

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S)
RENEWABLE ENERGY ACT PLAN)
FOR 2022 AND PROPOSED 2022 RIDER)
RATE UNDER RATE RIDER NO. 36,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant.)
_____)**

Case No. 21-00 ____-UT

**DIRECT TESTIMONY
OF
THOMAS S. BAKER**

June 1, 2021

NMPRC CASE NO. 21-00 ____-UT
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WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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1

I. INTRODUCTION AND PURPOSE

2 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

3 **A.** My name is Thomas S. Baker. I serve as Manager, Cost of Service, for PNMR Services
4 Company and its affiliates, including Public Service Company of New Mexico (“PNM”
5 or the “Company”). My business address is Public Service Company of New Mexico,
6 414 Silver SW, Mail Stop 0915, Albuquerque, NM 87102.

7

8 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
9 **PROFESSIONAL EXPERIENCE.**

10 **A.** My educational background and professional experience are summarized in PNM
11 Exhibit TSB-1, which includes a list of cases in which I have testified before the New
12 Mexico Public Regulation Commission (“Commission” or “NMPRC”).

13

14 **Q. HAVE YOU PREPARED ADDITIONAL EXHIBITS?**

15 **A.** Yes, as follows:

- 16 • PNM Exhibit TSB-2: Summary 2022 Renewable Rider Revenue Requirement –
17 Projected;
- 18 • PNM Exhibit TSB-3: 2022 Estimated Annual Revenue Requirement for the PNM-
19 Owned 2011 Facilities;
- 20 • PNM Exhibit TSB-4: 2022 Estimated Annual Revenue Requirement for the PNM-
21 Owned 2013 Facilities;

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- 1 • PNM Exhibit TSB-5: 2022 Estimated Annual Revenue Requirement for the PNM-
2 Owned 2014 Facilities;
- 3 • PNM Exhibit TSB-6: 2022 Estimated Annual Revenue Requirement for the PNM-
4 Owned 2019 Facilities;
- 5 • PNM Exhibit TSB-7: 2022 Estimated Annual Revenue Requirement for Purchased
6 Power Agreements and Renewable Energy Certificate Purchases;
- 7 • PNM Exhibit TSB-8: December 31, 2020 Year End Weighted Average Cost of
8 Capital;
- 9 • PNM Exhibit TSB-9: Estimated Annual Revenue Requirement for the Sky Blue
10 Regulatory Asset; and
- 11 • PNM Exhibit TSB-10: Estimated Balance of the Sky Blue Regulatory Asset
12 Related to the Unused 2018 Vintage Sky Blue RECs.

13

14 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

15 **A.** The purpose of my testimony is to provide the revenue requirement components of
16 PNM’s Renewable Energy Rider No. 36 (“Rider 36” or “Rider”) rate to be effective
17 January 1, 2022 (“2022 Rider Rate”). I also discuss the annual earnings test and the
18 Rider 36 true-up procedures and address requirements from the Commission’s final
19 orders in Case Nos. 19-00159-UT and 20-00124-UT regarding the 2020 revenue
20 requirements for the PNM-Owned 2019 Solar Facilities.

21

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1 **II. REVENUE REQUIREMENT COMPONENTS OF THE 2021 RIDER**

2 **Q. PLEASE IDENTIFY THE REVENUE REQUIREMENT COMPONENTS OF**
3 **THE PROPOSED 2021 RIDER RATE.**

4 **A.** PNM Exhibit TSB-2 summarizes the annual revenue requirement used in the derivation
5 of the 2022 Rider Rate. The total estimated annual revenue requirement to be collected
6 under the 2022 Rider Rate is \$66,901,332, and is comprised of the following:

7

- 8 1. \$4,852,626 for PNM-Owned 2011 Solar Facilities;
- 9 2. \$3,857,755 for PNM-Owned 2013 Solar Facilities;
- 10 3. \$4,251,463 for PNM-Owned 2014 Solar Facilities;
- 11 4. \$7,856,773 for PNM-Owned 2019 Solar Facilities;
- 12 5. \$761 for PNM-Owned 2015 Facilities Western Renewable Energy Generation
13 Information System (“WREGIS”) REC fees;
- 14 6. \$2 for the WREGIS REC fees associates with the output from the solar
15 resources at the Mesa Del Sol Micro Grid Project;
- 16 7. \$6,437,494 for the purchases under the Lightning Dock PPA, based on the
17 projected purchase of 65,526 MWh;
- 18 8. \$7,088,642 for the purchases under the Red Mesa Wind PPA, based on the
19 projected purchase of 221,000 MWh;
- 20 9. \$16,583,190 for the purchases under the New Mexico Wind Energy Center
21 (“NMWEC”) PPA, based on the projected purchase of 608,379 MWh;

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- 1 10. \$9,391,758 for the purchases under the La Joya II PPA, based on the projected
2 purchase of 537,163 MWh;
- 3 11. \$774 for WREGIS REC fees associated with the purchases under the Jicarilla
4 Solar purchased power agreement (“PPA”), based on the projected purchase of
5 96,809 MWh;
- 6 12. \$3,157 for WREGIS REC fees associated with the purchases under the Arroyo
7 Solar purchased power agreement, based on the projected purchase of 394,598
8 MWh ;
- 9 13. \$2,169 for WREGIS REC fees associated with the purchases under the San
10 Juan 1 Solar purchased power agreement, based on the projected purchase of
11 271,146 MWh;
- 12 14. \$6,170,267 for the REC purchases under PNM’s Distributed Generation
13 (“DG”) REC Purchase Programs as described in the direct testimony of PNM
14 witness Shane Gutierrez;
- 15 15. \$383,697 for the revenue requirement associated with the 2018 vintage RECs
16 associated with the 1.5 MW solar facility that sources the Sky Blue voluntary
17 renewable energy program;
- 18 16. \$4,281 reduction for the estimated WREGIS fees associated with projected
19 banked RECs;
- 20 17. \$25,000 of estimated costs associated with providing public notice of the 2022
21 Renewable Energy Act (“REA”) Plan filing and the proposed revision of Rider
22 36, and for other direct costs of this filing; and
- 23 18. PNM’s annual WREGIS fee of \$83.

