

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
THOMAS G. SATEGNA

July 15, 2014

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

I. INTRODUCTION AND PURPOSE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

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

A. My name is Thomas G. Sategna. I am the Vice President and Corporate Controller for PNM Resources, Inc., and its subsidiaries, which include Public Service Company of New Mexico (“PNM” or the “Company”). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN THIS CASE ON DECEMBER 20, 2013 AND SUPPLEMENTAL TESTIMONY ON MAY 22, 2014?

A. Yes.

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

A. As Mr. Chris Olson describes in his July 15 Supplemental Testimony, PNM and the other SJGS participants have executed a Resolution and a Term Sheet that constitute agreements in principle to restructure the current San Juan participation agreement. In the sections that follow, I will address the following:

- The fuel benefits of the restructuring and the associated accounting implications.
- The accounting order PNM is requesting to defer for consideration in a future rate case certain additional costs it will incur as part of the agreement in

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

1 principle with the Tucson Electric Power Company (“TEP”), the City of
2 Farmington, New Mexico (“Farmington”), the Incorporated County of Los
3 Alamos, New Mexico (“Los Alamos”), and Utah Associated Municipal Power
4 Systems (“UAMPS”) (together referred to as the “Remaining Participants”) and
5 M-S-R Public Power Agency, the Southern California Public Power Authority,
6 the City of Anaheim and Tri-State Generation and Transmission Association,
7 Inc. (together referred to as “the Exiting Participants”).

- 8 • Provide an update on the accounting implications of a recent reclamation study
9 for the San Juan Coal Mine.

10
11 **II. FUEL SUPPLY BENEFITS**

12
13 **Q. HOW WILL THE COMPANY ACCOUNT FOR THE FUEL SUPPLY**
14 **BENEFIT DESCRIBED IN MR. OLSON’S JULY 15 SUPPLEMENTAL**
15 **TESTIMONY?**

16 **A.** As Mr. Olson discusses in his July 15 supplemental testimony, the provisions of the
17 restructuring agreements relating to fuel supply provide significant value to PNM’s
18 customers. While the detailed accounting implications of these benefits are somewhat
19 complex, the basic principle is simple: PNM will be purchasing coal inventory at
20 reduced prices, thus lowering the weighted average price of coal paid by PNM, which
21 then lowers the coal cost that will be passed through to customers in future years
22 through the Fuel and Purchased Power Cost Adjustment Clause (“FPPCAC”).

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

1 **Q. PLEASE DESCRIBE THE FUEL SUPPLY PROVISIONS OF THE**
2 **RESTRUCTURING AGREEMENTS.**

3 **A.** The fuel supply provisions of these agreements have three components; 1) the build-up
4 of fuel inventory from January 2015 through December 2017 by procuring higher than
5 normal volumes of coal from San Juan Coal Company (“SJCC”) at the lower
6 incremental prices set in the coal supply agreement with SJCC; 2) the differences
7 between the base price of coal to be paid to PNM by the Exiting Participants from
8 January 1, 2015, through December 31, 2017, compared to the incremental price PNM
9 will pay SJCC; and, 3) the purchase of the Exiting Participants’ shares of coal inventory
10 as discussed in Section 5 of the Resolution Agreement.

11
12 **Q. WHAT ARE THE BENEFITS OF THESE PROVISIONS TO PNM?**

13 **A.** The overall net benefit to PNM is estimated to be approximately \$28.6 million. Each
14 year’s cost/benefit is quantified in PNM Exhibit HEM-13 (July 15 Supplemental)
15 attached to the July 15 Supplemental Testimony of Henry Monroy. The most
16 significant benefit of the new coal supply arrangement will be realized through the
17 build-up of inventory from January 2015 through December 2017. As discussed in
18 Section 5 of the Resolution, and shown in PNM exhibit HEM-13 (July 15
19 Supplemental) line 14, PNM and the other Remaining Participants will direct SJCC to
20 deliver more coal than needed to operate the plant. These additional quantities of coal
21 will be purchased by PNM at an incremental price, which is lower than the base price
22 set by the coal supply agreement. The inventory build-up will be accumulated over a
23 three year period, from January 2015 through December 31, 2017, the exit date of the

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

1 Exiting Participants and the expiration of the current fuel supply agreement with SJCC.
2 The stockpiled inventory will be utilized from January 2018 through June 2022 and the
3 benefit of this lower cost coal will flow entirely to PNM and, through PNM's FPPCAC,
4 to its customers during this time period.

