BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN PUBLIC SERVICE COMPANY'S APPLICATION FOR AUTHORITY TO: (1) ISSUE UP TO $750 MILLION OF FIRST MORTGAGE BONDS DURING 2024; (2) RECOVER CERTAIN REFUNDING COSTS; (3) ENTER INTO AGREEMENTS IN SUPPORT OF INTEREST RATE HEDGING INCLUDING INTEREST RATE LOCKS AND SWAPS; (4) TO EXTEND THE REVOLVING CREDIT AGREEMENT FOR AN ADDITIONAL TWO YEARS; AND (5) INCREASE THE MAXIMUM AMOUNT OF ITS CREDIT AGREEMENT TO $700,000,000.	)	**CASE NO. 24- _______UT**
SOUTHWESTERN PUBLIC SERVICE COMPANY,	)	
APPLICANT.	)	

DIRECT TESTIMONY

of

Patricia L. Martin

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

TABLE OF CONTENTS

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Commission	New Mexico Public Regulation Commission
Coupon Rate or Coupon	The underlying Treasury rate plus a credit spread used in pricing bonds
FMB or FMBs	First Mortgage Bond(s)
Refunding Costs	Redemption make whole premiums, unamortized underwriting costs and expenses associated with any long-term debt that SPS refunds prior to maturity
SPS	Southwestern Public Service Company, a New Mexico corporation
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Case No. 24-00___-UT
Direct Testimony
of
Patricia L. Martin

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Patricia L. Martin. My business address is 414 Nicollet Mall, 401-4, Minneapolis, Minnesota 55401.

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").

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

A. I am employed by Xcel Energy Services Inc. ("XES"), the service company subsidiary of Xcel Energy as Assistant Treasurer.

Q. What are your responsibilities as Assistant Treasurer?

A. As Assistant Treasurer, I am responsible for providing leadership, direction and technical expertise related to Treasury and finance processes and functions. I lead a professional team to provide financial analysis and recommendations on valuations of new investments, financial objectives and policies. I am also responsible for development and implementation of financial plans for regulated operating companies, execution of long-term debt and equity financings, establishing and maintaining banking relationships, and providing written testimony for capital structure and cost of capital.

Q. Please describe your educational and professional background.

A. I have a Bachelor of Science degree in Business Administration from University of Wisconsin-Stevens Point and a Master of Business Administration from Edgewood College in Madison, Wisconsin. I have been employed by Xcel Energy since 2016, and have been in my current role as Assistant Treasurer since October 2019. From 2016 to September 2019, I was the Director of Treasury Forecasting at Xcel Energy with responsibilities for cash forecasting and long-term financial modeling. From 2012 to 2016, I was employed at Pacific Gas and Electric Company as Corporate Finance Manager in the Treasury Department (2012 – 2014) and as a Business Finance Manager supporting Gas Operations (2014 – 2016) From 2007 to 2012, I was employed by several start-up companies in Denver, Colorado including Mobile Accord (VP Finance and Chief Administrative Officer, 2010 – 2012), Local Matters (Director Financial Planning and Analysis, 2008 – 2010) and Pendum Inc. (Manager Financial Planning and Analysis/Treasurer, 2007 – 2008). From 2006 to 2007, I was employed by GE Healthcare as a Financial Planning and Analysis Manager. I was also employed by CUNA Mutual Group from 2004 to 2006 as the Manager of Forecasting, Planning and Analysis. And lastly, I was employed by

Alliant Energy Corporation from 1998 to 2004 in several roles with progressively more responsibility including, Manager – Performance Consulting, Senior Financial Analyst and Senior Treasury Analyst.

Q. Have you testified before any regulatory authorities?

A. Yes. I provided direct testimony on financial integrity, cost of debt, and capital structure before the New Mexico Public Regulation Commission ("Commission") in Case No. 20-00238-UT; provided testimony on security issuances (e.g., first mortgage bonds and unsecured debt) in Case No. 20-00052-UT; and provided testimony in Case No. 22-00286-UT. I also provided testimony on financial integrity, cost of debt, and capital structure before the Public Utility Commission of Texas in Docket Nos. 49831 and 51802. Additionally, I have submitted testimony to the Public Service Commission of Wisconsin in support of Northern States Power Company–Wisconsin's settlement in Docket No. 4220-UR-125 on the reasonableness of the capital structure. I also submitted the 2019, 2020, 2021 and 2022 capital structure petitions on behalf of Northern States Power Company-Minnesota to the Minnesota Public Utilities Commission, Docket Nos. E,G-002/S-19-662, E,G002/S-20-768, E,G-002/S-21-704, and E,G-002/S-22-559.

II. ASSIGNMENT AND SUMMARY OF TESTIMONY

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

A. My testimony supports SPS's requests for authorization to:

(1) issue and sell First Mortgage Bonds ("FMBs") in an aggregate principal amount of up to $750,000,000 during 2024, with maturities of up to 40 years;

(2) recover certain financing costs associated with refunding higher coupon debt to lower overall cost of SPS debt if applicable;

(3) enter into interest rate hedging agreements if SPS determines bond structure and market conditions warrant such action;

(4) extend the authorization period for SPS's credit agreement by two years to December 31, 2029; and

(5) increase the maximum amount of the credit agreement from $600 million to $700 million.

