

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL TO ABANDON)
SAN JUAN GENERATING STATION UNITS)
2 AND 3, ISSUANCE OF CERTIFICATES)
OF PUBLIC CONVENIENCE AND)
NECESSITY FOR REPLACEMENT POWER)
RESOURCES, ISSUANCE OF ACCOUNTING)
ORDERS AND DETERMINATION OF)
RELATED RATEMAKING PRINCIPLES AND)
TREATMENT,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)
_____)

Case No. 13-00390-UT

JULY 15 SUPPLEMENTAL TESTIMONY

OF

GERARD T. ORTIZ

July 15, 2014

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

I. INTRODUCTION AND PURPOSE

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

A. My name is Gerard T. Ortiz. I am Vice President, Regulatory Affairs, for Public Service Company of New Mexico (“PNM” or the “Company”). My business address is 414 Silver Avenue, SW, MS-1105, Albuquerque, New Mexico 87102.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?

A. Yes, I have. I filed Direct Testimony on December 20, 2013, and supplemental testimony on February 5, 2014, and May 22, 2014.

Q. WHAT IS THE PURPOSE OF YOUR JULY 15 SUPPLEMENTAL TESTIMONY?

A. My July 15 Supplemental Direct Testimony is filed pursuant to the Hearing Examiner’s *Order (1) Partially Granting PNM Motion, as Supplemented, For Leave to File Supplemental Testimony, to Extend Procedural Schedule and for Shortened Response Time and (2) Denying PNM Motion for Leave to File Reply in Support of Motion for Leave to File Supplemental Testimony* (“Order”) issued on June 11, 2014. The purpose of my testimony is to provide updated information regarding PNM’s Application in this case, based on the results of negotiations regarding a revised ownership structure at San Juan Generating Station (“SJGS” or “San Juan”) in order to comply with the Revised State Implementation Plan (“Revised SIP”). As anticipated by PNM’s May 22 supplemental filing, the agreements in principle reached

**JULY 15 SUPPLEMENTAL TESTIMONY OF
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1 through the ownership restructuring negotiations have resulted in PNM now proposing
2 to acquire 132 MW of SJGS Unit 4 and the acquisition will not be accomplished
3 through an exchange of capacity in SJGS Unit 3. As demonstrated by PNM's May 22
4 supplemental filing, the updated information does not alter PNM's conclusions
5 regarding the most cost-effective supply portfolio to replace SJGS Units 2 and 3 which
6 will be retired to comply with the U. S. Environmental Protection Agency's ("EPA")
7 Regional Haze Rule, pursuant to the Revised SIP. As discussed more fully in
8 PNM's December 20, 2013, filing in this case as supplemented on February 5,
9 2014, compliance with the Revised SIP requires Commission approval to abandon
10 San Juan Units 2 and 3, and identification of replacement power for the abandoned
11 capacity in order to assure that the future public convenience and necessity warrants the
12 abandonment. As a result, the additional capacity in SJGS Unit 4 for which PNM seeks
13 a Certificate of Convenience and Necessity ("CCN") is 132 MW rather than 78 MW.
14 The additional capacity also requires an appropriate accounting order from the
15 Commission to establish a proper valuation for book and ratemaking purposes for the
16 additional SJGS Unit 4 capacity, even though PNM is not seeking any additional rate
17 base value for the additional 54 MW of SJGS Unit 4 capacity. In other words, there is
18 no material change to the economics underlying the Revised SIP implementation due to
19 PNM acquiring 132 MW in San Juan versus the originally requested 78 MW.

20
21 **Q. WHO ARE THE OTHER WITNESSES WHO WILL BE PRESENTING**
22 **SUPPLEMENTAL TESTIMONY AT THIS TIME?**

**JULY 15 SUPPLEMENTAL TESTIMONY OF
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NMPRC CASE NO. 13-00390-UT**

1 **A.** Chris Olson will describe the agreements in principle reached during the June
2 negotiations regarding a revised San Juan ownership structure. These agreements are
3 memorialized in the Resolution adopted by the San Juan Coordination Committee and
4 the Remaining Participants Term Sheet reflecting management and operation of San
5 Juan Units 1 and 4 after retirements of San Juan Units 2 and 3 and the withdrawal of
6 four San Juan owners from active participation. He will provide a high level summary
7 of the terms of the agreements in principle, identify the overall benefits to PNM and its
8 customers resulting from the agreements and the next steps required to implement the
9 agreements in principle.

