

**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, ) CASE NO. 22-00286-UT  
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, )  
)  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
)  
APPLICANT. )  
\_\_\_\_\_ )**

**DIRECT TESTIMONY**

*of*

**H. CRAIG ROMER**

*on behalf of*

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

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## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
Adjusted Base Period	Base Period adjusted for known and measureable changes and regulatory requirements
Base Period	July 1, 2021, through June 30, 2022
CSA	Coal Supply Agreement
Commission	New Mexico Public Regulation Commission
CPI	Consumer Price Index
FPPCAC	Fuel and Purchased Power Cost Adjustment Clause
FSO	Fuel Supply Operations
Future Test Year Period	July 1, 2023, through June 30, 2024
Harrington	Harrington Generating Station
Linkage Period	July 1, 2022, through June 30, 2023
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS
Savage	Savage Industries
SPS	Southwestern Public Service Company, a New Mexico corporation
Tolk	Tolk Generating Station

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
Total Company	SPS total company costs before jurisdictional allocation
TUCO	TUCO Inc.
UPRR	Union Pacific Railroad
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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1           **I.       WITNESS IDENTIFICATION AND QUALIFICATIONS**

2       **Q.       Please state your name and business address.**

3       A.       My name is H. Craig Romer. My business address is 1800 Larimer Street, Suite  
4               1000, Denver, Colorado 80202.

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

6       A.       I am filing testimony on behalf of Southwestern Public Service Company, a New  
7               Mexico corporation (“SPS”). SPS is a wholly-owned electric utility subsidiary of  
8               Xcel Energy Inc. (“Xcel Energy”).

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

10      A.       I am employed by Xcel Energy Services Inc. (“XES”), the service company  
11              subsidiary of Xcel Energy, as Director, Fuel Supply Operations (“FSO”).

12      **Q.       Please briefly outline your responsibilities as Director, FSO.**

13      A.       I am responsible for supervising, planning, coordinating, and directing the  
14              activities of the FSO Department personnel. As Director FSO, I am responsible  
15              for: (1) procuring the coal and solid fuel needs, including supply and  
16              transportation, for the Xcel Energy Operating Companies’<sup>1</sup> coal-fueled generating

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<sup>1</sup> The Xcel Energy Operating Companies are Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS (collectively, “Operating Companies”).

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1 units; (2) administering SPS's coal and coal-related contracts; and  
2 (3) coordinating the FSO Department's activities with the Trading, Purchased  
3 Power, Gas Supply, and Energy Supply departments of Xcel Energy.

4 **Q. Please describe your educational background.**

5 A. I graduated from the Colorado School of Mines in Golden, Colorado in 2001 with  
6 a Bachelor of Science degree in Mechanical Engineering.

7 **Q. Please describe your professional experience.**

8 A. I was hired as Director, FSO for XES in January 2011. Prior to that time, I held  
9 the position of Manager, Transportation Portfolio, with XES from June of 2007 to  
10 December of 2010. In this role, I was responsible for delivering fuel and  
11 maintaining solid fuel inventories for all of the Operating Companies. These  
12 assignments included, but were not limited to, negotiating transportation and rail  
13 car agreements, communicating with logistic providers as well as power plant  
14 personnel, and managing various daily coal yard operations activities.

15 Prior to working for XES, I worked for the Union Pacific Railroad  
16 ("UPRR") and the Southern Pacific Railroad (before its merger with the UPRR),  
17 holding various positions from December 1994 to June 2007 as noted below:

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- 1           • Senior Manager Terminal Operations Denver;  
2           • Manager Mechanical Maintenance II;  
3           • Director Transportation Services Denver Service Unit;  
4           • Manager Terminal Operations – DSLE certified; and  
5           • Manager Train Operations – Moffat Tunnel, Colorado Springs, and Limon  
6           Subdivisions.

7           These assignments included daily management of railroad operations, track and  
8           rail car maintenance, customer service, hiring and training of trainmen, engineers  
9           and yardmen, and budgetary and financial planning in the region. Prior to these  
10          assignments, I was employed as a brakeman and moved through union ranks of  
11          conductor, foreman, and yardmaster before being promoted to managerial  
12          assignments.

13       **Q. Have you attended or taken any special courses or seminars relating to**  
14       **public utilities?**

15       A. Yes. Over my career, I have taken numerous courses and seminars related  
16       specifically to the public utility industry and related issues, including:

- 17           • Escalation Consultants, Controlling Rail Expenses;  
18           • Carlson School of Management at the University of Minnesota,  
19           Negotiation Strategies for Executives;

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- 1           • Financial Accounting Institute, Utility Finance and Accounting;  
2           • American Management Association, Negotiating to Win; and  
3           • Various National Coal Transportation Association, American Coal  
4           Council, and Platts coal conferences.

