BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF PUBLIC SERVICE COMPANY OF NEW MEXICO'S ABANDONMENT OF SAN JUAN GENERATING STATION UNITS 1 AND 4	)	NMPRC Case No. 19-00018-UT
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
APPLICANT.	)	

DIRECT TESTIMONY OF

ANDREA C. CRANE

ON BEHALF OF

THE OFFICE OF ATTORNEY GENERAL

October 18, 2019

TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 2805 East Oakland Park Boulevard, #401, Ft. Lauderdale, Florida 33306.

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

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 400 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony over the past five years is included in Appendix A.

Q. Have you previously testified in regulatory proceedings in New Mexico?

A. Yes, I have. I have testified in numerous proceedings in New Mexico, including cases involving Public Service Company of New Mexico ("PNM"), Southwestern Public Service Company ("SPS"), El Paso Electric Company ("EPE"), and Texas-New Mexico Power Company ("TNMP"). I also submitted testimony in a generic proceeding in New Mexico regarding weather normalization and testified in the proceeding involving the acquisition of New Mexico Gas Company, Inc. ("NMGC") by TECO Energy, Inc., the parent company of Tampa Electric Company. I have also assisted the New Mexico Office of Attorney General ("NMAG") in numerous cases that were resolved prior to testimony being filed.

Q. What is your educational background?

A. I received a Master of Business Administration degree, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. On July 1, 2019, PNM filed a Consolidated Application for the Abandonment, Financing and Replacement of the San Juan Generating Station ("SJGS") with the New Mexico Public Regulation Commission ("NMPRC" or "Commission"). This Application, which was originally docketed as NMPRC Case No. 19-00195-UT, was subsequently bifurcated by the NMPRC. Issues relating to abandonment of the SJGS and the Company's request for securitization of stranded costs were docketed as NMPRC Case No. 19-00018-UT, as part of a case that had been opened earlier by the NMPRC to address the continued operation of SJGS Units 1 and 4. Issues regarding replacement resources were docketed as NMPRC Case No. 19-00195-UT. Hearing Examiners in each of these proceedings subsequently issued separate procedural schedules for each case.

The Columbia Group, Inc. was engaged by the New Mexico Office of Attorney General ("NMAG") to review the Application, to evaluate the impact on New Mexico ratepayers, and to develop recommendations to the NMPRC regarding PNM's request to abandon the SJGS Units 1 and 4 and the Company's request to recover stranded costs associated with this abandonment.

Q. Please summarize the Energy Transaction Act ("ETA") and the possible impact of the ETA on PNM's Application.

A. In order to understand the potential impact of the ETA, it is necessary to briefly summarize the history of this proceeding. In NMPRC Case No. 13-00390-UT ("390 Docket"), the NMPRC approved a Modified Stipulation that provided for the shutdown of SJGS Units 2 and 3. The Modified Stipulation also addressed PNM's proposal to recover stranded costs associated with SJGS Units 2 and 3. In that Modified Stipulation, the parties agreed to permit PNM to recover 50% of the stranded costs associated with those units and to recover carrying costs on the unamortized balance of the regulatory asset at the Company's weighted average cost of capital ("WACC"). There were also numerous other provisions contained in the Modified Stipulation relating to replacement resources and other aspects of the shutdown. As part of the Modified Stipulation in the 390 Docket, PNM agreed to make a filing between July 1, 2018 and December 31, 2018 addressing whether the remaining SJGS units (Units 1 and 4) should continue to serve New Mexico ratepayers after June 30, 2022, which is the termination date of the coal supply agreement between PNM and the San Juan Coal Company/Westmoreland ("Westmoreland).

PNM made the required filing on December 31, 2018 ("Compliance Filing"). In its filing, PNM stated that PNM, and the other SJGS owners, except for the City of Farmington ("Farmington"), had decided not to renew the participation agreement relating to SJGS or the coal supply agreements after June 30, 2022. PNM stated that Farmington had an option under the terms of the participation agreement to purchase SJGS from the other owners but that no purchase agreement had been reached. PNM indicated that in the absence of a purchase agreement with Farmington, it was obligated to begin taking steps toward an orderly closure of SJGS. However, PNM indicated that it was not seeking any specific approvals as a result of the December 31, 2018 Compliance Filing, and recommended that the 390 Docket be closed.

On January 10, 2019, the NMPRC issued an order in response to the Compliance Filing, opening this docket to receive comments on whether it should accept the Compliance Filing and take no further action until PNM filed a formal abandonment application, or whether it should require PNM to file testimony in support of its pending abandonment of the SJGS Units 1 and 4.

While the NMPRC was examining these issues and comments from various parties, PNM pursued legislation that would permit the Company to securitize stranded costs associated with closure of SJGS Units 1 and 4, and would ensure 100% recovery of the resulting stranded costs. Accordingly, on March 12, 2019, the Energy Transition Act ("ETA") was passed by the New Mexico Legislature and signed into law on March 22, 2019, with an effective date of June 14, 2019.

Because the current proceeding was initiated prior to the enactment of the ETA, there is disagreement among various parties as to whether the ETA applies in this proceeding. If the ETA does apply, then the NMPRC is extremely limited in its ability to modify the proposals put forth by PNM in its Application. I am not an attorney and I will not address the legal question of whether the ETA applies in this case. Instead, my testimony assumes that the ETA does apply, and that the parties, including the NMAG, have very little discretion with regard to the abandonment and securitization proposals put forth by PNM. I will, however, briefly address later in this testimony, alternative recommendations to the NMPRC in the event that the ETA is not found to apply to this proceeding.

III. CONCLUSIONS AND RECOMMENDATIONS

Q. Assuming that the ETA does apply in this proceeding, what are your conclusions and recommendations regarding the Company's proposed abandonment of the SJGS Units 1 and 4 and the associated proposal to securitize stranded costs?

A. Based on my analysis of the Company's filing and other documentation in this case, and assuming the ETA is applicable in this proceeding, my conclusions and recommendations are as follows:

- The abandonment of the SJGS Units 1 and 4 is in the public interest and should be approved by the Commission.
- The decommissioning of the SJGS plant and facilities and reclamation of the coal mine that provides fuel for SJGS are necessary components of abandonment costs and should be approved by the Commission, subject to the cost limitations of the ETA.
- As provided for in the ETA, PNM's proposal for $360.1 million of abandonment costs and other energy transition costs to be securitized, should be adjusted downward to $354.7 million (see Schedule ACC-1).

- The Company has not supported the $20.0 million of Job Training and Severance costs included in its claim for securitization, and the NMPRC should only approve $14.6 million of the Company's claim for these costs (see Schedule ACC-2).
- The NMPRC should approve the Company's remaining costs to be securitized, including stranded asset costs of $283.0 million, upfront financing costs and regulatory approval costs of $8.7 million, underground coal mine reclamation costs and decommissioning costs of $28.6 million, and payments of $19.8 million required pursuant to the ETA for the Indian Affairs Fund, the Economic Development Fund and the Displaced Worker Assistance Fund (collectively "Section 16 costs").
- As provided for in Section 4 (B) (10) of the ETA, the NMPRC should authorize PNM to true-up the estimated versus actual costs for the items enumerated above, subject to a total cap of $375 million and subject to further limitations as provided in the ETA.
- As provided for in Section 4 (B) (11) of the ETA, if utility rates are not adjusted to reflect the removal of the SJGS Units 1 and 4 prior to the time that the energy transition charge related to securitization is effective, then PNM should establish a regulatory asset to account for the reduction in PNM's *cost of service associated* with the amount of undepreciated investments being recovered by the energy transition charge at the time that charge becomes effective. This regulatory asset should include all cost of service elements, including return on and of the stranded costs, all operating and maintenance costs associated with the SJGS Units 1 and 4, and other costs as reflected in the $94 million of

revenue requirement savings shown at Table HEM-1, page 5 (Corrected) of Mr. Monroy's Direct Testimony.

- In order to provide a reasonable balancing of the interests of ratepayers and shareholders, the $10.5 million of costs that are not mandated by the ETA should not be recovered from ratepayers. These include carrying costs on various prepayments, obsolete inventory costs, certain external legal costs, and regulatory approval costs related to various purchase power agreements ("PPA"), as more fully described below.
- Total future costs related to abandonment recovered pursuant to the ETA should be capped at $375 million.
- The NMPRC should not make any determination in this case regarding recovery of ongoing financing costs or other costs that PNM proposes to recover in the future from ratepayers through base rates.
- Issues relating to excess deferred income taxes ("EDIT") associated with SJGS Units 1 and 4 should be reexamined in the Company's next base rate case.
- The recommendations contained in this testimony assume that SJGS Units 1 and 4 will be abandoned. If the units continue to operate, then many of the costs addressed in the Company's filing, such a severance and job training costs, should be reevaluated.

IV. SUMMARY OF THE APPLICATION

Q. Please summarize the Commission approvals sought by PNM in this proceeding.

A. Pursuant to the ETA, PNM is seeking the following approvals in this case:

1. Abandonment of its interest in the SJGS, Units 1 and 4, as of July 1, 2022;
2. Decommissioning of the coal plant and facilities and related mine reclamation;
3. Recovery of abandonment costs and related energy transition costs as defined in the ETA of approximately $360.1 million;
4. Approval of a financing order under the ETA providing for the issuance of highly rated Energy Transition Bonds in the principal amount of approximately $361 million secured by a non-bypassable customer charge that will provide for recovery of:
    (a) PNM's undepreciated investments in SJGS Units 1 and 4 at a net book value ("NBV") of $283.0 million;
    (b) Costs for job training and severance for employees at SJGS and Westmoreland in the amount of $20.0 million;
    (c) Plant decommissioning costs and mine reclamation costs of $28.6 million;
    (d) Transactional costs of $8.7 million associated with issuing energy transition bonds and obtaining approval of the abandonment of SJGS Units 1 and 4;
    (e) Funding for an Energy Transition Indian Affairs Fund to be administered by the Indian Affairs Department, in the amount of $1.8 million;

(f) Funding for an Energy Transition Economic Development Assistance Fund to be administered by the Economic Development Department, in the amount of $5.9 million; and

(g) Funding for an Energy Transition Displaced Worker Assistance Fund, to be administered by the Workforce Solutions Department, in the amount of $12.1 million.