10

11 Patrick O’Connell will update information based on the anticipated revised ownership
12 agreements to reflect the effects of those agreements on PNM’s proposed replacement
13 power portfolio. His updated information continues to demonstrate that PNM’s
14 proposed replacement power portfolio remains the most cost-effective resource portfolio
15 to accommodate PNM’s customers’ energy needs in the future. The retirement of SJGS
16 Units 2 and 3 continues to be less expensive than either installing selective catalytic
17 reduction (“SCR”) on all four SJGS units or retiring all four SJGS units. In addition,
18 Mr. O’Connell’s testimony shows that PNM’s proposed replacement power portfolio is
19 consistent with the four year action plan contained in PNM’s recently filed Integrated
20 Resource Plan (“IRP”).

21

22 Thomas Sategna provides testimony demonstrating the financial benefits to customers
23 of the fuel supply provisions of the agreements in principle and the accounting

**JULY 15 SUPPLEMENTAL TESTIMONY OF
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NMPRC CASE NO. 13-00390-UT**

1 implications of certain aspects of the agreements. He identifies an additional accounting
2 order that PNM is requesting from the Commission for certain expenses that PNM will
3 incur in order to implement the restructuring. He also provides an update on mine
4 reclamation costs as a result of a recent study.

5
6 Henry Monroy provides updated information regarding the projected revenue
7 requirements associated with PNM's proposed abandonment of SJGS Units 2 and 3 and
8 replacement power portfolio including the effects of the agreements in principle.

9
10 **Q. DO YOU BELIEVE THAT THE RESOLUTION AND THE REMAINING**
11 **PARTICIPANTS TERM SHEET, VIEWED AS A WHOLE, REPRESENT A**
12 **REASONABLE APPROACH TO RESTRUCTURING THE SJGS**
13 **OWNERSHIP ARRANGEMENT AND ARE BENEFICIAL TO PNM'S**
14 **CUSTOMERS?**

15 **A.** Yes, I do. As discussed in Mr. Olson's and Mr. O'Connell's testimonies,
16 implementation of the Revised SIP is a more cost-effective alternative for complying
17 with the EPA's Regional Haze Rule than the early retirement of San Juan or the
18 installation of SCR on all four units. Therefore, it was imperative in the negotiations for
19 each San Juan participant to give due consideration to the interests of the other
20 participants and endeavor to reach compromises on ownership restructuring that would
21 enable the Revised SIP to be implemented and allow each participant to achieve its most
22 important objectives. Successful negotiation will almost always involve all parties

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 making certain concessions in order to achieve balanced agreements that accommodate
2 each party's interests.

3
4 **Q. WHAT WAS PNM'S PARAMOUNT OBJECTIVE IN NEGOTIATING THESE**
5 **AGREEMENTS?**

6 **A.** PNM's paramount objective was to negotiate a reasonable agreement that would allow
7 the retirement of San Juan Units 2 and 3 as required by the Revised SIP because of the
8 significant benefits that customers will receive as a result of the Revised SIP. PNM was
9 therefore willing to reasonably accommodate the financial interests of the other
10 participants that were absolutely necessary to reach agreement. As discussed by Mr.
11 Olson, PNM will receive offsetting financial benefits under the agreements. In addition,
12 the Resolution and the Remaining Participants Term Sheet provide significant overall
13 cost benefits to PNM customers that are far more valuable to them than any financial
14 accommodations received by the other participants.

15
16 **Q. WHAT ARE THE SIGNIFICANT BENEFITS PNM CUSTOMERS WILL**
17 **RECEIVE AS A RESULT OF THE RESOLUTION AND THE REMAINING**
18 **PARTICIPANTS TERM SHEET?**

19 **A.** First and foremost, the Resolution and Remaining Participants Term Sheet will allow
20 PNM to proceed with implementation of the Revised SIP. As PNM has demonstrated,
21 this will save our customers hundreds of millions of dollars over the next twenty years
22 and will result in significantly greater environmental benefits than would have been
23 achieved under the EPA's federal implementation plan ("FIP"). It will also allow PNM

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 to achieve a more balanced, less risky resource portfolio. In addition, PNM will receive
2 significant financial benefits under the fuel supply provisions of the agreements in
3 principle as described by Mr. Sategna.