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1 **Q. PLEASE COMPARE THE REVENUE REQUIREMENT FROM THE 2021**
2 **REA PLAN TO THE PROPOSED 2022 PLAN.**

3 **A.** PNM Table TSB-1 below identifies the differences between the revenue requirements
4 between the 2021 Plan, updated as of February 26, 2021 for PNM's annual Rider true-
5 up filing, and the 2022 Plan.

PNM Table TSB-1				
Description		2021 Revenue Requirement *	2022 Revenue Requirement	Change
PNM-Owned Facilities				
PNM-Owned 2011 Facilities Revenue Requirement - 22.5 MW		\$ 5,053,267	\$ 4,852,626	(200,641)
PNM-Owned 2013 Facilities Revenue Requirement - 20 MW		3,915,369	\$ 3,857,755	(57,613)
PNM-Owned 2014 Facilities Revenue Requirement - 23 MW		4,302,038	\$ 4,251,463	(50,575)
PNM-Owned 2019 Facilities Revenue Requirement - 50 MW		8,169,456	\$ 7,856,773	(312,683)
Total REC Fees for PNM-Owned 2015 Facilities - 40MW		764	\$ 761	(2)
Mesa del Sol Microgrid			\$ 2	2
Total PNM Owned Facilities Revenue Requirement		21,440,894	20,819,381	(621,513)
Purchased Power Agreements				
Geothermal PPA		7,380,239	\$ 6,437,494	(942,746)
Red Mesa PPA		6,547,875	\$ 7,088,642	540,767
New Mexico Wind Energy Center (NMWEC)		16,521,228	\$ 16,583,190	61,963
La Joya II		9,391,758	\$ 9,391,758	-
Jicarilla Solar I PPA		-	\$ 774	774
Arroyo Solar PPA		-	\$ 3,157	3,157
San Juan Solar PPA		-	\$ 2,169	2,169
Total PPA Revenue Requirement		39,841,100	39,507,184	(333,916)
Renewable Energy Certificates				
DG Programs REC Purchases		6,371,851	\$ 6,170,267	(201,584)
Compliance REC Purchases		-	\$ -	-
Total REC Revenue Requirements		6,371,851	6,170,267	(201,584)
SkyBlue Regulatory Asset Revenue Requirement		-	383,697	383,697
WREGIS Fee Adjustment (Estimated Banked RECs)		(1,328)	(4,281)	(2,953)
Renewable Filing and Reproduction Costs		25,000	25,000	-
WREGIS Annual Registration Fee		83	\$ 83	-
Total Revenue Requirement		67,677,600	66,901,332	(776,268)
* 2021 Revenue Requirement is updated for PNM's February 26, 2021 Rider True-Up filing				

6

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1 **Q. PLEASE EXPLAIN THE DECREASE IN THE REVENUE REQUIREMENT**
2 **FOR THE PNM-OWNED SOLAR FACILITIES IN 2022 COMPARED TO 2021.**

3 **A.** The estimated annual revenue requirements for PNM-Owned Solar Facilities will
4 decrease primarily due to declining rate base caused by normal ongoing depreciation.
5 A principal advantage of using a rate rider to recover the costs of owned renewable
6 resources is that customers receive the benefit of the declining revenue requirements
7 promptly through the annual reset of the rider rate. PNM Exhibit TSB-3, PNM Exhibit
8 TSB-4, PNM Exhibit TSB-5, and TSB-6 present the calculation of the 2022 annual
9 revenue requirement for the PNM-Owned 2011 Solar Facilities, PNM-Owned 2013
10 Solar Facilities, PNM-Owned 2014 Solar Facilities, and PNM-Owned 2019 Solar
11 Facilities respectively. Costs of registering and retiring RECs in WREGIS are also
12 included in the 2022 revenue requirement for these facilities.

13

14 **Q. WHY DOES PNM ONLY INCLUDE WREGIS FEES IN THE REVENUE**
15 **REQUIREMENT FOR THE PNM OWNED 2015 SOLAR FACILITIES,**
16 **MICROGRID PROJECT, ARROYO, JICARILLA, AND SAN JUAN SOLAR**
17 **PROJECTS?**

18 **A.** Pursuant to paragraph 2 of the stipulation approved by the Commission in Case No.
19 14-00158-UT, PNM recovers the majority of costs associated with the PNM-Owned
20 2015 Solar facilities through base rates. PNM has historically recovered the WREGIS
21 fees on the RECs associated with these facilities through the renewable rider rather than
22 base rates because these costs are necessary for demonstrating RPS compliance.

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1 Therefore, for the PNM-Owned 2015 solar facilities, the WREGIS fees are included in
2 the Rider 36 annual revenue requirement.

3
4 Similarly, PNM is requesting to recover only WREGIS fees associated with the Mesa
5 Del Sol Microgrid Project, as well as the the Arroyo, Jicarilla, and San Juan 1 projects
6 (all of which were approved in Case No. 19-00195-UT) in this case. PNM will use the
7 RECs to meet RPS compliance and therefor is including associated WREGIS fees in
8 the Rider 36 revenue requirement because the RECs are necessary to demonstrate RPS
9 compliance.

