PUC DOCKET NO. 58964

BEFORE THE
PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
TEXAS-NEW MEXICO POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

PREPARED DIRECT TESTIMONY
OF
Dr. TOBE C. PHELPS

ON BEHALF OF
TEXAS-NEW MEXICO POWER COMPANY

NOVEMBER 14, 2025

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PLACE OF EMPLOYMENT.

A. My name is Dr. Tobe C. Phelps, and I am employed by PNMR Services Company ("PNMR Services"), a wholly owned business unit of TXNM Energy, Inc. ("TXNM Energy"). PNMR Services was formed to house corporate shared services functions for TXNM Energy and its business units, including Texas-New Mexico Power Company ("TNMP" or the "Company"). I serve as Associate Director of Information Technology ("IT") Portfolio and Program Management Office ("PPMO"). My business address is 2401 Aztec Rd. NE, Albuquerque, New Mexico 87107.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of TNMP.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. My educational background and professional experience are summarized in TNMP Exhibit TCP-1.

Q. PLEASE DESCRIBE YOUR DUTIES AS ASSOCIATE DIRECTOR OF IT PPMO OF PNMR SERVICES.

A. As Associate Director of IT PPMO, I am responsible for the strategic and operational direction for all IT-related programs and projects at PNMR Services. The PPMO in which I work is responsible for managing technology programs and projects for the successful delivery of technology assets, portfolio management, project governance, continuous process improvement, and strategic planning. We manage the corporate capital budget for all IT projects.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN UTILITY REGULATORY PROCEEDINGS?

A. Yes; I was a witness for Public Service Company of New Mexico ("PNM") Extended Day Ahead Market (PNM docket 25-00059-UT).

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony in this proceeding is to describe the Business Technology Services ("BTS") affiliate class of services provided by the organization and the types of services provided for TNMP for the 12-month period ending June 30, 2025 (the "Test Year"). I will demonstrate that the associated costs for BTS charged to TNMP are necessary, reasonable, and no higher than the price charged for these same services to other TXNM Energy business units. I will also discuss cost trends for PNMR Services' BTS affiliate class of services in the Test Year.

Q. DO YOU SPONSOR ANY TABLES AND GRAPHS IN THIS PROCEEDING?

A. Yes, I sponsored the tables and graphs embedded in my testimony. These tables and graphs were prepared by me or under my direction and supervision and are true and correct to the best of my knowledge.

Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE COMPANY'S RATE FILING PACKAGE?

A. Yes, I co-sponsor Schedule V-K-1, Schedule V-K-2, Schedule V-K-6, Schedule V-K-7, Schedule V-K-12, and Schedule V-K-14.

III. ORGANIZATION OF THE BTS DEPARTMENT

Q. PLEASE BRIEFLY DESCRIBE / SUMMARIZE THE AFFILIATE EXPENSES YOU WILL COVER IN THIS TESTIMONY.

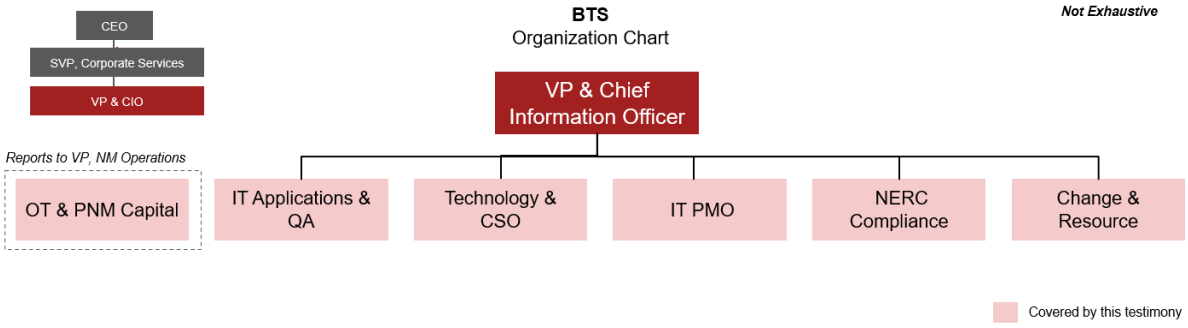
A. The mission of BTS is to leverage technology and think ahead, to provide a positive digital experience in delivering solutions that make a real difference, and establish trusted partnerships. TNMP is billed the affiliated expenses associated with utilizing the BTS services, which include: data center, infrastructure, applications, business intelligence, integration, change control,

cyber and physical security, telecommunications (data, voice, and transport), portfolio/program/project management, federal reliability standards compliance ("NERC"), critical infrastructure protection ("CIP"), crisis management, advanced technology, resource and change management, and technology strategic planning.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW THE DEPARTMENT IS ORGANIZED.