Item nos. (e)-(g) above are collectively referred to as "Section 16 costs," as provided for under the ETA, and are based on specified percentages of the total securitized bond issuance.

Q. In addition to costs that will be recovered through the Energy Transition Bonds, is PNM also requesting recovery of other costs in this case associated with the abandonment of SJGS Units 1 and 4?

A. Yes, as summarized in Exhibit HEM-13 (Corrected) to Mr. Monroy's testimony, PNM is also requesting approval for six regulatory assets that are not subject to securitization under the ETA. These include:

1. A regulatory asset/liability for the difference between the estimated costs to be securitized pursuant to the ETA and the actual costs of abandonment, per Section 4 (B) (10) of the ETA;

2. A regulatory liability to credit ratepayers with the costs of the SJGS included in base rates if the energy transition charges to ratepayers begin before the securitized assets are removed from rates, per Section 4 (B) (11) of the ETA.

3. A regulatory asset for the carrying costs associated with the prepayment of job training, severance and Section 16 payments that PNM plans to distribute in advance of the issuance of the securitized bonds. As shown in Exhibit HEM-12 (Corrected), PNM proposes to prefund 25% of its Section 16 costs under the ETA (for Indian Affairs, Economic Development and Workers Assistance). The Company also plans to distribute 100% of job training costs for both the SJGS and Westmoreland employees, as well as severance to Westmoreland employees, prior to the actual abandonment date of the SJGS units. The prefunding of the above costs, if approved as requested, would result in $2.18 million of carrying costs that PNM seeks to recover over three years, although PNM is not requesting additional carrying charges during the three-year recovery period.

4. PNM seeks to recover an estimated $6.3 million, which represents its ownership share of obsolete materials and supplies inventories. It proposes to amortize this amount in base rates over a 25-year period, to match the life of the bonds to be securitized, and to include the unamortized costs in rate base during the recovery period.

5. PNM also seeks in this proceeding approval for a $1.2 million regulatory asset for its external legal costs associated with the expiration of the ownership agreement and the closure of the plant. It proposes to amortize this amount in base rates over a 25-year period, to match the life of the bonds to be securitized. It also seeks rate base treatment for the unamortized balance.

6. Finally, PNM is requesting Commission approval for a regulatory asset for its Request for Proposal ("RFP") and regulatory approval costs that it has allocated to the PPAs that it proposes as part of the replacement generating assets. It seeks to amortize this regulatory asset over the 20-year life of the PPAs, with carrying costs.

Q. Have you prepared a schedule showing the requests being made by PNM in this case.

A. As shown in Schedule ACC-1, and as summarized in Table 1 below, are the costs that PNM proposes to securitize in this case.

Table 1 – Securitized Costs ($000)

1. Upfront Financing Costs	$8.7
2. Net Book Value of SJGS	$283.0
3. Underground Coal Mine Reclamation	$9.4
4. Plant Decommissioning	$19.2
5. Job Training and Severance	$20.0
6. Section 16 Costs	$19.8
7. Total Securitized Costs	$360.1

The costs shown in the table above on lines 2-5 total $331.6 and are referred to in the ETA as Abandonment costs. Table 2 summarizes the additional regulatory assets that PNM is seeking in this case and the associated ratemaking treatment being requested by the Company.

Table 2 – Additional Regulatory Assets

	Amount	Amortization Period (Yrs.)	Carrying Costs
True-up of Securitized Costs	TBD	TBD	Yes
Credit for SJGS Cost of Service	TBD	TBD	Yes
Prepayments on Severance, Job Training, Section 26 Costs	$2.2	3	No
Obsolete Inventory	$6.3	25	Yes
External Legal Costs	$1.2	25	Yes
RFP and Regulatory Approval Costs – PPA	$0.8	20	Yes
Total	$10.5		

V. DISCUSSION OF THE ISSUES

A. Provisions of the Energy Transition Act

Q. Please discuss the key provisions of the ETA as it pertains to the Company's Application.

A. The ETA's new statewide renewable energy standards set forth the milestones that are to be achieved in the transition from carbon-emitting generation sources to zero-carbon generation by 2045. The Act provides for intermediate steps, with a goal of 50 percent renewable energy production by 2030 for New Mexico investor-owned utilities, 80 percent renewable energy by 2040, and zero-carbon resources for investor-owned utilities by 2045.

Section 36 of the ETA provides for stricter new limits on carbon dioxide emissions by January 1, 2023 for generating facilities that would include the SJGS. The new limits would require significant new investment in carbon capture technology if the SJGS were to continue to operate. As a result, the other owners of the SJGS, with the exception of the City of Farmington, have indicated they do not intend to continue operations of the coal plants beyond June 2022.

The new renewable energy goals, emission standards, and lack of a continuing ownership agreement after June 30, 2022, make the abandonment of the SJGS Units 1 and 4 economically and operationally unavoidable. Therefore, it appears that the requirements in New Mexico Statutes Chapter 62-9-5 concerning approval for abandonment, specifically that the continuation of the service of the facility is unwarranted, have been met.[1] Accordingly, I recommend that the Commission approve the abandonment of the SJGS.

Q. How does the ETA address recovery of the costs associated with the abandonment of the SJGS Units 1 and 4?

A. It appears many parts of the ETA were specifically written in order to address SJGS Units 1 and 4. Section 5 (E) of the ETA provides for the issuance of a Financing Order by the Commission upon a finding by the NMPRC that the applicant has met the requirements of Section 4 of the Act, as outlined below. The ETA also provides that if the Commission

1 I am not an attorney and none of the comments in this testimony are intended to offer legal opinion.

finds that the applicant has not complied with Section 4, it shall advise the applicant of any changes that are necessary and allow the application to be amended. These sections of the ETA are clearly intended to limit the ability of the NMPRC to deny recovery of stranded costs to a utility.

Once a utility, in this case PNM, has demonstrated that it has met certain requirements of Section 4, the ETA requires the NMPRC to issue a Financing Order that authorizes the issuance of Energy Transition Bonds, in an amount that is largely prescribed by the ETA. The Financing Order must also provide for the creation of Energy Transition Property, and the collection of an Energy Transition Charge ("ETC") to provide for the abandonment costs, and upfront and ongoing financing expenses, the bulk of which are the interest and principal payments of the bonds to be issued.

Q. What entity will issue the Energy Transition Bonds?

A. The bonds will be issued by a Special Purpose Entity ("SPE"), that will be created, and wholly-owned by PNM, solely to finance the recovery of the Energy Transition Costs through securitized bonds. PNM will create the SPE and fund it with equity equal to 0.05% of the bonds. The SPE will then issue the securitized Energy Transition Bonds authorized under a Financing Order.

Q. What is securitization?

A. As discussed in the Testimony of Mr. Atkins at page 5:

> Securitization is the process in which an owner of a cash flow-generating asset sells the asset for an upfront payment, done in a manner that legally isolates (or de-links) the cash flow-generating asset from the credit quality of the owner/seller. The sale process is intended to protect investors from any changes in credit circumstances, or even the bankruptcy, of the entity that sold the asset. Therefore, the "credit" of a securitization is the ability of the legally isolated asset to produce a set of payments (or cash flows) for investors, who purchased a securitized interest in the asset. Fixed income debt securities collateralized by the legally isolated asset are issued to investors, and those investors rely solely on the legally isolated asset and associated cash flows to pay interest and principal on the issued debt securities.

The Financing Order issued by the Commission authorizes the creation of the SPE that will issue the bonds offered with the security, or collateral, that all bond-related expenses and principal payments will be provided for via a non-bypassable charge (the ETC) to New Mexico ratepayers.

Q. What is the benefit of securitization?

A. The securitization process makes it feasible to issue highly-rated bonds that carry lower interest rates than the interest rates that would be available to the utility itself. Because these bonds will be issued independently of PNM and will be securitized by a non-bypassable charge paid by all utility customers, they will carry a superior bond rating and lower interest rate. Thus, the securitized financing reduces the carrying cost on the abandoned assets from the utility's weighted average cost of capital (currently 7.2%) to a much lower AAA interest rate estimated to be approximately 3.38%.[2]

2 Testimony of Mr. Atkins, page 20.

Q. What is Energy Transition Property mentioned above that is established under a Financing Order?

A. The Energy Transition Property is the right to collect the ETC necessary to recover all Energy Transition Costs. By issuing the Financing Order, the NMPRC is guaranteeing that ratepayers will be responsible for principal and interest payments on the Energy Transition Bonds over the entire life of the bonds. Upon issuance of the Energy Transition Bonds, the NMPRC must establish a non-bypassable ETC to be billed to ratepayers over the life of the bonds. The Energy Transition Bonds are projected to have a scheduled maturity of 25 years, although PNM is seeking authorization to collect the ETA for up to 28 years to allow for legal bond redemption.

In addition to the interest and principal payments, the ETC will also include a return to PNM of its invested capital in the SPE, as well as ongoing charges for servicing the bonds, and other financial and legal services, such as trustee fees and legal fees. The total annual levelized revenue requirement for the ETC, based on the claim of $360.1 million of bonds in this filing, is estimated to be $22.7 million per year, for 25 years, as shown at page 20 of Mr. Atkins direct testimony.