5   **Q. Have you testified or filed testimony before any regulatory authorities?**

6   A. Yes. I testified before the New Mexico Public Regulation Commission  
7       (“Commission” or “NMPRC”) in Case No. 14-00348-UT<sup>2</sup> and submitted pre-filed  
8       testimony in Case No. 19-00315-UT<sup>3</sup> regarding coal and coal-related costs  
9       recovered through SPS’s Fuel and Purchased Power Cost Adjustment Clause  
10       (“FPPCAC”). I have also submitted pre-filed testimony on coal and coal-related  
11       costs recovered through base fuel, as well as the non-mine and non-freight coal  
12       costs recovered in base rates, in SPS’s recent base rate cases before the

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<sup>2</sup> *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; and (2) the Report of Expenses Recognized and Revenues Collected or Refunded Under the FPPCAC for the Period of October 2012 Through September 2014, Case No. 14-00348-UT, Final Order (Oct. 21, 2015).*

<sup>3</sup> *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 Under NMPRC Rule 550; 2) the Report of Expenses Recognized 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, Case No. 19-00315-UT, Final Order Adopting Recommended Decision (Feb. 3, 2021).*



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1 Commission, including Case Nos. 17-00255-UT,<sup>4</sup> 19-00170-UT,<sup>5</sup> and  
2 20-00238-UT.<sup>6</sup>

3 In addition, I have testified before the Colorado Public Utilities  
4 Commission and filed testimony before the Public Utility Commission of Texas  
5 regarding coal and coal-related costs.

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<sup>4</sup> *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Electric Rates Pursuant to Advice Notice No. 272*, Case No. 17-00255-UT, New Final Order on Partial Mandate from the New Mexico Supreme Court (Mar. 6, 2019).

<sup>5</sup> *In the Matter of Southwestern Public Service Company's Application for: (1) Revision of its Retail Electric Rates Under Advice Notice No. 282; (2) Authorization and Approval to Shorten the Service Life and Abandon its Tolk Generating Station Units; and (3) Other Related Relief*, Case No. 19-00170-UT, Final Order Adopting Certification of Stipulation (May 11, 2020).

<sup>6</sup> *In the Matter of Southwestern Public Service Company's Application for: (1) Revision of its Retail Electric Rates Under Advice Notice No. 292; (2) Authorization and Approval to Abandon Its Plant X Unit 3 Generating Station; and (3) Other Associated Relief*, Case No. 20-00238-UT, Final Order Adopting Certification of Stipulation in Its Entirety and Granting SPS's Motion for Reconsideration (Feb. 16, 2022).



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1 relate to a single “element of cost”<sup>7</sup>—third-party contract costs associated with  
2 coal fuel supply.

3 To ensure compliance with the NMPRC Future Test Year Period Rule,<sup>8</sup> I  
4 provide the Fuel-Handling Expenses requested by SPS in this base rate case for  
5 each of the (1) Base Period<sup>9</sup> and Adjusted Base Period,<sup>10</sup> (2) Linkage Period,<sup>11</sup>  
6 and (3) Future Test Year Period.<sup>12</sup> I fully explain, support, and justify this data. I  
7 also identify the variance between the Adjusted Base Period and Future Test Year

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<sup>7</sup> The NMPRC Future Test Year Period Rule defines the phrase “elements of cost” to mean types of cost such as labor, materials, outside services, contract costs, important clearings, and all other types of cost combined as one category. 17.1.3.7(F) NMAC.

<sup>8</sup> 17.1.3.1 NMAC et seq.

<sup>9</sup> The term “base period” is defined in the Future Test Year Period Rule as “a historical 12-month period terminating (1) at the end of a quarter and (2) no earlier than 150 days prior to filing.” 17.1.3.7(B) NMAC. SPS’s base period in this proceeding begins July 1, 2021 and ends June 30, 2022 (the “Base Period”).

<sup>10</sup> The term “adjusted base period” is defined in the Future Test Year Period Rule as “a utility’s base period data that includes fully explained annualizations, normalizations and adjustments for known and measureable changes and regulatory requirements that occur within the base period.” 17.1.3.7(A) NMAC. SPS’s adjusted base period in this proceeding is the Base Period adjusted as described by SPS witness Stephanie N. Niemi (the “Adjusted Base Period”).

<sup>11</sup> SPS’s “Linkage Period” in this proceeding begins July 1, 2022 and ends June 30, 2023. Per the Future Test Year Period Rule, it covers the period of time between the end of the Base Period and the beginning of the Future Test Year Period and includes the required “Linkage Data” as that term is defined in 17.1.3.7(H) NMAC.

<sup>12</sup> The term “future test year period” is defined in the Future Test Year Period Rule as “a 12-month period beginning no later than the date the proposed rate change is expected to take effect.” 17.1.3.7(G) NMAC. SPS’s future test year period in this proceeding begins July 1, 2023 and ends June 30, 2024 (the “Future Test Year Period”).

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1           Period Fuel-Handling Expenses, and I describe the cost drivers that are expected  
2           to lead to this variance.

3   **Q.    Please summarize your testimony and recommendations.**

4   A.    SPS procures coal for Tolk and Harrington from TUCO under a sole-supplier  
5           contract for each station. The current CSAs are the same agreements presented in  
6           SPS's last base rate case (Case No. 20-00238-UT) and continue the service that  
7           TUCO (or its predecessor) has provided to SPS under previous CSAs dating back  
8           to 1979. The current contracts expire on December 31, 2022; however, renewals  
9           have already been executed for both Tolk and Harrington, which extend through  
10          the Future Test Year Period. The new Harrington CSA will expire on December  
11          31, 2024, as Harrington is converted to a natural gas facility.<sup>13</sup> The new Tolk  
12          CSA will expire on December 31, 2027.<sup>14</sup> The costs associated with these

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<sup>13</sup> *In the Matter of Southwestern Public Service Company's Application 1) to Amend its Certificates of Public Convenience and Necessity to Convert Harrington Generation Station from Coal to Natural Gas, 2) for Authorization to Accrue Allowance for Funds Used in Construction, and 3) for Other Associated Relief*, NMPRC Case No. 21-00200-UT, Final Order Adopting Recommended Decision (Apr. 27, 2022) (approving Harrington's conversion to natural gas); *Application of Southwestern Public Service Company to Amend its Certificate of Convenience and Necessity to Convert Harrington Generating Station from Coal to Natural Gas*, PUCT Docket No. 52485, Order (Sept. 29, 2022) (approving Harrington's conversion to natural gas).