10

11 **Q. PLEASE EXPLAIN THE CHANGE IN PPA REVENUE REQUIREMENTS**
12 **BETWEEN THE 2021 RIDER AND THE 2022 RIDER.**

13 **A.** The amounts included in the 2022 rider revenue requirement are based on PNM's
14 current projections of purchases under the PPAs. These projections can be found in
15 PNM Exhibit TSB-7. The change in the PPA revenue requirement is primarily due to
16 the Lightning Dock Geothermal PPA, which is expected to have lower production
17 during 2022. The lower Geothermal PPA is partially offset by an increase in estimated
18 production for the Red Mesa Wind PPA. The higher estimated production for the Red
19 Mesa PPA is primarily driven by a historical trend of increased actual production over
20 the last three years. Please refer to PNM Witness Shane Gutierrez's Direct Testimony
21 for further discussion of the projected MWh of all PPA facilities.

22

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1 **Q. PLEASE DESCRIBE THE CHANGE IN THE DG REC PURCHASE**
2 **AMOUNTS BETWEEN THE 2021 RIDER REVENUE REQUIREMENT AND**
3 **THE 2022 RIDER REVENUE REQUIREMENT.**

4 **A.** The amounts included in the 2022 Rider Revenue Requirement are based on PNM's
5 current projections of DG REC purchases. As seen in PNM Table TSB-1, DG REC
6 purchases in 2022 are projected to be \$201,584 less than in 2021. The DG REC
7 forecasts are described by PNM Witness Shane Gutierrez. PNM Exhibit TSB-7
8 presents the estimated annual revenue requirement for the DG REC purchases.

9

10 **Q. IS THERE A CHANGE IN RENEWABLE FILING AND REPRODUCTION**
11 **COSTS BETWEEN THE 2021 RIDER REVENUE REQUIREMENT AND THE**
12 **2022 RIDER REVENUE REQUIREMENT.**

13 **A.** No. PNM has estimated the costs for the 2022 filing to be \$25,000, which is consistent
14 with prior Renewable Plan filing costs.

15

16 **Q. BRIEFLY EXPLAIN THE WREGIS FEE ADJUSTMENT TO PNM'S**
17 **PROJECTED 2022 REVENUE REQUIREMENT.**

18 **A.** PNM has estimated a surplus of RECs in 2022 that will allow PNM to bank
19 approximately 1,070,182 RECs. As a result of banking the surplus RECs, PNM will
20 not pay WREGIS fees to retire these RECs until they are utilized in 2023 for RPS
21 compliance. The estimated cost to retire the banked RECs will be approximately
22 \$4,281 and will be included in PNM's 2023 Renewable Energy Rider revenue

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1 requirement. Please see the direct testimony of PNM Witness Gutierrez for further
2 discussion on the estimated 2022 banked RECs.

3

4 **Q. HOW DID PNM CALCULATE THE REVENUE REQUIREMENT FOR THE**
5 **VINTAGE 2018 SKY BLUE RECS IT PROPOSES TO RETIRE?**

6 **A.** PNM based the 2018 vintage Sky Blue REC revenue requirement on a cost per REC
7 basis. As discussed by PNM Witness Shane Gutierrez, the 3,494 RECs represent
8 generation during 2018 allocated to the 1.5MW portion of the 8 MW Manzano Solar
9 Facility. PNM developed a 2018 cost per REC based on PNM's books and records total
10 revenue requirement for the Manzano Solar Facility (8 MW of the total 21.5 MW 2013
11 PNM-Owned Solar Facilities) divided by the total MWh produced by that same facility
12 in 2018. The 2018 cost per REC of \$93.71 was applied to unused RECs associated with
13 2018 generation. Carrying charges of 4% were then applied through 2021 to develop
14 the regulatory asset balance as of December 31, 2021. Please see PNM Exhibit TSB-
15 10 for the calculation of the Sky Blue regulatory asset.

16

17 **Q. IS THE PER REC COST OF THE 2018 VINTAGE SKY BLUE RECS**
18 **REASONABLE?**

19 **A.** Yes. PNM compared the 2018 \$93.71/REC in PNM Exhibit TSB-10 to a comparable
20 2018 cost per REC for the 2013 PNM-Owned Solar Facilities recovered through Rider
21 36. PNM took the actual revenue requirement for the 20 MW 2013 Solar Facilities
22 reflected in the February 28, 2019 Rider 36 reconciliation filing and divided by the
23 MWh produced by those facilities to derive a comparable \$90.93/REC. Based on this

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1 comparative analysis, PNM believes the \$93.71/REC is reasonable to determine the
2 2018 Sky Blue regulatory asset balance for the 2018 Sky Blue RECs.

3

4 **Q. AT WHAT RATE IS PNM ACCRUING CARRYING CHARGES FOR THE**
5 **SKY BLUE REGULATORY ASSET?**

6 **A.** Pursuant to the final orders in Case Nos. 10-00018-UT and 20-00124-UT, carrying
7 charges are accrued at a rate of 4.00%.

8

9 **Q. WHAT IS THE ESTIMATED ANNUAL REVENUE REQUIREMENT**
10 **ASSOCIATED WITH THE VINTAGE 2018 SKY BLUE RECS?**

11 **A.** PNM Exhibit TSB-9 reflects the estimated annual revenue requirement of \$383,697 for
12 the 2018 Sky Blue RECs. This reflects the revenue requirement associated with the
13 2018 Sky Blue RECs, including carrying charges and the WREGIS fee of \$0.004/REC
14 to retire the RECs.