A. The BTS function consists of 168 employees. The department is organized into five primary functional areas: Technology, Security, IT Portfolio and Program Management Office and Quality Assurance ("IT PPMO/QA"), Regulatory Compliance, and Information Technology / Operations Technology ("IT/OT") Applications. BTS outsources certain services to achieve additional operational flexibility and to obtain services at reasonable costs. BTS has outsourced the maintenance and support of several applications, software Test Center of Excellence ("TCOE"), and portions of the technology infrastructure and client services. Application maintenance and support and TCOE are provided under internal BTS staff's direction and guidance by Cognizant, a contracted company, utilizing a mix of on-shore and off-shore contractors. The infrastructure support is provided by Infosys Limited, a contracted company, supporting TXNM Energy data center services, desktop services, and the service desk functions utilizing a mix of on-shore and off-shore contractors. Other applications that support the utility and Operations Technology ("OT") are provided by and aligned with BTS. See Figure 1 for a non-exhaustive organizational chart of BTS.

FIGURE 1: BUSINESS TECHNOLOGY SERVICES ORGANIZATION CHART



Q. PLEASE STATE FROM WHICH LOCATIONS THE BTS SERVICES ARE PROVIDED.

A. Most of the personnel in the BTS organization are in Albuquerque, New Mexico, with the next largest group in Lewisville, Texas, and the remainder spread out at smaller sites in Texas and New Mexico. Off-shore vendors Cognizant and Infosys Limited have resources are in various cities in India. Regardless of physical location, all BTS personnel provide services to all TNMP locations.

Q. PLEASE DESCRIBE ANY INITIATIVES THAT HAVE BEEN INTRODUCED IN RECENT YEARS TO PROVIDE FOR ORGANIZATIONAL FLEXIBILITY AND OPTIMAL SERVICE DELIVERY.

A. BTS has recently taken steps to centralize and manage its Enterprise License Agreements ("ELAs") to achieve greater savings and reduce duplication of effort. Since 2022, there have been 53 additional ELAs created or centralized by BTS, including some of BTS's largest partners (such as Microsoft, VMWare, Cisco, and Oracle), which represents a 66% increase through the Test Year. As a result of this centralization, BTS has realized increased cost savings and reduced licensing issues, in part because all licenses across the enterprise co-terminate. Beginning in 2024, an IT Service Management ("ITSM") suite was adopted that increased BTS's capabilities to centralize service desk operations, inventory, change, incident, and problem management activities. The ITSM suite further allows for automated workflows to increase efficiency and allows access to increased self-service capabilities. With threats on critical

infrastructure increasing (both from nation states and other threat actor activities), cybersecurity remains a top focus for the enterprise, which has made necessary investments to protect the network, systems, and grid. From an industry perspective, cybersecurity incidents have increased month over month, which has underscored the need to adhere to industry best practices and regulating body recommendations. Insurance brokers are becoming more restrictive in their qualifications, requiring increasing levels of security controls and parameters. To evolve with the increase of security controls and bad actor methods, BTS has made several project investments designed to enhance its capabilities, such as enterprise endpoint security, identity federation services, security information and event management, advanced threat assessment firewalls, and Managed Threat Detection and Response. From an enterprise perspective, some large systems have been upgraded, such as Hyperion (Finance and Strategy), PeopleSoft Enterprise Resource Platform (Human Resources, Health and Safety, and General Ledger/Financial systems), PowerPlan (plant accounting and budgeting system), Microsoft SharePoint, and Tibco platform (Enterprise Service Bus) to provide modernized capabilities and reduce the threat attack surface. Specific to TNMP, systems such as Banner TX Technology Stack, which upgraded the underlying technology stack, Landworks (land management software), and Asset Inventory Management have been upgraded or deployed.

Q. PLEASE EXPLAIN THE BENEFITS OF OUTSOURCING MAINTENANCE AND SUPPORT FOR DISCRETE APPLICATIONS, INFRASTRUCTURE, CLIENT SERVICES, TCOE, AND CERTAIN SECURITY SERVICES.