<sup>14</sup> As discussed by SPS witness Brooke A. Trammell, SPS requests to retire and abandon Tolk in 2028. SPS will extend its contract with TUCO to align with Tolk's retirement date if approved by the Commission.

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1 contracts are necessary to operate Tolk and Harrington, which provide needed  
2 power to SPS's customers. SPS works to ensure these costs are reasonable and  
3 necessary as discussed in more detail later in my testimony.

4 Fuel-Handling Expenses that SPS did not recover through its FPPCAC  
5 during the Base Period totaled \$11,638,193 on a New Mexico retail basis  
6 (\$29,697,511 Total Company).<sup>15</sup> These costs covered:

- 7 • the furnishing of railcars;
- 8 • the handling, storing, crushing, processing, and weighing of coal, as well as  
9 the delivery of that coal to SPS's bunkers;
- 10 • the assessments and taxes (except federal and state income taxes)  
11 associated with the coal;
- 12 • the cost of financing coal inventories; and
- 13 • the cost of the contractual margin payment.<sup>16</sup>

14 During the Linkage Period, SPS expects to incur \$14,716,379 in Fuel-  
15 Handling Expenses on a New Mexico jurisdictional basis (\$37,552,205 Total  
16 Company). These amounts reflect the pricing for the same services under the  
17 renewed CSAs with TUCO that will be in effect during the Linkage Period.

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<sup>15</sup> Fuel Handling Expenses are allocated to the New Mexico retail jurisdiction using an energy allocator. Please refer to the Direct Testimony of Ms. Niemi, Attachment SNN-1.

<sup>16</sup> Additionally, the Fuel-Handling Expenses include several projects that were undertaken at the Tolk and Harrington stations to improve safety and efficiency.

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1           During the Future Test Year Period, SPS expects to incur \$15,211,643 in  
2           Fuel-Handling Expenses on a New Mexico jurisdictional basis (\$38,815,986 Total  
3           Company). These amounts reflect the pricing for the same services under the  
4           renewed CSAs with TUCO that will be in effect during the Future Test Year  
5           Period. I recommend the Commission find that SPS's Future Test Year Period  
6           Fuel-Handling Expenses are prudent and are reasonable and necessary for SPS to  
7           have usable coal to burn at its Tolk and Harrington stations. Therefore, those  
8           costs should be approved for recovery in base rates.



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1 **Q. How does TUCO obtain coal to satisfy SPS's coal requirements?**

2 A. TUCO owns no coal reserves, but instead contracts with coal suppliers to satisfy  
3 SPS's coal needs.<sup>17</sup> TUCO also provides coal transportation services under long-  
4 term transportation agreements with the Burlington Northern Santa Fe Railway  
5 Company.

6 **Q. Does TUCO contract with any other entity to help provide or prepare the**  
7 **coal burned at Tolk and Harrington?**

8 A. Yes. TUCO and Savage Industries ("Savage") have entered into Coal Handling  
9 Service Agreements for both Tolk and Harrington. Under those Coal Handling  
10 Service Agreements, Savage is responsible for various coal-handling activities at  
11 Tolk and Harrington, such as the handling, storing, crushing, processing, and  
12 weighing of coal, as well as the delivery of that coal to SPS's bunkers. TUCO  
13 pays Savage for those activities in accordance with the terms of the CSAs. TUCO  
14 then passes the Savage costs through to SPS in accordance with the terms of the  
15 CSAs.

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<sup>17</sup> Tolk and Harrington are both designed to burn coal specifically from the Powder River Basin in Wyoming.



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1 **Q. Are any coal-related costs incurred by SPS recovered through a mechanism**  
2 **other than base rates?**

3 A. Yes. Both the coal commodity costs and the coal transportation costs are  
4 recovered through the FPPCAC.

5 **Q. Please further delineate which specific types of coal-related costs are**  
6 **recovered through base rates and which are recovered through the FPPCAC.**

7 A. Table HCR-1 lists the specific types of coal-related costs and identifies the  
8 mechanism by which each type of cost is recovered.

9 **Table HCR-1**  
10 **Recovery Mechanism for Coal-Related Costs**

<b>Recovered in Base Rates</b>	<b>Recovered through FPPCAC</b>
Costs incurred for furnishing railcars and for handling, unloading, storing, crushing, processing, weighing, and delivering coal to SPS's bunkers	Free on Board mine cost of coal
Assessments and taxes (except federal and state income taxes)	Cost of transportation from the mine to the unloading facilities
Cost of financing coal inventories	Cost of coal losses
Contractual margin payment <sup>18</sup>	

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<sup>18</sup> This margin is the payment for TUCO's services under the CSAs.

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1 **Q. When do the contract terms for the current CSAs end?**

2 A. SPS's current CSAs with TUCO for both Harrington and Tolk are effective from  
3 January 1, 2018, through December 31, 2022. These CSAs continue the service  
4 that TUCO (or its predecessor) has provided to SPS under previous CSAs dating  
5 back to 1979. The Coal-Handling Service Agreements currently in place between  
6 TUCO and Savage are also effective from January 1, 2018, through December 31,  
7 2022.

