BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

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	)	**Case No. 21-_______-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant	)	

DIRECT TESTIMONY

OF

THOMAS S. BAKER

January 8, 2021

NMPRC CASE NO. 21-000-___-UT
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THOMAS S. BAKER

WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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DIRECT TESTIMONY
OF THOMAS S. BAKER
NMPRC CASE NO. 21-_____-UT

I. INTRODUCTION AND PURPOSE

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

A. My name is Thomas S. Baker. I am the Manager of Cost of Service for PNM Resources, Inc. ("PNMR") and am employed by PNMR Services Company. My testimony is submitted on behalf of Public Service Company of New Mexico ("PNM" or "Company"), a public utility subsidiary of PNMR. My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony provides the revenue requirements and ratemaking proposals for the abandonment and securitized financing for PNM's interest in the Four Corners Power Plant ("FCPP"). I detail the energy transition costs, including abandonment costs, for the FCPP, to be paid from securitized financing.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.

A. My educational background and relevant employment experience are summarized in PNM Exhibit TSB-1 attached to my testimony. PNM Exhibit TSB-1 also includes a list of cases before the New Mexico Public Regulation Commission ("NMPRC" or the "Commission") where I have provided testimony.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. Part I of my testimony provides an introduction and describes its purpose.

Part II of my testimony details the energy transition costs that are proposed to be securitized pursuant to the Energy Transition Act. These securitized costs include: upfront financing costs; abandonment costs, including the undepreciated investment of PNMs' interest in FCPP; plant decommissioning costs not previously collected from customers; other costs required to comply with changes in law; and required payments to the Energy Transition Indian Affairs Fund ("Indian Affairs Fund"), the Energy Transition Economic Development Assistance Fund ("Economic Development Fund") and the Energy Transition Displaced Worker Assistance Fund ("Worker Assistance Fund") pursuant to Section 16 of the Energy Transition Act.

Part III of my testimony supports the accounting entries required for the proposed securitization financing under the Energy Transition Act.

Part IV of my testimony addresses the ratemaking process required to reconcile and collect or refund any difference between the energy transition costs financed through the energy transition bonds and the actual final energy transition costs. I also propose a ratemaking method to account for the reduction of PNM's cost of service related to the non-fuel revenue requirement at the time the Energy Transition Charge becomes effective.

Part V of my testimony addresses PNM's proposal to recover certain costs related to PNM's interest in FCPP that are not included in the Company's requested securitization.

Part VI of my testimony summarizes the recognition of certain costs and benefits through regulatory assets and liabilities that are included in the determination of revenue requirements and requested for approval from the Commission.

Part VII of my testimony present revenue requirements specific to the continued ownership of PNMs' interest in FCPP after 2024.

Part VIII discusses potential first-year revenue requirement impacts for two hypothetical replacement power scenarios.

Part IX concludes my Testimony.

II. IDENTIFICATION OF ENERGY TRANSITION COSTS TO BE FINANCED THROUGH THE ISSUANCE OF SECURITIZED BONDS

Q. PLEASE EXPLAIN WHAT YOU COVER IN THIS SECTION.

A. In this section of my testimony, I discuss the development of the energy transition costs, which are used as an input to determine the Energy Transition Charge to be collected from customers. The development of the rate design and collection of the Energy Transition Charge is discussed by PNM Witness Settlage.

Q. PLEASE EXPLAIN THE CUSTOMER BENEFITS ACCOMPLISHED THROUGH SECURITIZATION, COMPARED TO TRADITIONAL RATE RECOVERY, AS IT RELATES TO THE ABANDONMENT OF PNM'S SHARE IN FCPP?

A. Financing the abandonment of PNM's share in FCPP through securitization will save customers approximately $17.1 million in 2025 compared to traditional rate recovery of the return on and return of a regulatory asset. The estimated savings take into account that PNM earns a debt only return on stranded capital investments made between July 2016 and December 2018, consistent with the final order in Case No. 16-00276-UT. These savings are generated by achieving a favorable credit rating under securitization to finance the undepreciated investment, which is lower than PNM's traditional weighted average cost of capital and PNM's cost of debt. Please see PNM Exhibit TSB-2 for a comparison of the rate recovery methods.

Q. PLEASE SUMMARIZE THE ENERGY TRANSITION COSTS THAT ARE TO BE FINANCED THROUGH THE SECURITIZED BOND ISSUANCE.

A. The estimated energy transition costs that PNM proposes to finance through the securitized bond issuance include: (1) upfront financing costs, which include financing costs as described by PNM Witness Sanchez and costs of obtaining an order approving abandonment of PNM's interest in FCPP; (2) abandonment costs, which include (a) the undepreciated investment in the FCPP and (b) decommissioning costs that have yet to be collected from customers, (3) other costs, if any, required to comply with changes in law as provided in Section 2(H)(3) of the Energy Transition Act, and (4) required payments to the Indian Affairs Fund, the Economic Development Fund and the Workers Assistance Fund, which are described by PNM Witness Sanchez. PNM Table TSB-1 provides a summary of these estimated energy transition costs that will be financed through the energy transition bonds.

PNM Table TSB-1
Summary of Upfront Energy Transition Costs to be Financed
$ in millions

$	7.3	Upfront Financing Costs - Section 2(H)(1) of the ETA
	271.3	Undepreciated Investment in PNMs' interest of Four Corners power plant - Section 2(H)(2)(c)(d)
	4.6	Plant Decommissioning costs - Section 2(H)(2)(a)
	-	Other costs required to comply with law changes after 1/1/19 - Section 2(H)(3)
	1.5	Payments made to Indian Affairs Fund - Section 2(H)(4)
	5.0	Payments made to Economic Development Fund - Section 2(H)(4)
	10.0	Payments made to Workers Assistance Fund - Section 2(H)(4)
$	299.7	Total Upfront Energy Transition Costs

A. Upfront Financing Costs

Q. PLEASE SUMMARIZE THE UPFRONT FINANCING COSTS THAT ARE INCLUDED IN THE ENERGY TRANSITION COSTS.

A. The estimated upfront financing costs that will be financed through the securitized bond issuance are described in the testimony of PNM Witness Sanchez and are set forth in PNM Exhibit LES-2 to her testimony. In addition to the financing costs discussed by PNM Witness Sanchez, PNM has also estimated the costs necessary to obtain an order approving the abandonment of PNM's interest in FCPP. See

PNM Table TSB-2 below for a summary of the financing costs included in the upfront energy transition costs.

PNM Table TSB-2 Summary of Upfront Financing Costs ***$ in millions***	
$ 5.5	Upfront Financing Costs
1.8	Estimated Costs to obtain abandonment order - Section 2(K)(4)
$ 7.3	Total Upfront Financing Costs per PNM Exhibit LES-2

Q. ARE THE COSTS TO OBTAIN AN ORDER APPROVING THE ABANDONMENT OF THE FCPP CONSIDERED "FINANCING COSTS" ALLOWED BY THE ENERGY TRANSITION ACT?

A. Yes. PNM included these costs because they are defined as financing costs within the Energy Transition Act. Section 2(K)(4) of the Energy Transition Act provides that financing costs include: "any costs, fees and expenses related to issuing, supporting, repaying, servicing, and refunding energy transition bonds, the application for a financing order, including related state board of finance expenses, or obtaining an order approving abandonment of a qualifying generating facility."

Q. PLEASE SUMMARIZE THE ESTIMATED COSTS TO OBTAIN AN ORDER APPROVING ABANDONMENT OF PNM'S OWNERSHIP OF THE FCPP

A. PNM estimates approximately $1.8 million will be incurred to obtain an order approving abandonment of PNMs' interest in FCPP. These costs include external legal counsel, outside consultants who are providing testimony in this proceeding, and administrative costs for witness training, postage, publications, and other costs incurred associated with this proceeding. These estimated costs are summarized in PNM Table TSB-3 below. Please see PNM Exhibit TSB-3 for details of these costs.

PNM Table TSB-3 Estimated Costs to Obtain an Abandonment and Financing Order ***$ in millions***		
$	0.6	Expert Outside Consultants, Witness Testimony
	0.9	External Legal Counsel
	0.3	Other Administrative Regulatory Costs
$	1.8	Total

Q. ARE THERE OTHER POTENTIAL ADDITIONAL COSTS RELATED TO PNM OBTAINING AN ABANDONMENT ORDER THAT COULD INCREASE THE ESTIMATE IN PNM TABLE TSB-3?

A. PNM is not aware of any additional potential costs, however additional requirements imposed could also raise the cost of obtaining the abandonment order which would in turn be included for recovery.

