

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY’S )  
APPLICATION REQUESTING: (1) )  
ISSUANCE OF A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY )  
AUTHORIZING CONSTRUCTION AND )  
OPERATION OF WIND GENERATION AND )  
ASSOCIATED FACILITIES, AND RELATED )  
RATEMAKING PRINCIPALS INCLUDING ) CASE NO. 17-00044-UT  
AN ALLOWANCE FOR FUNDS USED )  
DURING CONSTRUCTION FOR THE WIND )  
GENERATION AND ASSOCIATED )  
FACILITIES; AND (2) APPROVAL OF A )  
PURCHASED POWER AGREEMENT TO )  
OBTAIN WIND-GENERATED ENERGY. )  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
APPLICANT. )

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APPLICATION

Southwestern Public Service Company (“SPS”) files this application seeking New Mexico Public Regulation Commission (“Commission”) approval to construct, operate, and maintain two wind generation facilities (collectively, “Wind Facilities”):

- the “Sagamore Wind Project” – a 522 megawatt (“MW”) wind generating plant and associated facilities in Roosevelt County, New Mexico; and
- the “Hale Wind Project” – a 478 MW wind generating plant and associated facilities located in Hale County, Texas.

SPS is proposing to develop and own the SPS Wind Facilities to take advantage of the federal Production Tax Credits (“PTC”) associated with those facilities for the benefit of its customers. In connection with the development of the SPS Wind Facilities, SPS is proposing to enter into a 30-year Power Purchase Agreement (“PPA”) with Bonita Wind Energy, LLC (“Bonita”) for an additional 230 MW of wind generation output.

In accordance with the New Mexico Public Utility Act (NMSA 1978, §§ 62-3-1 *et seq.*, “PUA”) and Commission Rules, Southwestern Public Service Company (“SPS”) applies to the Commission for an order granting the following relief:

1. Find it is in the public interest and consistent with Sections 62-6-12(A)(4) and 62-6-13 of the Public Utility Act for SPS to purchase the Sagamore and Hale sites, which will be the locations of the SPS Wind Facilities;<sup>1</sup>
2. Issue a Certificate of Public Convenience and Necessity authorizing the construction, operation, and maintenance of the SPS Wind Facilities and authorize SPS to accrue an allowance for funds used during construction (“AFUDC”);
3. Approve SPS’s proposal to recover costs for Sagamore between the date the project begins commercial operation and the date the full investment in the project is included in rate base in a Commission rate case;

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<sup>1</sup> It is not clear that SPS needs approval under Sections 62-6-12(A)(4) and 62-6-13 to purchase the two construction sites, but SPS is seeking that approval from the Commission out of an abundance of caution.

4. As part of the recovery of costs for Sagamore for the period before its full investment is included in rate base, allow SPS to record unused PTCs in a deferred tax asset that will be included in rate base;
5. Approve an energy-based methodology to allocate the costs of Hale and Sagamore among jurisdictions;
6. Approve a depreciation rate for production-related SPS Wind Facilities of 4.34%, which reflects a 25-year service life and a negative 8.5% net salvage value;
7. For purposes of calculating SPS's base rate revenue requirement during the period between the date that the SPS Wind Facilities are included in rate base and December 31, 2025, allow SPS to include in rate base the deferred tax asset that results from unused PTCs;
8. Confirm that SPS will be allowed to flow the value of the PTCs to its customers through its fuel and purchased power cost adjustment clause after the SPS Wind Facilities are included in rate base;
9. Approve SPS's proposal to treat the revenue from the sale of Renewable Energy Certificates generated from the SPS Wind Facilities as off-system sales in which SPS retains 10% of the margins;
10. Find that SPS's transactions with an affiliate, Capital Services, LLC to purchase turbines for the SPS Wind Facilities is a reasonable Class I Transaction under

Section 62-6-19(B)(1) of the Public Utility Act and Commission Rule 17.6.450 NMAC;

11. Find that it is reasonable and consistent with Commission Rule 17.9.551 NMAC for SPS to enter into the Bonita PPA; and
12. To enable SPS to complete construction of the SPS Wind facilities in time to meet the deadline for claiming 100% of the value of the PTCs for the benefit of customers, approve a procedural schedule that will allow SPS to obtain a final order as soon as practicable, but not later than December 31, 2017.

These approvals and authorizations are described in this Application and SPS's supporting pre-filed direct testimony concurrently filed with the Application. SPS requests that the Commission enter an order granting the relief requested in this Application within nine months in accordance with Section 62-9-1(C) of the PUA. In this regard, SPS waives the requirement of 17.9.551.10(B) NMAC that the Commission issue a decision regarding SPS's request for approval of the Bonita PPA within six months.