8 **Q. Have the current CSAs between SPS and TUCO been reviewed by the**  
9 **Commission in previous regulatory proceedings?**

10 A. Yes. The current CSAs were presented in SPS's last base rate case, Case No.  
11 20-00238-UT.<sup>19</sup>

12 **Q. Are the costs associated with the CSAs that are presented here the same**  
13 **types of costs that have been included in base rates in previous SPS base rate**  
14 **cases?**

15 A. Yes. The Fuel-Handling Expenses requested to be included in base rates in this  
16 case are the same types of coal costs that have been included in SPS's base rates

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<sup>19</sup> Case No. 20-00238-UT, Final Order Adopting Certification of Stipulation in Its Entirety and Granting SPS's Motion for Reconsideration (Feb. 16, 2022).

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1           since 2007. In particular, SPS included these types of coal-related costs in base  
2           rates in the following cases:

- 3           • Case No. 08-00354-UT,<sup>20</sup>
- 4           • Case No. 10-00395-UT,<sup>21</sup>
- 5           • Case No. 12-00350-UT,<sup>22</sup>
- 6           • Case No. 15-00296-UT,<sup>23</sup>
- 7           • Case No. 17-00255-UT,<sup>24</sup>
- 8           • Case No. 19-00170-UT,<sup>25</sup> and
- 9           • Case No. 20-00238-UT.<sup>26</sup>

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<sup>20</sup> *In the Matter of the Application of Southwestern Public Service Company for Revision of its Retail Electric Rates Pursuant to Advice Notice Nos. 217, 218 and 219 and Request for Expedited Interim Relief Authorizing Recovery of Capacity Related Costs Associated with the New Hobbs Generating Station*, Case No. 08-00354-UT, Final Order Conditionally Approving Stipulation (Jul. 14, 2009).

<sup>21</sup> *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Rates Under Advice Notice No. 234*, Case No. 10-00395-UT, Final Order Adopting Amended Certification of Stipulation (Dec. 28, 2011).

<sup>22</sup> *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Rates Under Advice Notice No. 245*, Case No. 12-00350-UT, Final Order Partially Adopting Recommended Decision (Mar. 26, 2014).

<sup>23</sup> *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, Final Order Adopting Certification of Stipulation with Modifications (Aug. 10, 2016).

<sup>24</sup> Case No. 17-00255-UT, New Final Order on Partial Mandate from the New Mexico Supreme Court (Mar. 6, 2019).

<sup>25</sup> Case No. 19-00170-UT, Final Order Adopting Certification of Stipulation (May 11, 2020).

<sup>26</sup> Case No. 20-00238-UT, Final Order Adopting Certification of Stipulation in Its Entirety and Granting SPS's Motion for Reconsideration (Feb. 16, 2022).

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1 **Q. What is your expectation regarding renewal of the CSAs with TUCO and**  
2 **TUCO's Coal-Handling Service Agreements with Savage upon expiration of**  
3 **their terms on December 31, 2022?**

4 A. SPS has executed renewals for both the Harrington and Tolk CSAs already. The  
5 new Harrington CSA will expire on December 31, 2024, as Harrington is  
6 converted to a natural gas facility. The new Tolk CSA will expire on December  
7 31, 2027. The Savage contracts for both facilities have been extended through the  
8 new CSA terms as well.

9 **Q. As part of this proceeding, is SPS proposing to change the way it treats coal**  
10 **costs in the future?**

11 A. No. SPS seeks to continue to recover through base rates in this proceeding the  
12 same Fuel-Handling Expenses it will incur during the Future Test Year as it has  
13 for several years.

14 **Q. Are the requested Fuel-Handling Expenses necessary for SPS's operations?**

15 A. Yes. As described above, in order to operate the Tolk and Harrington stations,  
16 SPS must have usable coal to burn. The CSAs and their associated Coal-  
17 Handling Service Agreements are necessary to procure and provide usable coal to  
18 fuel these coal-fired generating stations.

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1 **Q. Do SPS's New Mexico retail customers benefit from the services associated**  
2 **with the requested Fuel-Handling Expenses?**

3 A. Yes. Without these expenses, SPS could not run the Tolk and Harrington stations.  
4 These stations are an important part of SPS's resource mix and contribute safe  
5 and reliable power to New Mexico customers at reasonable prices.

6 **Q. How does SPS ensure the reasonableness and necessity of the Fuel-Handling**  
7 **Expenses incurred by SPS for coal-handling services, assessments and taxes,**  
8 **financing coal inventories, and the margin under the CSAs?**

9 A. SPS engages in several activities to ensure that all costs to be passed on to SPS by  
10 TUCO are reasonable and necessary. For example, SPS actively monitors  
11 TUCO's contracting activities that could affect SPS's costs, and SPS reviews and  
12 has frequent discussions with TUCO before execution of any contracts that would  
13 affect these costs. Through these discussions and review process, SPS ensures  
14 that the overall bid solicitation is conducted so that TUCO will receive the most  
15 competitive bids to meet SPS's needs.

16 During any contract evaluation process, SPS reviews TUCO's  
17 methodologies and conclusions to ensure that the lowest reasonable cost supplier  
18 or suppliers are selected. SPS reviews those supplier costs within the context of

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1 the current market conditions and with the best information available at the time.  
2 SPS also reviews and provides comments to TUCO on draft agreements, thus  
3 ensuring the most advantageous and flexible arrangements are made. SPS also  
4 works with its generation plant engineers to ensure that any operational concerns  
5 can be addressed in the agreements' terms.