4
5 **Q. PLEASE SUMMARIZE THE UPDATED INFORMATION RESULTING**
6 **FROM THE NEGOTIATIONS REGARDING THE REVISED SAN JUAN**
7 **OWNERSHIP STRUCTURE.**

8 **A.** As identified in PNM's May 22 supplemental filing, the effective date of
9 procurement of the 132 MW in additional SJGS Unit 4 capacity will be December
10 31, 2017, rather than the January 1, 2015, date assumed in PNM's original
11 Application. As described in more detail in his May 22 Supplemental Testimony
12 by Thomas M. Sategna, despite the fact that there will no longer be an exchange
13 of capacity in SJGS Unit 3 for additional capacity in SJGS Unit 4, PNM proposes
14 that the additional capacity in SJGS Unit 4 be valued for rate base purposes at
15 \$52,494,000 as proposed in the original Application for the 78 MW. The amount
16 of undepreciated investment in SJGS Units 2 and 3 proposed to be amortized and
17 recovered in rates would also remain at \$204,995,787. PNM is requesting an
18 accounting order from the Commission establishing this valuation for book and
19 ratemaking purposes of the additional 132 MW of SJGS Unit 4 capacity that will
20 be procured. In addition, as I mentioned in my May 22 supplemental testimony,
21 the book value of the additional capacity in SJGS Unit 4 will include additional
22 investments such as PNM's share of the cost of installation of selective non-

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 catalytic reduction technology (“SNCR”) and the conversion to balanced draft, in
2 addition to the acquisition value proposed.

3
4 Further, Mr. O’Connell has included in his analyses changes to capital and fuel
5 costs and operations and maintenance expenses (“O&M”) resulting from the
6 restructuring agreements. Again, this updated information does not change the
7 conclusions concerning the most cost-effective portfolio.

8
9 **Q. THE RESOLUTION REFLECTS THAT PNM WILL ACQUIRE THE**
10 **EXITING PARTICIPANTS’ OWNERSHIP SHARE OF SJGS UNIT 3**
11 **IMMEDIATELY PRIOR TO RETIREMENT. DOES THIS ACQUISITION**
12 **REQUIRE A CCN FOLLOWED BY ABANDONMENT AUTHORITY?**

13 **A.** No, I don’t believe so. The acquisition of the ownership shares of SJGS Unit 3
14 immediately prior to retirement is merely a vehicle to facilitate the exit from
15 participation in SJGS by the Exiting Participants and the continued operation of
16 SJGS Units 1 and 4, as more specifically described by Mr. Olson. SJGS Unit 3
17 will not be used to provide service to New Mexico retail customers nor will it be
18 operated as public utility plant after acquisition by PNM. It is being retired to
19 comply with the terms of the Revised SIP. On that basis, approval would not be
20 required under Section 62-6-12 either. However, to the extent that the
21 Commission believes that its approval for the acquisition and immediate
22 retirement of the Exiting Participants’ share of San Juan Unit 3 is required, PNM

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 requests that the Commission grant whatever approval the Commission believes is
2 required.

3

4 **Q. IS THE ADDITION OF ONLY 78 MW OF CAPACITY IN SJGS UNIT 4**
5 **STILL A VIABLE OPTION?**

6 **A.** No, it is not. PNM's acquisition of the additional 54 MW of capacity in SJGS
7 Unit 4 is necessary to arrive at a mutually-beneficial restructured ownership
8 arrangement that allows implementation of the Revised SIP.

9

10 **Q. IS PNM RECOMMENDING A DIFFERENT REPLACEMENT POWER**
11 **PORTFOLIO AS A RESULT OF THE UPDATED INFORMATION AND**
12 **ANALYSES?**

13 **A.** No, except for the addition of 132 MW of SJGS Unit 4 capacity rather than 78
14 MW. As demonstrated by the May 22 supplemental filing, the supply portfolio
15 consisting of 134 MW of PVNGS Unit 3 at a valuation of \$335 million, 132 MW
16 of additional capacity in SJGS Unit 4 at a valuation of approximately \$52.5
17 million, 177 MW of gas generation and 40 MW of solar generation, is the least
18 risky and most cost-effective supply portfolio available and is properly fuel-
19 diversified. Mr. O'Connell's updated analyses continue to confirm this
20 conclusion. It should be emphasized that PNM is seeking to take advantage of the
21 retirement of SJGS Units 2 and 3 to rebalance its supply portfolio by reducing its
22 coal and baseload generation. Although the additional 54 MW results in
23 additional coal and baseload generation, it is not significant in comparison with

