

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR DECERTIFICATION AND)
ABANDONMENT OF 114MW OF LEASED)
PALO VERDE NUCLEAR GENERATING)
STATION CAPACITY AND SALE AND)
TRANSFER OF RELATED ASSETS)
AND FOR APPROVAL TO PROCURE)
NEW RESOURCES UNDER 17.9.551 NMAC)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
Applicant)
_____)

Case No. 21-_____-UT

DIRECT TESTIMONY

OF

KYLE T. SANDERS

April 2, 2021

NMPRC CASE NO. 20-00_____-UT

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**WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO**

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AFFIDAVIT

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I. INTRODUCTION AND PURPOSE

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

2 **A.** My name is Kyle T. Sanders. I am the Director of Cost of Service and Corporate
3 Budget for PNM Resources, Inc. (“PNMR”). My address is 414 Silver Avenue, SW,
4 Albuquerque, New Mexico 87102.

5
6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
7 PROFESSIONAL EXPERIENCE.**

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

11

12 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR OF COST
13 OF SERVICE AND CORPORATE BUDGET.**

14 **A.** I am responsible for revenue requirement and cost of service-related work for the public
15 utility subsidiaries of PNM Resources, Inc. (“PNM Resources”), including Public
16 Service Company of New Mexico (“PNM” or “Company”). This responsibility
17 includes preparation of revenue requirement analysis and testimony for regulatory
18 filings. I am also responsible for PNM Resources’ corporate budget activities, which
19 include preparation of PNM Resources’ Annual Operating Plan.

20

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

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1 **A.** My testimony focuses on the following areas.

2 1. I discuss the first year customer savings of \$12.6 million associated with
3 abandoning the 114 MW of Palo Verde Nuclear Generating Station (“PVNGS”
4 or “Palo Verde”) leased capacity (“PVNGS Leased Capacity”).

5 2. I explain the accounting impacts and requested regulatory treatment associated
6 with the transaction with Salt River Project Agricultural Improvement and
7 Power District (“SRP”).

8 3. I explain and provide the estimated annual revenue requirements for the two
9 proposed regulatory assets for the PVNGS Leased Capacity undepreciated
10 investments. This includes the respective allocations for common facilities,
11 associated with the abandonment of PNM’s 104 MW leased capacity of
12 PVNGS Unit 1 and 10 MW leased capacity of PVNGS Unit 2.

13 4. I provide the estimated first year annual revenue requirement of the PVNGS
14 replacement resources.

15 5. I provide the details and revenue requirement of a scenario in which PNM
16 retains the leased capacity in PVNGS, for comparative purposes.

17 6. I provide the estimate of the costs to obtain an abandonment order in this case
18 and the requested regulatory asset.

19 7. Lastly, I provide an estimated revenue requirement impact associated with the
20 new resources needed to ensure PNM’s system meets resource adequacy
21 requirements.

22

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1 **Q. APART FROM YOUR STATEMENT OF QUALIFICATIONS ARE YOU**
2 **SPONSORING ANY ADDITIONAL EXHIBITS?**

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

4 • PNM Exhibit KTS-2: Estimated Annual Revenue Requirement - PVNGS 114MW
5 Undepreciated Investment. This exhibit details the estimated undepreciated leasehold
6 improvements associated with the 114 MW of PVNGS Leased Capacity.

7 • PNM Exhibit KTS-3: Estimated Revenue Requirement for PVNGS Replacement
8 Resources

9 • PNM Exhibit KTS-4: Estimated Revenue Requirement for Transmission and G&I
10 Capital Investments for PVNGS Replacement Power

11 • PNM Exhibit KTS-5: Estimated Revenue Requirement for Continued Operations

12 • PNM Exhibit KTS-6: Estimated Costs to Obtain an Abandonment Order and Revenue
13 Requirement

14 • PNM Exhibit KTS-7: Estimated Revenue Requirement for Resources Needed to Meet
15 Resource Adequacy Requirements

16 • PNM Exhibit KTS-8: Estimated Revenue Requirement for Transmission and G&I
17 Capital Investments for Resources Needed to Meet Resource Adequacy Requirements

18

19 **II. FIRST YEAR CUSTOMER SAVINGS OF PVNGS ABANDONMENT**

20

21 **Q. PLEASE SUMMARIZE THE ESTIMATED FIRST FULL YEAR CUSTOMER**
22 **SAVINGS FOR THE COMBINATION OF ABANDONMENT OF THE PVNGS**
23 **LEASED CAPACITY AND THE REPLACEMENT POWER.**

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1 **A.** PNM Table KTS-1 below shows the estimated first full year customer impacts resulting
2 in customer savings of \$12.6 million.

PNM Table KTS-1 Summary of First Year Customer Impacts for PVNGS Abandonment and Replacement (in millions)		
	Amount	Exhibit Reference
Estimated Annual Revenue Requirement - PVNGS 114MW Undepreciated Investment	\$ 12.3	PNM Exhibit KTS-2
Estimated Revenue Requirement for PVNGS Replacement Resources (Demand Charges)	11.5	PNM Exhibit KTS-3
Estimated Revenue Requirement for Trans/G&I Capital Investments for PVNGS Replacement Power	1.2	PNM Exhibit KTS-4
Net Fuel Costs/(Savings), due to change in resources	9.3	
Estimated Costs to Obtain an Abandonment Order Revenue Requirement	0.3	PNM Exhibit KTS-6
Estimated Revenue Requirement for Continued Operations (Savings)	(47.2)	PNM Exhibit KTS-5
3 Net First Year Customer Impacts (Savings)/Cost	\$ (12.6)	

4

5 **Q. PLEASE EXPLAIN THE SCENARIOS DEVELOPED TO COMPARE**
6 **CUSTOMER IMPACTS RELATED TO ABANDONMENT OR RETAINING**
7 **THE PVNGS LEASED CAPACITY THAT WERE USED TO DEVELOP THE**
8 **AMOUNTS SHOWN IN PNM TABLE KTS-1 ABOVE.**

9 **A.** PNM calculated the revenue requirements associated with abandoning the PVNGS
10 Leased Capacity and the necessary PVNGS replacement resources (“Abandonment
11 Scenario”). Then, in order to provide a meaningful comparison PNM modeled a
12 scenario that assumed PNM purchasing the PVNGS Leased Capacity at the expiration
13 of the leases (the “Continued Operations Scenario”). PNM compared estimates of the
14 retail fuel costs under both the Abandonment Scenario and the Continued Operations
15 Scenario. Additionally, PNM included the impacts of the transaction with SRP, that
16 is discussed in detail by PNM Witness Thomas G. Fallgren and later in my testimony
17 in the Abandonment Scenario. The revenue requirements of the two scenarios and the

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1 net fuel impacts were compared to determine the net customer benefit in 2024 as a
2 result of the abandonment of the PVNGS Leased Capacity.

3

4 **Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT OF THE**
5 **ABANDONMENT SCENARIO.**

6 **A.** The Abandonment Scenario includes the revenue requirements associated with the
7 undepreciated investments in the PVNGS Leased Capacity (including the allocation of
8 common facilities), the PVNGS replacement resources and the costs to obtain an
9 abandonment order. These revenue requirements are discussed in more detail later in
10 my testimony in Sections IV & V.

11

12 **Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT OF THE**
13 **CONTINUED OPERATIONS SCENARIO.**

14 **A.** The Continued Operations Scenario revenue requirement is based on a traditional cost
15 of service model that reflects a return on rate base using the Company's Weighted
16 Average Cost of Capital ("WACC") and return of the Company's investments,
17 including recovery of operating expenses. PNM developed the estimated revenue
18 requirement for the PVNGS Leased Capacity assuming PNM repurchased the leased
19 capacity at a price of \$515/kW. PNM Witness Nicholas L. Phillips outlines the basis
20 for this proxy purchase price. PNM Witness Elisabeth A. Eden explains that a fair
21 market value purchase price would be paid if PNM opted to purchase the Leased
22 Interests. This would be negotiated or established by an appraisal process as established
23 in the leases, after the irrevocable notice of a decision to purchase was conveyed to the

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1 lessors. The details of the estimated revenue requirements for the Continued
2 Operations Scenario are discussed in more detail later in my testimony in Section VI.

