that the overall cost of debt was lowered a result of any refinancing transaction. SPS will file the required report within 90 days after the transaction closes. SPS filed the required report on September 9, 2019.

SPS has complied or will comply with these requirements.

Case No. 20-00052-UT. SPS's Application for Authority to Issue Securities ($350 Million FMB), recover certain refunding costs, and enter into rate hedging agreements

SPS was ordered to:

- File final documents following the close of the securities transactions and identify every change from the documents presented with SPS's Application. SPS filed the required report on June 4, 2020.
- File a notarized report within 90 days following the consummation of the subject securities transactions, stating: the consummation; the amount of the proceeds; the expenses actually incurred by SPS; the terms and conditions of the transactions, and hedging activities and the impacts of those activities. SPS will also demonstrate in the report that the overall cost of debt was lowered a result of any refinancing transaction. SPS filed the required report on August 14, 2020.

SPS has complied or will comply with these requirements.

Case No. 22-00017-UT. SPS's Application for Authority to (1) Issue up to $250 Million of First Mortgage Bonds During 2022; (2) Recover certain refunding costs; (3) Enter into Agreements in Support of Interest Rate Hedging Including Interest Rate Locks and Swaps; and (4) Extend Authorization to Issue Notes Under Revolving Credit Agreement for an Additional Three Years.

SPS was ordered to:

- File final documents following the close of the securities transactions when they are available and identify how the documents differ from those presented with SPS's Application.
- Within 90 days following the consummation of each securities transaction, file the final transaction documents, along with a report verified by an officer of SPS, stating consummation of the securities transactions, the amount of the proceeds, the expenses actually incurred by SPS, and the terms and conditions of the securities transactions.

SPS has complied or will comply with these requirements.

ENERGY EFFICIENCY CASES

Case No. 16-00110-UT. SPS's 2017 EE/LM Plan

The Final Order Adopting Certification of Stipulation required SPS to comply with the following requirements:

- Within 60 days of issuance of the Final Order, file a modified 2017 EE/LM Plan incorporating all approved changes in red-lined format. SPS complied with this requirement by filing its modified 2017 EE/LM Plan on January 9, 2017.
- Within 10 days of issuance of the Final Order, file an advice notice to implement the approved 2017 EE rider and commence collections in the first full billing month after filing the advice notice, but not before January 1, 2017, provided there are at least 10 business days for the Signatories to review the advice notice prior to collection in the first full billing month after filing the advice notice. If the Signatories do not have 10 business days to review the advice notice prior to the first full billing month, SPS shall implement the proposed 2017 EE Rider in the second full billing month after filing the advice notice. SPS complied with this requirement by filing Advice Notice No. 266 on November 18, 2016.
- Review the Residential Cooling Program to determine whether there are instances of customers switching from evaporative cooling to central air conditioning when choosing to participate in the Program and propose restrictions to prevent rebating of technology switching by customers if it is occurring. SPS discussed this issue in Case No. 17-00159-UT and Case No. 19-00140-UT.
- Section 1.1(a) of the Stipulation in Case No. 16-00110-UT required SPS to review the potential to add participants to the Energy Feedback Program for plan year 2018. SPS conducted this review in 2016.
- Section 1.1(e) of the Stipulation required SPS to investigate 'strategic energy management' enhancements for capturing savings from business operational improvements. SPS has complied with this requirement.
- Sections 2.1 and 2.2 of the Stipulation required SPS to make a yearly filing seeking approval of the creation of a regulatory asset or liability caused by the differential between collection and spending levels and approval of a yearly reconciliation of the incentive earned by SPS for the 2017 program year versus collections. The Stipulation required SPS to make a limited filing with the Commission in 2018 to request a regulatory liability and reconciliation of the incentive earned by SPS for the 2017 program year. SPS complied with these requirements by filing Case Nos. 17-00159-UT and 18-00139-UT.

SPS has complied or will comply with these requirements.

Case No. 17-00159-UT. SPS's 2018 EE/LM Plan

The Final Order Adopting Certification of Stipulation required SPS to comply with the following requirements:

- Within 10 days of issuance of the Final Order, file an advice notice to commence collection of program costs under the proposed EE rider in the first full month after filing the advice notice. SPS complied with this requirement by filing Advice Notice No. 269 on December 14, 2017.
- Within 60 days of issuance of the Final Order, file a modified 2018 EE/LM Plan incorporating all approved changes in red-lined format. SPS had not filed an EE/LM Plan and, therefore, did not file a modified plan.
- Subsection 1.7 of the Stipulation required SPS to address the merits of using a particular WACC in its next EE/LM filing in 2019. This requirement was rendered moot by the 2017 amendment to Rule 17.7.2 NMAC.

SPS has complied or will comply with these requirements.

Case No. 18-00139-UT. Regarding SPS's Petition Seeking Commission Determination of an Appropriate Energy Efficiency and Load Management Filing

SPS was ordered to:

- Include in its May 2019 triennial EE/LM filing all necessary information and requests for approval required by Sections 2.1 and 2.2 of the Stipulation in Case No. 16-00110-UT. SPS has complied with this requirement in Case No. 19-00140-UT.
- Prior to SPS's May 2019 triennial EE/LM filing, SPS will book in the 2017 plan year balancing account the estimated under-spend amount as a regulatory liability and apply the appropriate amounts to its 2019 and 2020 plan year budgets, subject to the Commission's review, reconciliation, approval, and or modification. SPS has complied with this requirement.
- Prior to SPS's May 2019 triennial EE/LM filing, the Signatories to the stipulation in Case No. 16-00110-UT are instructed to attempt to agree on how to address and resolve, going forward, the inconsistency between the Stipulation and the amendments to the EE Rule, subject to Commission approval in the May 2019 case.

The parties to the Stipulation discussed these issues but given the number of cases and other business of the parties, no resolution was reached.

Case No. 19-00140-UT. Regarding SPS's Triennial Energy Efficiency Plan Application Requesting Approval of SPS's 2020-2022 Energy Efficiency Plan and Associated Programs; Recovery of a Financial Incentive for Plan Year 2020; Recovery of the Costs Associated with a Potential Energy Efficiency Study; and Continuation of SPS's Energy Efficiency Tariff Rider.

The Final Order Adopting Certification of Stipulation required SPS to comply with the following requirements:

- File an advice notice to implement the approved 2020 EE rider within ten days of Commission approval of the Stipulation, and to commence collections in the first full billing month after filing the notice, provided that the Signatories have ten business days to review the advice notice. SPS complied with this requirement.
- File a modified 2020 Triennial Plan within 60 days of Commission approval of the Stipulation incorporating all approved changes in legislative format. SPS complied with this requirement.
- File with the Commission findings from the EE potential Study and any proposed modifications to its 2019 Triennial Filing by June 1, 2021; the filing will include: (1) SPS's new goal under the amended EUEA; (2) revised energy savings targets for PY 2022; (3) any additional measures, products, or programs SPS may propose to meet revised energy savings targets for 2022; and (4) updated program level budgets and associated rate recovery. SPS will comply with this requirement.

SPS has complied or will comply with these requirements.

Case No. 21-00186-UT. Regarding SPS's Submittal of Energy Efficiency Potential Study Pursuant to Final Order in Case No. 19-00140-UT.

The Final Order required SPS to comply with the following requirements:

- Work with interested parties to address CCAE's program-related concerns, as well as any other issues that may arise, as part of the collaborative process required pursuant to NMSA 1978, § 62-17-5(E) in developing SPS's 2022 triennial EE plan filing.

- Address and evaluate demand response programs or measures for C&I class customers, as part of SPS's 2022 triennial EE plan filing.

- Address and evaluate including a demand management component or factor in its proposed incentive mechanism, as part of SPS's 2022 triennial EE plan filing.

SPS has complied or will comply with these requirements.

RENEWABLE PORTFOLIO STANDARD ("RPS") CASES

Case No. 16-00183-UT Regarding SPS's 2015 Annual RPS Report; the 2017 Annual Renewable Energy Portfolio Procurement Plan; and Associated Relief

SPS was ordered to:

- File an advice notice within 10 days of the order to revise the RPS Rider to commence collection of its 2017 RPS-related costs. SPS complied with this requirement by filing Advice Notice No. 263.
- Discuss with NextEra the possibility of purchasing solar RECs outside the NextEra PPA's purchase option and report to the Commission the status of those negotiations in SPS's 2017 RPS filing. SPS complied with this requirement in its 2017 RPS filing, Case No. 17-00161-UT, filed on July 3, 2017.

SPS has complied or will comply with these requirements.

Case No. 17-00161-UT Regarding SPS's 2016 Annual RPS Report; the 2018 Annual Renewable Energy Portfolio Procurement Plan; and Associated Relief

SPS was ordered to:

- File an advice notice within 10 days of the order to revise the RPS Rider to commence collection of SPS's 2018 RPS-related costs. SPS complied with this requirement by filing Advice Notice No. 270 on December 14, 2017.
- Provide the Rule 572.14(C)(1) revenue requirement analyses in its 2019 RPS Plan filing. SPS complied with this requirement in Case No. 18-00201-UT.
- In its 2018 RPS filing, show that, when calculating the RPS, that the large customer adjustment has been calculated consistent with previous Commission's decisions, specifically the Final Order in Case No. 17-00129-UT. SPS complied with this requirement in Case No. 18-00201-UT.

SPS has complied or will comply with these requirements.

Case No. 17-00294-UT. Regarding SPS's Request for Approval of Extension of WindSource PPA

The Final Order Approving Certification of Stipulation provided:

- SPS is authorized to execute a two-year extension of the Texico PPA consistent with the terms and conditions of the Stipulation, Commission rules, and any applicable provisions of prior orders. SPS will comply with this requirement.
- SPS is authorized to continue the use of its FPPCAC to flow through the costs and revenues associated with the PPA extension and to reconcile any imbalances between Windsource costs and revenues consistent with the terms and conditions of the Stipulation, Commission rules, and any applicable provisions of prior orders. SPS will comply with this requirement.
- As part of its filing for a new voluntary renewable energy program, SPS shall address potential cross-subsidies related to the recovery of costs of the proposed new voluntary program. SPS has complied with this requirement in Case No. 18-00308-UT.

SPS has complied or will comply with these requirements.

Case No. 18-00201-UT Regarding SPS's 2017 Annual RPS Report; the 2019 Annual Renewable Energy Portfolio Procurement Plan; and Associated Relief

SPS was ordered to:

- Obtain Commission approval before changing any terms of the Caprock, San Juan, and SunEdison PPAs. SPS will comply with this requirement.
- When SPS files a Renewable Energy Act plan and the plan projects that SPS will not procure RECs beyond its RPS compliance requirement in the plan year, SPS shall, beginning in that plan year, recover all of its RPS compliance costs through its RPS Cost Rider and use gross cost to calculate the Large Customer Adjustment. Until that time, SPS may continue to recover its economic RPS compliance costs through its FPPCAC and use net cost to calculate the Large Customer Adjustment. SPS has complied with this requirement.
- Retire the RECs associated with the Sagamore and Hale wind facilities for RPS compliance as needed; and sell Sagamore and Hale RECs not used for RPS compliance or to offset any greenhouse gas standards and allocate the proceeds as credits to SPS's New Mexico retail customers through SPS's FPPCAC. SPS will comply with these requirements.
- In future RPS cases, SPS shall update information regarding distributed generation REC purchase programs. SPS will comply with this requirement.