Q. HOW WILL PNM RECORD THE UPFRONT FINANCING COSTS?

A. PNM is requesting to establish a regulatory asset for the upfront financing costs incurred before the proceeds from the energy transition bonds are received. PNM is not requesting carrying charges on this regulatory asset, as these costs reflect costs incurred to achieve the securitization and abandonment orders, similar to rate case expenses that are typically deferred without carrying charges.

B. Undepreciated Investment

Q. HOW DID PNM DETERMINE THE ESTIMATED UNDEPRECIATED INVESTMENT THAT IS INCLUDED IN ENERGY TRANSITION COSTS?

A. PNM started with the net book value of its interest in FCPP as of June 30, 2020. PNM included the PNM Retail jurisdiction share of the net book value associated with the FCPP switchyard asset that will be transferred to the purchaser. As discussed by PNM Witness Fallgren, PNM does not anticipate retiring the entire FCPP switchyard assets upon exiting the plant as it will still be used and useful in providing electric service to PNM retail customers.

PNM then included capital expenditures from July 2020 through December 31, 2024, which increased the net book value. PNM projected a balance as of December 31, 2024, related to construction work in progress ("CWIP"). A CWIP balance will exist at the time PNM exits the power plant due to capital expenditures the Company is required to make pursuant to the plant's Operating Agreement. PNM also projected the increase in accumulated depreciation to reflect the ongoing depreciation of the existing assets and projected capital expenditures through December 31, 2024. PNM excluded the December 31, 2024 asset retirement cost ("ARC") asset balance included in net book value, as these dollars are to be collected as plant decommissioning costs, which I discuss later in my testimony. See PNM Table TSB-4 below for the reconciliation of the net book value as of June 30, 2020 projected through December 31, 2024.

PNM Table TSB-4 Reconciliation of Four Corners Power Plant Net Book Value ***$ in millions***		
$	223.0	Balance at 6/30/20
	73.0	Capital Clearings - July 1, 2020 - December 31, 2024
	3.4	Construction Work in Process Balance at December 31, 2024
	(24.5)	Increase to Accumulated Depreciation Reserve - July 1, 2020 - December 31, 2024
	(3.6)	Removal of Undepreciated ARC at 12/31/24
$	271.3	Total Undepreciated Investment at December 31, 2024

Q. HOW WILL PNM RECORD THE UNDEPRECIATED INVESTMENT IN THE FCPP AT THE TIME OF ABANDONMENT?

A. PNM is requesting to establish a regulatory asset equal to the undepreciated investment of the FCPP at the date of abandonment as described above. PNM is not requesting carrying charges on this regulatory asset, as these costs will be recovered through the proceeds of the energy transition bonds.

C. Coal Mine Reclamation Costs

Q. IS PNM SEEKING RECOVERY OF COAL MINE RECLAMATION COSTS ASSOCIATED WITH FCPP?

A. No. PNM is not seeking recovery of Four Corners surface mine reclamation costs because prior Commission decisions have capped recovery from customers for these costs. Actual coal mine reclamation costs have exceeded the cap that was put in place by the Commission.

D. Plant Decommissioning Costs

Q. WHAT IS THE BASIS FOR RECOVERING PLANT DECOMMISSIONING COSTS THROUGH THE SECURITIZATION FINANCING?

A. As explained by PNM Witness Sanchez, the Energy Transition Act provides that plant decommissioning costs can be recovered through securitization. Accordingly, PNM is seeking recovery of the plant decommissioning costs associated with the 2020 Four Corners Plant Decommissioning Cost Study which considers a shutdown of the FCPP in 2031, and which have not yet been collected from customers through existing depreciation and accretion expense. In order to understand PNM's proposed recovery of the plant decommissioning cost associated with the 2020 cost study, it is necessary to discuss PNM's accounting methodology and recovery applicable to plant decommissioning.

Q. PLEASE DESCRIBE THE APPLICABLE ACCOUNTING GUIDANCE AND PNM'S APPLICATION OF THE GUIDANCE REGARDING PLANT DECOMMISSIONING.

A. PNM accounts for the plant decommissioning as an asset retirement obligation ("ARO") in accordance with GAAP, Accounting Standards Codification ("ASC") 410-20. AROs are legal obligations to retire a tangible long lived asset in the future, based on cost estimates for the retirement of the asset and the settlement of the obligation. Typically, these cost estimates are provided as cash flows in current dollars, which are escalated to the settlement date(s) of the retirement obligation using an appropriate escalation rate. The escalated cash flow estimates are then discounted using the current credit adjusted risk free rate to determine the present value of the legal obligation to retire the tangible long lived asset. A corresponding ARC asset is capitalized by adjusting the carrying amount of the related tangible long-lived asset by the same amount as the ARO liability. The ARC asset is depreciated on a straight-line basis over the life of the retirement obligation. Accretion expense is recorded to recognize the time value of money, with an offset recorded as an increase to the ARO liability. Accretion expense is calculated by multiplying the present value of the ARO liability by the credit adjusted risk free rate originally used to discount the escalated cash flow estimates to their present value.

If the facts and circumstances of an existing ARO change or the Company receives a new cost estimate for its AROs, both the ARO liability and the ARC asset are adjusted by recording a new ARO layer in the same manner as described above.

Q. WHAT DOES PNM CURRENTLY RECOVER FROM CUSTOMERS FOR FOUR CORNERS PLANT DECOMMISSIONING?

A. PNM currently recovers plant decommissioning costs through accretion expense based on a cost study performed in 2015 by Shaw Environmental Inc. which assumes a plant closure date of 2038. PNM also recovers depreciation expense on the ARC asset.

Q. HAS PNM UPDATED ITS FCPP DECOMMISSIONING ESTIMATES TO REFLECT A 2031 SHUTDOWN?

A. Yes. Arizona Public Service Company, the operating agent for the plant, has performed an updated 2020 Four Corners Plant Decommissioning Cost Study which now includes a plant retirement date in 2031 as opposed to 2038 included in the 2015 decommissioning study. PNM has re-measured its ARO liability based on new assumptions in the 2020 cost study, such as earlier closure of the plant and timing of decommissioning activities. In future rate cases, PNM does not plan to propose updating FCPP decommissioning accretion costs or ARC asset depreciation expense to reflect changes resulting from the 2020 Plant Decommissioning Cost Study. As discussed later in my testimony, PNM is proposing to recover the incremental decommissioning impacts of the 2020 Four Corners Plant Decommissioning Cost Study through securitization financing.

Q. CAN YOU PLEASE SUMMARIZE THE IMPACT OF ASSUMING UPDATED DECOMMISSIONING COSTS FROM THE 2020 FOUR CORNERS PLANT DECOMMISSIONING COST STUDY AFTER APPLICATION OF ASC 410-20?

A. Yes. PNM's current ARO liability is $12.8 million as of December 31, 2020, and the undepreciated ARC asset balance totaled $4.7 million. The present value of

PNM's share of the future cash flows, assuming the 2020 Four Corners Cost Study, equaled $13.6 million. Therefore, PNM is required to increase the ARO liability by $0.8 million ($13.6 million - $12.8 million). In addition, the ARC asset would increase by $0.8 million to $5.5 million ($4.7 million + $0.8 million). Between January 2021 and PNM's proposed exit on December 31, 2024, the ARO liability would accrete up to $16.5 million and the ARC asset would depreciate down to $3.9 million. Accretion expense increases slightly ($0.2 million increase) due to changes in the 2020 Four Corners Cost Study. Under the 2015 Shaw Environmental Inc. Study and assumed closure in 2038, accretion expense equaled $2.7 million between January 2021 and the PNM's proposed exit on December 31, 2024, which is assumed to be recovered in rates. Accretion expense over the same period will increase to $2.9 million due to changes from the new cost study. In addition, depreciation expense on the ARC asset increases $0.5 million from January 2021 through PNM's proposed exit on December 31, 2024. As a result of changes in the new cost study, ARC asset depreciation, between January 2021 and December 2024, increased from $1.1 million currently assumed to be recovered in rates to $1.6 million over the same period.

Q. HAS PNM UPDATED ITS FOUR CORNERS PLANT DECOMMISSIONING ESTIMATES TO REFLECT PNM'S PROPOSED EXIT ON DECEMBER 31, 2024?

A. No. PNM's proposed exit in 2024 does not change any decommissioning estimates because the plant will continue to operate subsequent to PNM's exit in 2024.

