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.	)	**CASE NO. 17-00044-UT**
SOUTHWESTERN PUBLIC SERVICE COMPANY,	)	
APPLICANT.	)	

DIRECT TESTIMONY

of

EVAN D. EVANS

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	**Meaning**
AEP	American Electric Power Company
AFUDC	Allowance for Funds Used During Construction
Bonita	Bonita Wind Energy, LLC
Capital Services	Capital Services, LLC
CCN	Certificate of Public Convenience and Necessity
Commission	New Mexico Public Regulation Commission
Components Agreement	Sale of Components Agreement Between SPS and Capital Services
CSW	Central and South West Corporation
EPE	El Paso Electric Company
FERC	Federal Energy Regulatory Commission
FPPCAC	Fuel and Purchased Power Adjustment Clause
Guernsey	C.H. Guernsey & Company
Hale	478 MW Wind Generating Facility, Located in Hale County, Texas
IM	Integrated Marketplace
IRP	Integrated Resource Plan
IRS	Internal Revenue Service

Acronym/Defined Term	**Meaning**
kWh	Kilowatt-hour
MW	Megawatt
MWh	Megawatt-hour
NextEra	NextEra Energy Resources, LLC
NOL	Net Operating Loss
OAA	Omnibus Appropriations Act
PPA	Purchased Power Agreement
PTC	Production Tax Credit
PUA	Public Utility Act
PUCT	Public Utility Commission of Texas
REC	Renewable Energy Certificate
Rule 450	
Rule 551	
Sagamore	522 MW Wind Generating Facility Located in Roosevelt County, New Mexico
SPP	Southwest Power Pool, Inc.
SPS	Southwestern Public Service Company, a New Mexico corporation
SPS Wind Facilities	Sagamore and Hale Wind Facilities
TSG	Transmission Serving Generation

Acronym/Defined Term	Meaning
Vestas	Vestas-America Wind Technology, Inc.
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Attachment	**Description**
EDE-1	Sale of Components Agreement (*non-native format*)
EDE-2	Estimated Bill Impacts (*Filename:* EDE-2.xlsx)

Case No. 17-00044-UT
Direct Testimony
of
Evan D. Evans

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name, business address, and job title.

A. My name is Evan D. Evans. My business address is 600 S. Tyler Street, Suite 2900, Amarillo, Texas 79101.

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"). Xcel Energy is a registered holding company that owns several electric and natural gas utility operating companies, a regulated natural gas pipeline company, and three electric transmission companies.[1]

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

A. I am employed by SPS as Director – Regulatory and Pricing Analysis.

[1] Xcel Energy is the parent company of four utility 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. Xcel Energy's natural gas pipeline company is WestGas InterState, Inc. Through a subsidiary, Xcel Energy Transmission Holding Company, LLC, Xcel Energy also owns three transmission-only operating companies, Xcel Energy Southwest Transmission Company, LLC; Xcel Energy Transmission Development Company, LLC; and Xcel Energy West Transmission Company, LLC, all of which are either currently regulated by the Federal Energy Regulatory Commission ("FERC") or expected to be regulated by FERC.

Q. Please briefly outline your responsibilities as Director – Regulatory and Pricing Analysis.

A. My responsibilities include:

- Developing and implementing SPS's regulatory program to support Xcel Energy's corporate objectives and to ensure SPS fulfills all legal and regulatory requirements of the New Mexico Public Regulation Commission ("Commission"), Public Utility Commission of Texas ("PUCT"), and the FERC;
- Directing the development and execution of all regulatory case filings before both state commissions and the FERC;
- Directing regulatory activities that establish and maintain state and federal commission relationships and overseeing the administration of regulatory rules and procedures; and
- Providing regulatory support for SPS's participation in the Southwest Power Pool ("SPP").

Q. Please summarize your educational and professional background.

A. I graduated from Texas Tech University with a Bachelor of Business Administration degree in Finance in May 1980.

Upon graduation, I was employed as a Rate Analyst at West Texas Utilities Company, a wholly-owned subsidiary of Central and South West Corporation ("CSW"), which was acquired by American Electric Power Company ("AEP") in June 2000. During my 20-year career with CSW and AEP, I held a variety of professional analytical, consultant and management positions in the rates, regulatory services, load research, and marketing and business development areas.

In October 2000, I joined C.H. Guernsey & Company ("Guernsey"), which is an employee-owned, professional consulting firm offering engineering, architectural, economic, and construction management services to utilities, industries and government agencies throughout the United States and internationally. While employed with Guernsey, I managed the firm's Dallas regional office and served as a consultant to electric utility industry clients in a variety of areas, including regulatory compliance, integrated resource planning, electric utility cost of service issues, rate studies, financial analysis, economic feasibility analysis, retail electric choice, and wholesale power supply contract negotiations.

In September 2006, I left Guernsey and accepted the position of Director-Regulatory Services with El Paso Electric ("EPE"). I was promoted to Assistant Vice President-Regulatory Services and Rates in July 2008. While at EPE, I established the company's Regulatory Case Management and Energy Efficiency & Utilization departments. My responsibilities included direction of the company's Energy Efficiency & Utilization, Economic & Rate Research, Regulatory Case Management and Regulatory Accounting departments and their associated missions.

On January 1, 2014, I assumed the position as Regional Vice President – Rates and Regulatory Affairs for SPS. As a result of reorganization, on March 16, 2017, I became Director – Regulatory and Pricing Analysis for SPS.

Q. Have you testified before any regulatory authorities?

A. Yes. I have testified before the Commission, the PUCT, the Georgia Public Service Commission, and the Oklahoma Corporation Commission on a variety of subjects. I have also submitted testimony before the FERC.

II. ASSIGNMENT AND SUMMARY OF TESTIMONY

Q. What are your assignments in this proceeding?

A. I have several assignments in this proceeding. First, I describe generally the following transactions that SPS proposes to enter into:

(1) SPS's agreement to purchase a site located in Roosevelt County, New Mexico that is suitable for a 522 megawatt ("MW") wind generating facility ("Sagamore");

(2) SPS's agreement to purchase a site located in Hale County, Texas that is suitable for the development of a 478 MW wind generating facility ("Hale");[2]

(3) SPS's agreement to enter into a Power Purchase Agreement ("PPA") to purchase approximately 230 MW of wind energy from facilities owned by Bonita Wind Energy, LLC, ("Bonita") an affiliate of NextEra Energy Resources, LLC ("NextEra"); and

(4) SPS's acquisition of turbines from an Xcel Energy affiliate, Capital Services, LLC ("Capital Services").

I explain that SPS seeks a Certificate of Public Convenience and Necessity ("CCN") to construct the Hale and Sagamore Wind Facilities ("SPS Wind Facilities") and that SPS seeks a finding that its acquisition and construction of the SPS Wind Facilities is in the public interest. Second, I explain that the proposal to develop and own the SPS Wind Facilities is advantageous to SPS's

[2] In this testimony, I refer to Sagamore and Hale collectively as the "SPS Wind Facilities."

retail customers for several reasons, including the availability of federal Production Tax Credits ("PTC") associated with the output of the projects. Third, I set forth SPS's request for a Commission finding that SPS's decision to enter into the Bonita PPA is reasonable. Fourth, I support the cost recovery mechanisms that SPS proposes in this case with respect to the SPS Wind Facilities, both before and after they are placed in rate base. Fifth, I describe SPS's proposal with respect to unused PTCs associated with the SPS Wind Facilities. Sixth, I identify the approvals that SPS is seeking from the Commission in this proceeding, including approval of depreciation rates for the SPS Wind Facilities, approval of the treatment of Renewable Energy Certificates ("REC"), and approval of affiliate transactions. Finally, I explain that the various approvals that SPS seeks in this proceeding are indivisible. Should the Commission reject parts of SPS's proposal, the projects may no longer be financially viable for SPS, and SPS may decline to move forward with the projects.

Q. Please summarize your testimony.

A. As explained in more detail by SPS President David T. Hudson, SPS has an opportunity to save its customers approximately $2.8 billion in energy costs over the next 30 years by acquiring and developing the Sagamore and Hale facilities and by entering into the Bonita PPA. To realize those savings, however, it is necessary for SPS to obtain certain assurances from the Commission regarding the ratemaking treatment of the SPS Wind Facilities and the Bonita PPA. My summary provides a high-level overview of the transactions, of the proposed regulatory treatment of the transactions, and of the relief that SPS seeks.

Description of Facilities. SPS is purchasing the Sagamore site from Invenergy, and on that site SPS will construct a wind generating facility with a nameplate capacity of 522 MW. SPS is purchasing the Hale site from NextEra, and on that site SPS will construct a wind generating facility with a nameplate capacity of 478 MW. As part of that transaction, SPS will also enter into a PPA to purchase approximately 230 MW of wind energy from facilities that NextEra will continue to own (through its affiliate Bonita). Finally, SPS is acquiring some of the turbines for the SPS Wind Facilities from Capital Services, an affiliate of SPS. SPS requests that the Commission grant a CCN for SPS to construct the Sagamore and Hale facilities and requests the Commission approve the PPA with NextEra for purchases from the Bonita facilities.

Customer Benefits from Transactions. By initiating activity to develop the SPS Wind Facilities before the end of 2016, SPS became eligible under federal tax law to receive 100% of the PTCs associated with the output of those facilities. The combination of PTCs and no fuel costs 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. Therefore, SPS's plan to acquire and develop the SPS Wind Facilities and to enter into the Bonita PPA is in the public interest.

Cost Reconciliation Mechanism. It is reasonably likely that SPS will experience some regulatory lag between the date Sagamore begins commercial operation and the date its full investment is included in rate base. Because of the magnitude of the investment by SPS and the potential for significant delays, SPS proposes to create a "Cost Reconciliation Mechanism" to record the difference between the revenue requirement and the revenues for Sagamore from the date it begins commercial operation until the date it is placed into rate base. The Cost Reconciliation Mechanism will consist of both the revenue requirement associated with Sagamore and the revenues attributable to that facility, including the market energy revenues and the PTCs produced. The difference between the revenues and the revenue requirement for Sagamore will be recorded as a deferred asset or liability, which will be either surcharged or refunded as part of a base rate case or other proceeding after the facility goes into service.

