

**DOCKET NO. 46936**

<b>APPLICATION OF SOUTHWESTERN</b>	<b>§</b>	
<b>PUBLIC SERVICE COMPANY FOR: A</b>	<b>§</b>	
<b>CERTIFICATE OF CONVENIENCE</b>	<b>§</b>	
<b>AND NECESSITY AUTHORIZING</b>	<b>§</b>	<b>PUBLIC UTILITY COMMISSION</b>
<b>CONSTRUCTION AND OPERATION OF</b>	<b>§</b>	
<b>WIND GENERATION AND</b>	<b>§</b>	
<b>ASSOCIATED FACILITIES IN HALE</b>	<b>§</b>	
<b>COUNTY, TEXAS AND ROOSEVELT</b>	<b>§</b>	<b>OF TEXAS</b>
<b>COUNTY, NEW MEXICO, AND</b>	<b>§</b>	
<b>RELATED RATEMAKING</b>	<b>§</b>	
<b>PRINCIPLES; AND APPROVAL OF A</b>	<b>§</b>	
<b>PURCHASED POWER AGREEMENT</b>	<b>§</b>	
<b>TO OBTAIN WIND GENERATED</b>	<b>§</b>	
<b>ENERGY</b>	<b>§</b>	

**DIRECT TESTIMONY**

*of*

**DAVID T. HUDSON**

*on behalf of*

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

*(Filename: HudsonTXDirect.doc; Total Pages: 30)*

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## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
Bonita	Bonita Wind Energy, LLC
Commission	Public Utility Commission of Texas
Hale or Hale Wind Project	A 478 MW wind facility located in Hale County, Texas
Invenergy	Invenergy, LLC
IRS	Internal Revenue Service
MW	Megawatt
MWh	Megawatt-hour
NextEra	NextEra Energy Resources, LLC
NMPRC	New Mexico Public Regulation Commission
PPA	Power Purchase Agreement
PTC	Production Tax Credit
PURA	Public Utility Regulatory Act
Sagamore or Sagamore Wind Project	A 522 MW wind facility located in Roosevelt County, New Mexico
SPP	Southwest Power Pool, Inc.
SPS	Southwestern Public Service Company, a New Mexico corporation
SPS Wind Facilities	Hale Wind Project and Sagamore Wind Project
Vestas	Vestas-America Wind Technology, Inc.
Xcel Energy	Xcel Energy Inc.

## LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
DTH-1	Qualifications and Testimony List ( <i>Filename: DTH-1.doc</i> )

**DIRECT TESTIMONY  
OF  
DAVID T. HUDSON**

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

2   A.     My name is David T. Hudson. I am President of Southwestern Public Service  
3           Company, a New Mexico corporation (“SPS”). My business address is 600 S. Tyler  
4           Street, Suite 2900, Amarillo, Texas 79101. SPS is a wholly-owned subsidiary of  
5           Xcel Energy Inc. (“Xcel Energy”).<sup>1</sup>

6   **Q.     Why are you providing testimony in this case?**

7   A.     I am testifying to explain that SPS has an opportunity to save our customers  
8           approximately \$2.8 billion in customer cost savings<sup>2</sup> over the next three decades by  
9           acquiring, developing, and owning wind energy resources and entering into a new  
10          long-term wind energy purchase agreement. In particular, SPS is proposing to  
11          acquire, develop, and own two wind facilities, which enables SPS to take advantage  
12          of the federal Production Tax Credits (“PTC”) associated with those facilities.  
13          Collectively, the two facilities will have a total of 1,000 megawatts (“MW”) of  
14          nameplate wind energy capability, and SPS proposes to enter into an agreement to  
15          purchase another 230 MW of output from a wind generating facility owned by a third  
16          party, for a total of 1,230 MW of incremental wind energy.

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<sup>1</sup> Attachment DTH-1 summarizes my education, experience, and other qualifications.

<sup>2</sup> As described further below in my testimony, the \$2.8 billion of net cost savings to customers is composed of \$7.5 billion of avoided fuel and energy cost and production tax credit savings, less the \$4.7 billion cost of the new wind facilities, all measured on a nominal cost basis. The \$4.7 billion includes the carrying charges, operation and maintenance costs, taxes, and other expenses associated with operating the wind facilities, including the purchased energy costs for the Bonita Power Purchase Agreement.

1           The magnitude of this proposal creates a double-edged sword for SPS and its  
2 customers. On the one hand, the combined transactions are large enough that they  
3 will provide billions of dollars of energy cost savings for customers over the lives of  
4 the facilities. But on the other hand, the size of the investment necessary to secure  
5 those billions of dollars in savings makes the project too risky for SPS to undertake  
6 without the certainty SPS requests in this case from the Public Utility Commission of  
7 Texas (“Commission”). If SPS receives that certainty, it can seize this opportunity to  
8 lock in lower energy prices that will benefit SPS’s customers and the regional  
9 economy for decades to come.

10 **Q. Is SPS’s proposal designed to foster the development of renewable energy at the**  
11 **expense of other, more economical forms of power?**

12 A. No. It is crucial to understand that SPS’s proposal is not about trying to prefer one  
13 form of generation over another. SPS is pursuing this investment for the economic  
14 benefit of its customers. As I will explain later, the availability of the PTCs means  
15 that SPS can generate the wind energy cheaper than it can generate energy from coal  
16 or natural gas units. One can debate whether wind energy *should* have such  
17 preferential tax treatment, but for the next few years, it does. SPS is prudently  
18 pursuing this “Steel for Fuel” strategy for the benefit of its customers. And we  
19 would not be serving our customers well if we did not try to take advantage of that  
20 tax treatment to lower the cost of energy for our customers.

21 **Q. With that background explaining the context in which SPS brings this case,**  
22 **please explain the particular transactions at issue.**

23 A. On March 6, 2017, SPS entered into an agreement with NextEra Energy Resources,  
24 LLC (“NextEra”) to acquire a wind site in Hale County, Texas that is suitable for a

1 wind generating facility (“Hale”). The site currently consists of raw land and a small  
2 number of improvements that NextEra had made in preparation for construction of a  
3 wind generating facility. If SPS receives the regulatory approvals it seeks from this  
4 Commission and the New Mexico Public Regulation Commission (“NMPRC”), SPS  
5 will install 239 turbines at Hale, creating a nameplate capacity of 478 MW for the  
6 facility when it begins commercial operation in 2019. Once commercially  
7 operational, the service life of Hale is projected to be 25 years.

8 As part of that same transaction with NextEra, SPS entered into a Power  
9 Purchase Agreement (“PPA”) with Bonita Wind Energy, LLC, (“Bonita”), a NextEra  
10 subsidiary. The Bonita PPA project will enable SPS to purchase electrical energy  
11 from two wind facilities located near Lubbock, Texas. The first site (Phase I) is an  
12 80 MW project located in northwestern Crosby County, near the towns of Lorenzo  
13 and Ralls. The second site (Phase II) is a 150 MW project located in Cochran  
14 County west of Lubbock and along the New Mexico border. The Bonita PPA has a  
15 term of 30 years.

