

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 1, 2015 SUPPLEMENTAL TESTIMONY

OF

HENRY E. MONROY

July 1, 2015

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HENRY E. MONROY
NMPRC CASE NO. 13-00390-UT**

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

2 **A.** My name is Henry E. Monroy. I am the Director, Audit and Cost of Service for
3 PNM Resources, Inc., and its subsidiaries, which includes Public Service
4 Company of New Mexico (“PNM” or the “Company”). My address is 414 Silver
5 Avenue, SW, Albuquerque, New Mexico 87102.

6

7 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
8 **PROCEEDING?**

9 **A.** Yes, I filed Direct Testimony in this proceeding on December 20, 2013. I filed
10 Supplemental Testimony on July 1, 2014, and July 15, 2014, Testimony in Support of
11 Stipulation on October 31, 2014, and Rebuttal Testimony in Support of Stipulation on
12 December 19, 2014.

13

14 **Q. WHAT IS THE PURPOSE OF YOUR JULY 1, 2015 SUPPLEMENTAL**
15 **TESTIMONY?**

16 **A.** The purpose of my testimony is to address the estimated \$340.5 million coal
17 savings from January 1, 2016 through June 30, 2022, as the result of the final
18 Coal Supply Agreement dated July 1, 2015 between Westmoreland and PNM
19 (“CSA”). Under the CSA, customers will begin to see the benefits from these
20 agreements beginning as early as January 1, 2016, if the Stipulation filed October
21 1, 2014 is approved. I also address the impacts associated with the Reclamation
22 Services Agreement dated July 1, 2015 between Westmoreland Coal Company
23 (“Westmoreland”) and PNM (“Mine Reclamation Agreement”), and Coal

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1 Combustion Residuals Disposal Agreement dated July 1, 2015 between
2 Westmoreland and PNM (“CCR Disposal Agreement”). In addition, I address
3 the fuel expense savings under provisions of the San Juan Project Restructuring
4 Agreement (“Restructuring Agreement”) relating to coal inventory and the
5 handling of coal costs associated with the exit of certain participants.

6
7 **Q. WILL YOU FILE ADDITIONAL TESTIMONY BY AUGUST 1, 2015?**

8 **A.** Yes. The following items are not being addressed in this testimony, and will be
9 addressed in testimony to be filed no later than August 1, 2015, when the San
10 Juan Generating Station (“SJGS”) ownership restructuring agreements have been
11 fully executed:

- 12 • Cost impacts associated with the San Juan Decommissioning and Trust
13 Funds Agreement relating to the decommissioning of the San Juan plant;
- 14 • Update of 2018 incremental revenue requirements associated with the
15 Stipulation Portfolio as previously filed in PNM Exhibit HEM-2
16 (Stipulation); and
- 17 • Update of 20 year incremental revenue requirements as previously filed in
18 PNM Exhibit HEM-10 (Stipulation).

19
20 **Q. DO ALL OF THE AGREEMENTS IDENTIFIED ABOVE IMPACT FUEL**
21 **EXPENSE?**

22 **A.** No. As discussed by PNM Witness Mr. Olson in his July 1, 2015 Supplemental
23 Testimony, the Mine Reclamation Agreement has no significant impact on the

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1 cost of final mine reclamation that will be borne by PNM. However, the PNM
2 retail share of costs forecasted for ash disposal as outlined in the CCR Disposal
3 Agreement has increased slightly, by approximately \$0.7 million, over the period
4 January 1, 2016 through June 30, 2022, as I discuss later in my testimony. These
5 costs are treated as a fuel handling expense and are presently recovered in base
6 rates not through the Fuel and Purchased Power Cost Adjustment Clause
7 (“FPPCAC”).

8
9 **Q. PLEASE IDENTIFY THE SECTIONS OF THE RESTRUCTURING**
10 **AGREEMENT THAT IMPACT FUEL EXPENSE.**

11 **A.** Section 5 of the Restructuring Agreement addresses, among other things, changes
12 in the ownership of existing coal inventory, including inventory located at SJGS
13 and the pre-existing stockpile of coal previously mined by San Juan Coal
14 Company under BHP Billiton New Mexico Coal, Inc. (“BBNMC”) and not yet
15 delivered to the plant. In addition, Section 5 discusses the allocation of coal
16 expense under the CSA between the exiting participants and the remaining
17 participants.

18
19 **Q. PLEASE SUMMARIZE THE IMPACTS OF THE CSA AND SECTION 5**
20 **OF THE RESTRUCTURING AGREEMENT ON THE COST OF COAL**
21 **FOR SJGS.**

22 **A.** PNM estimates a \$340.5 million savings in forecasted coal expense resulting from
23 the CSA and the fuel supply provisions of the Restructuring Agreement, for the

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1 period January 1, 2016, through June 30, 2022. Table 1 below provides the
2 estimate of fuel savings by year for the PNM retail jurisdiction. The fuel savings
3 were derived taking the forecasted coal expense under the CSA and Restructuring
4 Agreement based on the Revised SIP Stipulation Portfolio and comparing that
5 cost to the coal expense previously modeled in PNM's incremental revenue
6 requirements calculation and introduced into evidence as part of the Revised SIP
7 Stipulation Portfolio filed on October 31, 2014.