Treatment of PTCs. As explained in more detail in Mr. Hudson's testimony, the opportunity for SPS to produce large energy savings from its customers arises because of the availability of PTCs. SPS proposes to give customers the benefits of those PTCs in two ways. First, for the period between the date Sagamore begins commercial operation and the date it is placed in rate base, SPS proposes to give customers the benefit of the PTCs by including the value of those PTCs in the revenue side of the Cost Reconciliation Mechanism. For the period after the SPS Wind Facilities are placed in rate base, SPS proposes to flow back the PTCs through SPS's Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC"). If the Commission chooses not to flow the benefit of the PTCs back to customers through SPS's FPPCAC, SPS is willing to consider other options that will ensure customers benefit from the PTCs in a timely manner.

Treatment of Unused PTCs. Although the SPS Wind Facilities will begin producing PTCs from the moment of commercial operation, it is unlikely that SPS will be able to use those PTCs to reduce its federal income tax liability. Because of the availability of bonus depreciation, SPS has incurred net operating losses ("NOL") for the last few years, and those NOLs are forecasted to continue for several more years if the SPS Wind Facilities are constructed. Because customers will be receiving the benefit of the PTCs through both the Cost Reconciliation Mechanism (before the Sagamore assets are placed fully in rate base) and through the FPPCAC (after the assets are placed in rate base), SPS proposes to accrue the unused PTCs in a deferred tax asset and to include the deferred tax asset in rate base. For the period of time before the Sagamore assets go into rate base, the deferred tax asset would be included in the rate base used to calculate the revenue requirement side of the Cost Reconciliation Mechanism. For the period of time after the SPS Wind Facilities go into rate base, the deferred tax asset would be included 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.

Energy Allocator. SPS proposes to allocate the costs of the SPS Wind Facilities and the Bonita PPA among its regulatory jurisdictions using an energy allocator. That treatment is consistent with the SPS Wind Facilities' status as economic investments, not capacity investments.

Renewable Energy Certificates. SPS proposes to treat the sale of RECs from the SPS Wind Facilities in the same manner that off-system sales are treated.[3] If the Commission approves that proposal, SPS will retain 10% of the margins from the sales of RECs.

Depreciation Rate. Because SPS does not currently own any wind production assets, there is no Commission-approved depreciation rate for wind production assets. SPS proposes to use a depreciation rate for the production assets that reflects a 25-year service life and a negative 8.5% net salvage rate. For the SPS Wind Facility assets that are categorized as Transmission-Serving Generation ("TSG") assets, SPS proposes to use the current Commission-approved depreciation rates.

Affiliate Transactions. Under federal law, the tax benefits associated with investments in renewable energy began to decline after the end of calendar year 2016. As I will explain in more detail, however, a safe-harbor provision allows a developer to receive 100% of the PTCs, if the developer had made significant

[3] *See* Case No. 10-00395-UT, *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Rates Under Advice Notice No. 235*, Amended Certification of Stipulation at p. 40-44 (Dec. 12, 2011); Final Order Adopting Amended Certification of Stipulation (Dec. 28, 2011); Case No. 12-00350-UT, *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Rates Under Advice Notice No. 245*, Recommended Decision at p. 216 (Jan. 23, 2014); Final Order Partially Adopting Recommended Decision at p. 24 (March 26, 2014).

progress on a facility before the end of 2016 and if the project will be in service by 2020. To ensure that SPS would be able to take full advantage of the safe-harbor provision, Xcel Energy affiliate Capital Services purchased a number of turbines before the end of 2016. I will provide information regarding this Class I Transaction in accordance with the requirements of Section 62-6-19 of the Public Utility Act ("PUA") and Commission Rule 17.6.450.11 NMAC ("Rule 450") and will establish that the transaction is reasonable.

Effect on Customers' Bills. If the Commission approves the construction of the SPS Wind Facilities and SPS's proposal to enter into the Bonita PPA, as shown on Attachment EDE-2, the typical bill for a Residential Service customer using 1000 killowatt-hours ("kWh") per month is estimated to be reduced by approximately $2.13 in 2021. That calculation is based on a comparison of (1) SPS's current base rates and projected fuel costs with the SPS Wind Facilities and the Bonita PPA; and (2) SPS's current base rates and projected fuel costs without the SPS Wind Facilities and the Bonita PPA.

Procedural Schedule. As noted earlier, the SPS Wind Facilities have to be in service by 2020 to obtain the full benefit of the PTCs. Because of the lead time needed to manufacture turbines, construct the SPS Wind Facilities, and render them operational after the Commission and the PUCT issue final orders in these approval proceedings, SPS requests that the Commission issue a final order in this case by no later than December 31, 2017.

List of Relief Requested.

To obtain the regulatory assurances that SPS needs to take advantage of this unique opportunity to save billions of dollars in energy costs for our customers, SPS requests the following forms of relief in this proceeding:

1. Find it is in the public interest and consistent with Sections 62-6-12(A)(4) and 62-6-13 of the PUA for SPS to purchase the Sagamore and Hale sites, which will be the locations of the SPS Wind Facilities;[4]

2. Issue a CCN authorizing the construction, operation, and maintenance of the SPS Wind Facilities;

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;

4. As part of that 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]

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[4] The PUA is codified at NMSA 1978 § 62-3-1 *et seq.* 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.

[5] Net operating losses will likely prevent SPS from using the PTCs to reduce its tax liability for some period of time after the SPS Wind Facilities begin commercial operation.

5. Approve an energy-based methodology to allocate the costs of Hale and Sagamore among jurisdictions;[6]

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 FPPCAC after the SPS Wind Facilities are included in rate base;

9. Approve SPS's proposal to treat the revenue from the sale of RECs 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 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

[6] If and when any capacity is attributed to Sagamore and Hale by the SPP, SPS will allocate the capacity portion of the wind energy costs based on demand allocation. Initially, these wind projects will be classified by the SPP as "energy resources."

obtain a final order as soon as practicable, but not later than December 31, 2017.

These various approvals are bound together from SPS's perspective. If the Commission rejects parts of SPS's proposal, the projects may no longer be financially viable for SPS, and SPS may decline to move forward with them.

Q. Are other witnesses also providing testimony on behalf of SPS in this proceeding?

A. Yes. SPS will present testimony from ten other witnesses in this case. Table EDE-1 identifies the SPS witnesses and summarizes the topics on which they testify:

Table EDE-1

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.
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 S. 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 P. 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.
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.

Q. Is Attachment EDE-1 a true and correct copy of the document you represent it to be in your testimony?

A. Yes.

Q. Was Attachment EDE-2 prepared by you or under your direct supervision and control?

A. Yes.

III. DESCRIPTION OF THE PROPOSED TRANSACTIONS

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

A. I describe generally the various transactions at issue in this proceeding, including the purchase of Sagamore and Hale; the agreement to purchase wind energy under the Bonita PPA; and the transactions between SPS and its affiliate.

Q. Are you the only witness who discusses those transactions?

A. No. Other witnesses describe the transactions in much greater detail than I do. For example, SPS witness Riley Hill's testimony contains an extensive discussion of how SPS selected Sagamore and Hale, as well as the plans for constructing the facilities on those sites. I provide a general description of the transactions only to provide the context for the remainder of my testimony.

A. Sagamore

Q. Please describe generally the Sagamore project.

A. Sagamore refers to the Roosevelt County, New Mexico site identified by Invenergy and verified by Xcel Energy as being suitable for a wind generating facility. As explained in more detail by Mr. Hill, Invenergy has secured the land rights and has completed preliminary work at the site, but it has not constructed any turbines. If SPS receives the necessary regulatory approvals from the

Commission and the PUCT, it will install 261 Vestas-America Wind Technology, Inc. (“Vestas”) turbines that collectively have a nameplate capacity of 522 MW. SPS will also construct the other infrastructure necessary to serve the facilities and to move the energy to the transmission system. The total cost of Sagamore is expected to be approximately $865 million, including an Allowance for Funds Used During Construction (“AFUDC”).

Q. When does SPS expect to place Sagamore in service?

A. SPS expects to place Sagamore in service no later than 2020. That in-service date will allow SPS to receive 100% of the PTCs associated with the output of the project.

B. Hale

Q. Please provide a general description of the Hale project.

A. Hale refers to a Hale County site identified by NextEra and verified by SPS as being suitable for a large wind generating facility. Similar to the work performed by Invenergy for Sagamore, NextEra has acquired the land rights and has completed other preliminary work leading toward development of Hale. If all of the required regulatory approvals are secured from this Commission and the PUCT, SPS plans to install 239 Vestas turbines with a collective nameplate capacity of 478 MW. In addition, SPS will construct the necessary infrastructure to serve the project, such as access roads, energy collection cable systems, and collection system substations. The total cost of Hale is expected to be approximately $769 million, including AFUDC.

Q. When does SPS expect to place Hale in service?

A. SPS expects to place Hale in service no later than 2019. As I will explain in more detail later in my testimony, that in-service date will allow SPS to receive 100% of the PTCs available from the project, which will ultimately reduce the cost of energy for SPS's retail customers.

C. Bonita PPA

Q. Please describe the PPA between SPS and Bonita.

A. As explained in more detail by SPS witness Tim Kawakami, SPS agreed in March 2017 to purchase the output of two wind generation facilities owned by Bonita: (1) an 80 MW project in Crosby County, Texas, and (2) a 150 MW project in Cochran County, Texas.

Q. What is the term of the Bonita PPA?

A. The term of the Bonita PPA is 30 years. Both Bonita facilities are expected to begin commercial operation in the fourth quarter of 2018, so the PPA will remain in effect until late 2048.