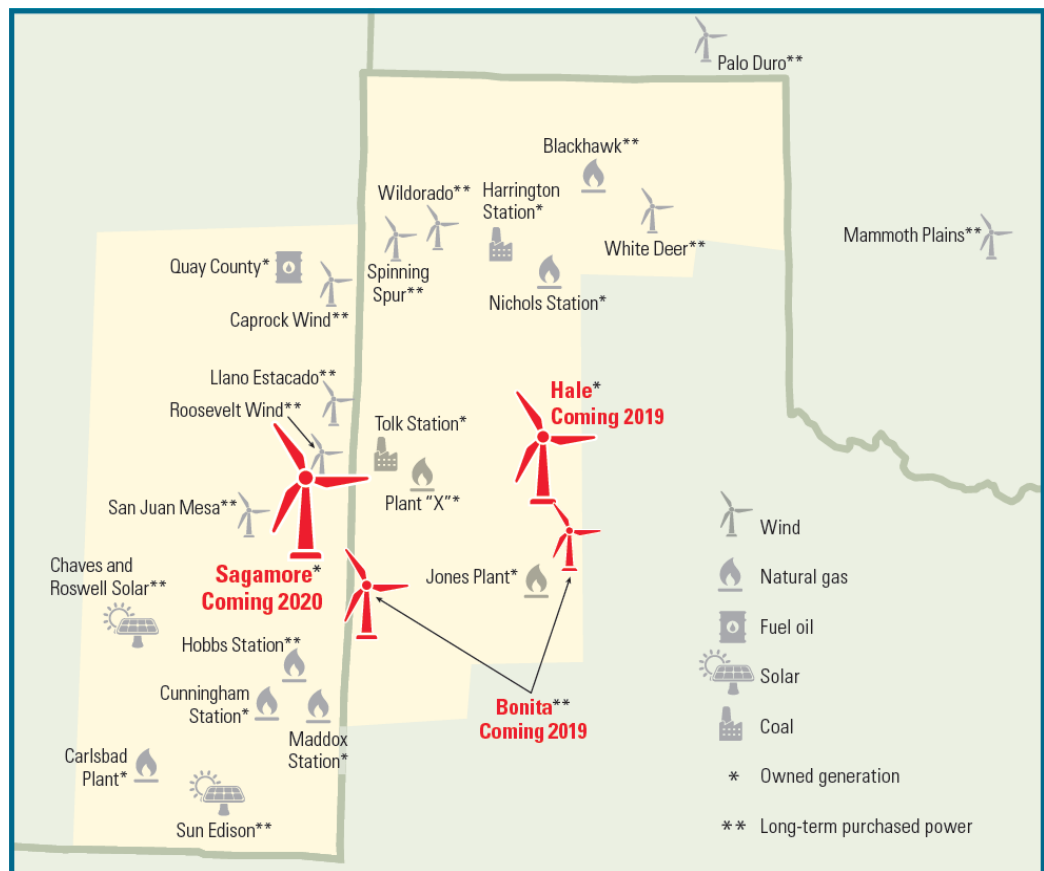
16 Finally, on March 9, 2017, SPS entered into an agreement with Invenergy,  
17 LLC (“Invenergy”) to acquire a site in Roosevelt County, New Mexico that is  
18 suitable for a wind generating facility (“Sagamore”). Like Hale, the Sagamore site  
19 currently consists of raw land and a small number of improvements that Invenergy  
20 had made in preparation for construction of a wind generating facility. If SPS  
21 receives the regulatory approvals it seeks from this Commission and the NMPRC,  
22 SPS will install 261 turbines at the site, creating a nameplate capacity of 522 MW for

the facility when it begins commercial operation in 2020.<sup>3</sup> Once commercially operational, the service life of Sagamore would also be 25 years.

**Q. Do you have a map showing where the SPS Wind Facilities and the Bonita facilities are relative to SPS's service area?**

**A.** Yes. Figure DTH-1 is a map that shows the locations of the Hale and Sagamore projects and the two sites that make up the Bonita PPA project.

**Figure DTH-1**



<sup>3</sup> In this testimony, I will refer to Hale and Sagamore collectively as the “SPS Wind Facilities.” That term does not include the Bonita facilities.

1 Hale will tap into SPS's TUCO substation just north of Abernathy, Texas, whereas  
2 Sagamore will tap directly into an existing SPS 345 kilovolt transmission line from  
3 SPS's Tolk Station to the Eddy County substation.

4 **Q. Are the SPS Wind Facilities expected to be productive?**

5 A. Yes. Hale is expected to have a 51.0% net capacity factor production rate given the  
6 significant natural wind resources available at the site and the use of the latest turbine  
7 technology offered by Vestas-America Wind Technology, Inc. ("Vestas"). Sagamore  
8 is expected to have a 53.8% net capacity factor production rate, given the significant  
9 natural wind resources available at the site and the use of the latest Vestas turbine  
10 technology.

11 **Q. What relief is SPS seeking from the Commission in this proceeding?**

12 A. SPS seeks the following relief in this docket:

- 13 1. SPS requests that the Commission find it is in the public interest for SPS to  
14 acquire and develop the SPS Wind Facilities (Public Utility Regulatory Act  
15 ("PURA") § 14.101);<sup>4</sup>
- 16 2. SPS asks the Commission to grant a generation Certificate of Convenience  
17 and Necessity authorizing construction of the Hale and Sagamore projects;
- 18 3. Given the unique savings provided by this large investment, SPS asks the  
19 Commission to approve SPS's proposal to recover costs for Hale and  
20 Sagamore between the date each project begins commercial operation and the  
21 date the project is included in rate base in a Commission rate case;
- 22 4. As part of that recovery of costs for Hale and Sagamore for the period before  
23 each project is included in rate base, SPS requests that the Commission allow

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<sup>4</sup> PURA is codified in Title II of the Texas Utilities Code Tex. Util. Code Ann. §§ 11.001–58.303 (West 2016), §§ 59.001–66.016 (West 2007 & Supp. 2016).



- 1 unused PTCs to be recorded in a deferred tax asset that will be included in  
2 rate base;<sup>5</sup>
- 3 5. SPS requests that the Commission approve an energy-based methodology to  
4 allocate the costs of Hale and Sagamore among jurisdictions;<sup>6</sup>
- 5 6. SPS requests that the Commission approve the depreciation rates for the SPS  
6 Wind Facilities discussed in the testimony of SPS witness Evan D. Evans;
- 7 7. For purposes of calculating SPS's base rate revenue requirement during the  
8 period between the date that the SPS Wind Facilities are included in rate base  
9 and December 31, 2025, SPS asks the Commission to find that SPS may  
10 include in rate base the deferred tax asset that results from unused PTCs;
- 11 8. For the period after the SPS Wind Facilities are included in rate base, SPS  
12 asks the Commission to allow it to refund the PTCs to customers as a credit  
13 through fuel, and to grant a good cause exception to 16 Tex. Admin. Code §  
14 25.236 to the extent necessary to allow PTCs to flow through fuel;
- 15 9. Approve SPS's proposal to treat the revenue from the sale of Renewable  
16 Energy Certificate generated from the SPS Wind Facilities as off-system  
17 sales in which SPS retains 10% of the margins;
- 18 10. SPS requests a Commission finding that SPS's purchase of wind turbines  
19 from an affiliate satisfies the affiliate standards under Texas law;
- 20 11. SPS requests a Commission finding that it is reasonable for SPS to enter into  
21 the Bonita PPA; and.
- 22 12. To enable SPS to complete construction of the SPS Wind facilities in time to  
23 meet the deadline for claiming 100% of the value of the PTCs for the benefit  
24 of customers, SPS asks the Commission to issue a final order in this case by  
25 December 31, 2017.

26 Mr. Evans discusses these requests in more detail in his direct testimony.  
27

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<sup>5</sup> 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.

<sup>6</sup> If and when any capacity is attributed to Hale and Sagamore by the Southwest Power Pool ("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."