In support of this Application, SPS states the following:

**I. JURISDICTION AND AFFECTED PARTIES**

1. SPS is a public utility in New Mexico as defined in Section 62-3-3(G) of the PUA and is subject to the Commission's jurisdiction under the PUA.

2. SPS, a New Mexico corporation, is a fully integrated generation, transmission, and distribution utility that serves retail customers in a 50,000 square-mile area that encompasses

the eastern and southeastern portions of New Mexico, as well as the Panhandle and South Plains areas of Texas. SPS serves wholesale electric customers as well. This Commission regulates SPS's New Mexico retail service and rates, and the Public Utility Commission of Texas regulates SPS's Texas retail rates and operations. The Federal Energy Regulatory Commission ("FERC") regulates SPS's wholesale power sales and transmission of electricity in interstate commerce.

3. A certified copy of SPS's articles of incorporation is on file with the Commission.

4. SPS's principal office in New Mexico is located at 111 East Fifth Street, Roswell, New Mexico 88201, and its principal corporate office is located at 600 S. Tyler Street, Amarillo, Texas 79101.

5. SPS is a wholly owned subsidiary of Xcel Energy Inc. ("Xcel Energy"), which is a utility holding company under FERC regulations adopted under the Public Utility Holding Company Act of 2005.<sup>2</sup> In addition to SPS, Xcel Energy is the parent company of: three other rate-regulated utility operating companies;<sup>3</sup> a regulated natural gas pipeline company; a non-profit service company that was established under the authority of the Securities and Exchange Commission, but which is now under the supervision of the FERC;<sup>4</sup> three transmission-only operating companies, which are either currently regulated by FERC or expected to be regulated by FERC;<sup>5</sup> and other legal entities.

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<sup>2</sup> 18 C.F.R. Part 366.

<sup>3</sup> Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; and Public Service Company of Colorado, a Colorado corporation.

<sup>4</sup> Xcel Energy Services Inc.

<sup>5</sup> Xcel Energy Southwest Transmission Company, LLC; Xcel Energy Transmission Development

## II. AUTHORIZED REPRESENTATIVES AND SERVICE OF DOCUMENTS ON SPS

6. SPS's corporate representatives and attorneys who should receive all notices, pleadings, discovery requests and responses, and other documents related to this case are:

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## III. DESCRIPTION OF PROPOSED TRANSACTIONS AND ASSOCIATED BENEFITS

### A. Sagamore Wind Project

7. SPS is purchasing the Sagamore Wind Project site from Invenergy, which has acquired the land rights and completed other preliminary work leading toward development of the Sagamore Wind Project. If SPS receives the necessary regulatory approvals, it will install 261 Vestas turbines with a collective nameplate capacity of 522 MW. SPS will also construct

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Company, LLC; and Xcel Energy West Transmission Company, LLC.

the other infrastructure necessary to serve the project and to move the energy to the transmission system.

8. The total cost of the Sagamore Wind Project is expected to be approximately \$865 million. SPS expects to place the Sagamore Wind Project in service no later than 2020. That in-service date will allow SPS to receive 100% of the PTCs available from the project.

**B. Hale Wind Project**

9. SPS is purchasing the Hale Wind Project site from NextEra, which has secured the land rights and completed preliminary work at the site, but has not constructed any turbines. If SPS receives all of the necessary regulatory approvals, it will install 239 Vestas turbines with a collective nameplate capacity of 478 MW. In addition, SPS will construct the necessary infrastructure to serve the project. The total cost of the Hale Wind Project is expected to be approximately \$769 million.

10. SPS expects to place the Hale Wind Project in service no later than 2019. As discussed below and in detail in the Direct Testimony of SPS witness Evan D. Evans, that in-service date will allow SPS to receive 100% of the federal Production Tax Credits (“PTCs”) available from the project, which will ultimately reduce the cost of energy for SPS’s retail customers.

**C. Bonita PPA**

11. As part of the Hale Wind Project transaction, SPS will also enter into a 30-year PPA to purchase the output of two projects owned by Bonita, an affiliate of NextEra: (1) an 80 MW project in Crosby County, Texas, and (2) a 150 MW project in Cochran County, Texas. Both Bonita projects are expected to begin commercial operation in the fourth quarter of 2018, so the PPA will remain in effect until late 2048. If the Commission approves the PPA, the costs of the energy purchased under that PPA will be passed through to customers through SPS's fuel and purchased power clause ("FPPCAC").

**D. Benefits of Proposed Transactions**

12. Several benefits would flow from the Commission's approval of (1) the CCN for the Wind Facilities, and (2) the Bonita PPA. First, the energy produced from the Wind Facilities has no fuel costs. Whereas SPS's customers now pay the cost of natural gas or coal used to generate electricity in thermal generating facilities, there would be no such cost associated with the Wind Facilities.