5
6 Also discussed in Section 5 of the Resolution is the commitment of the Exiting
7 Participants to sell to PNM their combined share of the coal inventory at January 1,
8 2015, for an estimated price of \$10.816 million. The estimated purchase price of
9 \$10.816 million includes a fixed price of \$6.573 million for inventory stockpiled at
10 SJCC ("SJCC Inventory") plus an estimated value for fuel stock inventory at SJGS of
11 \$4.243 million, calculated as follows: Estimated total SJGS fuel stock inventory of
12 692,607 tons, multiplied by 27% representing the Exiting Participants' combined share
13 of the inventory, multiplied by the book value price per ton of \$22.69. The SJGS fuel
14 stock inventory purchased at \$22.69 per ton, which includes the Force Majeure
15 inventory and Live Inventory as defined in Section 5 of the Resolution Agreement, is
16 recorded in FERC Account 151, Fuel Stock. The SJCC Inventory is recorded in FERC
17 Account 165, Prepayments. The fixed price of \$6.573 million is the Exiting
18 Participants' share (27%) of 1.442 million tons at a price of \$16.88. As of December
19 31, 2013, PNM's SJCC inventory in Account 165 had a book value of \$21.75 per ton,
20 thus providing an initial price benefit to customers. Because the SJCC Inventory
21 purchase price is fixed at \$6.573 million, if the SJCC Inventory as of January 1, 2015, is
22 greater than 1.442 million tons, the additional tonnage would be acquired at no
23 additional cost, thus further reducing the price per ton for the entire inventory and

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

1 providing additional benefits to customers. As coal from the SJCC Inventory is
2 delivered to the plant, additional benefits will be passed through to PNM's retail
3 customers in the form of lower fuel expense as a result of PNM acquiring the Exiting
4 Participants' coal inventory at this lower cost.

5
6 **Q: PLEASE DISCUSS HOW RETAIL CUSTOMERS WILL RECEIVE THEIR**
7 **SHARE OF THE \$28.6 MILLION NET BENEFIT SHOWN ON PNM EXHIBIT**
8 **HEM-13 (JULY 15 SUPPLEMENTAL).**

9 **A:** The \$28.6 million net benefit consists of three components; 1) fuel supply benefits of
10 \$39.7 million related to the buildup of inventory from January 2015 through December
11 2017 as shown on PNM Exhibit HEM-13 (July 15 Supplemental), line 10. The
12 NMPRC jurisdiction share of this amount will be credited to customers through the
13 FPPCAC when the lower cost inventory is used during the period January 2018 through
14 June 2022; 2) a fuel supply expense of \$4.6 million for additional fuel handling costs
15 incurred to build the stockpiled coal inventory and to transport the coal from the
16 stockpile into production when it is used for plant operations. This amount is shown on
17 PNM Exhibit HEM-13, line 9; and 3) a return on the inventory balances of \$6.5 million,
18 which is reflected on line 11 of PNM Exhibit HEM-13. The combination of these three
19 components results in the net benefit of \$28.6 million (\$39.7 million - \$4.6 million -
20 \$6.5 million). The fuel handling expense and the return on inventory from 2016 through
21 2022 will be included for recovery in a general rate case. PNM is requesting to defer as
22 a regulatory asset the 2015 fuel handling expense of \$1.0 million. This request will be
23 addressed in more detail later in my testimony.

