

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

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

DIRECT TESTIMONY

of

MARY P. SCHELL

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

TABLE OF CONTENTS

GLOSSARY OF ACRONYMS AND DEFINED TERMS.....	iii
LIST OF ATTACHMENTS	iv
I. WITNESS IDENTIFICATION AND QUALIFICATIONS	1
II. ASSIGNMENT AND SUMMARY OF TESTIMONY	4
III. FINANCING OF THE SPS WIND FACILITIES.....	6
VERIFICATION.....	13

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
AFUDC	Allowance for Funds Used During Construction
Commission	New Mexico Public Regulation Commission
MW	Megawatt
SPS	Southwestern Public Service Company, a New Mexico corporation
SPS Wind Facilities	Wind generating facilities located in Hale County, Texas, and Roosevelt County, New Mexico
Xcel Energy	Xcel Energy Inc.

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
MPS-1	IHS Global Insights Interest Rate Forecasts (<i>Filename:</i> MPS-1.pdf)
MPS-2	Page 33 from SPS's Form 10-K for the fiscal year ended December 31, 2016 (<i>Filename:</i> MPS-2.pdf)

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Mary P. Schell. My business address is 414 Nicollet Mall, 401-4,
4 Minneapolis, Minnesota 55401.

5 **Q. On whose behalf are you testifying in this proceeding?**

6 A. I am filing testimony on behalf of Southwestern Public Service Company, a New
7 Mexico corporation (“SPS”) and wholly-owned electric utility subsidiary of Xcel
8 Energy Inc. (“Xcel Energy”).

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

10 A. I am the Director of Corporate Financial Policy for Xcel Energy and Assistant
11 Treasurer for SPS.

12 **Q. Please briefly outline your responsibilities as Director of Corporate Financial**
13 **Policy.**

14 A. I am responsible for providing leadership and technical expertise within the
15 Treasury department, which includes recommending and implementing the
16 financing required to achieve SPS’s target capital structure. In addition, I provide
17 expertise regarding financial analysis and develop financing and financial
18 testimony on behalf of Xcel Energy’s subsidiaries.

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 **Q. Please describe your educational background.**

2 A. I received my Bachelor of Science degree in Business in 1981 from Mankato
3 State University and my Master of Business Administration degree with a
4 concentration in Accounting in 1989 from the University of Minnesota, Carlson
5 School of Management.

6 **Q. Please describe your professional experience.**

7 A. I worked for The Pillsbury Company in Corporate Finance for eight years in
8 economic and financial analyses positions prior to my employment at Xcel
9 Energy. I have been employed in the Corporate Finance/Treasury department of
10 Xcel Energy and its predecessor companies since October 1991. I have had
11 positions of increasing responsibility since 1991, and I have been Director of
12 Corporate Financial Policy since 2000.

13 **Q. Have you previously provided testimony to any regulatory commission?**

14 A. Yes. I have submitted pre-filed testimony on financial integrity, cost of debt, and
15 capital structure in SPS's recent base rate cases before the New Mexico Public
16 Regulation Commission ("Commission"), including Case Nos. 16-00269-UT,
17 15-00139-UT, and 15-00296-UT, and I have testified before the Commission
18 regarding debt issuances on numerous occasions. I have also testified before the

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 Public Utility Commission of Texas in Docket No. 43695 on financial integrity,
2 cost of debt, and capital structure, and have submitted pre-filed testimony on the
3 same topics in two other SPS rate cases, Docket Nos. 45524 and 42004. In
4 addition, I have testified before the Colorado Public Utilities Commission and the
5 Arizona Corporation Commission on capital structure and the cost of capital, and
6 I have submitted pre-filed testimony before the Public Service Commission of
7 Wisconsin and the North Dakota Public Service Commission on capital structure
8 and the cost of capital.