3

4 **Q. PLEASE DESCRIBE THE IMPACTS OF THE TRANSACTION WITH SRP.**

5 **A.** As discussed by PNM Witness Fallgren, certain PNM-owned facilities including
6 portions of the PVNGS switchyard, transmission, common facility assets, material and
7 supplies inventory, and nuclear fuel balances (collectively “PVNGS Assets”) will be
8 sold to SRP. The proceeds from this transaction are included in the analysis, reducing
9 the costs to customers under the Abandonment Scenario. The impacts of this
10 transaction are discussed in more detail later in my testimony in Section III.

11

12 **Q. HOW DID PNM ESTIMATE THE FUEL IMPACTS BETWEEN THE**
13 **ABANDONMENT AND CONTINUED OPERATIONS SCENARIOS?**

14 **A.** PNM’s estimated fuel impacts are based on a comparison of the estimated total system
15 fuel costs for each scenario. PNM estimated the total system fuel costs for the
16 Abandonment Scenario, including the energy charges for the PVNGS replacement
17 resources. The demand costs associated with the PVNGS replacement resources are
18 shown separately in PNM Table KTS-1. PNM also estimated the total system fuel
19 costs for the Continued Operations Scenario. As shown in PNM Table KTS-1 above,
20 the comparison between the two scenarios shows that the Abandonment Scenario has
21 \$9.3 million higher total system fuel costs than the Continued Operations Scenario.
22 Please refer to the direct testimony of PNM Witness Phillips for further discussion on
23 the estimated total system fuel costs for each scenario.

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1

2

III. SRP TRANSACTION

3

4 **Q. PLEASE DESCRIBE THE PROCEEDS PNM WILL RECEIVE FROM THE**
5 **SALE OF THE PVNGS ASSETS TO SRP.**

6 **A.** As discussed by PNM Witness Fallgren, PNM will sell the PVNGS Assets to SRP.
7 SRP has agreed to compensate PNM for the PVNGS Assets at the agreed upon price
8 of \$20.9 million plus the net book value (“NBV”) of PNM’s 114 MW leased capacity
9 share of nuclear fuel balances, excluding unamortized Allowance for Funds Used
10 During Construction (“AFUDC”).

11

12 **Q. PLEASE EXPLAIN HOW THE \$20.9 MILLION OF PROCEEDS FROM SRP**
13 **WILL BE APPLIED TO PNM’S BOOKS AND RECORDS.**

14 **A.** The proceeds from the transactions with SRP are expected to equal the NBV for the
15 switchyard, transmission, common facility assets and material and supplies inventory
16 assets being transferred to SRP. Additionally, \$2.1 million of the proceeds will be
17 applied to the unamortized AFUDC nuclear fuel balance for the leased capacity at the
18 closing of the transaction with SRP. The remaining \$8.0 million of the proceeds will
19 be applied to reduce the undepreciated investment in the PVNGS Leased Capacity, for
20 which PNM is requesting regulatory asset treatment, as a contribution to ongoing
21 required capital expenditures that PNM and its customers are responsible for under the
22 terms of the leases. As stated earlier, SRP will also buy the nuclear fuel inventory

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1 balances at NBV at the closing of the transaction with SRP. Please see PNM Table
2 KTS- 2 below for detail of how the proceeds from the SRP transaction will be applied.

PNM Table KTS-2 Proceeds of SRP Transaction (in millions)				
Description	PVNGS Unit 1 Amount	PVNGS Unit 2 Amount	PVNGS Transmission/ Switchyard Amount	Total
PVNGS Common Facilities @ NBV	\$ 2.5	\$ 0.2	\$ -	\$ 2.7
Contribution to Future PVNGS Capital	7.3	0.7	-	8.0
Subtotal Proceeds reducing Undepreciated Investment in Lease Capacity	\$ 9.7	\$ 1.0	\$ -	\$ 10.7
Switchyard Assets @ NBV	\$ -	\$ -	\$ 0.7	\$ 0.7
Valley Transmission Assets @ NBV	-	-	1.9	1.9
Materials and Supplies Inventory @ NBV	5.0	0.5	-	5.5
Subtotal Proceeds for NBV of PVNGS Assets	\$ 5.0	\$ 0.5	\$ 2.6	\$ 8.1
Proceeds for AFUDC on Nuclear Fuel	\$ 1.9	\$ 0.2	\$ -	\$ 2.1
Total SRP Proceeds*	\$ 16.6	\$ 1.7	\$ 2.6	\$ 20.9
* Total proceeds shown above exclude SRP Payments for nuclear fuel inventory balances				

3

4

5 **Q. PLEASE DESCRIBE THE PROCEEDS THAT ARE APPLIED TO REDUCE**
6 **THE UNDEPRECIATED INVESTMENT IN PVNGS LEASED CAPACITY**
7 **REGULATORY ASSETS.**

8 **A.** As shown in PNM Table KTS-2 above, there are two components of the proceeds that
9 are directly applied to the undepreciated investments. First, SRP is purchasing the
10 PVNGS common facility assets that PNM will transfer to SRP as part of the transaction.
11 PNM reduced the estimated regulatory assets by \$2.7 million (\$2.5 million for Unit 1
12 and \$0.2 million for Unit 2) for the proceeds related to these common facility assets.
13 Second, PNM reduced the remaining undepreciated investment related to the PVNGS

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1 Leased Capacity by the \$8.0 million in proceeds received from SRP, ensuring this
2 benefit is passed through to customers.

3

4 **Q. HOW IS PNM PROPOSING TO TREAT ANY DIFFERENCES BETWEEN**
5 **THE NBV OF THE ASSETS AT THE TIME OF CLOSING AND THE**
6 **PROCEEDS RECEIVED FROM SRP?**

7 **A.** While PNM has estimated the NBV of the switchyard assets, transmission assets and
8 materials and supplies inventory to be equal to the proceeds received from SRP, PNM
9 requests the authority to establish a regulatory asset or liability to account for any
10 differences in the proceeds and the actual book value of these assets at the time of the
11 transactions. If the proceeds received from SRP exceed the book value of these assets,
12 PNM would establish a regulatory liability to return the excess funds to customers. If
13 the proceeds received from SRP are less than the book value of these assets, PNM
14 would establish a regulatory asset to collect the shortfall from customers. The
15 regulatory asset or liability would be included in base rates, subject to Commission
16 review and approval in a future rate proceeding.

17

18 **Q. WHAT AMORTIZATION PERIOD IS PNM PROPOSING FOR THE**
19 **REQUESTED REGULATORY ASSET OR LIABILITY?**

20 **A.** PNM is proposing to amortize the regulatory asset or liability over 20 years. This
21 amortization period is consistent with the other requested regulatory assets, discussed
22 later in my testimony, that PNM is requesting in this case.

23

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1 **Q. HOW WILL THE PROCEEDS RELATED TO THE AFUDC ON NUCLEAR**
2 **FUEL BE APPLIED?**

3 **A.** Under the terms of the agreement with SRP, SRP will pay the NBV of PNM’s 114 MW
4 leased capacity share of nuclear fuel balances, excluding unamortized AFUDC. The
5 \$2.1 million in proceeds, shown in PNM Table KTS-2 above, are expected to cover the
6 unamortized AFUDC nuclear fuel balance for the leased capacity at the time of the
7 transactions which will lower the amount of nuclear fuel to be paid by customers.

8
9 **Q. WHAT WILL HAPPEN IF THE UNAMORTIZED AFUDC BALANCE ON**
10 **NUCLEAR FUEL ASSOCIATED WITH THE LEASED CAPACITY IS**
11 **DIFFERENT THAN THE PROJECTED AMOUNT AT THE TIME OF THE**
12 **TRANSACTION?**

13 **A.** Any difference between the proceeds from the SRP transaction for AFUDC on nuclear
14 fuel and the amounts actually held on PNM’s books at the time of the transactions
15 would flow through the Fuel and Purchased Power Cost Adjustment Clause
16 (“FPPCAC”) as nuclear fuel amortization.