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

III. ACCOUNTING ORDER

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

Q. PLEASE DESCRIBE THE ACCOUNTING IMPLICATIONS OF THE ADDITIONAL O&M COST THAT PNM WILL INCUR AS A RESULT OF THE RESTRUCTURING

A. As Mr. Olson discusses, PNM will be obligated under the restructuring to pay TEP's, Los Alamos's and UAMPS's shares of increased plant common O&M costs, estimated to be \$7.1 million. This amount will be paid to TEP, Los Alamos and UAMPS in the form of a lower allocation of O&M costs during the period from January 1, 2018, through July 1, 2022. With respect to Farmington, PNM has agreed to pay a flat \$6.5 million, representing Farmington's share of increased plant common O&M costs. However, PNM will pay a portion of the \$6.5 million in the form of monthly billing credits applied against Farmington's allocated share of incremental capital expenditures from July 1, 2014, through December 31, 2014, which PNM estimates to be \$1.6 million. The estimated balance of \$4.9 million will be paid to Farmington in cash on January 1, 2015. These obligations on PNM's part are treated for accounting purposes as transaction costs resulting from the SJGS ownership restructuring, and, in the absence of the accounting order described below, would have to be recorded as an expense in the year when all necessary regulatory approvals have been obtained. This will adversely affect PNM's financial results.

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

1 **Q. PLEASE DESCRIBE THE ADDITIONAL ACCOUNTING ORDER THAT**
2 **THE COMPANY IS REQUESTING IN RESPECT TO THE PAYMENTS TO**
3 **THE REMAINING PARTICIPANTS.**

4 **A.** The Company is requesting an accounting order that would allow PNM to defer as a
5 regulatory asset the NMPRC jurisdictional share of the \$7.1 million of increased plant
6 common O&M costs borne by PNM, PNM's \$6.5 million payment to Farmington and
7 the \$1.0 million in fuel handling costs discussed earlier in my testimony incurred in
8 2015. Deferral is appropriate because these expenses are extraordinary and non-
9 recurring and a necessary component of the agreements that will yield cost saving
10 benefits for customers in future years. The fuel supply benefits received by the
11 Company in future periods are greater than the combined cost of PNM's additional
12 share of plant common O&M and its forgoing receipt of the Restructuring Fee and
13 Demand Charge by approximately \$8.1 million. PNM's cost benefit analysis is
14 provided as PNM Exhibit TGS-1 (July 15 Supplemental). PNM will seek recovery of
15 these expenses through the inclusion of the regulatory asset in rate base in its next
16 general rate case filing before the NMPRC. PNM will propose to amortize the
17 regulatory asset on a straight-line basis over the period in which the most significant
18 portion of the fuel cost savings will be passed on to customers through the FPPCAC, i.e.
19 January 1, 2018, through June 30, 2022.

20
21 **Q. HAS THE COMMISSION AUTHORIZED RECOVERY OF OTHER**
22 **REGULATORY ASSETS IF THE COMPANY CAN DEMONSTRATE A NET**
23 **BENEFIT TO CUSTOMERS?**

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

1 **A.** Yes. For example, in Case Nos. 1916, 2147 and 10-00086-UT the Commission
2 approved PNM’s request to recover losses from the retirement of debt through both a
3 return on rate base and an amortization expense provided PNM could demonstrate the
4 benefit to current and future customers is greater than the costs of paying the losses.
5 Inclusion of the Prepaid Pension Asset in rate base was approved in Case No. 07-00077-
6 UT because the voluntary contribution made by PNM to it’s pension plan provided a net
7 benefit to customers, which was based on a cost benefit test that was included in
8 testimony in that case.

9

10 **Q: CAN YOU PLEASE SUMMARIZE THE ACCOUNTING ORDERS THE**
11 **COMPANY HAS REQUESTED IN CASE NO. 13-00390-UT?**

12 **A:** Yes. In this case the Company has requested the following accounting orders:

- 13 • In my Direct Testimony filed on December 20, 2013 the Company requested an
14 accounting order that specifically identifies the amount of the regulatory asset to
15 be recorded as the actual undepreciated investment in SJGS Units 2 and 3 on the
16 Company’s balance sheet at December 31, 2017.
- 17 • In my Direct Testimony filed on December 20, 2013 the Company requested an
18 accounting order authorizing certain costs incurred in compliance with the Best
19 Available Retrofit Technology determination for SJGS under the FIP to be
20 recorded as a regulatory asset on the Company’s balance sheet for future
21 recovery in a general rate case as reasonable and prudent.
- 22 • In my May 22 Supplemental Testimony the Company requested an accounting
23 order that specifically values the additional 132 MW of SJGS Unit 4 at the book

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

1 value (original cost less accumulated depreciation) for 78 MW of SJGS Unit 3
2 or \$52,494,000 estimated as of the original transfer date of January 1, 2015,
3 regardless of the net book value at December 31, 2017.