Q. Please summarize your testimony.

A. SPS is requesting authority to issue up to $750,000,000 FMBs during 2024. Such authority would grant SPS flexibility to enter the financial markets when SPS has capital needs, and would provide adequate size flexibility if the projected capital expenditure timing changes. This request to issue debt will not change the capital structure approved in rate Case No. 22-00286-UT. The aggregate net proceeds from the sale of the FMBs will be used by SPS for utility purposes permitted under NMSA 1978, Section 62-6-6, which in general may include the repayment of short term debt initially used to fund utility capital expenditures, repayment of maturing long term debt, and the flexibility to call higher coupon outstanding debt if deemed economical to SPS and its customers. Should SPS execute an early redemption feature on a higher coupon bond, SPS requests pre-approval of the amortization and recovery of the costs associated with the early redemption, provided such redemption maintains or reduces SPS's overall cost of embedded debt.

SPS could issue the new FMBs either as a stand-alone debt issuance under its existing FMB indenture, or through a re-opener to an existing debt series of FMBs as it did in 2012, 2013, 2015 and 2021.

III. PROPOSAL TO ISSUE ADDITIONAL FIRST MORTGAGE BONDS

Q. Does SPS have an existing FMB Indenture?

A. Yes. The Commission previously authorized SPS to establish a FMB Indenture and issue FMBs in Case No. 11-00222-UT.[1] In August 2011, SPS issued $200 million 4.50% 30-year mortgage bonds, or Series No. 1, under that authority. Since the initial authorization in 2011, SPS has issued and has outstanding the following first mortgage bonds.

Date	(Mil)	Coupon	Term	Case No.	Type
Aug 2011	$200	4.50%	30 yr	11-00222-UT	New series 1
Jun 2012	$100	4.50%	30 yr	12-00076-UT	Re-opener of 2011
Aug 2013	$100	4.50%	30 yr	12-00342-UT	Re-opener of 2011
Jun 2014	$150	3.30%	10 yr	14-00018-UT	New Series 3
Sep 2015	$200	3.30%	10 yr	15-00150-UT	Re-opener of 2014
Aug 2016	$300	3.40%	30 yr	16-00125-UT	New Series 4
Aug 2017	$450	3.70%	30 yr	17-00100-UT	New Series 5
Nov 2018	$300	4.40%	30 yr	18-00232-UT	New Series 6
Jun 2019	$300	3.75%	30 yr	19-00038-UT	New Series 7
May 2020	$350	3.15%	30 yr	20-00052-UT	New Series 8
Mar 2021	$250	3.15%	30 yr	20-00236-UT	Re-opener of 2020
May 2022	$200	5.15%	30 yr	22-00017-UT	New Series 9

[1] *See In the Matter of Southwestern Public Service Company's Application for: (1) Authority to Establish a First Mortgage Bond Indenture and Place Liens on SPS Property; (2) Authority to Amend the Authorization Approved in Case No. 10-00317-UT to Include Issuance and Hedging of First Mortgage Bonds; and (3) Authority to Issue First Mortgage Bonds to Collateralize $250 Million 8.75% Series G Senior Unsecured Notes when Necessary*, Case No. 11-000222-UT, Case No. 11-0022-UT, Final Order Adopting Recommended Decision dated July 12, 2011.

Sep 2023	$100	6.00%	30 yr	23-00005-UT	New Series 10

Because first mortgage bonds are secured by physical utility property, they are viewed as less risky than unsecured debt and generally price with lower coupon rates than unsecured bonds. SPS's debt portfolio also includes $350 million 6% unsecured debt that was issued prior to 2011.

Q. What are the factors that influence if and when SPS will issue bonds?

A. SPS typically issues bonds in years when it has a scheduled maturity, or is considering an early redemption of existing long term debt, or during periods of high capital expenditure levels which leads to sustained high levels of short term debt.

Q. What is the forecasted level of short term debt prior to the proposed bond offering?

A. SPS forecasts its short term debt level will reach approximately $150 million prior to the bond offering. In addition, SPS has $350 million of maturing debt due June 15, 2024. SPS's current credit facility amount is $500 million. SPS received

Commission authorization to increase the short term borrowing authority under the credit agreement to $600 million in Case No. 18-00232-UT.[2]

Q. When will SPS issue the new FMBs?

A. The timing of the bond offering will be a function of sustained levels of short term debt, the interest rate environment, and managing to the overall target capitalization ratios. SPS currently plans to issue the new FMBs during the first half of 2024. SPS will issue the bonds:

- after SPS has received authorization from this Commission;
- when market conditions are favorable; and
- when the timing supports prudent liquidity management.

Q. How will the new FMBs be sold?

A. SPS may sell the FMBs in the following ways: (a) through underwriters or dealers in a public sale of securities or (b) through an underwriter that facilitates direct placement with one or more purchasers. Any sale of the FMBs would be through

---

[2] *See In the Matter of Southwestern Public Service Company's Application for Authority to: (1) Issue up to $300 Million of First Mortgage Bonds During 2018; (2) Recover Certain Refunding Costs; (3) Enter into Agreements in Support of Interest Rate Hedging Including Interest Rate Locks and Swaps; (4) to Extend Authorization to Issue Notes under Revolving Credit Agreement for an Additional Three Years; and (5) Increase the Maximum Amount of Notes Issuable Under its Credit Agreement to $600,000,000*, Case No. 18-00232-UT, Final Order Adopting Recommended Decision and Approving Application, dated September 5, 2018.

underwriting, purchase, private placement, or similar agreements that provide for their sale from time to time.