SPS has complied or will comply with these requirements.

Case No. 19-00134-UT. Regarding SPS's Application for Acknowledgment of its Filing of the 2018 Annual Renewable Energy Portfolio Report; Approval of its Annual Renewable Energy Portfolio Procurement Plan for Plan Year 2020; Approval of the Proposed Rate for its 2020 Renewable Portfolio Standard Rider and Associated Relief.

The Final Order Adopting Recommended Decision provided:

- Approval of SPS's Annual Renewable Energy Portfolio Report for 2018
- Approval of SPS's Renewable Energy Act Plan for the 2020 Plan Year and 2021 Next Plan Year.
- Approval of SPS's proposed Seventh Revised Rate No. 170 contained in Advice Notice No. 285.
- Approval of SPS's Original Rate No. 77 contained in Advice Notice No. 285.
- Approval of SPS's requests for variances from provisions of 17.9.572 NMAC: 17.9.572.10 and 14(B)(1) and (3) (Large Customer Adjustment); 17.9.572.14(C) (Calculation of RCT); and 17.9.572.11 (Diversification Requirements for Renewable Energy Portfolio).
- Approval of SPS's request to be relieved from the following requirements: Application of the Large Customer Adjustment beginning in 2015 (Case No. 13-00222-UT); Prohibition on SPS making further procurements until retiring surplus RECs or receiving authorization from PRC (Case No. 13-00222-UT); Requirement that SPS recover all RPS compliance costs through RPS Cost Rider and use gross cost to calculate Large Customer adjustment when SPS ceases procuring RECs beyond its RPS compliance requirement (Case No. 18-00201-UT); Requirement that SPS evaluate non-wind renewable energy resources until PRC determination that SPS's portfolio satisfies diversification requirements of REA (Case Nos. 04-0034-UT; 05-00354-UT; and 06-00360-UT).
- Approval of SPS's request to register REC's associated with wind energy generation from the Hale Wind Facility with ERCOT.

SPS has complied or is in compliance with the above provisions.

Case No. 20-00143-UT Regarding SPS's 2021 Annual Renewable Energy Portfolio Procurement Plan; Proposed 2021 Renewable Portfolio Standard Cost and Reconciliation Riders; Application for an RPS Incentive; and Associated Relief

The Final Order Adopting Recommended Decision with Modification provided:

- Approval of SPS's Annual Renewable Energy Portfolio Report for 2019
- Approval of SPS's Renewable Energy Act Plan for the 2021 Plan Year and 2022 Next Plan Year.
- SPS would file a new advice notice that complies with the terms of the Final Order.

SPS has complied or is in compliance with the above provisions.

Case No. 21-00172-UT, Regarding SPS's 2022 Annual Renewable Energy Portfolio Procurement Plan; Proposed 2022 Renewable Portfolio Standard Cost and Reconciliation Riders; Application for an RPS Incentive; and Associated Relief

The Final Order Adopting Recommended Decision with Modification provided for:

- Approval of SPS's Annual Renewable Energy Portfolio Report for 2020
- Approval of SPS's Renewable Energy Act Plan for the 2021 Plan Year and 2022 Next Plan Year.
- Approval of SPS's proposed rate for its 2022 RPS Rider.
- Approval of SPS's proposed rate for its 2022 RPS Reconciliation Rider.

SPS has complied or is in compliance with the above provisions.

CERTIFICATE OF CONVENIENCE AND NECESSITY CASES

Case No. 16-00126-UT. Regarding SPS's Request for a CCN for the Hobbs to China Draw Transmission Line

SPS was ordered to file:

- Copies of all final construction permits received within two weeks of receipt. SPS filed copies of the construction permits on September 20, 2017.
- The actual costs of the Proposed Project as soon as they become available. SPS filed the required information on September 28, 2018.
- Notice of the dates that the Proposed Project is placed in service. SPS filed the required information on September 28, 2018.

SPS has complied or will comply with these requirements.

Case No. 17-00044-UT. Regarding SPS's Request for a CCN for Wind Generation Facilities

The Final Order Adopting Certification of Stipulation with Modification required SPS to comply with the following requirements:

- File copies of all construction and required environmental permits received for Hale facility within two weeks of receipt of the final permit for Hale, and all construction and required environmental permits received for Sagamore within two weeks of receipt of the final permit for Sagamore.
- File the actual costs of each Wind Facility as soon as the actual costs are available.
- Within five business days of the date each Wind Facility is declared in commercial operation, file a notice of that Wind Facility's commercial operation date.
- Comply with the terms of the Stipulation regarding the sale of energy generated by the Wind Facilities and the crediting of Production Tax Credits.
- File historic test year rate cases for the initial rate cases in which the Wind Facilities are included in rates and propose specific ratemaking provisions established by the Stipulation for the Wind Facilities.
- For New Mexico retail ratemaking purposes, the gross plant-in-service amount combined for the Hale and Sagamore projects to be included in SPS's rate base in

the initial rate cases for the projects will not exceed $1,675 per kW installed (total company).

- Provide customers with a guaranteed level of generation as described in the Stipulation and make an annual informational filing by May 15th showing the production level for the prior year and the amount of any credit or recapture.
- Track net savings for customers for the first ten years of each Wind Facility's operation in the manner described in the Stipulation and compensate customers for net costs. SPS will make an annual informational filing by May 15th showing the calculation of net savings for the prior calendar year.
- Credit New Mexico retail customers with the value of 100% of the New Mexico retail portion of the PTCs related to the actual output generated by turbines placed in service at the Wind Facilities after December 31, 2020, through SPS's FPPCAC.
- For the first base rate case SPS files to include each facility in rates and subsequent rate cases in which final orders are issued before December 31, 2025, include in rate base the end-of-test-year balance of any unused PTCs, up to $630 million.
- Allocate costs of the Wind Facilities using an energy allocator.
- In the first SPS base rate case that seeks to recover the costs of Hale through rates, file a complete deprecation study that covers all of SPS's depreciable assets, including Hale.
- Address the sale of RECs created by production from Hale and Sagamore in SPS's 2018 RPS case.
- The New Mexico retail jurisdictional portion of the margins from any off-system sales of generation from the Hale and Sagamore projects will be provided 100% to customers.
- Meet with customers should SPS decide to cancel or reduce the size of one or both of the Wind Facilities prior to operation. SPS has not cancelled or reduced the size of the Wind Facilities.

SPS has complied or will comply with the above requirements.

Case No. 17-00143-UT. Regarding SPS's Request for a CCN for Lea County Transmission Line

SPS was ordered to file:

- Copies of all final construction permits and environmental permits within 30 days of receipt. SPS will comply with this requirement.
- The actual costs of the Proposed Project as soon as they become available. SPS will comply with this requirement.
- Notice of the dates that the Proposed Project is placed in service.

SPS has complied or will comply with these requirements.

Case No. 17-00089-UT. Regarding SPS's Request for Approval to Retire and Abandon the Carlsbad Generating Station

SPS was ordered to:

- Abandon and decertify the Carlsbad Generating Station ("CGS").
- After SPS dismantles the CGS, file a report with the Commission identifying and justifying all expenses incurred if the net cost of removal exceeds $150,000 (New Mexico retail). The CGS has been dismantled, and the cost of removal did not exceed $150,000 (New Mexico retail).
- Explain all CGS-related costs SPS may seek to recover in a future rate case that will be filed after dismantling is complete. SPS has complied with this requirement.

SPS has complied or will comply with these requirements.

Case No. 19-00157-UT. Regarding SPS's Request for a CCN, Location Approval, Right-of-Way Width Approval, and AFUDC Accrual for the Eddy County to Kiowa Transmission Line

SPS was ordered to file:

- Copies of all final construction permits and environmental permits within two weeks of receipt. SPS will comply with this requirement.
- The actual costs of the Proposed Project as soon as they become available. SPS will comply with this requirement.
- Notice of the dates that the Proposed Project is placed in service.

SPS has complied or will comply with these requirements.

Case No. 20-00085-UT. Regarding SPS's Request for a CCN, Location Approval, Right-of-Way Width Approval, and AFUDC Accrual for the Roadrunner to Phantom to China Draw Transmission Line

SPS was ordered to file:

- Copies of all final construction permits and environmental permits within two weeks of receiving the final permit.
- The actual costs of the Proposed Project as soon as they become available.
- Notice of the dates that the Proposed Project is placed in service.

SPS has complied or will comply with these requirements.

OTHER CASES

Case No. 16-00252-UT. Regarding SPS's Eighth Revised Rule No. 16 and Application of Policy on Contribution in Aid of Construction

SPS was ordered to:

- Retain and manage documentation pertaining to all cost estimates provided to suburban developers who make line extension requests.

SPS has complied or will comply with these requirements.

Case No. 16-00263-UT. Regarding SPS's Application for Approval of Modification of Cost Recovery Methodology Under its Fuel and Purchased Power Cost Adjustment Clause

SPS was ordered to:

- Recover FPPCAC costs from New Mexico retail customers based on loss-adjusted sales. SPS has complied with this requirement.
- Work with Staff and the parties to develop additional work papers and calculations that SPS will file with its monthly FPPCAC reports. SPS has been filing an additional work paper with its monthly FPPCAC reports that shows how the loss-adjusted FPPCAC allocator was derived.
- File its monthly FPPCAC reports from other jurisdictions at the time they are filed in the other jurisdictions. SPS has complied with this requirement.
- Include with its annual FPPCAC report a separate report that provides detailed calculations showing SPS's fuel and purchased power costs for all jurisdictions for the prior calendar year. SPS has complied with this requirement.
- In its next general rate case filing, justify SPS's sharing of non-firm off system sales between customers and SPS on a 90%-10% basis. SPS complied with this requirement in Case No. 17-00255-UT.

SPS has complied or will comply with these requirements.

Case No. 17-00104-UT Regarding SPS's Application for Revision of Rate No. 26 Under Advice Notice No. 268 and Request for Waivers

SPS was ordered to:

- File an Advice Notice removing its Optional Credit Card Charge from Rate No. 26 of its tariff within ten days of the Commission's Final Order.

SPS has complied or will comply with these requirements.

Case No. 17-00275-UT Regarding the Application of Sagamore Wind Energy LLC for Location Approval

SPS monitored this case as it directly impacted its Request for a CCN for Wind Generation Facilities in CCN Case No. 17-00044-UT. The Commission approved the Certification of Stipulation without modification.

Case No. 17-00294-UT Regarding SPS's Application to Enter into a Two-year Purchased Power Agreement Extension with Windsource

The Certification of Stipulation authorized SPS to continue the use of its FPPCAC to flow the costs and revenues associated with the PPA extension. The Commission approved the Certification of Stipulation without modification.

SPS has complied or will comply with these requirements.

Case No. 18-00215-UT Regarding SPS's 2018 Integrated Resource Plan

The Commission accepted SPS's 2018 IRP as satisfactorily compliant with the IRP Rule.