As noted earlier, PNM proposes to true-up for any difference between the estimated and actual costs of abandonment (except for severance and job training costs for coal mine employees, as discussed below) as required by Section 4 (B) (10) of the ETA, by creating a regulatory asset or liability, with carrying costs at the weighted average cost of capital, to be recovered or refunded in a subsequent base rate case.

Q. Does the ETA limit the amount of SJGS Energy Transition Costs that can be securitized?

A. Yes**.** The ETA limits securitization to the "Energy Transition Cost," which is defined in the ETA as financing costs plus abandonment costs, Section 16 costs, and costs arising from a change in law. Abandonment costs allowed under the ETA are limited to the lower of 1.5 times the undepreciated investment in the facility abandoned, up to a cap of $375 million. Abandonment costs include the unrecovered plant investment, up to $30 million of incremental plant decommissioning costs and mine reclamation costs, up to $20 million in job training and severance costs, and certain other undepreciated investments. In PNM's case, abandonment costs are limited to $375 million, which is lower than 1.5 times the undepreciated investment of $283 million. As shown in Table 1, PNM is claiming abandonment costs of $331.6 million, which is $43.4 million lower than the ETA's $375 million cap for securitized abandonment costs.

In addition, to the $331.6 million in abandonment costs, PNM is also proposing to securitize Section 16 costs of $19.8 million and financing costs of $8.7 million, for a total estimated amount to be securitized of $360.1 million.

Q. How were the Section 16 costs of $19.8 million determined?

A. The Section 16 costs are tied to the amount of the Energy Transition Bonds. The ETA requires that 0.5% of the Energy Transition Bond funding be deposited into the Energy Transition Indian Affairs Fund, that 1.65% be deposited into the Energy Transition

Economic Development Assistance Fund, and that 3.35% be deposited into the Energy Transition Displaced Workers Fund. Therefore, a total of 5.5% of the Energy Transition Fund proceeds must be applied to Section 16 costs.

Q. Please explain the financing costs included in the estimate of securitized costs.

A. The Energy Transition Costs allowable under the ETA include a provision for financing costs that are defined in Section 2 (F) of the ETA, and include upfront financing costs as well as *ongoing* financing costs. While the estimated upfront financing costs of $8.7 million are included in the securitized costs of the bond, the ongoing financing costs are estimated to be $515,000 annually, as shown in Exhibit EAE-3 to Ms. Eden's testimony. The ongoing costs are not included in the securitized costs. Instead, PNM proposes to recover these ongoing financing costs from ratepayers through the ETC.

Q. Will securitization of the Energy Transition Costs benefit ratepayers?

A. PNM estimates that the early retirement of the SJGS will result in a net revenue requirement savings to ratepayers of approximately $80 million in 2023, as discussed on pages 4-5 of Mr. Monroy's testimony. Mr. Monroy goes on to state that securitization accounts for approximately $22 million of the savings, i.e., without securitization, the annual savings would only be approximately $59 million. Therefore, Mr. Monroy concludes that securitization provides a significant benefit to ratepayers.

At any given level of investment, securitization is likely to be less expensive for ratepayers then recovery of that investment under traditional, rate base, rate of return ratemaking mechanisms. This is because traditional ratemaking assumes that utility investment is financed by a combination of both debt and shareholder equity, while securitization is based solely on debt financing. Debt financing is almost always less expensive than equity financing because equity financing is riskier for investors. This is especially true when equity financing is compared to debt that is highly-rated, such as securitized debt, which carries a low interest rate.

In the absence of the ETA, there are other alternatives available to the NMPRC that could be less costly for ratepayers. However, assuming that PNM is legally entitled to 100% recovery of stranded investment associated with the SJGS, then I agree that securitization is the less costly option for ratepayers.

B. <u>Financing Order Requirements</u>

Q. What are the requirements outlined in the ETA that must be met in order for a Financing Order to be issued?

A. Section 4 (B) of the ETA has twelve requirements that must be met for the issuance of a Financing Order:

1. A description of the facility to be abandoned,
2. An estimate of energy transition costs, including identification of severance costs and job training expenses, identification of costs for decommissioning

and mine reclamation, and an estimate of upfront and ongoing financing costs,

3. An estimate of the Energy Transition Charges needed to recover the Energy Transition Costs,

4. An adjustment mechanism to correct for any over or under-collection of the ETC,

5. Memorandum from a securities firm attesting to the AAA rating available to the securitized bonds,

6. A commitment by the utility to file a description of the final structure and pricing of the bonds, to update Section 16 costs based on the actual issuance amount of the bonds, and to update the ETC based on the actual issuance,

7. An estimate of the timing of the bond issuance and scheduled maturity, which must be no longer than 25 years,

8. The identification of a wholly-owned subsidiary to issue the bonds that must be capitalized by a minimum equity amount of 0.05% of total capital,

9. Identification of any necessary ancillary agreements for issuance of the bonds,

10. A description of the ratemaking mechanism to reconcile the actual versus estimated Energy Transition Costs financed by the Energy Transition Bonds,

11. A mechanism to prevent the double-recovery of the cost of service associated with the undepreciated investments in rates once the ETC becomes effective,

12. A statement that the utility will use reasonable efforts to obtain the lowest cost objective.

Q. Do you support a Financing Order 1) to authorize the issuance of Energy Transition Bonds, 2) to create Energy Transition Property to finance the abandonment of the SJGS, and 3) to impose an ETC (with periodic rate adjustments)?

A. Yes, I do. Assuming that the ETA applies in this case, then I support the issuance of a Financing Order and the securitization of stranded costs.

C. <u>Balancing Shareholder and Ratepayer Interests</u>

Q. Does the Company's proposal result in a reasonable balancing of the interests of ratepayers and shareholders related to the early shutdown of SJGS Units 1 and 4?

A. No. The Company's proposal does not provide a reasonable balance between shareholders and ratepayers. Under the Company's proposal, ratepayers will continue to pay for the undepreciated investment in the SJGS even though they are no longer benefitting from these assets. While ratepayers will be responsible for these costs for the next 25 years, the plant will not be used or useful in the provision of utility service. However, the Company and its shareholders will recover their entire investment upfront and will not face any risk of non-recovery.

The shifting of risk from shareholders to ratepayers is especially unfortunate since it was PNM's management, at the direction of PNM shareholders, that was responsible for PNM's investment in SJGS coal plants. Since the first SJGS unit was opened in 1973, it was the Company's management, not its ratepayers, that had the responsibility to assess the likely remaining life of the SJGS units, to evaluate the escalating environmental requirements, and to consider advances in renewable technologies. It is the continuous responsibility of utility companies to evaluate investment options, to ensure that utility service is being provided at the lowest reasonable cost, and to ensure that ratepayers are paying for services that they are actually receiving.

Q. Was there a more equitable balancing of risks between shareholders and ratepayers when SJGS Units 2 and 3 were abandoned?

A. Yes. SJGS Units 2 and 3 were abandoned in December 2017, based on a filing made in December 2013 with the NMPRC. The abandonment of those units, under the terms of the Modified Stipulation in the 390 Docket, reflected a more reasonable sharing of the abandonment costs, as the $257 million value of the undepreciated assets was recovered 50/50 from ratepayers and shareholders. At that time, PNM increased its ownership interest in Unit 4 by an additional 132 MW, but agreed that this investment would be reflected in utility rates at zero value, and this exclusion has been reflected in this current filing. In addition, in the 390 Docket, PNM was not permitted to reflect regulatory assets that it had requested, including $13.6 million of San Juan common operating costs, $5.3

million of costs associated with compliance with regional haze rules and restructuring of the San Juan Project Participation Agreement. Incremental fuel handing costs of $1 million that were originally requested by PNM were also excluded from the costs charged to ratepayers. As part of the Modified Stipulation, PNM also agreed to utilize Pale Verde Nuclear Generating Station ("PVNGS") Unit 3 to serve retail jurisdictional customers and to reflect PVNGS in rates at net book value. PNM also agreed to donate $250,000 to the Good Neighbor Fund at shareholder expense. PNM agreed and accepted the reasonableness of the foregoing stipulated adjustments. Hence, the 390 Docket reflected a sharing of costs between shareholders and ratepayers.

Q. Please comment on Mr. Darnell's statement at page 7 of his testimony that securitization will require the Company to forgo its profit on its unrecovered investment in the SJGS.

A. Mr. Darnell's statement is incorrect. With securitization, shareholders will recover 100% of their investment in the SJGS at the time of abandonment and will benefit from a massive cash infusion to the utility when the Energy Transition Bonds are issued. This cash infusion will benefit shareholders in two ways. First, it is extremely likely that PNM will reinvest these cash proceeds in other utility plant. In fact, PNM has proposed a portfolio of replacement assets that will be addressed in NMPRC Case No. 19-00195-UT. Therefore, shareholders are not foregoing profit, they are simply transferring their investment from a coal generating facility to other generating facilities (and/or to other plant investments). Shareholders will continue to profit from the equity return on these alternative investments.

Second, not only will shareholders continue to earn a return on this investment, but the alternative investment is likely to be of lower risk than SJGS. Currently, shareholders are recouping the undepreciated investment in the SJGS through 2053. However, the continued operation of the plant is uneconomic, as addressed in the testimony of Mr. Phillips at page 14 of his testimony where he states that "…new stricter emission restrictions that apply should the plant continue to operate past January 1, 2023" are likely to increase the cost of continued operations of the coal plant significantly, even "prohibitively." Given the uneconomic operation of SJGS, the market value of the facility is effectively zero. Therefore, the abandonment of the SJGS, with full recovery of its costs under the ETA, is an enormous reduction in risk to shareholders. Not only does the ETA assure shareholders that they will recover 100% of their investment in the SJGS, but recovery of that investment is accelerated from 2053 to 2022, at which time the Company can reinvest those proceeds in lower risk facilities, on which shareholders will continue to have an opportunity to earn their full authorized return on equity.