Q. DOES PNM RETAIN THE FOUR CORNERS PLANT DECOMMISSIONING OBLIGATION AFTER IT EXITS THE PLANT IN 2024?

A. Yes. Under the Purchase and Sale Agreement with the Navajo Transitional Energy Company, PNM will retain the Four Corners decommissioning obligation as described by PNM witness Fallgren.

Q. WHAT PLANT DECOMMISSIONING COSTS ARE PNM PROPOSING TO RECOVER AS A RESULT OF THE 2020 FOUR CORNERS PLANT DECOMMISSIONING COST STUDY?

A. PNM is proposing to recover $4.6 million in plant decommissioning costs through securitization financing, determined as follows:

- Recovery of the undepreciated ARC asset, recorded in plant-in-service estimated to be $3.9 million on December 31, 2024.
- Recovery of $0.7 million in the incremental accretion ($0.2 million increase) and depreciation expense ($0.5 million increase) resulting from the 2020 Four Corners Plant Decommissioning Cost Study. PNM is requesting to establish a regulatory asset for the incremental accretion and depreciation expense to be incurred as the result of the 2020 Four Corners Plant Decommissioning Cost Study from January 2021 through the PNM's 2024 exit from FCPP and for the undepreciated ARC asset. PNM is not requesting carrying charges on this regulatory asset, as these expenses represent non-cash expenses.

Please see PNM Exhibit TSB-4 for a schedule of future accretion and depreciation expense related to plant decommissioning costs.

Q. HOW WILL PNM RECOVER ACCRETION EXPENSE AND DEPRECIATION EXPENSE RELATED TO PLANT DECOMMISSIONING COSTS BEFORE FCPP IS ABANDONED?

A. PNM will continue to include accretion expense and depreciation expense associated with the plant decommissioning costs based on amounts currently included in rates. As PNM has requested a regulatory asset for the incremental accretion and depreciation expense, PNM will not include these amounts in its cost of service studies while the FCPP is still in operation and being recovered in base rates. Upon abandonment, PNM will no longer include future accretion expense or depreciation expense related to the ARC asset in rates.

Q. UNDER WHAT CIRCUMSTANCES WOULD PNM SEEK RECOVERY OF FUTURE PLANT DECOMMISSIONING EXPENSE AFTER ABANDONMENT, IF PNM HAS NOT ALREADY COLLECTED THAT EXPENSE FROM CUSTOMERS?

A. PNM anticipates that it will establish a plant decommissioning investment fund to set aside money for future plant decommissioning work. PNM estimates that earnings from the investment fund will offset future accretion expense; therefore, PNM does not anticipate a need to collect any future accretion expense associated with plant decommissioning costs after PNM exits the FCPP in 2024. However, if future studies or final plant decommissioning costs are higher or earnings from the investment fund are not sufficient to cover future expense, which would result in additional funding requirements, PNM will seek recovery of these additional funding requirements to the investment fund. If final plant decommissioning costs are lower or earnings from the investment fund exceed future costs, then PNM will refund these amounts to customers. The proposed ratemaking for differences in the estimated cost compared to final costs are covered in Section IV of my testimony.

E. Other Costs Required by Changes in Law

Q. HAS PNM IDENTIFIED ANY OTHER COSTS REQUIRED BY CHANGES IN LAW AFTER JANUARY 1, 2019, AS CONTEMPLATED IN SECTION 2(H)(3) OF THE ENERGY TRANSITION ACT?

A. No. At this time, PNM is not aware of any additional costs expected to be incurred as required by changes in law after January 1, 2019. In the event PNM identifies any costs related to changes in law subsequent to the issuance of a financing order for the energy transition bonds, there are provisions for PNM to seek an amendment to the financing order to include those additional charges in the energy transition bond financing, in accordance with Section 7(B)(2) of the Energy Transition Act.

F. Payments Made to State Agencies

Q. WHAT ARE THE COSTS ESTIMATED FOR PAYMENTS MADE TO STATE AGENCIES AS REQUIRED UNDER SECTION 16 OF THE ENERGY TRANSITION ACT AND CONSIDERED ENERGY TRANSITION COSTS UNDER SECTION 2(H)(4) OF THE ENERGY TRANSITION ACT?

A. Pursuant to Section 16(J) of the Energy Transition Act, PNM must transfer the following percentages of the financed amount of the energy transition bonds: one-half percent (0.5%) to the Indian Affairs Fund, one and sixty-five hundredths percent (1.65%) to the Economic Development Fund, and three and thirty-five hundredths percent (3.35%) to the Workers Assistance Fund. As discussed by PNM Witness Sanchez the total payments expected to be transferred to the state agencies pursuant to Section 16 of the Energy Transition Act is approximately $16.5 million.

Q. HOW WILL PNM RECORD THE PAYMENTS MADE TO THE STATE AGENCIES UNDER SECTION 16 OF THE ENERGY TRANSITION ACT?

A. Pursuant to Section 16(J) of the Energy Transition Act, payments will be transferred to the state agencies within 30 days of receipt of the proceeds from the bonds which is anticipated to occur on or about December 31, 2024, which is 6 ½ years prior to the currently scheduled shutdown of the plant.

III. ACCOUNTING FOR THE SECURITIZATION FINANCING

Q. PLEASE DESCRIBE THE OVERALL ACCOUNTING TREATMENT FOR THE SECURITIZATION FINANCING UNDER THE ETA.

A. As discussed by PNM Witnesses Sanchez and Atkins, PNM will create a Special Purpose Entity ("SPE") to obtain securitization financing. The SPE will exist for the limited purpose of issuing energy transition bonds as authorized under the Energy Transition Act. The SPE will be a wholly owned subsidiary of PNM. The SPE and PNM will maintain separate accounting records. The accounting entries necessary to establish the SPE and the associated ongoing activities for the SPE and PNM related to the securitization financing are provided in PNM Exhibits TSB-5 and TSB-6. This is the same structure approved by the Commission in the financing order in Case No. 19-00018-UT relating to the abandonment of PNM's interest in the San Juan Generating Station.

Q. WHAT ARE THE ANTICIPATED ACCOUNTING ENTRIES TO BE RECORDED AT THE SPE?

A. As illustrated on PNM Exhibit TSB-5, the accounting entries to be recorded by the SPE are as follows: (1) recording of capital from PNM initial investment; (2) recording of proceeds from the issuance of bonds; (3) purchase of energy transition property from PNM; (4) receipt of cash from PNM and recognition of revenue for the Energy Transition Charges collected; (5) amortization of the energy transition property; (6) accrual of interest expense; (7) amortization of upfront bond issuance costs; (8) payment of bond principal and interest; (9) ongoing operating and servicing costs; (10) replenishment of capital investment through the Energy Transition Charges, if needed; (11) return impacts on the capital subaccount; and (12) transfer of cash in the event excess Energy Transition Charges is collected, if any.

Q. WILL PNM SELL THE ENERGY TRANSITION PROPERTY CREATED BY THE FINANCING ORDER TO THE SPE?

A. Yes. PNM will sell the energy transition property created in the Financing Order to the SPE. Under Section 2(I) of the Energy Transition Act, the energy transition property is the rights and interests of PNM, or the SPE as assignee under the Financing Order, including the right to impose, charge, collect and receive energy transition charges in an amount necessary to provide for full payment and recovery of all energy transition costs identified in the Financing Order, including all revenues or other proceeds arising from those rights and interests. The energy transition property also includes the right to obtain periodic adjustments to the Energy Transition Charges as provided in the Financing Order and the Energy Transition Act. The SPE will use a portion of the proceeds of the energy transition bonds to pay the purchase price for the energy transition property. Additionally, any paid or accrued upfront financing costs will be included in the bond financing at the SPE.

Q. HOW WILL THE SPE AMORTIZE THE ENERGY TRANSITION PROPERTY?

A. The SPE will amortize the energy transition property based on the principal amount required for the repayment of the bonds over the expected life of the bonds.

Q. HOW WILL THE SPE RECOVER THE ONGOING FINANCING COSTS ASSOCIATED WITH THE ENERGY TRANSITION BONDS?

A. Following the issuance of the energy transition bonds, the ongoing financing costs associated with the bonds will be recovered through the Energy Transition Charges. The ongoing financing costs are energy transition costs and include payment of principal and interest on the bonds, as described in more detail by PNM Witness Atkins, and payment of other ongoing financing costs, including servicing fees, administration costs, auditing fees, legal fees, rating agency surveillance fees, trustee fees, independent director or manager fees, the return on the invested capital, and other miscellaneous fees and expenses, as discussed in more detail by PNM Witness Sanchez.