15

III. OTHER MATTERS

16 **Q. PLEASE DESCRIBE THE TRUE-UP OR RECONCILIATION PROCESS FOR**
17 **THE 2022 RIDER.**

18 **A.** Pursuant to Paragraph 8 of the Recommended Decision approved by the Commission
19 in Case No. 12-00007-UT, PNM will file a report on February 28, 2022 that will
20 include the following items:

21 1. Reconciliation of actual 2021 Rider revenues to actual 2021 procurement costs, and

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1 2. True-up of projected costs included in the 2022 Rider with actual costs to the extent
2 available, including an update to the 2020 year-end Weighted Average Cost of
3 Capital (“WACC”) as shown in PNM Exhibit TSB-8, based on the 2021 year-end
4 WACC. PNM will propose a true-up to the rider based on the amounts calculated
5 above.

6

7 **Q. PLEASE EXPLAIN THE EARNINGS TEST THAT WAS PUT IN PLACE IN**
8 **CASE NO. 12-00007-UT.**

9 **A.** Pursuant to Paragraph H of the Recommended Decision in Case No. 12-00007-UT,
10 PNM will file a pro forma cost of service based on actual accounting records for the
11 2021 calendar year by April 1, 2022, that will reflect appropriate cost of service
12 adjustments in accordance with the final order in PNM’s most recent general rate case,
13 Case No. 16-00276-UT. If PNM’s retail earned Return on Equity (“ROE”) exceeds
14 the currently approved ROE by 50 basis points or more, the 2022 Rider will be adjusted
15 to refund the amount of PNM’s earnings in excess of 50 basis points above its
16 authorized ROE.

17

18 **Q. WHAT REQUIREMENT FROM CASE NO. 19-00159-UT ARE YOU**
19 **ADDRESSING?**

20 **A.** The Commission’s final order in Case No. 19-00159-UT adopted the Recommended
21 Decision, which required, at Ordering Paragraph D, that the “revenues recovered in
22 excess of the \$8.7 million for the PNM-Owned 2019 Solar Facilities shall be accounted
23 for in a regulatory liability the disposition of which shall be determined in PNM’s next

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1 annual Renewable Energy Plan filing.” The Recommended Decision stated, at page
2 55:

3 The record indicates that the \$9.3 million in costs that PNM seeks to
4 recover exceeds PNM’s \$8.7 million cost estimate in Case No. 17-
5 00129-UT [in which the 2019 solar facilities were approved]. But the
6 evidentiary record in this case lacks evidence on the details of the cost
7 estimate provided by PNM in Case No 17-00129-UT and the
8 reasonableness of the cost overruns. Accordingly, the Commission
9 should require PNM to provide in its next RPS filing evidence
10 demonstrating the reasonableness of the cost overrun. The excess cost
11 will be tentatively approved for recovery in this case, but the excess cost
12 should be accrued in a regulatory liability that will be subject to refund
13 in the next case if the cost overruns are not proven to have been
14 reasonably and prudently incurred.
15

16 The Commission’s final order in Case No. 20-00124-UT continued this requirement,
17 and required that, “[i]f there is a cost overrun from the \$8,674,518 revenue requirement
18 estimated in Case No. 17-00129-UT, PNM shall present evidence demonstrating the
19 reasonableness of the overrun. PNM shall state the amount that it over or under-
20 collected from ratepayers for the [PNM-Owned 2019 Solar Facilities] under its
21 Renewable Energy Rider in 2020 assuming that the updated 2020 revenue requirement
22 of the [project] had been collected from ratepayers under the Renewable Energy
23 Rider in 2020.”
24

25 **Q. WHAT WERE THE ACTUAL CONSTRUCTION COSTS OF THE PNM-**
26 **OWNED 2019 SOLAR FACILITIES?**

27 **A.** Actual construction costs were \$71.1 million, as shown in PNM Exhibit TSB-6. This
28 is below the estimated costs PNM presented in Case No. 17-00129-UT of \$72.3
29 million.

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1 **Q. ASSUMING THAT THE ACTUAL 2020 REVENUE REQUIREMENT HAS**
2 **BEEN COLLECTED FROM CUSTOMERS, WHAT IS THE DIFFERENCE**
3 **BETWEEN THE AMOUNT COLLECTED AND THE \$8.7 MILLION 2020**
4 **REVENUE REQUIREMENT ESTIMATED IN CASE NO. 17-00129-UT?**

5 **A.** The actual 2020 annual revenue requirement for the PNM-Owned 2019 Solar Facilities
6 is \$8.9 million. Assuming the actual 2020 revenue requirement was collected from
7 ratepayers under the Renewable Energy Rider in 2020, the amount collected over the
8 original projected estimate of \$8.7 million in Case No. 17-00129-UT would be
9 approximately \$0.2 million.

10

11 **Q. PLEASE EXPLAIN THE FACTORS THAT ACCOUNT FOR THE**
12 **DIFFERENCE BETWEEN THE ACTUAL 2020 REVENUE REQUIREMENT**
13 **AND THE REVENUE REQUIREMENT PROJECTED IN CASE NO. 17-00129-**
14 **UT?**

15 **A.** The factors include lower than projected capital costs, lower than projected operating
16 expenses, change in tax law, lower debt rate, and timing of tax credits. Please see PNM
17 Table TSB-2 below for the specific factors that caused the estimated PNM-Owned
18 2019 Solar facilities 2020 revenue requirements to be slightly higher compared to the
19 projection provided in Case No. 17-00129-UT.

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PNM Table TSB-2		
PNM-Owned 2019 Solar Facilities (50MW)		
Line No.		2020
1	Total Estimated Revenue Requirement (17-00129-UT)	\$ 8,674,518
2		
3	Change to Projected Revenue Requirement:	
4	Savings on Capital Investment	(143,399)
5	Impacts of Tax Cuts and Jobs Act (Note 1)	(99,979)
6	Update to WACC Due to Lower Debt Rate	(192,091)
7	Refined Operating Expense Projection	(103,626)
8	Elimination of ITC Amortization (Note 2)	762,107
9	Other Rate Base - Prepaid Insurance	2,779
10	Total Change in Projected Revenue Requirement	225,790
11		
12	Updated Projected 2020 Revenue Requirement	\$ 8,900,308
13	(Line 1 + Line 10)	
14		
15	Note 1: Tax Cuts and Jobs Act eliminated bonus depreciation for utilities and lowered the federal income tax rate from 35% to 21%.	
16	Note 2: PNM originally forecasted to begin amortizing ITC beginning 2020.	