13. Second, SPS is eligible under federal law to receive 100% of the PTCs associated with the output of the Wind Facilities. The combination of PTCs and no fuel costs will lead to lower energy costs for SPS's retail customers over the lives of the Wind Facilities. SPS witness Jonathan Adelman testifies that, largely because of the availability of the PTCs, customers will save more than \$2.8 billion over the lives of the Wind Facilities compared to the amount they



would spend if SPS purchased all of its energy through PPAs or generated it using thermal facilities.

14. Finally, the development of the Wind Facilities is likely to defer the need for additional transmission facilities in SPS's service area, which will also save money for SPS's customers.

#### **IV. REQUESTED APPROVALS AND AUTHORIZATIONS**

##### **A. Determination that SPS's acquisition and operation of the Wind Facilities is not unlawful or inconsistent with the Public Interest (Sections 62-6-12(A)(4) and 62-6-12 of the PUA)**

15. Sections 62-6-12(A)(4) and 62-6-13 of the PUA require a utility to obtain Commission authorization prior to the sale, lease, purchase, or acquisition of "any public utility plant or property constituting an operating unit or system or any substantial part thereof . . ." Given that the Hale Wind Project and the Sagamore Wind Project only consist of land leases and required permits at this time, it is not clear that they qualify as part of "an operating unit or system.." Out of an abundance of caution, however, SPS requests that the Commission find that its ownership and development of the SPS Wind Facilities is in the public interest.

16. Regardless, SPS's acquisition of the Hale Wind Project and Sagamore Wind Project sites complies with the requirements of 62-6-12(A)(4) and 62-6-13 of the PUA. Under Sections 62-6-12 and 62-6-13, the Commission determines whether the transaction is unlawful

and whether the transaction is consistent with the public interest based on a weighing of net benefits/detriments, and determining there are public benefits from the transaction.<sup>6</sup>

17. In determining whether a proposed transaction will provide benefits to customers, the Commission has considered whether: (1) Commission jurisdiction over the utility will be preserved; (2) quality of service will be diminished; and (3) the transaction will result in improper subsidization of non-utility activities.<sup>7</sup>

18. As explained by SPS witnesses Evan D. Evans, SPS's acquisition of the Wind Facilities is not unlawful or inconsistent with the public interest because the acquisition will not affect the Commission's jurisdiction over SPS; the quality of service provided by SPS will not be diminished; and the transaction will not result in improper subsidization of non-utility activities. Further, as discussed by Mr. Evans and the witnesses he references, the acquisition will result in significant benefits for SPS's New Mexico retail customers.

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<sup>6</sup> See *In the Matter of Southwestern Public Service Company's Application for Approvals Associated with the Asset Purchase Agreement Between SPS and Sharyland Distribution and Transmission Services, L.L.C., and the Regulatory Accounting Treatment of the Gain on Sale*, Case No. 13-00140-UT, Recommended Decision at 6 and 33 and Final Order Partially Adopting Recommended Decision (December 4, 2012).

<sup>7</sup> See *In the Matter of the Application of PNM Resources Inc. and Texas-New Mexico Power Co. for Approval of PNM Resources' Acquisition of TNP Enterprises Inc. for Approval of Applicants' Proposed Regulatory Plan, and for all other Approvals and Authorizations Required to Effectuate and Implement the Acquisition*, Case No. 04-00315-UT, Certification of Stipulation at 16-17, Final Order Approving Certification of Stipulation (June 7, 2005); *In the Matter of the Acquisition by Epcor Water (USA) Inc. of the Common Stock of New Mexico-American Water Company, Inc.*, Case No. 11-00085-UT, Recommended Decision at 15, Final Order Adopting Recommended Decision (December 22, 2011).

**B. Issuance of a CCN for the Wind Facilities (Sections 62-9-1 and 62-9-6 of the PUA and Rule 17.3.580 NMAC)**

19. The Wind Facilities will serve SPS's existing and expanding New Mexico retail loads in southeastern New Mexico and enhance reliability of SPS's southeastern New Mexico service area. In accordance with Section 62-9-1 and 62-9-6 of the PUA, SPS is requesting that the Commission determine that the public convenience and necessity requires the construction, operation, and maintenance of the Proposed Project and issue a CCN for the Proposed Project, and also requests authorization to accrue AFUDC.

20. As explained by SPS witnesses David T. Hudson, Evan D. Evans, Riley Hill, and Jonathan Adelman, SPS is proposing to develop and own the SPS Wind Facilities because they will save SPS's customers approximately \$2.8 billion in energy costs over their service lives, with approximately \$638 million of that amount accruing to New Mexico retail customers. Accordingly, SPS's construction and operation of the Wind Facilities is in the public interest and should be approved.