Q. HOW WILL THE SPE ACCOUNT FOR THE DIFFERENCE BETWEEN ITS EXPENSES AND THE REVENUES COLLECTED FROM PNM?

A. Each month, the SPE will compare its total expenses, including the amortization of the energy transition property, amortization of bond issuance costs, interest expenses, and ongoing costs and servicing fees, to its total revenues and the difference will be deferred as either a regulatory asset or a regulatory liability, to serve as a balancing account for the SPE. The differences that occur in the balancing account for the SPE will be trued-up periodically as part of the True-Up Adjustment Mechanism as described by PNM Witness Settlage.

Q. WHAT ARE THE ANTICIPATED ACCOUNTING ENTRIES TO BE RECORDED AT PNM?

A. As illustrated on PNM Exhibit TSB-6, the accounting entries to be recorded by PNM are as follows: (1) recording of expenditure of cash to fund the capital at the SPE; (2) sale of the energy transition property to the SPE; (3) payments to state agencies; (4) recognition and collection of Energy Transition Charges, (5) recording of servicing fees and costs billed to the SPE; and (6) impact of earnings on the capital investment sub account of the SPE.

Q. HOW WILL THE ENERGY TRANSITION CHARGES COLLECTED FROM CUSTOMERS BE RECORDED?

A. The Energy Transition Charge collections will be remitted to and recorded as revenues at the SPE.

Q. PLEASE EXPLAIN THE PERIODIC REVENUE REQUIREMENT REFERENCED IN THE TESTIMONY OF PNM WITNESS SETTLAGE.

A. The "Periodic Revenue Requirement" represents the amount of revenues the SPE will need to receive from collections of energy transition charges over a specified period to satisfy scheduled payments of principal and interest on the energy transition bonds and to pay its other ongoing financing costs over such period, as adjusted to take into account any over- or under-collection in the prior period. As discussed in the testimony of PNM Witness Settlage, the Periodic Revenue Requirement will be estimated for "Remittance Periods" that are generally six months in length, beginning on each debt service payment date and ending on the day preceding the next debt service payment date. The first Remittance Period will begin on the issuance date of the energy transition bonds and end on the day immediately preceding the first debt service payment. The first debt service payment is expected to be approximately nine months from the date of issuance of the bonds, based on the testimony of PNM Witness Atkins. During the last two years preceding the final maturity date of the energy transition, the Periodic Revenue Requirement will be estimated over three-month Remittance Periods.

Q. PLEASE EXPLAIN THE PERIODIC BILLING REQUIREMENT REFERENCED IN THE TESTIMONY OF PNM WITNESS SETTLAGE.

A. The "Periodic Billing Requirement" represents the amount of energy transition charges that must be assessed during a Remittance Period to collect the Periodic Revenue Requirement for the Remittance Period. The Periodic Billing Requirement accounts for collection lag and uncollectible amounts. For each Remittance Period, PNM will estimate the timing of collections of energy transition charges based on a weighted average balance of days outstanding on PNM's customer bills. For example, if there were seven billing months in the initial Remittance Period and a 30-day weighted average balance of days on PNM's bills, PNM would only expect to receive during the Remittance Period payments on the amounts billed during the first six months of the Remittance Period. PNM also will estimate an uncollectable amount.

As described in the testimony of PNM Witness Settlage, the Periodic Billing Requirement for each Remittance Period will then be allocated to customer classes and rate schedules and energy transition charges will be calculated and determined for customers in each rate schedule.

IV. PROPOSED RATEMAKING UNDER SECTION 4(B), PARTS 10 AND 11 OF THE ENERGY TRANSITION ACT

Q. WHAT DOES THE ENERGY TRANSITION ACT PROVIDE WITH RESPECT TO PROPOSED RATEMAKING FOR ENERGY TRANSITION COSTS?

A. Section 4(B)(10) of the Energy Transition Act states that a utility application for a financing order shall include "a description of 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".

Q. WHAT IS PNM'S PROPOSED RATEMAKING PROCESS PURSUANT TO SECTION 4, PART B(10) OF THE ENERGY TRANSITION ACT?

A. PNM will track and reconcile each component of the energy transition costs listed earlier in my testimony. Any difference between the amounts financed by the energy transition bonds and the final actual energy transition costs will be deferred and recorded to either a regulatory asset (if the actual final energy transition costs are greater than the estimated energy transition costs) or a regulatory liability (if the actual final energy transition costs are less than the estimated energy transition costs).

Q. HOW DOES PNM PROPOSE TO COLLECT OR REFUND THE AMOUNTS RECORDED AND DEFERRED TO THE REGULATORY ASSET OR REGULATORY LIABILITY?

A. PNM will include the amortization of the regulatory asset or regulatory liability in a general rate case, after the final energy transition costs are known. PNM will propose to collect or refund the differences over the remaining life of the energy transition bonds. PNM will include the unamortized balance of the regulatory asset or regulatory liability in rate base in its general cost of service studies, to compensate PNM or its customers for the time value of money. For example, if there is a regulatory liability, then PNM would include this as a reduction to rate base which lowers the customers' overall costs and revenue requirement, to reflect that customers are paying more through the Energy Transition Charge and should be compensated for the amounts that are due to be refunded to customers. PNM would request the same treatment for a regulatory asset; PNM would include as an increase to rate base, which increases costs and revenue requirements to reflect that customers are paying less through the Energy Transition Charge and PNM should be compensated for the amounts that are still to be collected from customers.

Q. ARE THERE CARRYING CHARGES ASSOCIATED WITH THESE REGULATORY ASSETS AND LIABILITIES?

A. Yes. To compensate both customers and PNM for any difference between amounts financed through the securitization bond issuance, and the final actual energy transition costs incurred by PNM, PNM will record carrying charges. Similar to the final order in the San Juan Generating Station Abandonment case (19-00018-UT), PNM proposes to record carrying charges based on its then currently approved cost of debt. Once the regulatory asset or regulatory liability is reflected in rate base in PNM's general rate case cost of service study, PNM will terminate the calculation of carrying charges as the unamortized balance will be included in rate base.

Q. DOES THE ENERGY TRANSITION ACT PROVIDE FOR A COST OF SERVICE ADJUSTMENT ONCE THE ENERGY TRANSITION CHARGE IS APPLIED TO CUSTOMER BILLS?

A. Yes, it does. Section 4(B)(11) of the Energy Transition Act states that a utility's application must include "a proposed ratemaking method to account for the reduction in the qualifying utility'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."

Q. WHAT IS PNM'S PROPOSED RATEMAKING PROCESS PURSUANT TO SECTION 4(B)(11) OF THE ENERGY TRANSITION ACT?

A. PNM recommends the same ratemaking methodology for FCPP as approved by the Commission with respect to San Juan Generating Station in Case No. 19-00195-UT. Following abandonment of the FCPP, the SPE will issue the Energy Transition Bonds. If PNM begins to collect the Energy Transition Charge from customers and has not adjusted its base rates charged to customers in a general rate case to reflect the abandonment of the FCPP, then PNM will simultaneously apply a customer rate credit to be implemented through a rate rider on customer bills to reflect the full non-fuel revenue requirement related to the FCPP. The rate rider will serve as an interim rate adjustment mechanism and PNM will continue the rate rider credit for as long as the FCPP is abandoned, PNM is collecting the Energy Transition Charge, and has not adjusted its base rates to reflect the exit of FCPP.

Q. DOES PNM ANTICIPATE ADJUSTING PNM'S BASE RATES TO REFLECT THE ABANDONMENT OF THE FCPP THROUGH A GENERAL RATE CASE AT THE SAME TIME THAT CUSTOMERS BEGIN TO PAY THE ENERGY TRANSITION CHARGE?

A. PNM has not made a final determination on the timing of the rate case that will include the abandonment of its interest in FCPP. Generally speaking, the abandonment of a major generation resource, like FCPP, creates conditions that make it appropriate to file a general rate case. In the event that PNM does adjust base rates to reflect the abandonment of FCPP at the same time that customers begin to pay the Energy Transition Charge, there would be no need for a rate rider credit to be implemented.

However, if there is a timing difference between commencement of the collection of the energy transition charge from customers when bonds are issued upon the abandonment and the time that base rates are adjusted to reflect the abandonment of PNM's interest in FCPP, then a rate rider credit will protect customers from double recovery of the non-fuel revenue requirement associated with the abandoned interest in FCPP.

V. ITEMS RELATED TO THE ABANDONMENT OF THE FCPP RECOVERED IN BASE RATES, AND NOT IN THE ENERGY TRANSITION CHARGE

Q. PLEASE SUMMARIZE THE ITEMS RELATED TO THE ABANDONMENT OF THE FCPP TO BE RECOVERED IN BASE RATES AND NOT RECOVERED IN THE ENERGY TRANSITION CHARGE.