17
18

19 **IV. ESTIMATED UNDEPRECIATED INVESTMENT IN THE 114 MW OF**
20 **PVNGS LEASED CAPACITY AND ASSOCIATED REVENUE**
21 **REQUIREMENTS**

22

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1 **Q. PLEASE DESCRIBE THE REQUESTED REGULATORY ASSETS FOR THE**
2 **UNDEPRECIATED INVESTMENT IN THE PVNGS LEASED CAPACITY**
3 **FOR WHICH PNM IS SEEKING APPROVAL IN THIS CASE.**

4 **A.** PNM is requesting two separate regulatory assets for the undepreciated investment in
5 the 114 MW of PVNGS Leased Capacity. The first is for the undepreciated investment
6 in the 104 MW of PVNGS Unit 1 (“104 MW of PVNGS Unit 1”), including the
7 allocable portion of common facility investments, proposed for abandonment effective
8 January 15, 2023. The second is for the undepreciated investment in the 10 MW of
9 PVNGS Unit 2 (“10 MW of PVNGS Unit 2”), including the allocable portion of
10 common facility investments, proposed for abandonment effective January 15, 2024.
11 PNM is proposing these two separate regulatory assets to account for the difference in
12 the timing of the abandonment of the leased capacity in the respective units. Please
13 see PNM Table KTS-3 below for the estimated values of each regulatory asset.

PNM Table KTS-3 Estimated Regulatory Assets for Undepreciated Investment in PVNGS Leased Capacity (in millions)	
Description	Amount
PVNGS Unit 1 - 104MW Undepreciated Investment	\$ 87.9
PVNGS Unit 2 - 10MW Undepreciated Investment	7.4
Total Estimated Undepreciated Investments Regulatory Assets	\$ 95.3

14

15

16 **Q. WHY DOES PNM HAVE UNDEPRECIATED INVESTMENTS IN THE**
17 **PVNGS 114 MW LEASED CAPACITY?**

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1 **A.** As described in more detail by PNM Witness Fallgren, PNM is obligated to pay its
2 share for necessary capital investments at PVNGS. A portion of these capital
3 investments are associated with the 114 MW of leased capacity (“leasehold
4 improvements”). The Commission has approved the depreciation rates for all capital
5 investments at PVNGS, including leasehold improvements. In the most recent
6 depreciation study, approved by the Commission in NMPRC Case No, 15-00261-UT,
7 the terminal retirement date for all capital investments is 2045 and 2046 for PVNGS
8 Unit 1 and Unit 2, respectively. Since these investments are expected to be depreciated
9 and recovered through rates over this time period, the earlier exit date of PNM’s leased
10 capacity results in investments that have benefitted customers but have not yet been
11 paid for by customers. Please refer to the direct testimony of PNM Witness Miller for
12 further discussion of the recoverability of the undepreciated investments.

13

14

15 **Q. IS PNM’S REQUESTED RECOVERY OF THE REMAINING**
16 **UNDEPRECIATED INVESTMENT IN PVNGS LEASEHOLD**
17 **IMPROVEMENTS CONSISTENT WITH THE COMMISSION’S FINDINGS**
18 **IN THE 2015 RATE CASE?**

19 **A.** Yes. PNM is not repurchasing the 114 MW interest in PVNGS Units 1 and 2, and
20 therefore customers will only be responsible for the remaining amount of the original
21 leasehold investments that was required to operate and maintain the leased interests
22 during the term of the leases. PNM’s requested treatment of the undepreciated
23 investments is consistent with the outcome of the Case No. 15-00261-UT. In that case,

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1 the Commission acknowledged that leasehold improvements for 64 MW of PNM's
2 capacity interest in PVNGS Unit 2 were recoverable in rate base in accordance with
3 the leases; however, because the assets that were repurchased included the leasehold
4 improvements, the Commission adjusted the purchase price of the 64 MW of capacity
5 so that the amount of leasehold NBV recoverable from customers was not included in
6 both the repurchased plant values and the separately booked undepreciated leasehold
7 improvements (see Case No. 15-000261-UT, Final Order, p. 39).

8

9 Customers have benefitted from the required investments through the electricity
10 delivered from the leased interests and also benefited from reduced rates that resulted
11 from basing the depreciation schedule for leasehold interests on the operable life of
12 PVNGS rather than the length of the leases. Creating regulatory assets for the
13 remaining balances allows PNM the opportunity to complete its recovery of these
14 investments in accordance with the Commission's previous approvals. As discussed
15 by PNM Witness Miller, these types of costs can and should be recovered through a
16 regulatory asset.

17

18 **Q. PLEASE DESCRIBE HOW THE PVNGS UNIT 1 – 104 MW**
19 **UNDEPRECIATED INVESTMENT REGULATORY ASSET AMOUNT IS**
20 **ESTIMATED.**

21 **A.** PNM started with the actual NBV of the 104 MW of PVNGS Unit 1 as of June 30,
22 2020. This NBV includes the share of PVNGS common facility assets that are
23 allocable to the 104 MW of leased capacity. PNM then added the projected capital

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1 additions, including common allocations, through the remaining life of the leases (July
2 1, 2020 through January 2023). PNM reduced the amount for the estimated increases
3 to accumulated depreciation through the remaining life of the leases. Then PNM
4 included estimated Construction Work in Progress (“CWIP”) balances as of January
5 15, 2023. Lastly, PNM applied the expected proceeds from the sale of certain PNM-
6 owned facilities to SRP and contributions to future capital expenditures, as discussed
7 in more detail by PNM Witness Fallgren. Please see PNM Table KTS-4 below for
8 detail of the estimated regulatory asset for the undepreciated investments of PVNGS
9 Unit 1 104 MW at the end of the lease term on January 15, 2023.

PNM Table KTS-4 Estimated PVNGS Unit 1 - 104MW Undepreciated Investment Regulatory Asset (in millions)	
Description	Amount
PVNGS Unit 1 - 104MW NBV Balance at 6/30/2020	\$ 81.8
Projected Capital Additions - 7/1/2020 - 1/15/2023	18.3
Increase to Accumulated Depreciation - 7/1/2020 - 1/15/2023	(10.2)
Projected CWIP Balance 1/15/2023	7.7
Proceeds from SRP Transaction	(9.7)
Total Estimated PVNGS Unit 1 - 104MW Undepreciated Investment Regulatory Asset	\$ 87.9

10
11
12 **Q. PLEASE DESCRIBE HOW THE PVNGS UNIT 2 – 10 MW UNDEPRECIATED**
13 **INVESTMENT REGULATORY ASSET AMOUNT IS ESTIMATED.**

14 **A.** PNM started with the actual NBV of the 10 MW of PVNGS Unit 2 as of June 30, 2020.
15 This NBV includes the share of PVNGS common facility assets that are allocable to
16 the 10 MW of leased capacity. PNM then added the projected capital additions,
17 including common allocations, through the remaining life of the lease (July 1, 2020

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1 through January 2024). PNM reduced the amount for the estimated increases to
2 accumulated depreciation through the remaining life of the lease. Then PNM included
3 estimated CWIP balances as of January 15, 2024. Lastly, PNM applied the expected
4 proceeds from the sale of certain PNM-owned facilities to SRP and contributions to
5 future capital expenditures, as discussed in more detail by PNM Witness Fallgren.
6 Please see PNM Table KTS-5 below for detail of the estimated regulatory asset for the
7 undepreciated investment in leasehold improvements of PVNGS Unit 2 10 MW at the
8 end of the lease term on January 15, 2024.

PNM Table KTS-5 Estimated PVNGS Unit 2 - 10MW Undepreciated Investment Regulatory Asset (in millions)	
Description	Amount
PVNGS Unit 2 - 10MW NBV Balance at 6/30/2020	\$ 6.3
Projected Capital Additions - 7/1/2020 - 1/15/2024	2.2
Increase to Accumulated Depreciation - 7/1/2020 - 1/15/2024	(1.1)
Projected CWIP Balance 1/15/2024	0.9
Proceeds from SRP Transaction	(1.0)
Total Estimated PVNGS Unit 2 - 10MW Undepreciated Investment Regulatory Asset	\$ 7.4

9

10

11 **Q. WILL THERE BE A TRUE UP ASSOCIATED WITH THE PVNGS**
12 **REGULATORY ASSETS FOR THE UNDEPRECIATED INVESTMENTS?**

13 **A.** Yes. The regulatory assets will be trued up for actual undepreciated investments in
14 leasehold improvements at the time of the abandonment, net of the proceeds received
15 from SRP.

