DOCKET NO. 46936

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

DIRECT TESTIMONY

of

EVAN D. EVANS

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(*Filename:* EvansTXDirect.doc; *Total Pages*: 69)

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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 Convenience and Necessity
Commission	Public Utility Commission of Texas
CSW	Central and South West Corporation
EPE	El Paso Electric Company
FERC	Federal Energy Regulatory Commission
Guernsey	C.H. Guernsey & Company
Hale	478 MW Wind Generating Facility Located in Hale County, Texas
IM	Integrated Marketplace
IRS	Internal Revenue Service
kWh	Kilowatt-hour
MW	Megawatt
MWh	Megawatt-hour
NextEra	NextEra Energy Resources, LLC
NMPRC	New Mexico Public Regulation Commission
NOL	Net Operating Loss
NSPM	Northern States Power Company, a Minnesota corporation

Acronym/Defined Term	**Meaning**
OAA	Omnibus Appropriations Act
PPA	Purchased Power Agreement
PTC	Production Tax Credit
REC	Renewable Energy Credit
Rule 25.101	16 TAC § 25.101
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
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)

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.

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 Public Utility Commission of Texas

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[1] Xcel Energy is the parent company of four utility operating companies: Northern States Power Company, a Minnesota corporation ("NSPM"); 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.

("Commission"), the New Mexico Public Regulation Commission ("NMPRC"), 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 NMPRC, 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 Hale County, Texas that is suitable for the development of a 478 megawatt ("MW") wind generating facility ("Hale");

(2) SPS's agreement to purchase a site located in Roosevelt County, New Mexico that is suitable for a 522 MW wind generating facility ("Sagamore");[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 Convenience and Necessity ("CCN") to construct the Sagamore and Hale 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 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

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

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 Credits ("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 witness 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 Hale and Sagamore 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.

<u>Description of Facilities.</u> 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). 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. 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 Hale and Sagamore 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 Texas retail customers receiving approximately $1.6 billion 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. SPS will inevitably experience some regulatory lag between the date the SPS Wind Facilities begin commercial operation and the date they are 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 each SPS Wind Facility 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 each facility 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 each facility 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 an SPS Wind Facility 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 an SPS Wind Facility is placed in rate base, SPS proposes to flow back the PTCs through eligible fuel costs, and SPS requests a good-cause exception to 16 Tex. Admin. Code ("TAC") § 25.236 to flow the PTCs back through fuel. If the Commission chooses not to flow the benefit of the PTCs back to customers through fuel, 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 assets are placed in rate base) and through eligible fuel expense (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 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 Credits. SPS proposes to treat the sale of RECs from the SPS Wind Facilities in the same manner that off-system sales are treated under the Commission's fuel rule, 16 TAC § 25.236. 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 2% 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 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. SPS requests that the Commission find that SPS's Sale of Components Agreement with Capital Services satisfies the standard for affiliate transactions in Texas.

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 effect on a typical bill for a Residential Service customer using 1000 kilowatt-hours ("kWh") per month is estimated to be reduced by $2.37 per month, or 2.09%, in 2021. That calculation is based on a comparison of: (1) SPS's current base rates plus the calculated impact of the SPS Wind Facilities on 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.

Expedited 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 NMPRC 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.

<u>List of Relief Requested.</u>

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. SPS requests that the Commission find it is in the public interest for SPS to acquire and develop the SPS Wind Facilities (Public Utility Regulatory Act ("PURA") § 14.101);[3]

2. SPS asks the Commission to grant a generation CCN authorizing construction of the Hale and Sagamore projects;

3. Given the unique savings provided by this large investment, SPS asks the Commission to approve SPS's proposal to recover costs for Hale and Sagamore between the date each project begins commercial operation and the date the project is included in rate base in a Commission rate case;

4. As part of that recovery of costs for Hale and Sagamore for the period before each project is included in rate base, SPS requests that the Commission allow unused PTCs to be recorded in a deferred tax asset that will be included in rate base;[4]

5. SPS requests that the Commission approve an energy-based methodology to allocate the costs of Hale and Sagamore among jurisdictions;[5]

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[3] 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).