Q. Will entering into the PPA cause SPS to incur capital costs?

A. No. If the Commission approves the PPA, the costs of the energy purchased under that PPA will be passed through to customers through SPS's FPPCAC. Mr. Kawakami discusses the prices agreed to as part of the PPA.

D. Transactions with SPS Affiliate

Q. What transactions will SPS enter into with other Xcel Energy affiliates?

A. SPS will acquire some of the turbines for the SPS Wind Facilities from an Xcel Energy affiliate, Capital Services.

Q. Why is SPS acquiring some of the turbines from an affiliate instead of buying them from the manufacturers or other third-party vendors?

A. SPS is acquiring some of the turbines from an affiliate in order to derive the full benefit of the PTCs. As I will explain in more detail in a later section of my testimony, President Obama signed the Omnibus Appropriations Act ("OAA") in December 2015. The OAA provided for a five-year extension of PTCs for wind and other eligible renewable energy projects, but the amount of PTCs that a wind developer can take begins to decline after December 31, 2016. Only eligible projects that meet safe harbor requirements for beginning construction are entitled to the full amount of PTCs. At the time the turbines needed to be purchased to comply with the safe harbor limits, SPS had not completed negotiations with Invenergy and NextEra, and, therefore, it did not know how many turbines it would need to purchase. Capital Services therefore purchased the turbines to preserve SPS's right to claim the full PTC benefits associated with Sagamore and Hale.

IV. REQUIREMENTS FOR CCN APPROVAL

Q. What is the Commission's statutory authority for granting a CCN?

A. Section 62-9-1(A) of the PUA provides: "No public utility shall begin the construction or operation of any public utility plant or system or of any extension of any plant or system without first obtaining from the commission a certificate that public convenience and necessity require or will require such construction or operation." In determining whether to issue a CCN, the Commission "shall give due regard to the public convenience and necessity."[7] In prior cases, the Commission has equated the "public convenience and necessity" with the public interest.[8]

Q. Is a utility required to obtain a CCN for a generating facility?

A. Yes. 62-9-1(A) of the PUA expressly requires that a utility obtain a CCN for a generating facility that it will construct.

Q. Does Section 62-9-1 of the PUA establish a deadline for a CCN proceeding?

A. Yes. Section 62-9-1 requires the Commission to issue its order granting or denying the application within nine months from the date the application is filed.

[7] NMSA 1978 § 62-9-6.

[8] *See Re Public Service Co*., 199 P.U.R. 4th 48, 50 (1990); aff'd, *Public Serv. Co. of N.M. v. N.M. Pub. Serv. Comm'n*, 1991-NMSC-083, 112 N.M. 379.

If the Commission fails to issue its order within nine months, the application is deemed to be approved. However, the Commission may extend the time for granting approval for an additional six months for good cause shown.

Q. What SPS witnesses are addressing the statutory CCN requirements for the SPS Wind Facilities?

A. Mr. Hudson, Mr. Hill, and Mr. Adelman establish that SPS's construction and operation of the SPS Wind Facilities is in the public interest and complies with the requirements of the PUA.

Q. Is the CCN for the SPS Wind Facilities based on the inadequacy of existing service or the need for additional service?

A. No. As both Mr. Hudson and I explain, 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. The SPS Wind Facilities are not being built for their capacity value, although they may ultimately be deemed by SPP to have some capacity value.

Q. Would the Commission's approval of a CCN for the SPS Wind Facilities have any effect on SPS or any other electric utility serving the proximate area?

A. Granting the CCN would allow SPS to reduce energy costs for its customers. It would have no interference with or adverse effect on other utilities in the area.

Q. Is it probable that the granting of the CCN would improve service or lower costs for customers?

A. Yes. As I testified earlier, granting the CCN would lower costs by $638 million for New Mexico retail customers over the service lives of the SPS Wind Facilities and the Bonita PPA.

Q. What is your recommendation regarding SPS's request for a CCN?

A. I recommend that the Commission grant the CCN. SPS has satisfied all of the CCN requirements for the Wind Facilities, and thus Commission approval is appropriate.

V. PUBLIC INTEREST SERVED BY SPS'S OWNERSHIP OF THE WIND FACILITIES

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

A. I describe the benefits that SPS's retail customers will receive if the Commission grants the relief requested by SPS in this case, and I explain that those benefits justify a finding that SPS's proposed ownership is in the public interest.

Q. Why is SPS asking for a finding that its ownership of the SPS Wind Facilities is in the public interest?

A. SPS requests that finding to ensure that it has met its burden if the Commission determines that any of the Wind Facility transactions are subject to Sections 62-6-12(A)(4) and 62-6-13 of the PUA, which 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 . . ."

Q. Why do you suggest that SPS's development of the Wind Facilities might not be subject to Section 62-6-12(A)(4) of the PUA?

A. The statute refers to the sale, acquisition or lease of a "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 consist of little more than land leases and required permits at this time, it is not clear that they qualify as part of "an operating unit or system."

Q. If the Wind Facilities are subject to the requirements of Sections 62-6-12(A)(4) and 62-6-13 of the PUA, does SPS satisfy those requirements?

A. Yes. Under Sections 62-6-12 and 62-6-13 of the PUA, the Commission determines whether the transaction is unlawful or inconsistent with the public interest based on a weighing of net benefits/detriments, and determining there are public benefits from the transaction.[9]

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.[10]

[9] *See* Case No. 13-00140-UT, *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*, Recommended Decision at pages 6 and 33 (Nov. 6, 2013), Final Order Partially Adopting Recommended Decision (Dec. 4, 2012).

[10] *See* Case No. 04-00315-UT, *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*, Certification of Stipulation at 16-17 (May 26, 2005), Final Order Approving Certification of Stipulation (June 7, 2005); Case No. 11-00085-UT, *In the Matter of the Acquisition by Epcor Water (USA) Inc. of the Common Stock of New Mexico-American Water Company, Inc.*, Recommended Decision at 15 (Dec. 2, 2011), Final Order Adopting Recommended Decision (Dec. 22, 2011).

Q. Will SPS's development and ownership of the Wind Facilities affect the Commission's jurisdiction over SPS?

A. No. The Commission's jurisdiction and authority over SPS's rates, service and certification and development of facilities in New Mexico will not be affected by SPS's development and ownership of the Wind Facilities.

Q. Will SPS's development and ownership of the Wind Facilities result in any improper subsidization of non-utility activities?

A. No. SPS's development and ownership of the Wind Facilities will not result in any improper subsidization of non-utility activities.

Q. Will SPS's development and ownership of the SPS Wind Facilities result in any decline in service?

A. No. There will be no negative effects on service. Indeed, the opposite is true. The SPS Wind facilities will provide a net benefit for SPS's customers.

Q. Is SPS paying the reasonable value of the SPS Wind Facilities?

A. Yes. Mr. Hill explains that the prices paid for the land and assets constructed on the land are reasonable.

Q. Will development and ownership of the SPS Wind Facilities adversely affect the health or safety of customers or employees?

A. No. SPS's development and ownership of the SPS Wind Facilities will have no effect on the health or safety of customers or employees.

Q. Will SPS's development and ownership of the SPS Wind Facilities result in the transfer of jobs of citizens of New Mexico to workers domiciled outside of New Mexico?

A. No. In fact, it will create jobs in New Mexico because Sagamore will provide a large construction project in Roosevelt County and the Clovis area.

Q. Will SPS receive consideration equal to the reasonable value of the SPS Wind Facilities when it sells, leases, or transfers them?

A. SPS has no plans to sell, lease, or transfer the SPS Wind Facilities. If it did, however, it would insist on receiving consideration equal to their reasonable value.

Q. Is the transaction in the public interest?

A. Yes. SPS's development and ownership of the SPS Wind Facilities has several benefits for SPS's retail customers. Therefore, it is in the public interest.

Q. What are the benefits associated with SPS's proposals to develop the SPS Wind Facilities?

A. Several benefits would flow from the Commission's approval of these proposals. The first and most obvious benefit is that wind energy 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 wind energy facilities.

A second benefit related to the SPS Wind Facilities would be the PTCs, which SPS proposes to credit to customers through fuel after the SPS Wind Facilities are placed into rate base. For a facility that qualifies for 100% of the PTCs, the benefit is significant. Indeed, SPS witness Jonathan S. Adelman explains that, largely because of the availability of the PTCs, customers will save more than $2.8 billion over the lives of the SPS Wind Facilities and the Bonita PPA compared to the amount customers would spend if SPS purchased all of its energy through PPAs or generated it using thermal facilities. Of that $2.8 billion, New Mexico customers will receive approximately $638 million in savings.

Third, these wind generation facilities will provide a sustainable and clean source of energy. These facilities will provide energy and produce no carbon dioxide, sulfur oxides, or nitrous oxides emissions. These facilities will produce wind energy, a renewable energy that will not deplete our natural resources, including groundwater.

VI. APPROVAL OF THE BONITA PPA

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

A. I explain why SPS is seeking approval of the Bonita PPA in this case and establish that SPS has complied with the requirements of Rule 17.9.551 ("Rule 551") for the Commission's approval of long-term PPAs.

Q. Please identify the SPS witnesses who will address the requirements of Rule 551 in relation to the Bonita PPA.

A. I will address the requirements of Rule 551.8(D)(4), (6), and (8). The following witnesses address the various other criteria contained in Rule 551.8(D):

1. Mr. Kawakami provides the information required by Rule 551.8(D)(1), (2), (3), (5), (9), and (10);
2. Mary P. Schell addresses the criteria set out in Rule 551.8(D)(7); and
3. Jonathan S. Adelman discusses the information required by Rule 551.8(D)(9), (10), and (11).

Q. Please briefly explain what SPS is acquiring under the Bonita PPA.

A. As I testified earlier, SPS is acquiring the energy from an 80 MW wind generating facility in Crosby County, Texas, and it is acquiring the energy from a 150 MW wind generating facility in Cochran County, Texas. SPS is not acquiring any of the RECs associated with the output of those facilities.