16

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1 **Q. WHAT IS THE ESTIMATED FIRST YEAR ANNUAL REVENUE**
2 **REQUIREMENT OF THE PALO VERDE LEASE ABANDONMENT**
3 **REGULATORY ASSETS?**

4 **A.** PNM estimates the first year annual revenue requirement associated with regulatory
5 assets for the undepreciated investments in PVNGS leased capacity to be
6 approximately \$12.3 million. Please see PNM Exhibit KTS-2 for the calculation of the
7 estimated annual revenue requirement for the PVNGS Lease Abandonment Regulatory
8 Assets. Please see PNM Table KTS-6 below for a summary of the estimated first full-
9 year revenue requirement for the regulatory assets by PVNGS unit.

PNM Table KTS-6	
Estimated First Year Annual Revenue Requirement of the PVNGS Regulatory Assets	
(in millions)	
Description	Amount
PVNGS Unit 1 - 104MW Undepreciated Investment (PNM Exhibit KTS-2, Column C)	\$ 11.3
PVNGS Unit 2 - 10MW Undepreciated Investment (PNM Exhibit KTS-2, Column D)	1.0
Total PNM Non-Fuel Revenue Requirement (PNM Exhibit KTS-2, Column E)	\$ 12.3

10

11

12 **Q. DOES THE ESTIMATED REVENUE REQUIREMENT FOR RECOVERY OF**
13 **THE UNDEPRECIATED INVESTMENT INCLUDE THE EFFECTS OF**
14 **ACCUMULATED DEFERRED INCOME TAXES (“ADIT”)?**

15 **A.** Yes. Once PNM records the regulatory assets, PNM will also record associated ADIT. This
16 ADIT is included in rate base when determining the annual revenue requirement.

17

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1 **Q. IS THERE AN IMPACT TO THE NUCLEAR DECOMMISSIONING TRUST**
2 **(“NDT”) ASSOCIATED WITH PNM ABANDONING ITS LEASED CAPACITY IN**
3 **PVNGS UNITS 1 AND 2?**

4 **A.** Yes. Because PNM will no longer have a qualifying interest in the leased assets, the
5 related portion of the qualified NDT will no longer meet the requirements of a “Nuclear
6 Decommissioning Reserve Fund” and will immediately become non-qualified NDT
7 funds when the leases are transferred.

8
9 **Q. WHAT ARE THE EFFECTS OF QUALIFIED NDT FUNDS BECOMING NON-**
10 **QUALIFIED?**

11 **A.** Qualified NDT funds becoming non-qualified has two effects. First, the investments
12 in the trust will become non-qualified and will be treated for tax purposes as having
13 been sold at their fair market value by the qualified NDT (a “deemed sale”). This
14 deemed sale will trigger a taxable gain or loss within the qualified NDT for which the
15 qualified NDT will pay tax or get a tax benefit. The deemed sale and related tax effect
16 within the qualified NDT will not affect PNM’s taxable income or ADIT. Second, the
17 qualified NDT will be treated, for tax purposes, as though it made a distribution (a
18 “deemed distribution”) of the non-qualified funds to PNM, which will be taxable
19 income to PNM.

20
21 **Q. HAS PNM ESTIMATED THE AMOUNT OF INCOME TAX ADIT IMPACTS**
22 **FROM THE DEEMED DISTRIBUTION?**

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1 **A.** Yes. Based on December 31, 2020 trust balances, PNM estimates the taxable income
2 as a result of the deemed distribution from the qualified NDT to be approximately \$74.1
3 million. This amount would result in approximately \$18.8 million of income tax. This
4 will create a book-to-tax timing difference and result in the creation of an ADIT asset
5 equal to the income tax payable resulting from the deemed distribution. Actual ADIT
6 amounts will be based on the balances at the time of the transfer of the leases.

7

8 **Q.** **HAS PNM INCLUDED THIS IMPACT TO ADIT IN ITS ANALYSIS OF THE**
9 **REVENUE REQUIREMENT?**

10 **A.** Yes, PNM has included the incremental ADIT asset caused by abandonment of its
11 leased capacity in rate base for the undepreciated investment regulatory assets, as
12 shown in PNM Exhibit KTS -2. This ADIT asset will reverse over time as the costs
13 for decommissioning are incurred. The cost to customers of this ADIT asset has been
14 included in the revenue requirement analysis to determine the overall customer savings
15 resulting from the abandonment of the PVNGS Leased Capacity.

16

17 **Q.** **HOW IS PNM PROPOSING TO RECOVER THE ANNUAL REVENUE**
18 **REQUIREMENT OF THE PVNGS REGULATORY ASSETS?**

19 **A.** PNM is requesting the Commission to approve an accounting order to allow PNM to
20 record the regulatory assets and to recover the regulatory assets through base rates.
21 PNM is proposing to include the unamortized balance of the regulatory assets in rate
22 base which will earn a return on rate base equal to PNM's WACC. PNM also proposes

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1 to recover the annual amortization expense on the regulatory assets as a component of
2 operating expenses in its cost of service studies.

3

4 **Q. WHAT AMORTIZATION PERIOD IS PNM PROPOSING FOR THE**
5 **REQUESTED REGULATORY ASSETS?**

6 **A.** PNM is proposing to amortize the regulatory assets over 20 years. The 20-year period
7 closely aligns with the anticipated remaining useful lives of PVNGS Units 1 and 2,
8 2045 and 2046 respectively. The 20-year period is also consistent with the term of the
9 Purchase Power Agreement (“PPA”) and Battery Energy Storage Agreements
10 (“ESAs”) replacing the leased capacity at PVNGS.

11

12 **Q. WHAT WACC DID PNM USE TO CALCULATE THE RETURN**
13 **COMPONENT OF THE REVENUE REQUIREMENTS DISCUSSED IN YOUR**
14 **TESTIMONY?**

15 **A.** PNM used an after-tax WACC of 7.20% based on the capital structure, debt cost, and
16 the return on equity of 9.575% approved in PNM’s most recent general rate case,
17 NMPRC Case No. 16-00276-UT, Phase II compliance filing. PNM Table KTS-7
18 below shows the derivation of the WACC.

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PNM Table KTS-7 Illustrative WACC NMPRC Case No. 16-00276-UT Phase II Compliance Filing (in millions)						
Line No.	Capital Component	Total Capitalization Test Period	Percentage of Total Capitalization	Capital Component Cost	Weighted Average Cost	
1	Long Term Debt	\$ 1,466	50.00%	4.86%	2.43%	
2	Preferred Stock	12	0.39%	4.62%	0.02%	
3	Common Equity	1,454	49.61%	9.575%	4.75%	
4	Total	\$ 2,932	100.00%		7.20%	

1

2 **Q. IS PNM ASKING THE COMMISSION TO APPROVE THE SPECIFIC**
3 **CAPITAL STRUCTURE AND COST COMPONENTS USED IN THE WACC**
4 **CALCULATION IN THIS CASE?**

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

9

10 **Q. IS PNM REQUESTING ANY CHANGE OF RATES IN THIS CASE IF THE**
11 **COMMISSION APPROVES THE REQUESTED REGULATORY ASSETS?**

12 **A.** No, recovery of the regulatory assets would be included in a future PNM general rate
13 case along with the other requested cost of service adjustments.

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V. REVENUE REQUIREMENTS OF PVNGS REPLACEMENT POWER

Q. WHAT REPLACEMENT RESOURCES IS PNM PROPOSING THAT ARE ASSOCIATED WITH THE ABANDONMENT OF THE PVNGS LEASED CAPACITY?

A. As discussed by PNM Witness Phillips, the replacement resources associated with the abandonment of the PVNGS leased capacity are a 150 MW solar PPA combined with 140 MW of ESAs.

Q. WHAT IS THE FIRST FULL YEAR REVENUE REQUIREMENT FOR THE 150 MW OF PPA SOLAR GENERATION PAIRED WITH THE 140 MW OF BATTERY ESA?