Case No. 18-00308-UT Regarding SPS's Application for: (1) Authorization to Establish the Voluntary Solar*Connect Community Program ("Solar*Connect") and enter into a Purchased Power Agreement for the Purchase of 1.98 MW of Nominal Solar Capacity and Associated Energy for Solar*Connect; (2) Approval of the Proposed Methodology for Calculating and Annually Adjusting the Solar*Connect Costs and Revenues Through the Solar*Connect Rider and its Fuel and Purchased Power Cost Adjustment Clause

The Final Order provided that:

- Pursuant to NMSA 1978, § 62-16-7(A)(2) and 17.9.572.18 NMAC, a new SPS voluntary program for purchasing renewable energy containing all provisions

necessary to conform to this Order and entitled Solar*Connect Community Rate Rider is approved and adopted.

- SPS shall file the Solar*Connect Community Rate Rider Tariff – which shall be based upon the Commission-approved rates, terms, and conditions and solar*Connect Credit calculation methodology – under a new Advice Notice immediately following entry of the Final Order.

- Upon termination of the Windsource Renewable Energy Rate Rider Tariff No. 7202.3, Windsource customers who did not opt out by December 1, 2020, shall be automatically enrolled in the new Solar*Connect program with subscriptions that are equal or lesser on a total annual energy basis than their Windsource subscription.

- In conformity with 17.9.572.18(B), SPS shall place on file the details of its consumer education program along with the Solar*Connect program within 60 days of the issuance of the Final Order.

- Under the terms of the new Solar*Connect Community Rate Rider, SPS shall retire renewable energy certificates (RECs), as defined in 17.9.572 NMAC, associated with customer subscription sales under the Rate Rider Tariff. Renewable energy sold and/or associated with RECs sold under the Solar*Connect Community Rate Rider shall not be used to meet the RPS requirements of NMSA 1978, § 62-16-4 (as amended 2019), or any successor thereto.

- SPS shall annually file a revised Solar*Connect Community Rate Rider and Solar*Connect Credit based on updated avoided cost calculations in SPS's July 1 Annual Renewable Energy Procurement Report beginning in 2020.

SPS has complied or will comply with the above provisions.

Case No. 18-00329-UT Regarding SPS's Application Requesting Approval to Retire and Abandon its Plant X Generating Station Unit 1, Plant X Generating Station Unit

2, and Cunningham Generating Station Unit 1, and Determination of Related Ratemaking Principles and Treatment.

The Final Order provided that:

- SPS shall file in this docket, bi-annual reports, beginning 6 months from the date of this Order. Such reports shall detail the average weekly price of gas over that 6-month period and compares it to the average weekly price of gas for the previous 6-month period, for the gas that SPS purchases for use at the units Plant X I, Plant X 2, and Cunningham 1.

SPS has complied or will comply with these requirements.

Case No. 19-00211-UT Regarding Request for Approval of a Service Agreement Between Central Valley Electric Cooperative, Inc, (CVEC) and Southwestern Public Service Company.

The Final Order provided that:

- The Boundary Agreement is approved as provided by this Order.
- SPS and CVEC shall maintain complete records of any issues or disputes that may arise under the Boundary Agreement, and of any resolution thereof achieved by SPS and CVEC. Any such issues or disputes which cannot be resolved by the agreement of SPS and CVEC may be resolved by the Commission pursuant to a proper application or upon the Commission's own initiative.
- If the Boundary Agreement is modified to address service by the nonservice area utility outside its exclusive service area or acquisition of customer owned distribution lines by the non-service area utility, the parties shall file appropriate documentation with the Commission requesting either acceptance or approval as appropriate.

SPS has complied or will comply with these requirements.

Case No. 19-00315-UT Regarding SPS's Application for Approval of: (1) Continued Use of its Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC") Using a Monthly Adjustment Factor Under NMPRC Rule 550; (2) the Report of Expenses Recognized and Revenues Collected or Refunded under the FPPCAC for the Period September 2015 Through June 2019; (3) the Reconciliation of Fuel Costs for the Period September 2015 Through June 2019; and (4) SPS's Proposed Annual Deferred Fuel Balance True-Up.

The Final Order provided that:

- SPS's Continued Use of the FPPCAC pursuant to Rule 17.9.550.17 NMAC is approved as set forth in this Order and subject to the requirements of 17.9.550 NMAC and any future orders of the Commission.

- SPS's reconciliation of FPPCAC expenses and revenues recognized under the monthly FPPCAC for the Reporting period are approved.

- SPS's reconciliation of fuel costs for the Reporting Period are approved.

- SPS's proposed Annual Deferred Fuel Balance True-Up is denied without prejudice.

- SPS shall make required filings both as Excel-compatible spreadsheets, as well as all fuel-clause related filings in the appropriate formats, to the Commission's fuel clause mailbox (nmprc.fuelclause@state.nm.us) and by paper copy to the Commission's Records Department.

- SPS shall address issues regarding SPS's New Mexico Deferred FPP Balance, and SPS's assertion that there is no mechanism by which it could return any over-collections from that four-month period, as well as any resolutions to these issues in SPS's soon to be filed rate case, Case No. 20-00238-UT.

SPS has complied or will comply with these requirements.

Case No. 20-00150-UT TEP

The Final Order provided that:

- SPS's Transportation Electrification Plan ("TEP") is approved, consistent with the following modifications:
    - Increase rebates for home wiring for non-low income and low-income customers to cover costs of chargers and electrical panel upgrades.
    - Provide customers with options to take ownership of SPS-provided home charging stations early and after 10 years of monthly payments.
    - Require that 20% of the Advisory Services budget target low-income customers.
    - Add a make-ready infrastructure program for Level 2 charging.
    - Determine that the Commission has authority to approve contract terms between SPS and charging station site hosts that receive make-ready infrastructure funded by the TEP.
    - Require credit card readers for charging stations funded under the TEP's make-ready infrastructure program.
    - Approve per kWh rates (instead of per minute rates) for SPS-owned charging stations.
    - Provide for the recovery of TEP rebates through a regulatory asset amortized over 10 years.
    - Provide for the recovery of TEP costs more broadly from all SPS customers.
    - Approve a TEP duration of three years -- 2022, 2023 and 2024 -- with annual performance reports.

SPS has complied or will comply with these requirements.

Case No. 21-00200-UT Harrington CCN

The Final Order provided that:

- SPS's requested amendments to its Certificates of Convenience and Necessity for the Harrington Generation Station allowing conversion from coal to natural gas as fuel are granted, subject to the following conditions:
    - SPS shall file copies of all construction permits received for this project in this docket within two weeks of receipt of the final permits required;
    - SPS shall file in this docket the actual costs of this project, including the actual allowance for funds used during construction ("AFUDC") amounts and how they were calculated, and, also, a comparison of the original

estimate to the actual installed costs, within one month of becoming available;
  - SPS shall file a notice of the COD of these units; and
  - SPS shall file a notice of the date that fuel costs, whether associated with start-up or commercial operation as a natural gas plant, shall first be included in SPS's Fuel and Purchased Power Cost Adjustment Clause.

- To the extent requested, SPS is granted approval to include AFUDC in the Certificate of Estimated Cost of the Project.

- The Commission accepts SPS's estimated cost for purposed of the Cost Overrun Rule.

SPS has complied or will comply with these requirements.

COMPLIANCE FILINGS

New Mexico Public Regulation Commission Annual Report

- 2018 Annual Report containing 2017 data filed April 30, 2018
- 2019 Annual Report containing 2018 data filed April 30, 2019
- 2020 Annual Report containing 2019 data filed April 30, 2020
- 2021 Annual Report containing 2020 data filed April 30, 2021
- 2022 Annual Report containing 2021 data filed April 30, 2022

Case Nos. 05-00341-UT and 04-00426-UT, Compliance with Uncontested Stipulation

- 2018 Report containing 2017 data filed February 23, 2018
- 2019 Report containing 2018 data filed February 28, 2019
- 2020 Report containing 2019 data filed February 28, 2020
- 2021 Report containing 2020 data filed February 26, 2021
- 2022 Report containing 2021 data filed February 28, 2022

Case No. 13-00031-UT, SPP Reports in Accordance with Section 8 of the Uncontested Stipulation

- 2018 Report containing 2017 data filed May 31, 2018
- 2019 Report containing 2018 data filed May 31, 2019
- 2020 Report containing 2019 data filed May 31, 2020
- 2021 Report containing 2020 data filed May 28, 2021
- 2022 Report containing 2021 data filed June 1, 2022

Case No. 17-00044-UT, in Accordance with Section VII(D) of Modified Unanimous Comprehensive Stipulation

- Notice of Commercial Operation – Hale, filed July 3, 2019
- Hale Compliance Informational Report filed May 15, 2020

- SPS's Report Regarding Customer Benefits and Hale Revenue Requirement during Rate Case Suspension Period filed November 25, 2020
- Sagamore Construction and Environmental Permits filed December 14, 2020
- Notice of Commercial Operation – Sagamore, filed January 4, 2021
- No Net Cost to Customers filed May 14, 2021
- Minimum Production Guarantee filed May 14, 2021
- No Net Cost to Customers filed May 13, 2022
- Minimum Production Guarantee filed May 13, 2022

Electric Utility System Data, Pursuant to 17.9.570.13(G) NMAC

- 2018 Report containing 2017 data filed April 2, 2018
- 2019 Report containing 2018 data filed April 1, 2019
- 2020 Report containing 2019 data filed April 1, 2020
- 2021 Report containing 2020 data filed April 1, 2021
- 2022 Report containing 2021 data filed April 1, 2022

Case No. 18-00329-UT, Compliance with Decretal Paragraph C. of the June 12, 2019, Final Order Adopting Recommended Decision

- Report 1 filed December 12, 2019
- Report 2 filed June 12, 2020
- Report 3 filed December 12, 2020
- Report 4 filed June 12, 2021
- Report 5 filed December 12, 2021
- Report 6 filed June 12, 2022