Q. Why is SPS seeking approval of the Bonita PPA in this proceeding?

A. As explained by Mr. Hudson and Mr. Kawakami, the Bonita PPA grew out of SPS's negotiations to purchase the Hale site from NextEra. SPS determined that the purchase price negotiated with NextEra under the Bonita PPA is economic and – combined with the savings to customers that can be achieved through SPS's ownership of Hale – results in a good outcome for its customers. Mr. Adelman discusses the savings for the wind projects in total.

In addition, as explained in more detail by Mr. Hudson, the proposal put forward by SPS in this docket depends on Commission approval of the transactions as a whole. The transaction would not go forward if, say, the Commission were to approve Hale but reject the Bonita PPA. Therefore, it is necessary to obtain approvals for all elements of the proposed transaction.

Q. Does the Bonita PPA contain protections for SPS's customers?

A. Yes. The Bonita PPA is based on the standard Xcel Energy wind PPA, which contains a number of provisions designed to protect retail customers. Mr. Kawakami discusses those protections in more detail.

Q. Please describe SPS's proposed cost recovery for the energy it purchases under the Bonita PPA.

A. As explained by Mr. Kawakami, SPS is only purchasing energy under the PPA and will not pay any capacity costs, fixed or variable administrative costs, or operation and maintenance costs. SPS requests approval to recover the New Mexico retail jurisdictional allocated share of total energy costs and any curtailment payments made under the PPA through SPS's FPPCAC in accordance with Rules 550 and 551.9. Purchased power costs are properly recorded in FERC Account 555 (purchased power expense) and, thus, are recoverable through the FPPCAC. The total energy cost for the PPA will be proportionally allocated among SPS's three jurisdictions (New Mexico retail, Texas retail, and wholesale).

Q. Does SPS estimate that the Bonita PPA will lower New Mexico retail customer rates?

A. Yes. Over the 30-year contract term, SPS estimates that the SPS Wind Facilities and the Bonita PPA will result in combined energy cost savings of over $638 million for its New Mexico retail customers.

Q. Has SPS developed a representative customer impact study?

A. Yes. The table below shows SPS's projected bill impacts to representative customers in each rate class. The monthly bill is based on SPS's existing rates.

Table EDE-2: Average Monthly Customer Impacts of SPS Wind Facilities and Bonita PPA

Rate Schedule	Total Monthly Bill before Wind Projects	Estimated Impact with Wind Projects	Impact as % of Bill
Residential Service - 1000 kWh	$ 111.53	$ (2.13)	-1.91%
Small General Service - 1500 kWh per Month	$ 143.82	$ (3.19)	-2.22%
Secondary General Service - 50 kW & 20,000 kWh per Month	$ 1,612.03	$ (42.77)	-2.65%
Large General Service Transmission - Backbone Transmission – 5,000 kW & 3,000,000 kWh per Month	$ 149,437.52	$ (5,956.90)	-3.99%

Q. Is the Bonita PPA consistent with SPS's most recent Integrated Resource Plan ("IRP")?

A. Yes. As a part of the 2015 IRP, SPS addressed how the resource additions under its plan allowed SPS to address near-term energy and capacity requirements while retaining the flexibility to respond to the many dynamics that could impact SPS's existing generation portfolio and future resource needs in the outer years of the Planning Period (*i.e.,* 2020-2035).[11] SPS also noted how cost-effective acquisition of renewable energy at fixed prices would improve fuel diversity and reduce portfolio (price) volatility.[12] In addition, SPS addressed how flexibility was necessary to adjust its strategies as energy generation, transmission, distribution, and storage technologies evolve.[13] Finally, SPS addressed how more than 1,000 MW of contractually purchased wind generation resources on the SPS system have taken advantage of the PTCs, reducing the energy prices paid by SPS.[14] Although SPS's entry into the Bonita PPA is consistent with the 2015 IRP, the acquisition of wind generation alters the Action Plan that SPS submitted as a part of its 2015 IRP. As a result, on March 21, 2017, SPS has filed a Notice of Material Change to its 2015 IRP and Updated Action Plan.

[11] 2015 IRP at 2.

[12] IRP at 37.

[13] IRP at 39.

[14] IRP at 102.

Q. Is entering into the Bonita PPA consistent with SPS's obligation to provide safe and reliable electric at the lowest reasonable cost, considering both short and long-term costs and all other relevant factors?

A. Yes. As explained by Mr. Hudson and Mr. Adelman, the Bonita PPA, in conjunction with SPS's construction and operation of the Wind Facilities, will result in significant cost savings for SPS's customers.

Q. Has SPS established the basis for the Commission's approval of the Bonita PPA under Rule 551?

A. Yes. As demonstrated above, SPS has provided all of the information required by Rule 551 and has established that the Bonita PPA is reasonable and should be approved.

VII. COST RECOVERY OF THE WIND FACILITIES BEFORE INCLUSION IN RATE BASE

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

A. I set forth the proposed Cost Reconciliation Mechanism that is designed to provide SPS with an opportunity to recover the costs of Sagamore between: (1) the date it begins commercial operation, and (2) the date it is fully included in rate base and begins earning a return.

Q. Why is SPS putting forth a cost recovery proposal for the period before Sagamore is fully included in rate base?

A. SPS is submitting this cost recovery proposal to avoid a potential under-recovery of costs during the period in which the Sagamore facilities will be providing significant cost savings to SPS's New Mexico retail customers.

SPS expects to file its next New Mexico base rate case in late May or early June 2018 and intends to use a future test year of July 1, 2019 through June 30, 2020. This future test year would include a full year of operations for Hale. However, because Sagamore is currently expected to begin operation in late May or early June 2020, under the 13-month average convention for rate base in a future test year rate case, only 15.4% or less of Sagamore's annual revenue requirement will be recovered through base rates from that base rate case. If the

2018 rate case is suspended for the full 12 months, that final order would not be issued until late June or early July 2019. In order to avoid pancaking rate cases, SPS would have to wait until the final order is issued in its 2018 rate case before it prepared the next rate case to recover the full cost of Sagamore. Therefore, with the maximum 12 months suspension, the earliest SPS would be able to file the rate case to recover Sagamore's full, annual revenue requirement would be August, 2019. The rates resulting from that case would not go into effect before September 2020, or four months after the expected commercial operation date, if that case received the maximum suspension.

In addition, other factors may restrict SPS's ability to file the rate case in 2019 and further delay recovery of Sagamore's full, annual revenue requirements through base rates. Although many months of regulatory lag might be tolerable for some smaller projects, SPS's investment in Sagamore is expected to total $865 million, which is over 20% of SPS's total rate base. SPS simply cannot afford to wait several months to begin receiving revenues that fully reflect this significant investment in New Mexico.

Q. Please explain the cost recovery mechanism SPS is proposing for the period between the dates on which Sagamore begins commercial operation and the dates on which they are included in rate base.

A. For cost recovery during the period between the date Sagamore begins commercial operation and the date on which it is fully included in base rates, SPS proposes a four-step process:

1. SPS will calculate a revenue requirement for Sagamore using the elements of costs described in the testimony of SPS witness Arthur P. Freitas, and then divide it by 12 to arrive at a monthly revenue requirement;

2. SPS will calculate the revenues received for Sagamore each month, which will consist of:

   (a) revenues from energy sales into the SPP Integrated Marketplace ("IM") from that facility;

   (b) the calculated amount of revenues associated with Sagamore recovered through base rates as a result of the 2018 base rate case; and

   (c) the value of any PTCs associated with the output of the facility.

3. Every month, SPS will record in a deferred account the difference between the revenues recorded for that month and the revenue requirement for that month.

4. At the time Sagamore's full, annualized costs are included in base rates, the account for that facility will have either an asset balance (meaning the total costs exceeded total revenues) or a liability

> balance (meaning the total revenues exceeded total costs). If there is an asset balance, SPS will include that amount in a rider established in its next base rate case or a subsequent proceeding, and SPS will recover the amount over an amortization period that matches the period of time in which it accrued. Similarly, if there is a liability balance, SPS will credit that amount through a rider established in its next base rate case or a subsequent proceeding, and SPS will return the amount to customers over an amortization period that matches the period of time over which it accrued.

Q. Under SPS's proposal, will New Mexico retail customers pay the entire asset balance or receive the entire liability balance?

A. No. Mr. Freitas explains in his testimony that the revenue requirement must be allocated among its regulatory jurisdictions to ensure that New Mexico retail customers pay the costs of only the portion of Sagamore used to serve their load. Similarly, the revenues will also have to be allocated among regulatory jurisdictions to ensure that the revenues and revenue requirement are compared on an apples-to-apples basis. SPS proposes to use the same jurisdictional allocation factor for both the revenue requirement and the revenues.

Q. Why should the Commission allow SPS to recover the full cost of Sagamore during the time between commercial operation and its full inclusion in rate base?

A. As I explained earlier, the SPS Wind Facilities and Bonita PPA are expected to save customers more than $2.8 billion in energy costs over their service lives.

Given the large economic benefit to customers resulting from the SPS Wind Facilities, it would be fundamentally unfair to require SPS to provide what would essentially be energy at approximately 15% of its cost for the period between commercial operation date and inclusion of its full, annualized costs in base rates.

Second, customers will receive the benefit of the PTCs during the period between commercial operation and inclusion in rate base. Because, SPS is proposing to include the PTCs in the revenue side of the Cost Reconciliation Mechanism, customers begin receiving the benefit of the PTCs as soon as the Wind Facilities begin commercial operation under SPS's proposal.

Third, allowing SPS to recover costs through the Cost Reconciliation Mechanism may help delay a base rate case. If SPS is allowed to implement the Cost Reconciliation Mechanism from the commercial operation date until the full, annualized costs of Sagamore are recovered through base rates, SPS may be able to delay the 2019 rate case until other significant events occur, such as a future reduction in wholesale power sales contracts.