[4] 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] 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."

6. SPS requests that the Commission approve the depreciation rates for the SPS Wind Facilities;

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, SPS asks the Commission to find that SPS may include in rate base the deferred tax asset that results from unused PTCs;

8. For the period after the SPS Wind Facilities are included in rate base, SPS asks the Commission to allow it to refund the PTCs to customers as a credit through fuel, and to grant a good cause exception to 16 TAC § 25.236 to the extent necessary to allow PTCs to flow through fuel;

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. SPS requests a Commission finding that SPS's purchase of wind turbines from an affiliate satisfies the affiliate standards under Texas law;

11. SPS requests a Commission finding that it is reasonable 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, SPS asks the Commission to issue a final order in this case by 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 Texas 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.
Eldon Lindt	Addresses aspects of SPS's request for a CCN at the Hale site: community values; recreational and park areas; historical and aesthetic values; environmental integrity; and required permits
Tim Kawakami	Describes the Bonita PPA and explains that it is reasonable for SPS to have entered into it.
Mary P. Schell	Addresses Xcel Energy's plans for financing the SPS Wind Facilities.

Witness	Testimony Topics
Arthur P. Freitas	Quantifies the total company revenue requirement for each of the SPS Wind Facilities using blended cost elements; allocates the economic benefits from the SPS Wind Facilities and the Bonita PPA to SPS's three jurisdictions; calculates a Texas 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 Texas 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 Hale and Sagamore; the agreement to purchase wind energy under the Bonita PPA; and the transactions between SPS and its affiliate, Capital Services.

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 direct testimony contains an extensive discussion of how SPS selected Hale and Sagamore, 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. 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. As explained in more detail by Mr. Hill, NextEra has secured the land rights and has completed preliminary work at the site, but it has not constructed any turbines. If all of the required regulatory approvals are secured from this Commission and the NMPRC, SPS plans to install 239 Vestas-America Wind Technology, Inc. ("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 an Allowance for Funds Used During Construction ("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.

B. 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. Similar to the work performed by NextEra for Hale, Invenergy has acquired the land rights and has completed other preliminary work leading toward development of Sagamore. If SPS receives the necessary regulatory approvals from the Commission and the NMPRC, it will install 261 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 AFUDC.

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

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

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 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 fuel and purchased power clause. 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 NextEra and Invenergy, 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 Hale and Sagamore.

IV. REQUIREMENTS FOR CCN APPROVAL

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

A. PURA § 37.056(a) provides that the Commission may approve an application and grant a CCN only if the Commission finds that the certificate is necessary for the service, accommodation, convenience, or safety of the public. PURA § 37.056(c) provides that the Commission shall grant a CCN on a nondiscriminatory basis after considering:

1. The adequacy of existing service;
2. The need for additional service;
3. The effect of granting the CCN on SPS and any electric utility serving the proximate area;
4. Other factors, such as:
    a. Community values;
    b. Recreational and park areas;
    c. Historical and aesthetic values;
    d. Environmental integrity;
    e. The probable improvement of service or lowering of cost to consumers; and
    f. To the extent applicable, the effect of granting the certificate on the ability of the State to meet the renewable goal established in PURA § 39.904.

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

A. The Commission's CCN rule, 16 TAC § 25.101 ("Rule 25.101"), states that the Commission may grant a CCN only "if it finds that the certificate is necessary for the service, accommodation, convenience, and or safety of the public, and complies with the statutory requirements" in PURA § 37.056.

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

A. Yes. Rule 25.101(b) expressly requires that a utility obtain a CCN for a generating facility that it will construct. Thus, SPS must obtain a CCN for the SPS Wind Facilities.[6]

Q. Does Rule 25.101 establish a deadline for a CCN proceeding?

A. Yes. Rule 25.101(b)(2)(B) states that in a "proceeding involving a newly constructed generating facility by an electric utility that operates solely outside of [the Electric Reliability Council of Texas], the commission shall issue a final order on a certificate for the facility not later than the 366th day after the date a request for the certificate is filed with the commission under PURA § 37.058(b)."