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 **II. ASSIGNMENT AND SUMMARY OF TESTIMONY**

2 **Q. What is your assignment in this proceeding?**

3 A. As explained in more detail by other SPS witnesses, SPS is planning to develop,
4 own, and operate two wind generating facilities: a 478 megawatt (“MW”) wind
5 generating facility located in Hale County, Texas, and a 522 MW wind generating
6 facility located in Roosevelt County, New Mexico (collectively, the “SPS Wind
7 Facilities”). SPS estimates that its total capital investment in the SPS Wind
8 Facilities will be approximately \$1.6 billion. My testimony explains how SPS
9 plans to finance the cost of the two facilities. SPS will also enter into a purchased
10 power agreement as part of the SPS Wind Facilities project. I will briefly discuss
11 the general effect of the purchased power agreement on SPS’s financial position.

12 **Q. Please summarize your testimony.**

13 A. SPS plans to finance the cost of the SPS Wind Facilities in a manner similar to
14 financing its other utility capital expenditures. SPS uses a combination of internal
15 funds, short-term borrowings, long-term debt, and equity to fund its capital
16 expenditure program. Because SPS intends to issue new debt and to obtain equity
17 from its parent company to pay for the cost of the SPS Wind Facilities, the

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 financing of these facilities will not have a material adverse effect on SPS's
2 financial integrity, assuming SPS gets timely cost recovery.

3 **Q. Are Attachments MPS-1 and MPS-2 true and correct copies of the**
4 **documents you represent them to be?**

5 A. Yes.

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 **III. FINANCING OF THE SPS WIND FACILITIES**

2 **Q. What sources of funding does SPS plan to use to finance the capital costs**
3 **associated with the SPS Wind Facilities?**

4 A. SPS plans to finance its investment in the SPS Wind Facilities in the same manner
5 as it finances any other utility capital expenditures: by using a combination of
6 internal funds, short-term debt, long-term debt and equity contributions from its
7 parent, Xcel Energy. Because SPS's internal funds are generally insufficient to
8 cover its capital expenditures, SPS will require financing from external sources
9 and will first issue short-term debt to finance part of the construction costs.

10 **Q. Does SPS plan to use its currently outstanding long-term debt issuances to**
11 **pay for the costs of the SPS Wind Facilities?**

12 A. No. SPS plans to issue additional long-term debt to finance the cost of the SPS
13 Wind Facilities. As I will discuss in more detail below, Xcel Energy also plans to
14 infuse additional equity into SPS to maintain a target regulated capital structure
15 composed of 53.97% equity and 46.03% long-term debt.

16 **Q. How much additional long-term debt does SPS intend to issue for purposes**
17 **of financing the SPS Wind Facilities?**

18 A. At this time, SPS does not plan to issue project financing specifically for the SPS
19 Wind Facilities. As SPS's outstanding short-term debt level increases with

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 funding requirements, SPS will issue long-term debt to repay outstanding
2 short-term debt, and will receive parental equity infusions to maintain the target
3 capital structure. From 2018 through 2020, SPS plans to issue over \$1 billion in
4 long-term debt to repay short-term debt initially issued to fund capital
5 expenditures. During this period, SPS will also have \$250 million in maturing
6 long-term debt. Consistent with the construction schedule of the SPS Wind
7 Facilities and other capital expenditures, SPS will likely undertake a series of
8 bond issuances during the period 2018 through 2020.

9 **Q. Have you estimated a long-term debt rate for the incremental debt that SPS**
10 **plans to incur for construction of the SPS Wind Facilities?**

11 A. Yes. SPS uses IHS Global Insight, an econometric forecasting service, as a
12 source of forecasted U.S. Treasury rates. The February 2017 Global Insight report
13 forecasts 30-year Treasury rates ranging from 3.62% to 4.57% during the period
14 from 2018 through 2020.¹ Because SPS's debt is riskier than U.S. Treasury debt,
15 a credit spread is added to the Treasury yield to derive an interest rate. Assuming
16 no change in credit ratings and based on the current forecast, SPS expects debt
17 rates to range from 4% to 6% between now and 2020. SPS has used 4.25% as the

¹ See Attachment MPS-1

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 cost of debt in calculating the revenue requirement and the present value of the
2 savings generated by the SPS Wind Facilities. Those calculations are presented in
3 the direct testimonies of SPS witnesses Arthur P. Freitas and Jonathan S.
4 Adelman, respectively. The 4.25% is a reasonable interest cost assuming SPS
5 issues a combination of ten- and thirty-year first mortgage bonds, has a capital
6 structure that includes 53.97% common equity, and maintains its current bond
7 rating.