Q. How can the burden of the 100% of abandonment cost charged to ratepayers be ameliorated?

A. There is nothing in this filing that reflects any sharing of abandonment costs with shareholders. While the ETA severely restricts the ability of the NMPRC to evaluate the securitized costs in an effort to apply traditional ratemaking principles and therefore balance these interests, it appears that the Commission does have some flexibility with regard to the $10.5 million of regulatory deferrals that will be recovered through base rates. These regulatory deferrals account for less than 3% of the total costs at issue in this case, but at least they provide the NMPRC with some opportunity for regulatory review, unlike most of the costs mandated by the ETA. In addition, the NMPRC has the ability, and responsibility, to ensure that the securitized costs are adequately identified by PNM.

D. Adjustments to Securitized Costs

Q. Are you recommending any adjustment to the amount of securitized costs proposed by PNM?

A. Yes, I am. As discussed in greater detail below, the Company has not adequately identified its claim for job training and severance costs associated with Westmoreland employees. In addition, it has not properly allocated the severance and job training costs for PNM employees. Therefore, I am recommending the Commission advise the utility of the need to adjust the Company's claim for these costs. In Schedule ACC-1, I have shown an adjustment in the amount of $5.4 million to reduce severance and job training costs for both Westmoreland and PNM employees. This adjustment reduces securitized costs under the ETA from $360.1 to $354.7 million. I have no objection to the quantification of the other amounts requested by PNM for the upfront financing costs, the undepreciated value of the plant, coal mine reclamation, SJGS decommissioning, and Section 16 costs, as the

ETA specifically provides for the inclusion of such costs in the Financing Order (subject to limits), and the amounts requested by PNM for these items are sufficiently identified in the filing. And in any case, all such estimates will be trued-up with actual costs, subject to the cap of $375 million on total abandonment costs, and further subject to individual caps of $30 million for mine reclamation and plant decommissioning, and of $20 million for job training and severance, that are included under the $375 million limit on abandonment costs per the ETA.

Q. Please discuss your recommended adjustment to reduce PNM's job training and severance claims by $5.4 million, as shown in ACC-1.

A. While the ETA provides that PNM may securitize up to $20.0 million in job training and severance costs, those costs must still be reasonable and adequately identified by the Company. PNM's claim for employee-related costs is shown in PNM Table HEM-8 and includes:

Summary of Job Training and Severance Claims ($000)

(Source: PNM Table HEM-8)

$10.4	PNM/PNMR Severance
$1.3	PNM Job Training
$7.4	Coal Mine (Westmoreland) Severance
$1.5	Coal Mine (Westmoreland) Job Training
$20.6	Total

PNM claims that it is not seeking to recover the $600,000 in estimated costs that exceed the $20.0 million cap provided for in the ETA. Mr. Monroy states on page 26 of his testimony that the severance cost estimates are based on PNM's current severance pay for union and non-union employees, and includes six months of medical and dental coverage and life insurance premiums. PNM's estimated costs include severance for 168 employees at the SJGS and 12 employees of PNMR. PNM's job training costs are based on an estimate of $8,000 per employee.

PNM's claim for Westmoreland employees is based on severance for 185 employees. The Company assumed that it would pay six months of severance for these employees, above any amounts paid by Westmoreland, at an assumed annual salary of $80,000. While PNM intends to true-up the actual severance and job training costs for PNM and PNMR employees, it does not intend to true-up the actual costs of severance to Westmoreland employees.

Q. What adjustments are you recommending to the Company's claim for severance and job training costs?

A. All of the SJGS employees are employees of PNM. Pursuant to an agreement among the owners, costs for operating the SJGS, including labor costs, are shared based on each owner's interest in the facility. However, while PNM included only 58.7% of the estimated severance costs for PNM employees, it included 100% of the severance costs for PNMR and 100% of the job training costs. I am recommending that the NMPRC adjust job training expenses and PNMR severance expenses to reflect PNM's 58.7% ownership percentage of the abandoned coal plant facilities, rather than the 100% of expenses claimed by PNM in its filing. This is consistent with PNM's use of the ownership percentage to apportion PNM employee severance shown at Exhibit HEM-7. My adjustment results in an expense reduction of $1.7 million as shown on Schedule ACC-2.

PNM states in response to AG 1-2-15(B) that the severance of PNMR employees is a direct result of the abandonment of SJGS. As such, I recommend that it be treated for ratemaking purposes in the same manner as PNM employee severance – both of which are directly related to the plant abandonment. Therefore, I have provided an allowance for the PNMR expense at the ownership percentage applied in HEM-7 for coal plant employees.

I view job training expense as an employee-related cost that should also be apportioned fairly between all the plant owners who benefited from the employees' services. The employees who receive job training are not necessarily future PNM employees, as they must be severed to be eligible for the training. Therefore, I have provided an allowance for job training expenses in accordance with PNM's ownership percentage in SJGS.

It appears that PNM failed to anticipate these eventual job training and severance costs when it entered into an ownership agreement that did not provide for all of PNM's likely employee-related costs to be shared among the owners. Because these costs are directly related to the plant abandonment, these expenses are properly shared ownership expenses, and are not exclusively a PNM ratepayer responsibility, regardless of the ownership agreements. Certainly, ratepayers should not be on the hook for PNM overlooking the inevitable consequence of the shutdown of the generating facilities. The onus is on PNM to have provided for the recoupment of such costs among all the owners. And this ownership responsibility extends to PNM Merchant, who is responsible for a 7.673% share of the facility's common costs, per the response to AG 2-16A (1). There is certainly no reason for the PNM utility ratepayers to be responsible for 100% of the cost of job training and severance, when such common costs benefit another PNM entity, as well as other unaffiliated owners of the SJGS. Therefore, I recommend that the Commission disallow $1.7 million of these severance and job training costs as shown in Schedule ACC-2.

Q. Please discuss your $3.7 million reduction in coal mine severance costs for Westmoreland employees as shown in CONFIDENTIAL Schedule ACC-3, which is being filed under seal.

A. The Westmoreland severance costs is a more complicated issue, as PNM has failed to sufficiently identify the $7.4 million claim, the fact that PNM does not propose to true-up its estimate for actual coal mine severance expenses as required under the ETA, and the fact that PNM has no legal obligation to provide additional severance for the Westmoreland employees.

No party other than Westmoreland has any contractual obligation to provide for any severance to employees of the coal mine. In response to AG 1-7, PNM acknowledged that "PNM does not currently have any contractual obligation for severance or training of the coal mine employees." It appears that PNM has unilaterally decided to provide additional severance to these employees – at ratepayer expense. According to Mr. Monroy's testimony at page 21, Westmoreland will provide three months of severance to its own employees. PNM undertook to increase the severance for Westmoreland employees to match the severance paid to PNM's SJGS employees and came up with an estimate of $7.4 million. However, there is no support provided in the filing for this claim.

Although the NMPRC may decide that all of the Westmoreland severance and job training costs are not sufficiently identified in PNM's claim in this case, some severance and job training for these employees has been sufficiently identified because it appears that severance expenses for Westmoreland employees was contemplated under the ETA. The job training costs were included in the adjustment shown in Schedule ACC-2. In Schedule ACC-3, I have calculated an estimated severance expense for the Westmoreland employees, based on the amount necessary to bring Westmoreland employees to parity with PNM employees. My estimate is based on the actual wages and years of service for the Westmoreland employees, similar to the calculation at Exhibit HEM-7 for PNM employees. I have also assumed PNM's ownership percentage in this calculation as it is obvious that all other owners benefited from the services provided by Westmoreland employees.

My calculation results in an allowance of $3.7 million, approximately 50% of the amount claimed by PNM. It should be noted that PNM itself provided no support for the

$7.4 million it included in its filing for Westmoreland severance costs. When we asked for additional supporting calculations in discovery, the Company itself calculated an estimated cost of $3.7 million and then added an "additional coal mine severance" cost to reach the total claim of $20 million included in its filing pursuant to the ETA cap.[3] Thus, the company has sufficiently identified $3.7 million of the severance costs here.

Q. How do you define "parity" with PNM severance?

A. I used the actual Westmoreland average salaries for the coal mine workers and their actual average years of service, both of which were markedly lower than PNM's average salaries and years of service. It is appropriate for the purposes of this exercise to use the best estimate of what coal mine workers would have received had they been PNM employees, and that requires basing the calculation on the facts that are available for average salaries and years of service.

Q. Are severance expenses the only source of assistance for displaced workers?

A. No. In addition to providing for employee severance expenses, ratepayers are also providing funding to the Energy Transition Displaced Worker Assistance Fund, to be administered by the Workforce Solutions Department, in the amount of $12.1 million. Ratepayers are also funding the Energy Transition Indian Affairs Fund to be administered by the Indian Affairs Department, in the amount of $1.8 million and the Energy Transition

3 See the responses to AG 1-1(f) and AG 2-20.

Economic Development Assistance Fund to be administered by the Economic Development Department, in the amount of $5.9 million. These additional forms of assistance, to be provided solely by ratepayers, total $19.8 million. All of which have been sufficiently identified in the application.