A. PNM estimates the first full year retail revenue requirement for the 150 MW PPA solar generation paired with 140 MW of battery storage to be \$18.4 million. Please refer to the direct Testimony of PNM Witnesses Fallgren and Phillips for further detail on these resources. The revenue requirement includes the purchase of energy from the solar developer at the contracted price (energy charge) and capacity payments (demand charge) for the 140 MW of battery storage. Please see PNM Exhibit KTS-3 for the calculation of the first full year annual revenue requirements. The energy charge component for these resources are included in the net fuel impacts as discussed in section II of my testimony. Please see PNM Table KTS-8 below for a summary of the revenue requirements by resource and component.

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PNM Table KTS-8 Estimated First Year Annual Revenue Requirement For Replacement Resources (in millions)			
Description	Energy Charge	Demand Charge	Total Charge
150 MW Solar PPA & 40 MW Battery ESA	\$ 6.9	\$ 3.7	\$ 10.7
100 MW Battery ESA	-	7.8	7.8
1 Total PNM Replacement Power Revenue Requirement	\$ 6.9	\$ 11.5	\$ 18.4

1

2

3 **Q. HOW DO THE COST RECOVERY PROVISIONS OF RULE 551 APPLY TO**
4 **THE PPA AND ESAS?**

5 **A.** Rule 551.8(D)(4) requires a utility seeking approval of a PPA to provide “an
6 explanation of how the electric utility proposes to recover from ratepayers the costs
7 incurred and an estimate of the effect on rates to customers.” Rule 551.9(A) provides
8 that, unless otherwise authorized by the Commission, energy costs incurred under a
9 PPA are recoverable through a utility’s FPPCAC and capacity costs are recoverable
10 through base rates.

11

12 **Q. WHAT PROPOSED RATEMAKING TREATMENT IS PNM SEEKING IN**
13 **REGARD TO THE PPA AND ESAS RELATED TO THE REPLACEMENT OF**
14 **PVNGS CAPACITY?**

15 **A.** PNM is proposing that the energy costs under the PPA will be recovered through
16 PNM’s FPPCAC, consistent with Rule 551. PNM is proposing that the demand charges
17 under the ESAs be recovered through base rates, consistent with Rule 551.

18

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1 **Q. WHAT IS THE RETAIL REVENUE REQUIREMENT FOR TRANSMISSION**
2 **NETWORK UPGRADES AND OTHER CAPITAL COSTS ASSOCIATED**
3 **WITH THE PPA SOLAR GENERATION PAIRED WITH THE BATTERY ESA**
4 **FOR PVNGS REPLACEMENT POWER?**

5 **A.** As discussed by PNM Witnesses Thomas Duane and Roger Nagel, PNM will need to
6 construct transmission network upgrades and incur certain General and Intangible
7 (“G&I”) capital costs associated with the PPA and ESAs. PNM has estimated these
8 incremental capital costs to be \$12.8 million. However, since network upgrades benefit
9 all users of the transmission system – PNM’s retail jurisdictional customers and the
10 Federal Energy Regulatory Commission (“FERC”) wholesale transmission
11 jurisdictional customers – these costs are allocated between the jurisdictions based on
12 their usage of the total transmission system. The first full year retail revenue
13 requirement for these capital costs is estimated to be \$1.2 million. Please see PNM
14 Exhibit KTS-4 for the detailed revenue requirements for the various transmission
15 network upgrades and G&I costs. These revenue requirements are summarized in PNM
16 Table KTS-9 below.

PNM Table KTS-9	
Estimated First Year Annual Retail Revenue Requirement	
For Transmission Network Upgrades and G&I costs	
(in millions)	
Description	Revenue Requirement
150 MW Solar PPA & 40 MW Battery ESA	\$ 0.9
100 MW Battery ESA	0.4
Total PNM Retail Revenue Requirements	\$ 1.2

17

18

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1 **Q. IS PNM REQUESTING COMMISSION APPROVAL TO RECOVER THESE**
2 **CAPITAL COSTS AS PART OF THIS APPLICATION?**

3 **A.** No. PNM will seek to recover these capital costs in a future rate case and is not seeking
4 approval of any ratemaking treatment here. My testimony simply describes how PNM
5 has recovered similar costs historically and provides an illustrative revenue
6 requirement to determine the retail customer impacts in 2024.

7

8 **VI. CONTINUED OPERATIONS SCENARIO REVENUE REQUIREMENT**

9

10 **Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT OF THE**
11 **CONTINUED OPERATIONS SCENARIO.**

12 **A.** The total revenue requirement of the Continued Operations Scenario is estimated to be
13 \$47.2 million in 2024. The revenue requirement includes a return on rate base and
14 operating expenses associated with the 114 MW of capacity in PVNGS. Please refer to
15 PNM Exhibit KTS-5 for the calculation of the revenue requirement.

16

17 **Q. WHAT RATE BASE DID PNM USE TO MODEL THE REVENUE**
18 **REQUIREMENT OF THE CONTINUED OPERATIONS SCENARIO?**

19 **A.** First, PNM assumed that it repurchased the leased capacity at a price of \$515/kW when
20 the leases expire. This purchase price results in capital investment of \$53.7 million for
21 the 104 MW of Unit 1 and \$5.4 million for the 10 MW of Unit 2. Next, PNM assumed
22 the existing and continued capital investments it would be required to make as a
23 participant owner in PVNGS. This results in an average NBV of \$141.5 million for

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1 Unit 1 and \$15.8 million for Unit 2 in 2024, to illustrate the first full year comparison
2 to the Leased Capacity. PNM then included the ADIT associated with these NBVs.
3 Finally, PNM projected the nuclear fuel and other working capital balances associated
4 with the 114 MW of PVNGS. These items result in a total average rate base of \$153.3
5 million for the 104 MW of Unit 1 and \$16.7 million for the 10 MW of Unit 2.

6

7 **Q. WHAT OPERATING EXPENSES DID PNM ASSUME FOR THE REVENUE**
8 **REQUIREMENT OF THE CONTINUED OPERATIONS SCENARIO?**

9 **A.** PNM included depreciation expense, operations and maintenance expense, third party
10 transmission expense, property taxes, payroll taxes, and income taxes. Refer to PNM
11 Exhibit KTS-5, lines 21 through 25 for the detailed amounts of these expenses.

12

13 **Q. HAS PNM INCLUDED FUTURE NUCLEAR DECOMMISSIONING**
14 **FUNDING REQUIREMENTS FOR PVNGS UNITS 1 AND 2 IN THE**
15 **ESTIMATED CUSTOMER SAVINGS?**

16 **A.** No. Currently, PNM collects nuclear decommissioning costs as needed to adequately
17 fund the NDT. PNM includes in rates the expected funding requirements to the trusts
18 for each unit at PVNGS. As a result of the Final Order in Case No. 15-00261-UT,
19 PNM is currently only collecting NDT funding contributions for PVNGS Unit 3. As
20 discussed by PNM Witness Eden, at this time, PNM has not determined if future
21 funding for Units 1 and 2 will be required. In the event that PNM determines that
22 additional NDT funding is needed, PNM would request recovery in a future rate case.

23

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1 **Q. WOULD FUTURE NDT FUNDING REQUIREMENTS IMPACT THE**
2 **ANALYSIS PROVIDED IN THIS TESTIMONY?**

3 **A.** No. As discussed by PNM Witness Eden, PNM would be required to make the same
4 future funding obligations under both the abandonment scenario and the Continued
5 Operations Scenario, so there would be no net impact for this expense between the
6 scenarios.

7

8 **VII. COSTS TO OBTAIN AN ABANDONMENT ORDER**

9

10 **Q. PLEASE SUMMARIZE THE ESTIMATED COSTS TO OBTAIN A**
11 **COMMISSION ORDER APPROVING ABANDONMENT OF THE LEASED**
12 **INTERESTS.**

13 **A.** PNM estimates it will incur approximately \$2.3 million to obtain an order approving
14 abandonment of the Leased Capacity, for which PNM is requesting a regulatory asset.
15 These costs include external legal counsel, outside consultants, and administrative costs
16 for witness testimony, postage, publications, and other costs incurred associated with
17 this proceeding. These estimated costs are summarized in PNM Table KTS-10 below.
18 Please see PNM Exhibit KTS-6, page 1 of 2, for details of these costs.