A. There are many benefits to outsourcing those services, which include: reduced costs associated with standard services when compared with Full Time Equivalent ("FTE") loaded costs; partnering with a provider with access to specialized skills and expertise in commodity support services and bench depth to enable resource flexibility; and leveraging financially incented service levels and key performance indicators with the providers to ensure goals are achieved. Outsourcing also supports risk sharing with our services providers,

as the vendor company assumes and manages the risk associated with unplanned demand and service fluctuations. Ultimately, outsourcing allows PNMR Services to provide essential services at a reasonable cost. Although PNMR Services outsources certain necessary services, it monitors the services through service level agreements and provides strategic input to the service providers to ensure service quality and appropriateness of services.

IV. SERVICES PROVIDED BY THE BTS DEPARTMENT

Q. DESCRIBE THE SERVICES BTS IS RESPONSIBLE FOR PROVIDING THE OPERATING COMPANIES.

A. The primary responsibilities of BTS are grouped into five categories that include:

Technology includes functions that support business applications, security (cyber, physical, and crisis management), infrastructure, data center services, client services (service desk, desktop engineering and support), telecommunications (data, voice, and transport), crisis management, management of hardware and software maintenance contracts, IT/OT leadership, disaster recovery, and enterprise architecture. These services ensure that business productivity tools and technologies are available for use by the business. General technology responsibilities include: providing technology solution architecture services and technology investment oversight, including governance, risk management and compliance, through developing target enterprise architecture and maintaining the architecture repository; managing technology lifecycles; identifying emerging technologies; conducting initial authorization, on-boarding, and on-going support for cloud services; gathering, providing and analyzing infrastructure performance metrics; managing the service desk to provide 24 x 7 critical problem reporting and resolution support; end user computer support of desktops, laptops, and tablets; supporting the enterprise data, voice, and telecommunication networks throughout service territories; supporting phone-related issues; supporting conference room technologies; adding, moving, and changing hardware and

software; assessing hardware and software to ensure alignment with defined architecture and managing hardware and software material orders and assets; and providing crisis support for technology and security related incidents and performing business impact analyses.

Security is responsible for enterprise security controls to ensure compliance through proper implementation and consistent updates. Information Security minimizes cybersecurity risk through effective implementation, administration, and use of logical and technical security controls. It involves multiple systems, including firewalls, intrusion detection/prevention, email and web filtering, endpoint security protection, access management, and multi-factor authentication. Security also performs intelligence triage, authors security policy, implements security procedures, and maintains situational awareness. Physical security designs and implements security measures that are intended to deny unauthorized access to facilities, equipment, and resources, and to protect personnel and property from damage or harm (such as espionage, theft, or terrorist attacks) while providing employees with a secure environment to perform their assigned duties. It involves the use of multiple layers of interdependent systems, including surveillance systems, security guards, protective barriers, locks, access control protocols, and many other techniques. The physical security function also develops and implements the physical security plan and ensures appropriate controls are in place to meet NERC CIP requirements.

IT Portfolio and Program Management and Quality Assurance which includes the PPMO, portfolio management, project governance, continuous process improvement, strategic planning, quality assurance and change control, resource and change management and financial management. The PPMO is responsible for planning, budgeting, tracking and running all IT corporate technology programs and projects, related capital budgets and ensuring the successful delivery of the IT assets. IT PPMO/QA includes ITSM

(management of incident, problem, release, change, and configuration), quality control and TCOE, process quality and governance, metrics, and audit compliance. Resource and change management is responsible for resource efficiency and management as well as organizational change management functions. Financial management supports the hardware and software maintenance invoices and operating costs for BTS.

Regulatory Compliance includes the NERC compliance and records management functions. The NERC compliance function is responsible for: increasing electric grid reliability by reducing security risks while simultaneously maintaining regulatory compliance with the NERC reliability standards; providing oversight of the Electricity - Information Sharing and Analysis Center alert process, including communication, mitigation coordination, and document filing; and CIP, specifically including compliance with CIP-002 through CIP-014, aimed at protecting the reliability of the Bulk Electric System through implementation of rigorous cybersecurity measures, such as security management controls, access management, electronic security perimeters, physical security technology, supply chain, and malicious code prevention. The records management function is responsible for: supporting operational records-related activities that include data archive, data migration and storage, new system implementation, system purge, system retirement, and electronically stored information in accordance with policy; ensuring records compliance to include record destruction and disposition; and maintaining awareness of most current practices and regulations to prevent and/or support litigation.

