

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. 292; (2) AUTHORIZATION)
AND APPROVAL TO ABANDON ITS) **CASE NO. 20-00238-UT**
PLANT X UNIT 3 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

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Base Period	October 1, 2019 through September 30, 2020
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
Harrington	Harrington Generating Station
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
Test Year	Historical Test Year Period consisting of the Base Period and further incorporating all proper adjustments and capital additions
Tolk	Tolk Generating Station
Total Company or total company	SPS total company costs before jurisdictional allocation
TUCO	TUCO Inc.

<u>Acronym/Defined Term</u>	<u>Meaning</u>
UPRR	Union Pacific Railroad
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
HCR-1	Total Company Amounts and Jurisdictional Percentages (<i>Filename: HCR-1.xlsx</i>)

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Direct Testimony
of
H. Craig Romer

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’¹ coal-fueled generating

¹ 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”) in Case No. 14-00348-UT² and submitted pre-filed testimony in
8 Case No. 19-00315-UT³ regarding coal and coal-related costs recovered through
9 SPS’s Fuel and Purchased Power Cost Adjustment Clause (“FPPCAC”). I have
10 also submitted pre-filed testimony on coal and coal-related costs recovered
11 through base fuel, as well as the non-mine and non-freight coal costs recovered in

² *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).*

³ *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 (pending).*

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1 base rates, in SPS's recent base rate cases before the Commission, including Case
2 Nos. 17-00255-UT⁴ and 19-00170-UT.⁵

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

⁴ *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).*

⁵ *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. 19-0071-UT, Final Order Adopting Certification of Stipulation (May 11, 2020).*

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1 The non-mine and non-freight coal costs that SPS did not recover through
2 its FPPCAC during the Base Period⁶ totaled \$10,934,954 on a New Mexico retail
3 basis (\$33,323,125 total company).⁷ The costs were incurred for:

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

11 SPS proposes one known and measurable adjustment to the Base Period costs to
12 reflect a contractual increase in SPS's margin payment to TUCO. That
13 adjustment, which is \$12,613 on a New Mexico retail basis (\$38,437 total
14 company), results in a Test Year⁹ cost of \$10,947,567 on a New Mexico retail
15 basis (\$33,361,562 total company).

⁶ The "Base Period" is October 1, 2019 through September 30, 2020.

⁷ Coal and coal-related costs are allocated to the New Mexico retail jurisdiction using an energy allocator. Please refer to Direct Testimony of SPS Witness Stephanie N. Niemi, Attachment SNN-4.

⁸ Additionally, the coal-handling costs include several projects that were undertaken at the Tolk and Harrington Stations to improve safety and efficiency.

⁹ The Test Year is the Historical Test Year Period consisting of the Base Period and further incorporating all proper adjustments and capital additions.

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1 I recommend the Commission find that SPS's Test Year non-mine and
2 non-freight coal costs were prudently incurred and were reasonable and necessary
3 for SPS to have usable coal to burn at its Tolk and Harrington Stations.
4 Therefore, those costs should be approved.

5 **Q. How were New Mexico retail jurisdictional amounts in your testimony**
6 **calculated?**

7 A. Throughout this testimony, I quantify the expense amounts on a New Mexico
8 retail basis based upon the jurisdictional allocation percentages that Ms. Niemi
9 uses to develop the New Mexico retail revenue requirement in her Attachment
10 SNN-6. Ms. Niemi is responsible for calculating jurisdictional allocation
11 percentages that apply to the various cost components in the cost of service. My
12 staff and I conferred with Ms. Niemi and her staff to determine the New Mexico
13 retail jurisdictional amounts presented in my testimony. If the percentages used
14 to allocate amounts to the New Mexico retail jurisdiction change, those new
15 allocation percentages will need to be applied to the total company numbers to
16 derive updated New Mexico retail amounts. Attachment HCR-1 contains the total
17 company numbers and the jurisdictional percentages used to derive the New
18 Mexico retail amounts in my testimony.

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1 **Q. Was Attachment HCR-1 prepared by you or under your direct supervision**
2 **or control?**

3 **A. Yes.**

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1 **III. COAL COSTS INCLUDED IN SPS'S BASE RATES**

2 **Q. How does SPS procure its coal requirements?**

3 A. SPS procures coal for Tolk and Harrington from TUCO under a sole-supplier
4 contract for each station. SPS takes ownership of the coal when it physically
5 enters the respective power station's fuel bunkers.

6 **Q. Does the FSO Department oversee the coal procurement on behalf of SPS?**

7 A. Yes. The FSO Department determines SPS's coal needs, administers the CSAs
8 with TUCO, oversees TUCO's procurement of coal and transportation services,
9 and oversees TUCO's administration of its contracts.

