
Scope of Work Independent Evaluator Executive Summary

Southwestern Public Service Company (“SPS”) is planning to issue an all-source Request for Information (“RFI”) to obtain current pricing, technical characteristics, and other relevant information for potential generating resources. The results from the RFI will be incorporated into an evaluation of the potential abandonment and replacement of SPS’s Tolk Station, herein known as “the Tolk Analysis,” which will include an analysis in which all coal-burning units are retired or replaced before 2030 as set forth in the recent New Mexico Public Regulation Commission final order adopting the stipulation in SPS’s most recent rate case.¹ SPS is seeking the services of an Independent Evaluator (“IE”) to provide an independent review of the RFI process and Tolk Analysis to evaluate the fairness of SPS’s bid solicitation and bid evaluation processes. Upon completion of the RFI solicitation and SPS’s development of the Tolk Analysis, the IE will report its findings to the New Mexico Public Regulation Commission (“NMPRC”) and SPS.

The primary objectives of the IE’s independent review will be to:

- Assess whether that the RFI parameters are consistent with the objectives of the Tolk Analysis
- Assess whether the RFI documents including Standard Bidders Forms provide sufficient and consistent information for respondents to the RFI (“Bidders”) to prepare proposals
- Identify any undue bias in the criteria used or as applied to evaluate bids
- Assess whether a consistent and fair methodology was used to screen and rank bids
- Assess whether the bids were fairly incorporated into the Tolk Analysis
- Provide an assessment of the Tolk Analysis including any deficiencies in the parameters or results of the analysis

Background

Tolk Station consists of two coal-powered steam turbine units, located in Lamb County, Texas. Each unit has a net capacity of approximately 540 MW, for a total net capacity of approximately 1,080 MW.

Tolk Station relies exclusively on groundwater from the Ogallala Aquifer for generation cooling, and the Ogallala Aquifer is in an irreversible decline. To conserve water, and the life of Tolk Station, SPS has implemented a plan to reduce the number of hours the Tolk units operate annually.

SPS is required to analyze a range of operating parameters and retirement dates for Tolk Station. The analysis will incorporate the pricing and technical characteristics obtained in the RFI

¹ Uncontested Comprehensive Stipulation (“Stipulation”) filed at the New Mexico Public Regulation Commission on January 13, 2020 and approved by the New Mexico Public Regulation Commission (“NMPRC”) in Case No. 19-00170-UT.

process. The results of the analysis will be included in SPS's next Integrated Resource Plan ("IRP"), to be filed in July 2021.

As part of the Tolk Analysis, SPS will use the information obtained from this RFI to include an evaluation of the potential retirement and replacement of all of SPS's coal burning generation.

Timeline

SPS is required to complete the Tolk Analysis by June 2021, one month before the IRP. To meet the filing date, SPS anticipates issuing the RFI in the Summer of 2020. Bidders will then be given 60 days to submit their proposals. The evaluation process and Tolk Analysis is expected to take approximately six months from receipt of bids.

IE Responsibilities

To achieve the primary objectives, the IE will be provided immediate and continuing access to all documents and data reviewed, used, or produced by SPS in the preparation of the Tolk Analysis and in its bid solicitation, evaluation, and selection processes. SPS will provide to the IE bid evaluation results and modeling runs so that the IE can verify these results and can investigate options that SPS did not consider.

To conduct a thorough, independent, and unbiased review of the RFI process and Tolk Analysis, the IE will perform the following activities:

Meetings

The IE will attend an initial kickoff meeting prior to issuance of the RFI either via teleconference or in person at SPS's offices in Amarillo, Texas. The kickoff meeting will provide an opportunity to discuss the RFI parameters, specific items which may be required for the Tolk Analysis, and SPS's thoughts, goals and objectives regarding the RFI and Tolk Analysis. SPS will establish and explain confidentiality protection procedures regarding bid information and evaluation. Additional details regarding project administration and public communications will be discussed at the kickoff meeting as well.

The IE will conduct regular project status calls with SPS to discuss the project and identify and mitigate any issues that arise.

The IE will attend via teleconference at all future public technical conferences and other meetings as necessary to achieve the primary objectives.

Review and Finalize RFI Documents and Evaluation Process

The IE will critically review the draft RFI and any associated documents and notification communications with the objective of determining whether there are any undue biases presented to any category of potential Bidders as a result of the structure of the RFI requirements and make recommendations as needed. Additionally, the IE will review and evaluate the draft proposal submittal requirements and standard bidder forms and make recommendations as needed.

The IE understands that some recommendations may not be agreeable to SPS or possible for SPS to implement. If SPS chooses not to follow the IE's recommendations, SPS will provide a brief,

written response to the IE explaining the choices made. SPS may or may not decide to follow the recommendations and guidance provided by the IE and these decisions will be documented as part of the Independent Evaluator Report (“IE Report”).

Review Bidder Communications

Upon issuance of the RFI, the SPS staff directly involved with the RFI will adhere to strict communication protocols with Bidders. The IE will examine any communications between SPS and Bidders during the RFI review period, which will begin with the issuance of the RFI and end with filing of SPS’s 2021 integrated resource plan in July 2021. The purpose of this examination will be to determine whether Bidders were treated fairly during the submittal and evaluation periods, and whether SPS was unduly biased toward a specific bid.

Evaluate the SPS Economic Modeling of Bids

The IE shall conduct a thorough and unbiased review of the due diligence activities performed by SPS for each prospective bid, as well as a review of the economic modeling of each bid to confirm the modeling was accurate and consistent across all bids.

In reviewing the due diligence activities, the IE will review each bid and associated Standard Bidding Forms, followed by a review of SPS’s documented non-economic evaluation of all bids.

Evaluation of the Tolk Analysis

The IE shall conduct a thorough, and unbiased review of the Tolk Analysis parameters and results. The review should include, but not be limited to, consideration of potentially different retirement dates of the Tolk units, the feasibility of acquiring adequate replacement resources in the timeframe necessary, and availability of economic water in each of the scenarios modeled.

The IE will conduct a thorough review of key inputs and parameters to the Tolk Analysis including, but not limited, SPS’s natural gas price forecasts and system load forecasts.

Prepare and Provide Independent Review Report

The IE will prepare an ~~an detailed-IE~~ report of its findings and conclusions regarding the Tolk Analysis. Initial drafts of the report are anticipated to be reviewed internally by SPS and in collaboration with the IE for quality assurance. After incorporating any necessary revisions to the report that are identified as a result of the reviews, the IE will issue the final IE report redacted as necessary to ensure protection of confidential information; confidential information referenced should be made available only under appropriate protective order procedures.