A. There are certain one-time activities and items identified that will not be recovered through the Energy Transition Charge but will be reflected in PNM's future cost of service studies filed in general rate cases. These include: 1) a reduction to rate base by the Accumulated Deferred Income Tax ("ADIT") liability that results from the abandonment: and 2) one-time costs for recovery of stranded inventory balances, and external legal counsel costs associated with contractual due diligence and negotiations to the abandonment of PNMs' interest in FCPP. Please see PNM Table TSB-5 below for estimated 2025 revenue requirements associated with these items.

PNM Table TSB-5
2025 Revenue Requirement for Costs Associated with Abandonment not Recovered in Energy Transition Charge
$ in millions

$	(8.3)	ADIT Benefits Related to Abandonment
	0.4	One-time Costs Related to Four Corner Power Plant
$	(7.9)	Total

A. Accumulated Deferred Income Taxes Created by Abandonment

Q. PLEASE EXPLAIN THE ADIT RELATED TO ABANDONMENT OF THE FCPP THAT WILL REMAIN IN BASE RATES.

A. At the time of abandonment, PNM's interest in FCPP will be retired for tax purposes, resulting in a write-off of the remaining tax basis in the facility at that time. PNM will also remove the net book value associated with PNMs' interest in FCPP from rate base as the facility will no longer be used and useful. The abandonment of PNM's interest in FCPP for book and tax purposes will cause the associated ADIT liability to be reversed, as the deferred balances will become currently payable. However, a regulatory asset will be recorded equal to the net book value that will be recovered under the Energy Transition Charge. The creation of this regulatory asset will also give rise to an ADIT liability balance equal to the net book value times the combined statutory tax rate because the regulatory asset will have zero tax basis. As PNM customers are paying for the Energy Transition Charge that recovers the net book value through the energy transition property, the ADIT generated from this transaction will reverse. Similar to the treatment approved by the commission in the San Juan Generating Station Abandonment case (No. 19-00018-UT), PNM will include the ADIT liability balance in rate base, which will lower the Company's overall rate base and lower revenue requirements. PNM will also include the ADIT liability created associated with the other energy transition property transferred to the SPE as a reduction to rate base. Finally, PNM will continue to return the excess deferred income taxes associated with PNMs' interest in FCPP to customers through base rates, including the unamortized balance as a rate base reduction, and the return of the excess deferred income taxes as a reduction to income tax expense in future cost of service studies. Please see PNM Exhibit TSB-7 for a calculation of the 2025 ADIT benefit associated with PNMs' interest in FCPP abandonment.

B. One-time Costs Associated with Abandonment of the FCPP

Q. PLEASE DESCRIBE THE ESTIMATED ONE-TIME COSTS ASSOCIATED WITH THE ABANDONMENT OF PNM'S INTEREST IN FCPP THAT ARE NOT INCLUDED IN THE UPFRONT ENERGY TRANSITION COSTS.

A. PNM's interest in FCPP currently has inventory balances, consisting of tools, spare equipment, and other materials and supplies that are necessary to have on hand to operate the plant. PNM will transfer its rights to the inventory balances to the purchaser at the time of the abandonment. PNM estimates a remaining balance of $3.3 million that will need to be recovered from customers as the result of the abandonment of PNM's interest in FCPP.

PNM estimates that $0.8 million in external legal counsel costs associated with the abandonment of PNM's interest in FCPP will be needed to facilitate the necessary contractual negotiations with the purchaser and remaining owners over the abandonment of PNMs' interest in FCPP and all cost associated to the transfer of assets.

Q. HOW IS PNM PROPOSING TO RECOVER THESE ONE-TIME COSTS?

A. PNM is requesting to establish a regulatory asset for these one-time costs. PNM is proposing to recover the regulatory assets for stranded inventory and external legal costs associated with the exit of PNM's interest in FCPP, over the same period

PNM will collect the Energy Transition Charges. PNM will include the unamortized balance in rate base in its general cost of service studies. Please see PNM Exhibit TSB-8 for the revenue requirement associated with these one-time costs.

VI. REQUESTED APPROVALS FROM THE COMMISSION TO ESTABLISH REGULATORY ASSETS AND LIABILITIES

Q. CAN YOU PLEASE SUMMARIZE THE REQUESTED REGULATORY ASSETS AND LIABILITIES THE COMPANY IS REQUESTING IN ITS ABANDONMENT APPLICATION?

A. Yes. PNM is requesting that the Commission authorize PNM to establish regulatory assets and liabilities for the purposes stated in my testimony. PNM Exhibit TSB-9 summarizes the requested regulatory assets and liabilities that PNM is seeking Commission authority to establish.

VII. COMPARISON OF FCPP REVENUE REQUIREMENTS

Q. HAS PNM PREPARED A COMPARISON OF THE REVENUE REQUIREMENTS BETWEEN A SCENARIO WHERE PNM EXITS THE FCPP AT THE END OF 2024 TO PNM REMAINING IN THE PLANT TO 2031?

A. Yes. In order to provide a meaningful comparison between a 2024 abandonment of PNM’s interest in FCPP and continued ownership beyond 2024, PNM has developed preliminary revenue requirements for the FCPP for an abandonment date of December 31, 2031. The revenue requirements are based on a traditional cost of service model that reflects a return on rate base using the Company's weighted average cost of capital ("WACC"), or cost of debt for applicable capital investments, and return of the Company's investments, including recovery of operating expenses. See PNM Exhibit TSB-10 for the estimated 2025 annual revenue requirements for continued ownership past 2024. This revenue requirement was used to identify the customer benefits in 2025 as a result of the abandonment in 2024 as discussed later in my testimony.

Q. WHAT COSTS HAS PNM INCLUDED IN THE REVENUE REQUIREMENTS ASSUMING OWNERSHIP IN FCPP PAST 2024?

A. PNM included a return on rate base utilizing PNM's currently approved WACC reduced by the debt only return on adjustment consistent with the final order in Case No. 16-00276-UT, depreciation expense, operations and maintenance expense, fuel handling, costs associated with plant decommissioning, property taxes, payroll taxes, and income taxes.

VIII. FIRST YEAR REVENUE REQUIREMENT IMPACTS

Q. IS PNM REQUESTING APPROVAL OF SPECIFIC REPLACEMENT RESOURCES FOR FCPP?

A. No. As discussed by PNM Witness Phillips, PNM is providing a range of two likely potential replacement power scenarios. My testimony provides the first year revenue requirement impacts for each scenario to give an estimated range of potential first year savings to customers.

A. Proposed Replacement Resources Under Scenario 1

Q. WHAT ARE THE NEW RESOURCES INCLUDED IN SCENARIO #1?

A. Scenario 1 assumes PNM will replace the FCPP with 80 MW of gas plant generation, 57 MW of energy storage agreements (“ESA”), and 57 MW of Solar purchase power agreements (“PPA”). Please see the direct testimony of PNM Witness Phillips for discussion on the replacement scenario 1.

Q. WHAT ARE THE 2025 NON-FUEL REVENUE REQUIREMENT ASSOCIATED WITH THE NEW RESOURCES INCLUDED IN SCENARIO #1?

A. PNM estimates that the first full year non-fuel revenue requirement of the hypothetical gas resources and Solar/Battery hybrid to be approximately $17.6 million. Please see PNM Exhibit TSB-11 and PNM Exhibit TSB-12 for the calculation of the revenue requirements.

B. Proposed Replacement Resources Under Scenario 2

Q. WHAT ARE THE NEW RESOURCES INCLUDED IN SCENARIO #2?

A. Scenario 2 assumes PNM will replace the FCPP with 157 MW of ESAs and 95 MW of solar PPAs. Please see the direct testimony of PNM Witness Phillips for discussion on the replacement scenario #2.

Q. WHAT ARE THE 2025 NON-FUEL REVENUE REQUIREMENTS ASSOCIATED WITH THE NEW RESOURCES INCLUDED IN SCENARIO #2?

A. PNM estimates that the first full year non-fuel revenue requirement of the hypothetical resources to be approximately $20.9 million. Please see PNM Exhibit TSB-13 for the calculation of the revenue requirements.

Q. HOW DID PNM ACCOUNT FOR THE COST OF ENERGY ASSOCIATED WITH THE PPAS INCLUDED IN SCENARIO #2?

A. PNM included the energy costs for the hypothetical PPAs as fuel cost and is therefore included in the fuel savings shown in PNM Table TSB-7.