IT/OT Applications are responsible for: application support and development for applications used to support business functions across the enterprise; developing, implementing, and supporting solutions for applications using best practice processes and methodologies for development and code control, and tools for change management and incident tracking; ensuring procedures are

in place for appropriate ticket management and compliance with service level agreements; maintaining relationships with business partners across operating companies; and coordinating advanced technology analysis, development and implementation, including coordination of research partnerships with federal and industry research institutes. In addition, OT focuses on running and controlling machines and systems like Supervisory Control and Data Acquisition systems, smart meters, substations, and electric grids.

Q. ARE BTS' SERVICE OFFERINGS CONSISTENT WITH THOSE OF OTHER DEPARTMENTS IN THE ENERGY INDUSTRY?

A. Yes, the service offerings of the BTS function are consistent with those of other departments in the energy industry. Through my involvement in peer groups and industry forums, discussions with industry leaders and strategic partners, and evaluation of research and benchmarking with research analysts through outlets such as Gartner, I have had opportunities to discuss the services and best practices that other similar departments offer and compare them to BTS' service offerings. I have found that the service offerings and performance of BTS, including NERC compliance, Crisis Management, Records Management, and Corporate Security (physical security), are consistent with similar departments in the industry.

Q. WHAT IS THE PROCESS OR FORUM TO SET AND EVALUATE SERVICE LEVELS AND PROVISIONS?

A. To set and evaluate service levels and provisions, BTS sends customer satisfaction surveys for each incident or request for BTS services and BTS leaders periodically communicate with business partners in both utilities and other shared service functions to review requests, the status of those requests, and reaffirm or realign priorities. Each BTS leader assumes the role of a relationship manager and collaborates with those business partners on business capabilities and technology initiatives. They consult business partners multiple times during the year to solicit service feedback, discuss TNMP's technology needs, and to harvest/identify opportunities for potential

future technology projects and services. For services that rely on outsourcing, the specific service levels and provisions are explicitly defined within the service contract and periodically evaluated. Examples of specific service levels for managed services for applications support, infrastructure support, and service desk offerings include, but are not limited to, metrics for business impact, availability, performance, and quality. The managed services providers provide frequent updates that compare actual performance of services and provisions against requirements defined within the contracts. A formal corporate scorecard of defined metrics and objectives for BTS performance is also established each year, which includes specific performance metrics and thresholds that the BTS leadership team are evaluated against.