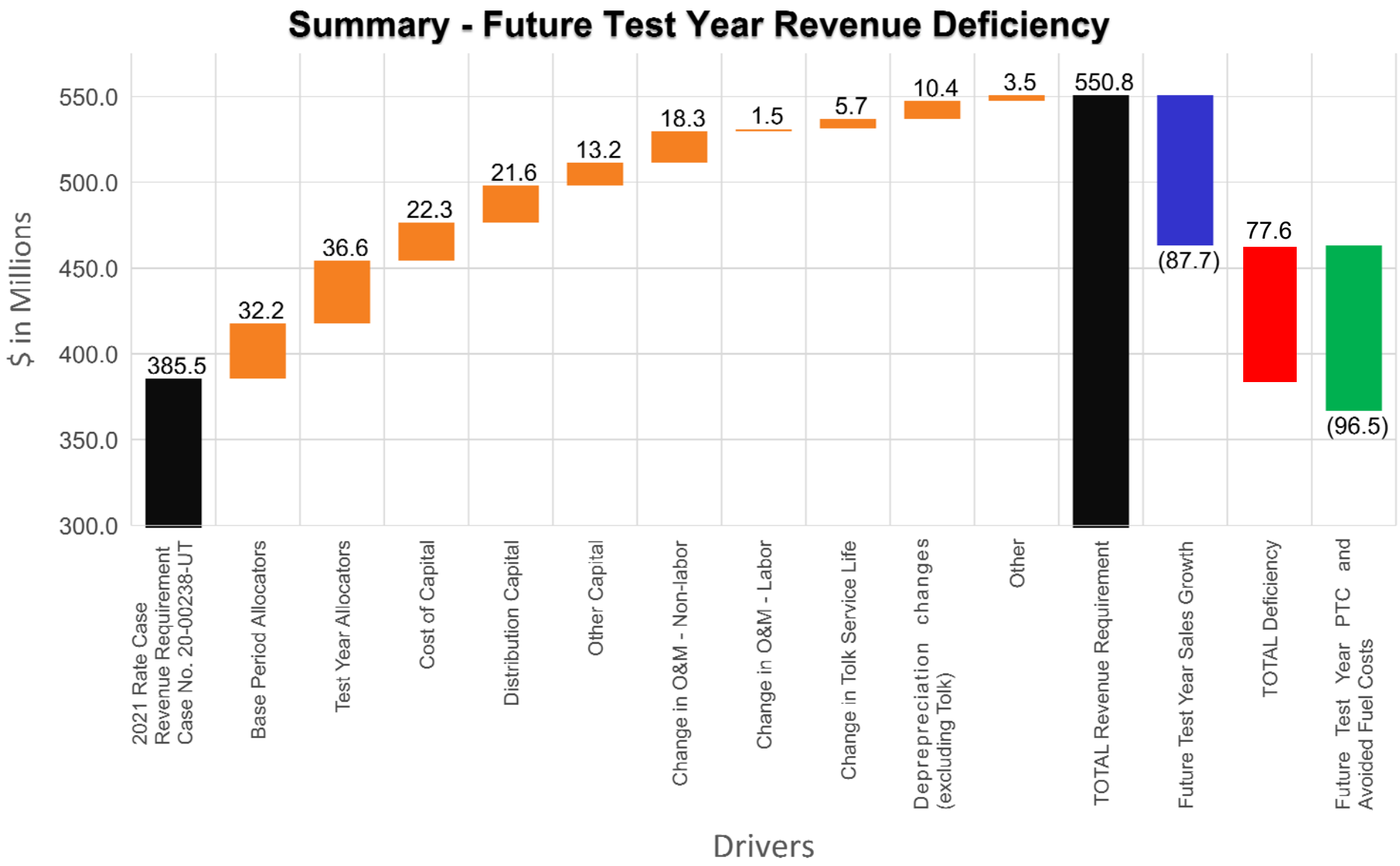
Southwestern Public Service Company

Summary of Proposed Revenue Increase

Line No.	Description	(A) Test Year Revenue Under Current Rates	(B) Proposed Revenue	(C) Net Revenue Change (B) - (A)	(D) Net Percent Change (C) / (A)
1	**Base Rate Revenue**[1]	$ 472,636,180	$ 550,273,134	$ 77,636,954	16.43%
2	**Fuel and Other Revenue (FPPCAC, EE, RPS)**[2]	$ 290,030,753	$ 290,030,753	$ -	0.00%
3	**Total Revenue**	**$ 762,666,933**	**$ 840,303,887**	**$ 77,636,954**	10.18%
4	**Estimated Future Test Year Production Tax Credits and Avoided Fuel Cost Savings Associated with Hale & Sagamore Wind Projects**			$ (96,456,276)	-2.47%

[1] Reflects the Future Test Year New Mexico retail base rate revenue under current rates (column A), SPS's calculated Future Test Year New Mexico retail base rate revenue requirement (column B), and the resulting New Mexico retail base rate revenue deficiency (column C) as described in the direct testimony of SPS witness Stephanie Niemi.

[2] No adjustments to Fuel and Other Revenue are being proposed as a part of this rate case.


Summary - Future Test Year Revenue Deficiency
$ in Millions
550.0
500.0
450.0
400.0
350.0
300.0
385.5
32.2
36.6
22.3
21.6
13.2
18.3
1.5
5.7
10.4
3.5
550.8
(87.7)
77.6
(96.5)
2021 Rate Case Revenue Requirement Case No. 20-00238-UT
Base Period Allocators
Test Year Allocators
Cost of Capital
Distribution Capital
Other Capital
Change in O&M - Non-labor
Change in O&M - Labor
Change in Tolk Service Life
Deprepreciation changes (excluding Tolk)
Other
TOTAL Revenue Requirement
Future Test Year Sales Growth
TOTAL Deficiency
Future Test Year PTC and Avoided Fuel Costs
Drivers

Southwestern Public Service Company

Contributions and Donations

Total Requested Contributions

Line No.	Description		Total Requested New Mexico Retail Amount
1	Total Community & Economic Development Contributions	$	54,058
2	Total Professional/Industry Association and Chamber Dues	$	45,236
3	**Total Requested Contributions**	**$**	**99,295**

Southwestern Public Service Company

Contributions and Donations

Summary of Educational, Youth, and Economic Development Contributions

Line No.	Description		Total Requested New Mexico Retail Amount
1	Community Contributions		39,880
2	Economic Development Contributions	$	14,178
3	**Total Contributions and Donations**	**$**	**54,058**

Southwestern Public Service Company

Contributions and Donations

Summary of Community Service Contributions and Donations

Line No.	FERC ACCT	Organization	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico*	Total Requested New Mexico Amount	Brief Purpose of Organization
1	426.1	Alzheimers Association	2,500.00	100%	2,500.00	31%	$ 784.75	The Alzheimer's Association works on a global, national and local level to provide care and support for those affected by Alzheimer's and other dementias
2	426.1	American Lung Association	2,500.00	23%	582.22	31%	$ 182.76	The American Lung Association is a voluntary health organization whose mission is to save lives by improving lung health and preventing lung disease through education, advocacy and research
3	426.1	Arbor Day Foundation	604.50	100%	604.50	31%	$ 189.75	The Arbor Day Foundation is a 501(c)(3) nonprofit conservation and education organization. A million members, donors, and partners support our programs to make our world greener and healthier.
4	426.1	Assurance Home Inc	1,000.00	100%	1,000.00	100.00%	$ 1,000.00	Assurance Home, of Roswell, NM, has been helping make a difference in the lives of adolescent children who need caring support and a safe place to live
5	426.1	Better Business Bureau	5,500.00	14%	765.86	39.19%	$ 300.14	The Better Business Bureau (BBB) is a private organization that provides the public with information on businesses and charities
6	426.1	Big Brothers Big Sisters	11,000.00	26%	2,899.09	100.00%	$ 2,899.09	Organization that matches kids from single parent homes with a mentor (brother or sister) in Roswell. Sponsor their annual fundraiser
7	426.1	Bottomless Triathlon	1,000.00	100%	1,000.00	100.00%	$ 1,000.00	All proceeds go to the emergency food bank Harvest Ministries of Roswell
8	426.1	Carlsbad Foundation	950.00	100%	950.00	100.00%	$ 950.00	The Carlsbad Community Foundation is a charitable nonprofit organization that promotes and enhances the lives of people in Carlsbad and South Eddy County
9	426.1	Chaves County Casa	1,750.00	100%	1,750.00	100.00%	$ 1,750.00	Providing a powerful voice and support for abused, neglected, and vulnerable children and their families
10	426.1	Curry County Youth Supporters	600.00	100%	600.00	100.00%	$ 600.00	Our goal is to create community-based prevention programs through mentoring, counseling, peer-to-peer services, and activities to empower our youth
11	426.1	Eastern New Mexico Water Utility Athority	300.00	100%	300.00	100.00%	$ 300.00	The Eastern NM Rural Water System is a regional rural water supply project under development in east central New Mexico
12	426.1	El Toro Bravo	294.48	100%	294.48	100.00%	$ 294.48	This is a monthly program to thank various city workers
13	426.1	Embrace Inc	260.00	100%	260.00	31.39%	$ 81.61	T-Shirt purchase for Blood Drive
14	426.1	Environmental Initiative	4,250.00	17%	721.04	40.00%	$ 288.42	We facilitate powerful, thoughtful shared action; catalyze creative, innovative solutions; and generate transformative, long-term, systemic outcomes through open-minded listening, sharing, support, and dialogue
15	426.1	Global Rights For Women	5,170.09	13%	683.98	35.00%	$ 239.39	We provide legal reform and systems change support through a survivor-led coordinated community response that prioritizes equality and safety, in order to effectively end gender-based violence against women and girls
16	426.1	Historical Society Of Southeastern New Mexico	2,500.00	100%	2,500.00	55.00%	$ 1,375.00	To assemble, preserve and interpret the history of Southeast New Mexico and to promote a great interest, understanding and appreciation of the area's past
17	426.1	Hope Lives Here	2,000.00	14%	286.65	60.00%	$ 171.99	Hope Lives Here was founded in 1982 to provide assistance to people in need when they encounter unforeseen challenges
18	426.1	JDRF International	4,000.00	31%	1,245.14	60.00%	$ 747.08	JDRF is a nonprofit 501 organization that funds type 1 diabetes research, provides a broad array of community and activist services to the T1D population and actively advocates for regulation favorable to medical research and approval of new and improved treatment modalities
19	426.1	Lea County Fairgrounds	1,003.00	100%	1,003.00	100.00%	$ 1,003.00	Lea county Fair and Rodeo sponsorship
20	426.1	Leadership Roswell Alumni Association	500.00	100%	500.00	100.00%	$ 500.00	Provide leadership opportunities for the graduates of the Leadership Roswell Program for growth internally, collectively, and as a community
21	426.1	Local Youth Programs	600.00	100%	600.00	31.39%	$ 188.34	Clay shoot to benefit youth program
22	426.1	Main Street Roswell	2,000.00	100%	2,000.00	100.00%	$ 2,000.00	MainStreet Roswell is a recognized leading program among the national network of more than 1,200 neighborhoods and communities who share both a commitment to creating high-quality places and to building stronger communities through preservation-based economic development
23	426.1	Mypower Inc	500.00	100%	500.00	31.39%	$ 156.95	MyPower, Inc. has worked with more than 9,206 5th – 9th grade girls in its MyPower Elementary Mentoring Circles, the MyPower Middle School Edition, and MyPower Leadership Camps to empower girls to make wise choices, set goals, succeed academically, and avoid teen pregnancy
24	426.1	National Veterans Legal Services Program	350.00	13%	46.30	31.39%	$ 14.53	The National Veterans Legal Services Program has worked since 1981 to ensure that the government delivers to our nation's 22 million veterans and active duty personnel the benefits to which they are entitled because of disabilities resulting from their military service to our country
25	426.1	Neighborhood House	6,130.16	14%	887.88	31.39%	$ 278.71	Neighborhood House builds community and increases access to housing, health, education, and economic opportunity