8 **Q. How much additional equity does Xcel Energy plan to invest in SPS to**
9 **finance the cost of the SPS Wind Facilities?**

10 A. Xcel Energy plans to infuse approximately \$1 billion of equity into SPS between
11 2018 and 2020. Because the purpose of infusing equity is to help SPS maintain
12 its target regulated capital structure, the equity infusions will likely occur on a
13 schedule that closely matches the debt issuances.

14 **Q. If SPS avails itself of the use of short-term debt during the construction**
15 **phase, from whom will it obtain the short-term loans?**

16 A. At this time, SPS does not plan to have a separate short-term facility/construction
17 revolver for the SPS Wind Facilities. Instead, SPS plans to issue commercial
18 paper to fund wind and other capital investments. Commercial paper is SPS's

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 lowest cost form of external financing. SPS has a \$400 million revolving credit
2 agreement to support its commercial paper program. SPS will re-evaluate its
3 liquidity needs and could consider upsizing its current credit agreement or
4 evaluate other arrangements.

5 **Q. Have you estimated a short-term debt rate that SPS is likely to incur for the**
6 **amounts it borrows to construct the SPS Wind Facilities?**

7 A. Yes. Based on the IHS Global Insight forecast for short-term debt rates, SPS's
8 short-term debt interest costs will range from 2% to 4% from 2018 through 2020.²
9 These rates include a credit spread for SPS's credit rating.

10 **Q. Is SPS requesting any approval to issue securities as part of this case?**

11 A. No.

12 **Q. What is the financial effect of the purchase and construction of the SPS Wind**
13 **Facilities on SPS?**

14 A. SPS had total net property, plant, and equipment of \$4.7 billion at December 31,
15 2016.³ The SPS Wind Facilities, which are estimated to cost approximately

² See Attachment MPS-1.

³ See Attachment MPS-2.

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 \$1.6 billion, will represent about 35% of SPS's net property, plant, and
2 equipment. Thus, the SPS Wind Facilities represent a significant investment for
3 SPS, but as discussed by SPS witness David T. Hudson, those facilities will
4 generate approximately \$2.8 billion in customer benefits over 25 years. SPS does
5 not anticipate a major effect on its financial position as a result of the investment
6 in the SPS Wind Facilities, provided that SPS receives timely recovery of the
7 construction costs, including a cost of capital that reflects a 53.97% equity ratio,
8 and also receives timely recovery of the ongoing operating costs of the SPS Wind
9 Facilities. It is important for SPS to maintain a strong capital structure during this
10 period of large capital expenditures to issue long-term debt at attractive rates. Mr.
11 Hudson and SPS witness Evan D. Evans discuss SPS's request for regulatory
12 treatment prior to the SPS Wind Facilities being included in base rates in more
13 detail in their testimony. And as they note, timely and adequate recovery of the
14 costs of the SPS Wind Facilities is a major consideration in SPS's investment
15 decision.

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

1 **Q. What is the estimated dollar amount of Allowance for Funds Used During**
2 **Construction (“AFUDC”) associated with the construction of the SPS Wind**
3 **Facilities?**

4 A. The estimated AFUDC associated with the SPS Wind Facilities is approximately
5 \$55 million. This brings the total cost of the SPS Wind Facilities to
6 approximately \$1.655 billion.