6 Additionally, TUCO informs SPS of various discussions and negotiations  
7 between TUCO and its contractors. As a result, SPS ensures that the terms and  
8 conditions TUCO ultimately achieves are the result of arm's-length negotiations  
9 and are in the best interests of SPS and its customers.

10 Finally, SPS engages in contract administration activities, which are  
11 further described in the next answer, to ensure it is billed correctly under the  
12 various contracts. All of these efforts help ensure that SPS's Fuel-Handling  
13 Expenses are reasonable and necessary.

14 **Q. Please elaborate on the contract administration activities you just mentioned.**

15 A. SPS ensures the accuracy and reasonableness of TUCO's charges for delivered  
16 coal by checking invoices and conducting annual audits of TUCO. This activity  
17 includes not only the coal acquisition and transportation agreements, but also the  
18 other contracts that affect coal costs included in the cost of service. For example,

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1 SPS performs calculations to ensure the accuracy of finance charges and TUCO's  
2 margins. SPS also reviews the other cost components in TUCO's invoices to  
3 ensure both the contractual validity of each component and the accuracy of the  
4 calculation of each cost category.

5 **Q. Are there specific activities that TUCO or SPS, or both, pursue to assure**  
6 **themselves that the Fuel-Handling Expenses are reasonable and necessary?**

7 A. Yes. TUCO and its coal handling contractor, Savage, engage in monthly  
8 operational meetings to discuss relevant coal handling issues and coal delivery  
9 developments for Tolk and Harrington. SPS's coal supply and FSO Department  
10 personnel also attend these monthly meetings. TUCO employees monitor  
11 Savage's costs relative to the amounts budgeted for coal-handling activities.  
12 TUCO and SPS employees also review Savage's monthly coal handling invoices  
13 for accuracy and conformance with approved activities and identified budget  
14 expenditures through the annual audit of the TUCO contract. In addition, TUCO  
15 engages an independent accounting firm to examine Savage's performance under  
16 its contract with TUCO, in accordance with the standards established by the  
17 American Institute of Certified Public Accountants.

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Direct Testimony  
of  
H. Craig Romer

1 **Q. Has TUCO recently pursued any actions to enhance safety or operational**  
2 **efficiencies at Tolk and Harrington?**

3 A. Yes. TUCO has authorized Savage to undertake several projects at Tolk and  
4 Harrington to improve safety and efficiency. Over time, those efforts are likely to  
5 lower costs or reduce the extent of unavoidable cost increases. The following is a  
6 brief description of the projects:

7 **Tolk Station**

8 **2021:**

- 9
- 10 • Put Caterpillar D9 into service
  - 11 • Upgraded framework in 400 take-up area
  - 12 • Purchased and replaced three complete sets of ERT fall protective gear
  - 13 • Purchased and installed submersible sump pump

14 **2022:**

- 15 • Replaced head and tail pulleys on CV440
- 16 • Upgraded lighting in all three tripper areas
- 17 • Purchased one set of ERT fire protective gear
- 18 • Purchased and have stored on site spare belt for 2A/B

19 **Harrington Station**

20 **2021:**

- 21 • Upgraded Tunnel lighting
- 22 • Replaced gallery belt 410
- 23 • Replaced or repaired Trestle cross beams
- 24 • Upgraded framework in belt 400 take-up area
- Purchased three complete sets of ERT fall protective gear



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**2022:**

- Replaced head and tail pulleys on CV440
- Replaced CV440-CV700-CV222-CV231 belts
- Upgraded lighting in all three tripper areas
- Purchased and replaced one set of ERT fire protective gear
- Upgraded framework at 410 take-up area

The costs of these projects are included in the Base Period Fuel-Handling Expenses because they are performed by TUCO or its subcontractors under the CSAs.

**Q. Are these projects representative of the types of projects TUCO will continue to implement through the Future Test Year Period?**

A. Yes. These projects are typical and represent ongoing safety and operational improvement measures that will continue through the Future Test Year Period.

**Q. Will SPS and TUCO continue all of these efforts to ensure costs are reasonable and necessary under the renewed CSAs?**

A. Yes. SPS intends to manage Fuel-Handling Expenses in the same manner under the renewed CSAs.

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1           **IV.   PRESENTATION OF FUEL-HANDLING EXPENSES DATA**

2   **Q.   How did SPS derive the Future Test Year Period O&M expenses generally?**

3   A.   SPS did not use internal budgeting to identify expected Linkage Period and Future  
4       Test Year Period O&M expenses, including Fuel-Handling Expenses.  Instead,  
5       SPS made specific and discreet known and measurable adjustments to the  
6       Adjusted Base Period O&M expenses to reflect changes SPS expects to occur  
7       during these future periods.  Where necessary, SPS adjusted the per book Base  
8       Period expenses first to ensure that the starting point for the discreet known and  
9       measurable adjustments in the Linkage Period and Future Test Year Period was  
10      appropriate.