1   **Q.    Are all of those requests for relief important to SPS?**

2    A.    Yes. All of those requests for relief are necessary to provide SPS with the certainty  
3           it needs to move forward with the development of Hale and Sagamore and to enter  
4           into the agreement to purchase energy under the Bonita PPA. SPS has analyzed the  
5           economics of the SPS Wind Facilities and the Bonita PPA carefully, and all of these  
6           approvals are inter-related and necessary for the projects to be viable.

7   **Q.    Are you suggesting that SPS is unlikely to move forward if it does not receive all**  
8       **of the approvals it is requesting?**

9    A.    Yes. Without the Commission's approval on all of those issues, SPS is likely to  
10          invoke the contractual provisions that allow it to terminate the deals if it does not  
11          receive the regulatory approvals necessary to support this level of investment.  
12          Although we want to reduce energy costs for the benefit of our customers and to  
13          bolster the economies of our communities by reducing energy costs and developing  
14          projects that are expected to create local and regional jobs, and increase property tax  
15          base, it will be very difficult for the company's investors to absorb the financial risk  
16          of this venture without certainty on all of the issues we're asking the Commission to  
17          decide.

18                 Although these proposed transactions present an exciting opportunity to  
19          reduce costs for our customers and produce numerous other economic benefits in the  
20          region, they will require a substantial capital outlay by SPS. There needs to be  
21          symmetrical treatment of when the substantial fuel cost savings accrue to customers  
22          through the fuel cost recovery mechanism, versus when customers start paying for  
23          the cost to achieve those savings. As Mr. Evans testifies in his direct testimony, if

1 SPS does not get cost recovery on and of investment in the first year of operation this  
2 has a dramatic drag on SPS's rate of return and financial performance. Customers  
3 will get substantial amounts of free energy, and utility shareholders will be forced to  
4 pay the return on and of the facilities until they are placed in base rates. I do not  
5 believe this is balanced and reasonable.

6 **Q. What is the capital outlay that SPS expects to make in connection with the**  
7 **transactions?**

8 A. The development of Hale and Sagamore alone will require SPS to invest  
9 approximately \$1.63 billion (including allowance for funds used during  
10 construction), which is roughly 40% of SPS's 2017 total company net rate base. SPS  
11 is willing to make that significant investment for the benefit of its service area  
12 customers, but to do so it needs assurances from the Commission and the NMPRC  
13 regarding how the ultimate prudent level of costs will be treated. As I testified  
14 earlier, it is simply too risky for SPS to make a capital investment of that magnitude  
15 without certainty about the recovery of those costs and about the ratemaking  
16 treatment of other issues.

17 **Q. You testified earlier that, although the transactions at issue in this case involve**  
18 **renewable energy, this proposal is not just a way to promote renewable energy.**  
19 **Can you expand on that statement?**

20 A. Yes. Although Xcel Energy is an industry leader in the development and use of  
21 renewable energy, the SPS Wind Facilities and the Bonita PPA are grounded in  
22 economics, not on an energy policy of promoting any particular fuel type. The  
23 projects will provide the usual environmental benefits of creating zero emissions and

1 conserving precious water resources, but their most important attribute is that they  
2 allow us to save money for our customers. The stable price of these resources  
3 provides protection against future volatility in natural gas markets, and the cost of  
4 energy in SPS's proposed portfolio of wind projects is lower than the costs of natural  
5 gas and coal energy costs. For example, the Bonita PPA pricing starts at \$18.10 per  
6 megawatt-hour ("MWh") in 2019<sup>7</sup> and escalates at 2% per year for 30 years. The  
7 levelized cost of energy for the SPS Wind Facilities is \$18.97 over 25 years. Both  
8 the SPS Wind Facilities and the Bonita PPA are cheaper than SPS's 2017 average  
9 coal fuel cost of \$20.80 per MWh and the projected 2020 average coal fuel cost of  
10 \$20.11 per MWh. And of course, they are far cheaper than SPS's projected cost of  
11 natural gas generation, which is \$33.03 per MWh in 2017 and \$29.70 per MWh in  
12 2020.

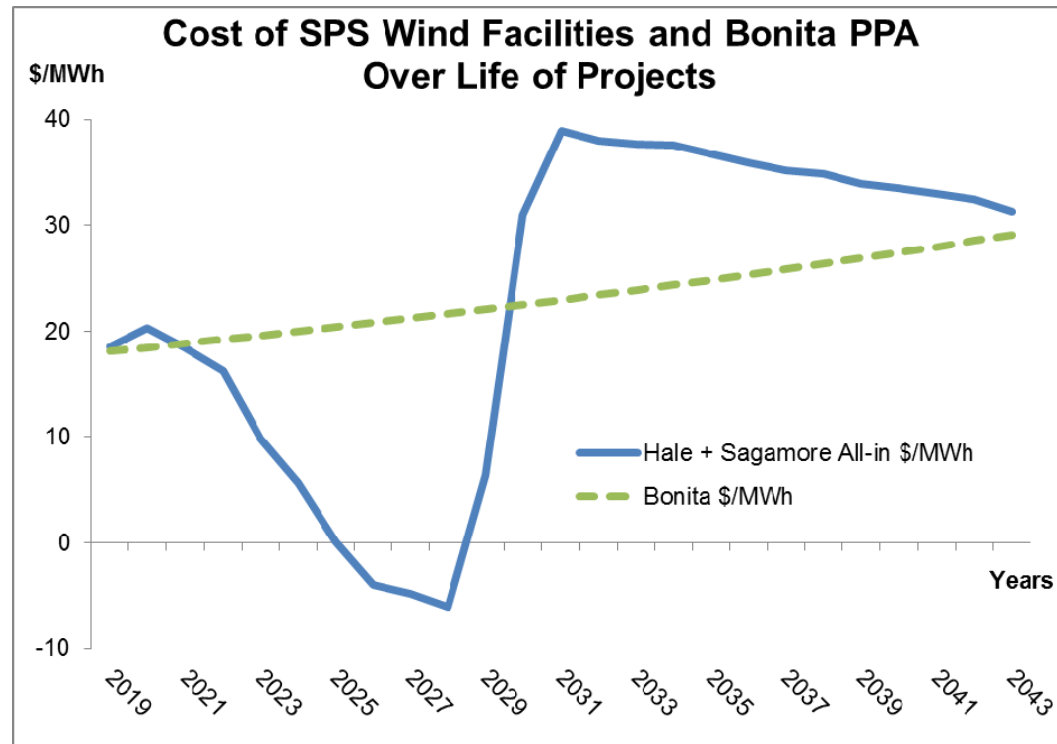
13 From a long-term perspective, SPS's acquisition of the SPS Wind Facilities  
14 and the entry into the Bonita PPA look even more impressive. As I noted earlier, the  
15 total investment to acquire the Hale and Sagamore sites, to construct the turbines,  
16 and to bring the wind farms online is estimated to be approximately \$1.63 billion.  
17 As explained by SPS witness Jonathan Adelman, however, the facilities will deliver  
18 \$2.8 billion in total customer savings over 30 years.<sup>8</sup> Indeed, as shown in Figure  
19 DTH-2 (next page), in some of the early years the price of the energy is actually  
20 *negative* due to the significant savings from the PTCs:

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<sup>7</sup> The Bonita PPA project can start production as early as the 4<sup>th</sup> quarter of 2018.

1

**Figure DTH-2**



2

3 Thus, this portfolio of projects provide a tremendous value to our customers, even if  
 4 one places no value whatsoever on the more indirect benefits of conserving the area's  
 5 limited water resources, producing no air or water emissions, creating the local tax  
 6 base, creating jobs, and allowing land to remain in agricultural use, thereby  
 7 supporting a primary industry in our regional economy.