Q. HOW DID PNM ESTIMATE FUEL SAVINGS IN SCENARIO #1 AND #2?

A. PNM's estimated fuel savings under scenario 1 and scenario 2 based on estimated total system fuel costs for each scenario. These estimated fuel costs for each hypothetical scenario are then compared to estimated fuel costs for comparable scenarios that assume PNM does not abandon its share in FCPP. Please refer to the direct testimony of PNM witness Phillips for further discussion on the calculation of estimated fuel costs for each scenario.

Q. WHAT COST OF CAPITAL DID PNM USE IN CALCULATING THE RETURN COMPONENT OF THE REVENUE REQUIREMENTS FOR THE OWNED REPLACEMENT POWER IN SCENARIO #1 AND #2?

A. PNM used the capital structure and cost of capital that was used in PNM's cost of service study in Case No. 16-00276-UT as shown in PNM Table TSB-6.

PNM Table TSB-6
Schedule A-5 - Commission Final Order
Summary of Total Capitalization and the Weighted Average Cost of Capital
Test Period Ending 12/31/2018

Line No.	Capital Component	Total Capitalization Test Period	Percentage of Total Capitalization	Capital Component Cost	Weighted Average Cost
1	Long Term Debt	$ 1,465,870	50.00%	4.86%	2.43%
2	Preferred Stock	$ 11,529	0.39%	4.62%	0.02%
3	Common Equity	$ 1,454,341	49.61%	9.575%	4.75%
4	Total	2,931,739	100.00%		7.20%
				Tax Rate	25.40%
					Tax gross up
				Debt	2.43%
				Preferred	0.02%
				Common	6.37%
				Total	8.82%

Q. IS PNM ASKING THE COMMISSION TO DETERMINE THE SPECIFIC CAPITAL STRUCTURE AND COST COMPONENTS USED IN THE WACC CALCULATION IN THIS CASE?

A. No. The capital structure and cost components used in the WACC calculation are for the purpose of illustrating the potential impact on revenue requirements. The WACC to be actually used to establish revenue requirements and set rates will be determined in future ratemaking proceedings.

Q. PLEASE SUMMARIZE THE ESTIMATED 2025 REVENUE REQUIREMENT IMPACTS FOR THE TWO HYPOTHETICAL REPLACEMENT POWER SCENARIOS DISCUSSED BY PNM WITNESS PHILLIPS.

A. Please see PNM Table TSB-7 below for a summary of estimated 2025 revenue requirement impacts based on the two resource scenarios described by PNM Witness Phillips.

PNM Table TSB-7
Summary of Impacts to 2025 Revenue Requirement for Scenarios*
$ in millions

	Scenario 1	Scenario 2
Savings from Exit of Four Corners power plant- Non Fuel	$ (58.0)	$ (58.0)
Energy Transition Charge - Securitization	16.7	16.7
Other Costs Not Included in Energy Transition Charge	(4.3)	(7.9)
2025 New Resources - Non-Fuel	17.6	20.9
Fuel Costs/(Savings), net, due to change in resources	(27.1)	(20.7)
Net, 2025 Revenue Requirement Impacts (Savings)/Cost	$ (55.1)	$ (49.0)

* Please see the direct testimony of PNM Witness Phillips for the complete analysis and evaluation of each scenario

IX. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

GCG#527512

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.

GCG#527488

	A	B	C	D	E
1	**PNM Exhibit TSB-2**				
2	**PNM Securitization vs Traditional Recovery**				
3	*($ in millions)*				
4					
5			**Securitization**	**Traditional Recovery**	**(Savings)/Cost**
6			Revenue Requirement	Revenue Requirement	Revenue Requirement
7		**Recovery of Abandonment Costs**	2025	2025	2025
8		Return On and Return Of Abandonment Costs	$ 16.7	$ 33.3	$ (16.6)
9		ADIT Related to Regulatory Asset for Abandonment Costs	(8.3)	(7.9)	(0.5)
10		Recovery of One-Time Costs	0.4	0.4	-
11		Total	$ 8.8	$ 25.9	$ (17.1)
12					
13	**Assumptions:**				
14	1	Return On and Return Of Abandonment Costs			
15		- Securitization includes annual bond payment recovered from customers through Energy Transition Charge			
16		- Traditional recovery includes debt only return on capital investments from July 2016 - December 2018 and a full return on and return of the remaining regulatory asset			
17		- Regulatory asset includes undepreciated investment in Four Corners Power Plant and plant decommissioning			
18					
19	2	ADIT Related to Regulatory Asset for Abandonment Costs			
20		- Securitization includes ADIT calculated by multiplying average bond principal balance times the combined statutory tax rate of 25.4%			
21		- Traditional recovery includes ADIT calculated by multiplying average regulatory asset balance times the combined statutory tax rate of 25.4%			
22		- Both recovery scenarios include ADIT and amortization of Excess Deferred Income Tax Liability associated with the Four Corners Power Plant.			
23					
24	3	Recovery of One-Time Costs			
25		- Please see PNM Exhibit TSB-8			

	A	B	C	D
1	**PNM Exhibit TSB-3**			
2	**Estimated Costs to Obtain Abandonment & Financing Order**			
3				
4	**Abandonment Order**	**Costs Incurred As of November 30, 2020**	**Estimated Remaining Costs to complete**	**Estimate of Total Costs**
5				
6	**Outside Legal Counsel:**			
7	Miller Stravert	9,049	290,951	300,000
8	Troutman, Pepper, Hamilton, Sanders	7,078	92,922	100,000
9	Wilkinson, Barker, Knauer	27,938	522,062	550,000
10	Total Outside Legal Counsel	44,064	905,936	950,000
11				
12	**Outside Consultants:**			
13	Ascend	-	50,000	50,000
14	CDG Engineers Inc.	37,736	66,264	104,000
15	Energy and Environmental Economics	27,210	72,790	100,000
16	Horizon Energy	8,750	41,250	50,000
17	Siemens Industry	20,784	-	20,784
18	Potential Consultant Rebuttal(Regulatory)	-	250,000	250,000
19	Total Outside Consultants	94,480	480,304	574,784
20				
21	**Administrative Regulatory Cost:**			
22	Travel and Administrative Expenses	-	125,000	125,000
23	Graphics/ Postage	-	175,000	175,000
24	Courier Service	-	250	250
25	Total Administrative Regulatory Cost	-	300,250	300,250
26				
27	**Total Estimated Costs to Obtain Abandonment and Financing Order**	**138,544**	**1,686,490**	**1,825,034**

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	**PNM Exhibit TSB-4**												
2	**Schedule of Accretion and Depreciation Expense for Plant Decommissioning**												
3	**2020 Study Decommissioning - 2031 Shutdown compared to 2015 Study Decommissioning - 2038 Shutdown**												
4	**Units 4 & 5 Combined**												
5	*(in millions)*												
6													
7				2015 Study	2020 Study	Incremental [2]				2015 Study	2020 Study	Incremental	
8		**ARO Liability at 12/31/20**		12.8	12.8			**ARC Asset NBV at 12/31/20**		4.7	4.7		
9		**New Layer at 12/31/20**		-	0.8			**New Layer**		-	0.8		
10		Accretion Expense	2021	0.6	0.7	0.0		Depreciation Expense	2021	(0.3)	(0.4)	0.1	
11		Accretion Expense	2022	0.7	0.7	0.0		Depreciation Expense	2022	(0.3)	(0.4)	0.1	
12		Accretion Expense	2023	0.7	0.8	0.0		Depreciation Expense	2023	(0.3)	(0.4)	0.1	
13		Accretion Expense	2024	0.7	0.8	0.0		Depreciation Expense	2024	(0.3)	(0.4)	0.1	
14		**ARO Liability at 12/31/2024** [1]		15.5	16.5	0.2	**a**	**ARC Asset NBV at 12/31/2024**		3.6	3.9	0.5	**b**
15		Accretion Expense	2025	0.8	0.8								
16		Accretion Expense	2026	0.8	0.8								
17		Accretion Expense	2027	0.9	0.8								
18		Accretion Expense	2028	0.9	0.8								
19		Accretion Expense	2029	0.9	0.9			**Proposed Recovery**					
20		Accretion Expense	2030	1.0	0.9			Projected ARC Asset at 12/31/2024			3.9		
21		Accretion Expense	2031	1.0	0.8			Incremental depreciation & amortization			0.7	**a+b**	
22		Accretion Expense	2032	1.1	0.8			Total dollars to collect			4.6		
23		Accretion Expense	2033	1.1	0.6								
24		Accretion Expense	2034	1.2	0.0			**Assumptions**					
25		Accretion Expense	2035	1.3	-				**Discount Rate**				
26		Accretion Expense	2036	1.3	-				**Rate**	**Term**	**Escalation Rate**		
27		Accretion Expense	2037	1.4	-			2020 Study - 2031 Closure [3]	4.90%	14	2.40%		
28		Accretion Expense	2038	0.1	-			2015 Study - 2038 Closure	4.90%	22	3.00%		
29			Final ARO liability	29.4	23.7								
30		Cash outflows						[3] The last cash flow in this study is assumed in 2034					
31													
32		Settlement	12/31/2024	-	(0.9)								
33		Settlement	12/31/2026	-	(1.4)								
34		Settlement	12/31/2030	-	(2.9)								
35		Settlement	12/31/2031	-	(0.7)								
36		Settlement	12/31/2032	-	(5.5)								
37		Settlement	12/31/2033	-	(12.2)								
38		Settlement	12/31/2034	-	(0.0)								
39		Settlement	1/31/2038	(29.4)	-								
40			Total Cash Outflows	(29.4)	(23.7)								
41													
42		[1] - Reflects balances before ARO settlements											
43		[2] - Balances appear as zero due to rounding. See Incremental balances below.											
44			Year	Incremental									
45			2021	0.04									
46			2022	0.04									
47			2023	0.05									
48			2024	0.05									