Q. Are you troubled that PNM does not propose to true-up coal mine severance expense with actual expenses?

A. Yes, I am. Mr. Monroy simply states at page 28 of his direct testimony: "PNM does not anticipate to true-up these payments." The true-up required in the ETA Section 4 (B) (10) protects ratepayers from paying for expense estimates that prove to be excessive. Given that the coal mine severance is not subject to true-up, I do not believe there are any circumstances under which ratepayers should be required to pay for any more than the $3.7 million I have calculated in Schedule ACC-3. I would hope that PNM will see fit to recognize at least the Merchant Plant's ownership responsibility to provide some funding of these expenses as a 7.673% owner. PNM is also free to provide more funding for coal mine employee severance than is recommended by me, courtesy of its shareholders, if it believes the expense is warranted.

In summary, ratepayers should not be asked to pay a $7.4 million expense that has no proper identification in the filing and that is not even a contractual obligation of the utility. Further PNM's only "identification" of coal mine severance costs as required by

Section 4 (B) (2a) is $3.7 million, provided in response to AG 2-20, and that is the amount I recommend be included in securitization.

Q. Do you have any additional comments regarding severance and job training costs?

A. Yes, my recommendations are based on an assumption that SJGS Units 1 and 4 will actually shut down and that employees of both the plants and the coal mine will be terminated. As discussed earlier, Farmington has expressed an interest in continuing operations at the SJGS. If Farmington is successful in keeping the plant opened, then severance and job training costs may not be incurred by PNM. In that case, the securitization true-up process, discussed below, should be used to adjust PNM's projections for severance and job training costs for PNM and PNMR employees. In addition, while PNM does not plan to true-up its costs for Westmoreland employees, these costs should be reevaluated if the Westmoreland employees are not terminated. In addition, there may be other components of the Company's request for securitization that would need to be reconsidered if operations continue at the SJGS.

E. <u>Adjustments to Requested Regulatory Assets</u>

Q. Please summarize the regulatory assets being requested by PNM.

A. PNM is requesting six regulatory deferrals, as shown in the Exhibit HEM-13 (Corrected). These include:

- A true-up of actual to projected costs that are subject to securitization, pursuant to Section 4, Part B (10) of the ETA. The Company states that the amount and the amortization period are to be determined, but it is seeking rate base treatment for the unamortized balance of the deferral.
- A regulatory liability to account for the cost of service being collected in base rates in the event that the ETC becomes effective prior to the removal from base rates of the revenue requirement associated with the SJGS, pursuant to Section 4, Part B (11) of the ETA. The amount and amortization period for this deferral would be established in a future base rate case. The unamortized regulatory liability would be included in rate base.
- Carrying charges of $2.2 million on prepayments of severance, job training, and Section 16 costs. The Company is requesting a three-year amortization period for these costs but is not proposing to include the unamortized balance in rate base during the recovery period.
- Recovery of obsolete inventory costs of $6.3 million over a 25-year amortization period, with carrying charges on the unamortized balance.
- Recovery of external legal costs of $1.2 million associated with closure of the SJGS. The Company is seeking a 25-year amortization for these costs, with carrying charges on the unamortized balance.

- Recovery of $0.8 million for the RFP and regulatory approvals for the PPAs proposed in the replacement portfolio. The Company is seeking a 20-year amortization for these costs, with carrying charges on the unamortized balance.

Q. Please comment on the Company's request to true-up the amounts securitized with the actual costs incurred related to the closure of the SJGS.

A. Section 4, (B) (10) requires "a proposed ratemaking process to reconcile and recover or refund any difference between the energy transition costs financed by the energy transition bonds and the actual final energy transition costs incurred by the qualifying utility or the assignee." The Company is proposing to establish a regulatory asset or regulatory liability for these costs and to amortize this deferral in a future base rate case over a period to be determined, along with carrying charges. I have several concerns about this proposal.

While the ETA requires a "ratemaking process" to address any such variance, it does not mandate what that process should be. I am concerned that PNM's proposal could leave ratepayers at risk for millions of dollars in additional costs, and could leave ratepayers with an unknown liability for many years into the future. Therefore, I recommend that the NMPRC establish some parameters around this ratemaking process.

First, ratepayers have a right to know the extent of their liability for the total energy transition costs due to the abandonment of the SJGS facilities. Therefore, I recommend that all future rate making treatment related to the costs that are securitized be limited to the maximum amount of allowable securitization associated with abandonment cost under the ETA of $375 million. PNM proposes to securitize $331.6 million of the abandonment costs ($360.1 million total request less $8.7 million financing costs and less $19.8 million of Section 16 costs that are separately allowable) leaving it $43.4 million under the ETA's $375 million cap for securitized abandonment costs. Thus, while my recommendation to cap these expenses is unlikely to place any significant risk of abandonment on shareholders, it does offer some small improvement in the equitable balancing of interests and risks between the parties.

I further recommend that the provisions of Section 2 (H) of the ETA, that allow the inclusion in abandonment costs of up to $30 million of plant decommissioning and reclamation costs, and up to $20 million for severance and job training for affected employees, also serve as caps on these expenses for ratemaking purposes going forward. PNM currently proposes $20 million of severance and job training expenses and is thus already at the maximum allowable amount for securitization. However, if the NMPRC accepts my adjustment to eliminate $5.4 million of such costs ($1.7 million for PNM employees and $3.4 million for Westmoreland employees), then PNM should have some room under the cap for adjustment. Any such true-up, however, should still reflect the adjustments that I recommend to limit PNM's costs based on its ownership share of reasonable severance and job training costs. PNM's proposed $9.4 million of mine reclamation expense, coupled with its $19.2 million claim for plant decommissioning expenses, totals $28.6 million, leaving it $1.4 million under the $30 million maximum amount eligible for securitization.

Mr. Monroy states at page 19 of his direct testimony, "PNM has established a coal mine reclamation trust to set aside money for future reclamation work. PNM estimates that earnings from the trust would offset future accretion expense; therefore, PNM does not anticipate a need to collect any future costs associated with underground coal mine reclamation after the San Juan coal plant is abandoned in 2022." Mr. Monroy also states at page 25 of his testimony, "PNM will establish a plant decommissioning trust to set aside money for future plant decommissioning work. PNM estimates that earnings from the trust would offset future accretion expense; therefore, PNM does not anticipate a need to collect any future accretion expense associated with plant decommissioning costs after the San Juan coal plant is abandoned in 2022." PNM has satisfied itself, based on updated reclamation and decommissioning studies, as described in Mr. Monroy's testimony, that decommissioning in place, rather than demolition, is its preferred method of decommissioning (pending approval by all owners). It has claimed the updated expenses for this retirement-in-place method of decommissioning in its abandonment costs. Therefore, I believe it is entirely appropriate to cap the ratemaking treatment for decommissioning to the amount authorized for securitization under the ETA.

While PNM does not anticipate that it will need any more funding for these items in the future, I believe capping these expenses offers more assurance to ratepayers that they will not be on the hook for unforeseen expenses, and therefore is a significant element in balancing the interests of the parties. The NMPRC should guard against significant future increases for plant decommissioning costs and coal mine reclamation in the event that different methodologies are ultimately selected, especially as we may not know the final disposition of the plant for many years in the future.

Q. Please comment on the proposed regulatory liability in the event that the Energy Transition Charge becomes effective prior to the SJGS investment being removed from rate base.

A. Section 4 (B) (11) of the ETA requires "a ratemaking method to account for the reduction in the qualifying utility's cost of service associated with the amount of the undepreciated investments being recovered by the energy transition charge at the time that the charge becomes effective." The intent of this provision is to prevent the double-recovery of costs for the SJGS in both base rates and in the ETC. The Act requires the recognition of the reduction in the utility's *cost of service* associated with the abandoned plant. PNM proposes to establish a regulatory liability for the benefit of ratepayers *only* for the direct capital related charges for depreciation and rate of return on the abandoned plant, as described by Mr. Monroy at page 39 of his testimony. This is much too narrow a focus. For example, given that the ETC includes recovery of severance costs, it is unreasonable to also require ratepayers to continue to provide for the non-existent salaries and benefits for the severed employees that are also reflected in base rates. Yet in response to AG 1-29, which asked whether ratepayers would receive a cost of service credit for the SJGS employee wages and benefits that would help to offset PNM's proposed regulatory asset for severance costs, PNM stated that it was not planning on providing any such credit. Instead, PNM stated that "t]he overall operating costs and revenues of PNM should be reviewed in a general rate review, and not apply piece meal ratemaking to this discrete item." PNM provided a similar response when asked about the other operating and maintenance costs that will cease when SJGS is closed.

Q. What do you recommend concerning the establishment of a regulatory asset in the event the ETC begins to be collected prior to the establishment of rates that reflect the plant abandonment?

A. Mr. Monroy testifies that the 2023 non-fuel revenue requirement for the SJGS is estimated to be $94 million, as shown in Table HEM-1 (Corrected) to his testimony. Once ratepayers begin to pay the ETC, then ratepayers should begin to receive a credit for all of the SJGS revenue requirement, and not just for depreciation and return on capital costs. All of the SJGS cost of service should be credited back to ratepayers for the period of time, if any, between the date of abandonment and the timing of new rates. Anything less than a full credit back to ratepayers allows PNM a double-recovery of its cost of service – and that is exactly what Section 4 (B) (11) of the ETA seeks to avoid.

I recommend that the mechanism to protect ratepayers in the event that the ETC is effective prior to the removal of the SJGS from base rates be expanded to include all cost of service elements associated with the SJGS, rather than limiting this regulatory mechanism solely to a return on and a return of the undepreciated investment. Therefore, I recommend that the Commission find that PNM's proposal is deficient concerning

Section 4 (B) (11) compliance and require instead that a regulatory liability be established for the benefit of ratepayers based on a daily rate of $257,532 ($94 million/365) for every day that PNM collects the ETC prior to the abandonment of the SJGS being reflected in base rates. This regulatory liability should be returned to customers over a period to be determined by the Commission in a subsequent base rate case, along with carrying charges.