11 **Q.   As a general matter, how are O&M expenses presented in SPS’s testimony in**  
12 **this proceeding?**

13 A.   To comply with the Commission’s Future Test Year Period Rule, SPS presents its  
14       O&M data in several separate views.  In Attachment SNN-10, tab 2, of her direct  
15       testimony, SPS witness Stephanie N. Niemi presents SPS’s O&M expenses (Total  
16       Company) by FERC account and FERC account subcategory<sup>27</sup> for the following

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<sup>27</sup> Consistent with 17.1.3.16(B)(1) NMAC, each FERC account has been subdivided where necessary to a level that is sufficient to identify cost drivers and demonstrate where variations between the Adjusted Base Period and Future Test Year Period occur (a “FERC account subcategory”).

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1 periods: (1) the Base Period and Adjusted Base Period, (2) the Linkage Period,  
2 and (3) the Future Test Year Period.<sup>28</sup> This file also identifies the variance  
3 between the Base Period/Adjusted Base Period expenses and Future Test Year  
4 Period expenses by FERC account or FERC account subcategory and highlights  
5 where material variances exist.<sup>29</sup>

6 Separately, in Attachment SNN-10, tab 3, Ms. Niemi presents a more  
7 granular view of the general O&M data. There, the general O&M expenses  
8 included in each FERC account or FERC account subcategory are further divided  
9 into elements of cost.<sup>30</sup> This view of the O&M data is presented on both a Total  
10 Company and New Mexico retail basis.<sup>31</sup>

11 In Attachment SNN-10, tab 4, Ms. Niemi separates out the labor-related  
12 cost elements from the general O&M data for the Base Period. In conjunction  
13 with SPS witness Michael P. Deselich, the Business Area witnesses support the  
14 Base Period labor amounts reflected in this tab. Mr. Deselich also identifies, fully  
15 explains, and justifies the labor-related cost drivers that contributed to material

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<sup>28</sup> See 17.1.3.12 NMAC; 17.1.3.15 NMAC; 17.1.3.16(B) NMAC.

<sup>29</sup> See 17.1.3.16(B) NMAC; 17.1.3.18(B) NMAC.

<sup>30</sup> See 17.1.3.16(B) NMAC.

<sup>31</sup> See 17.1.3.16(B) NMAC.

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1 variances between the Adjusted Base Period and the Future Test Year Period  
2 identified by Ms. Niemi.

3 Finally, in Attachment SNN-10, tab 5, Ms. Niemi presents the non-labor  
4 cost elements of the general O&M expenses for the Base Period and Adjusted  
5 Base Period, the Linkage Period, and the Future Test Year Period by Business  
6 Area. Each Business Area's general O&M (non-labor) expenses are presented by  
7 FERC account or FERC account subcategory, as appropriate.<sup>32</sup> Next, the  
8 expenses in each FERC account or FERC account subcategory are further divided  
9 by non-labor cost element.<sup>33</sup> Generally, SPS's Business Area witnesses fully  
10 explain, justify, and support the O&M data presented by Ms. Niemi for their  
11 applicable Business Area in Attachment SNN-10, tab 5, including variances from  
12 period to period.<sup>34</sup> However, as noted throughout testimony, Ms. Niemi sponsors  
13 many of the adjustments made to the Base Period amounts to arrive at the  
14 Adjusted Base Period amounts. The Business Area witnesses also identify, fully  
15 explain, and justify any non-labor Business Area cost drivers that contributed to

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<sup>32</sup> See 17.1.3.16(B) NMAC; 17.1.3.16(B)(1)-(2) NMAC.

<sup>33</sup> See 17.1.3.16(B) NMAC; 17.1.3.16(B)(1)-(2) NMAC.

<sup>34</sup> See 17.1.3.6 NMAC; 17.1.3.14 NMAC; 17.1.3.17 NMAC; 17.1.3.18 NMAC.

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1 material variances between the Adjusted Base Period and the Future Test Year  
2 Period identified by Ms. Niemi.<sup>35</sup>

3 **Q. How does the data you sponsor fit within this presentation?**

4 A. The Fuel-Handling Expenses I sponsor are a single element of cost—third-party  
5 contract costs for coal fuel supply—within FERC Account 501.35. This is a  
6 “non-general” O&M expense. FERC Account 501.35 and the associated data is  
7 reflected on Ms. Niemi’s Attachment SNN-10, tab 2.

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<sup>35</sup> See 17.1.3.17(A) NMAC; 17.1.3.17(D) NMAC.



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1 **Q. What were the actual Fuel-Handling Expenses incurred by SPS during the**  
2 **Base Period?**

3 A. During the Base Period, the Fuel-Handling Expenses equaled \$11,638,193 on a  
4 New Mexico jurisdictional basis (\$29,697,511 Total Company).

5 **Q. You've described the expenses you sponsor as a single element of cost**  
6 **(contract costs). Please remind the reader what these expenses include.**

7 A. The Fuel-Handling Expenses are all incurred under the Tolk and Harrington  
8 CSAs SPS has with TUCO. They capture the non-mine and non-freight coal  
9 costs, which include coal-handling services, assessments and taxes, financing coal  
10 inventories, and the margin under the CSAs. The services associated with these  
11 costs are described in detail in Section III of my testimony.

12 **Q. Did SPS adjust the Base Period Fuel-Handling Expenses to arrive at**  
13 **Adjusted Base Period amounts?**

14 A. No. The Adjusted Base Period amounts for FERC Account 501.35 are the same  
15 as the Base Period amounts. For consistency, I will use the term Adjusted Base  
16 Period going forward.