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

A. SPS witness Eldon Lindt is addressing the following CCN factors: community values; recreational and park areas; historical and aesthetic values; environmental integrity; and required permits. Mr. Hill addresses the effect of granting the CCN on SPS and any electric utility serving the proximate area, and he discusses the probable improvement of service or lowering of costs to consumers. I address the remaining CCN factors.

[6] SPS does not need a CCN to enter into the Bonita PPA, although as I will describe below, SPS is seeking a finding in this case that it is reasonable for SPS to enter into the Bonita PPA.

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 Mr. Hudson, Mr. Hill, 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 $1.6 billion of that benefit accruing to Texas 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 granting the CCN affect the ability of the state to meet the renewable energy goal set forth in PURA § 39.904(a)?

A. It is my understanding that the state has far exceeded the renewable energy goals set forth in PURA § 39.904(a). Approval of the CCN would help add to the total renewable energy in the state, however, which serves the legislative intent underlying PURA § 39.904.

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

A. I recommend that the Commission grant the CCN. For the reasons discussed by Mr. Hill, Mr. Lindt, and me, SPS has satisfied all of the CCN requirements for the SPS Wind Facilities, and thus Commission approval is appropriate.

V. PUBLIC INTEREST SERVED BY SPS'S OWNSHIP 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 decides that any of the SPS Wind Facility transactions are subject to PURA § 14.101(a), which requires a utility to report to the Commission any transaction in which the utility intends to sell, acquire, or lease a plant as an operating unit or system in this state for a total consideration of more than $10 million.

Q. Why do you suggest that SPS's development of the SPS Wind Facilities might not be subject to PURA § 14.101(a)?

A. The statute refers to the sale, acquisition or lease of a "plant as an operating unit or system." Given that Hale and Sagamore 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 SPS Wind Facilities are subject to the requirements of PURA § 14.101, does SPS satisfy those requirements?

A. Yes. Although PURA § 14.101(a) does not provide any standards to determine whether a particular transaction is in the public interest, the Commission has borrowed the standards in PURA § 14.101(b) to evaluate transactions subject to

PURA § 14.101(a).[7] Under PURA § 14.101(b), the Commission must consider the following factors:

> (1) the reasonable value of the property, facilities, or securities to be acquired, disposed of, merged, transferred, or consolidated;
>
> (2) whether the transaction will:
>
> > (a) adversely affect the health or safety of customers or employees;
> >
> > (b) result in the transfer of jobs of citizens of the state to workers domiciled outside this state; or
> >
> > (c) result in the decline of service;
>
> (3) whether the public utility will receive consideration equal to the reasonable value of the assets when it sells, leases, or transfers the assets; and
>
> (4) whether the transaction is in the public interest.

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.

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[7] *Re Nueces Electric Cooperative*, Docket No. 23454, Preliminary Order (Jun. 15, 2001) ("The Commission concludes…that subsection (a) transactions are subject to a public interest finding and the factors detailed in PURA § 14.101(b)(1)-(4).").

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

A. No. In fact, it will create jobs in Texas because Hale will provide a large construction project in the Lubbock area.

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

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

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 would benefit 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. There are several benefits that would flow from the Commission's approval of those 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, Texas customers will receive approximately $1.6 billion 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 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 docket.

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 energy PPA, which contains a number of provisions designed to protect retail customers. Mr. Kawakami discusses those protections in more detail.

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 the SPS Wind Facilities between: (1) the date they begin commercial operation, and (2) the date they are included in rate base and begin earning a return.[8]

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

A. The period from the date each facility begins commercial operation to the date it is included in rate base can be many months, or even more than a year. That is because a new generating facility must be used and useful before it can be included in rate base, and it generally takes several months to prepare and file a rate case after a generating facility begins commercial operation. Under PURA § 36.211, new rates can relate back to the 155th day after the filing of the rate case, but that is still more than five months after the case is filed. Thus, the period from commercial operation to inclusion in rate base is likely to range from 8-10 months, or even longer. Although many months of regulatory lag might be tolerable for some smaller projects, SPS's investment in the SPS Wind Facilities will total approximately $1.6 billion, which is about 40% of SPS's total rate base. SPS simply cannot afford to

[8] As noted earlier, Hale is expected to begin commercial operation in 2019, whereas Sagamore will not begin commercial operation until 2020. Because each of the SPS Wind Facilities will have its own commercial operation date, it will be necessary to establish a separate Cost Reconciliation Mechanism for each facility.

wait 8-10 months or more to begin receiving revenues attributable to the SPS Wind Facilities.