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 PNM's overall supply portfolio, and the riskiness due to potential carbon emission
2 regulation of the amount of coal that PNM seeks to retain in its portfolio is
3 mitigated by the addition of PVNGS Unit 3. While the additional 54 MW of
4 SJGS capacity will result in some additional O&M and fuel costs, the only
5 additional capital cost of the 54 MW is the installation of SNCR, balanced draft
6 and any other necessary capital improvements going forward. This makes the
7 additional coal capacity a relatively inexpensive addition to the resource portfolio.
8

9 **Q. WHY DOESN'T THE PREFERRED REPLACEMENT POWER**
10 **PORTFOLIO CHANGE?**

11 **A.** It is important to note that PNM did not select the replacement resources to
12 simply replace retired SJGS capacity on a MW for MW basis. Rather, PNM
13 employed the same planning principles involved in an IRP process, which takes a
14 longer term view and properly recognizes that decisions made today have effects
15 far into the future. PNM, therefore, conducted the same modeling that was
16 employed in preparing the December 20th filing and the preparation of PNM's
17 IRP. Through this modeling, PNM determined the most cost-effective portfolio
18 to serve its customers over the 20-year planning period. While there are
19 differences between the most cost-effective portfolio that includes the 132 MW
20 and the one that includes the 78 MW, the two portfolios are identical through
21 2018. As pointed out in my May 22 supplemental testimony, the relative
22 economics of the various portfolios do not change. As proposed above, the
23 valuation for the acquisition of 132 MW of additional capacity in SJGS Unit 4

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 will be approximately \$52.5 million, the same as proposed for the acquisition of
2 78 MW. As such, and as demonstrated by Mr. O'Connell, the relative rankings of
3 the various portfolios remain the same. Although PNM will be responsible for the
4 incremental costs of SNCR and balanced draft conversion for an additional 54
5 MW, these additional costs were considered in the resource modeling and do not
6 change the relative rankings of the portfolios analyzed. Mr. O'Connell's updated
7 analyses in his July 15 Supplemental Testimony also includes changes in capital
8 and fuel costs and O&M resulting from the restructuring agreements. The
9 conclusion as to the most cost-effective resource portfolio is not altered by this
10 updated information.

11
12 **Q. GIVEN THE PROPOSED ACQUISITION OF AN ADDITIONAL**
13 **AMOUNT OF SJGS UNIT 4 CAPACITY, SHOULDN'T THE PROPOSED**
14 **REPLACEMENT POWER BE REDUCED BY AN EQUIVALENT**
15 **AMOUNT?**

16 **A.** No. As I pointed out in my May 22 supplemental testimony, PNM's most recent
17 load forecast shows demand growing faster than previously forecasted beginning
18 in 2017. PNM has identified the gas resources and solar resources that, based on
19 current information and in addition to 132 MW of additional capacity in SJGS
20 Unit 4 and 134 MW of Palo Verde Unit 3, will provide the needed replacement
21 power for SJGS Units 2 and 3 in the future, so that the Commission can be
22 assured that the future public convenience and necessity will be met even with the
23 abandonment of SJGS Units 2 and 3. PNM has identified anticipated future

**JULY 15 SUPPLEMENTAL TESTIMONY OF
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NMPRC CASE NO. 13-00390-UT**

1 generation resources consisting of 40 MW of solar generation for which approval
2 is being sought in NMPRC Case No. 14-00158-UT as part of PNM's renewable
3 energy procurement plan. PNM has also identified a 177 MW gas peaking
4 facility as a potential cost-effective replacement resource, but is not seeking a
5 CCN for this facility in this application. It may be that future circumstances will
6 demonstrate a need for a different amount of capacity or configuration of the gas
7 resources than are being identified as the most likely candidates today.