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-5**						
2	**Accounting Journal Entries Related to Securitization Financing - SPE**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
5							
6	**Entry #1 - Set-up of the SPE**						
7		- Establish initial capital subaccount at SPE.					
8							
9			Cash - Capital Subaccount	x			x
10			SPE Equity		x		x
11							
12	**Entry #2 - Issuance of Energy Transition Bonds**						
13		- Record the proceeds of the energy transition bonds.					
14							
15			Cash - General Subaccount	x			x
16			Upfront Bond Issuance Costs	x			x
17			Bonds Payable		x		x
18							
19	**Entry #3 - Purchase of Energy Transition Property**						
20		- Record the purchase of the energy transition property from PNM.					
21							
22			Energy Transition Property	x			x
23			Cash - General Subaccount		x		x
24							
25	**Entry #4 - Record revenues collected from customers and receipt of cash from PNM**						
26		- Entry to recognize revenue for amounts collected from customers.					
27							
28			Accounts Receivable from PNM	x			x
29			Revenues		x	x	
30							
31		- Entry to recognize cash received from PNM.					
32							
33			Cash - General Subaccount	x			x
34			Accounts Receivable from PNM		x		x
35							

Page 2 of 4

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-5**						
2	**Accounting Journal Entries Related to Securitization Financing - SPE**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
36	**Entry #5 - Amortization of Energy Transition Property**						
37		- Monthly entry to record the amortization of the energy transition property.					
38							
39			Amortization Expense	x		x	
40			Energy Transition Property		x		x
41							
42							
43	**Entry #6 - Interest Expense on Energy Transition Bonds**						
44		- Monthly entry to record the interest expense on the energy transition bonds.					
45							
46			Interest Expense	x		x	
47			Interest Payable		x		x
48							
49	**Entry #7 - Amortization of Upfront Issuance Costs**						
50		- Monthly entry to amortize the upfront issuance costs related to the energy transition bonds.					
51							
52			Interest Expense	x		x	
53			Upfront Bond Issuance Costs		x		x
54							
55	**Entry #8 - Payment of Bond Principal and Interest**						
56		- Semi-annual payment of bond principal and interest.					
57							
58			Bonds Payable	x			x
59			Interest Payable	x			x
60			Cash - General Subaccount		x		x
61							

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-5**						
2	**Accounting Journal Entries Related to Securitization Financing - SPE**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
62	**Entry #9 -Ongoing operating and servicing costs**						
63		- Entry to record the operating and servicing fees of the SPE					
64							
65			Administrative and General Expense	x		x	
66			Cash - General Subaccount		x		x
67							
68			Servicing Fees - Billed by PNM	x		x	
69			Accounts Payable - PNM		x		x
70							
71			Accounts Payable - PNM	x			x
72			Cash - General Subaccount		x		x
73							
74							
75	**Entry #10 -Replenishment of Cash - Capital Account**						
76		- These entries are only needed if cash in the general subaccount is insufficient to make semi-annual bond and interest payable payments.					
77							
78		- Recognize bond and interest payment from Cash - Capital Subaccount, if necessary					
79							
80			Bonds Payable	x			x
81			Interest Payable	x			x
82			Cash - Capital Subaccount		x		x
83							
84		- Replenish Cash - Capital Subaccount through true-up mechanism of energy transition charge					
85							
86			Cash - Capital Subaccount	x			x
87			Cash - General Subaccount		x		x
88							

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-5**						
2	**Accounting Journal Entries Related to Securitization Financing - SPE**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
89	**Entry #11 - Record Earnings on Cash - Capital Subaccount held by SPE**						
90		- Record the collection of return on the Cash - Capital Investment component of the energy transition charge.					
91							
92			Cash - Capital Subaccount	x			x
93			Cash - General Subaccount		x		x
94							
95		- Record the cash dividend to PNM for return on the Cash - Capital Investment					
96							
97			SPE Equity	x			x
98			Cash - Capital Subaccount		x		x
99							
100	**Entry #12 - Record Excess Proceeds from Energy Transition Charge**						
101		- Record the excess proceeds from the energy transition charge remitted to the SPE after payments for principal, interest, and on-going servicing fees.					
102							
103			Cash - Excess Funds Subaccount	x			x
104			Cash - General Subaccount		x		x

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-6**						
2	**Accounting Journal Entries Related to Securitization Financing - PNM**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
5							
6	**Entry #1 - Set-up of the SPE**						
7		- Initial funding of cash to establish the investment in the SPE					
8							
9			Investment in SPE	x			x
10			Cash		x		x
11							
12	**Entry #2 - Sale of Energy Transition Property to SPE**						
13		- Record the sale of energy transition property to the SPE.					
14							
15			Cash	x			x
16			Regulatory Asset - Undepreciated Investment		x		x
17			Regulatory Asset - Plant Decommissioning		x		x
18			Regulatory Asset - Changes in Law (If Any)		x		x
19			Liability - State Agency Payments		x		x
20							
21	**Entry #3 - Payment to State Agencies per Section 16 of ETA**						
22		- Record the payments to state agencies.					
23							
24			Liability - State Agency Payments	x			x
25			Cash - General Account		x		x
26							

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-6**						
2	**Accounting Journal Entries Related to Securitization Financing - PNM**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
27	**Entry #4 - Record energy transition charges received from customers and transfer of cash to SPE**						
28		- Entry to recognize energy transition charges on customer bills. (Note1)					
29							
30			Customer Accounts Receivable	x			x
31			Payable to SPE		x		x
32							
33							
34		- Entry to record cash collected from customers					
35							
36			Cash	x			x
37			Customer Accounts Receivable		x		x
38							
39		- Entry to transfer cash collected to SPE for energy transition charge					
40							
41			Payable to SPE	x			x
42			Cash		x		x
43							
44							
45	**Entry #5 - Servicing Fees Charged to the SPE**						
46		- Entry to record servicing fees and costs billed to the SPE.					
47							
48			Accounts Receivable - SPE	x			x
49			Other Income (Note 2)		x	x	
50							
51			Cash Dividend from SPE	x			x
52			Accounts Receivable - SPE		x		x
53							
54							

	A	B	C	D	E	F	G
1	**PNM Exhibit TSB-6**						
2	**Accounting Journal Entries Related to Securitization Financing - PNM**						
3							
4			**Account**	**Dr**	**Cr**	**Income Statement**	**Balance Sheet**
55	**Entry #6 - Earnings on Investment in SPE**						
56		- Entry to record earnings on Cash - Capital Subaccount held by SPE that are dividend to PNM.					
57							
58			Investment in SPE	x			x
59			Other Income		x	x	
60							
61			Cash Dividend from SPE	x			x
62			Investment in SPE		x		x
63							
64			Note 1 - PNM will assess applicable GRT and franchise fees.				
65			Note 2 - PNM will include revenue collected from the SPE for servicing costs as a revenue credit in future cost of service studies				

	A	B	C
1	**PNM Exhibit TSB-7**		
2	ADIT Benefit Related to Four Corners Power Plant Abandonment		
3	*($ in millions)*		
4			
5			
6		**Recovery of Abandonment Costs**	**2025**
7		Average Principal Balance of the Energy Transition Bonds	$ 295.6
8		Combined Statutory Tax Rate	25.40%
9		ADIT (line 7 x line 8 x -1)	(75.1)
10		FCPP Related Excess Deferred Income Tax	(12.2)
11		Total ADIT Rate Base	$ (87.3)
12		Pre-Tax WACC (16-00276-UT Phase II)	8.82%
13		Return On ADIT and Income Taxes	(7.7)
14		Amortization of FCPP Related Excess Deferred Income Tax	(0.7)
15		Total ADIT Benefits Related to Abandonment of Four Corners Power Plant	$ (8.3)
16			
17		Assumptions:	
18		- Excess Deferred Income Tax balance at the end of 2024 will be amortized over	
19		the life of the bonds which is 25 years.	