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

A. For cost recovery during the period between the date each SPS Wind Facility begins commercial operation and the date on which it is included in rate base,[9] SPS proposes a four-step process:

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

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

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

   (b) 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 each of the SPS Wind Facilities is placed into rate base, 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

[9] For purposes of this discussion, I am assuming that each facility goes into rate base on the date that SPS begins earning a return of and on the facility, which will be the 155th day after the rate case filing in which the facility is first included in SPS's rate base.

> 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 SPS's Texas 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 Texas retail customers pay the costs of only the portion of the SPS Wind Facilities 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 costs of the SPS Wind Facilities during the time between commercial operation and 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 free energy for the period between commercial operation date and inclusion in rate base.

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, PURA § 36.204 expressly provides that in establishing rates for a utility, the Commission may authorize "additional incentives" for renewable resources, among other things. Allowing SPS to earn a return on the SPS Wind Facilities between the date of commercial operation and inclusion in rate base qualifies as an additional incentive to build the facilities.

Fourth, allowing SPS to recover costs through the Cost Reconciliation Mechanism may help avoid base rate cases. As I mentioned earlier, Hale is scheduled to begin commercial operation in 2019, whereas Sagamore is not scheduled to begin commercial operation until 2020. If SPS is not allowed to earn a return on Hale until it goes into rate base, SPS will have a strong incentive to file a rate case immediately after Hale begins commercial operation in 2019, and another rate case immediately after Sagamore begins commercial operation in 2020. On the other hand, if SPS is allowed to implement the Cost Reconciliation Mechanism from the commercial operation date until the facilities are put into rate base in a rate case, SPS may be able to delay one of these rate cases 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 the SPS Wind Facilities before they are placed in rate base?

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 the SPS Wind Facilities 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 customers during the period between the date each of the SPS Wind Facilities begins commercial operations and the date new base rates reflecting the cost of each of the facilities begin.

Based on the projected in-service date of the end of June 2019 for Hale and using a test year ended June 30, 2019, the earliest that new rates would be expected to become effective would be late January 2020. Therefore, SPS would not recover any of its costs attributable to Hale for approximately seven months. The estimated loss for SPS during those eight months is $12.2 million on a Texas retail basis, and SPS's Texas customers would receive approximately 679,000 megawatt-hours ("MWh") of generation at no cost. For perspective, the 679,000 MWh is equal to the consumption of approximately 98,000 average Residential Service customers for that seven-month period.

In addition, based on the projected in-service date of the end of May 2020 for Sagamore and using a test year ended June 30, 2020, the earliest that new rates would be expected to become effective would be late January 2021. Therefore, SPS would not recover any of its Sagamore costs for approximately eight months. The estimated loss for SPS during those seven months would be $16.5 million on a Texas retail basis, and SPS's Texas customers would receive approximately 906,100 MWh of generation at no cost. For perspective, the 906,100 MWh is equal to the consumption of approximately 114,300 average Residential Service customers for that eight-month period.

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. As I have explained, SPS would lose $28.7 million of Texas retail revenue attributable to the SPS Wind Facilities in the absence of the Cost Reconciliation Mechanism. Therefore, SPS is unlikely to proceed with the transactions in the absence of a Commission order providing SPS with assurances of recovery. Simply stated, SPS 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 the SPS Wind Facilities begin 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, for the period between the date on which a facility 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 proposal, the PTCs 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 the particular facility. By imputing the value of PTCs as revenue, SPS will be giving customers the benefit of PTCs during the period before the SPS Wind Facilities are 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 credits to eligible fuel expense. 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 Commission's fuel rule, 16 TAC § 25.236, provide for refunds of PTCs through a credit to eligible fuel expense?