Q. Please list and describe the regulatory assets that you recommend be disallowed for ratemaking purposes.

A. PNM seeks regulatory approval for four regulatory assets in Exhibit HEM-13 (Corrected) that are not provided for under the ETA, as shown in my Schedule ACC-1. These proposed regulatory assets represent 1) $0.9 million of carrying costs as originally filed for prepaid Section 16 costs and job training expenses, plus an additional $1.3 million of carrying costs for Westmoreland severance, per the errata filing (Monroy, page 5), 2) $6.3 million of obsolete inventory, 3) $1.2 million for outside legal expenses, and 4) $0.8 million for RFP and regulatory approval costs allocated to PPAs.

Q. Has PNM offered to offset its request for regulatory assets with regulatory liabilities for expenses that will be eliminated before new rates will be in effect?

A. No, it has not. PNM acknowledges in response to AG 2-8 that “As PNM approaches the proposed abandonment date for SJGS, less capital expenditures and operating expenses will be required to operate the plant.” But when asked if such abandonment-related savings should be returned to ratepayers, the response was that "The overall operating costs and revenues of PNM should be reviewed in a general rate review, and piece meal ratemaking should not apply to this discrete item." But if there is a discrete item that *increases* costs, PNM has requested special ratemaking treatment for it. And even in the clear-cut case concerning the salaries of severed employees that will persist in base rates , PNM refuses to entertain a regulatory liability for the benefit of ratepayers equal to the avoided costs of salaries, wages and benefits, per its response to AG 1-29, claiming that such changes in operating expenses, though explicitly linked to the abandonment of the plant, "should not be treated any differently than any other cost component of PNM that will be different from the cost structure and revenue requirements that were used to set PNM's current rates." This one-sided mismatch of savings and expenses, that only benefits PNM, should not be tolerated. It is possible that PNM is already over-earning its authorized return on a ratemaking basis under current rates. It should not be allowed special ratemaking treatment for discrete items that increase its income at the expense of ratepayers. Therefore, I recommend that all requests in this filing for regulatory assets that are not provided for under the ETA be denied. This position is consistent with the disallowance of PNM's $13.6 million proposed regulatory asset in the Modified Stipulation in Case No. 13-00390-UT, concerning the abandonment of Units 2 and 3.

Q. Please describe the request for a regulatory asset for prepaid Section 16 costs and job training expenses.

The first request is for the carrying costs of $2.2 million shown in Exhibit HEM-12 (Corrected) that arise from PNM's intention to prepay 25% of the Section 16 costs, or approximately $4.95 million, plus job training costs of $1.34 million for SJGS PNM employees, and another $8.88 million for job training and severance costs for Westmoreland employees. The carrying costs requested as a regulatory asset on the prepayments of the above costs is $2,180,336.

Q. Why do you object to PNM including carrying cost on the prepayments discussed above in the next general rate case?

A. PNM acknowledges, as referenced above, that the carrying costs on its proposed prepayments are not includable in its abandonment costs under the ETA. If PNM wants to prepay these costs, it has every right to do so. However, if PNM chooses to prepay these costs, the Company and its shareholders should forego carrying costs on these prepayments. Ratepayers will be responsible for paying 100% of the underlying severance and job training costs, up to $20 million. In addition, ratepayers will be responsible for 100% of the underlying Section 16 costs of $19.8 million. They should not also be required to provide PNM's shareholders with carrying costs on these payments, since such carrying costs would inure only to the benefit of shareholders and not to the intended recipients of the Section 16 costs or to ratepayers. Further, prepayments made at the election of a utility company, arising between rate cases, and accruing rather modest amounts of carrying costs, do not rise to the level that requires special regulatory treatment. Accordingly, I recommend that the Company's request to recover $2.2 million in carrying costs for the prepayment of severance, job training, and Section 16 costs be denied.

Q. Please describe the second proposed regulatory asset for obsolete inventory.

A. PNM estimates it will have an ownership share in obsolete materials and supplies inventory of $6.3 million, which it proposes to amortize over 25 years, as shown at HEM-13 (Corrected). I recommend that a regulatory asset for this one-time expense be denied. This cost is not provided for, nor recoverable, under the ETA. PNM will have several years to manage its materials and supplies in order to minimize the amount of obsolete inventory when the plant is finally shut own. Approving a regulatory asset for this obsolete inventory will diminish the Company's incentive to minimize this inventory over the next few years, to transfer the inventory to other facilities, and to use best efforts to maximize the salvage value of the assets. In addition, denying the Company's request to recover obsolete inventory from ratepayers will at least require shareholders to make a token contribution to the costs resulting from the early retirement of the SJGS – a cost for which shareholders would be entirely responsible under a traditional regulatory mechanism. Therefore, I recommend that the NMPRC deny the Company's request to establish a regulatory asset for any obsolete inventory resulting from the early closure of the SJGS.

Q. Please describe the proposed regulatory asset for external legal costs of $1.2 million associated with early closure of the plant.

A. PNM seeks to recover its costs for outside legal counsel that it anticipates will be necessary to exit its ownership agreement with the other owners. PNM proposes to collect an estimated $1.2 million over the 25-year life of the bonds, with rate base treatment for the unamortized balance, as shown in Exhibit HEM-13 (Corrected).

Q. Why do you object to regulatory asset treatment for this expense?

A. I do not believe this expense rises to the level of requiring special regulatory treatment. There are numerous legal expenses that occur between base rate cases, as well as numerous legal settlements, some of which would likely benefit PNM. In fact, in response to Interrogatory AG 2-5, PNM refused to provide the amount of legal settlements it has received in the last five years, even though such settlements may offset the cost of outside counsel. PNM also refused to provide information on costs incurred for outside counsel in prior years, or a forecast of such expenses for the next three years, as evidenced by its response to AG 2-4. Given the fact that all approved Energy Transition Costs for the abandonment of the facility are guaranteed to be recovered under the proposed bond securitization, it seems unreasonable for PNM to also require ratepayers to pay $1.2 million in legal costs, and to provide 25 years of carrying costs on these legal fees. Requiring PNM's shareholders to absorb this cost would also provide an incentive to PNM to manage these costs – an incentive that will not be present if PNM is guaranteed recovery from ratepayers. Therefore, I recommend that PNM's request for a regulatory asset for these legal costs be denied, as shown in Schedule ACC-1.

Q. Please describe the regulatory asset requested for the allocation of regulatory approval costs to the PPAs in the amount of $834,811.

A. PNM is requesting a regulatory asset for RFP and regulatory approval costs that it proposes to allocate to the replacement PPAs in the amount of $834,811 (Exhibits HEM-13 (Corrected) and HEM-15) to be amortized into rates over the 20-year life of the PPA, with rate base treatment for the unamortized balance.

Q. Should this regulatory asset be approved?

A. No. I do not believe the allocation of $2.1 million (per Exhibit HEM-15) for regulatory approval costs, based on PNM's proposed equal cost allocations to each of the five replacement assets included in Scenario 1, is sufficient basis to ask for special rate treatment of the portion allocated to the PPAs. PNM proposes to capitalize 60% of its costs for PNM-owned replacement assets. However, no individual expenses were tracked and reported for work spent on the PPAs themselves, even though 40%, or $834,811 of the $2.1 million is allocated to the PPAs. HEM-15 shows that $311,000 of the total $2.1 million for the selection of replacement resources, or about 15% of total regulatory approval expense, is for internal labor costs. These costs could have been directly assigned in employee time-sheets, and used as a basis to allocate the remaining costs that are not directly assigned. Moreover, these internal labor costs were already provided for in current rates in any case, as the bulk of these expenditures occurred prior to April 2019. PNM indicates in response to AG 2-6(b) regarding RFP costs for PPAs that "If a regulatory asset is not created, RFP process costs are expensed in the year in which they are incurred." I think that is the appropriate result for these RFP costs allocated to the PPAs.

I recommend PNM's proposed allocation of $834,811 of regulatory expense allocated to the PPAs, to be recovered as a regulatory asset over 20 years be denied. This recommendation will also modestly improve the balance of interests between shareholders and ratepayers.

Q. Are there additional on-going costs associated with the closure of the SJGS that have not been addressed?

A. Yes, there are. In addition to the costs that will be securitized and the requested regulatory assets, there are also on-going operating expenses associated with the SJGS. Mr. Fallgren has identified approximately $0.6 million of such costs, as discussed on page 42 of his testimony. PNM is not making a claim for these expenses in this filing. I recommend that these on-going costs be addressed in a general rate case when such expenses are incurred by the utility. I recommend that the Order in this case contain specific language that the recovery of such ongoing costs is not in any way approved in this proceeding, but that all such on-going operating costs will be addressed in a future base rate case.

In addition, in the Company's next base rate case, the NMPRC should also examine the issue of how EDIT associated with SJGS Units 1 and 4 should be returned to ratepayers. EDIT results from implementation on January 1, 2018 of the Tax Cut and Jobs Act of 2017 ("TCJA"). As a result of the TCJA, deferred taxes that were collected from ratepayers at a rate of 35% were revalued to reflect a federal income tax rate of 21%. The difference between deferred taxes at the 35% rate and deferred taxes at the 21% rate must be credited back to ratepayers. There are two types of deferred taxes – protected deferred taxes, which must be credited back to ratepayers over the remaining life of the underlying plant assets and unprotected deferred taxes, which may be credited back over any reasonable period. In this case, PNM has indicated that both protected and unprotected EDIT are being credited back to ratepayers over a period of approximately 46 years. However, the Company admits that there is uncertainty regarding the required timeframe for crediting EDIT back to customers once the underlying plant assets are removed from utility rates. At the time of abandonment, PNM estimates that there will be approximately $18.7 million of protected EDIT associated with the SJGS Units 1 and 4, and approximately $14.6 million of unprotected EDIT associated with the assets. It is likely that at least a portion of the EDIT could be returned to ratepayers over a period of significantly less than 46 years. This is a ratemaking issue that the NMPRC should address in the Company's next base rate case, when perhaps we will have further clarification from the Internal Revenue Service and U.S. Treasury on what rules apply to the return of this EDIT to ratepayers.