7 **Q. What is the financial effect of SPS entering into a purchased power**
8 **agreement as part of this project?**

9 A. Purchased power agreements are considered to be debt-like in nature and are
10 viewed as fixed obligations. Although purchased power agreements are not
11 itemized on the balance sheet, the rating agencies include these obligations in the
12 credit metric analysis. When estimating imputed debt associated with energy only
13 contracts, an implied capacity amount is calculated. For the Bonita energy-only
14 contract, imputed debt of approximately \$15 million for the implied capacity
15 portion will be factored into credit metrics. This off-balance-sheet obligation
16 increases the total off-balance sheet obligations for SPS and further necessitates
17 that SPS maintain and earn on a 53.97% equity ratio, consistent with the original
18 cost estimate and analysis of this project.

Case No. 17-00044-UT
Direct Testimony
of
Mary P. Schell

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

2 A. Yes.

VERIFICATION

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

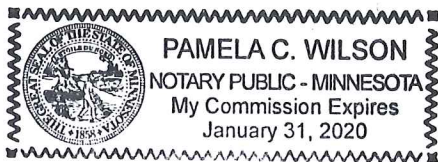
MARY P. SCHELL, first being sworn on her oath, states:

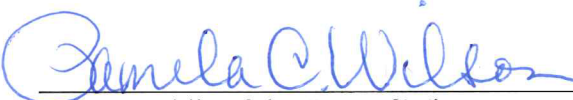
I am the witness identified in the preceding testimony. I have read the direct testimony and the accompanying attachments and am familiar with their contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience,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



MARY P. SCHELL

SUBSCRIBED AND SWORN TO before me this 9th day of March, 2017.





Notary Public of the State of Minnesota
My Commission Expires: 1/31/2020



Created on Tue 7 Feb 2017, 12:04 PM EST (17:04 GMT)

Frequency	Last Update	Short Label	End Date	Unit	Start Date	Source	SeriesType	2018.01	2018.02	2018.03	2018.04	2019.01	2019.02	2019.03	2019.04	2020.01	2020.02	2020.03	2020.04
QUARTERLY	2/6/2017	Rate on 90-day prime commercial paper Source	2027.04	% per annum	1971.02	IHS Economics	U.S. Macro - 10 Year Baseline	1.77	1.86	2.10	2.35	2.59	2.84	3.09	3.25	3.25	3.25	3.25	3.25
QUARTERLY	2/6/2017	Rate on Aa-rated public utility bonds Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	4.81	5.10	5.31	5.47	5.59	5.70	5.79	5.97	6.03	6.03	6.03	6.03
QUARTERLY	2/6/2017	Rate on 3-month eurodollar deposits Source	2027.04	% per annum	1977.01	IHS Economics	U.S. Macro - 10 Year Baseline	1.90	1.98	2.23	2.49	2.74	3.00	3.25	3.42	3.42	3.42	3.42	3.42
QUARTERLY	2/6/2017	Prime rate at commercial banks Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	4.50	4.54	4.79	5.04	5.29	5.54	5.79	6.00	6.00	6.00	6.00	6.00
QUARTERLY	2/6/2017	Yield on 10-year Treasury notes Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	2.94	3.04	3.24	3.38	3.54	3.74	4.00	4.07	4.07	4.07	4.07	4.07
QUARTERLY	2/6/2017	Yield on 30-year Treasury bonds Source	2027.04	% per annum	1977.02	IHS Economics	U.S. Macro - 10 Year Baseline	3.62	3.70	3.85	3.93	4.09	4.29	4.52	4.57	4.57	4.57	4.57	4.57
QUARTERLY	2/6/2017	Yield on 2-year Treasury notes Source	2027.04	% per annum	1976.03	IHS Economics	U.S. Macro - 10 Year Baseline	1.83	2.04	2.31	2.50	2.69	2.93	3.14	3.24	3.23	3.23	3.23	3.23
QUARTERLY	2/6/2017	Yield on 5-year Treasury notes Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	2.34	2.45	2.62	2.80	2.99	3.19	3.41	3.54	3.57	3.57	3.57	3.57
QUARTERLY	2/6/2017	Discount rate on 3-month Treasury bills Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	1.39	1.51	1.74	1.98	2.16	2.42	2.63	2.85	2.85	2.85	2.85	2.85
QUARTERLY	2/6/2017	Discount rate on 6-month Treasury bills Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	1.58	1.72	1.96	2.20	2.37	2.63	2.83	3.00	3.01	3.01	3.01	3.01
QUARTERLY	2/6/2017	Yield on 52-week Treasury bills or 1-year Treasury notes Source	2027.04	% per annum	1959.01	IHS Economics	U.S. Macro - 10 Year Baseline	1.74	1.93	2.17	2.41	2.60	2.86	3.06	3.21	3.21	3.21	3.21	3.21