**C. Determination of Ratemaking Treatment for the Wind Facilities (Section 62-9-1 of the PUA)**

21. Section 62-9-1(B) of the PUA authorizes a utility to request that the Commission determine the ratemaking principles and treatment that will apply to facilities for which a CCN is requested.<sup>8</sup> SPS requests that the Commission approve ratemaking treatment for the Wind Facilities as discussed below and in the direct testimony of SPS witness Evan D. Evans.

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<sup>8</sup>NMSA 1978 § 62-9-1(B).

22. The estimated cost of the Wind Facilities is approximately \$1.63 billion, which includes AFUDC.

23. As part of the ratemaking treatment for the Wind Facilities, SPS requests that the Commission approve a “Cost Reconciliation Mechanism” that will allow SPS to receive revenues attributable to the Sagamore Wind Project during the period of time between the facility’s commercial operation and its full inclusion in rate base. SPS witnesses Evan D. Evans and Arthur P. Freitas explain the details of the proposed Cost Reconciliation Mechanism. SPS’s investment in the Sagamore Wind Project is expected to total \$865 million and will comprise approximately 20% of SPS’s total company rate base. Mr. Evans explains in his direct testimony that SPS cannot afford to wait several months to begin receiving revenues attributable to the Sagamore Wind Project. Consequently, SPS proposes to implement a Cost Reconciliation Mechanism that compares the revenue requirement for the Sagamore Wind Project to revenues attributable to the facility during the period of time between the facility’s commercial operation and full inclusion in rate base.

24. For the period after the SPS Wind Facilities begin commercial operation but before they are placed in rate base, the SPS Wind Facilities will generate PTCs. SPS proposes to give customers credit for the PTCs during that time by including the value of those PTCs in the revenue side of the Cost Reconciliation Mechanism equation. During that time, SPS is likely to be in a Net Operating Loss (“NOL”) position because of the availability of bonus depreciation, and therefore SPS will not be able to use the PTCs attributable to the SPS Wind Facilities to

reduce its income tax liability. Consequently, SPS proposes to accrue the unused PTCs in a deferred tax asset and to include the deferred tax asset in rate base for the purpose of calculating the revenue requirement used in the Cost Reconciliation Mechanism. That treatment will ensure that benefits are matched with burdens for both SPS and its customers. Therefore, SPS requests that the Commission approve SPS's request to include the unused PTCs in a deferred tax asset and to include that deferred tax asset in rate base from the commercial operation date of each SPS Wind Facility until the date that facility is included in rate base.

25. SPS proposes to allocate the costs and revenues associated with the SPS Wind Facilities among SPS's regulatory jurisdictions using an energy allocator. That treatment is consistent with the SPS Wind Facilities' status as economic investments, not capacity investments. SPS requests that the Commission approve the use of an energy allocator to allocate costs and revenues associated with the SPS Wind Facilities among its regulatory jurisdictions.

26. At this time, SPS has no Commission-approved depreciation rates for wind production facilities. Accordingly, SPS proposes to use a depreciation rate of 4.34%, which reflects a 25-year service life and a negative 8.5% net salvage rate, for the production-related assets that will be included in the SPS Wind Facilities. As explained by Mr. Evans, the proposed service life is based on an estimate of the average service life of a turbine by Vestas, and the proposed net salvage value is based on dismantling estimates performed for wind projects owned by other Xcel Energy operating companies.

27. For the period of time after the SPS Wind Facilities go into rate base, SPS will continue to record PTCs that cannot be used to reduce federal income taxes because of SPS's NOL position. SPS requests that the Commission approve SPS's request to record those unused PTCs in a deferred tax asset and to include that deferred tax asset in SPS's rate base for purposes of setting base rates. SPS proposes to eliminate the deferred tax asset attributable to unused PTCs after 2025.

28. For the period after an SPS Wind Facility is placed in rate base, SPS proposes to flow back PTCs through its fuel and purchased power cost adjustment clause ("FPPCAC"). That treatment of PTCs ensures that New Mexico retail customers receive the benefit of the PTCs in a timely fashion, and it reduces the likelihood that customer classes or individual customers will be prejudiced by timing differences between the purchase of the energy and the crediting of PTCs. SPS requests that the Commission confirm that SPS is authorized to pass the PTCs on to customers through the FPPCAC.

29. SPS proposes to treat the sale of RECs from the SPS Wind Facilities in the same manner that off-system sales are treated.<sup>9</sup> If the Commission approves that proposal, SPS will retain 10% of the margins from the sales of RECs.

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<sup>9</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, Recommended Decision at p. 216 (Jan. 23, 2014); Final Order Partially Adopting Recommended Decision at p. 24 (Mar. 26, 2014).