Q. Please describe a direct sale or private placement debt issuance.

A. In private placement offerings, companies engage firm(s) to discuss directly with investors about purchasing the whole, or parts, of the issuance and ultimately negotiate a price. SPS may elect to do a private placement offering due to the size of the offering or the lack of any bond eligible to reopen. It can be challenging to obtain a low cost of debt with smaller issuances due to them being non-index eligible or less than $300 million, which can be less attractive to investors, especially in times of market volatility. The pricing for a private placement issuance will be based on real-time capital market conditions as is a public issuance through underwriters or dealers. In a private placement, a private placement memo is used versus a prospectus supplement as in a public offering.

Q. Has SPS prepared a registration statement for the securities proposed in this case?

A. Yes. SPS has filed a registration statement on Form S-3 effective as of April 22, 2021. Drafts of a Supplemental Indenture, underwriting agreement, preliminary prospectus supplement and a private placement memo that describes the proposed transaction and securities are attached to SPS's Application as Exhibit 2. Upon the sale of the FMBs, the final prospectus will be delivered to the purchasers of the bonds along with prospectus supplement or private placement memo stating the specific terms of the securities. The final prospectus supplement or private placement memo will also be filed with this Commission.

Q. Briefly describe the terms and conditions that will apply to the FMBs.

A. The maturity, amount, pricing, and any other terms and conditions for the FMBs will be a function of the market conditions at the time of the debt offering. The maximum coupon rate of the FMBs should not exceed the coupon rates that are generally available at the time of pricing the FMBs for securities having similar maturity terms, conditions and features issued by utility companies of the same or reasonably comparable credit quality, as determined by comparable transactions and the competitive capital market. The FMBs will mature on a date(s) not to exceed 40 years and may have other terms and conditions (including sinking fund, redemption, non-refunding, delayed draw and non-callable provisions) as SPS's Board of Directors determines.

Q. What expenses are involved in the issuance of the new FMBs?

A. There are underwriting/placement fees as well as other issuance related expenses such as legal fees, auditor fees, rating agency fees, and printing costs. SPS expects issuance costs will be less than two percent of the principal amount to be issued.

As of December 31, 2023, the expenses for the $100 million FMB issuance in September 2023 totaled approximately $1.8 million, or approximately 1.8% of the principal amount and consisted of $0.875 million for underwriting fees and approximately $0.920 million in rating agency, registration, legal, audit and other fees. There may be additional immaterial expenses that are yet to be invoiced.

Q. Does SPS plan to issue a stand-alone bond or re-open an existing bond?

A. SPS typically issues stand-alone bonds, but SPS might choose to re-open a bond if market conditions and pricing support this method, and if the resulting bond size would be beneficial. The market conditions must be similar to when SPS priced the original bond. In addition, a re-opener generally should be a smaller size than the current outstanding issue. This decision will not be made until close to the time of the actual issuance, so that SPS can evaluate which option will lead to the most favorable pricing and execution.

Q. What is the key difference between issuing a stand-alone bond as compared to a re-opened bond?

A. In a re-opener, the coupon rate is known, as it is the stated coupon on the bond that is being re-opened. Only the price remains uncertain until the actual sale of the bonds occurs.

In contrast, under a traditional stand-alone bond, both the interest rate and the price are uncertain until the actual sale of the bonds occurs.

SPS might choose to re-open a bond if market conditions and pricing support this method, and if the underlying bond size would be beneficial. Combining a new FMB with an existing FMB series may result in a combined size that is larger than the $300 million required to be listed on bond indices or "index eligible". An index eligible bond is viewed as more liquid and attracts more investors, thus allowing for more favorable pricing as compared to a small stand-alone bond offering. In addition, the legal expenses may be lower under a re-opening because many of the closing document forms are in place from the earlier offering. On the other hand, if a re-opener would result in the total bond size representing a large portion of the bond portfolio, SPS would likely choose to issue a new stand-alone bond to mitigate the liquidity and interest rate rollover risks associated with future large maturities.

Q. If SPS issued a stand-alone bond, what is the expected coupon rate?

A. In general, the rate on the SPS bonds should not exceed coupon rates that are obtainable at the time of pricing for securities having the same or reasonably similar maturity, terms, conditions and features issued by utility companies of the same or reasonably comparable credit quality, as determined by the competitive capital markets.

Bonds are priced based on the underlying treasury rate plus a credit spread (this is also referred to as the coupon rate) that reflects a company's perceived risk level, reflected by its credit rating, and market conditions. Under current market conditions (January 2024), SPS could issue a 30-year FMB with a coupon rate of about 5.80%. SPS uses Global Insights Inc. and Bloomberg as sources of U.S. Treasury yields, to which SPS adds a credit spread based on credit quality and current market conditions. SPS will determine the maturity of the bond prior to the actual issuance, and will consider the current debt portfolio profile and the market conditions at the time.

Q. Did SPS report the securities to be issued in 2024, as described in this Application, in its most recent annual informational financing report filed with the Commission?

A. Yes. SPS included FMBs of up to $700 million to be issued during 2024 in the April 29, 2023 report filed with the Commission.

IV. PROPOSAL TO RECOVER DEBT REFINANCING COSTS

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

A. I explain SPS's proposal to redeem long term bonds prior to maturity if the redemption would produce cost savings.

Q. Under what circumstances would SPS use the proceeds from the new FMBs to refund long term bonds prior to maturity?

A. SPS will redeem higher coupon long term debt if calling the bond would allow SPS to lower its overall embedded cost of debt. This would require a low interest rate environment and a minimal make whole premium on the bond that is being redeemed.