VI. RECOMMENDATIONS IF THE ENERGY TRANSITION ACT DOES NOT APPLY

Q. Assuming that the ETA does not apply in this proceeding, what criteria did the NMAG utilize to evaluate the proposals contained in the Company's Application?

A. In utility proceedings before the NMPRC, the NMAG is charged with representing the interests of residential and small commercial customers in the state. The NMAG is therefore concerned about the rate impact of any proposals put forth by the utilities in the state. The NMAG is also concerned about environmental issues and economic issues that impact the overall well-being of the residents of New Mexico. The NMAG also recognizes that the state's utilities have an obligation to comply with certain federal regulations, including environmental regulations promulgated by the EPA. Therefore, the NMAG supports a resolution of the issues in this case that will protect New Mexico's environmental and economic interests while minimizing the impact on residential and small commercial customers' bills associated with the costs of meeting environmental mandates. This is the criteria that I used to evaluate PNM's proposals in this case, in the event the ETA does not apply.

Q. Has the Company attempted to allocate the risks of complying with environmental mandates between its shareholders and New Mexico ratepayers?

A. No, it has not. The most striking feature of the Company's proposal is that it assumes that ratepayers should be responsible for all risks associated with environmental compliance, including the early closure of the SJGS Units 1 and 4. The Company's proposal does not reflect any cost to shareholders. Under the Company's proposal, shareholders recover 100% of their investment in the SJGS Units 1 and 4, and they will recover this investment sooner than they otherwise would have. In addition, shareholders will continue to earn a return on, and of, new investment in PNM. The largest flaw in the Company's proposal is that there is no recognition of the fact that shareholders should bear some of the responsibility for addressing environmental compliance, including the early closure of the SJGS Units 1 and 4.

Q. Why do you believe that shareholders should bear some responsibility for abandonment costs relating to SJGS?

A. In the ratemaking process, shareholders receive a return on equity that reflects a premium over the cost of debt, for the simple fact that equity is risky. Unlike bondholders, shareholders have no contractual guarantee to any return, either on or of their investment. This is true not only for utility shareholders but for shareholders of all equity holdings. Because of this risk, regulatory commissions award utilities a return on equity that is higher than the amount awarded to bondholders. Moreover, the returns awarded to utility shareholders are well above the risk-free market rates of interest. The reason that shareholders are awarded a risk premium over the risk-free market rate is because they are supposed to be taking some risk. Not only are they supposed to be taking on some risk, but that risk is supposed to be greater than the risk borne by the utility's bond holders.

One of the risks assumed by shareholders is the risk that they will not, in fact, receive a full return on and of their investment. Again, if such a return was assured, then there would be no reason for any return over a risk-free rate. While shareholders are happy to receive this risk premium in a base rate case, they are loathe to actually assume any costs associated with this risk when faced with unexpected events, such as the abandonment of facilities previously used to provide utility service.

Q. How did you attempt to balance the risks related to environmental compliance between ratepayers and shareholders?

A. I have generally applied traditional ratemaking principles to the Company's proposals. In doing so, I have been particularly mindful of the fact that shareholders must bear some risk, and are not guaranteed recovery of all previously-incurred costs. In that way, I have attempted to balance the risks and rewards in evaluating the Company's proposals.

Q. What adjustments to the Company's proposals are you recommending in this case?

A. As discussed above, I am generally supportive of the Company's plan to retire San Juan Units 1 and 4. In addition, I am also not opposed to the use of securitization as a means to recover that portion of stranded investment that the NMPRC determines should be recovered from New Mexico ratepayers. However, if the law does not require it, I am opposed to the assumption that New Mexico ratepayers should be responsible for 100% of stranded costs. In fact, there is no reason why ratepayers should be responsible for any of these costs, once these units are no longer being used to provide regulated utility service.

Q. Why should the NMPRC deny PNM's request to recover undepreciated investment in San Juan Units 1 and 4 from New Mexico ratepayers?

A. It is a basic premise of utility ratemaking that ratepayers pay for investment that is used and useful in the provision of regulated utility service. To the extent that investment is not being used to provide utility service, then it should be excluded from regulated rates.

Q. How would you respond to an argument that the environmental mandates that are driving this abandonment were not the fault of the Company and therefore the Company's shareholders should not be required to pay any of these costs?

A. While shareholders may not be responsible for environmental mandates, ratepayers are not responsible for such mandates either. However, the difference between shareholders and ratepayers is that shareholders assumed the risk of non-recovery when they invested in PNM. As previously stated, the stock market is a risky business, which is why equity investors are awarded a return that is higher than the cost of debt, and significantly higher than the risk-free rate available in the market. Shareholders knew, or should have known, that they were assuming some risk when they purchased PNM stock. Now that a negative event has occurred and certain generating assets are being abandoned, it is unreasonable for the Company to argue that shareholders have no responsibility for the costs associated with this abandonment. If shareholders wanted to eliminate all risk of their investment, then they should have invested in risk-free instruments, or accepted a low risk-free rate in exchange for assurances that 100% of their investment would be returned. This is especially true in this low-interest rate environment. The Company's currently authorized return on equity is 9.575%. For that rate of return award, shareholders should have expected to assume some risk of recovery. Accordingly, shareholders have no right to now expect that all costs associated with abandonment of San Juan Units 1 and 4 will be recovered from ratepayers.

Q. What would be the impact on PNM if it is unable to recover these undepreciated costs from ratepayers?

A. In the event that the NMPRC does not permit PNM to recover these costs from ratepayers, then the costs would effectively be "recovered" from shareholders. What this means is that PNM would be required to write-off these costs on its balance sheet. Since accounting is a double-entry system, for every debit there must be a corresponding credit. Thus, the Company would remove these costs from utility assets and would make a corresponding reduction to its equity balance. Shareholders would "pay" these costs through a reduction in the equity on the Company's Balance Sheet.

Q. Is it possible that any such write down would impact the Company's credit rating?

A. It is difficult to say what, if any, impact such a write-down would have on PNM's credit rating. While there are broad guidelines used by the rating agencies to evaluate the credit worthiness of companies, in fact credit ratings are more of an art than a science. Thus, rating agencies take a multitude of factors into account when determining the rating for a particular company. They are also fairly slow to change a company's credit rating. Moreover, credit rating agencies as well as stock analysts are generally less concerned about one-time events than they are about future prospects and future uncertainty. Thus, it is by no means certain that the Company's credit rating would fall if PNM is required to write-down the undepreciated investment associated with San Juan Units 1 and 4.

I generally support efforts by utilities to maintain investment grade credit ratings. An investment grade rating generally results in lower debt costs for utilities, and therefore for ratepayers, although such is not always the case. For example, it may be better for ratepayers to pay less in stranded costs, and slightly higher debt costs, then to pay for recovery of 100% of stranded investment.

Moreover, if PNM's credit rating did decline as a result of a write-down, there would not necessarily be a significant impact on utility service. PNM has written off investment in the past and has experienced periods where its credit rating has been below investment grade. Nevertheless, PNM continued to provide safe and reliable utility service to New Mexico ratepayers. While a credit downgrade would likely result in higher interest rates for new debt, past history has shown that utility service itself is not likely to be impacted. Moreover, over time, utilities that have been downgraded to below investment grade have the ability to improve their ratings, as demonstrated by PNM.

Q. Are there actions that the NMPRC could take that would mitigate the impact of any such write-off on the Company's credit rating?

A. Yes, there are. For example, if the Company's credit rating suffers as a result of a write-off, then the NMPRC could adopt the use of a hypothetical capital structure when setting rates for PNM until such time as its credit rating rebounds. In this way, ratepayers would not be paying a return on or a return of investment that was no longer serving them, but they would be paying rates that reflected a higher equity level than the actual equity ratio on the Company's Balance Sheet. The use of a hypothetical capital structure is not unusual in situations where a utility commission finds that the actual capital structure is inappropriate for ratemaking purposes. In addition, the NMPRC could provide assurances that it would include the Company's actual debt costs in rates in the event that those costs increase as a result of a write-off. Thus, there are several ratemaking adjustments that the NMPRC could adopt in order to mitigate the negative impacts of such a write-off.

Q. What do you recommend?

A. I recommend that the NMPRC approve the abandonment of SJGS Units 1 and 4, but deny the Company's request to recover 100% of its stranded costs from ratepayers. In fact, a possible result is that 100% of any stranded costs are allocated to shareholders, rather than New Mexico ratepayers. However, if the NMPRC determines that New Mexico ratepayers should be responsible for some portion of stranded costs, then I recommend that the NMPRC limit recovery to 50% of stranded costs, similar to the treatment authorized for SJGS Units 2 and 3 in the 390 Docket. I am not opposed to the Company using securitization to recover any portion of stranded costs that the NMPRC determines should be recovered from ratepayers.