1

2

3 **Q. PLEASE EXPLAIN THE ELIMINATION OF THE ITC (INVESTMENT TAX**
4 **CREDIT) AMORTIZATION FACTOR.**

5 **A.** As shown in PNM Table TSB-2, the primary factor that caused the actual 2020 revenue
6 requirement to be higher than the estimated 2020 revenue requirement is the timing of
7 ITC amortization. All the other factors that contributed to the change in revenue
8 requirement, with the exception of a small adjustment for prepaid insurance, resulted
9 in a decrease in the actual revenue requirement. When PNM provided an estimated
10 2020 revenue requirement in 2017 in Case No. 17-00129-UT, the assumption at that
11 time was that PNM would be out of a consolidated NOL (net operating loss) tax

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1 position in 2019 and thus could begin amortizing ITC beginning in January 2020. PNM
2 has been unable to begin amortizing ITC because it is still in an NOL tax position.
3 PNM will continue to evaluate its ability to amortize ITC as the NOL reduces. This
4 timing of ITC amortization caused the 2020 actual revenue requirement to be about
5 \$0.8 million higher. It is important to note that the total ITC available for this facility
6 has not changed, only the time period in which PNM can amortize the credit. The
7 higher revenue requirement caused by the timing of ITC amortization was mostly offset
8 by lower actual capital costs, impacts of the Tax Cuts and Jobs Act such as lower
9 federal income tax rate from 35% to 21%, lower return on rate base caused by lower
10 cost of debt, and operating expenses such as maintenance expense.

11

12 **Q. DOES PNM HAVE DISCRETION TO DETERMINE WHEN TO BEGIN ITC**
13 **AMORTIZATION?**

14 **A.** No. The timing of the amortization of ITC is governed by the normalization rules in
15 the Internal Revenue Code and Regulations. Under the normalization rules,
16 amortization cannot begin until the ITC is used as an offset against tax. PNM must
17 comply with the normalization rules and is not permitted to choose when amortization
18 begins.

19

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1 **Q. WHAT IS PNM REQUESTING IN THIS CASE WITH REGARD TO THE**
2 **REGULATORY LIABILITY?**

3 **A.** PNM is requesting that the Commission terminate the requirement for PNM to record
4 a regulatory liability because the costs incurred for the PNM-Owned 2019 Facilities in
5 2020 are reasonable.

6

7 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

8 **A.** Yes.

GCG#528269

THOMAS S. BAKER
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Thomas S. Baker

Address: PNM Resources Inc.
MS 0915
414 Silver SW
Albuquerque, NM 87102

Position: Manager, Cost of Service

Education: Masters of Accountancy, New Mexico State University, 2014
Bachelor of Accountancy, New Mexico State University, 2011
Certified Public Accountant in the State of New Mexico, July 2016

Employment: Employed by Public Service Company of New Mexico since 2014.
Positions held within the Company include:

Manager, Cost of Service
Project Manager, Cost of Service
Sr. Analyst, Cost of Service
Sr. Analyst, Income Tax

Filed Testimony:

- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 28, 2018 (*PNM's Rider No. 36 Reconciliation for 2017.*)
- In the Matter of the Application of Public Service Company of New Mexico Renewable Energy Act Plan for 2019 and Proposed 2019 Rider Rate Under Rate Rider No. 36, NMPRC Case No. 18-00158-UT, filed June 1, 2018 (*PNM's Renewable Rider Plan for 2019.*)
- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 28, 2019 (*PNM's Rider No. 36 Reconciliation for 2018.*)
- In the Matter of the Application of Public Service Company of New Mexico Renewable Energy Act Plan for 2020 and Proposed 2020 Rider Rate Under Rate Rider No. 36, NMPRC Case No. 19-00159-UT, filed June 1, 2019 (*PNM's Renewable Rider Plan for 2020.*)
- Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, Docket No. 49785, filed July 23, 2019 (*TNMP TCOS Update.*)

- Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, Docket No. 50481, filed January 24, 2020 (*TNMP TCOS Update.*)
- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 28, 2020 (*PNM's Rider No. 36 Reconciliation for 2019.*)
- In the Matter of the Application of Public Service Company of New Mexico Renewable Energy Act Plan for 2021 and Proposed 2021 Rider Rate Under Rate Rider No. 36, NMPRC Case No. 20-00124-UT, filed June 1, 2020 (*PNM's Renewable Rider Plan for 2021.*)
- Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, Docket No. 51107, filed July 24, 2020 (*TNMP TCOS Update.*)
- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Power Agreements and Energy Storage Agreements and Proposal for Demand Response Plan Pursuant to Final Order in Case No. 19-00195-UT, NMPRC Case No. 20-00182-UT, filed September 28, 2020.
- In the Matter of the Application of Public Service Company of New Mexico for Approval of the Abandonment of the Four Corners Power Plant and Issuance of a Securitized Financing Order, NMPRC Case No. 21-00017-UT, filed January 8, 2021.
- Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, Docket No. 51752, filed January 22, 2021 (*TNMP TCOS Update.*)
- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 26, 2021 (*PNM's Rider No. 36 Reconciliation for 2020.*)