Q. How is the make whole premium calculated?

A. Under a make whole feature, the remaining interest payments and principal payoff would be discounted. The discounted calculation would use the yield on a U.S. Treasury bond having a maturity date comparable to that of the bond to be called, plus a spread. The amount of the call penalty will vary based on the change in interest rates and the remaining time until the scheduled maturity.

Q. How does the make whole premium affect the cost of debt?

A. The make whole premium will be amortized over the life of the new FMBs whose proceeds would be used to retire the called bonds. SPS requests pre-approval of the recovery of the make whole premiums amortized over the life of the new bonds, any unamortized underwriting costs and expenses associated with long-term debt that it refunds prior to maturity ("Refunding Costs") with the proceeds from the new FMBs. Pre-approval of the recovery of SPS's Refunding Costs combined with the subsequent new issue fees would apply *only* if the refunding action maintains or lowers SPS's embedded cost of debt.

Q. Has SPS identified bonds in its portfolio that may be good candidates for a make whole early redemption?

A. No, not at this time. As explained earlier in my testimony, all outstanding first mortgage bonds have coupon rates lower than where SPS would price a 30-year bond today or the maturity dates are well into the future; therefore none are candidates for early redemption. SPS will monitor the 6.0% unsecured notes for potential early redemption, but at this time such action would not result in a lower embedded cost of debt because of the large make whole on this bond.

V. INTEREST RATE HEDGING AGREEMENTS

Q. Please describe SPS's request for authorization to enter into interest rate hedging agreements.

A. To minimize the risk of movements in interest rates and credit spreads, SPS requests that the Commission grant SPS the authority to enter into interest rate hedging agreements. SPS could potentially enter into interest rate hedging agreements if SPS issues a stand-alone FMB. Interest rate hedging agreements can help protect against sudden increases in interest rates and provide more certainty in a volatile financial market.

Q. Has SPS previously used hedging mechanisms to manage interest rate risk?

A. Yes. SPS has executed agreements two times out of its fifteen authorizations approving hedging. Although SPS seeks authorization to hedge, SPS takes a conservative approach to implementing a hedge. SPS will assess market conditions and trends as well as the cost of execution over a period of time before entering into a hedge. In addition, SPS's current practice is conservative with hedging only a portion of the planned bond issuance principal amount in order to minimize risk, as opposed to trying to make a bet on the direction of interest rates.

Q. What are the key drivers of the pricing of the new FMBs?

A. Key drivers of the coupon rate for SPS's issuance of the bonds are the U.S. Treasury market, the corporate bond market, and specific factors related to SPS's business. The bonds will be priced based on the underlying U.S. Treasury benchmark with like maturity, plus a credit spread based on events in the corporate bond market and also company and industry financial performance. In times of market volatility, that spread may widen to compensate investors for the additional market risk.

Q. Can SPS employ any risk management tools to minimize volatility in pricing?

A. Yes. SPS can enter into interest rate locks and/or forward starting swaps to actively manage interest rate movements. SPS can use these instruments to set the underlying interest rate for days, weeks, or months in advance of the planned security issuance. Locking in a rate protects SPS from the time the lock rate is set, until the lock expires, which should be the target day for the security issuance.

Q. Please give a brief overview of interest rate locks and swaps.

A. Attachment PLM-1 illustrates the pricing components of a debt offering and those components, which may be effectively hedged through interest rate locks or swaps. The Treasury market is the largest component and usually the most volatile for determining a bond's coupon. The Treasury component can be effectively hedged by a Treasury lock, also referred to as an interest rate lock. The Corporate Bond market is a large factor in the determination of the overall credit spread (risk premium added to the benchmark U.S. Treasury) that will be applied to the SPS securities. Forward starting interest rate swaps, herein referred to as "interest rate swaps," benefit SPS and the ratepayer by hedging the U.S. Treasury yield risk *and* a portion of the credit spread.

Interest rate locks are more efficient for shorter-term hedges (intra-day, days) while interest rate swaps are better instruments for longer-term hedges because interest rate swaps hedge not only the U.S. Treasury rate but also a portion of the credit quality spread, which tends to change over the longer term rather than over the shorter term. As a result of a high correlation between corporate credit spreads and swap spreads, a portion of the risk associated with potential credit spread movement is hedged. In both an interest rate lock and an interest rate swap, the notional amounts (underlying principal amounts) of the hedge are the basis for computing the amount of payments in settling the transactions.

Q. What is the process for executing an interest rate lock or swap?

A. SPS must determine the dollar amount, maturity, and expected issue date of the securities to be issued. If the Commission grants appropriate authority, SPS could execute a series of interest rate locks or swaps with a commercial or investment bank (the "Counterparty"). This agreement would reflect the notional amount, the effective date, the termination and settlement dates, and the locked rates.

Interest Rate Lock agreement. The interest rate lock yield is based on the current U.S. Treasury Yield for the stated maturity of the securities plus a forward premium or a forward discount. A forward premium is the cost associated with entering into the lock and is determined by the Counterparty, based upon the expectation that the U.S. Treasury rates will rise. Conversely, a forward discount would be applied if interest rates were expected to decline.

Interest Rate Swap agreement. The interest rate swap agreement is similar to the interest rate lock agreement except that instead of specifying the U.S. Treasury lock rate, the swap agreement specifies that SPS and the Counterparty exchange payments based on a swap rate. The swap rate is based upon an underlying U.S. Treasury, a forward premium, and a swap spread. The swap spread reflects the credit quality of the banks who participate in the swap market.