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PNM Table KTS-10 Estimated Costs to Obtain an Abandonment Order (in millions)	
Description	Amount
External Legal Counsel	\$ 0.6
Expert Outside Consultants, Witness Testimony	1.4
Other Administrative Regulatory Costs	0.3
Total	\$ 2.3

1

2

3 **Q. WHAT ACCOUNTING TREATMENT IS PNM REQUESTING FOR THE**
4 **COSTS TO OBTAIN AN ABANDONMENT ORDER?**

5 **A.** PNM requests the authority to establish a regulatory asset to record the costs associated
6 with obtaining an Abandonment Order in this proceeding and would recover the
7 regulatory asset through base rates, subject to Commission review and approval in a
8 future rate proceeding.

9

10 **Q. WHAT IS THE ESTIMATED FIRST YEAR ANNUAL REVENUE**
11 **REQUIREMENT OF THE COSTS TO OBTAIN AN ABANDONMENT ORDER**
12 **REGULATORY ASSETS?**

13 **A.** PNM estimates the first year annual revenue requirement associated with the regulatory
14 asset for the costs to obtain an abandonment order to be \$0.3 million. Please see PNM
15 Exhibit KTS-6, page 2 of 2, for the calculation of the estimated annual revenue
16 requirement.

17

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1 **Q. HOW IS PNM PROPOSING TO RECOVER THE ANNUAL REVENUE**
2 **REQUIREMENT OF THE COSTS OF ABANDONMENT REGULATORY**
3 **ASSET?**

4 **A.** PNM is requesting the Commission to approve an accounting order to allow PNM to
5 record the costs of abandonment regulatory asset and to recover the regulatory assets
6 through base rates. PNM is proposing to include the unamortized balance of the
7 regulatory asset in rate base which will earn a return on rate base equal to PNM's
8 WACC. PNM also proposes to recover the annual amortization expense on the
9 regulatory asset as a component of operating expenses in its cost of service studies.

10

11 **Q. WHAT AMORTIZATION PERIOD IS PNM PROPOSING FOR THE**
12 **REQUESTED COSTS OF ABANDONMENT REGULATORY ASSET?**

13 **A.** PNM is proposing to amortize the costs of abandonment regulatory asset over 20 years,
14 to be consistent with the other regulatory assets requested in this case.

15

16 **VIII. REVENUE REQUIREMENTS AND CUSTOMER IMPACTS OF**
17 **RESOURCES NEEDED TO MEET RESOURCE ADEQUACY**
18 **REQUIREMENTS**

19

20 **Q. WHAT RESOURCES ARE BEING REQUESTED TO MEET RESOURCE**
21 **ADEQUACY REQUIREMENTS?**

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1 **A.** As discussed by PNM Witness Phillips, the new resources needed for increasing system
2 reliability are a 300 MW solar PPA combined with 150 MW battery ESA. This is a
3 separate request from the PVNGS abandonment application discussed above.

4

5 **Q. WHAT IS THE FIRST FULL YEAR REVENUE REQUIREMENT FOR THE**
6 **300 MW SOLAR PPA PAIRED WITH THE 150 MW BATTERY ESA?**

7 **A.** PNM estimates the first full year retail revenue requirement for the 300 MW solar PPA
8 paired with 150 MW battery ESA to be \$30.1 million. Please refer to the direct
9 Testimony of PNM Witnesses Fallgren and Phillips for further detail on these
10 resources. The revenue requirement includes the purchase of energy from the solar
11 developer at the contracted price (energy charge) and capacity payment (demand
12 charge) for the 150 MW of battery storage. Please see PNM Exhibit KTS-7 for the
13 calculation of the estimated first full year annual revenue requirements. Please see
14 PNM Table KTS-11 below for a summary of the revenue requirements.

PNM Table KTS-11			
Estimated First Year Annual Revenue Requirement For Reliability Resources			
(in millions)			
Description	Energy	Demand	Total
	Charge	Charge	Charge
300 MW Solar PPA & 150 MW Battery ESA	\$ 17.5	\$ 12.6	\$ 30.1

15

16

17 **Q. WHAT IS THE RETAIL REVENUE REQUIREMENT FOR TRANSMISSION**
18 **NETWORK UPGRADES AND OTHER CAPITAL COSTS ASSOCIATED**
19 **WITH THE SOLAR PPA PAIRED WITH THE BATTERY ESA NEEDED FOR**
20 **SYSTEM RELIABILITY?**

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1 **A.** As discussed by PNM Witnesses Duane and Nagel, PNM will need to construct
2 transmission network upgrades and incur certain G&I capital costs associated with the
3 PPA and ESA for increased system reliability. PNM has estimated these incremental
4 capital costs to be \$10.0 million. However, since network upgrades benefit all users of
5 the transmission system – PNM’s retail jurisdictional customers and the Federal Energy
6 Regulatory Commission wholesale transmission jurisdictional customers – these costs
7 are then allocated between the jurisdictions based on their usage of the total
8 transmission system. The estimated first full year retail revenue requirement for these
9 capital costs is estimated to be \$1.3 million. Please see PNM Exhibit KTS-8 for the
10 detailed revenue requirements for the various transmission network upgrades and G&I
11 capital costs associated with the PPA and ESA for increased system reliability.

12
13 **Q. IS PNM REQUESTING COMMISSION APPROVAL TO RECOVER THESE**
14 **CAPITAL COSTS AS PART OF THIS APPLICATION?**

15 **A.** No. PNM will seek to recover these capital costs in a future rate case and is not seeking
16 approval of any ratemaking treatment here. My testimony simply describes how PNM
17 has recovered similar costs historically and provides an illustrative revenue
18 requirement to determine the retail customer impacts in 2024.

19
20 **Q. WHAT PROPOSED RATEMAKING TREATMENT IS PNM SEEKING IN**
21 **REGARD TO THE PPA AND ESA NEEDED TO MEET RESOURCE**
22 **ADEQUACY REQUIREMENTS?**

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1 **A.** Consistent with Rule 551.8(D)(4), PNM is proposing that the energy costs under the
2 PPAs will be recovered through PNM’s FPPCAC. PNM is proposing that the demand
3 charges under the ESAs be recovered through base rates.

4

5 **Q. PLEASE SUMMARIZE THE ESTIMATED FIRST FULL YEAR CUSTOMER**
6 **IMPACTS FOR THE RESOURCES NEEDED TO MEET RESOURCE**
7 **ADEQUACY REQUIREMENTS.**

8 **A.** PNM Table KTS-12 below shows the first full year customer impacts to be \$20.0
9 million.

PNM Table KTS-12 Summary of First Year Customer Impacts for Resources Needed to Meet Resource Adequacy Requirements (in millions)		
	Amount	Exhibit Reference
Demand Charges for Additional Resources	\$ 12.6	PNM Exhibit KTS-7
Transmission and G&I Capital Cost Revenue Requirement	1.3	PNM Exhibit KTS-8
Net Fuel Costs/(Savings), due to change in resources	6.1	
Net First Year Customer Impacts (Savings)/Cost	\$ 20.0	

10

11

12 **Q. HOW DID PNM ESTIMATE THE FUEL IMPACTS ASSOCIATED WITH THE**
13 **ADDITIONAL RESOURCES ADDED TO MEET RESOURCE ADEQUACY**
14 **REQUIREMENTS?**

15 **A.** PNM compared the estimated total system fuel costs in the scenario that assumed the
16 abandonment of the PVNGS leased capacity before adding resources to increase the
17 system reliability to the estimated total system fuel costs, with the inclusion of the
18 resources, including the energy charge for the new resource, discussed above. The
19 increase in the total system fuel costs resulting from adding resources to meet resource

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1 adequacy is estimated to be approximately \$6.1 million. Please refer to the direct
2 testimony of PNM Witness Phillips for further discussion on the estimated fuel costs
3 for each scenario.