GCG#528256

**PNM Exhibit TSB-2
2022 Renewable Energy Rider
Summary 2022 Renewable Rider Revenue Requirement - Projected**

Line No.	Description	2022 Revenue Requirement	Reference
1	PNM-Owned Facilities		
2	PNM-Owned 2011 Facilities Revenue Requirement - 22.5 MW	\$ 4,852,626	PNM Exhibit TSB-3, page 3, Column M, Line 124
3	PNM-Owned 2013 Facilities Revenue Requirement - 20 MW	3,857,755	PNM Exhibit TSB-4, page 2, Column M, Line 82
4	PNM-Owned 2014 Facilities Revenue Requirement - 23 MW	4,251,463	PNM Exhibit TSB-5, pg. 2, Column M, Line 82
5	PNM-Owned 2019 Facilities Revenue Requirement - 50 MW	7,856,773	PNM Exhibit TSB-6, pg. 2, Column M, Line 78
6	Total REC Fees for PNM-Owned 2015 facilities - 40 MW	761	Note 1
7	REC Fees for Mesa del Sol Microgrid	2	Note 1
8	Total PNM Owned Facilities Revenue Requirement	20,819,381	
9			
10	Purchased Power Agreements		
11	Geothermal PPA	6,437,494	PNM Exhibit TSB-7, page 1, Line 9
12	Red Mesa PPA	7,088,642	PNM Exhibit TSB-7, page 1, Line 20
13	New Mexico Wind Energy Center (NIMWEC)	16,583,190	PNM Exhibit TSB-7, page 1, Line 31
14	La Joya II	9,391,758	PNM Exhibit TSB-7, page 1, Line 42
15	REC Fees for Jicarilla Solar I PPA	774	Note 1
16	REC Fees for Arroyo Solar PPA	3,157	Note 1
17	REC Fees for San Juan Solar PPA	2,169	Note 1
18	Total PPA Revenue Requirement	39,507,184	
19			
20	Renewable Energy Certificates		
21	DG Programs REC Purchases	6,170,267	PNM Exhibit TSB-7, page 2, Line 48
22	2019 Compliance REC Purchases	-	PNM Exhibit TSB-7, page 2, Line 58
23	Total REC Revenue Requirements	6,170,267	
24			
25	2018 SkyBlue RECs Revenue Requirement	383,697	PNM Exhibit TSB-9, Line 18
26			
27	WREGIS Fee Adjustment (Estimated 2022 Banked RECs)	(4,281)	PNM Exhibit SG-2
28			
29	Renewable Filing and Reproduction Costs	25,000	
30			
31	WREGIS Annual Registration Fee	83	
32			
33	Total 2022 Revenue Requirement	\$ 66,901,332	
34	(Line 8 + Line 18 + Line 23 + Line 25 + Line 27 + Line 29 + Line 31)		

Note 1: Retail share of REC costs associated with PNM-Owned 2015 facilities are estimated to be: 95,183 MWh * \$.008/MWh = \$761 REC Fee.
 Retail share of REC costs associated with Mesa del Sol Microgrid are estimated to be: 200 MWh * \$.008/MWh = \$2 REC Fee.
 Retail share of REC costs associated with Jicarilla Solar I Facility are estimated to be: 96,809 MWh * \$.008/MWh = \$774 REC Fee.
 Retail share of REC costs associated with Arroyo Solar Facility are estimated to be: 394,598 MWh * \$.008/MWh = \$3,157 REC Fee.
 Retail share of REC costs associated with San Juan Solar Facility are estimated to be: 271,146 MWh * \$.008/MWh = \$2,169 REC Fee.

PNM Exhibit TSB - 3
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for the PNM-Owned 2011 Facilities

Page 2 of 3

Line No.	2022												2022 Projected	
	January	February	March	April	May	June	July	August	September	October	November	December		Revenue Requirement
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Other Allowable Expenses
Amortization - NM Advanced Energy Credit
Total Other Allowable Expenses
Federal Income Tax
Total Net Original Cost Rate Base
Weighted Cost of Capital (PNM Exhibit TSB-8, line 4)
Return on Rate Base
Less: Return Adjustments
Interest on Long Term Debt
Tax/Book Adjustments
AFUDC Equity
Flow Thru Item - ITC - 22 MW Solar
Flow Thru Item - ITC - Energy Storage
Total Permanent Tax/Book Differences
Depreciation
AFUDC Debt
New Mexico Advanced Energy Credit
Deferred State Income Tax
Total Temporary Tax/Book Differences
Total Return Adjustments
Net Taxable Equity Return
Federal Income Tax Adjustments
Total Investment Tax Credit or Grant Amortization
Amortization of Excess Deferred Federal Taxes
Deferred Federal Income taxes before NOL
Total Federal Income Tax Adjustments before NOL
Adjusted Equity Return before NOL
Net Operating Loss Carryover
NOL Deferred State Income Tax
NOL Deferred Federal Income Tax
Adjusted Current Equity Return After NOL
Federal Tax Factor (Rate/1-Rate)
Current Federal Income Tax
Add:
Amortization of Excess Deferred Federal Taxes
Total Provision for Deferred Income Tax
Total Investment Tax Credit or Grant Amortization
Net Allowable Federal Income Tax
State Income Tax
Return on Rate Base
Less: Return Adjustments
Interest on Long Term Debt
Permanent Tax/Book Adjustments
Temporary Tax/Book Adjustments
Add: Net Allowable FIT
Production Tax Credits (PTC)
State Taxable Income
State Tax Factor (Rate/1-Rate)
State Income Tax
Provision for Deferred State Income Tax
Amortization of Excess Deferred Taxes
Add: State Renewable ITC and PTC
Net Allowable State Income Tax

PNM Exhibit TSB - 3
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for the PNM-Owned 2011 Facilities