Q. Please explain what happens when the interest rate lock or swap matures.

A. The interest rate lock or swap should terminate at approximately the same time as SPS issues its new debt securities.

Interest Rate Lock. If interest rates have increased since the lock yield was established, the Counterparty would make a payment to SPS. SPS issues its

Securities based on the then-prevailing U.S. Treasury of like maturity plus a credit spread. Although the coupon on the bond will be based on a U.S. Treasury yield higher than the lock yield, SPS will be indifferent to the increase in interest rates because SPS will have received a payment approximately equal to the present value of the difference between the lock yield and the new issue U.S. Treasury yield. This "gain" is then amortized over the life of the bond that was issued, effectively lowering the interest expense paid by the Company.

If, on the other hand, rates have decreased when the interest rate lock matures, SPS would make a payment to the Counterparty. In this instance, SPS again will be indifferent, because the new debt will be based on a lower yield than the lock yield.

Interest Rate Swap. Similar to an interest rate lock, SPS would settle the swap and either make a cash payment to, or receive a cash payment from, the Counterparty based on a mark-to-market calculation. The payment would be the present value of the anticipated payments, very similar to the payment made in the interest rate lock.

At settlement, if the then-current (spot) swap rate is greater than the locked in swap rate, then the Counterparty is obligated to make a payment to SPS.

Conversely, if the spot swap rate is lower than the locked swap rate, then SPS would pay the Counterparty.

Q. Please explain the benefits to SPS of entering into an interest rate lock or swap.

A. The benefits to SPS of entering into an interest rate lock or swap are most apparent during volatile market conditions, when a company can actively manage risk by setting a Treasury rate or swap rate. The reduction in uncertainty of where a bond will price is the primary consideration, which would enable SPS to set a portion of the cost on the debt that it ultimately issues, and make the debt cost less subject to market fluctuations.

Q. Are there risks associated with interest rate locks and swaps?

A. Yes. The risks of entering into locks or swaps are as follows:

- If rates decline during the period of a lock, then SPS does not capture the entire benefit of the lower interest rate on the coupon.
- Interest rate locks provide protection in interest rate movements only, but SPS would remain exposed to shifts in credit quality spreads. If credit spreads increase, then SPS's coupon rate would increase.
- For swaps, if swap spreads and credit spreads move inversely, then SPS may be at risk when swap spreads decrease and credit spreads increase, but not the inverse when swap spreads increase and credit spreads decrease. If

the unlikely scenario of a decrease in swap spreads and an increase in credit spreads occurred, SPS would pay the Counterparty at the termination of the swap because the overall swap rate has declined. In addition, when SPS prices the bonds, it would pay a higher rate due to increased credit spreads. Unfortunately, there is not a way to hedge this risk within an interest rate swap.

Q. Do the benefits to SPS from an interest rate lock or swap offset the potential risks you have described?

A. Yes. I have described the potential risks to SPS to indicate both the positive and negative effects associated with interest rate locks and swaps. Although there are potential risks associated with using interest rate locks and swaps, failing to use hedging methods will expose a company to risk as well. Entering into interest rate locks or swaps provides additional certainty into the underlying treasury rate in very volatile market conditions, such as those seen in March 2020 due to the COVID-19 pandemic or through most of 2022 as markets were impacted by global political events as well as well as continued inflationary pressures and supply chain issues. Market volatility continued in 2023 due to bank failures and continued inflationary pressure.

Q. How are interest rate locks and swaps accounted for?

A. SPS will enter into only those transactions that qualify for hedge accounting. The gain or loss at settlement will initially be recorded as a balance sheet item in the Other Comprehensive Income account (Federal Energy Regulatory Commission Account 219) and then amortized over the life of the new bonds.

Q. Has the Commission previously authorized SPS to enter into interest rate hedging agreements in support of interest rate locks and swaps?

A. Yes. The Commission has issued the following orders authorizing SPS to enter into interest rate hedging agreements:

1. Final Order in Case No. 3635, dated August 7, 2001;
2. Final Order in Case No. 03-00287-UT, dated August 26, 2003;
3. Final Order in Case No. 06-00157-UT, dated June 27, 2006;
4. Final Order in Case No. 08-00299-UT, dated November 6, 2008;
5. Final Order in Case No. 10-00317-UT, dated December 2, 2010;
6. Final Order in Case No. 11-00222-UT, dated July 12, 2011;
7. Final Order in Case No. 12-00076-UT, dated April 17, 2012;
8. Final Order in Case No. 12-00342-UT, dated November 9, 2012;
9. Final Order in Case No. 14-00018-UT, dated February 19, 2014;
10. Final Order in Case No. 15-00150-UT, dated June 25, 2015;

11. Final Order in Case No. 16-00125-UT, dated June 15, 2016;

12. Final Order in Case No. 17-00100-UT, dated June 6, 2017;

13. Final Order in Case No. 18-00232-UT, dated September 5, 2018;

14. Final Order in Case No. 19-00038-UT, dated February 1, 2019;

15. Final Order in Case No. 20-00052-UT, dated April 1, 2020;

16. Final Order in Case No. 20-00236-UT, dated January 19, 2021;

17. Final Order in Case No. 22-00017-UT, dated February 23, 2022; and

18. Final Order in Case No. 23-00005-UT, dated February 9, 2023.

Q. If SPS receives Commission approval, will SPS enter into interest rate hedging agreements in support of interest rate locks and swaps?