**D. Class I Affiliate Transaction (Section 62-6-19 of the PUA and 17.6.450.11 NMAC)**

30. Under Section 62-6-19 of the PUA and Rule 450.11, public utilities are required to notify the Commission regarding Class I Transactions, which are transactions that involve sales of goods or services between a public utility and an affiliate.<sup>10</sup> The Commission may investigate Class I Transactions to determine whether the costs and terms are reasonable.<sup>11</sup>

31. An Xcel Energy affiliate, Capital Services, purchased turbines from Vestas in 2016. SPS witness Evan D. Evans explains in his testimony that it was necessary to purchase a portion of the assets used to construct the Wind Facilities in 2016 to obtain the full benefit of the PTCs associated with the output of those facilities. Because SPS was not in a position to purchase the turbines and other assets in 2016, Capital Services made those purchases for the benefit of SPS and its customers.

32. If SPS receives the regulatory approvals necessary to develop, own, and operate the Wind Facilities, it will purchase the turbines from Capital Services. Capital Services will sell the turbines to SPS at the same amount that Capital Services paid for those assets, with no markup. The price paid by SPS is the lowest price at which any entity could buy the assets from Capital Services.

33. It was reasonable and necessary for Capital Services to incur the costs of the turbines, and the costs charged to SPS by Capital Services for the turbines are also reasonable

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<sup>10</sup> See NMSA 1978 §§ 62-3-3(K); 62-6-19; Rule 17.6.450.11 NMAC.

<sup>11</sup> See NMSA 1978 § 62-6-19(B).

and necessary. Accordingly, SPS requests that the Commission determine that the acquisition of the turbines from Capital Services complies with the requirements of Section 62-6-19 of the PUA and 17.6.450.11 NMAC.

**E. Approval of Bonita PPA (Rule 17.9.551 NMAC)**

34. On March 7, 2017, SPS entered the Bonita PPA for a total of 230 MW of wind energy. The Bonita PPA includes two projects: Phase I in Crosby County, Texas with 80 MW and Phase II in Cochran County with 150 MW. The estimated commercial operation date (“COD”) for both Phase I and Phase II is no sooner than October 2, 2018, and no later than December 31, 2018. The Bonita PPA will provide SPS with approximately 1,029,563 megawatt hours (“MWh”) of economically priced energy per year over the 30-year term of the contract for both phases.

35. As discussed in the Direct Testimony of SPS witness David T. Hudson, the Bonita PPA is a key component of the overall wind facility initiative consisting of the Bonita PPA, the Hale Wind Project, and Sagamore Wind Project. The Bonita PPA was identified as an opportunity to procure long-term economic energy as part of this overall initiative as further discussed by SPS witness Jonathan Adelman and shown in the analyses he presents. Together, all of these projects complete the initiative to provide long-term economic energy to SPS’s customers.



36. SPS witness Tim Kawakami discusses the terms of the Bonita PPA and establishes that they are reasonable. Mr. Kawakami also addresses the selection of the Bonita PPA.

37. SPS requests approval to recover the New Mexico retail jurisdictional allocated share of energy costs associated with the Bonita PPA through SPS's FPPCAC in accordance with Rule 550. The total energy cost for the PPA will be proportionally allocated among SPS's three jurisdictions (New Mexico retail, Texas retail, and wholesale). The New Mexico retail share of the PPAs total energy costs will be approximately 16 percent.

38. The Bonita PPA will serve the interests of SPS's retail customers, its investors, and the interests of the public because: (a) the cost of wind energy under the Bonita PPA is reasonable and recovery of the cost of energy under the PPA is consistent with the requirements of Rule 550; (c) the PPA is consistent with SPS's ability to provide safe and reliable electric utility service to its customers at the lowest reasonable cost; and (d) the PPA satisfies the approval criteria set out in Rule 551.

## **V. NOTICE AND PROCEDURAL REQUIREMENTS**

39. SPS will serve and provide the following notices in accordance with the PUA and the Commission's Rules:

- a. On the same day SPS files this Application, it will serve a copy of this Application, and the supporting testimony on the Commission's Utility Division

Staff, the New Mexico Attorney General, and the parties in SPS's currently pending general electric rate case, No. 16-00269 UT (*see* 17.9.551.8(C) NMAC);

- b. SPS proposes to publish notice of this proceeding one time in a newspaper of general circulation in each of the counties in which SPS operates;
- c. SPS will publish notice of any initial hearing at least twenty days before the time set for hearing regarding this Application (*see* 17.1.2.9(D) NMAC);
- d. SPS will post its application on Xcel Energy's *Power for the Plains* website (<http://www.powerfortheplains.com/>).

40. SPS's proposed form of Notice is attached to the Application as Exhibit A.

41. In accordance with Sections 62-9-1(C) of the PUA, the Commission may approve SPS's request for a CCN without a formal hearing if no protest is filed within 60 days after SPS's publication of notice regarding the filing of the application in this case.