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1   **Q.   Do the Fuel-Handling Expenses included in the Adjusted Base Period include**  
2           **any non-recurring or unusual items that are unrepresentative of costs to be**  
3           **incurred in the future for these activities?**

4   A.   No.

5   **Q.   Are the Fuel-Handling Expenses incurred during the Adjusted Base Period**  
6           **reasonable and necessary?**

7   A.   Yes. As discussed in detail in Section III above, SPS incurs these expenses to  
8           ensure it has usable coal to burn at its Tolk and Harrington stations, which  
9           provide reliable electricity to SPS’s customers. SPS and TUCO have many  
10          measures in place to ensure these costs remain reasonable.

11   **B.   Linkage Period**

12   **Q.   What is the Linkage Period in this proceeding?**

13   A.   SPS’s Linkage Period in this proceeding begins July 1, 2022 and ends June 30,  
14          2023.

15   **Q.   What is “Linkage Data”?**

16   A.   The term “linkage data” refers to a specific and detailed description of all line  
17          items for the period of time between the end of the Base Period and the beginning  
18          of the Future Test Year Period required by the rule to create a “verifiable link”



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1           between Future Test Year Period data and Base Period data.<sup>36</sup> The rule states that  
2           linkage data does not constitute a test period, but instead is provided for the  
3           purpose of validating the information contained in the Future Test Year Period.<sup>37</sup>

4   **Q.    What are the estimated Fuel-Handling Expenses SPS expects to incur during**  
5           **the Linkage Period?**

6   A.    During the Linkage Period, SPS expects to incur \$14,716,379 in Fuel-Handling  
7           Expenses on a New Mexico jurisdictional basis (\$37,552,205 Total Company).

8   **Q.    How were these amounts derived?**

9   A.    As described above, SPS has renewed both the Tolk and Harrington CSAs with  
10          TUCO. The Fuel-Handling Expenses amounts included in the Linkage Period are  
11          those SPS will incur under the contracts for that timeframe. SPS made a known  
12          and measureable change to the Adjusted Base Period Fuel-Handling Expenses of  
13          \$3,078,185 New Mexico retail (\$7,854,694 Total Company) to reflect the increase  
14          in costs that SPS will incur under the renewed CSAs during the Linkage Period.

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<sup>36</sup> 17.1.3.7(H) NMAC.

<sup>37</sup> *Id.*

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1           This adjustment includes increases in rail car lease expenses, rail car  
2 maintenance expenses, anticipated increases in Savage Management Fee, Service  
3 Fee, and expenses for both Harrington and Tolk stations.

4           It also includes an annual increase in SPS's margin payment to TUCO tied  
5 to the Consumer Price Index ("CPI") that is provided for in the CSAs. The  
6 operating expenses component of SPS's margin payment to TUCO increases  
7 annually (effective January 1st) by the greater of 2.5% or the percentage increase  
8 in the CPI not to exceed 5%. SPS anticipates the CPI to be above 5% during the  
9 Linkage Period, so it used the upper limit of the annual adjustment range included  
10 under the CSAs for this calculation.

11           SPS's Linkage Period adjustment reflects the increased costs associated  
12 with TUCO's services under the CSAs and the higher margin payment that will  
13 be made during the Linkage Period.

14 **Q. Please summarize the expenses reflected in the FERC account and element of**  
15 **cost encompassed within the Linkage Period data sponsored by you.**

16 A. The FERC account subcategory (FERC Account 501.35) and the element of cost  
17 (third-party contract costs) are the same as those identified in the Adjusted Base  
18 Period. Further, all items included in the Fuel-Handling Expenses for the Linkage  
19 Period are the same as those identified in the Adjusted Base Period.

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1 **Q. Please explain the changes seen between the Adjusted Base Period and**  
2 **Linkage Period Fuel-Handling Expenses.**

3 A. As described above, SPS has renewed both the Tolk and Harrington CSAs with  
4 TUCO. The Fuel-Handling Expenses amounts included in the Linkage Period are  
5 those SPS will incur under the contracts for that timeframe.

6 **Q. Are the Fuel-Handling Expenses expected to be incurred during the Linkage**  
7 **Period reasonable and necessary?**

8 A. Yes. As discussed above, SPS must incur these expenses to ensure it has usable  
9 coal to burn at its Tolk and Harrington stations, which provide reliable electricity  
10 to SPS's customers. And SPS will continue its efforts to ensure these costs  
11 remain reasonable as described in Section III of my testimony.

12 **Q. Is the Linkage Period data presented in a way that provides a reasonable**  
13 **approximation of jurisdictional amounts for Future Test Year Period**  
14 **comparison purposes?**

15 A. Yes. As explained by Ms. Niemi, the Future Test Year Period jurisdictional  
16 allocators were applied to the Linkage Period data.

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1 **Q. Does this Linkage Period provide verifiable information that allows**  
2 **Commission Staff and Intervenors to assess the validity of the information**  
3 **contained in the Future Test Year Period discussed in the next section of**  
4 **your testimony?**

5 A. Yes.

6 **C. Future Test Year Period**

7 **Q. What is the Future Test Year Period?**

8 A. SPS's Future Test Year Period in this proceeding is the 12-month period  
9 beginning July 1, 2023 and ending June 30, 2024.

10 **Q. What are the estimated Fuel-Handling Expenses SPS expects to incur during**  
11 **the Future Test Year Period that SPS is requesting recovery of in this case?**

12 A. During the Future Test Year Period, SPS expects to incur \$15,211,643 in total  
13 Fuel-Handling Expenses on a New Mexico jurisdictional basis (\$38,815,986 Total  
14 Company).