Q. HOW DO THE OPERATING COMPANIES OBTAIN THESE SERVICES?

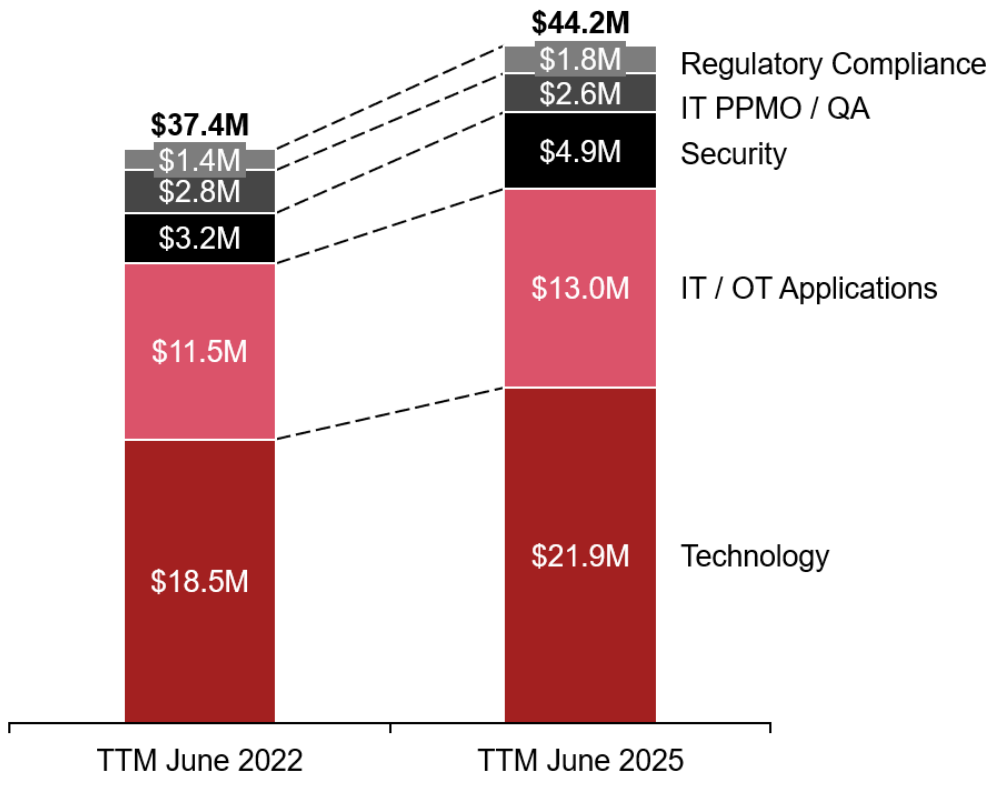
A. The operating companies receive BTS services through a General Services Agreement described in the testimony of EJ Lopez. Operating company employees also open service requests for BTS, which are tracked through the Service Now ITSM application. These may be opened through self-service or by contacting the BTS Service Desk. In addition, project opportunities are identified through meetings with the operating companies' employees and management. These opportunities are documented and presented for consideration in the regular budgeting process. Annually BTS leaders, program managers and business analysts approach the business to reaffirm and modify the five-year project portfolio, to address business technology initiatives. Throughout the year, the business may have a shift in priorities and introduce a "pop-up" initiative. Pop-ups are new projects that are identified and proposed based on a newly discovered need or opportunity outside of the Annual Operating Plan ("AOP") process, which is the process by which annual operations and maintenance ("O&M") and capital budgets are set for each calendar year. Pop-ups are documented, justified, and prioritized against the rest of the portfolio.

V. COST LEVELS AND COST TRENDS

Q. WHAT IS THE TOTAL COST OF AFFILIATE SERVICES DURING THE TEST YEAR AND WHAT ARE THE COSTS BROKEN DOWN BY SUB-CATEGORY?

A. The total PNMR Services Test Year BTS costs were $44.2 million, with the three largest investments in the technology services, IT/OT applications, and security sub-categories. See Figure 2 below for a breakdown of the Test Year BTS costs by sub-category as compared to the trailing twelve months ending June 2022.