A. The rule does not expressly provide for refunding PTCs through credits to eligible fuel expense. Thus, SPS seeks a good-cause exception to 16 TAC § 25.236 to credit PTCs through eligible fuel expense.

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

A. SPS proposes to credit PTCs through eligible fuel expense 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 authorize SPS to 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 the commercial operation date and the date a facility is placed in rate base, SPS will calculate a revenue requirement for that particular facility 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 the SPS Wind Facilities are placed 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 intended to reduce energy costs for customers.

Q. Could it 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 Texas jurisdictional margins, similar to its other off-system energy sales.[10]

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 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 put those costs into base rates while the

[10] The Commission's fuel rule allows an electric utility to retain 10% of the margins from an off-system energy sales transaction if the following conditions are met: (1) the utility participates in a transmission region governed by an independent system operator or a functionally equivalent independent organization; (2) a generally applicable tariff for firm and non-firm transmission service is offered in the transmission region in which the electric utility operates; and (3) the transaction is not found to be to the detriment of its retail customers. 16 TAC § 25.236(a)(9).

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 Transmission Serving Generation ("TSG") facilities to transmit the wind energy to the grid. In Docket No. 43695, 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 4.08%. That rate reflects a 25-year service life and a negative 2% 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 2% net salvage value?

A. That is the net salvage value approved by the Commission for other production-related assets in Texas. The net salvage value for wind generating facilities should be similar to that of other production facilities.

XII. AFFILIATE TRANSACTIONS

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

A. I first describe the proposed transactions between SPS and Capital Services. Next, I describe the standards for recovery of affiliate costs in Texas and explain that SPS satisfies that standard with respect to the proposed transactions with Capital Services. Finally, I sponsor the Sale of Components Agreement" ("Components Agreement") between SPS and Capital Services.[11]

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.

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

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.[12]

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 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. What is the standard established under Texas law for approval of transactions between a utility and its affiliates?

A. PURA § 36.058 sets out the requirements for the recovery of charges from an affiliate to a utility regulated by the Commission. There is also a series of court

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

cases that interpret or add to the statutory standard. The first and most important of these court cases is referred to as the *Rio* case.[13] These requirements govern, for ratemaking purposes, the charges from any of SPS's affiliates (including Xcel Energy Services Inc. and the other Operating Companies).

To recover affiliate charges, SPS must present affiliate costs by individual "item or class of items" (affiliate classes). There is no presumption that affiliate charges are reasonable for ratemaking purposes. Instead, to recover affiliate costs, SPS must prove four facts:

1. The services provided by the affiliate, and the costs of those services, are necessary.
2. The services provided by the affiliate, and the costs of those services, are reasonable.
3. The charge from the affiliate (e.g., XES) to SPS for a service is no higher than the charge by that affiliate to any other entity (e.g., NSPM) for the same or similar service.
4. The charge to SPS reasonably approximates the affiliate's costs to provide the service (i.e., no profit).

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

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[13] *Railroad Comm'n v. Rio Grande Valley Gas Co.*, 683 S.W.2d 783 (Tex. App.—Austin 1984, no writ). The *Rio* case was an appeal from an order issued by the Texas Railroad Commission in a gas utility rate case involving Rio Grande Gas Company (Gas Utility Docket No. 3858).

for the life of the facility. Thus, to claim 100% of the PTC benefits associated with the SPS 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 had not received regulatory approvals from the Commission and the NMPRC to go forward with the SPS Wind Facilities, 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 so that SPS would be in the position to take advantage of the PTCs if SPS receives the necessary regulatory approvals.

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 SPS only the out-of-pocket costs that Capital Services has incurred or will incur for storing and insuring the turbines. It is reasonable for SPS to reimburse Capital Services for those out-of-pocket costs.

Q. Is the charge by Capital Services to SPS no higher than the charge by Capital Services to any other entity for the same or similar service?

A. Yes. Capital Services has a similar sale of components agreement with Northern States Power Company—Minnesota ("NSPM"), which is a subsidiary of Xcel

Energy and an affiliate of SPS. The pricing terms for that agreement are the same as terms for the Components Agreement between SPS and Capital Services, other than the carrying charge will be NSPM's AFUDC rate rather than SPS's AFUDC rate.