8 **Q. Can you generally explain how you arrived at the \$2.8 billion in net savings to**  
 9 **customers?**

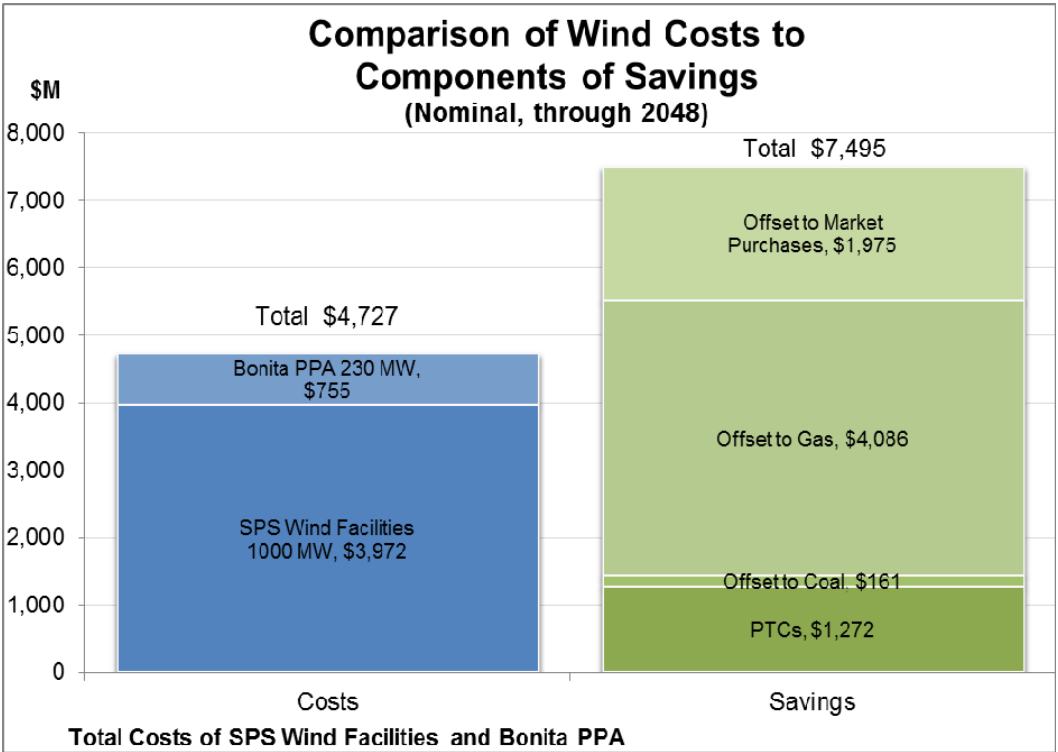
10 A. Yes. The total nominal cost of the entire portfolio is \$4.7 billion over 30 years. The  
 11 gross energy savings (fuel, other purchased energy, and variable operation and

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<sup>8</sup> These savings are net of the incremental wind costs and measured on a nominal cost basis.

1 maintenance expenses) are \$7.5 billion. The net of these two values is \$2.8 billion,  
2 as shown in Figure DTH-3.

3 **Figure DTH-3**

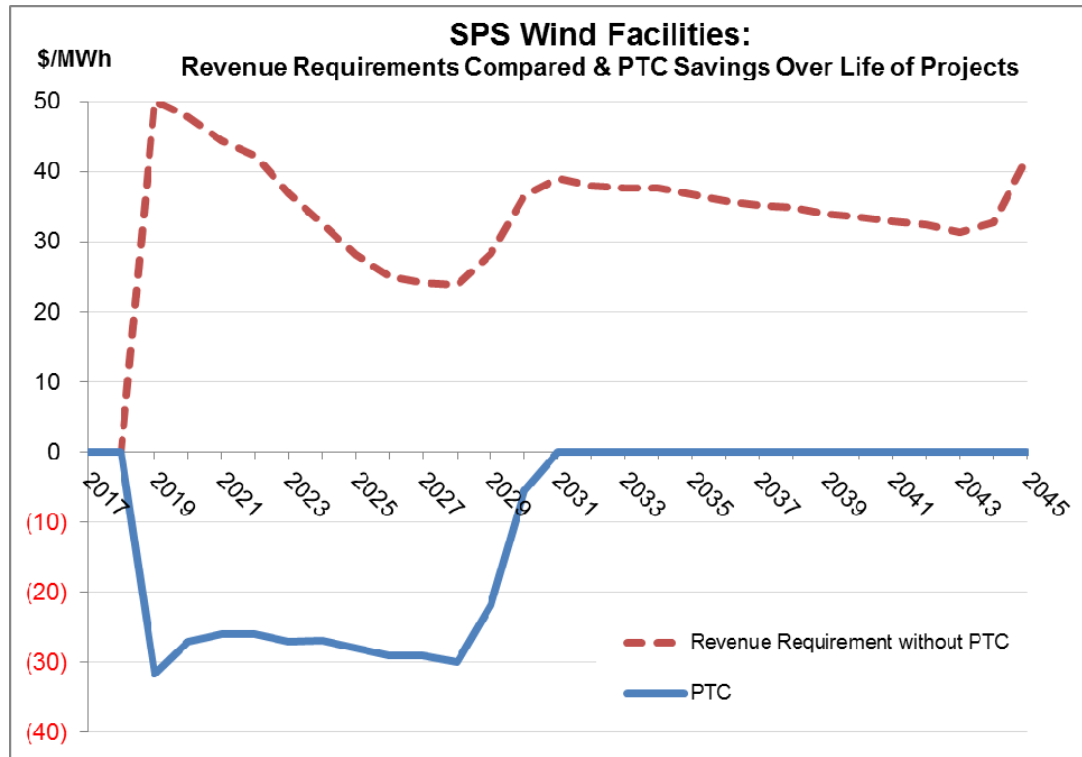


4  
5 **Q. Could SPS achieve these same levels of savings by entering into additional PPAs**  
6 **for wind energy, instead of acquiring and developing the SPS Wind Facilities?**

7 **A.** For several reasons, I don't believe we could. For a number of years SPS has  
8 purchased wind energy under long-term purchased power agreements, and SPS  
9 currently acquires approximately 1,223 MW of nameplate wind energy under long-  
10 term PPAs. SPS does not directly receive the benefit of all of the PTCs associated  
11 with those facilities, however. The only way SPS can directly receive the benefit of  
12 the PTCs, and ensure those benefits are passed on to customers, is to develop and  
13 own the wind facilities. To help visually demonstrate the significant savings the

PTCs produce, Figure DTH-4 models the revenue requirement of the SPS Wind Facilities compared to the PTC value. As you can see, the PTCs create tremendous savings when compared to the overall costs of the project. SPS's ownership of the project ensures customers receive those savings.

**Figure DTH-4**



Second, even if we insisted that an independent power producer effectively “pass through” the PTC benefit in the form of lower prices, I still believe that third-party PPAs would be more expensive. All else being equal, independent power producers will insist on a higher return on investment than what utility commissions award utilities to compensate the independent power producers for what they perceive as higher risk. Moreover, if SPS builds the facilities, the Commission can examine the project for prudence and disallow any costs that are deemed imprudent. There is far less transparency with third-party facilities.