## VI. MISCELLANEOUS MATTERS

42. In support of its Application, SPS is concurrently filing the direct testimony of the following witnesses that discuss the matters described below:

Witness	Testimony Topics
David T. Hudson	Provides an overview of SPS's request for relief and explains why the SPS Wind Facilities and the Bonita PPA benefit New Mexico retail customers.

Witness	Testimony Topics
Evan D. Evans	Provides an overview of SPS's filing; summarizes the transactions; introduces other witnesses; describes the bases for SPS's CCN request and its request for a finding that the transactions are in the public interest; explains SPS's request to use an energy allocator to allocate the costs and revenues associated with the SPS Wind Facilities; requests depreciation rates for the wind production facilities; explains SPS's proposal regarding a Cost Reconciliation Mechanism; explains SPS's proposed treatment of PTCs; explains SPS's proposed treatment of RECs; explains why the agreement between SPS and Capital Services satisfies the affiliate standards under New Mexico law; requests a finding that the Bonita PPA is in the public interest; and requests an expedited procedural schedule to ensure that customers realize the benefits associated with the SPS Wind Facilities.
Riley Hill	Explains that the Hale and Sagamore sites are prime locations for wind generation facilities; describes the engineering aspects of the SPS Wind Facilities; discusses the construction schedule and estimated costs of the SPS Wind Facilities; addresses various CCN requirements related to the SPS Wind Facilities.
Jonathan Adelman	Calculates the benefits to SPS's customers from the SPS Wind Facilities and the Bonita PPA.
William P. Zawacki	Explains Xcel Energy's experience with owning and operating wind generation facilities.
William A. Grant	Discusses transmission access, planning, and requests related to the SPS Wind Facilities.
David Deluca	Presents an engineering analysis regarding the net capacity factors for the SPS Wind Facilities.
Tim Kawakami	Describes the Bonita PPA and explains that it is reasonable for SPS to have entered into it.
Mary P. Schell	Addresses Xcel Energy's plans for financing the SPS Wind Facilities.

Witness	Testimony Topics
Arthur P. Freitas	Quantifies the total company revenue requirement for each of the SPS Wind Facilities using blended cost elements; allocates the economic benefits from the SPS Wind Facilities and the Bonita PPA to SPS's three jurisdictions; calculates a New Mexico retail revenue requirement for each of the SPS Wind Facilities and the Bonita PPA; quantifies the net economic benefits of each of the SPS Wind Facilities and the Bonita PPA on a New Mexico retail jurisdictional basis; and describes SPS's proposal to include unused PTCs in rate base for the period from 2019-2025.

Based on the previous discussion, in addition to approving SPS's form of notice, SPS respectfully requests that the Commission enter a final order that grants the following relief:

1. Finds it is in the public interest and consistent with Sections 62-6-12(A)(4) and 62-6-13 of the Public Utility Act for SPS to purchase the Sagamore and Hale sites, which will be the locations of the SPS Wind Facilities;
2. Issues a Certificate of Public Convenience and Necessity authorizing the construction, operation, and maintenance of the SPS Wind Facilities, and authorize SPS to accrue AFUDC;
3. Approves SPS's proposal to recover costs for Sagamore between the date the project begins commercial operation and the date the full investment in the project is included in rate base in a Commission rate case;
4. As part of the recovery of costs for Sagamore for the period before its full investment is included in rate base, allows SPS to record unused PTCs in a deferred tax asset that will be included in rate base;

5. Approves an energy-based methodology to allocate the costs of Hale and Sagamore among jurisdictions;
6. Approves a depreciation rate for production-related SPS Wind Facilities of 4.34%, which reflects a 25-year service life and a negative 8.5% net salvage value;
7. For purposes of calculating SPS's base rate revenue requirement during the period between the date that the SPS Wind Facilities are included in rate base and December 31, 2025, allows SPS to include in rate base the deferred tax asset that results from unused PTCs;
8. Confirms that SPS will be allowed to flow the value of the PTCs to its customers through its fuel and purchased power cost adjustment clause after the SPS Wind Facilities are included in rate base;
9. Approves SPS's proposal to treat the revenue from the sale of Renewable Energy Certificates generated from the SPS Wind Facilities as off-system sales in which SPS retains 10% of the margins;
10. Finds that SPS's transactions with an affiliate, Capital Services, LLC to purchase turbines for the SPS Wind Facilities is a reasonable Class I Transaction under Section 62-6-19(B)(1) of the Public Utility Act and Commission Rule 17.6.450 NMAC;
11. Finds that it is reasonable and consistent with Commission Rule 17.9.551 NMAC for SPS to enter into the Bonita PPA;

12. To enable SPS to complete construction of the SPS Wind facilities in time to meet the deadline for claiming 100% of the value of the PTCs for the benefit of customers, approves a procedural schedule that will allow SPS to obtain a final order as soon as practicable, but not later than December 31, 2017; and
13. Grants to SPS such other approvals, authorizations, and relief as the Commission deems necessary and proper in order to allow SPS to implement and effectuate the relief in the final order issued in this case.