Q. Does the charge to SPS for the turbines and other assets reasonably approximate Capital Services' costs?

A. Yes. As explained earlier, Capital Services will resell the turbines and other assets to SPS at the same price Capital Services paid for them. With respect to the storage and insurance costs, Capital Services is seeking reimbursement of only the out-of-pocket costs it has incurred or will incur as a result of its acquisition of turbines for SPS's benefit.

Q. Is the inclusion of AFUDC 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 that cost because it reasonably approximates SPS's own carrying costs for purchasing components to be installed at generating facilities.

Moreover, even if the Commission considers the AFUDC to be a return paid to an affiliate, the only part of the AFUDC rate that could possibly qualify as a return would be the equity portion. The debt portion of the AFUDC rate is simply a pass-through of costs that SPS pays to lenders. Therefore, it is not a return within the meaning of the Commission's affiliate rules.

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, I have calculated the combined impact of adding Hale, Sagamore, and the Bonita PPA on a typical bill for a Residential Service customer using 1000 kWh per month. This calculation is shown on Attachment EDE-2. This calculation was 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 the typical Residential Service customer will save an average of $2.37 per month, or 2.09%.

XIV. <u>REQUEST FOR EXPEDITED PROCEDURAL SCHEDULE</u>

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

A. I describe the basis for requesting expedited relief and ask the Commission to adopt a procedural schedule that will enable SPS to obtain a final order in this docket no later than December 31, 2017.

Q. Why is SPS seeking expedited relief from the Commission?

A. Approval before December 31, 2017 will ensure SPS has adequate time to meet the project timeline, i.e., having both of the SPS Wind Facilities in commercial operation before the end of 2020. As a result of the legislation extending the PTC, turbine manufacturers, construction firms, and consulting services are experiencing significant demand from wind developers and utilities. Due to this demand, any delay may reduce SPS's ability to acquire these products and services in a timely manner. In order to ensure that customers receive as much benefit as possible, SPS is requesting an expedited procedural schedule.

XV. <u>RELIEF REQUESTED FROM THE COMMISSION</u>

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 and protective order, 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.

AFFIDAVIT

STATE OF TEXAS)
)
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 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 by EVAN D. EVANS.

Donna M Anderson

Notary Public, State of Texas
My Commission Expires: 6/17/2020

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.

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	**SOUTHWESTERN PUBLIC SERVICE COMPANY,** a New Mexico corporation
By:__________________________________	By:__________________________________
Name:	Name:
Title:	Title:

ATTACHMENT 1

SUBJECT COMPONENTS

PTC Component	Serial Number

SOUTHWESTERN PUBLIC SERVICE COMPANY
Impact of SPS Wind Facilities and Bonita PPA on
Typical Residential Service Customer's Bills

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

Line No.	Description	Current Rates	Projected Rate	Charges Without Projects	Charges With Wind Projects	$ Difference	% Difference
	Residential Service (Summer)						
1	Service Availablility	$ 10.00	$ 10.00	$ 10.00	$ 10.00		
2	Energy Charge (per kWh)	$ 0.078572	$ 0.087374	78.57	87.37		
3	Fuel Factor (per kWh) *	$ 0.030615	$ 0.019446	30.62	19.45		
4	Energy Efficiency Rider (kWh)	$ 0.000964	$ 0.000964	0.96	0.96		
5	Total Bill			$ 120.15	$ 117.78	**$ (2.37)**	**-1.97%**
	Residential Service (Non-Summer)						
6	Service Availablility	$ 10.00	$ 10.00	$ 10.00	$ 10.00		
7	Energy Charge (per kWh)	$ 0.068353	$ 0.077155	68.35	77.15		
8	Fuel Factor (per kWh) *	$ 0.030615	$ 0.019446	30.62	19.45		
9	Energy Efficiency Rider (kWh)	$ 0.000964	$ 0.000964	0.96	0.96		
10	Total Bill			$ 109.93	$ 107.57	**$ (2.37)**	**-2.15%**
11	**Typical Customer's Annual Average Monthly Bill**			$ 113.34	$ 110.97	**$ (2.37)**	**-2.09%**