Southwestern Public Service Company

Contributions and Donations

Summary of Community Service Contributions and Donations

Line No.	FERC ACCT	Organization	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico*	Total Requested New Mexico Amount	Brief Purpose of Organization
26	426.1	NM Idea	250.00	100%	250.00	100.00%	$ 250.00	Promoting New Mexico's economic growth through focused advocacy of economic development issues and providing networking, professional development, education, and training opportunities for its members
27	426.1	Omnisource	500.00	100%	500.00	39.19%	$ 195.95	OmniSource, LLC is one of North America's largest processors and distributors of scrap and secondary metals
28	426.1	Public Education & Business Coalition	1,000.00	15%	152.27	31.39%	$ 47.80	The Public Education & Business Coalition represents a convergence of stakeholders keen to uplift learning opportunities for each and every student
29	426.1	Ronald Mcdonald House Charities	2,500.00	100%	2,500.00	31.39%	$ 784.75	Ronald McDonald House Charities is an independent American nonprofit organization whose stated mission is to create, find, and support programs that directly improve the health and well-being of children
30	426.1	Roswell Community Little Theater	1,000.00	100%	1,000.00	100.00%	$ 1,000.00	We use live theatre to create a space for community, conversation and creativity, because people need a sense of belonging and purpose
31	426.1	Roswell Symphony Orchestra	3,613.00	100%	3,613.00	100.00%	$ 3,613.00	Corporate Sponsership
32	426.1	Southwest Symphony Inc	3,000.00	100%	3,000.00	31.39%	$ 941.70	The mission of Southwest Symphony is to present and promote music programs of the highest artistic quality for the region's enrichment
33	426.1	The Alliance Center	292.50	14%	42.36	40.00%	$ 16.94	The Alliance Center exists to bring people together to solve systemic problems. We are a mission-driven coworking space, event venue and environmental nonprofit
34	426.1	Tobosa Developmental Services	755.00	100%	755.00	100.00%	$ 755.00	Tobosa empowers people with developmental delays or disabilities and their families in Roswell, NM through support programs that serve them in reaching their full potential, one step at a time
35	426.1	Tree Fund	300.00	100%	300.00	31.39%	$ 94.17	The TREE Fund awards research grants, education grants, and scholarships to advance the fields of arboriculture and urban forestry
36	426.1	United Way	14,885.00	100%	14,885.00	100.00%	$ 14,885.00	Sponsorship to gather diapers for needy families in the Clovis and Portales areaUnited Way is an international network of over 1,800 local nonprofit fundraising affiliates
37		Total Community Service Contributions /Donations	**$ 85,357.73**		**$ 51,477.77**		**$ 39,880.31**	

Southwestern Public Service Company

Contributions and Donations

Summary of Economic Development Contributions and Donations

Line No.	FERC ACCT	Organization	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico	Total Requested New Mexico Amount	Brief Purpose of Organization
1	426.1	Amarillo Chamber Of Commerce	2,500.00	100%	2,500.00	0.00%	-	The Mission of the Amarillo Chamber of Commerce is to enhance business and industry growth while preserving a high quality of life
2	426.1	Artesia Chamber of Commerce	400.00	100%	400.00	100.00%	400.00	The chamber is a non-profit membership organization made of business leaders and community partners
24	426.1	Carlsbad Department Of Development	3,000.00	100%	3,000.00	100.00%	$ 3,000.00	The Carlsbad Department of Development actively works to retain and grow local businesses, recruit new ones, and expand economic opportunities for all our residents
36	426.1	Clovis Industrial Development Corporation	4,000.00	100%	4,000.00	100.00%	$ 4,000.00	CED's mission is to develop business opportunities and recruit new business and industry which will strengthen and diversify the economic base of Clovis and Curry County, New Mexico by investing in new capital and creating new jobs
4	426.1	Eunice Chamber Of Commerce	450.00	100%	450.00	100.00%	450.00	The Eunice Chamber of Commerce is a local organization of businesses and companies in Eunice with the intention to develop and further the interests of local companies and businesses in United States
5	426.1	Hobbs Chamber Of Commerce	2,716.91	50%	2,716.91	100.00%	2,716.91	Founded in 1930, the not-for-profit Hobbs Chamber of Commerce is the premier business association for the promotion of commerce, the promotion of community, and the promotion of character in the greater Hobbs area
134	426.1	Roosevelt County Community Development Corporation	1,500.00	100%	1,500.00	31.39%	$ 470.85	RCCDC is a 501(c)3 nonprofit corporation established in 1998 to coordinate economic development activities
8	426.1	Roswell Chamber Of Commerce	3,140.40	100%	3,140.40	100.00%	3,140.40	Our mission is to promote economic & social prosperity, assist business development & tourism, and foster community spirit & pride
9	**Total Economic Development Contributions/Donations**		**$ 17,707.31**		**$ 17,707.31**		**$ 14,178.16**	

Southwestern Public Service Company

Contributions and Donations

Membership Dues

Line No.	FERC Acct	Category	Total Requested New Mexico Retail Amount
1	Various	Professional Organizations	$ 19,872
2	Various	Business/Economic Organizations	$ 13,545
3	Various	Industry Organizations	$ 11,819
4	**Total Membership Dues**		**$ 45,236**

Southwestern Public Service Company

Contributions and Donations

Summary of Professional Dues

Line No.	FERC ACCT	Description	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico	Total Requested New Mexico Amount	Brief Purpose of Organization
1	426.4	A CLOUD GURU LTD	232.28	14%	32.17	31.39%	10.10	Accelerate cloud success with hands-on learning at scale. Upskill 10 or 10,000 with the most comprehensive and up-to-date learning library.
2	426.4	AMAZON WEB SERVICES	525.00	100%	525.00	31.39%	164.80	AWS is a subsidiary of Amazon that provides on-demand cloud computing platforms and APIs to individuals, companies, and governments, on a metered pay-as-you-go basis. These cloud computing web services provide distributed computing processing capacity and software tools via AWS server farms.
3	426.4	AMERICAN BAR ASSOCIATION	25.38	13%	3.42	31.39%	1.07	The American Bar Association is a voluntary bar association of lawyers and law students, which is not specific to any jurisdiction in the United States
4	426.4	AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS	11.80	31%	3.67	31.39%	1.15	The AICPA represents the CPA profession nationally regarding rule-making and standard-setting, and serves as an advocate before legislative bodies, public interest groups and other professional organizations.
5	426.4	AMERICAN SOCIETY OF CIVIL ENGINEERS	68.75	100%	68.75	31.39%	21.58	The American Society of Civil Engineers (ASCE) is a tax-exempt professional body founded in 1852 to represent members of the civil engineering profession worldwide.
6	426.4	ASSOCIATION OF CONTINUITY PROFESSIONALS	12,499.97	15%	1,903.43	31.39%	597.49	ACP is the premier, organization for business continuity professionals providing a powerful net- working and learning environment for its members
7	426.4	BOARD OF ACCOUNTANCY	27.00	13%	3.57	31.39%	1.12	State Boards of Accountancy are created in state statute to assist state government in the licensing and regulation of the public accounting profession
8	426.1	Deed Business And Community	30.75	16%	4.84	31.39%	$ 1.52	DEED programs promote business recruitment, expansion and retention, international trade, workforce development, and community development
9	426.1	Distributed Energy Financial Group	20,000.00	15%	3,045.48	31.39%	$ 955.98	DEFG is a research and advisory firm focused on all aspects of customer strategy and experience in the utility sector
10	426.4	EDISON ELECTRIC INSTITUTE	286,312.06	15%	43,964.04	39.19%	17,229.51	The Edison Electric Institute (EEI) is the association that represents all U.S. investor-owned electric companies. Organized in 1933, EEI provides public policy leadership, strategic business intelligence, and essential conferences and forums.
11	426.1	Energy Bar Association	500.00	14%	69.26	31.39%	$ 21.74	To advance the professional excellence of those engaged in energy law, regulation and policy through professional education, exploring diverse viewpoints and building connections

Southwestern Public Service Company

Contributions and Donations

Summary of Professional Dues

Line No.	FERC ACCT	Description	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico	Total Requested New Mexico Amount	Brief Purpose of Organization
12	426.1	Foundation For Womens Energy	10,000.00	13%	1,325.40	39.19%	$ 519.42	To enhance and expand the philanthropic and educational endeavors of the Foundation, WEN Global and WEN local chapters. WEN has a long history of promoting and engaging in educational, charitable and STEM programming to enrich the lives of its members and the communities in which WEN operates.
13	426.4	INSTITUTE OF MANAGEMENT ACCOUNTANTS	217.50	13%	28.77	31.39%	9.03	The Institute of Management Accountants, formerly known as the National Association of Cost Accountants, is a professional organization of accountants
14	426.1	International Brotherhood Of Electrical Workers	517.50	100%	517.50	39.19%	$ 202.81	The International Brotherhood of Electrical Workers is a labor union that represents approximately 775,000 workers and retirees in the electrical industry
15	426.1	National Society Of Black Engineers	1,500.00	14%	217.26	39.19%	$ 85.14	NSBE, founded in 1975, supports and promotes the aspirations of collegiate and pre-collegiate students and technical professionals in engineering and technology
16	426.4	SOCIETY OF CORPORATE SECRETARY	136.25	13%	18.03	31.39%	5.66	The Society for Corporate Governance, Inc. (the "Society") is a non-profit organization (Section 501(c)(6)) comprised principally of corporate secretaries and business executives in governance functions at public, private and not-for-profit organizations
17	426.4	SUPREME COURT LAWYER REGISTRATION	595.00	14%	80.33	39.19%	31.48	
18	426.4	UPPER MIDWEST AUTOMATCED CLEARING HOUSE	300.00	13%	39.69	31.39%	12.46	We are a best in class provider of payments services, demonstrating our knowledge, professionalism and passion through our quality and dedication to members and stakeholders
19		**Total Professional Dues**	**$ 333,499.24**		**$ 51,850.61**		**$ 19,872.06**	

Southwestern Public Service Company

Contributions and Donations

Summary of Business/Economic Dues

Line No.	FERC Account	Description[1]	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico	Total Requested New Mexico Amount
1	426.4	AMARILLO AREA BLACK CHAMBER OF COMMERCE	2,000.00	100%	2,000.00	0.00%	-
2	426.4	AMARILLO CHAMBER OF COMMERCE	150.00	100%	150.00	0.00%	-
3	426.4	AMARILLO HISPANIC CHAMBER OF COMMERCE	2,000.00	100%	2,000.00	0.00%	-
4	426.4	CARLSBAD CHAMBER OF COMMERCE	510.00	100%	510.00	100.00%	510.00
5	426.4	CLOVIS CURRY COUNTY CHAMBER OF COMMERCE	2,625.00	100%	2,625.00	100.00%	2,625.00
6	426.4	HOBBS CHAMBER OF COMMERCE	550.00	100%	550.00	100.00%	550.00
7	426.4	NEW MEXICO CHAMBER OF COMMERCE	2,860.00	100%	2,860.00	100.00%	2,860.00
8	426.4	ROOSEVELT COUNTY CHAMBER OF COMMERCE	2,500.00	100%	2,500.00	100.00%	2,500.00
9	426.4	ROSWELL CHAMBER OF COMMERCE	2,500.00	100%	2,500.00	100.00%	2,500.00
10	426.4	ROSWELL HISPANO CHAMBER OF COMMERCE	1,500.00	100%	1,500.00	100.00%	1,500.00
11	426.4	TUCUMCARI CHAMBER OF COMMERCE	500.00	100%	500.00	100.00%	500.00
12		**Total Business & Economic Development Contributions**	**$ 17,695.00**		**$ 17,695.00**		**$ 13,545.00**

[1]Chamber of Commerce Organizations assist associated city or cities and counties with improving economic opportunities, emphasizing growth, building strong communities, encouraging membership, and promoting key issues of communities.