1 Third, Xcel Energy has been the nation's number one utility wind provider  
2 for 12 years running and in recent years has developed an expertise in identifying  
3 and developing wind generation facilities. Xcel Energy affiliates currently own wind  
4 generating facilities in Minnesota, North Dakota, and Colorado, and we are building  
5 even more wind facilities. With that experience and expertise in delivering  
6 renewable energy on the SPS transmission system, we believe that we can build and  
7 operate wind facilities more economically than other developers can. We will also  
8 have control of the facilities near the end of the asset's life to obtain additional  
9 economic value for customers.

10 **Q. Given those reasons, why doesn't SPS develop and own all of the 1,230 MW of**  
11 **wind nameplate capacity, rather than entering into a PPA for 230 MW of**  
12 **capacity?**

13 A. There are two independent reasons. First, the Bonita PPA is an outgrowth of SPS's  
14 negotiations with NextEra to purchase the Hale site. NextEra proposed splitting the  
15 ownership of Hale such that SPS would own part of the site and NextEra would own  
16 part of the site and sell the output from its share of the site to SPS under a PPA. SPS  
17 preferred to own all of the Hale site, and was willing to consider an economic PPA at  
18 a different location. The results of negotiations was that SPS would acquire and own  
19 wind generation on the entire Hale site and NextEra would develop the Bonita  
20 project and sell that output to SPS under a PPA. SPS witness Tim Kawakami  
21 provides additional information about the negotiations leading to the Bonita PPA.  
22 Second, the \$1.63 billion investment we are proposing to make would have grown  
23 even more if SPS had purchased another site or sites with 230 MW of nameplate  
24 capacity. Because \$1.63 billion is such a significant fraction of SPS's total invested



1 capital, it didn't seem prudent to try to absorb any more investment at this time. We  
2 have developed a package of new resources, geographically in an opportune location,  
3 that will provide material energy savings to customers.

4 **Q. You have referred several times to the PTCs. How did the availability and**  
5 **timing of PTCs affect the transactions at issue in this proceeding?**

6 A. On December 18, 2015, the Omnibus Appropriations Act was signed into law. That  
7 law includes a five-year extension of the PTCs for wind and other eligible renewable  
8 energy projects. Although the PTC was extended for five years, the credit  
9 percentage began to decline after December 31, 2016. Eligible projects that meet  
10 Internal Revenue Service ("IRS") safe harbor requirements for beginning  
11 construction, i.e., expenditures of 5% of the total project cost by December 31, 2016  
12 and in service by December 31, 2020, will qualify for the 2016 PTC level of 100%.  
13 On May 5, 2016, the IRS updated its safe harbor guidance to enable a facility that is  
14 in-service by year-end 2020 to qualify for the PTCs at the 100% level. This was a  
15 material change in guidance from the IRS.

16 **Q. How did this revised guidance affect SPS's plans with respect to the Wind**  
17 **Facilities?**

18 A. SPS had been exploring the possibility of acquiring wind generating facilities to take  
19 advantage of the PTCs for the benefit of customers. When the IRS modified the  
20 required in-service date from two years to four years, SPS realized it had an  
21 opportunity to create savings for its customers, but it needed to act quickly to ensure  
22 that it could meet the "begin construction" standard by the end of 2016 to secure

1           100% of the PTCs. As discussed by SPS witness Tim Kawakami, SPS quickly  
2           surveyed available wind projects in the southern region of the SPS network.<sup>9</sup>

3   **Q.    What actions did Xcel Energy take to secure 100% of available PTCs?**

4   A.    In 2016, Xcel Energy subsidiary Capital Services, LLC entered into an agreement  
5           with Vestas that established terms under which Xcel Energy subsidiaries, such as  
6           SPS, may contract to purchase wind turbines for construction of new wind generation  
7           facilities. In order to secure the full benefit of the PTC for potential wind projects of  
8           Xcel Energy subsidiaries, Capital Services, LLC made deposits towards the purchase  
9           of wind turbine components under the contract in 2016. As a subsidiary of Xcel  
10          Energy, SPS can purchase wind turbines for construction of Hale and Sagamore,  
11          thereby securing the full benefits of the PTCs.

12 **Q.    What is the effect on customers if instead the safe harbor is secured for an 80%**  
13 **PTC instead of a 100% PTC?**

14 A.    As detailed in the testimony of SPS witness Jonathan Adelman, if the Commission  
15          approves the SPS Wind Facilities, our customers are expected to save \$2.8 billion,  
16          net of all costs, over a 30-year planning horizon by taking advantage of the 100%  
17          PTC benefit. At the 80% PTC benefit, customers would be forgoing approximately  
18          \$385 million of these savings. In order for SPS to meet the first of the safe harbor  
19          requirements prior to the end of calendar year 2016, it was necessary to make  
20          significant progress on the SPS Wind Facilities by December 31, 2016.

21

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<sup>9</sup> SPS focused on the southern region of its service area because the northern region already has high wind penetration, a majority of SPS's load is in its southern region, and the north-south transmission constraint on SPS's system leads to higher locational marginal costs in the southern region and adding economic wind facilities in the southern region would enable SPS to maximize customer savings.

1   **Q.    Are there any other requirements to secure 100% of the PTC?**

2    A.    Yes. Even though SPS has met the first of the safe harbor requirements prior to the  
3           end of calendar year 2016, the eligible projects must be commercially operational by  
4           the end of calendar year 2020. If an eligible project meets the safe harbor provisions  
5           but is not constructed and operational by the end of calendar year 2020, the  
6           developer (SPS) is not eligible for 100% of the PTC.

7   **Q.    What is the projected PTC value that will be credited to fuel cost recovery?**

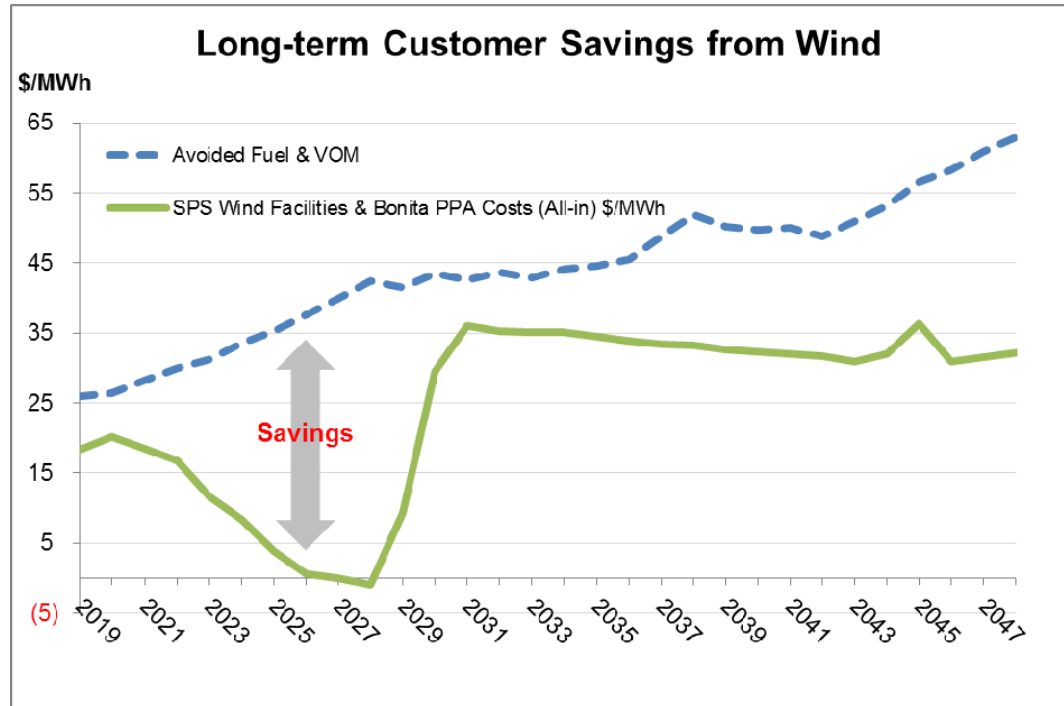
8    A.    The PTC is currently \$23 per MWh but escalates each year based on an IRS inflation  
9           factor. We expect the PTC to be \$25 per MWh in the 2019-2020 time frame when  
10          the SPS Wind Facilities commence commercial operations. All of that significant  
11          credit to fuel expense will benefit SPS's customers. The total nominal savings due  
12          just to the PTC credit to customers is \$1.27 billion on a total company basis.