8

9 **Table 1: Summary of Coal Benefits**

Period	Savings (\$ in millions)
2016	\$46.5
2017	\$56.8
2018	\$47.1
2019	\$45.1
2020	\$49.2
2021	\$55.2
January 1, 2022 – June 30, 2022	\$40.6
Total	\$340.5

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1 **Q. HAVE YOU PREPARED AN EXHIBIT THAT SHOWS THE**
2 **DERIVATION AND CALCULATION OF THESE COST SAVINGS?**

3 **A. Yes. Confidential PNM Exhibit HEM-2 (July 1, 2015 Supplemental)**¹
4 provides the detailed assumptions and calculations to derive the estimated
5 savings. The exhibit is separated into the following five sections: Section 1:
6 PNM Cost of Coal under the CSA; Section 2: Exiting Participants Cost of Coal
7 under the CSA; Section 3: Costs to Deliver Pre-existing Stockpile Coal; Section
8 4: Weighted Average Cost of Coal and Fuel Expense; and Section 5: Cost of Pre-
9 existing Stockpile Inventory.

10
11 **Q. HOW DOES THE RESTRUCTURING AGREEMENT IMPACT COAL**
12 **COSTS?**

13 **A.** PNM will acquire the exiting participants' share of stockpiled coal mined by
14 SJCC under BBNMC and located at the mine at a cost of \$16.88 per ton. Please
15 refer to Section 5 of Confidential PNM Exhibit HEM-2 (July 1, 2015
16 Supplemental). In addition, PNM will acquire the exiting participants' share of
17 coal stockpiled at SJGS at a cost of \$22.69 per ton. Please refer to Section 4 of
18 Confidential PNM Exhibit HEM-2 (July 1, 2015 Supplemental). Further,
19 pursuant to the Restructuring Agreement the exiting participants will receive their
20 coal supply for the period January 1, 2016 to December 31, 2017 from PNM at a

¹ Confidential PNM Exhibit HEM-2 (July 1, 2015 Supplemental) and Confidential PNM Exhibit HEM-3 (July 1, 2015 Supplemental) are subject to a claim of confidentiality pursuant to the Protective Order in this case. These exhibits have been submitted to the Hearing Examiner under seal and served on the representatives of those parties who have signed confidentiality agreements.

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1 cost of \$50.00 per ton. PNM will be responsible for acquiring the coal to serve
2 the exiting participants based on the terms of the CSA.

3

4 **Q. IS THE COST TO ACQUIRE THE COAL UNDER THE CSA TO SERVE**
5 **THE EXITING PARTICIPANTS LESS THAN \$50 PER TON?**

6 **A.** Yes. There is a net savings to our customers as the result of PNM acquiring the
7 coal under the CSA and supplying the coal to the exiting participants at the rate of
8 \$50 per ton. These savings are part of the estimated \$340.5 million of savings
9 that will be passed through to our customers under the FPPCAC

10

11 **Q. PLEASE IDENTIFY HOW PNM ACCOUNTS FOR COAL INVENTORY**
12 **IN THE CALCULATION OF FUEL EXPENSE.**

13 **A.** PNM values its coal inventory at SJGS at the average cost as permitted under
14 ASC 330-10-30. The average cost method calculates the cost of coal inventory
15 and fuel expense on the basis of a weighted average cost per ton of coal. The
16 weighted average cost per ton of coal is calculated using the following formula:

17

18
$$\text{Weighted Average Cost per Ton} = \text{Total Cost of Coal} / \text{Total Tons of Coal}$$

19

20 The weighted average cost per ton is then multiplied by the number of tons
21 burned to determine the fuel expense. Certain costs are charged directly to fuel
22 expense and not included in the cost of coal inventory, including amortization of
23 previously deferred coal costs, gross receipts taxes, and Utility Payment Stream

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1 expenses. These costs have been accounted for in determining the fuel expense
2 (see Confidential PNM Exhibit HEM-2 (July 1, 2015 Supplemental)), lines 135
3 and 136.

4

5 **Q. PLEASE EXPLAIN THE COMPONENTS OF THE TOTAL COST OF**
6 **COAL INCLUDED IN THE CALCULATION OF FUEL EXPENSE AS**
7 **SHOWN IN SECTION 4 OF CONFIDENTIAL PNM EXHIBIT HEM-2**
8 **(JULY 1, 2015 SUPPLEMENTAL).**

9 **A.** The total cost of coal, from which the weighted Average Cost per Ton is derived,
10 includes the following components:

11 • PNM's cost of coal deliveries under the CSA, as detailed in Section 1 of
12 Confidential PNM Exhibit HEM-2 (July 1, 2015 Supplemental). The cost of
13 coal deliveries includes payments under Tier 1 and Tier 2 prices, and other
14 costs, royalties and taxes pursuant to the CSA.