15 **Q. How did SPS forecast expenses during the Future Test Year Period?**

16 A. As described above, SPS has renewed both the Tolk and Harrington CSAs with  
17 TUCO through the end of the Future Test Year Period. The Fuel-Handling  
18 Expenses amounts included in the Future Test Year Period are those SPS will  
19 incur under the contracts for that timeframe. These amounts reflect the Adjusted

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1 Base Period expenses plus the known and measurable adjustment discussed in the  
2 Linkage Period and an additional known and measurable adjustment of \$495,265  
3 New Mexico retail (\$1,263,781 Total Company) for further cost increases SPS  
4 will incur under the TUCO CSAs during the Future Test Year Period.

5 **Q. Are these amounts based on SPS's most recently available data?**

6 A. Yes. As described, SPS has renewed the contracts that will apply during this  
7 timeframe and that is the most recent data available to SPS.

8 **Q. Please explain the change seen between the Linkage Period and the Future  
9 Test Year Period Fuel-Handling Expenses.**

10 A. The Future Test Year Period Fuel-Handling Expenses reflect a further known and  
11 measurable change to the Linkage Period amounts to account for the annual  
12 TUCO margin payment escalator.

13 **Q. How, if at all, do the amounts used in the Future Test Year Period relate to  
14 the Base Period/Adjusted Base Period amounts?**

15 A. The Future Test Year Period Fuel-Handling Expenses reflect the costs actually  
16 incurred by SPS during the Base Period plus known and measurable adjustments  
17 to reflect the increased costs SPS will incur under the renewed CSAs and two  
18 contractual margin payment escalators that occur between the Adjusted Base  
19 Period and the Future Test Year Period.

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1 **Q. Is the FERC account subcategory and element of cost used for the Future**  
2 **Test Year Period the same as those appearing in the Adjusted Base Period**  
3 **and Linkage Period?**

4 A. Yes.

5 **Q. Please summarize the items included in the single element of cost (contract**  
6 **costs) encompassed within the Future Test Year Period data sponsored by**  
7 **you.**

8 A. The Fuel-Handling Expenses are all incurred/expected to be incurred under the  
9 Tolk and Harrington CSAs SPS has with TUCO. This element of cost captures  
10 the non-mine and non-freight coal costs, which include coal handling services,  
11 assessments and taxes, financing coal inventories, and the margin under the  
12 CSAs.

13 **Q. Has SPS calculated the differences by FERC account subcategory between**  
14 **the Adjusted Base Period and the Future Test Year Period for the data**  
15 **sponsor by you?**

16 A. Yes. Consistent with 17.1.3.18(B) NMAC, Attachment SNN-10, tab 2, to Ms.  
17 Niemi's direct testimony shows the differences by FERC account/FERC account  
18 subcategory between the Base Period/Adjusted Base Period and the Future Test  
19 Year Period, including:

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- 1           1. A column showing actual expenditures during the Base Period;
- 2           2. A column showing Adjusted Base Period expenditures;
- 3           3. A column showing the estimated expenditures during the Future Test Year
- 4           Period;
- 5           4. A column showing the variance between the Base Period/Adjusted Base
- 6           Period and the Future Test Year Period; and
- 7           5. A column providing an explanation or reference to the written testimony
- 8           that explains the differences between the Base Period/Adjusted Base
- 9           Period data and the Future Test Year Period estimates.

10   **Q.    What does the Future Test Year Period Rule deem a material change in cost**  
11   **between the Adjusted Base Period and Future Test Year Period?**

12   A.    The Future Test Year Period Rule defines “material change” or “material

13   variance” as a change or variance in cost between the adjusted base period and

14   future test year period for a cost center if budget estimates are being used and for

15   a FERC account otherwise that exceeds 6% and \$100,000 Total Company.<sup>38</sup>

16   **Q.    Was there a material change between the Adjusted Base Period and Future**  
17   **Test Year Period in the data you sponsor?**

18   A.    Yes. The variance in FERC Account 501.35 (reflecting Fuel-Handling Expenses)

19   between the Adjusted Base Period and the Future Test Year Period is \$9,118,475

20   on a Total Company basis, which is larger than 6% and \$100,000.

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<sup>38</sup> See 17.1.3.7(J)(1) NMAC.

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1 **Q. Please separately identify, explain, and justify the cost driver(s) for each**  
2 **material change and link it to the Adjusted Base Period and Linkage Period data.**

3 A. The single cost driver is the increases in costs SPS will see under the renewed  
4 CSAs that will be in place during the Future Test Year Period.

5 **Q. In conclusion, what is the total dollar amount of Fuel-Handling Expenses**  
6 **SPS requests in this case on a Total Company and New Mexico Retail basis?**

7 A. SPS is requesting to recover \$15,211,643 New Mexico retail (\$38,815,986 Total  
8 Company) in this case.

9 **Q. Are these Fuel-Handling Expenses reasonable and necessary?**

10 A. Yes. These expenses are prudent and are reasonable and necessary for SPS to  
11 have usable coal to burn at its Tolk and Harrington stations, which are an  
12 important part of SPS's resource mix and contribute safe and reliable power to  
13 New Mexico customers at reasonable prices.

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

15 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, )  
)  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
)  
APPLICANT. )**

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**CASE NO. 22-00286-UT**

**VERIFICATION**

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

*/s/ H. Craig Romer* \_\_\_\_\_  
H. CRAIG ROMER