13   **Q.    Have you prepared a graph showing the incremental cost savings and**  
14          **incremental costs of the proposed SPS Wind Facilities?**

15   A.    Yes. Figure DTH-5 (next page) (shows the incremental costs per MWh versus the  
16          incremental cost savings by year. The difference in the two lines is the savings that  
17          were being produced for the benefit of SPS's Texas and New Mexico customers. It  
18          shows that the wind energy is very economical, especially in the first ten years when  
19          the PTCs are generated and credited to customers.

1

Figure DTH-5



2

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

4 A. Yes.

**AFFIDAVIT**

STATE OF TEXAS           )  
  )  
COUNTY OF POTTER       )

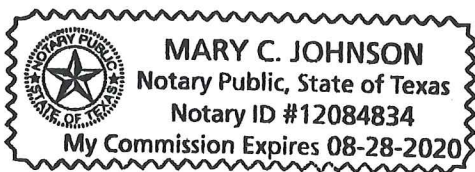
DAVID T. HUDSON, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachment 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.

*David T. Hudson*

DAVID T. HUDSON

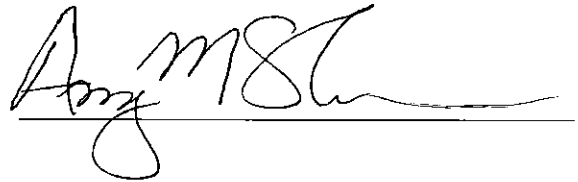
Subscribed and sworn to before me this 17 day of March, 2017 by DAVID T. HUDSON.



*Mary C Johnson*  
Notary Public, State of Texas  
My Commission Expires: 8-28-2020

### **CERTIFICATE OF SERVICE**

I certify that on March 21, 2017, this instrument was filed with the Public Utility Commission of Texas, and a true and correct copy of it was served by hand delivery on the Staff of the Public Utility Commission of Texas and the Office of Public Utility Counsel, and by hand delivery, next business day courier delivery, or first class mail on each party of record in SPS's most recent base rate case, Docket No. 45524.

A handwritten signature in black ink, appearing to read "Amy M. St. John", is written over a horizontal line.

## **QUALIFICATIONS AND PRIOR TESTIMONY OF DAVID T. HUDSON**

My name is David T. Hudson. 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”). I am employed by SPS as President. My duties as President of SPS include overall responsibility for the operations of SPS, including customer and community relations, quality of service, communications, legislative relations, media relations, regulatory administration, and financial performance.

I graduated Cum Laude from Texas Tech University in December 1983, receiving a Bachelor of Science degree in Industrial Engineering. In May 1990, I graduated from West Texas State University (now known as West Texas A&M University), receiving a Master of Business Administration degree.

Since graduating from Texas Tech University in 1983, I have been doing cost-of-service, rate, and regulatory work for SPS, New Century Services, Inc., and Xcel Energy Services Inc., the service company subsidiary of Xcel Energy. I have served in numerous capacities within those companies, including:

- Rate Engineer;
- Supervisory Rate Engineer;
- Senior Engineer of Rate Research;
- Manager of Rate and Economic Research;
- Director, Regulatory and Pricing Administration;
- Director, Electric Business Support for Delivery Services;
- Director, Regulatory Administration;
- Director, Strategic Planning;
- Director, Customer and Community Relations;
- Interim Regional Vice President of Rates and Regulation; and
- President of SPS.

Among other duties in those positions, I have been responsible for the design and implementation of SPS’s regulatory strategy and programs, including oversight of rate case applications before the Commission, the Public Utility Commission of Texas (“PUCT”), and the Federal Energy Regulatory Commission (“FERC”). In addition to my rate and regulatory work, I have served in strategic planning and customer and community relations positions for SPS.

In addition to my formal education and my experience at SPS, I have completed the advanced rate design course of the Edison Electric Institute. I have also attended the Public Utility Conference sponsored by New Mexico State University’s Center for Management and Professional Development. I am also a licensed professional engineer in Texas, and I am a member of the Texas Society of Professional Engineers and the Institute of Electrical and Electronic Engineers.

I have filed testimony with the PUCT in numerous SPS proceedings, including base rate cases in Docket Nos. 11520, 32766, 35763, 38147, 42004, and 45524. My testimony in those base rate cases encompassed a wide variety of topics, including regulatory policy and rate design. I have testified in other types of Commission cases as well, such as complaint, business combination, and asset sale dockets. I have also filed testimony before the Commission in New Mexico base rate cases, such as Case Nos. 07-00319-UT and 08-00354-UT. In addition, I have been a witness in cases before the Oklahoma Corporation Commission, the Kansas Corporation

Commission, the Wyoming Public Service Commission, and FERC. The following is a complete listing of the cases in which I have testified.

**PUBLIC UTILITY COMMISSION OF TEXAS**

1. Docket No. 6063, Standard Avoided Cost Filing of SPS Pursuant to P.U.C. SUBST. R. 23.66(h)(3).
2. Docket No. 7288, Standard Avoided Cost Filing of SPS Pursuant to P.U.C. SUBST. R. 23.66(h)(3).
3. Docket No. 7934, Standard Avoided Cost Filing of SPS Pursuant to P.U.C. SUBST. R. 23.66(h)(3).
4. Docket No. 8484, Application of Southwestern Public Service Company to Amend Tariff Concerning J. M. Huber Corp.
5. Docket No. 9229, Standard Avoided Cost Filing of SPS Pursuant to P.U.C. SUBST. R. 23.66(h)(3).
6. Docket No. 10836, Standard Avoided Cost Filing of SPS Pursuant to P.U.C. SUBST. R. 23.66(h)(3).
7. Docket No. 11248, Application of Southwestern Public Service Company and Cap Rock Electric Cooperative, Inc. for Certificate of Convenience and Necessity to Construct Transmission Facilities.
8. Docket No. 11520, Petition of the General Counsel for an Inquiry into the Reasonableness of Rates and Services of Southwestern Public Service Company.
9. Docket No. 12592, Application of Cap Rock Electric Cooperative, Inc., to Amend CCN for Proposed Transmission Line and Substation within Midland, Glasscock, Reagan, Upton, Howard, and Mitchell Counties.
10. Docket No. 12700, Application of El Paso Electric Company and Central and Southwest Corporation for Approval to Merge.
11. Docket No. 13827, Application of Southwestern Public Service Company for Approval of Notices of Intent for a 203 MW Phillips Cogeneration Project and a 103 MW Combustion Turbine Project.
12. Docket No. 14980, Application of Southwestern Public Service Company Regarding Proposed Business Combination With Public Service Company of Colorado.
13. City of Spearman, TX, Ordinance No. 676, City of Spearman, Texas PURA Section 2.211 Complaint Against Southwestern Public Service Company.
14. Docket No. 16738, Application of Southwestern Public Service Company to Amend Certificated Service Area Boundaries to Provide for Dual Certification in Hockley and Cochran Counties, Texas.
15. Docket No. 17525, Application of Southwestern Public Service Company for Certificate of Qualifying Facility Purchased Power Contract Under Section 2.209 of PURA 95.