A. Possibly. SPS seeks the authorization for interest rate hedging as a potential tool if the market conditions warrant as a method to reduce interest rate uncertainty in volatile market conditions. SPS takes a conservative approach in making the decision to implement a hedge and also considers the cost and practicality of execution.

VI. EXTEND AUTHORIZATION PERIOD FOR MULTI -YEAR CREDIT AGREEMENT

Q. What is SPS requesting regarding its credit agreement?

A. SPS is requesting authorization to increase the amount of short-term borrowings that it may issue under its credit agreement by $100 million to $700 million and also to extend the authorization period by two years to December 31, 2029. SPS uses its credit agreement as back up for its commercial paper, letters of credit and for short-term direct borrowings, if needed. Although the credit agreement is used for short term liquidity purposes, the multi-year agreement period is considered long-term and, thus, require Commission authority.

Q. Please describe the purpose of SPS's credit agreement.

A. Under SPS's credit agreement, the lenders commit to make funds available in an amount not to exceed the size of the credit agreement and not to extend beyond the stated maturity. SPS issues short-term debt, typically in the form of commercial paper to fund temporary operational liquidity needs. Short-term debt is finite and limited to the amount available under the credit facility. SPS will continue to use a multi-year credit agreement primarily as back-up liquidity for its commercial paper program.

Q. What is the approved term of SPS's current credit agreement?

A. The current credit agreement terminates in September 2027. The Commission authorization granted in Case No. 22-00017-UT allowed SPS to extend the term of the current credit agreement from December 31, 2024 to December 31, 2027.

Q. Why is SPS requesting to extend the credit agreement through December 31, 2029?

A. SPS is requesting to extend the credit agreement through December 31, 2029 to lock in access to committed liquidity for an additional two years. Securing short term liquidity further into the future is also viewed as credit positive by the rating agencies.

Q. Will the authority to extend the credit agreements for two additional years through December 31, 2029, and increase the amount to a maximum of $700 million benefit SPS and its customers?

A. Yes. Authority to issue notes for an additional two years will lock in fee structures and avoid increased costs during that time. Equally important, SPS will be enhancing its financial flexibility by locking in additional liquidity for a longer period, thus enhancing its liquidity Extending existing credit agreements is a commonplace activity within the industry to maintain strong liquidity.

VII. INFORMATION AND REPRESENTATIONS

Q. What are SPS's future financing plans for long term debt?

A. SPS could issue up to $1.1 billion total during the combined 2024-2025 period to repay commercial paper, fund working capital needs and finance operational needs. SPS requests authorization of FMB issuance up to $750 million during 2024 to provide for the financing flexibility to manage liquidity.

Q. Will the total value of SPS's securities that are presently outstanding and that will become outstanding under this application exceed the fair market value of SPS's business and properties?

A. No.

Q. Is the proposed issuance and sale of the FMBs consistent with the public interest?

A. Yes. The proposed FMBs will fund expenditures necessary to continue to provide safe and reliable electric service to our customers.

Q. Will the proceeds from the issuance of the FMBs be used for the purposes set forth in NMSA 1978, Section 62-6-6?

A. Yes.

Q. Will there be any unusual features of the proposed securities transactions that may have a significant effect on SPS's customers or on the Commission's ability to regulate SPS?

A. No.

Q. What is the potential impact to SPS if the Commission does not approve this Application?

A. SPS's requested issuance of up to $750 million of First Mortgage bonds ("FMBs") is an integral component of a methodical financial process that is planned well in advance of the Application. In the process, SPS creates a budget and financing plan that lays out cashflows for operations & maintenance and capital spend. SPS evaluates the best way to manage cash and finance expenditures that cannot be covered by internally generated cash flows. SPS's projected capital expenditures are needed to ensure the company can continue to serve its customers, including delivering clean energy, enhancing customer satisfaction, and increasing grid resilience. Issuing FMBs to fund these capital expenditures is a normal course of business for the company. SPS strives to optimize its financings to ensure the company maintains strong credit metrics, has sufficient liquidity, retains financial flexibility, and maintains its authorized capital structure.

If the Commission does not approve SPS's Application, the company would have to fund the retirement of the $350M first mortgage bond that matures on June 15, 2024 with a combination of short-term debt and internally generated funds. This would cause SPS to reevaluate the budget andfinancing plan and then re-prioritize its outflows of cash. Not approving SPS's Application would limit the company's ability to fund its capital expenditures and operations and maintenance projects, which could result in certain projects being delayed or canceled. Further, both regulators and investors expect utilities to maintain a reasonable capital structure that appropriately balances the funding of a utility's operations with a combination of long-term debt and equity. Not being able to issue reasonable levels of long-term debt unduly constrains access to capital at a reasonable cost.

While SPS has financial tools and options to ensure adequate funds to operate its business, if the Commission denies this Application, the only financing option available would be short-term debt. SPS has in place a finite and maximum $500 million amount in its credit agreement, which allows SPS to issue its short-term debt (Commercial Paper). However, the primary purpose of short-term debt is to provide interim financing for SPS's infrastructure and operational requirements, provide working capital, provide interim financing of debt requirements, and provide short-term financing for other appropriate business purposes. Once the balance accumulates on short-term facilities, SPS relieves the balances with long-term debt issuances.