10 **Q. Please explain TUCO's role under the CSAs.**

11 A. TUCO's responsibilities under the CSAs include:

- 12 • purchasing coal;
- 13 • owning and managing the inventory stockpiles;
- 14 • leasing railcars;
- 15 • arranging for the transportation and handling of the coal; and
- 16 • negotiating and administering contracts for coal supply, transportation, and
17 handling.

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1 For purposes of this proceeding, the relevant contracts are the coal-handling
2 contracts between TUCO and Savage Industries (“Savage”).

3 **Q. How does TUCO obtain coal to satisfy SPS’s coal requirements?**

4 A. TUCO owns no coal reserves, but instead contracts with coal suppliers to satisfy
5 SPS’s coal needs.¹⁰ TUCO also provides coal transportation services under long-
6 term transportation agreements with the Burlington Northern Santa Fe Railway
7 Company. Both the coal commodity costs and the coal transportation costs are
8 recovered through the FPPCAC, whereas the costs incurred under the long-term
9 coal service agreements with Savage are recovered through base rates.

10 **Q. Please describe which specific types of coal-related costs are recovered**
11 **through base rates and which are recovered through the FPPCAC.**

12 A. Table HCR-1 (next page) lists the specific types of coal-related costs and
13 identifies the mechanism by which each type of cost is recovered.

¹⁰ Tolk and Harrington are both designed to burn coal specifically from the Powder River Basin in Wyoming.

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1

Table HCR-1

Coal-Related Costs Recovered in Base Rates	Coal-Related Costs Recovered through FPPCAC
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
The contractual margin payment ¹¹	

2 **Q. What amount of coal-related base rate costs does SPS seek to recover in this**
3 **case?**

4 A. SPS is requesting that \$10,947,567 (\$33,361,562 total company) be included in
5 base rates. SPS calculated that amount by taking the amount of coal-related costs
6 incurred during the Base Period, which was \$10,934,954 (\$33,323,125 total
7 company), and adjusting it by \$12,613 (\$38,437 total company) to account for a
8 contractual increase.

¹¹ This margin is the payment for TUCO's services.

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1 **Q. Please describe the contractual increase.**

2 A. The operating expenses component of SPS's margin payment to TUCO increases
3 annually (effective January 1st) by the lesser of 2.5% or the percentage increase in
4 the Consumer Price Index ("CPI"). Thus, SPS has made a known and measurable
5 adjustment to reflect the higher margin payment that is being made in 2020. SPS
6 calculated the adjustment by multiplying the operating expenses component of the
7 margin payment in 2019 by 2.3%, which was the increase in the CPI.

8 **Q. Have there been any changes to the TUCO contracts that have affected costs**
9 **during the Test Year?**

10 A. No. SPS's current CSAs with TUCO for both Harrington and Tolk are effective
11 from January 1, 2018 through December 31, 2022. These CSAs continue the
12 service that TUCO provided to SPS under previous CSAs dating back to 1979.
13 The coal service agreements currently in place between TUCO and Savage are
14 also effective from January 1, 2018 through December 31, 2022.

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

17 A. No.

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1 **Q. Do the base rate Test Year costs include any non-recurring or unusual items**
2 **that are unrepresentative of costs to be incurred in the future for these**
3 **activities?**

4 A. No.

5 **Q. Have the CSAs between SPS and TUCO been reviewed by the Commission**
6 **in previous regulatory proceedings?**

7 A. Yes. The current CSAs were effective on January 1, 2018 and were presented in
8 SPS's last base rate case, Case No. 19-00170-UT.¹²

9 **Q. Are the costs associated with the CSAs the same types of costs that have been**
10 **included in base rates in previous SPS base rate cases?**

11 Yes. The coal-related costs included in base rates in this case are the same types
12 of coal costs that have been included in SPS's base rates since 2007. In
13 particular, SPS included these types of coal-related costs in base rates in the
14 following cases:

¹² Case No. 19-0071-UT, Final Order Adopting Certification of Stipulation (May 11, 2020).

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- 1 • Case No. 08-00354-UT,¹³
- 2 • Case No. 10-00395-UT,¹⁴
- 3 • Case No. 12-00350-UT,¹⁵
- 4 • Case No. 15-00296-UT,¹⁶
- 5 • Case No. 17-00255-UT,¹⁷ and
- 6 • Case No. 19-00170-UT.¹⁸

¹³ *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).

¹⁴ *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).

¹⁵ *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).

¹⁶ *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).

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

¹⁸ Case No. 19-00170-UT, Final Order Adopting Certification of Stipulation (May 11, 2020).