16. Docket No. 19512, Petition of Southwestern Public Service Company for: (1) Reconciliation of its Fuel and Purchased Power Costs for 1995 through 1997; (2) Findings of Special Circumstances.
17. Docket No. 20395, Application of Southwestern Public Service Company for Approval of Preliminary Integrated Resource Plan and for Good-Cause Exception.
18. Docket No. 21190, Application of Southwestern Public Service Company Regarding Proposed Merger Between New Century Energies and Northern States Power Company.
19. Docket Nos. 21952 and 21990, Application of Southwestern Public Service Company for Approval of its Proposed Business Separation Plan Pursuant to PURA § 39.051(e).
20. Docket No. 22351, Application of Southwestern Public Service Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344.
21. Docket No. 23345, Application of Southwestern Public Service Company for Approval of Its Transition to Competition Plan and Related Relief.
22. Docket No. 23718, Application of Southwestern Public Service Company for Authority to: (1) Revise its Fixed Voltage Level Fuel Factors; (2) Surcharge its Historical Fuel Under-Recoveries; (3) Surcharge its Estimated Fuel Under-Recoveries; and (4) Related Good-Cause Waivers.
23. Docket No. 25088, Application of Southwestern Public Service Company to Recover Transition to Competition Costs Pursuant to Section 39-409 of PURA.
24. No. 24229, Remand of Docket No. 14454, Petition of Lamb County Electric Cooperative, Inc. for a Cease and Desist Order Against Southwestern Public Service Company and Petition of Bailey County Electric Cooperative Association for a Cease and Desist Order Against Southwestern Public Service Company.
25. Docket No. 27052, Application Of Southwestern Public Service Company To Transfer Functional Control Of Electric Transmission Facilities To TRANSLink Transmission Company, LLC, and for Related Relief.
26. Docket No. 26186, Application of Southwestern Public Service Company for: (1) Reconciliation of its Fuel and Purchased Power Costs for 2000 and 2001; and (2) Related Relief.
27. Docket No. 27751, Application of Southwestern Public Service Company for: (1) Authority to Revise its Fuel Factors; (2) Authority to Institute Quarterly Adjustments to its Fuel Factors; (3) Authority to Surcharge its Fuel Cost Under-Recoveries; and (4) Related Good Cause Exceptions.
28. Docket No. 29801, Application of Southwestern Public Service Company for: (1) Reconciliation of its Fuel Costs for 2002 and 2003; (2) A Finding of Special Circumstances; and (3) Related Relief.
29. Docket No. 32766, Application Of Southwestern Public Service Company For: (1) Authority to Change Rates; (2) Reconciliation of Its Fuel Costs for 2004 and 2005; (3) Authority to Revise the Semi-Annual Formulae Approved in Docket No. 27751 Used to Adjust Its Fuel Factors; And (4) Related Relief.

30. Docket No. 34442, Complaint of JD Wind 1, LLC, JD Wind 2, LLC, JD Wind 3, LLC, JD Wind 4, LLC, JD Wind 5, LLC, JD Wind 6, LLC, Against Southwestern Public Service Company.
31. Docket No. 35763, Application of Southwestern Public Service Company for Authority to Change Rates, to Reconcile Fuel and Purchased Power Costs for 2006 and 2007, and to Provide a Credit for Fuel Cost Savings.
32. Docket No. 37901, Southwestern Public Service Company's: (1) Report of Sale of Assets; (2) Request For a Finding that the Sale of Assets is in the Public Interest; (3) Request for Authority to Discontinue Retail Electric Service in its Dually Certificated Service Area Within the City of Lubbock and Adjacent Areas; and (4) Request for Findings Regarding Wholesale Power Sales Agreements.
33. Docket No. 38147, Application of Southwestern Public Service Company for Authority to Change Rates and to Reconcile Fuel and Purchased Power Costs for 2008 and 2009.
34. Docket No. 42004, Application of SPS for Authority to Change Rates and to Reconcile Fuel and Purchased Power Costs for the Period July 1, 2012 through June 30, 2013.
35. Docket No. 45524, Application of SPS for Authority to Change Rates.

#### **NEW MEXICO PUBLIC REGULATION COMMISSION**

1. Case No. 2113, Application for New Rates Pursuant to Second Revised General Order No. 37.
2. Case No. 2205, Southwestern Public Service Company - General Order No. 37 Compliance Filing and Application for a Variance in the Requirements of Section 5.1 of General Order No. 37.
3. Case No. 2512, In the Matter of the Consideration and Determination Concerning Whether it is Appropriate to Implement the Standards Set Out in Section 712 of the Energy Policy Act of 1992.
4. Case No. 2575, Application of El Paso Electric Company and Central and Southwest Corporation to Merge and Related Approvals.
5. Case No. 2651, In the Matter of Staff's Petition for an Order Requiring Southwestern Public Service Company to Show Cause Why Its "System Purchase Option and Rate Guarantee" is Not In Violation of the Public Utility Act.
6. Case No. 2678, In the Matter of the Application of Southwestern Public Service Company for Approvals and Authorizations to (i) Merge with Public Service Company of Colorado and to Form a Holding Company, (ii) Divest its Non-Utility Subsidiaries, (iii) Issue Securities to the Holding Company, (iv) Amend its General Diversification Plan, and (v) Obtain All Other Approvals and Authorizations Necessary to Effectuate the Merger, Reorganization and Related Transactions.
7. Case No. 2717, In the Matter of Southwestern Public Service Company's Application for Approval of a Certificate of Public Convenience and Necessity to Construct and Operate a 100 MW Class Combustion Turbine Unit at its Cunningham Station Near Hobbs, New Mexico, and Avoided Capacity Cost Filings Under NMPUC Rule 570.18.

8. Case No. 2770, In the Matter of Southwestern Public Service Company's Request for Approvals and Authorizations Necessary to (I) Enter into a Contract for the Purchase of Capacity and Energy from the Phillips Cogeneration Project; and (ii) Contract with its Affiliated Interest, Quixx Corporation, to the Purchase Capacity and Energy from the Phillips Project.
9. Case No. 2771, In the Matter of Southwestern Public Service Company's Advice Notice No. 179 for Proposed Renewable Energy, Photovoltaic Pumping Systems, and Interruptible Irrigation Rates.
10. Case No. 2798, In the Matter of the Commission's Investigation of the Rates for Southwestern Public Service Company.
11. Case No. 3116, In The Matter of the Application of Southwestern Public Service Company for Approvals and Authorizations of the Merger Between New Century Energies, Inc., Southwestern's Parent/Holding Company, Into Northern States Power Company/Xcel Energy Inc., Approval of Southwestern's Second Amended General Diversification Plan that Reflects the Merger; and All Other Approvals and Authorizations Required to Effectuate and Implement the Merger.
12. Case No. 3220, Application of Southwestern Public Service Company for approval of Competitive Transition Plan in Accordance with the New Mexico Electric Industry Restructuring Act.
13. Case No. 3709, Application of Southwestern Public Service Company for approval of Continued Use of its Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC") using a Monthly Adjustment Factor Pursuant to NMPRC Rule 550, Authorization to Implement the Proposed Monthly Adjustment Factor on an Interim Basis, Granting a Variance from Rule 550.9(a), and Approval of the Reconciliation of its Collections Under the FPPCAC for the Period October 1999 through September 2001.
14. Case No. 3849, In the Matter of Southwestern Public Service Company's Application for Commission Approval of and Authorization for Translink Transmission Company, LLC to Operate and Control Southwestern's New Mexico Certificated Transmission Facilities in Accordance With the Proposed Private Power Operating Agreement Between Southwestern Public Service Company and Translink Transmission Company, LLC.
15. Case No. 04-00060-UT, In the Matter of Southwestern Public Service Company's Application for an Order Approving and Authorizing (1) Southwestern's Participation in the Xcel Energy Utility Money Pool, (2) Southwestern's Class II Transactions Related to its Participation in the Utility Money Pool, and (3) Required Amendments to Southwestern Public Service Company's General Diversification Plan.
16. Case No. 03-00371-UT, In the Matter of Staff's Petition for an Order to Show Cause, for Implementation of Temporary Billing Measures and for an Investigation into Southwestern Public Service Company's Estimated Billings Practice.
17. Case No. 04-00253-UT, In the Matter of the Commission's Determination of the Reasonable Cost Threshold for Renewable Energy.
18. Case No. 04-00334-UT, In the Matter of Southwestern Public Service Company's 2003 Annual Portfolio Report and 2004 Annual Portfolio Procurement Plan Pursuant to the Renewable Energy Act (Laws 2004, Ch 65).