The purpose of SPS's Application is to gain the authorization to issue long-term debt used to pay off maturing debt, relieve the short-term balances, and provide working capital for operational needs. If SPS cannot maintain a short-term debt balance below the $500 million current maximum, it will run the risk of having insufficient liquidity to conduct business and pay its debt obligations. Financings issued in the ordinary course of utility business, such as the $750 million of FMBs to be approved by the Commission, would allow SPS to fund its operations through a reasonable mix of short and long-term debt, investor equity and internally generated cash flows.

VIII. SPS'S REQUESTS TO THE COMMISSION

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

A. SPS is requesting Commission authorization to:

(1) issue and sell FMBs in an aggregate principal amount of up to $750,000,000 during 2024, with maturies up to 40 years;

(2) recover refunding costs associated with any early redemption of outstanding bonds provided such redemption including amortization of redemption costs results in maintaining or lowering SPS's overall cost of debt;

(3) enter into interest rate hedging agreements associated with the bonds to be issued during 2024 if SPS determines bond structure and market conditions warrant such action;

(4) extend the authorization period for SPS's credit agreement by two years to December 31, 2029; and

(5) increase the maximum amount of the credit agreement from $600 million to $700 million.

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 AUTHORITY TO: (1) ISSUE UP TO $750 MILLION OF FIRST MORTGAGE BONDS DURING 2024; (2) RECOVER CERTAIN REFUNDING COSTS; (3) ENTER INTO AGREEMENTS IN SUPPORT OF INTEREST RATE HEDGING INCLUDING INTEREST RATE LOCKS AND SWAPS; (4) TO EXTEND THE REVOLVING CREDIT AGREEMENT FOR AN ADDITIONAL TWO YEARS; AND (5) INCREASE THE MAXIMUM AMOUNT OF ITS CREDIT AGREEMENT TO $700,000,000.	))))))))))))))))	**CASE NO. 24- _______UT**

SOUTHWESTERN PUBLIC SERVICE COMPANY,

APPLICANT.

VERIFICATION

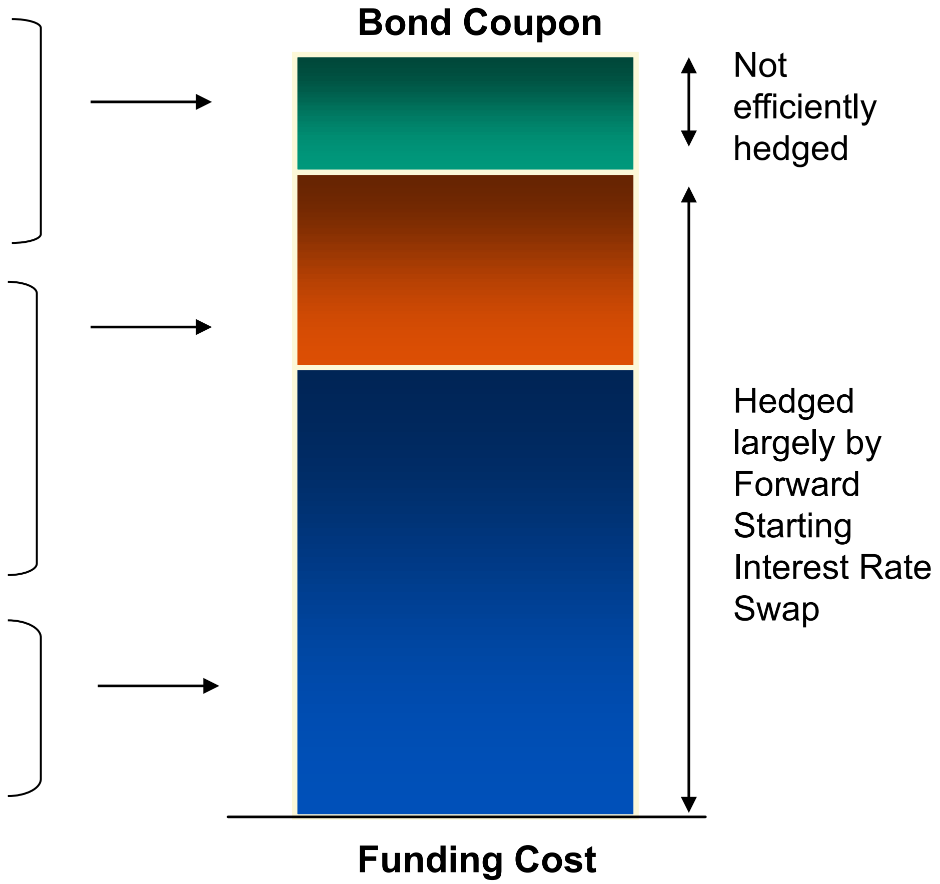
On this day, February 9, 2024, I, Patricia L. Martin, swear and affirm under penalty of perjury under the law of the State of New Mexico, that my testimony contained in Direct Testimony of Patricia L. Martin is true and correct.