8
9 **Q. IS THERE SUFFICIENT INFORMATION FOR THE COMMISSION TO**
10 **RULE ON PNM'S REQUESTED CCNS FOR PALO VERDE UNIT 3 AND**
11 **SJGS UNIT 4 CONTEMPORANEOUSLY WITH A DECISION ON**
12 **ABANDONMENT OF SJGS UNITS 2 AND 3?**

13 **A.** Yes. The amount of information available in this case is consistent with the
14 amount of information generally available to the Commission in granting a CCN
15 for any long-lived plant. It is impossible to know what the future holds but
16 modeling results such as those obtained from Strategist[®] provide the Commission
17 with the best information reasonably available to make a prudent decision. The
18 Resolution and the Remaining Participants Term Sheet contain reasonable
19 provisions to account for, and establish reasonable standards by which, future
20 contingencies can be accommodated and resolved.

21
22 **Q. THE RESOLUTION AND THE REMAINING PARTICIPANTS TERM**
23 **SHEET CONTAIN CONDITIONS TO EXECUTION THAT REQUIRE**

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1 **“GREATER CERTAINTY IN REGARD TO THE ECONOMIC COST**
2 **AND AVAILABILITY OF FUEL FOR THE SJGS IN THE PERIOD**
3 **AFTER JANUARY 1, 2018.” IF THE REMAINING PARTICIPANTS**
4 **WILL NOT EXECUTE THE AGREEMENTS WITHOUT THIS**
5 **ADDITIONAL INFORMATION, WHY SHOULD THE COMMISSION**
6 **GRANT A CCN FOR ADDITIONAL SJGS UNIT 4 CAPACITY**
7 **WITHOUT HAVING THE SAME INFORMATION?**

8 **A.** First, it must be noted that San Juan is a mine-mouth coal plant and so it has a
9 readily available coal supply in close proximity. Second, as pointed out by Mr.
10 Olson, PNM believes that the Remaining Participants will be able to obtain a new
11 coal supply arrangement for San Juan on terms that are consistent with the
12 modeling assumptions used by Mr. O’Connell. In addition, in my experience the
13 Commission has generally not required the terms and conditions for future fuel
14 supplies to be known with certainty in order to receive approval of a CCN.

15
16 **Q.** **UNDER THE RESOLUTION, THE EXITING PARTICIPANTS ARE**
17 **PAYING BOTH AN EXIT FEE AND A DEMAND CHARGE. HOWEVER,**
18 **PNM IS NOT RECEIVING ANY PROCEEDS FROM THESE**
19 **PAYMENTS. PNM ALSO AGREED TO PROVIDE A CREDIT TO**
20 **FARMINGTON FOR UP TO \$6.5 MILLION FOR INCREASED O&M**
21 **AGAINST FUTURE CAPITAL IMPROVEMENT INVOICES RELATED**
22 **TO SJGS AND PNM IS TEMPORARILY TAKING ON A LARGER**
23 **SHARE OF O&M COSTS FOR THE OTHER REMAINING**