Southwestern Public Service Company

Contributions and Donations

Summary of Industry Organization Dues

Line No.	FERC ACCT	Organization	Total Amount	Allocation to SPS	Test Year Amount to SPS	Allocation to New Mexico	Total Requested New Mexico Amount	Brief Purpose of Organization
1	426.4	AMERICAN CLEAN POWER ASSOCIATION	$ 25,562.49	15%	$ 3,956.33	39.19%	1,550.49	American Clean Power is the voice of companies from across the clean power sector that are powering America's future and providing cost-effective solutions to the climate crisis while creating jobs, spurring massive investment in the U.S. economy, and driving high-tech innovation across the nation
2	426.4	AMERICAN ENERGY ACTION	100,000.00	15%	15,227.40	39.19%	5,967.62	AEA takes the U.S. forward by creating a powerful voice respected by policy makers and elected officials
3	426.1	Center For Energy Workforce	4,000.00	14%	577.53	39.19%	$ 226.33	The Center for Energy Workforce Development (CEWD) is a non-profit consortium of energy companies, contractors, associations, unions, educators, and business partners working together to ensure a skilled, diverse workforce pipeline to meet future industry needs
4	426.1	Center For Legal Inclusiveness	7,000.00	13%	926.08	31.39%	$ 290.70	CLI provides awareness and training with concrete steps of improving inclusiveness within legal organizations and departments
5	426.1	Cybersecurity Awareness Worldwide	2,570.00	100%	2,570.00	39.19%	$ 1,007.18	CSAW is the most comprehensive student-run cyber security event in the world, featuring 8 cyber competitions, workshops, and industry events
6	426.1	Disability IN	1,250.00	14%	181.05	31.39%	$ 56.83	Disability:IN is the leading nonprofit resource for business disability inclusion worldwide
7	426.4	INSTITUTE OF ELECTRICAL AND ELECTRONICS ENGINEERS	528.00	63%	332.40	39.19%	130.27	IEEE is the world's largest professional association dedicated to advancing technological innovation and excellence for the benefit of humanity. IEEE and its members inspire a global community through IEEE's highly cited publications, conferences, technology standards, and professional and educational activities.
8	426.4	LAWLINE FURTHERED	299.00	15%	45.53	55.00%	25.04	We are dedicated to helping you take charge of your professional growth and provide you with the opportunity to live and breathe the reason you are an attorney. With timely, relevant subject matter that covers a broad range of practice areas, our platform transforms traditional Continuing Legal Education (CLE) compliance into practical knowledge that accelerates your ability to grow and serve.
9	426.4	MRIGLOBAL	52,750.00	15%	8,032.45	31.39%	2,521.39	Dedicated To Applied Scientific And Engineering Research For The Improvement Of Al
10	426.1	Womens Energy Resource Council	1,000.00	14%	138.85	31.39%	$ 43.59	WERC provides a forum for the exchange of ideas and perspectives among women energy professionals in the government and private sector and encourages the professional development of public and private sector women in energy policy
11		**Total Industry Organization Dues**	**$ 194,959.49**		**$ 31,987.62**		**$ 11,819.43**	

Southwestern Public Service Company

Summary of Rate Case Expenses

Line No.	Category	Estimate
	Consultants	
1	**Alliance Consulting** Dane A. Watson, Witness	$ 30,000
2	**ScottMadden, Inc.** Dylan W. D'Ascendis, Witness	130,290
3	**Willis Towers Watson**	25,000
4	**Jenner & Block LLP** Suedeen Kelly, Witness	90,000
5	**Deloitte and Touche** Independent Accountants' Review Report	150,000
6	**Total Consultants**	**$ 425,290**
	Outside Legal Counsel	
7	Eversheds Sutherland (US) LLP	$ 1,143,000
8	Hinkle Law Firm	473,328
9	Courtney, Countiss, Brian & Bailey, L.L.P.	60,750
10	Winstead	346,500
11	**Total Legal Counsel**	**$ 2,023,578**
	Miscellaneous Expenses	
12	Temporary Employees/Over Time	$ 10,000
13	Printing & Supplies	15,000
14	Employee Travel Expenses & Hearing Expenses	125,000
15	FedEx, Postage	35,000
16	Other Miscellaneous	50,000
17	**Total Miscellaneous**	**$ 235,000**
18	**Total Rate Case Expenses**	**$ 2,683,868**

Xcel Energy, Inc.

Cash Working Capital Expert Report

Date: 11/9/2022

Table of Contents

Scope of the Report

At the request of Xcel Energy, Inc. (Xcel Energy or the "Company"), I have prepared this report to explain the concept of cash working capital ("CWC") as used by regulated utilities when determining their revenue requirement in rate cases and provide an analysis of approaches accepted by regulators in various jurisdictions.

The report discusses:

- Cash working capital and its role in rate base and in determining revenue requirements
- Methods used in practice to derive cash working capital and common variations
- Analysis performed and related observations

This Expert Report was prepared in connection with this current Xcel Energy rate case filing and is for the use and benefit of Xcel Energy only. PwC disclaims any contractual or other responsibility to others based on their access to or use of this Expert Report and the information contained herein.

Qualifications of Expert

I am currently a Managing Director with PricewaterhouseCoopers LLP ("PwC") and work exclusively in our Complex Accounting & Regulatory Solutions (CARS) practice within the PwC Trust practice. PwC is an international public accounting firm and a leading provider of services to the electric and gas industry.

I received a Bachelor of Science degree in Accounting from University of Illinois. I joined the Regulated Industries Division of Arthur Andersen LLP in 1971 and became a Principal at that Firm in 1985. I remained at Arthur Andersen until 2002 when I joined PwC as a Managing Director. Throughout my 40+ year career, I have focused on the unique accounting, tax and financial reporting issues at regulated entities.

Among various duties, I have provided rate case assistance for a number of utilities on various issues including, but not limited to, reasonableness of projections in connection with service company cost allocations, forecast test periods, application of regulatory accounting in specific situations, appropriate regulatory treatment of asset retirement obligations and cost of removal, lead-lag studies, various income tax issues and inclusion of the prepaid pension asset in rate base. I have prepared and submitted expert testimony on a number of issues before the, Arizona Corporation Commission, the Regulatory Commission of Alaska, the Florida Public Service Commission, the Hawaii Public Utilities Commission, the Illinois Commerce Commission, the Indiana Utility Regulatory Commission, the Maine Public Utilities Commission, the Missouri Public Service Commission, the Public Utility Commission of Ohio, the Public Utility Commission of Texas, the Public Service Commission of Utah, the Washington Utilities and Transportation Commission, the Public Service Commission of West Virginia, and the Federal Energy Regulatory Commission (FERC).

In addition to my regulatory consulting experience, I have been a financial statement auditor and supported companies from a financial audit and consulting perspective including review and reporting on financial statements filed with the NYSE and SEC, reporting on FERC Form 1's, consulting on matters involving cost allocations, and compliance with applicable guidelines.

I developed and instructed a Rate Case Experience Seminar which is a week-long seminar conducted each year on an open enrollment basis for utility professionals. I also developed and instructed PwC's Utility Industry Basic Accounting and Ratemaking Seminar and PwC's Utility Income Taxes – Accounting and Ratemaking Issues training, both of which are 2 to 2.5-day

seminars provided to utility professionals. I have been a frequent speaker at Edison Electric Institute and American Gas Association seminars and a presenter at training sponsored by SNL/Regulatory Research Associates. Additionally, I have conducted numerous special purpose trainings for over 30 utility companies and regulators including the FERC.

I am a member of the American Institute of Certified Public Accountants as well as the Illinois CPA Society.

I, as well as other PwC personnel working under my supervision and direction, have read and analyzed supporting documentation and information relevant to the issues on this engagement. I have been assisted by several other PwC professionals, each with applicable experience on utility accounting processes.

Executive Summary

Working Capital is typically an integral part of a utility's rate base. Working capital represents the excess of investor-supplied funding over the amount of property, plant and equipment. While not as significant a component of rate base as property, plant and equipment ("PP&E"), working capital is still an integral part of rate base for which an overall rate of return is earned to compensate investors, who are the source of this amount.

In addition to materials and supplies, prepaids and other assets, working capital also includes a cash working capital component. The cash working capital component of rate base is meant to compensate investors for funds they have supplied to bridge the gap between when customers receive utility service and when the cost of service components comprising the revenue requirement are received.

Several approaches are used to develop the cash working capital component: formula approach, balance sheet approach and a lead-lag study, and there are often modifications to the basic concepts of each method. This Expert Report first describes the various approaches for developing cash working capital including the positives and negatives of each method. We then include an analysis of the various approaches included in commission orders. For the most part, we used commission orders/decisions instead of settled/stipulated results as settled/stipulated cases do not have the precedential qualities as a final decision.

The results show that the lead-lag approach is the most prevalent methodology although the formula approach, balance sheet approach and a zero CWC allowance are also used. In certain jurisdictions a lead-lag study is required to support any CWC request. As an alternative, utilities in some of those jurisdictions have the option to not request a CWC allowance and a zero CWC is permitted. There are variations in the lead-lag study that are noteworthy. A fully developed lead-lag study, considering the revenue to recover all cost of service components, is used in several jurisdictions while in others, the revenues to recover certain costs and returns are excluded. This latter approach produces a lower CWC result.

This report describes the different approaches and shows that each has been used by regulators to determine CWC in rate cases. We also provide data on the different revenue lag days and the percentage of rate base provided by the working capital and CWC component.

Background

From an accounting standpoint, working capital is defined as current assets minus current liabilities and is a measure of liquidity at a certain point in time. That definition IS NOT used when determining a working capital allowance in a utility rate case which focuses on determining the average investor-supplied working capital. The working capital allowance, when used in the context of utility ratemaking, can be described as the amount of investor capital in excess of that used to finance utility property, plant and equipment necessary to serve utility customers. This includes the necessary capital to finance materials and supplies, fuel or gas inventory, prepaid expenses, and other deferred costs, exclusive of net utility plant. Because there is a lag between 1) when utility service is provided to customers and when customers pay for such service and 2) the date employees, vendors and others provide materials and services to the company until they are paid for such services, investors must finance or benefit from this difference. The working capital allowance is traditionally included in rate base to compensate investors to finance the capital investors have devoted to the business.