Q. Is there any other reason to allow SPS to recover the costs of Sagamore before its full investment is reflected in base rates?

A. Yes. Typically, when a utility adds a generating facility, it is because the utility is experiencing strong load growth and needs the additional capacity provided by the new generating facility. And when a utility is experiencing such strong load growth, it can depend on revenues from new customers to help remedy the lost revenues between the date of commercial operation and inclusion in rate base. This case is different, in that the SPS Wind Facilities are being built to provide economic benefits to customers, not to serve growing load. Therefore, the usual rationale for allowing the utility to bear the brunt of regulatory lag simply does not apply in this instance.

Q. If SPS were to construct Sagamore but the Commission did not allow SPS to recover costs under the Cost Reconciliation Mechanism, what economic effect would that have on SPS?

A. Denying recovery under the Cost Reconciliation Mechanism would cause SPS to lose a significant amount of revenue, while producing a substantial windfall for SPS's New Mexico customers during the period between the date Sagamore begins commercial operations and the date new base rates reflecting its full, annualized cost begin.

Based on the previously discussed projected in-service date for Sagamore of May or June 2020 and using a future test year ended June 30, 2020 for the 2018 rate case, only 7.7% (1/13) or 15.4% (2/13) of Sagamore's costs would be recovered. Therefore, at best, SPS would recover only a small fraction of its Sagamore costs each month until a subsequent case is filed and new rates become effective. The estimated average monthly loss for SPS in 2020 is approximately $740,000 to over $800,000 per month. At the same time, New Mexico customers would receive an average of 43,063 megawatt-hours ("MWh") per month at only a small fraction of its true cost. For perspective, the 43,063 MWh is equal to the average monthly consumption of approximately 44,100 average Residential Service customers.

Q. Will SPS acquire and develop the SPS Wind Facilities without the type of cost assurance represented by the Cost Reconciliation Mechanism?

A. It is highly unlikely. SPS simply cannot afford to undertake such a large investment for the benefit of its customers without some assurance that it will be able to recover its costs between the time Sagamore begins commercial operation and the date on which they are placed in rate base.

VIII. TREATMENT OF PRODUCTION TAX CREDITS

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

A. I address two topics related to the PTCs attributable to output from the SPS Wind Facilities. First, I describe SPS's proposal for crediting PTCs to customers during the periods before and after the SPS Wind Facilities are placed in rate base. Second, I describe SPS's proposal for accruing unused PTCs in a deferred tax asset and the proposed use of that deferred tax asset.

Q. How does SPS plan to treat PTCs during the period before the SPS Wind Facilities are placed in rate base?

A. As I explained in the prior section of my testimony: (1) it is likely that Hale will be included in rate base at approximately the same time its begins commercial operation and providing benefits to customers, so there will be no cost and benefit mismatch to be addressed; but (2) for the period between the date on which Sagamore begins commercial operation and the date it is included in rate base, SPS seeks Commission approval to implement a Cost Reconciliation Mechanism. Under SPS's Cost Reconciliation Mechanism proposal, the PTCs associated with the energy produced from the portion of Sagamore not in rate base will be added to the revenues that SPS receives from sales of wind energy into the SPP IM. That total will then be compared to the revenue requirement for Sagamore. By imputing the value of PTCs as revenue, SPS will be giving customers the benefit of PTCs during the period before 100% of Sagamore is included in rate base.

Q. How does SPS propose to treat the PTCs during the period after the SPS Wind Facilities are placed in rate base?

A. For the period after the SPS Wind Facilities are placed in rate base, SPS proposes to refund the PTCs to customers through SPS's FPPCAC. Thus, SPS's eligible fuel expense will be reduced each month by the value of the PTCs produced by the SPS Wind Facilities in the previous month.

Q. Does the PUA or the Commission's fuel rule, Rule 550, provide for refunds of PTCs through the FPPCAC?

A. Neither Section 62-8-7(E) of the PUA nor Rule 550, which establish criteria for the implementation of a utility's FPPCAC, expressly provide for refunding PTCs through credits to eligible fuel expense. Thus, SPS requests that the Commission confirm that SPS is authorized to pass the PTCs on to customers through the FPPCAC.

Q. Why does SPS propose to credit the PTCs through the FPPCAC, rather than returning them to customers through base rates?

A. SPS proposes to credit PTCs through the FPPCAC for three reasons. First, the amount of PTCs will vary according to the output of the SPS Wind Facilities, and it is not possible to precisely determine what that output will be in the future. Therefore, the amount of PTCs in base rates would be an estimate that might result in a windfall to SPS or to customers, absent a true-up mechanism.

Second, the amount of wind generation will vary between months and seasons. Therefore, including an estimated amount in base rates would result in a fixed amount that would be spread to all months. Thus, it would not track the monthly generation from the facilities and would needlessly create potential winners and losers between customer classes and customers.

Finally, crediting the amount through fuel is more beneficial to customers because they receive the PTC in fuel on a monthly basis, in which the Fixed Fuel Factors can be adjusted on a more frequent basis, rather than waiting for the amount to be reset in a base rate proceeding. This timely crediting of the PTC provides more economic value to SPS's customers than a base rate credit would.

Q. If the Commission rejects your recommendation to flow the PTC through fuel and instead places it in base rates, do you have an alternative recommendation?

A. Yes. If the Commission decides to flow the PTC through base rates, I recommend that the Commission establish a deferred account to record the difference between the amount in base rates and the actual amount of PTCs. If the amount included in base rates is more than the actual PTC amount, SPS should be allowed to recover the difference in its next base rate case. If the amount included in base rates is less than the actual amount of PTCs, SPS should be required to refund the difference in its next rate case. I recommend that, regardless of which direction payment goes, the amount be amortized and paid over a 12-month period.

Q. You testified earlier that SPS may not be able to use all of the PTCs generated by the SPS Wind Facilities in a given year because of NOLs. How does SPS propose to treat the unused PTCs?

A. SPS proposes to accrue the unused PTCs in a deferred tax asset and to include the deferred tax asset in rate base for the period from the commercial operation date of each SPS Wind Facility until the end of tax year 2025. The application of that deferred tax asset will differ, however, depending on whether the SPS Wind Facilities have been placed in rate base.

Q. Please explain the different proposed treatment of the deferred tax asset attributable to unused PTCs, depending on whether the SPS Wind Facilities are in rate base?

A. As I explained earlier in connection with the proposed Cost Reconciliation Mechanism, during the period between Sagamore's commercial operation date and the date 100% of Sagamore is placed in rate base, SPS will calculate a revenue requirement for the portion of Sagamore that is not in rate base using the elements of cost identified in Mr. Freitas's testimony. The deferred tax asset balance attributable to unused PTCs will be included in the rate base upon which SPS earns a return in that revenue requirement calculation. That revenue requirement will then be compared to the revenues from market energy sales and PTCs to determine whether to record a deferred asset or liability.

For the period after Hale is placed in rate base, for the period during which a portion of Sagamore is included in rate base, and for the period during which all of Sagamore is included in rate base, the deferred asset attributable to unused PTCs will be included in rate base, just like any other deferred tax asset. To avoid creating such an asset in perpetuity, however, SPS proposes to eliminate the deferred tax asset attributable to unused PTCs in its entirety after 2025.

Q. Is it reasonable to include the deferred tax asset in rate base?

A. Yes. As I have explained, customers will begin receiving the benefit of the PTCs as soon as the SPS Wind Facilities begin commercial operation. Because customers are gaining the benefit of the PTCs, it is reasonable to include the value of the unused PTCs in rate base.

IX. USE OF ENERGY ALLOCATOR

Q. What allocator does SPS propose to use to allocate the costs and revenues associated with the SPS Wind Facilities and the Bonita PPA among regulatory jurisdictions?

A. SPS proposes to allocate the cost and revenues associated with the SPS Wind Facilities and the Bonita PPA among jurisdictions using an energy allocator. That is consistent with SPS's intention to treat the SPS Wind Facilities and Bonita PPA as economic investments that are primarily intended to reduce energy costs for customers.

Q. Does SPS anticipate that it might be appropriate to use a different allocator for the SPS Wind Facilities at some time in the future?

A. Yes. As noted by Mr. Hudson, if and when SPP accredits any capacity to Hale and Sagamore, it would be appropriate to allocate the capacity portion of those facilities' output based on demand allocation. Until SPP makes such a capacity accreditation, the costs should be allocated based on energy.

X. TREATMENT OF RENEWABLE ENERGY CREDITS

Q. Will the SPS Wind Facilities create RECs?

A. Yes. Under Commission rules, each MWh of renewable energy gives rise to one REC. Therefore, SPS will acquire RECs as a result of its ownership of Hale and Sagamore.

Q. How does SPS propose to treat the RECs produced by the SPS Wind Facilities?

A. If SPS sells RECs generated by the SPS Wind Facilities, SPS proposes to treat the transaction as an off-system energy sale. Under that treatment, SPS would retain 10% of the New Mexico jurisdictional margins, similar to its other off-system energy sales.[15]

Q. Should the Commission impute any value to the RECs for purposes of establishing SPS's base rates?

A. No. It is unnecessary to impute value to the RECs because the investment costs for the SPS Wind Facilities will be included in base rates. That is, the SPS Wind Facilities' investment costs do not change due to the creation of RECs associated

[15] *See, e.g.,* Case No. 12-00350-UT, *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Rates Under Advice Notice No. 245*, Recommended Decision at pages 215 through 219 (Jan. 23, 2014), Final Order Partially Adopting Recommended Decision (March 16, 2014).

with the energy. When the Commission has imputed a value for RECs, it has been in circumstances in which SPS purchased wind energy with the price of the energy bundled with the price for the RECs. The Commission determined it was necessary to impute a value for the RECs in order to determine the incremental renewable energy portfolio standard costs for recovery through the renewable portfolio standard rider, while the remaining energy costs were recovered by SPS through fuel. With the SPS Wind Facilities, all of SPS's investment costs will be recovered in base rates, so there is no need to impute a cost for RECs to remove from fuel costs.