4

5

IX. CONCLUSION

6

7 **Q. PLEASE SUMMARIZE THE REGULATORY ASSETS PNM IS ASKING THE**
8 **COMMISSION TO APPROVE IN THIS CASE.**

9 **A.** PNM is requesting that the Commission authorize the establishment and recovery of
10 regulatory assets associated with the undepreciated investments in PVNGS 114 MW
11 leases, the costs to obtain an abandonment order, and a potential true-up related to the
12 assets being sold to SRP. The recovery of these regulatory assets would be subject to
13 Commission review and approval in a future rate proceeding. Please see PNM Table
14 KTS-13 below for a summary of the regulatory assets PNM is requesting in this case.

PNM Table KTS-13			
Summary of Requested Regulatory Assets			
Regulatory Asset/Liability	Testimony Section Reference	Estimated Amount (in Millions)	Amortization Period (Years)
PVNGS Unit 1 - 104MW Undepreciated Investment	IV	\$ 87.9	20
PVNGS Unit 2 - 10MW Undepreciated Investment	IV	7.4	20
Estimated Costs to Obtain an Abandonment Order	VII	2.3	20
True-up for SRP Transaction Proceeds	II	-	20

15

16

17 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS WITH REGARD TO THE**
18 **REQUESTED REGULATORY ASSETS FOR THE UNDEPRECIATED**
19 **INVESTMENTS IN LEASEHOLD IMPROVEMENTS.**

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1 **A.** As described by PNM Witness Phillips, PNM’s request to abandon the leased capacity
2 of PVNGS provides a net present value benefit to customers over the planning horizon.
3 Additionally, the request to abandon provides an estimated first full year customer
4 benefit of \$12.6 million. As such, the requested regulatory assets for undepreciated
5 investment in leasehold improvements should be approved by the Commission. This
6 is further supported by the testimony of PNM Witness Miller.

7

8 **Q.** **WHAT OTHER APPROVALS IS PNM ASKING OF THE COMMISSION IN**
9 **THIS CASE?**

10 **A.** PNM is also asking the Commission to approve the ratemaking treatment of both the
11 PPA and ESAs to replace the PVNGS leased capacity and the PPA and ESA to meet
12 resource adequacy requirements. Consistent with the Commission’s approvals in
13 recent cases, PNM would flow the energy costs through its FPPCAC and would recover
14 all of the capacity costs in base rates.

15

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

17 **A.** Yes.

GCG#527881

Resume of Kyle T. Sanders

PNM Exhibit KTS-1

Is contained in the following 2 pages.

**KYLE T. SANDERS
EDUCATIONAL AND PROFESSIONAL SUMMARY**

Name: Kyle T. Sanders

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

Position: Director of Corporate Budget and Cost of Service

Education: Bachelor of Accountancy, New Mexico State University, 2009

Employment: PNM Services Company:
Senior Revenue Requirements Analyst (2012-2013)
Financial Analyst (2013-2015)
Manager of Cost of Service (2015-2017)
Director Financial Planning and Load Forecasting (2017)
Director of Corporate Budget and Cost of Service (2019-current)
New Mexico Gas Company:
Director of Planning and Forecasting (2017-2019)

Testimony Filed:

Texas Public Utility Commission

- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, PUCT Docket No. 44953, filed July 17, 2015
- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, PUCT Docket No. 45559, filed January 29, 2016
- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, PUCT Docket No. 46184, filed July 19, 2016
- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rates, PUCT Docket No. 46786, filed January 20, 2017
- In the Matter of the Application of Texas-New Mexico Power Company for A Distribution Cost Recovery Factor, PUCT Docket No. 50731, filed April 6, 2020

New Mexico Public Regulation Commission

- 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, 2016 (PNM's Rider No. 36 Reconciliation for 2015.)
- In the Matter of PNM's Application for Approval of Its Renewable Energy Act Plan for 2017 and Proposed 2017 Rider Rate under Rate Rider No. 36, NMPRC Case No. 16-00148-UT, filed June 1, 2016
- 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, 2017 (PNM's Rider No. 36 Reconciliation for 2016.)
- In the Matter of PNM's Application for Approval of Its Renewable Energy Act Plan for 2018 and Proposed 2018 Rider Rate under Rate Rider No. 36, NMPRC Case No. 17-00129-UT, filed June 1, 2017
- In the Matter of PNM's Application for Approval of Two Purchased Power Agreements and an Energy Storage Agreement Pursuant to 17.9.551 NMAC, An Addendum to the Special Service Contract with Great Kudu LLC, and Amended Rider No. 49, filed February 8, 2021

Federal Energy Regulatory Commission

- Public Service Company of New Mexico Filing to Revise Depreciation Rates in PNM's Transmission Formula Rate, FERC Docket No. ER 16-2713-000, filed September 30, 2016

Estimated Annual Revenue Requirement – PVNGS 114 MW
Undepreciated Investment

PNM Exhibit KTS-2

Is contained in the following 1 page.

	A	B	C	D	E
1		PNM Exhibit KTS - 2			
2		Estimated Annual Revenue Requirement - PVNGS 114 MW Undepreciated Investment			
3					
4			(in millions)		
5			PVNGS Unit 1 104 MW	PVNGS Unit 2 10 MW	PVNGS 114 MW Total
6		Description	Revenue Requirement	Revenue Requirement	Revenue Requirement
7		Total Reg Asset	\$ 87.9	\$ 7.4	\$ 95.3
8					
9		Accumulated Amortization (Average)	(6.6)	(0.2)	(6.8)
10					
11		Average Unamortized Reg Asset Balance	81.3	7.2	88.5
12					
13		ADIT (Average)	(20.6)	(1.8)	(22.5)
14		ADIT - Qualified to Non-Qualified NDT	17.1	1.8	18.8
15					
16		Average Rate Base	77.7	7.1	84.8
17					
18		Weighted Average Cost of Capital	7.20%	7.20%	7.20%
19					
20		Return on Rate Base	5.6	0.5	6.1
21					
22		Depreciation Expense	4.4	0.4	4.8
23					
24		Income Taxes	1.3	0.1	1.4
25		PNM Non-Fuel Revenue Requirement (Before Revenue Tax)	11.3	1.0	12.3
26					
27		Revenue Tax @ 0.508573%	0.1	0.0	0.1
28		Total PNM Non-Fuel Revenue Requirement	\$ 11.3	\$ 1.0	\$ 12.3

Estimated Annual Revenue Requirement for Replacement Resources

PNM Exhibit KTS-3

Is contained in the following 1 page.

	A	B	C	D	E
1		PNM Exhibit KTS-3			
2		Estimated Revenue Requirement for			
3		PVNGS Replacement Resources			
4					
5			(in millions)		
6			Bidder 7-1.1	Bidder 79-1.1	
7			150 MW Solar PPA 40 MW Battery ESA	100 MW Battery ESA	Total
8		Solar PPA			
9		<i>Annual Sales (MWh)</i>	0.4		
10		<i>Price (\$/MWh)</i>	\$ 16.35		
11		<i>Energy Cost (Line 9 x Line 10)</i>	\$ 6.9		\$ 6.9
12					
13		Battery ESA			
14		<i>Battery Size (kW)</i>	40,000	100,000	
15		<i>Capacity Price (\$/kW-year)</i>	\$ 93.13	\$ 77.59	
16		<i>Capacity Cost (Line 14 x Line 15)</i>	\$ 3.7	\$ 7.8	\$ 11.5
17					
18		Total Solar/Battery (Line 11 + Line 16)	\$ 10.7	\$ 7.8	\$ 18.4

Estimated Revenue Requirement for Transmission and G&I Capital
Investments for PVNGS Replacement Power

PNM Exhibit KTS-4

Is contained in the following 1 page.