Page 3 of 3

Line No.	2022												2022 Projected
	A	B	C	D	E	F	G	H	I	J	K	L	
	January	February	March	April	May	June	July	August	September	October	November	December	Revenue Requirement
109													
110	138,241	137,868	137,496	137,123	136,750	136,377	136,004	135,632	135,259	134,886	134,513	134,140	1,634,289
111	371,430	301,249	425,023	317,500	313,270	472,967	313,348	313,426	419,163	360,905	325,060	404,452	4,337,792
112	(97,523)	(97,597)	(97,671)	(97,744)	(97,818)	(97,892)	(97,965)	(98,039)	(98,112)	(98,186)	(98,260)	(98,333)	(1,175,140)
113	2,677	2,656	2,635	2,615	2,594	2,573	2,553	2,532	2,511	2,490	2,470	2,449	30,755
114	414,825	344,176	467,484	359,493	354,796	514,026	353,939	353,551	458,820	400,095	363,783	442,708	4,827,696
115	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%
116	2,110	1,750	2,377	1,828	1,804	2,614	1,800	1,798	2,333	2,035	1,850	2,251	24,552
117													
118	416,935	345,927	469,861	361,321	356,600	516,640	355,739	355,349	461,154	402,130	365,633	444,959	4,852,248
119													
120													47,247
121													0.008
122													378
123													
124													4,852,626

Revenue Requirement Summary
 Return on Rate Base
 Total Operating Expenses
 Net Allowable Federal Income Tax
 Net Allowable State Income Tax
 Total Revenue Requirements before Revenue Tax
 Revenue Tax Factor
 Revenue Tax
 Revenue Requirements
 MWh output expected in 2022
 WREGIS fee \$/MWh
 WREGIS Registration Fee

Total Revenue Requirements

PNM Exhibit TSB-2, line 2

PNM Exhibit TSB - 4
 2022 Renewable Energy Rider
 2022 Estimated Annual Revenue Requirement for the PNM-Owned 2013 Facilities

Page 2 of 2

Line No.	2022												2022 Projected Revenue Requirement
	A	B	C	D	E	F	G	H	I	J	K	L	
	January	February	March	April	May	June	July	August	September	October	November	December	
77													
78													45,479
79													0,008
80													364
81													
82													3,857,755
	PNM Exhibit TSB-2, line 3												

PNM Exhibit TSB-5
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for the PNM-Owned 2014 Facilities

Line No.	2022												2022 Projected Revenue Requirement
	January	February	March	April	May	June	July	August	September	October	November	December	
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Revenue Requirement Summary

Total Operating Expenses

Net Allowable Federal Income Tax

Net Allowable State Income Tax

Total Revenue Requirements before Revenue Tax

Revenue Tax Factor

Revenue Tax

Revenue Requirements for PNM-Owned 2014 Facilities

PNM Exhibit TSB-5
 2022 Renewable Energy Rider
 2022 Estimated Annual Revenue Requirement for the PNM-Owned 2014 Facilities

Page 2 of 2

Line No.		2022												2022 Projected Revenue Requirement
		A	B	C	D	E	F	G	H	I	J	K	L	
		January	February	March	April	May	June	July	August	September	October	November	December	
77														
78	MWh output expected in 2022													59,780
79	WREGIS fee \$/MWh													0.008
80	WREGIS Registration Fee													478
81														
82	Total Revenue Requirements for PNM-Owned 2014 Facilities													4,251,463

PNM Exhibit TSB-2, line 4

PNM Exhibit TSB-6
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for the PNM-Owned 2019 Facilities

Page 1 of 2

Line No.	2022												2022 Projected
	January	February	March	April	May	June	July	August	September	October	November	December	Revenue Requirement
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Revenue Requirements for 50 MW Facilities

PNM Exhibit TSB-6
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for the PNM-Owned 2019 Facilities

Page 2 of 2

Line No.	2022												2022 Projected Revenue Requirement
	A	B	C	D	E	F	G	H	I	J	K	L	
	January	February	March	April	May	June	July	August	September	October	November	December	
73													
74													132,131
75													0.008
76													1.057
77													
78	Total Revenue Requirements for PNM-Owned 2019 Facilities												7,856,773

PNM Exhibit TSB-2, line 5

PNM Exhibit TSB - 7
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for Purchased Power
Agreements and Renewable Energy Certificate Purchases

Line No.	Purchased Power Agreement	Amount	
1	Geothermal PPA		
2	Annual Sales (MWh)	65,526	
3	Price (\$/MWh)	\$ 98.24	
4	Energy/REC Cost	\$ 6,437,231	
5			
6	WREGIS cost per MWh	\$ 0.004	
7	WREGIS fees	\$262	
8			
9	Total Geothermal PPA	\$6,437,494	PNM Exhibit TSB-2, line 11
10	Total Geothermal PPA Cost per MWh	\$ 98.24	
11			
12	Red Mesa PPA		
13	Annual Sales (MWh)	221,000	
14	Price (\$/MWh)	\$ 32.07	
15	Energy/REC Cost	\$ 7,087,758	
16			
17	WREGIS cost per MWh	\$ 0.004	
18	WREGIS fees	\$884	
19			
20	Total Red Mesa PPA	\$7,088,642	PNM Exhibit TSB-2, line 12
21	Total Red Mesa PPA Cost per MWh	\$ 32.08	
22			
23	New Mexico Wind Energy Center (NMWEC) PPA		
24	Annual Sales (MWh)	608,379	
25	Price (\$/MWh)	\$ 27.25	
26	Energy/REC Cost	\$ 16,578,323	
27			
28	WREGIS cost per MWh	\$ 0.008	
29	WREGIS fees	\$4,867	
30			
31	Total NMWEC PPA	\$16,583,190	PNM Exhibit TSB-2, line 13
32	Total NMWEC PPA Cost per MWh	\$ 27.26	
33			
34	La Joya II Wind PPA		
35	Annual Sales (MWh)	537,163	
36	Price (\$/MWh)	17.48	
37	Energy/REC Cost	\$ 9,389,609	
38			
39	WREGIS cost per MWh	\$ 0.004	
40	WREGIS fees	\$2,149	
41			
42	Total La Joya II PPA	\$9,391,758	PNM Exhibit TSB-2, line 14
43	Total La Joya II PPA Cost per MWh	\$ 17.48	

PNM Exhibit TSB - 7
2022 Renewable Energy Rider
2022 Estimated Annual Revenue Requirement for Purchased Power
Agreements and Renewable Energy Certificate Purchases

Line No.