XI. DEPRECIATION

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

A. I set forth SPS's proposal with respect to depreciation rates for portions of the SPS Wind Facilities.

Q. Why is it necessary for the Commission to set depreciation rates for portions of the SPS Wind Facilities in this docket?

A. When SPS's currently authorized depreciation rates were established, SPS did not have any wind production facilities. Therefore, SPS has no Commission-approved depreciation rates for wind production facilities.

Q. Does SPS have currently approved depreciation rates for any portion of the assets that will be constructed as part of the SPS Wind Facilities?

A. Yes. In addition to constructing wind turbines, SPS will also need to construct some TSG facilities to transmit the wind energy to the grid. In Case No. 12-00350-UT, the Commission set depreciation rates for the FERC accounts in which those TSG facilities are recorded, so it is not necessary to establish new depreciation rates for those classes of assets in this case. SPS proposes to use the existing Commission-approved rates for the TSG assets.

Q. For the production-related assets that will be included in the SPS Wind Facilities, what depreciation rates does SPS propose to use?

A. SPS proposes to use a depreciation rate of 4.34%. That rate reflects a 25-year service life and a negative 8.5% net salvage rate.

Q. How did SPS arrive at the 25-year service life?

A. That service life is based on an estimate of the average service life of a turbine by the turbine manufacturer, Vestas. In addition, it is the service life that other Xcel Energy affiliates have used for Vestas turbines.

Q. What is the basis for the negative 8.5% net salvage value?

A. The negative 8.5% salvage value is based on dismantling estimates performed for wind projects owned by other Xcel Energy operating companies.

XII. CLASS I AFFILIATE TRANSACTIONS

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

A. I discuss the standard for the Commission's evaluation of the sale of goods between a utility and an affiliate, defined by the PUA as a "Class I Transaction;"[16] describe the proposed transactions between SPS and Capital Services, another affiliate of Xcel Energy; and explain that the proposed Class I Transactions are reasonable and satisfy the requirements of Section 62-6-19(C)(1) of the PUA. I also sponsor the Sale of Components Agreement ("Components Agreement") between SPS and Capital Services.[17]

Q. What requirements do the PUA and Rule 450 establish with respect to Class I Transactions?

A. Under Section 62-6-19 of the PUA and Commission Rule 17.6.450.11 NMAC ("Rule 450"), public utilities are required to notify the Commission regarding Class I Transactions.[18] Section 62-6-19(C)(1) of the PUA provides that the

[16] *See* NMSA 1978 §§ 62-3-3(K) (defining a "Class I Transaction" as "the sale, lease or provision of real property, water rights or other goods or services by an affiliated interest to a public utility with which it is affiliated . . .").

[17] The Components Agreement is attached to my testimony as Attachment EDE-1.

[18] *See* NMSA 1978 § 62-6-19; Rule 17.6.450.11 NMAC.

Commission may investigate Class I Transactions to determine whether the costs and contract conditions are reasonable.

Q. Please describe the proposed transactions between SPS and Capital Services.

A. SPS proposes to purchase a number of wind turbines from Capital Services. The amount paid by SPS will consist of a "Confirmation Price" and a "Carrying Charge," as those terms are defined by the Components Agreement.

Q. How is the term "Confirmation Price" defined in the Components Agreement?

A. The Components Agreement defines "Confirmation Price" as:

1. the price paid by Capital Services to Vestas for the turbines; and
2. the estimated "Incremental Costs," which are defined as
   a. storage and maintenance fees for the period from the date Capital Services took delivery of the turbines to the date on which it delivers the turbines to SPS;
   b. the cost of insuring the turbines for the period from the date Capital Services took delivery of the turbines to the date on which it delivers the turbines to SPS; and
   c. any other reasonable documented costs incurred by Capital Services in connection with its acquisition of the turbines.

Q. How is the "Carrying Charge" calculated under the Components Agreement?

A. The Carrying Charge is calculated by applying SPS's AFUDC rate to the purchase price of the turbines for each month or partial month in the "Carrying Period." The Carrying Period is defined as the period from the date on which Capital Services purchased the turbines until the date on which title to the turbines passes from Capital Services to SPS.[19]

Q. What is SPS's AFUDC rate?

A. SPS's current AFUDC rate is 4.74%. The rate is subject to change in accordance with the guidelines set forth in the FERC Uniform System of Accounts, Electric Plant Instruction No. 17.

Q. In this proceeding, is SPS asking the Commission to approve specific amounts for the Confirmation Costs and the Carrying Charge?

A. No. At this time, SPS does not know most of the amounts. Therefore, SPS is asking the Commission only for a finding that it is reasonable for SPS to recover the reasonable and necessary balances of the Confirmation Costs and the Carrying

[19] Under the Components Agreement, AFUDC is prorated for partial months.

Charge. In a proceeding that occurs after the SPS Wind Facilities are placed in rate base, SPS will ask for approval of the specific amounts.

Q. Were the goods provided by Capital Services necessary?

A. Yes. As Mr. Hudson explains in his testimony, the December 18, 2015 OAA included a five-year extension of the PTCs for wind and other eligible renewable energy projects, but the credit percentage began to decline after December 31, 2016. Only eligible projects that fall within certain Internal Revenue Service ("IRS") safe harbor requirements can claim 100% of the tax credit associated with a facility for the life of the facility. Thus, to claim 100% of the PTC benefits associated with the Wind Facilities, SPS or its affiliates had to take sufficient action to meet the IRS's "begin construction" requirement by December 31, 2016. At that time, however, SPS had not completed negotiations with NextEra and Invenergy, and, therefore, it did not know how many turbines it would need to purchase. Thus, it was reasonable and necessary for Capital Services to incur the costs.

Q. Are the turbine costs charged to SPS by Capital Services reasonable?

A. Yes. Capital Services will sell the turbines to SPS for the same amount that Capital Services paid Vestas for those turbines. The amount paid by Capital

Services to Vestas for the assets was a negotiated price agreed to by independent parties in an arm's length transaction. Thus, it is reasonable.

Q. Are the storage and insurance costs charged by Capital Services to SPS reasonable?

A. Yes. Capital Services will charge only the out-of-pocket costs that it has incurred or will incur for storage of the turbines and insurance on those turbines. It is reasonable for SPS to reimburse Capital Services for those out-of-pocket costs.

Q. Is the inclusion of the Carrying Charge in the purchase price paid to Capital Services a reasonable and necessary expense?

A. Yes. Capital Services has advanced the money to purchase turbines on behalf of SPS and its customers, and should be compensated for having expended funds to make a purchase that enables SPS and its customers to take advantage of 100% of the PTCs available from the SPS Wind Facilities. The AFUDC rate is a reasonable basis for the Carrying Cost because it reasonably approximates SPS's own carrying costs for purchasing components to be installed at generating facilities.

Q. Could SPS have attempted to obtain the turbines at a better price than under the Class I Transaction?

A. No. As explained above, Capital Services acquired the turbines in order to obtain eligibility for PTCs and will sell the turbines to SPS at the same price Capital Services paid for them, which is the price SPS would have paid for turbines if it had purchased them in 2016 directly from Vestas as part of Xcel Energy's agreement to purchase turbines from Vestas for multiple Xcel Energy Operating Companies. Mr. Hill explains the basis for the price Capital Services paid Vestas for the turbines. It is likely SPS would have paid more for turbines if it had attempted to purchase them separate from Capital Services's contract with Vestas.

Q. Will the goods provided by Capital Services benefit SPS's customers?

A. Yes. As explained above, Capital Services acquired the turbines to obtain eligibility for PTCs, which SPS proposes to pass through to its customers through the FPPCAC. Accordingly, the procurement of the turbines by Capital Services, and the subsequent sale of the turbines to SPS, will benefit SPS's customers.

XIII. ESTIMATED IMPACT ON CUSTOMERS' BILLS

Q. Have you calculated the impact of the SPS-owned Wind Facilities and the Bonita PPA on customers' bills?

A. Yes, as discussed previously and shown in Table EDE-2, I have calculated the combined impact of adding Sagamore, Hale, and the Bonita PPA on a typical bill for a variety of customers. These calculations are shown on Attachment EDE-2. These calculations were performed using SPS's current base rates and projected fuel costs with and without the Wind Facilities and the Bonita PPA. As shown on Attachment EDE-2 in 2021, the first full calendar year that both wind projects and the Bonita PPA will be in operation, it is estimated that:

- a typical Residential Service customer will save an average of $2.13 per month, or 1.91%;
- a typical Small General Service customer will save an average 2.22%;
- a typical Secondary General Service customer will save an average of 2.65%; and
- a typical Large General Service Transmission – Backbone Transmission customer will save an average of 3.99%.

XIV. RELIEF REQUESTED FROM THE COMMISSION

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

A. I describe the relief that SPS requests from the Commission.

Q. Please list the relief that SPS is seeking from the Commission in this proceeding.

A. In addition to approving SPS's form of notice, SPS requests that the Commission grant the relief listed in Section II of my testimony, under List of Relief Requested.

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

A. Yes.

VERIFICATION

STATE OF TEXAS)
) ss.
COUNTY OF POTTER)

EVAN D. EVANS, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachments and am familiar with their contents. Based upon my personal knowledge, the facts stated in the direct testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

DONNA M. ANDERSON
Notary Public, State of Texas
Notary ID #853163-5
My Commission Expires 06-17-2020

Evan D. Evans
EVAN D. EVANS

SUBSCRIBED AND SWORN TO before me this 17 day of March 2017.

Donna M Anderson
Notary Public of the State of Texas
My Commission Expires: 6/17/2020

SALE OF COMPONENTS AGREEMENT

This SALE OF COMPONENTS AGREEMENT, including Annexes attached hereto and made a part hereof, is made and entered into as of March 17, 2017, by and between CAPITAL SERVICES, LLC, a Delaware limited liability company (hereinafter "Seller") and SOUTHWESTERN PUBLIC SERVICE COMPANY, a New Mexico Corporation (hereinafter "Buyer"); sometimes collectively referred to as the "Parties" or singularly as a "Party" (the "Agreement").