15 • Exiting participants' cost of coal deliveries under the CSA, as detailed in
16 Section 2 of Confidential PNM Exhibit HEM-2 (July 1, 2015 Supplemental).
17 The cost of coal deliveries includes payments under Tier 1 and Tier 2 prices,
18 and other costs, royalties and taxes pursuant to the CSA.

19 • Cost of pre-existing stockpiled coal, including costs to deliver as described in
20 the CSA and detailed in Section 3 of Confidential PNM Exhibit HEM-2 (July
21 1, 2015 Supplemental). Costs to deliver the pre-existing stockpiled coal under
22 the CSA are based on a fixed cost per ton, and include royalties and taxes.

23 The cost of pre-existing stockpiled coal reflects costs paid by PNM under the

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1 current contract with SJCC for mined coal that has not been delivered to
2 SJGS. These costs are recorded as a prepaid asset in FERC Account 165.
3 PNM has included the amortization of this prepaid asset as a component of
4 coal expense as the coal inventory from the pre-existing stockpile is delivered
5 and burned.

6 • Revenue received from exiting participants for their share of coal supply
7 pursuant to the CSA, as detailed in Section 4, line 122. These revenues at \$50
8 per ton, net of gross receipts taxes, are reflected as a reduction to the overall
9 cost of coal.

10 • Stockpiled inventory at SJGS, including PNM's existing inventory plus the
11 purchase of the Exiting Participants share of stockpiled inventory as discussed
12 above. The estimated balance of inventory is shown in Section 4, lines 111
13 through 117. Beginning in 2016, the ending inventory balances are shown in
14 Section 4, lines 130 through 132.

15
16 **Q. WHEN WILL CUSTOMERS BEGIN TO SEE THE BENEFITS OF THE**
17 **REDUCED FUEL EXPENSE?**

18 **A.** If the CCN for the additional 132 MW of capacity in San Juan Unit 4 is approved
19 by the Commission in time for the savings to be reflected in PNM's December
20 fuel factor reset, customers will begin to receive the benefits of lower cost fuel
21 expense through PNM's FPPCAC effective January 1, 2016. If approval is
22 received after the filing of the December fuel factor reset, the coal savings will

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1 accrue in the FPPCAC Balancing Account and be included in the next fuel factor
2 reset.

3
4 **Q. HAVE YOU ESTIMATED THE IMPACT OF THE CCR DISPOSAL**
5 **AGREEMENT AGAINST COSTS PREVIOUSLY MODELED IN THE**
6 **RSIP STIPULATION PORTFOLIO?**

7 **A.** Yes. PNM estimates that the costs associated with ash disposal under the CCR
8 Disposal Agreement, compared to those amounts previously forecasted; result in
9 an increase of \$654,671 over the period January 1, 2016 through June 30, 2022.
10 **Confidential PNM Exhibit HEM-3 (July 1, 2015 Supplemental)** provides the
11 derivation of these cost estimates. The increase in costs is based on more defined
12 modeling assumptions provided in the CCR Disposal Agreement, and does not
13 reflect a meaningful change in cost estimates for ash disposal costs. Please refer
14 to the testimony of Mr. Olson for a further discussion of the CCR Disposal
15 Agreement.

16
17 **Q. ARE THESE EXPENSES RECOVERED THROUGH THE FPPCAC?**

18 **A.** No. As stated earlier, fuel handling expenses are currently recovered through
19 base rates and these incremental expenses will not be recovered through the
20 FPPCAC as presently structured. PNM will not begin recovering changes to this
21 expense until they are approved in a general electric rate case proceeding.

22

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1 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

2 **A.** The new CSA and Restructuring Agreement provide significant coal savings to
3 our customers, providing over \$340 million in savings over a six and half year
4 period. These fuel savings will begin to flow through to our customers, via the
5 FPPCAC, as early as January 1, 2016, if PNM's request for a CCN for 132 MW
6 in SJGS Unit 4 is granted.

7

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

9 **A.** Yes.

GCG#520027

Confidential

PNM Exhibit HEM-2 (July 1, 2015 Supplemental)

(REDACTED)

Confidential

PNM Exhibit HEM-3 (July 1, 2015 Supplemental)

(REDACTED)

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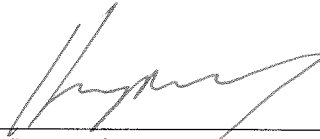
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
Applicant)
_____)

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

Henry E. Monroy, Director, Cost of Service and Internal Audit, Public Service
Company of New Mexico, upon being duly sworn according to law, under oath, deposes and
states: I have read the foregoing July 1, 2015 Supplemental Testimony of Henry E. Monroy
and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 30th day of June, 2015.



HENRY E. MONROY

SUBSCRIBED AND SWORN to before me this 30th day of June, 2015.

Danna S. Halliday
NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

1.21.16