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1 **IV. REASONABLENESS OF COAL COSTS INCLUDED IN BASE RATES**

2 **Q. How does SPS assure the reasonableness and necessity of the costs incurred**
3 **by TUCO for coal handling services, assessments and taxes, financing coal**
4 **inventories, and the margin under the CSAs?**

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

12 During any contract evaluation process, SPS reviews TUCO's
13 methodologies and conclusions to ensure that the lowest reasonable cost supplier
14 or suppliers are selected. SPS reviews those supplier costs within the context of
15 the current market conditions and with the best information available at the time.
16 SPS also reviews and provides comments to TUCO on draft agreements, thus
17 ensuring the most advantageous and flexible arrangements are made. SPS also

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1 works with its generation plant engineers to ensure that any operational concerns
2 can be addressed in the agreements' terms.

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

7 Finally, SPS engages in contract administration activities, which are
8 further described in the next answer, to ensure it is billed correctly under the
9 various contracts. All of these efforts help ensure that SPS's non-mine and non-
10 freight costs recovered through base rates are reasonable and necessary expenses.

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

12 A. SPS ensures the accuracy and reasonableness of TUCO's charges for delivered
13 coal by checking invoices and conducting annual audits of TUCO. This activity
14 includes not only the coal acquisition and transportation agreements, but also the
15 other contracts that affect coal costs included in the cost of service. For example,
16 SPS performs calculations to ensure the accuracy of finance charges and TUCO's
17 margins. SPS also reviews the other cost components in TUCO's invoices to
18 ensure both the contractual validity of each component and the accuracy of the
19 calculation of each cost category.

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1 **Q. Are there specific activities that TUCO or SPS, or both, pursue to assure**
2 **themselves that the costs incurred for base rate coal costs are reasonable and**
3 **necessary?**

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

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

17 A. Yes. TUCO has authorized Savage to undertake several projects at Tolk and
18 Harrington to improve safety and efficiency. Over time, those efforts are likely to

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1 lower costs or reduce the extent of unavoidable cost increases. The following is a
2 brief description of the projects:

3 **Tolk Station**

4 **2019:**

- 5 • Replacement of plugged chute detectors
- 6 • Replacement of Caterpillar D10 Dozer

7 **2020:**

- 8 • Replacement of Caterpillar D10 Dozer
- 9 • Replacement of LED lighting in tunnel, warehouse, and exterior
- 10 • Replacement of ash track tie
- 11 • Rotary dumper mechanical inspection

12 **Harrington Station**

13 **2019:**

- 14 • Replacement of Caterpillar D10 Dozer
- 15 • Replacement of conveyor belt 240 and 250 supporting framework

16 **2020:**

- 17 • Replacement of Caterpillar D10 Dozer
- 18 • Installation of new conveyor belts 240, 250 and 400
- 19 • Upgrade to reclaim tunnel LED lighting
- 20 • Upgrade of PLC computer
- 21 • Crusher rebuild
- 22

23 The costs of these projects are included in SPS's base rates.

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1 **Q. Are the coal-related costs that SPS seeks to recover in this case reasonable**
2 **and necessary?**

3 A. Yes. The coal-related costs that SPS seeks to recover in this case are reasonable
4 and necessary for SPS to provide safe and reliable electric service to its
5 customers.

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

7 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. 292; (2) AUTHORIZATION) CASE NO. 20-00238-UT
AND APPROVAL TO ABANDON ITS)
PLANT X UNIT 3 GENERATING)
STATION; AND (3) OTHER)
ASSOCIATED RELIEF,)
)
SOUTHWESTERN PUBLIC SERVICE)
COMPANY,)
)
APPLICANT.)
)
)**

VERIFICATION

On this day, December 22, 2020, 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

Southwestern Public Service Company

Total Company Amounts and Jurisdictional Percentages

Line No.	Witness	Description	Page No.	Line No.	Total Company Amount	Number Scale	Allocator (Name)	TY Allocator (%)	NM Amount
1	Romer	Section II - Base Period Non-Mine and Non-Freight Coal Costs	7	2&3	\$ 33,323,125	dollars	ENERGY	32.81%	\$ 10,934,954
2	Romer	Section II - Pro Forma Adjustment to Base Period	7	13	\$ 38,437	dollars	ENERGY	32.81%	\$ 12,613
3	Romer	Section II - Test Year Non-Mine and Non-Freight Coal Costs	7	14&15	\$ 33,361,562	dollars	ENERGY	32.81%	\$ 10,947,567
4	Romer	Section III - Coal Costs Included in Base Rates	12	4	\$ 33,361,562	dollars	ENERGY	32.81%	\$ 10,947,567
5	Romer	Section III - Base Period Coal Costs Included in Base Rates	12	6	\$ 33,323,125	dollars	ENERGY	32.81%	\$ 10,934,954
6	Romer	Section III - Pro Forma Adjustment to Base Period	12	7	\$ 38,437	dollars	ENERGY	32.81%	\$ 12,613