Respectfully submitted,

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ATTORNEYS FOR SOUTHWESTERN PUBLIC SERVICE COMPANY

**EXHIBIT A**

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY'S )  
APPLICATION REQUESTING: (1) )  
ISSUANCE OF A CERTIFICATE OF PUBLIC )  
CONVENIENCE AND NECESSITY )  
AUTHORIZING CONSTRUCTION AND )  
OPERATION OF WIND GENERATION AND )  
ASSOCIATED FACILITIES, AND RELATED )  
RATEMAKING PRINCIPALS INCLUDING )  
AN ALLOWANCE FOR FUNDS USED )  
DURING CONSTRUCTION FOR THE WIND )  
GENERATION AND ASSOCIATED )  
FACILITIES; AND (2) APPROVAL OF A )  
PURCHASED POWER AGREEMENT TO )  
OBTAIN WIND-GENERATED ENERGY. )  
)  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
)  
APPLICANT. )  
)  
\_\_\_\_\_ )**

**CASE NO. 17-00044-UT**

**NOTICE**

**NOTICE IS HEREBY GIVEN that:**

1. On March 21, 2017, Southwestern Public Service Company (“SPS”) filed an application seeking New Mexico Public Regulation Commission (“Commission”) approval to construct, operate, and maintain two wind generation facilities (collectively, “SPS Wind Facilities”): the “Sagamore Wind Project” – a 522 megawatt (“MW”) wind generating plant and associated facilities in Roosevelt County, New Mexico; and the “Hale Wind Project” – a 478 MW wind generating plant and associated facilities located in Hale County, Texas. SPS is proposing to

develop and own the SPS Wind Facilities to take advantage of the federal Production Tax Credits (“PTC”) associated with those facilities for the benefit of its customers. In connection with the development of the SPS Wind Facilities, SPS is proposing to enter into a 30-year power purchase agreement (“PPA”) with Bonita Wind Energy, LLC (“Bonita”) for an additional 230 MW of wind generation output. SPS projects that the combination of PTCs and fuel savings will lead to approximately \$2.8 billion in overall energy cost savings over the service lives of the SPS Wind Facilities and the Bonita PPA, with New Mexico retail customers receiving approximately \$638 million of those savings.

2. SPS’s Application requests that the Commission:
  - a. Find it is in the public interest and consistent with Sections 62-6-12(A)(4) and 62-6-13 of the Public Utility Act for SPS to purchase the Sagamore and Hale sites, which will be the locations of the SPS Wind Facilities;
  - b. Issue a Certificate of Public Convenience and Necessity authorizing the construction, operation, and maintenance of the SPS Wind Facilities, and authorize SPS to accrue an allowance for funds used during construction;
  - c. Approve SPS’s proposal to recover costs for the Sagamore Wind Project between the date the project begins commercial operation and the date the full investment in the project is included in rate base in a Commission rate case;
  - d. As part of the recovery of costs for the Sagamore Wind Project for the period before its full investment is included in rate base, allow SPS to record unused PTCs in a deferred tax asset that will be included in rate base;
  - e. Approve an energy-based methodology to allocate the costs of the SPS Wind Facilities among jurisdictions;
  - f. Approve a depreciation rate for production-related SPS Wind Facilities of 4.34%, which reflects a 25-year service life and a negative 8.5% net salvage value;
  - g. For purposes of calculating SPS’s base rate revenue requirement during the period between the date that the SPS Wind Facilities are included in rate



base and December 31, 2025, allow SPS to include in rate base the deferred tax asset that results from unused PTCs;

- h. Confirm that SPS will be allowed to flow the value of the PTCs to its customers through its fuel and purchased power cost adjustment clause after the SPS Wind Facilities are included in rate base;
- i. Approve SPS's proposal to treat the revenue from the sale of Renewable Energy Certificates generated from the SPS Wind Facilities as off-system sales in which SPS retains 10% of the margins;
- j. Find that SPS's transactions with an affiliate, Capital Services, LLC to purchase turbines for the SPS Wind Facilities is a reasonable Class I transaction under Section 62-6-19(B)(1) of the Public Utility Act and Commission Rule 17.6.450 NMAC;
- k. Find that it is reasonable and consistent with Commission Rule 17.9.551 NMAC for SPS to enter into the Bonita PPA;
- l. To enable SPS to complete construction of the SPS Wind facilities in time to meet the deadline for claiming 100% of the value of the PTCs for the benefit of customers, approve a procedural schedule that will allow SPS to obtain a final order as soon as practicable, but not later than December 31, 2017; and
- m. Grant to SPS such other approvals, authorizations, and relief as the Commission deems necessary and proper in order to allow SPS to implement and effectuate the relief in the final order issued in this case.