44				
45	REC Purchases			
46	DG Programs			
47	DG Annual Purchases (MWh)		99,031	
48	Total DG Programs REC Purchases		\$6,170,267	PNM Exhibit TSB-2, line 21
49	Total DG Programs REC Cost per MWh	\$	62.31	
50				
51	2020 Compliance REC Purchases -MWh		-	
52	Total REC Costs		\$0	
53	Average Price (\$/MWh)		\$1.00	
54				
55	WREGIS cost per MWh		\$0.004	
56	WREGIS fees		\$0	
57				
58	2020 Compliance REC Purchases - True-Up	\$	-	PNM Exhibit TSB-2, line 22

PNM Exhibit TSB - 8
 2022 Renewable Energy Rider
 December 31, 2020 Year End Weighted Average Cost of Capital

Line No.	Capital Component	A	B	C	D
		Total Capitalization Base Period	Percentage of Total Capitalization	Capital Component Cost	Weighted Average Cost
1	Long Term Debt	1,665,845	47.85%	3.60%	1.72%
2	Preferred Stock	11,529	0.33%	4.62%	0.02%
3	Common Equity	1,804,743	51.83%	9.575%	4.96%
4	Total	3,482,117	100.01%		6.70%

Composite Tax Rate:	25.40%
Tax Gross-Up	
Debt	1.72%
Preferred	0.03%
Common	6.65%
Total	8.40%

PNM Exhibit TSB - 9
2022 Renewable Energy Rider
Estimated Annual Revenue Requirement for the Sky Blue Regulatory Asset

Page 1 of 1

1

Amortization Period (Years)

Line No.	2022 Revenue Requirement	PNM Exhibit TSB-10, line 18
1		
2	Reg Asset (TSB-10, line 15)	376,160
3		
4	Accumulated Amortization	(376,160)
5		
6	Reg Asset Balance	-
7		
8	Average Reg Asset Balance	188,080
9		
10	Carrying Charge	4.00%
11		
12	Carrying Charge on Average Rate Base Balance	7,523
13		
14	WREGIS Fee to Retire (\$0.004/REC)	14
15		
16	Depreciation Expense	376,160
17		
18	Total PNM Non-Fuel Revenue Requirement	383,697

PNM Exhibit TSB-2, line 25

**PNM Exhibit TSB-10
2022 Renewable Energy Rider
Estimated Balance of the Sky Blue Regulatory Asset**

	F	G	H
	2018 Actuals	2019	2020
			2021
	18,632		
	(15,139)		
	3,494		
	-		
	3,494		
\$	93.71		
	327,389		
	327,389	-	-
	17		
	327,406	-	-
	6,285	13,595	14,149
	333,691	13,595	14,149
	333,691	347,286	361,435
			14,725
			14,725
			376,160

Line No.	
1	
2	PNM 8 MW Monzano Solar Facility RECs (MWh)
3	Remove: 6.5 MW of Monzano Solar Facility Recovered Through Rider 36
4	PNM 1.5 MW Monzano Solar Facility Sky Blue RECs (MWh)
5	Remove: Sky Blue RECs utilized in Sky Blue Program
6	Remaining Sky Blue RECs (Banked)
7	
8	Cost per MWh
9	
10	Sky Blue Regulatory Asset (Under Collection)
11	
12	WREGIS Fee to Register RECs (\$0.005/REC)
13	Sky Blue Regulatory Asset (Under Collection) with WREGIS Fees
14	
15	Carrying Charges - 4.00%
16	(Over)/Under Collection including Carry Charges
17	
18	Cummulative (Over)/Under Collection
19	
20	
21	<u>Assumptions:</u>
22	Carrying Charges
23	4.00%
24	
25	Monzano Solar Facility 2018 Revenue Requirement (8 MW)
26	Monzano Solar Facility 2018 Energy MWh (8 MW)
27	Monzano Solar Facility 2018 Cost/REC
28	
29	
30	Proof of Reasonableness:
31	PNM Owned 2013 Solar - 2018 Actual Revenue Requirement
32	PNM Owned 2013 Solar - 2018 Actual Energy (MWh)
33	PNM Owned 2013 Solar - 2018 Actual Cost/REC

\$	1,745,880
	18,630
\$	93.71
\$	4,212,092
	46,322
\$	90.93

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S)
APPLICATION FOR APPROVAL OF ITS)
RENEWABLE ENERGY ACT PLAN)
FOR 2022 AND PROPOSED 2022 RIDER)
RATE UNDER RATE RIDER NO. 36)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO)
)
Petitioner.)
_____)**

Case No. 21-____-UT

SELF AFFIRMATION

THOMAS S. BAKER, Manager, Cost of Service for PNMR Services Company,
upon penalty of perjury under the laws of the State of New Mexico, affirm and state: I have read
the foregoing **Direct Testimony of Thomas S. Baker** and it is true and correct based on my
personal knowledge and belief.

DATED this 1st day of June, 2021.

/s/ Thomas S. Baker
THOMAS S. BAKER

GCG # 528261