	A	B	C	D
1	**PNM Exhibit TSB-8**			
2	**One-Time Costs Related to Four Corners Power Plant Not Recovered Through Energy Transition Charge**			
3				
4		**Regulatory Asset for Stranded Inventory**	**Regulatory Asset for Legal Costs**	**Total**
5	Regulatory Asset	$ 3,328,196	$ 800,000	$ 4,128,196
6	Accumulated Amortization	(133,128)	(32,000)	(165,128)
7	Net Regulatory Asset Balance	3,195,068	768,000	3,963,068
8	Average Regulatory Asset Balance	3,261,632	784,000	4,045,632
9	Average ADIT at 25.40%	(828,454)	(199,136)	(1,027,590)
10	Total Average Rate Base	2,433,177	584,864	3,018,041
11	WACC (16-00276-UT Phase II)	7.20%	7.20%	7.20%
12	Return on Rate Base	175,189	42,110	217,299
13	Amortization (25 years)	133,128	32,000	165,128
14	Income Taxes and Revenue Tax	41,431	9,959	51,389
15	**Total 2025 Revenue Requirement**	**$ 349,747**	**$ 84,069**	**$ 433,816**

	A	B	C	D	E	F	G	H
1	**PNM Exhibit TSB-9**							
2	**Summary of Regulatory Assets and Liabilities**							
3								
4							Recovered In	
5	Regulatory Asset/Liability	Testimony Section	Carrying Charges Applied Before Recovery	Carrying Charges Applied After Recovery	Amortization Period	Estimated Amount (in Millions)	ETC	Base Rates
6	Upfront Financing costs	II A	None	None	N/A	7.3	x	
7	Four Corners Power Plant NBV Undepreciated Asset	II B	None	None	N/A	271.3	x	
8	Plant Decommissioning	II D	None	None	N/A	4.6	x	
9	Regulatory Asset/Liability Pursuant to (Section 4, Part B(10))	IV	Approved Cost of Debt (Note 1)	Unamortized Balance in Rate Base	TBD	TBD		x
10	One time costs - Obsolete Inventory	V B	Approved After-tax WACC	Unamortized Balance in Rate Base	25	3.3		x
11	One time costs - External Legal Costs Associated with Abandonment of Four Corners Power Plant	V B	Approved After-tax WACC	Unamortized Balance in Rate Base	25	0.8		x
12								
13								
14	Note 1: Carrying charges at PNM cost of debt is consistent with the final order in the SJGS Abandonment case							

	A	B
1	**PNM Exhibit TSB-10**	
2	**Four Corners Power Plant Continued Ownership Post 2024**	
3	($ in thousands)	
4		
5		
6		**2025**
7	Net Plant in Service *(Note 1)*	$ 219,858
8	ADIT	(39,824)
9	Other Rate Base *(Note 2)*	(12,372)
10	**Total Rate Base**	$ 167,662
11	WACC (16-00276-UT Phase II) *(Note 3)*	
12	Return on Rate Base	12,072
13	Debt Only Return On Adjustment *(Note 4)*	(2,550)
14	O&M (Note 5)	19,435
15	Fuel Handling	2,008
16	Depreciation Expense *(Note 1)*	24,947
17	Plant Decommissioning Accretion Expense	781
18	Property Tax (PY NBV / 3 * 2.45%)	1,844
19	Payroll Tax	374
20	Income Taxes *(Note 6)*	834
21	Revenue Tax @ 0.508573%	304
22	**Total PNM Non-Fuel Retail Revenue Requirement Including Fuel Handling**	$ 60,048
23	***Total Non-Fuel Revenue Requirement Excluding Fuel Handling*** *(Note 7)*	$ 58,040
24		
25	*Note 1: Assumes Four Corners Power Plant depreciation rates change to assume 2031 shutdown.*	
26	*Note 2: Other Rate Base includes working capital (inventory/fuel stock & prepaids) and ARO liability*	
27	*Note 3: Based on after tax WACC of 7.2% from case no. 16-00276-UT Phase II.*	
28	*Note 4: Reduce return on rate base for capital projects in service from July 2016 through December 2018 per final order in case no. 16-00276-UT.*	
29	*Note 5 : Reflects average of 2020-2024 planned outages and non-outage O&M.*	
30	*Note 6: Based on 25.4% combined income tax rate and $0.8 million of EDFIT.*	
31	*Note 7: For estimated customer impacts, Fuel Handling is included in Fuel.*	

	A	B	C	D
1	**PNM Exhibit TSB-11**			
2	**2025 Estimated Annual Revenue Requirement - Scenario 1**			
3	**Gas Generation**			
4				
5				**2025**
6				**Revenue Requirement**
7				
8	**Generation Facilities**			67,449,045
9				
10	**Accumulated Reserve**			(2,107,783)
11				
12	**Net Book Value Plant in Service**			65,341,263
13			*(Line 8+ Line 10)*	
14	**ADIT**			107,075
15				
16	**Average Rate Base**			$ 65,448,338
17			*(Line 12 + Line 14)*	
18				
19	**WACC**			7.20%
20				
21	**Return on Rate Base**			$ 4,710,043
22			*(Line 16 x Line 19)*	
23				
24	**Depreciation Expense**			4,215,565
25				
26	**Income Taxes**			1,062,505
27				
28	**Property Tax (NBV / 3 x 3.3%)**			718,754
29				
30	**O&M (includes Gas Transportation)**			1,944,268
31				
32	**Subtotal**			$ 12,651,135
33			*(Line 21 + Line 24 + Line 26 + Line 28 + Line 30)*	
34				
35	**Revenue Tax @ 0.508573%**			64,340
36	**Annualized Non-Fuel Revenue Requirement**			**$ 12,715,476**
37			*(Line 32 + Line 35)*	
38				
39				

	A	B	C
1	**PNM Exhibit TSB-12**		
2	**2025 Estimated Annual Revenue Requirement - Scenario 1**		
3	**Purchased Power Agreement (PPA)**		
4			
5			
6			**Solar - Hybrid**
7		***Solar PPA***	
8		*Annual Sales (MWh)*	170,601
9		*Price ($/MWh)*	$ 18.10
10		*Energy Cost* *(Line 8 x Line 9)*	$ 3,087,879
11			
12		***Battery PPA***	
13		*Battery Size (KW)*	57,120
14		*Capacity Price ($/kW-year)*	$ 85.80
15		Capacity Cost *(Line 13 x Line 14)*	$ 4,901,039
16			
17		***Total Solar/Battery*** *(Line 10 + Line 15)*	**$ 7,988,918**

	A	B	C	D	E
1	**PNM Exhibit TSB-13**				
2	**2025 Estimated Annual Revenue Requirement - Scenario 2**				
3	**Purchased Power Agreement (PPA)**				
4					
5					
6			**Solar - Hybrid**	**8hr Battery**	**Total**
7		***Solar PPA***			
8		*Annual Sales (MWh)*	283,678		283,678
9		*Price ($/MWh)*	$ 18.10		$ 18.10
10		*Energy Cost* *(Line 8 x Line 9)*	$ 5,134,572	$ -	$ 5,134,572
11					
12		***Battery PPA***			
13		*Battery Size (KW)*	94,980	61,480	156,460
14		*Capacity Price ($/kW-year)*	$ 85.80	$ 207.83	
15		Capacity Cost *(Line 13 x Line 14)*	$ 8,149,522	$ 12,777,528	$ 20,927,050
16					
17		***Total Solar/Battery*** *(Line 10 + Line 15)*	**$ 13,284,094**	**$ 12,777,528**	**$ 26,061,622**

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

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	)	**Case No. 21-_______-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant	)	

SELF AFFIRMATION

THOMAS S. BAKER, Manager, Cost of Service for PNMR Services Company, upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony of Thomas S. Baker** and it is true and accurate based on my own personal knowledge and belief.

DATED this 8th day of January, 2021.

/s/ Thomas S. Baker
THOMAS S. BAKER

GCG # 527502