19. Case No. 05-00271-UT, Petition of Southwestern Public Service Company for Approval of Renewable Energy Cost Recovery Methodology in Accordance with Renewable Energy Act, (Laws 2004, Ch 65).
20. Case No. 05-00341-UT, In The Matter Of Southwestern Public Service Company's Application For Approval Of (1) Continued Use Of Its Fuel And Purchased Power Cost Adjustment Clause ("FPPCAC") Using A Monthly Adjustment Factor Pursuant To NMPRC Rule 550, (2) The Existing Variance From Rule 550.14(A), And (3) The Report Regarding Collections Under The Previous Annual FPPCAC In Effect During The Period October 2001 Through January 2002, And Collections Under The Existing Monthly FPPCAC For The Period February 2002 Through May 2005.
21. Case No. 05-00354-UT, Southwestern Public Service Company's Annual Renewable Energy Portfolio Report And Petition Of Southwestern Public Service Company For Approval Of Its Annual Renewable Energy Portfolio Procurement Plan.
22. Case No. 06-00432-UT, In the Matter of Lea Power Partners. LLC's Application for the Location of the Hobbs Generation Station in the SW ¼ of Section 24, Township 18s Range 36E Pursuant to the Public Utility Act, NMSA 62-9-3.
23. Case No. 07-00084-UT, In the Matter of Southwestern Public Service Company's Application for Issuance of a Certificate of Convenience and Necessity Authorizing Southwestern Public Service Company to Construct and Operate 115 and 230 kV Transmission Lines and Substation Facilities that will be Associated with Lea Power Partners, LLC's Hobbs Generating Station in Lea County, New Mexico, and for Approval of the Location of the Proposed 230 kV Transmission Line.
24. Case No. 07-00319-UT, In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Electric Rates Pursuant to Advice Notice Nos. 208 and 209 and All Associated Approvals.
25. Case No. 07-00390-UT, In the Matter of an Investigation Into the Prudence of Southwestern Public Service Company's Participation in the Southwest Power Pool Regional Transmission Organization.
26. Case No. 08-00331-UT, In the Matter of the Joint Application of Southwestern Public Service Company and Golden Spread Electric Cooperative, Inc., For Approval of Their Replacement Power Sales Agreement in Accordance With the Final Orders in Case Nos 04-00426-UT and 05-00341-UT.
27. Case No. 08-00354-UT, In the Matter of the Application of Southwestern Public Service Company For Revision of its Retail Electric Rates Pursuant to Advice Notice Nos. 217, 218, and 219 and Request For Expedited Interim Relief Authorizing Recovery of Capacity Related Costs Associated With the New Hobbs Generating Station.
28. Case No. 10-00170-UT, In the Matter of Southwestern Public Service Company's Application For: (1) Issuance of a Certificate of Convenience and Necessity For an Additional Combustion Turbine at Jones Station in Lubbock County, Texas; and (2) Approval of a Contract for the Purchase of Capacity and Energy from Calpine Energy Services, L.P. From 2012 Through 2018 in Accordance With Case No. 08-00354-UT.

**PUBLIC UTILITIES COMMISSION OF COLORADO**

1. Docket No. 95A-531EG, Application of Public Service Company of Colorado Regarding Proposed Business Combination with Southwestern Public Service Company.
2. Docket No. 00A-600E, Application of Public Service Company of Colorado for a 345 KV CCN (Tie Line).

**FEDERAL ENERGY REGULATORY COMMISSION**

1. Docket No. EL89-50-000, Golden Spread Electric Cooperative, Inc. Rate Investigation.
2. Docket No. ER85-477-010, Southwestern Public Service Company (On Remand).
3. Docket Nos. EC94-7-000 and ER94-898-000, El Paso Electric Company and Central and Southwest Services, Inc., November 11, 1994.
4. Docket No. ER95-1138-000, Southwestern Public Service Company Application for Open Access Transmission Service Tariffs.
5. Docket No. EL95-24-000, Golden Spread Electric Cooperative, Inc. v. Southwestern Public Service Company.
6. Docket No. EC96-2-000, Public Service Company of Colorado and Southwestern Public Service Company, November 9, 1995.
7. Docket No. ER96-1551-000, Public Service Company of New Mexico.
8. Docket No. OA96-200-000, El Paso Electric Company Open Access Transmission Tariff.
9. Docket No. ER00-536-000, Southwestern Public Service Company Rate Application.
10. Docket No. ER04-1174-000, Southwestern Public Service Company and Public Service Company of Colorado Rate Application.
11. Docket No. ER01-205-007, Xcel Energy Services Updated Market-Based Rate Application.
12. Docket No. EL05-19-002, Golden Spread Electric Cooperative, Inc. v. Southwestern Public Service Company.
13. Docket No. ER06-274-000, Southwestern Public Service Company.
14. Docket No. ER08-313-000, Southwestern Public Service Company.
15. Docket No. ER08-749-000, Southwestern Public Service Company.

**KANSAS CORPORATION COMMISSION**

1. Docket No. 99-SWPE-764-MIS, In the Matter of the Application of Southwestern Public Service Company for a Siting Permit for the construction of a 345 kV Transmission Line in Hamilton, Kearny, Finney, Grant, and Stevens Counties, Kansas.

**WYOMING PUBLIC SERVICE COMMISSION**

1. Docket Nos. 30005-GA-95-39 and 20003-EA-95-40, Application of Cheyenne Light, Fuel and Power Company (SPS/PSCo Merger).

**OKLAHOMA CORPORATION COMMISSION**

1. Cause No. PUD 990000037, Application of Southwestern Public Service Company for a Certificate Authorizing it to Create Liens on its Properties in the State of Oklahoma to Secure up to \$105,000,000 Principal Amount of its First Mortgage Bonds.
2. Cause No. PUD 990000621, Application of Ernest G. Johnson, Director of the Public Utility Division of the Oklahoma Corporation Commission to review the Impact of the Merger of the New Century Energy, Inc., with and into Northern States Power Company, On Oklahoma Jurisdictional Customers of Southwestern Public Service Company, a wholly owned Subsidiary of New Century Energy, Inc.
3. Cause No. PUD 200000031, Application of Southwestern Public Service Company for Approval of Merger Savings Credit Rider to Retail Tariffs.