	A	B	C	D	E	F
1			PNM Exhibit KTS-4			
2			Estimated Revenue Requirement for Transmission and			
3			G&I Capital Costs for PVNGS Replacement Resources			
4				(in millions)		
5				Bidder 7-1.1	Bidder 79-1.1	
6			Description	150 MW Solar PPA 40 MW Battery ESA	100 MW Battery ESA	Total
7						
8			Gross Plant	\$ 9.2	\$ 3.6	\$ 12.8
9			Accumulated Reserve	(0.2)	(0.1)	(0.3)
10						
11			Net Book Value Plant in Service	9.0	3.5	12.5
12			<i>(Line 8 + Line 9)</i>			
13			ADIT	(0.0)	(0.0)	(0.1)
14						
15			Average Rate Base	\$ 8.9	\$ 3.5	\$ 12.4
16			<i>(Line 11 + Line 13)</i>			
17						
18			WACC (16-00276-UT Phase II)	7.20%	7.20%	7.20%
19						
20			Return on Rate Base	\$ 0.6	\$ 0.2	\$ 0.9
21			<i>(Line 15 x Line 18)</i>			
22						
23			Depreciation Expense	0.4	0.2	0.6
24						
25			Property Tax	0.1	0.0	0.1
26						
27			Income Taxes	0.1	0.1	0.2
28						
29			Total Company Non-Fuel Revenue Requirement (Before Revenue Tax)	\$ 1.3	\$ 0.5	\$ 1.8
30			<i>(Line 20 + Line 23 + Line 25 + Line 27)</i>			
31						
32			PNM Retail Share Non-Fuel Revenue Requirement*	\$ 0.9	\$ 0.4	\$ 1.2
33						
34			Revenue Tax @ 0.508573%	0.0	0.0	0.0
35			Annual Non-Fuel Revenue Requirement	\$ 0.9	\$ 0.4	\$ 1.2
36			<i>(Line 32 + Line 34)</i>			
37						
38			* Reflects the 51.82% Retail Share on Transmission Network Upgrade Investments and 100% Retail Share on G&I Capital Investments			

Estimated Revenue Requirement for Continued Operations

PNM Exhibit KTS-5

Is contained in the following 1 page.

Estimated Cost to Obtain an Abandonment Order and Revenue
Requirement

PNM Exhibit KTS-6

Is contained in the following 2 pages.

	A	B	C	D
1	PNM Exhibit KTS - 6			Page 1 of 2
2	Estimated Costs to Obtain an Abandonment Order			
3	Estimated Costs Detail			
4		(in millions)		
5	Abandonment Order	Costs Incurred As of December 31, 2020	Estimated Remaining Costs to complete	Estimate of Total Costs
6				
7	Outside Legal Counsel:			
8	Miller Stravert	\$ 0.0	\$ 0.1	\$ 0.2
9	Troutman, Pepper, Hamilton, Sanders	0.2	0.0	0.2
10	Wilkinson, Barker, Knauer	-	0.1	0.1
11	Timothy M Toy	0.2	-	0.2
12	Keleher & McLeod PA	0.0	-	0.0
13	Total Outside Legal Counsel	0.4	0.2	0.6
14				
15	Outside Consultants:			
16	CDG Engineers Inc.	0.0	0.1	0.1
17	Energy and Environmental Economics	0.0	0.2	0.2
18	Horizon Energy	0.0	0.1	0.1
19	Aion	-	0.4	0.4
20	Astrape	-	0.2	0.2
21	Montrose Environmental Group	0.0	-	0.0
22	Pegasus Global Holdings Inc.	0.2	0.1	0.3
23	Siemens Industry	0.0	-	0.0
24	Potential Consultant Rebuttal(Regulatory)	-	0.2	0.2
25	Total Outside Consultants	0.2	1.2	1.4
26				
27	Administrative Regulatory Cost:			
28	Travel and Administrative Expenses	-	0.1	0.1
29	Graphics/ Postage	-	0.1	0.1
30	Courier Service	-	0.0	0.0
31	Total Administrative Regulatory Cost	-	0.3	0.3
32				
33	Total Estimated Costs to Obtain Abandonment Order	\$ 0.7	\$ 1.6	\$ 2.3

	A	B
1	PNM Exhibit KTS - 6	Page 2 of 2
2	Estimated Costs to Obtain an Abandonment Order	
3	Estimated Annual Revenue Requirement	
4		(in millions)
5	Description	Regulatory Asset for Abandonment Costs
6	Regulatory Asset	\$ 2.3
7		
8	Accumulated Amortization	(0.2)
9		
10	Average Unamortized Reg Asset Balance	2.1
11		
12	Average ADIT at 25.40%	(0.5)
13		
14	Total Average Rate Base	1.6
15		
16	WACC (16-00276-UT Phase II)	7.20%
17		
18	Return on Rate Base	0.1
19		
20	Amortization Expense	0.1
21		
22	Income Taxes	0.0
23	PNM Non-Fuel Revenue Requirement (Before Revenue Tax)	0.3
24		
25	Revenue Tax @ 0.508573%	0.0
26	Total PNM Non-Fuel Revenue Requirement	\$ 0.3
27		

Estimated Revenue Requirement for Resources Needed to Meet Resource Adequacy Requirements

PNM Exhibit KTS-7

Is contained in the following 1 page.

	A	B	C
1		PNM Exhibit KTS-7	
2		Estimated Revenue Requirement for Resources Needed	
3		to Meet Resource Adequacy Requirements	
4			
5			(in millions)
6			Bidder 68-1.1
7			300 MW Solar PPA 150 MW Battery ESA
8		Solar PPA	
9		<i>Annual Sales (MWh)</i>	0.9
10		<i>Price (\$/MWh)</i>	\$ 19.61
11		<i>Energy Cost (Line 9 x Line 10)</i>	\$ 17.5
12			
13		Battery ESA	
14		<i>Battery Size (kW)</i>	150,000
15		<i>Capacity Price (\$/kW-year)</i>	\$ 83.96
16		<i>Capacity Cost (Line 14 x Line 15)</i>	\$ 12.6
17			
18		Total Solar/Battery (Line 11 + Line 16)	\$ 30.1

Estimated Revenue Requirement for Transmission and G&I Capital
Investments for Resources Needed to Meet Resource Adequacy
Requirements

PNM Exhibit KTS-8

Is contained in the following 1 page.

	A	B	C	D
1	PNM Exhibit KTS-8			
2	Estimated Revenue Requirement for Transmission and G&I Capital Investments			
3	for Resources Needed to Meet Resource Adequacy Requirements			
4				
5				(in millions)
6				Bidder 68-1.1
7	Description			300 MW Solar PPA 150 MW Battery ESA
8				
9	Gross Plant			\$ 10.0
10	Accumulated Reserve			(0.3)
11				
12	Average Net Book Value Plant in Service			9.7
13			<i>(Line 8 + Line 9)</i>	
14	ADIT			(0.1)
15				
16	Average Rate Base			\$ 9.6
17			<i>(Line 11 + Line 13)</i>	
18				
19	WACC (16-00276-UT Phase II)			7.20%
20				
21	Return on Rate Base			\$ 0.7
22			<i>(Line 15 x Line 18)</i>	
23				
24	Depreciation Expense			0.6
25				
26	Property Tax			0.1
27				
28	Income Taxes			0.2
29				
30	Total Company Non-Fuel Revenue Requirement			\$ 1.6
31			<i>(Line 20 + Line 23 + Line 25 + Line 27)</i>	
32				
33	PNM Retail Share Non-Fuel Revenue Requirement*			\$ 1.3
34				
35	Revenue Tax @ 0.508573%			0.0
36	Annual Non-Fuel Revenue Requirement			\$ 1.3
37			<i>(Line 32 + Line 34)</i>	
38				
39	* Reflects the 51.82% Retail Share on Transmission Network Upgrade Investments and 100% Retail Share on G&I Capital Investments			

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR ABANDONMENT OF 114MW)
OF LEASED PALO VERDE NUCLEAR)
GENERATING STATION CAPACITY AND)
SALE AND TRANSFER OF RELATED)
ASSETS, AND FOR APPROVAL OF)
REPLACEMENT RESOURCES UNDER)
17.9.551 NMAC,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
Applicant)
_____)**

Case No. 21-____-UT

SELF AFFIRMATION

KYLE T. SANDERS, Director, Cost of Service and Corporate Budget, 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 Kyle T. Sanders** and it is true and correct based on my personal knowledge and belief.

DATED this 2nd day of April, 2021

/s/ Kyle T. Sanders _____
KYLE T. SANDERS