RECITALS

A. Seller has acquired, on behalf of its Affiliates (including Buyer), certain wind turbine components (the "PTC Components") from Vestas American Wind Technology, Inc. (hereinafter "Supplier") pursuant to that certain Master Supply Agreement between Seller and Supplier, dated as September 15, 2016 (the "MSA");

B. Buyer intends to develop, from time to time, wind turbine electric generating facilities (each, a "Project") and, in connection with each particular Project, to enter into a Wind Turbine Supply Agreement with Supplier (the "Project TSA") substantially in the form attached to the MSA as Exhibit F;

C. Buyer desires to acquire from Seller, from time to time, such portion of the PTC Components as will be required for a particular Project (the "Project PTC Components"); and

D. The Parties desire to enter into this Agreement to provide for the terms of sale by Seller and purchase by Buyer of the Project PTC Components.

NOW, THEREFORE, in consideration of the covenants, promises, and representations set forth herein and the Agreement and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Capitalized Terms. Unless the context hereof shall otherwise require, capitalized terms used in this Agreement and not otherwise defined herein shall have the meanings set forth in MSA.

2. Purchase Order. Buyer shall have the right to provide to Seller a purchase demand notice (the "Purchase Order") substantially in the form of Annex 1 hereto, specifying the Project PTC Components which Buyer is prepared to acquire in connection with a Project, the Delivery Point and the indicative Delivery date (the "Delivery Date").

3. Confirmation. Seller shall respond to such Purchase Order by issuing a "Confirmation" in the form of Annex 2 hereto (a) confirming Seller's obligation to sell to Buyer the Project PTC Components specified in the Purchase Order on the terms of this Agreement and (b) providing, with respect to each particular component of the Project PTC Components to be sold pursuant to such Purchase Order: (i) the serial number, (ii) the date of Seller's payment to Supplier, (iii) the PTC Transfer date under the MSA, (iv) price paid by Seller to Supplier for such equipment pursuant to the MSA (as reflected in Exhibit A or Exhibit B, as applicable, to the MSA) and (v) the allocable portion of the

estimated Incremental Costs (based on the indicative Delivery Date indicated in the Purchase Order) (the sum of items (iv) and (v), the "Confirmation Price"). The "Incremental Costs" of the Project PTC Components shall mean: (1) the Storage and Maintenance Fee for the period from the date of the PTC Transfer of such Project PTC Components through the Delivery Date, (2) the cost of insuring such Project PTC Components for the period from the date of the PTC Transfer of such equipment through the Delivery Date, and (3) any other reasonable documented costs incurred by Seller in connection with the acquisition of such Project PTC Components from Supplier and ownership thereof.

4. Purchase Price. The purchase price with respect to each component of the Project PTC Components sold pursuant to this Agreement (the "Purchase Price") shall equal: (a) the Confirmation Price (as adjusted for the actual Delivery Date pursuant to the Bill of Sale), subject to any adjustment required by an applicable federal or state governmental authority in order to comply with the Applicable Laws; and (b) a "Carrying Charge," which shall be calculated by (i) applying Buyer's allowance for funds used during construction ("AFUDC") rate(s) in effect during the period between the time Seller made payments to Supplier for the Project PTC Components that Seller is selling to Buyer under this Agreement and the time those Project PTC Components are redelivered to Buyer under this Agreement (the "Carrying Period") to (ii) the Purchase Price for (iii) each month or partial month in the Carrying Period, provided that the Purchase Price used in the calculation for a particular month shall be adjusted to reflect the Incremental Costs and the portion of the Carrying Charge incurred through that month.

5. Delivery and Payment. The risk of loss and care, custody and control of each particular component of the Project PTC Components shall pass to Buyer upon Delivery of such component to the Delivery point. Upon Delivery of all of the Project PTC Components identified in the Confirmation to the Delivery Point, (a) Seller shall sell, and Buyer shall purchase, the Project PTC Components and (b) the Parties shall execute and deliver a Bill of Sale therefor in the form of Annex 3 hereto, and (c) the title to the Project PTC Components shall pass to Buyer. The Purchase Price shall be due and payable in a lump sum payment within 5 Business Days following execution of the Bill of Sale.

6. Conditions Precedent. The obligation of Seller to Deliver and sell to Buyer, and of Buyer to accept Delivery and purchase, the Project PTC Components shall be subject to the following conditions precedent: (a) the Purchase Price has been agreed (subject only to adjustment for the actual Anticipated Delivery Date, if the Purchase Price is based on the Confirmation Price); (b) Buyer has entered into the Project TSA for the Project; (c) and the latest PTC Transfer date under the MSA for the Project PTC Components has occurred prior to April 12, 2017, and Supplier has otherwise fully complied with its PTC Obligations with respect to the Project PTC Components under the MSA, and (d) Seller has not incurred, and has not claimed from Supplier, any PTC Damages in connection with the Project PTC Components.

7. Responsibility for Taxes. Buyer shall be responsible for all taxes payable in connection with the purchase of the Project PTC Components pursuant to Applicable Law. The Purchase Price shall not be adjusted by any such taxes.

8. Further Assurances. Each of the Parties shall use its commercially reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under Applicable Laws, and execute and deliver such documents and other papers, as may be required to carry out the provisions of this Agreement.

9. Representations and Warranties. Each Party hereby represents and warrants as follows:

   (a) Such Party has full power and authority to enter into and perform its obligations under this Agreement, and has taken all necessary action to authorize its execution and delivery of this Agreement and the performance of its obligations under this Agreement.

   (b) This Agreement has been duly executed and delivered by such Party and constitutes the legal, valid and binding obligation of such Party, enforceable against it in accordance with the terms hereof, subject to applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally and subject to general equitable principles.

   (c) All governmental authorizations and actions necessary in connection with the execution and delivery by such Party of this Agreement and the performance of its obligations hereunder have been obtained or performed and remain valid and in full force and effect.

   (d) Execution, delivery and performance of this Agreement by such Party (i) do not and will not contravene any provisions of such Party's organizational documents, or any law, rule, regulation, order, judgment or decree applicable to or binding on such Party or any of its properties, (ii) do not and will not contravene, or result in any breach of or constitute any default under, any agreement or instrument to which such Party is a party or by which such Party or any of its properties may be bound or affected, and (iii) do not and will not require the consent of any Person under any existing law or agreement which has not already been obtained (other than the Parties hereto).

10. Disclaimer. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE PROJECT PTC COMPONENTS WILL BE SOLD "AS IS" IN ALL RESPECTS, AND SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING THE PROJECT PTC COMPONENTS (INCLUDING, WITHOUT LIMITATION, ANY RELATING TO THE CONDITION, VALUE OR SUFFICIENCY OF THE PROJECT PTC COMPONENTS). WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY OF MERCHANTABILITY, USAGE, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF, OR AS TO THE ABSENCE OF ANY DEFECTS IN, THE PROJECT PTC COMPONENTS.

11. Assignment. This Agreement shall bind and shall inure to the benefit of the respective Parties and their assigns, transferees and successors.

12. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

13. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Sale of Components Agreement has been duly executed and delivered by a duly authorized representative of each of the Parties as of the date first above written.

CAPITAL SERVICES, LLC, a Delaware limited liability company

By:____________________________
Name: Gary J. O'Hara
Title: President & Manager

SOUTHWESTERN PUBLIC SERVICE COMPANY, a New Mexico corporation

By: David T. Hudson
Name: David T. Hudson
Title: President

ANNEX 1

FORM OF PURCHASE ORDER

PURCHASE ORDER TO SALE OF COMPONENTS AGREEMENT

[Date]

Re: Sale of Components Agreement (the "Agreement") dated as of [________], between Capital Services, LLC ("Seller") and [_Xcel Entity____] ("Buyer"). Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Agreement.

Purchase Order No. ______________

1. Buyer requests Delivery and sale of the following PTC Components for the [*identify Project*]:

PTC Component	**Quantity**	**Indicative Delivery Date**	**Delivery Point**
Turbine Nacelles (V[____], [__]MW)			
Towers ([__]m)			

2. Buyer designates the following Person to be responsible for the correspondence and communication regarding this Purchase Order: [*Name, contact information*].

SOUTHWESTERN PUBLIC SERVICE COMPANY, a New Mexico corporation

By:________________________________

Name:
Title:

ANNEX 2

FORM OF CONFIRMATION

CONFIRMATION TO PURCHASE ORDER NO. ________________

[Date]

Re: Purchase Order No. [____________] dated [__________], to Sale of Components Agreement (the "Agreement") dated as of [________], between Capital Services, LLC ("Seller") and [__Xcel Entity____] ("Buyer"). Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Agreement.

1. Seller confirms its obligation to sell and arrange for Delivery of the following PTC Components for the [*identify Project*]:

PTC Component	**Quantity**	**Serial Number for Each Separate Component**	**Date of Payment to Supplier**	**PTC Transfer Date**	**Indicative Delivery Date**	**Delivery Point**
Turbine Nacelles (V[____], [__]MW)						
Towers ([__]m)						

2. Confirmation Price.

PTC Component	Serial #	PTC Component Price under MSA	Allocable Portion (%)	Storage and Maintenance Fee	Insurance Cost	Other Costs of Acquisition and Ownership	Total (Confirmation Price)
Turbine Nacelles (V[____], [__]MW)							
Towers ([__]m)							

3. Contact: Seller designates the following Person to be responsible for the correspondence and communication regarding this Purchase Order: [*Name, contact information*].