**JULY 15 SUPPLEMENTAL TESTIMONY OF
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NMPRC CASE NO. 13-00390-UT**

1 **PARTICIPANTS. ARE ALL THESE FINANCIAL ACCOMMODATIONS**
2 **BY PNM IN THE BEST INTERESTS OF PNM'S CUSTOMERS?**

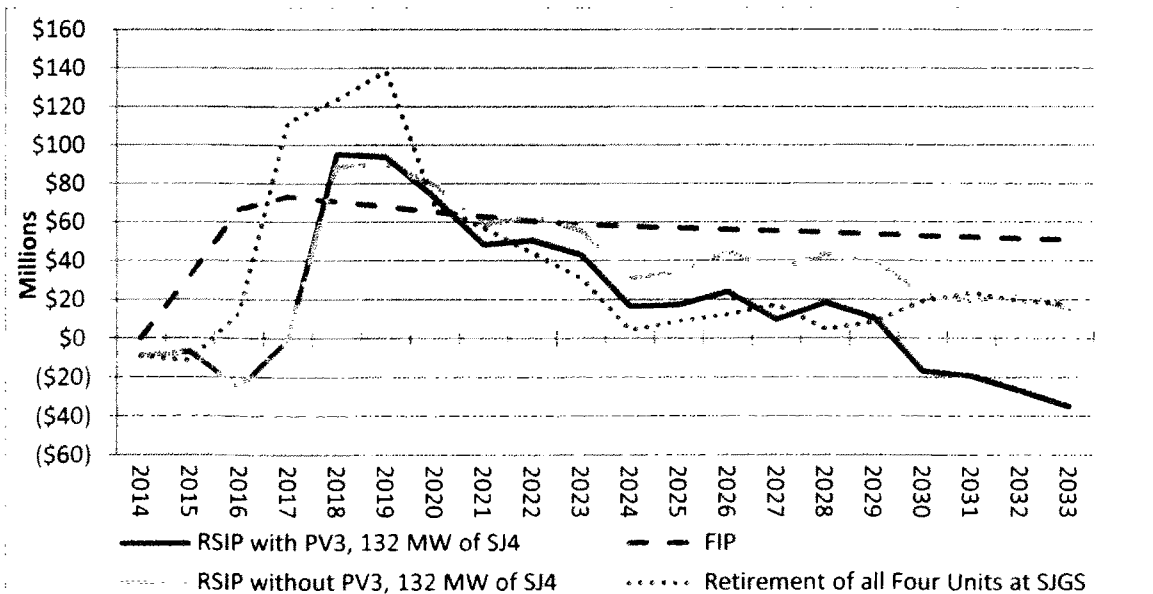
3 **A.** Yes. First, as mentioned above, these accommodations helped drive to a mutually-
4 beneficial restructured ownership arrangement that allows for compliance with
5 the Revised SIP. But PNM did not simply make concessions just to make
6 concessions. The arrangement also has to work for PNM and its customers. As
7 explained by Mr. Olson, PNM is acquiring the interests of the Exiting Participants
8 in the San Juan fuel inventory. Mr. Sategna has analyzed the financial benefits of
9 the fuel inventory to PNM compared to the financial accommodations discussed
10 above. Mr. Sategna's analysis shows that PNM and its customers will likely
11 realize greater value from the fuel inventory than from the concessions it made to
12 accommodate the interests of the other participants. PNM believes that the
13 concessions made to PNM by the other participants regarding the coal inventory
14 to be a beneficial trade-off for PNM's customers.

15
16 **Q.** **ON PAGE 28 OF YOUR DIRECT TESTIMONY, YOU PROVIDED A**
17 **TABLE COMPARING THE TIMING OF COST IMPACTS OVER A**
18 **TWENTY-YEAR PERIOD ASSOCIATED WITH THE FOUR PRIMARY**
19 **SCENARIOS PNM HAS ANALYZED. DOES YOUR ANALYSIS IN THIS**
20 **REGARD CHANGE WITH THE REVISIONS IDENTIFIED IN PNM'S**
21 **MAY 22 SUPPLEMENTAL TESTIMONY AND THE JULY 15**
22 **SUPPLEMENTAL TESTIMONY?**

**JULY 15 SUPPLEMENTAL TESTIMONY OF
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NMPRC CASE NO. 13-00390-UT**

1 A. No. Shown below is a revised Table 1 to account for the revisions we have
 2 identified since our original filing on December 20, 2013. The revised Table
 3 continues to show that compliance with the FIP would impose cost impacts
 4 sooner than compliance with the Revised SIP. Although the immediate cost
 5 impacts associated with Revised SIP compliance are somewhat higher than the
 6 cost impacts associated with FIP compliance in 2018, the cost impacts associated
 7 with the FIP start earlier and the situation reverses in less than five years, with the
 8 cost impacts associated with the Revised SIP portfolio with PV Unit 3 decreasing
 9 rapidly while the cost impacts associated with FIP decline very little over the
 10 remainder of the planning horizon. In addition, the costs for the Revised SIP with
 11 PV Unit 3 portfolio decline more dramatically over the planning horizon than
 12 does the Revised SIP without PV Unit 3 and the complete shutdown of SJGS.

REVISED TABLE 1



15
16

**JULY 15 SUPPLEMENTAL TESTIMONY OF
GERARD T. ORTIZ
NMPRC CASE NO. 13-00390-UT**

1

2 **Q. DOES THIS CONCLUDE YOUR JULY 15 SUPPLEMENTAL**
3 **TESTIMONY?**

4 **A. Yes.**

5

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#518382

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Case No. 13-00390-UT

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

Gerard T. Ortiz, Vice President of Regulatory Affairs, Public Service Company of New Mexico, upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **July 15 Supplemental Testimony of Gerard T. Ortiz** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 15th day of July, 2014.


GERARD T. ORTIZ

SUBSCRIBED AND SWORN to before me this 14th day of July, 2014.

Ronda Morehead
NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