/s/ Patricia L. Martin

PATRICIA L. MARTIN

Pricing Components of SPS's Issuance

- **Company-specific factors**
  - Industry
  - Individual corporate performance
  - Influenced by SPS credit rating
- **Corporate Bond market**
  - Driven by investor demand for corporate bonds
  - Supply and Demand
  - Industry
  - Macro-economic environment
- **U.S. Treasury market**
  - Pricing benchmark (U.S. Treasury yield)
  - Driven by economic fundamentals



BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN PUBLIC SERVICE COMPANY'S APPLICATION FOR AUTHORITY TO: (1) ISSUE UP TO $750 MILLION OF FIRST MORTGAGE BONDS DURING 2024; (2) RECOVER CERTAIN REFUNDING COSTS; (3) ENTER INTO AGREEMENTS IN SUPPORT OF INTEREST RATE HEDGING INCLUDING INTEREST RATE LOCKS AND SWAPS; AND (4) TO EXTEND AUTHORIZATION TO ISSUE NOTES UNDER REVOLVING CREDIT AGREEMENT FOR AN ADDITIONAL TWO YEARS; AND (5) INCREASE THE MAXIMUM AMOUNT OF NOTES ISSUABLE UNDER ITS CREDIT AGREEMENT TO $700,000,000. **SOUTHWESTERN PUBLIC SERVICE COMPANY,** **APPLICANT.**	)	**CASE NO. 24-00____-UT**

CERTIFICATE OF SERVICE

I CERTIFY that a true and correct copy of *Southwestern Public Service Company's Application for Authority to Issue Securities and the Direct Testimony of Patricia L. Martin* was electronically sent to each of the following on this 9th day of February 2024:

SPS	
Brooke Trammell	Brooke.A.Trammell@xcelenergy.com;
Erika Kane	Erika.M.Kane@xcelenergy.com;
Stephanie Houle	Stephanie.G.Houle@xcelenergy.com;
Jeremiah Cunningham	Jeremiah.W.Cunningham@xcelenergy.com;
Cindy Baeza	Cindy.Baeza@xcelenergy.com;
FEA	
Capt Marcus Duffy	marcus.duffy.3@us.af.mil;
Maj Holly L. Buchanan	holly.buchanan.1@us.af.mil;
Mr. Thomas A. Jernigan	thomas.jernigan.3@us.af.mil;
Mrs. Ebony Payton	ebony.payton.ctr@us.af.mil;
TSgt Rafael Franjul	rafael.franjul@us.af.mil;

COG	
Michael J. Moffett	mmoffett@cmtisantafe.com;
CCAE	
Cara Lynch	Lynch.Cara.NM@gmail.com;
Charles de Saillan	desaillan.ccae@gmail.com;
Don Hancock	sricdon@earthlink.net;
CCSA	
Joseph Yar	joseph@velardeyar.com;
Kevin Cray	kevin@communitysolaraccess.org;
Shawna Tillberg	shawna@velardeyar.com;
LES	
Joan E. Drake	jdrake@modrall.com;
Michael Gorman	mgorman@consultbai.com;
Perry Robinson	Perry.Robinson@urenco.com;
Sally D. Wilhelms	swilhelms@consultbai.com;
Susan E. Miller	susan.miller@modrall.com;
NMLCG	
Adele Lee	aclee@hollandhart.com;
Austin Rueschhoff	darueschhoff@hollandhart.com;
Austin W. Jensen	awjensen@hollandhart.com;
Nikolas Stoffel	nsstoffel@hollandhart.com;
Thorvald A. Nelson	tnelson@hollandhart.com;
NMAG	
Andrea Crane	ctcolumbia@aol.com;
Doug Gegax	dgegax@nmsu.edu;
Gideon Elliot	gelliot@nmag.gov;
Sydnee Wright	swright@nmag.gov;
OPL	
Katherine Coleman	kcoleman@omm.com;
Melissa Trevino	melissa_trevino@oxy.com;
Michael McMillin	mmcmillin@omm.com;
Phillip G. Oldham	poldham@omm.com;
Ryan Pfefferle	ryan_pfefferle@oxy.com;
O'Melveny & Myers Service	ommeservice@omm.com;
SC	
Dru Spiller	dru.spiller@sierraclub.org;
Jason Marks	lawoffice@jasonmarks.com;
Joshua Smith	joshua.smith@sierraclub.org;

Stephanie Dzur	Stephanie@Dzur-Law.com;
Walmart	
Jocelyn Barrett-Kapin	jbarrettkapin@montand.com;
Randy S. Bartell	rbartell@montand.com;
Steve W. Chriss	Stephen.Chriss@walmart.com;
WRA	
Aaron Gould	aaron.gould@westernresources.org;
Caitlin Evans	caitlin.evans@westernresources.org;
Cydney Beadles	cydney.beadles@westernresources.org;
PRC Legal Division / Utilities / OGC	
Bamadou Ouattara	Bamadou.Ouattara@prc.nm.gov;
Bradford Borman	Bradford.Borman@prc.nm.gov;
Ed Rilkoff	Ed.rilkoff@prc.nm.gov;
Elisha Leyba-Tercero	Elisha.Leyba-Tercero@prc.nm.gov;
Edison Jimenez	edison.jimenez@prc.nm.gov;
Georgette Ramie	georgette.ramie@prc.nm.gov;
John Bogatko	John.Bogatko@prc.nm.gov;
Ryan Friedman	Ryan.friedman@prc.nm.gov;
PRC Office of General Counsel	
LaurieAnn Santillanes	Laurieann.santillanes@prc.nm.gov;
Hearing Examiner	
Ana Kippenbrock	Ana.Kippenbrock@prc.nm.gov;

Respectfully submitted,
/s/ Cindy Baeza
Cindy Baeza
Southwestern Public Service Company
790 S. Buchanan, 7th Floor
Amarillo, TX 79101
(806) 513-1478
Cindy.Baeza@xcelenergy.com