SOUTHWESTERN PUBLIC SERVICE COMPANY, a New Mexico corporation

By:________________________________

Name:
Title:

PURCHASE PRICE ENDORSEMENT:

[DATE]

The parties agree that the Purchase Price for each PTC Component shall be as follows:

PTC Component	Serial #	Purchase Price

CAPITAL SERVICES, LLC

By:________________________________

Name:
Title:

SOUTHWESTERN PUBLIC SERVICE COMPANY, a New Mexico corporation

By:________________________________

Name:
Title:

ANNEX 3

FORM OF BILL OF SALE

BILL OF SALE AND ASSIGNMENT

This BILL OF SALE AND ASSIGNMENT is made and entered into as of [______ __], 201[__], by and between CAPITAL SERVICES, LLC, a Delaware limited liability company (hereinafter "Seller"), and [XCEL ENTITY], a [__________] (hereinafter "Buyer"); sometimes collectively referred to as the "Parties" or singularly as a "Party". All defined terms not otherwise defined herein shall have the meaning set forth in the Sale of Components Agreement dated as of [______ __] by and between Buyer and Supplier.

RECITALS

1. Pursuant to the Agreement, Seller agreed to sell, and Buyer agreed to purchase, the PTC Components identified in Attachment 1 hereto (the "Subject Components").

2. It is the Parties' intention to evidence the transfer of the Subject Components purchased by Buyer from Seller pursuant to the Agreement by the execution and delivery of this Bill of Sale and Assignment.

3. The Parties now desire to carry out the intent and purpose of the Agreement by Seller's execution and delivery to Buyer of this Bill of Sale and Assignment as evidence of the sale, conveyance, assignment, transfer and delivery to Buyer of the Subject Components.

NOW, THEREFORE, in consideration of the covenants, promises and representations set forth herein and the Agreement and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Seller does hereby, effective from and after the date hereof, sell, convey, assign, transfer and deliver unto Buyer, Seller's entire right, title and interest in, to and under the Subject Components, and Buyer hereby purchases and assumes all of Seller's right, title, interest in and to each Subject Component all as consistent with the Agreement.

2. Each of the Parties shall use its commercially reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under Applicable Laws, and execute and deliver such documents and other papers, as may be required to carry out the provisions of this Bill of Sale and Assignment.

3. THE PARTIES ACKNOWLEDGE AND AGREE THAT THE SUBJECT COMPONENTS ARE SOLD "AS IS" IN ALL RESPECTS, AND SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, WRITTEN OR ORAL, STATUTORY, EXPRESS OR IMPLIED, CONCERNING THE SUBJECT COMPONENTS (INCLUDING, WITHOUT LIMITATION, ANY RELATING TO THE CONDITION, VALUE OR SUFFICIENCY OF THE SUBJECT COMPONENTS). WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, SELLER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY OF

MERCHANTABILITY, USAGE, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF, OR AS TO THE ABSENCE OF ANY DEFECTS IN, THE SUBJECT COMPONENTS.

4. Each of the Parties acknowledges and agrees that neither the representations and warranties nor the rights and remedies of the Parties under the Agreement shall be deemed to be enlarged, modified or altered in any way by this Bill of Sale and Assignment, and, to the extent there shall arise a conflict between this Bill of Sale and Assignment and the Agreement, the Agreement shall control.

5. This Bill of Sale and Assignment shall bind and shall inure to the benefit of the respective Parties and their assigns, transferees and successors.

6. This Bill of Sale and Assignment shall be construed and enforced in accordance with the laws of the State of [*insert the State where the relevant Project is located*].

7. This Bill of Sale and Assignment may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, this Bill of Sale and Assignment has been duly executed and delivered by a duly authorized representative of each of the Parties as of the date first above written.

CAPITAL SERVICES, LLC

By:______________________________
Name:
Title:

SOUTHWESTERN PUBLIC SERVICE COMPANY, a New Mexico corporation

By:______________________________
Name:
Title:

ATTACHMENT 1

SUBJECT COMPONENTS

PTC Component	Serial Number

SOUTHWESTERN PUBLIC SERVICE COMPANY
Impact of SPS Wind Facilities and Bonita PPA on
Typical Customers' Bills for Various Rate Classes

Typical Residential Customer's Monthly kWh Usage: kWh **1000**

Line No.	Description	Current Rates	Projected Rate	Charges Without Projects	Charges With Wind Projects	$ Difference	% Difference
	Residential Service (Summer)						
1	Service Availablility	$ 8.50	$ 8.50	$ 8.50	$ 8.50		
2	Energy Charge (per kWh)	$ 0.075319	$ 0.084427	75.32	84.43		
3	FPPCAC (per kWh)	$ 0.030615	$ 0.019446	30.62	19.45		
4	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	3.77	3.77		
5	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	3.78	3.72		
6	Total Bill			$ 121.99	$ 119.86	**$ (2.13)**	**-1.74%**
	Residential Service (Non-Summer)						
7	Service Availablility	$ 8.50	$ 8.50	$ 8.50	$ 8.50		
8	Energy Charge (per kWh)	$ 0.060120	$ 0.069228	60.12	69.23		
9	FPPCAC (per kWh)	$ 0.030615	$ 0.019446	30.62	19.45		
10	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	3.77	3.77		
11	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	3.30	3.23		
12	Total Bill			$ 106.30	$ 104.17	**$ (2.13)**	**-2.00%**
13	**Typical Customer's Annual Average Monthly Bill**			$ 111.53	$ 109.40	**$ (2.13)**	**-1.91%**

Typical Small General Customer's Monthly kWh Usage: kWh **1500**

Line No.	Description	Current Rates	Projected Rate	Charges Without Projects	Charges With Wind Projects	$ Difference	% Difference
	Small General Service (Summer)						
14	Service Availablility	$ 14.40	$ 14.40	$ 14.40	$ 14.40		
15	Energy Charge (Summer)	$ 0.054229	$ 0.063337	81.34	95.01		
16	FPPCAC (per kWh)	$ 0.030615	$ 0.019446	45.92	29.17		
17	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	5.65	5.65		
18	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	4.71	4.62		
19	Total Bill			$ 152.03	$ 148.84	**$ (3.19)**	**-2.10%**
	Small General Service (Non Summer)						
20	Service Availablility	$ 14.40	$ 14.40	$ 14.40	$ 14.40		
21	Energy Charge (Non-Summer)	$ 0.046273	$ 0.055381	69.41	83.07		
22	FPPCAC (per kWh)	$ 0.030615	$ 0.019446	45.92	29.17		
23	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	5.65	5.65		
24	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	4.33	4.23		
25	Total Bill			$ 139.72	$ 136.53	**$ (3.19)**	**-2.28%**
	Typical Customer's Annual Average Monthly Bill			$ 143.82	$ 140.63	**$ (3.19)**	**-2.22%**

SOUTHWESTERN PUBLIC SERVICE COMPANY
Impact of SPS Wind Facilities and Bonita PPA on
Typical Customers' Bills for Various Rate Classes

				kWh	**kW**		
	Typical Secondary General Customer's Monthly kWh Usage:			**20,000**	**50**		
	Secondary General Service (Summer)						
26	Service Availablility	$ 25.80	$ 25.80	$ 25.80	$ 25.80		
27	Energy Charge	$ 0.005111	$ 0.014219	102.22	284.38		
28	Demand Charge (Summer)	$ 16.88	$ 16.88	844.00	844.00		
29	FPPCAC (per kWh)	$ 0.030615	$ 0.019446	612.31	388.93		
30	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	75.38	75.38		
31	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	53.11	51.79		
32	Total Bill			$ 1,712.82	$ 1,670.28	**$ (42.54)**	**-2.48%**
	Secondary General Service (Non Summer)						
33	Service Availablility	$ 25.80	$ 25.80	$ 25.80	$ 25.80		
34	Energy Charge	$ 0.005111	$ 0.014203	102.22	284.05		
35	Demand Charge (Non Summer)	$ 13.95	$ 13.95	697.50	697.50		
36	FPPCAC (per kWh)	$ 0.030615	$ 0.019446	612.31	388.93		
37	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	75.38	75.38		
38	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	48.42	47.09		
39	Total Bill			$ 1,561.63	$ 1,518.75	**$ (42.88)**	**-2.75%**
	Typical Customer's Annual Average Monthly Bill			$ 1,612.03	$ 1,569.26	**$ (42.77)**	**-2.65%**

				kWh	**kW**		
	Typical Large General Service - Backbone Monthly kWh Usage:			**3,000,000**	**5,000**		
	Large General Service - Backbone (Summer)						
40	Service Availablility	$ 1,433.60	$ 1,433.60	$ 1,433.60	$ 1,433.60		
41	Energy Charge	$ 0.004115	$ 0.012450	12,345.00	37,349.88		
42	Demand Charge (Summer)	$ 9.98	$ 9.98	49,900.00	49,900.00		
43	FPPCAC (per kWh)	$ 0.028018	$ 0.017796	84,052.58	53,388.69		
44	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	2,954.62	2,841.44		
45	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	4,821.95	4,637.24		
46	Total Bill			$ 155,507.75	$ 149,550.84	**$ (5,956.90)**	**-3.83%**
	Large General Service - Backbone (Non Summer)						
47	Service Availablility	$ 1,433.60	$ 1,433.60	$ 1,433.60	$ 1,433.60		
48	Energy Charge	$ 0.004115	$ 0.012450	12,345.00	37,349.88		
49	Demand Charge (Non Summer)	$ 8.25	$ 8.25	41,250.00	41,250.00		
50	FPPCAC (per kWh)	$ 0.028018	$ 0.017796	84,052.58	53,388.69		
51	RPS Cost Rider (per kWh)	$ 0.003769	$ 0.003769	2,781.62	2,668.44		
52	Energy Efficiency Rider (% of Bill)	3.200%	3.200%	4,539.61	4,354.90		
53	Total Bill			$ 146,402.41	$ 140,445.51	**$ (5,956.90)**	**-4.07%**
	Typical Customer's Annual Average Monthly Bill			$ 149,437.52	$ 143,480.62	**$ (5,956.90)**	**-3.99%**