Customers incur an obligation to the company as they receive service. That obligation is priced at tariff rates which the Commission has found appropriate to cover the cost of rendering the service. If the customers were to operate on a "cash and carry basis", they would pay in cash each day as they receive service. If this were the case, there would be no accounts receivable from the customers and investors would not need to supply capital to finance the receivable. Such a procedure is not practical from either the customer's or the utility's standpoint but is used to illustrate the concept. Rather, the company bills customers for service rendered and records revenue on an accrual basis. Accordingly, the investor must supply capital to finance any accounts receivable to cover the payment lag from the date that service is rendered to when the cash is collected. Similarly, if the company were to operator on a "cash and carry" basis, it would pay cash each day to 1) employees, vendors and others who provide labor and materials required in the distribution of electric or gas service, 2) taxing authorities, and 3) equity and debt investors for both the recovery (depreciation) of capital previously provided and a daily return on the capital previously provided but not yet recovered from customers. Providing cash payments on a daily basis to each of these groups is not practical either. Therefore, the company has the use of such funds from the date that employees, vendors and others render service to the date that the company pays for service. This serves to reduce the funds that the investors need to supply to finance the accounts receivable for services the company has rendered to the ratepayers.

The working capital allowance is simply the amount of capital investment which is needed because it is not practical for either the customer or the company to operate on a daily "cash and carry" basis. The allowance can be considered to consist of two elements: (1) the daily cost of rendering service to the customer, as determined by the Commission, times the average number of days that the payment for such services is postponed after the service is rendered less, (2) the offsetting daily benefit of postponing payments to employees, vendors, taxing authorities and others after the service is received.

There are generally two components of a working capital allowance. The first component includes amounts derived from balance sheets for non-plant assets required for utility service. These might include materials and supplies, prepayments, or minimum cash balances offset by certain accruals. The calculation of representative balances are either as of a certain date (end of the test period) or a twelve or thirteen month average. The second component is CWC representing an estimate of additional investor monies (incremental to property, plant and equipment and the first working capital component described above) required to fund utility operations.

The remainder of this document is focused on CWC. Several different methods are employed in practice and have been accepted by various jurisdictions to derive a utility's CWC allowance. Again, the purpose of whatever method used is to arrive at an amount that is a reasonable proxy for investor capital. The method should not contain obvious defects or be so time-consuming to compute such that it offsets the perceived benefits.

Formula Approach

One method for computing CWC is known as the formula approach. This approach uses a formula based on a 45-day allowance (or ⅛) of annual operating and maintenance expenses (after certain pro forma adjustments) in the rate base. Some companies bill in advance for service and the formula allowance (number of days) is reduced to consider this operational distinction. The formula approach is time-tested, relatively simple, considers the effects of known changes in operating expenses (pro forma adjustments), and does not involve voluminous detail and extensive time commitments by companies, intervenors, regulators and others. However, the formula approach is not company specific and may not always reflect the differing operating characteristics of the company. Nonetheless, the formula approach has the benefit of simplicity and has been used in determining CWC for many years.

Balance Sheet Approach

A second approach used to determine the working capital allowance is the balance sheet approach. The balance sheet approach involves identifying and adding together the account

balances of all assets applicable to utility operations not included in the net plant accounts offset by the account balances of current liabilities or deferred credits applicable to utility operations that have not otherwise been considered in the rate base or rate of return computation. Assets relating to below-the-line earnings, such as earnings from non-utility businesses, are generally excluded from the computation of the working capital allowance when using the balance sheet approach. In addition, interest-generating liabilities (which interest would be charged below-the-line) or which are used to finance assets that are not included in the rate base are not used to reduce the working capital allowance using the balance sheet approach. While the balance sheet approach sounds reasonably precise and fairly easy to compute, its use in rate proceedings involves controversies over how many balance sheets are required, which assets and liabilities should be considered, how account balances should be measured and how such balances should be allocated among utility services, functions and jurisdictions.

Lead-Lag Studies

A third approach is to perform a lead-lag study. The objective of completing a lead-lag study is to accurately establish the amount of investor funds used in the utility's operations from the time service is provided to customers, they are billed for such service and the customers pay for the service compared to when employees, vendors and others provide service (costs) to the company and the company pays for such cost. Such additional investor capital is an additional rate base component.

The first step in the lead-lag study is to compute the revenue lag. The revenue lag represents the aforementioned time lag between the date the company provides utility services (electric, gas, water) to the customer and the date when the customer pays for such services. There are typically three components of the revenue lag: the service lag, the billing lag and the collection lag. The service lag measures the period between when service is provided to customers and the customer's usage is determined. With most utilities using cycle billing, on average, the service lag is approximately one-half of the month or around 15 days. The billing lag is the time to prepare the billing. The third component, the payment lag, is typically developed using a receivable turnover approach, computed by establishing the ratio of accounts receivable to credit sales or using a statistical sampling approach. The resulting revenue lead days are applied to the revenues included in the study. The important point is that the revenues to which the revenue lag days are applied typically represent the sum of the expenses/costs where the lag in payment for costs/services are being measured and can represent the entire cost of service components or exclude certain elements. Computing the expense lag is the second step of the lead-lag study. Expenses and costs are listed and the lag days represent the time from the

midpoint of receipt of the service/product to the date the payment is made. Most expenses represent services provided by employees, vendors and others in advance of when payment occurs so that investor funding is not required.

There is diversity across jurisdictions regarding the specific types of expenditures that are included in the lead-lag study, but I believe a fully-developed lead-lag study is the most accurate way to derive cash working capital under the lead-lag approach.

Fully-developed Lead-Lag Study

In a fully-developed lead-lag study, all components of cost of service are included. The revenue lag days (as discussed above) are applied to the sum of the expenses and costs making up the revenue requirement. The expenses and costs themselves are studied to calculate the days applicable to the total cost of service representing the lag between when service is provided by employees, vendors, and others. The fully-developed lead-lag also includes operating income (overall return) as this is earned when service is provided and is the property of the investors in the company when earned but receipt of operating income to investors is delayed. The fully developed lead-lag study also includes the revenue necessary to recover depreciation expense and deferred income tax expense as there is a revenue lag associated with all revenues being billed to customers. Including all expenses/costs (cost of service) elements equaling the requested revenue requirement allows for measuring the leads/lags for both the receipt of the revenue requirement from customers and the payment of such costs to employees, vendors, and others.

Lead-Lag Study Modifications

In certain jurisdictions, the fully-developed lead-lag study approach is modified to exclude the revenue to which the revenue lag is applied when recovery is for “non-cash” items such as depreciation expense and deferred tax expense and exclude the return component of the revenue requirement. Not all of these items are excluded in every modification. Sometimes only depreciation expense is excluded, sometimes just deferred income tax expense and other times return (sometimes just equity return) are excluded. As cost of service items are eliminated, they reduce the investor need to cover the revenue lag. As some of the larger items (depreciation, deferred taxes and return) are no longer included in revenues the remaining costs will be closer to an average of days that are greater than the revenue lag. The modified lead-lag approach will likely reduce the CWC or result in negative CWC. These modifications do not appreciate that the entire revenue requirement is subject to the revenue lag and are based on the narrow view that “non-cash” items should be excluded from the study.

The argument for excluding depreciation and deferred taxes from the study ignores the fact that (1) property on which depreciation expense is computed had been originally funded with investor-supplied cash and represents the return of that cash through (capital recovery) by including depreciation expense in cost of service and (2) accumulated depreciation reduces the rate base so that only the remaining, unreturned investment receives the rate of return. However, while the rate base is reduced for the recorded or estimated capital that has been recovered (accumulated depreciation), the revenue that includes the annual depreciation expense will not be received for the revenue lag days. Deferred income tax expense has a similar fact pattern.

The exclusion of depreciation, deferred taxes and return from the lead-lag study is often referred to as the 'cash' method and is also used across jurisdictions as are lead-lag studies that have further deviations. Using the cash method results in less CWC than calculated using the fully developed lead-lag method approach.

There is diversity across jurisdictions regarding the specific types of expenditures that are included in the lead-lag study, but I believe a fully-developed lead-lag study is the most accurate way to derive cash working capital under the lead-lag approach.

Zero CWC Allowance

A final approach is to set the CWC allowance to zero. This can reasonably serve as a proxy for the cash working capital allowance and involves no time to create from the utility's perspective nor its commission to review. Such an approach is based on the knowledge that different approaches can produce different results, some positive, some negative and that the CWC concept is an estimate. In some cases, the regulator may require use of a lead-lag approach or other method only if the utility is requesting CWC. In effect, this is the same as a zero CWC allowance. Assigning a zero CWC allowance recognizes the subjective nature of the various approaches and eliminates the time and effort involved in including, defending and deciding this rate base component.

Note regarding the Federal Energy Regulatory Commission's treatment of Cash Working Capital

While our analysis below focuses on what was observed in state commission filings, it may be helpful to note the Federal Energy Regulatory Commission's (FERC) requirement with respect to CWC. For electric transmission companies filing under FERC Formula rates a calculation using the ⅛ of operating and maintenance expenses is included in the determination of rate base. For electric transmission entities subject to stated rates, FERC requires a lead-lag study to support the CWC requirement. FERC also requires a lead-lag study be conducted for

gas pipeline entities, however, gas pipeline entities are permitted to not submit a lead-lag study and assume a cash working capital requirement of zero.

Analysis/Observations

I was engaged by Xcel Energy to provide a sampling of the approved method(s) employed by utility companies to determine the CWC component of rate base where such method(s) were approved in final decisions/orders by commissions in various jurisdictions across the United States. This was accomplished primarily through review and identification of the approved and ordered methodology relating to working capital elements and final rate base amounts. Filings where an order was provided by the state commission was considered the best source of information for my analysis. I also note that in some jurisdictions there are legislative rules governing the computation/methodology. With one exception discussed further below, I excluded methodologies from settled or stipulated rate cases as such evidence would not establish precedent and may not be indicative of a permitted approach having been followed to derive the working capital requirement. It should be noted that the fact that an ordered upon case was identified and included in our analysis does not mean that it is the only method permitted in that jurisdiction as, in fact, many jurisdictions permit multiple methods to be used. Exhibit A contains 28 states that had decisions (a final order rather than settlement/stipulations) concerning CWC. The data in Exhibit A also includes one utility filing where a settlement was reached, but, in review of the docket history, it was clear how working capital was considered in the rate base determination. Finally, the data in Exhibit A also includes three states where the filing requirements clearly indicated the methodology to be filed by the utility. Sample selections (utility filings by state) were made to achieve sufficient coverage of approved methods for determining CWC. We identified the utilities in each jurisdiction to include in our analysis haphazardly, selecting the utility where an order was rendered based simply on availability and the timing of the filing and ultimate commission decision (all orders in our sample were made subsequent 2010). It is important to note that the data obtained and noted in Exhibit A relies on the clarity and completeness of the filing record.

As shown in Exhibit B, for each selection, the methodology for the utility's CWC requirement (Lead-lag study, balance sheet approach, formula approach, $0 method) was extracted as was the final cash working capital amount. For those sample selections where a lead-lag approach was utilized, the inclusion/exclusion of depreciation, deferred taxes, and return on rate base was determined.