Source: Global Insight, February 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-03789

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Exact name of registrant as specified in its charter)

New Mexico

75-0575400

State or other jurisdiction of incorporation or organization

(I.R.S. Employer Identification No.)

Tyler at Sixth, Amarillo, Texas 79101

(Address of principal executive offices)

Registrant's telephone number, including area code: 303-571-7511

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 and Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller Reporting Company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

As of Feb. 24, 2017, 100 shares of common stock, par value \$1 per share, were outstanding, all of which were held by Xcel Energy Inc., a Minnesota corporation.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Item 14 of Form 10-K is set forth under the heading "Independent Registered Public Accounting Firm – Audit and Non-Audit Fees" in Xcel Energy Inc.'s definitive Proxy Statement for the 2017 Annual Meeting of Stockholders which definitive Proxy Statement is expected to be filed with the SEC on or about April 4, 2017. Such information set forth under such heading is incorporated herein by this reference hereto.

Southwestern Public Service Company meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this form with the reduced disclosure format permitted by General Instruction I(2).

SOUTHWESTERN PUBLIC SERVICE CO.
BALANCE SHEETS
(amounts in thousands, except share and per share data)

	Dec. 31	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 844	\$ 834
Accounts receivable, net	74,190	71,166
Accounts receivable from affiliates	949	1,079
Accrued unbilled revenues	119,418	103,781
Inventories	38,505	37,546
Regulatory assets	38,721	31,541
Derivative instruments	5,114	12,952
Prepaid taxes	21,779	35,666
Prepayments and other	7,855	20,520
Total current assets	307,375	315,085
Property, plant and equipment, net	4,695,819	4,348,823
Other assets		
Regulatory assets	346,683	301,814
Derivative instruments	22,113	25,272
Other	7,477	3,449
Total other assets	376,273	330,535
Total assets	\$ 5,379,467	\$ 4,994,443
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	\$ —	\$ 200,000
Short-term debt	50,000	15,000
Accounts payable	176,157	146,794
Accounts payable to affiliates	14,414	29,135
Regulatory liabilities	41,577	98,305
Taxes accrued	39,742	33,374
Accrued interest	19,162	17,781
Dividends payable	30,870	12,538
Derivative instruments	3,565	3,565
Other	29,703	35,654
Total current liabilities	405,190	592,146
Deferred credits and other liabilities		
Deferred income taxes	989,137	860,744
Regulatory liabilities	233,454	229,584
Asset retirement obligations	28,663	27,233
Derivative instruments	23,513	27,078
Pension and employee benefit obligations	107,872	93,346
Other	24,084	17,841
Total deferred credits and other liabilities	1,406,723	1,255,826
Commitments and contingencies		
Capitalization		
Long-term debt	1,635,858	1,338,522
Common stock — 200 shares authorized of \$1.00 par value; 100 shares outstanding at Dec. 31, 2016 and 2015, respectively	—	—
Additional paid in capital	1,446,223	1,371,223
Retained earnings	486,763	438,007
Accumulated other comprehensive loss	(1,290)	(1,281)
Total common stockholder's equity	1,931,696	1,807,949
Total liabilities and equity	\$ 5,379,467	\$ 4,994,443

See Notes to Financial Statements