3. SPS's proposal to construct, operate, and maintain the Wind Facilities and enter into the Bonita PPA would affect all of SPS's New Mexico retail customers.

4. The Commission has assigned Case No. 17-00044-UT to this Application, and all correspondence, pleadings, inquiries, written comments, or other communications concerning this matter should refer to that case number.

5. The present procedural schedule for this proceeding established in the Procedural Order issued by the Hearing Examiner on [date], 2017 is as follows

- a. Any person desiring to become a party to this case must file the original and five copies of a motion for leave to intervene in conformity with Rules

1.2.2.23(A) and 1.2.2.23(B) NMAC on or before [date]. All motions for leave to intervene shall be served on all existing parties and other proposed intervenors of record.

- b. The Utility Division Staff (“Staff”) shall, and any intervenors may, file direct testimony on or before [date].
- c. Rebuttal testimony may be filed on or before [date].
- d. A public hearing will be held on [date] starting at [time] in the Ground Floor Hearing Room of the Commission in the P.E.R.A. Building, 1120 Paseo De Peralta, Santa Fe, New Mexico, to hear and receive testimony, exhibits, arguments, and any other appropriate matters relevant to this proceeding.

6. The procedural dates and requirements currently set in this case are subject to further order of the Commission or the Hearing Examiner. Interested persons should contact the Commission for confirmation of the hearing date, time, and place, since hearings are occasionally rescheduled.

7. The Commission’s Rules of Procedure found at 1.2.2 NMAC shall apply to this proceeding unless modified by order of the Commission or the Hearing Examiner. A copy of such Rules may be obtained from the offices of the Commission and are available online at the official NMAC website, <http://www.nmcpr.state.nm.us/nmac/>.

8. Any interested person may examine the application together with any exhibits, related papers, and pleading that may be filed in this case at SPS’s offices or the Commission’s office at the following addresses:

Southwestern Public Service Company  
c/o Mike McLeod  
111 East Fifth Street  
Post Office Box 1937  
Roswell, New Mexico 88201  
Telephone: 575.625.5499

Southwestern Public Service Company  
c/o Wes Berger, Manager, Rate Cases  
600 S. Tyler, Suite 2400  
Post Office Box 1261  
Amarillo, Texas 79105-1261  
Telephone: 806.378.2891

New Mexico Public Regulation Commission  
P.E.R.A. Building  
1120 Paseo de Peralta  
Post Office Box 1269  
Santa Fe, New Mexico 87504-1269  
Telephone: 1-888-427-5772

9. Anyone filing pleadings, testimony, and other documents in this case may file either in person with the Commission's Records Bureau in the P.E.R.A. Building in Santa Fe, New Mexico, or by mail addressed to: Records Bureau, New Mexico Public Regulation Commission, P.E.R.A. Building, P. O. Box 1269, Santa Fe, New Mexico, 87504-1269. The following physical address of the Commission shall be used only for special or hand deliveries: 1120 Paseo de Peralta, Santa Fe, New Mexico 87501. Copies of all filings shall be served on all parties of record and Staff as specified in the most recent Certificate of Service issued in this case. Copies of all filings shall also be e-mailed on the date of filing to the Hearing Examiner at [e-mail address] by no later than 5:00 p.m. Mountain Prevailing Time.

10. Any person filing prepared testimony under 1.2.2.35(I) NMAC on behalf of a party shall attend the hearing and submit to examination under oath. No person shall testify at the hearing unless that person has pre-filed testimony.

11. Interested persons may appear at the time and place of hearing and make written or oral comment without becoming an intervenor. Written comments, which shall reference Case No. 17-00044-UT, also may be sent to the Commission at the mailing address provided in

paragraph 11 above. However, pursuant to Rule 1.2.2.23(F) NMAC, comments shall not be considered as evidence in this case.

12. Additional details regarding this proceeding and its procedural requirements are set forth in the Hearing Examiner's [date] Procedural Order.

13. ANY PERSON WITH A DISABILITY REQUIRING SPECIAL ASSISTANCE IN ORDER TO PARTICIPATE IN THIS PROCEEDING SHOULD CONTACT THE COMMISSION AT LEAST 24 HOURS PRIOR TO THE COMMENCEMENT OF THE HEARING.

**ISSUED** at Santa Fe, New Mexico this \_\_\_\_ day of \_\_\_\_\_, 2017.

NEW MEXICO PUBLIC REGULATION COMMISSION

By: \_\_\_\_\_  
Hearing Examiner