Q. Does this conclude your testimony?

A. Yes, it does.

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Public Service Company of New Mexico	E	New Mexico	19-00018-UT	10/19	Abandonment of SJGS and Stranded Cost Recovery	Office of Attorney General
Rockland Electric Company	E	New Jersey	ER19050552	10/19	Revenue Requirements	Division of Rate Counsel
Avista Corporation	E/G	Washington	UE-190334/UG-190335	10/19	Revenue Requirements	Public Counsel Unit
Westar Energy, Inc.	E	Kansas	19-WSEE-355-TAR	6/19	JEC Capacity Purchase	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	19-EPDE-223-RTS	5/19	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E/G	New Jersey	EO18060629/ G018060630	3/19	Energy Strong II Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	18-00308-UT	2/19	Voluntary Renewable Energy Program	Office of Attorney General
Zero Emission Certificate Program (Various Applicants)	E	New Jersey	EO18080899	1/19	Zero Emission Certificates Subsidy	Division of Rate Counsel
Public Service Company of New Mexico	E	New Mexico	18-00043-UT	12/18	Removal of Energy Efficiency Disincentives	Office of Attorney General
Kansas Gas Service	G	Kansas	18-KGSG-560-RTS	10/18	Revenue Requirements	Citizens' Utility Ratepayer Board
New Mexico Gas Company	G	New Mexico	18-00038-UT	9/18	Testimony in Support of Stipulation	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	18-KCPE-480-RTS	9/18	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E/G	New Jersey	ER18010029/ GR18010030	8/18	Revenue Requirements	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	18-WSEE-328-RTS	6/18	Revenue Requirements	Citizens' Utility Ratepayer Board
Southwestern Public Service Company	E	New Mexico	17-00255-UT	4/18	Revenue Requirements	Office of Attorney General
Empire District Electric Company	E	Kansas	18-EPDE-184-PRE	3/18	Approval of Wind Generation Facilities	Citizens' Utility Ratepayer Board
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	18-KCPE-095-MER	1/18	Proposed Merger	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Co.	E	New Jersey	GR17070776	1/18	Gas System Modernization Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	17-00044-UT	10/17	Approval of Wind Generation Facilities	Office of Attorney General
Kansas Gas Service	G	Kansas	17-KGSG-455-ACT	9/17	MGP Remediation Costs	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER17030308	8/17	Base Rate Case	Division of Rate Counsel
Public Service Company of New Mexico	E	New Mexico	16-00276-UT	6/17	Testimony in Support of Stipulation	Office of Attorney General
Westar Energy, Inc.	E	Kansas	17-WSEE-147-RTS	5/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	17-KCPE-201-RTS	4/17	Abbreviated Rate Case	Citizens' Utility Ratepayer Board

Company	Utility	State	Docket	Date	Topic	On Behalf Of
GPE/ Kansas City Power & Light Co., Westar Energy, Inc.	E	Kansas	16-KCPE-593-ACQ	12/16	Proposed Merger	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	16-KGSG-491-RTS	9/16	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00312-UT	7/16	Automated Metering Infrastructure	Office of Attorney General
Kansas City Power and Light Company	E	Kansas	16-KCPE-160-MIS	6/16	Clean Charge Network	Citizens' Utility Ratepayer Board
Kentucky American Water Company	W	Kentucky	2016-00418	5/16	Revenue Requirements	Attorney General/LFUCG
Black Hills/Kansas Gas Utility Company	G	Kansas	16-BHCG-171-TAR	3/16	Long-Term Hedge Contract	Citizens' Utility Ratepayer Board
General Investigation Regarding Accelerated Pipeline Replacement	G	Kansas	15-GIMG-343-GIG	1/16	Cost Recovery Issues	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	15-00261-UT	1/16	Revenue Requirements	Office of Attorney General
Atmos Energy Company	G	Kansas	16-ATMG-079-RTS	12/15	Revenue Requirements	Citizens' Utility Ratepayer Board
El Paso Electric Company	E	New Mexico	15-00109-UT	12/15	Sale of Generating Facility	Office of Attorney General
El Paso Electric Company	E	New Mexico	15-00127-UT	9/15	Revenue Requirements	Office of Attorney General
Rockland Electric Company	E	New Jersey	ER14030250	9/15	Storm Hardening Surcharge	Division of Rate Counsel
El Paso Electric Company	E	New Mexico	15-00099-UT	8/15	Certificate of Public Convenience - Ft. Bliss	Office of Attorney General
Southwestern Public Service Company	E	New Mexico	15-00083-UT	7/15	Approval of Purchased Power Agreements	Office of Attorney General
Westar Energy, Inc.	E	Kansas	15-WSEE-115-RTS	7/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	15-KCPE-116-RTS	5/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR14101099-1120	4/15	Cable Rates (Form 1240)	Division of Rate Counsel
Liberty Utilities (Pine Buff Water)	W	Arkansas	14-020-U	1/15	Revenue Requirements	Office of Attorney General
Public Service Electric and Gas Co.	E/G	New Jersey	EO14080897	11/14	Energy Efficiency Program Extension II	Division of Rate Counsel
Exelon and Pepco Holdings, Inc.	E	New Jersey	EM14060581	11/14	Synergy Savings, Customer Investment Fund, CTA	Division of Rate Counsel
Black Hills/Kansas Gas Utility Company	G	Kansas	14-BHCG-502-RTS	9/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	14-00158-UT	9/14	Renewable Energy Rider	Office of Attorney General
Public Service Company of New Mexico	E	New Mexico	13-00390-UT	8/14	Abandonment of San Juan Units 2 and 3	Office of Attorney General
Atmos Energy Company	G	Kansas	14-ATMG-320-RTS	5/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Rockland Electric Company	E	New Jersey	ER13111135	5/14	Revenue Requirements	Division of Rate Counsel
Kansas City Power and Light Company	E	Kansas	14-KCPE-272-RTS	4/14	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Comcast Cable Communications	C	New Jersey	CR13100885-906	3/14	Cable Rates	Division of Rate Counsel
New Mexico Gas Company	G	New Mexico	13-00231-UT	2/14	Merger Policy	Office of Attorney General
Water Service Corporation (Kentucky)	W	Kentucky	2013-00237	2/14	Revenue Requirements	Office of Attorney General

Appendix B
Schedule ACC-1

PNM ABANDONMENT CASE
NMPRC CASE NO. 19-00018-UT
ABANDONMENT AND RELATED COSTS

	PNM Position (A)	Adjustment	Recommended Position	Percentage Allowed
ETA Costs:				
Upfront Finacing Costs	$ 8.7	$ -	$ 8.7	
Abandonment Costs:				
NBV San Juan Coal Plant	283.0	-	283.0	
Underground Coal Mine True-up	9.4	-	9.4	
Plant Decommissioning	19.2	-	19.2	
Job Training & Severance: (B)	20.0	(5.4)	14.6	
Subtotal Abandonment Costs	331.6	(5.4)	326.2	
Section 16 Costs	19.8	-	19.8	
Total ETA Amount to be Financed	$ 360.1	$ (5.4)	$ 354.7	98.5%
One- Time Expense Items Claimed:				
Carrying Costs On Prepayments as Filed	$ 0.9	$ (0.9)	$ -	
Errata Coal Mine Carrying Costs (C)	1.3	(1.3)	-	
Obsolete Inventory	6.3	(6.3)	-	
External Legal Costs	1.2	(1.2)	-	
Regulatory Approval Costs Allocated to PPAs	0.8	(0.8)	-	
Total One-Time Costs	$ 10.5	$ (10.5)	$ -	
Grand Total	$ 370.6	$ (15.9)	$ 354.7	95.7%

Sources:
(A) PNM Exhibit HEM-13 (Corrected).
(B) Schedule ACC-2.
(C) PNM Exhibit HEM-12 (Corrected).

Appendix B
Schedule ACC-2

PNM ABANDONMENT CASE
NMPRC CASE NO. 19-00018-UT
Employee Severance and Job Training Costs

Job Training and Severance Claimed at 100% by PNM:

1. PNMR Proposed Severance Exh. HEM-7	$	1,353,082
2. Proposed Coal Mine Job Training Exh. HEM-12		1,480,000
3. Proposed PNM Employee Job Training Exh. HEM-12		1,344,000
4. Total PNM Proposed Costs	$	4,177,082
5. PNM Ownership Share HEM-7		0.587
6. Recommended Allowance L.4 x L.5	$	2,451,947
7. Recommended Adjustment L.6 - L.4	$	(1,725,135)
8. Separate Coal Mine Severance Adjustment Schedule ACC-3	$	(3,680,909)
9. Total Adjustment to Employee Severance and Training	$	(5,406,044)

CONFIDENTIAL

APPENDIX B, SCHEDULE ACC-3

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF PUBLIC SERVICE COMPANY OF NEW MEXICO'S ABANDONMENT OF SAN JUAN GENERATING STATION UNITS 1 AND 4	)	**NMPRC Case No. 19-00018-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
APPLICANT.	)	

AFFIDAVIT OF ANDREA C. CRANE

STATE OF FLORIDA)
) ss.
COUNTY OF BROWARD)

Andrea C. Crane, President of The Columbia Group, Inc., upon being first duly sworn according to law, under oath, deposes and states: That I have read the foregoing "Direct Testimony of Andrea C. Crane" and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 17th day of October, 2019.

Andrea C. Crane

ANDREA C. CRANE

SUBSCRIBED AND SWORN TO before me by Andrea C. Crane on this 17th day of October, 2019.

Elizabeth Jacobs

NOTARY PUBLIC IN AND FOR THE STATE OF FLORIDA

My Commission Expires: 5/5/23

Notary Public State of Florida
Elizabeth Jacobs
My Commission GG 330722
Expires 05/05/2023

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF PUBLIC SERVICE COMPANY OF NEW MEXICO'S ABANDONMENT OF SAN JUAN GENERATION STATION UNITS 1 AND 4	))))	**Case No. 19-00018-UT**

CERTIFICATE OF SERVICE

I CERTIFY that on this date I sent to the parties and individuals listed here, via email only, a true and correct copy of the **Direct Testimony of Andrea C. Crane on behalf of the Office of the Attorney General**.

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