The results of my analysis demonstrate that there is diversity across jurisdictions as to what methods are used to derive the utility's working capital requirements. Though, as shown in Exhibit B, all but four of the utility's sampled were granted a neutral ($0) to positive CWC. In

my sampling, the lead-lag method was found to be the most prevalent, though all four methods detailed in the Background section above were found. As it relates to the lead-lag method, diversity as to what type of cost of service components are to be included in a utility's lead-lag calculation was also prevalent. Refer to Exhibit B for further detail. As stated in the background section, it is my opinion that a "fully-developed" lead-lag that includes the revenue from all cost of service components including depreciation, deferred taxes, and the return on rate base is the most accurate way to derive the utility's CWC. Often, it is argued that certain expenses are not cash-related and, therefore, should not be included in a lead-lag calculation, however; that approach ignores the need for investor funding for the delay (revenue lag) in collecting the entire revenue requirement and the need to compensate the investor for such funding (such funding reduced by the expense lead based on when employees, vendors, and other provide service to the utility versus when such employees, vendors, and other are paid).

Diversity in the derivation of revenue days within the lead-lag is expected as it is influenced by the mix of customers the utility serves (i.e. retail customers versus transmission customers) and the underlying economic situations of that group, among other factors. However, the revenue days extracted from the sampled population is a relevant data point for consideration, refer to Exhibit C and D for further detail. It is also important to note that the interplay that each input (expenses selected, revenue days computed, etc.) can have an exponential effect on the working capital requirement and consideration should be given to prevent the likelihood of duplicating any beneficial or consequential determinations.

Exhibit E utilizes those sample selections (all methods) from filings that received an order and computes the average ratio of cash working capital to rate base. This measure provides greater insight into the cash working capital observed in the selections than an isolated view of cash working capital by utility. Most methods we observed produced a positive CWC (a CWC computed greater than $0) based on the companies selected. And, as can be seen in Exhibit E, on average, cash working capital was determined to be a small fraction of rate base, averaging approximately 0.83% of the utility's rate base.

* * * * *

This Expert Report was prepared to show the various methods used by utilities and approved by regulators for determining the working capital component of rate base, focusing on

CWC. As shown, different methods are utilized producing varying results affecting rate base. Certain methods are simple, others are more complex and time consuming.

Respectfully,

Alan Felsenthal
Managing Director, PwC
Complex Accounting and Regulatory Solutions

Exhibits

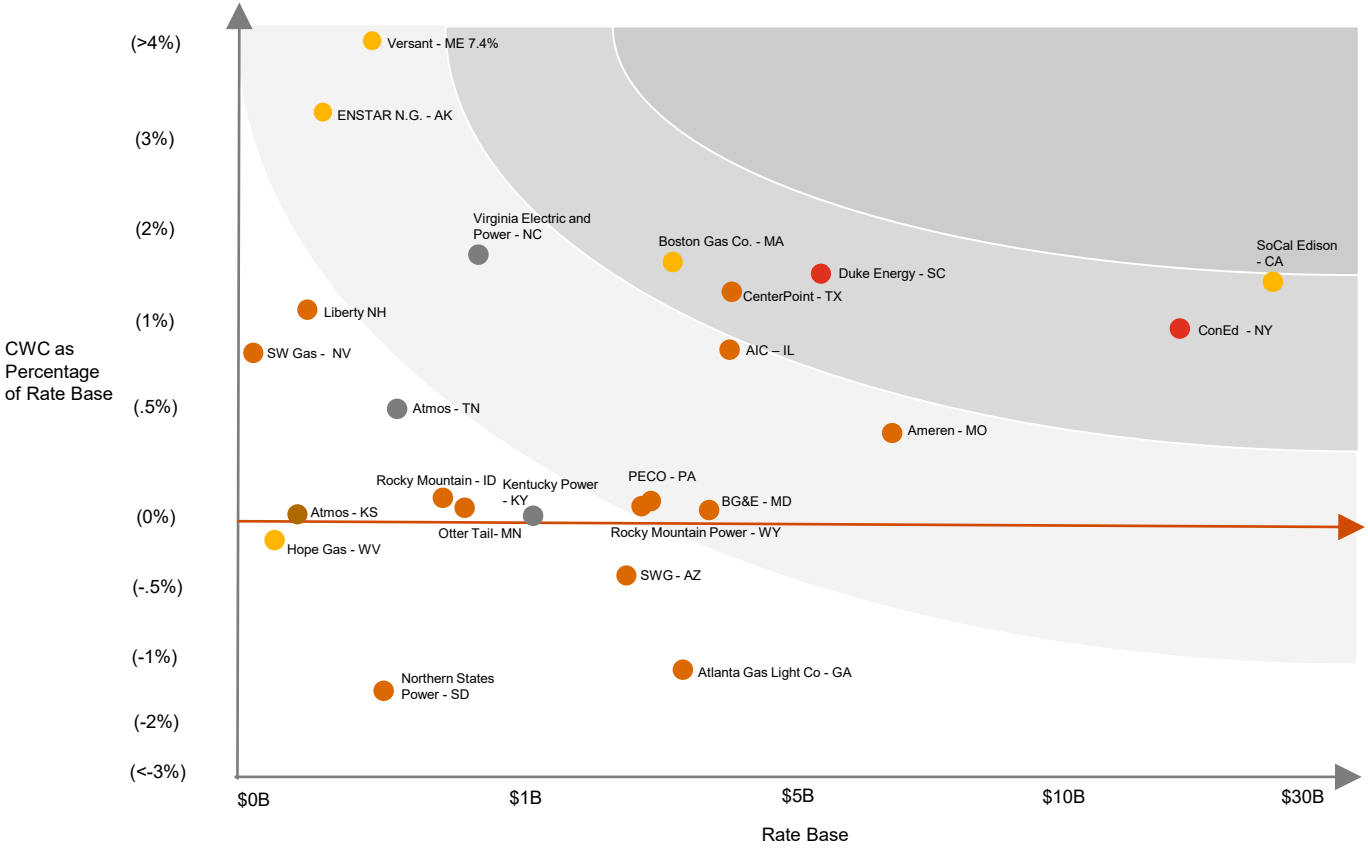
Exhibit A:

Lead-Lag Study Selections and the Identified Method for CWC

State	Utility Name	Source	Method for CWC	Order/Docket information
Alaska	ENSTAR Natural Gas Company	Order	Lead-Lag	U-22-08(1)
Arizona	Southwest Gas Corporation	Order	Lead-Lag	G-01551A-19-0055
Arkansas	N/A	Methodology	Balance Sheet approach and Lead-Lag	N/A
California	Southern California Edison Company	Order	Lead-Lag	D2108036
Florida	N/A	Methodology	Balance sheet approach	N/A
Georgia	Atlanta Gas Light Company	Order	Lead-Lag	179967, Docket 42315
Idaho	Rocky Mountain Power	Order	Lead-Lag	PAC-E-10-07
Illinois	Ameren Illinois Company	Order	Lead-Lag	P2021-0365
Indiana	N/A	Methodology	Zero Method	N/A
Kansas	Atmos Energy	Order	Zero Method	19-ATMG-525-RTS
Kentucky	Kentucky Power Company	Order	Lead-Lag	2020-00174
Maine	Versant Power	Order	Lead-Lag	2020-00316
Maryland	Baltimore Gas and Electric Company	Order	Lead-Lag	9645
Massachusetts	Boston Gas Company	Order	Lead-Lag	20-120
Michigan	Consumers Energy Company	Order	Balance sheet approach	U-20963
Minnesota	Otter Tail Power Company	Order	Lead-Lag	E017/GR-20-719
Missouri	Ameren Missouri	Order	Lead-Lag	ER-2014-0258
Nevada	Southwest Gas Corporation	Order	Lead-Lag	20-02023
New Hampshire	Liberty Utilities	Order	Lead-Lag	DG 17-048
New York	Consolidated Edison Company of New York	Order	Formula approach	19-00317
North Carolina	Virginia Electric and Power Company	Order	Lead-Lag	E-22

Pennsylvania	PECO Energy Company	Order	Lead-Lag	R-2020-3018929
South Carolina	Duke Energy Carolinas	Order	Formula approach	2018-319-E
South Dakota	Northern States Power Company	Settlement	Lead-Lag	EL14-058
Tennessee	Atmos Energy Corporation	Order	Lead-Lag	22-00010
Texas	CenterPoint Energy Houston Electric	Order	Lead-Lag	38339-2
West Virginia	Hope Gas Company	Order	Lead-Lag	20-0746-6-42T
Wyoming	Rocky Mountain Power	Order	Lead-Lag	2000-578-ER-20

Exhibit B:
Cash Working Capital (CWC) as a Percentage of Rate Base By Method



Cash Working Capital Method Applied

- Lead-Lag (Cash Basis)1
- Lead-Lag (Hybrid Basis)2
- Lead-Lag (Fully-developed)3
- Formula Approach
- Balance Sheet Approach4
- Zero Method

Reference notes

[1] Lead-Lag (Cash Basis) excludes deprecation, tax and return on rate base
[2] Lead-Lag (Hybrid Basis) includes one but not all elements excluded from the Lead Lag (Cash Basis) method including depreciation, tax and return on rate base
[3] Lead-Lag (Fully developed) includes depreciation, tax and return on rate base
[4] Balance Sheet Approach derives working capital only, CWC is not derived via this method. Consumers Energy (Michigan) was included in our analysis and applied the Balance Sheet Approach to a rate base of $12.4B computing a working capital of $1.4B, but is excluded from the chart.
***Note**: While also excluded from the chart, Indiana permits utilities to use a CWC of zero (Zero method); Florida permits the Balance Sheet Approach, and Arkansas accepts the Balance Sheet Approach or the Lead-Lag method*

Exhibit C:

Lead-Lag Method Revenue Days and Components

State	Utility Name	Revenue days	Is depreciation included?	Are deferred taxes included?	Is the return on rate base included?
Alaska	ENSTAR Natural Gas Company	42.8	X	X	
Arizona	Southwest Gas Corporation	35.52			
California	Southern California Edison Company	45.1	X	X	
Georgia	Atlanta Gas Light Company	N/A			
Idaho	Rocky Mountain Power	39.58			
Illinois	Ameren Illinois Company	57.71			
Kentucky	Kentucky Power Company	N/A	X	X	X
Maine	Versant Power	51.58		X	
Maryland	Baltimore Gas and Electric Company	47.1			
Massachusetts	Boston Gas Company	65.49	X	X	
Minnesota	Otter Tail Power Company	37.8			
Missouri	Ameren Missouri	40.51			
Nevada	Southwest Gas Corporation	34.56			
New Hampshire	Liberty Utilities	56.08			
North Carolina	Virginia Electric and Power Company	43.49	X	X	X
Pennsylvania	PECO Energy Company	43.2			
South Dakota	Northern States Power Company	41.01			
Tennessee	Atmos Energy Corporation	37.5	X	X	X
Texas	CenterPoint Energy Houston Electric	54.39			
West Virginia	Hope Gas Company	48.39	X		
Wyoming	Rocky Mountain Power	37.72			

Exhibit D:

Lead-Lag Method Revenue Days Statistics

Simple Average	45.24
Median	43.20
Range	34.56 - 65.49

**Based on 19 lead-lag studies reviewed for which revenue days were identified*

Exhibit E:

Observed ratio of CWC to rate base

	Percentage CWC to Rate Base
Simple Average	.83
Median	.41
Range	(1.62) – 7.44