- 4 • Finally, in my July 15, 2014 Supplemental Testimony the Company is
5 requesting an accounting order that would allow PNM to defer the NMPRC
6 jurisdictional share of the \$7.1 million of increased plant common O&M costs
7 borne by PNM, PNM's \$6.5 million payment to Farmington and the \$1.0
8 million in fuel handling costs incurred in 2015 as a regulatory asset.

9
10 **IV. OTHER MATTERS**

11
12 **Q. ARE THERE ANY OTHER MATTERS THAT YOU WISH TO DISCUSS?**

13 **A.** Yes. As part of the negotiations to restructure ownership at SJGS the participants
14 requested an updated coal mine reclamation study for both the surface mine previously
15 providing coal to SJGS and the current underground mine. Based on the draft study,
16 conducted by Pace Global, PNM reassessed its San Juan coal mine reclamation liability,
17 assuming the shut-down of SJGS Units 2 and 3 at December 31, 2017, and a two-unit
18 operation through 2053. In addition, the updated study assumed an underground mine
19 closure date of 2053. In his July 15 Supplemental Testimony Mr. Monroy discusses the
20 revenue requirements impact resulting from the updated reclamation study.

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

V. CONCLUSION

1

2

3 **Q. DO YOU HAVE ANY CONCLUDING OBSERVATION?**

4 **A.** Yes. As discussed in my testimony above, as a result of the SJGS ownership
5 restructuring arrangement the fuel supply benefits received by customers in future
6 periods are greater than the cost of acquiring an additional share of plant common O&M
7 costs, a payment to Farmington and forgoing receipt of the Restructuring Fee and
8 Demand Charge. Therefore, the Commission should issue an Order authorizing PNM to
9 record the increased share of costs described above as a regulatory asset. Absent such
10 an accounting order the Company will be required to record the increased share of plant
11 common O&M as a transaction cost, negatively impacting the Company's financial
12 results.

13

14 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

15 **A.** Yes.

16

#518385

PNM EXHIBIT TGS-1 (July 15 Supplemental)

Consisting of 1 Page

PNM Exhibit TGS-1 (July 15 Supplemental)

Cost Benefit Analysis of Provisions of SJ Restructuring Agreement

Line No.		A 2014	B 2015	C 2016	D 2017	E 2018	F 2019	G 2020	H 2021	I 2022	J = SUM(A:I) Total
1	Fuel / inventory Benefit	-	(1,361,153)	1,490,769	326,277	5,332,437	5,563,369	6,640,509	6,885,596	3,697,534	28,575,336
2											
3	Incremental SJ Common O&M - Other Remaining Participants	-	-	-	-	(1,693,789)	(1,485,854)	(1,536,451)	(1,576,660)	(801,269)	(7,094,023)
4											-
5	Incremental SJ Common Plant O&M - Farmington	(1,600,000)	(4,900,000)	-	-	-	-	-	-	-	(6,500,000)
6											-
7	Restructuring Fee - PNM Percentage Forfeited	-	(4,033,007)	-	-	-	-	-	-	-	(4,033,007)
8											-
9	Demand Charge - PNM Percentage Forfeited	(405,920)	(811,839)	(811,839)	(811,839)	-	-	-	-	-	(2,841,437)
10											
11	Net (Cost) / Benefit	(2,005,920)	(11,106,000)	678,929	(485,563)	3,638,648	4,077,515	5,104,058	5,308,936	2,896,265	8,106,869
12											
13											

Note: Numbers above reflect total benefits/(costs) to PNM and do not separately quantify the NMPRC jurisdictional benefits/(costs).

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

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

THOMAS G. SATEGNA, Vice President and Corporate Controller for PNM Resources, Inc., and its subsidiaries including 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 Thomas G. Sategna** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 15 day of July, 2014.


THOMAS G. SATEGNA

SUBSCRIBED AND SWORN to before me this 15 day of July, 2014.

Jacqueline L. Arguelles
NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

4/26/17