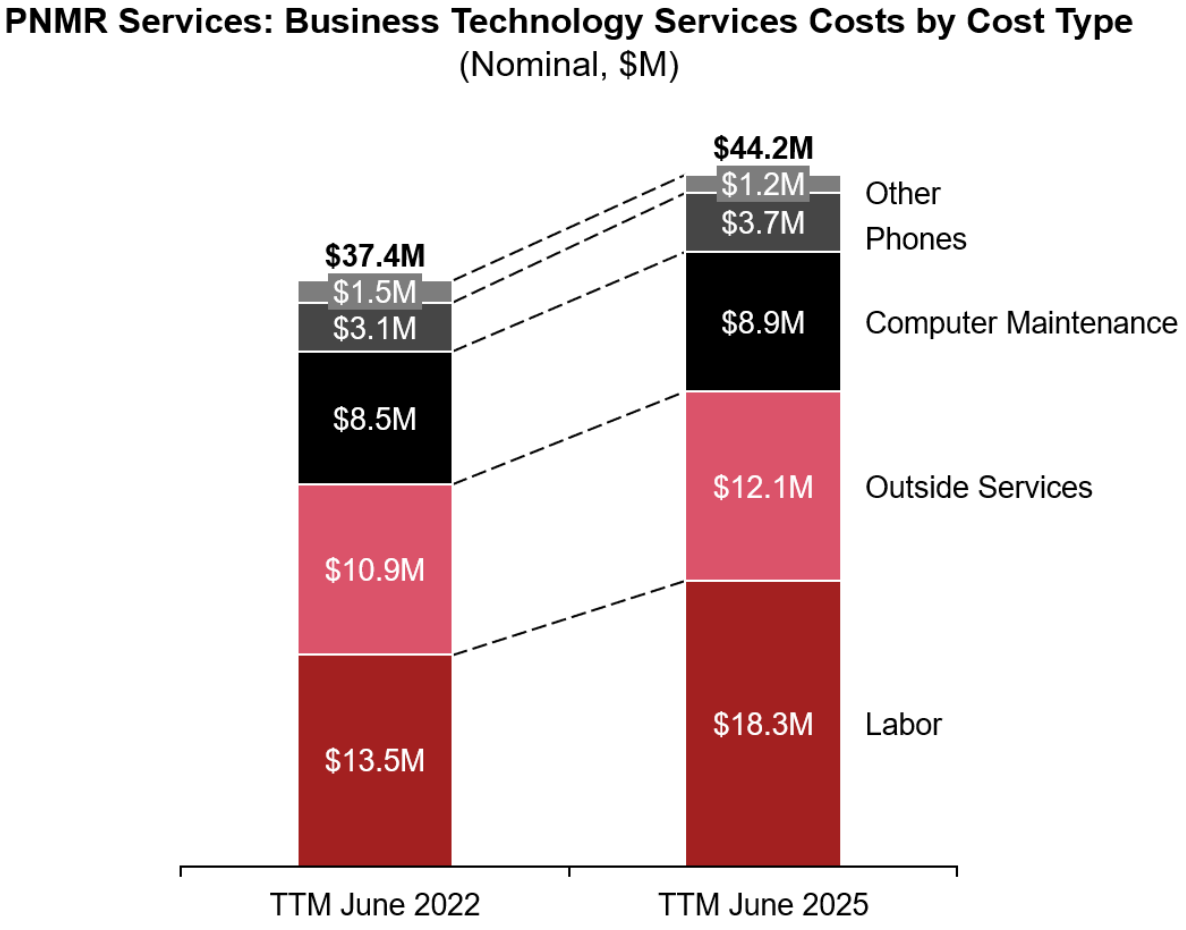
FIGURE 2: TOTAL BUSINESS TECHNOLOGY SERVICES COSTS BY SUB-CATEGORY



Q. WHAT HAS BEEN THE TREND IN ACTUAL EXPENDITURES ASSOCIATED WITH BTS IN RECENT YEARS?

A. As shown in Figure 2 above, the total BTS actual expenditure has increased by approximately $6.8 million from the trailing twelve months ending June 2022 to the Test Year, equating to a nearly 6% compound annual growth rate. The increase has been nominal considering the significant enhancements implemented by BTS in cybersecurity, physical security, telecommunications for data, voice and transport, the increase in discrete application maintenance and support by the application managed services partner, and the deployment of additional capabilities supported by BTS. As shown in Figure 3 below, the largest cost drivers were internal labor, which increased by $4.8 million and outside/temporary services, which increased by $1.2 million. The increase in labor costs is mostly attributable to the increase in FTE from approximately 24% in the trailing twelve months ending June 2022 to the Test Year, which went to supporting various IT support functions such as increasing professional staff for cyber security, conversion of contractors to FTE in the PPMO team, and increasing enterprise integration and Generative AI staff. Regarding outside and temporary services, the largest cost drivers were an increase of outside IT services, records management vendor services, and physical security vendor services. These increases are discussed in their individual sub-category summaries below.

FIGIURE 3: BUSINESS TECHNOLOGY SERVICES COSTS BY COST TYPE



Q. WHAT ARE THE TOTAL COSTS ALLOCATED TO TNMP IN THE TEST YEAR AND WHAT ARE THE COSTS BROKEN DOWN BY MAJOR COST CATEGORIES AND COST-TYPES?

A. Figure 4 below shows the BTS allocated costs to TNMP by cost sub-categories, and Figure 5 shows BTS allocated costs to TNMP by cost types. The total test year BTS costs allocated to TNMP were $13 million, a $2.1 million increase from the trailing twelve months ending June 2022 to the Test Year. Although costs for all sub-categories have increased, the IT PPMO/QA remained relatively flat and the total allocated costs nominally increased by just $2.1 million from the trailing twelve months ending June 2022 to the Test Year. As shown in Figure 5, the largest cost-type drivers for the cost increase were labor with a $1.4 million increase, phones/network with an increase of $300,000, and

computer maintenance with an increase of $300,000. Explanations of these increases are outlined in the sub-category summaries below.

FIGURE 4: TOTAL TNMP ALLOCATIONS BUSINESS TECHNOLOGY SERVICES COSTS BY SUB-CATEGORY

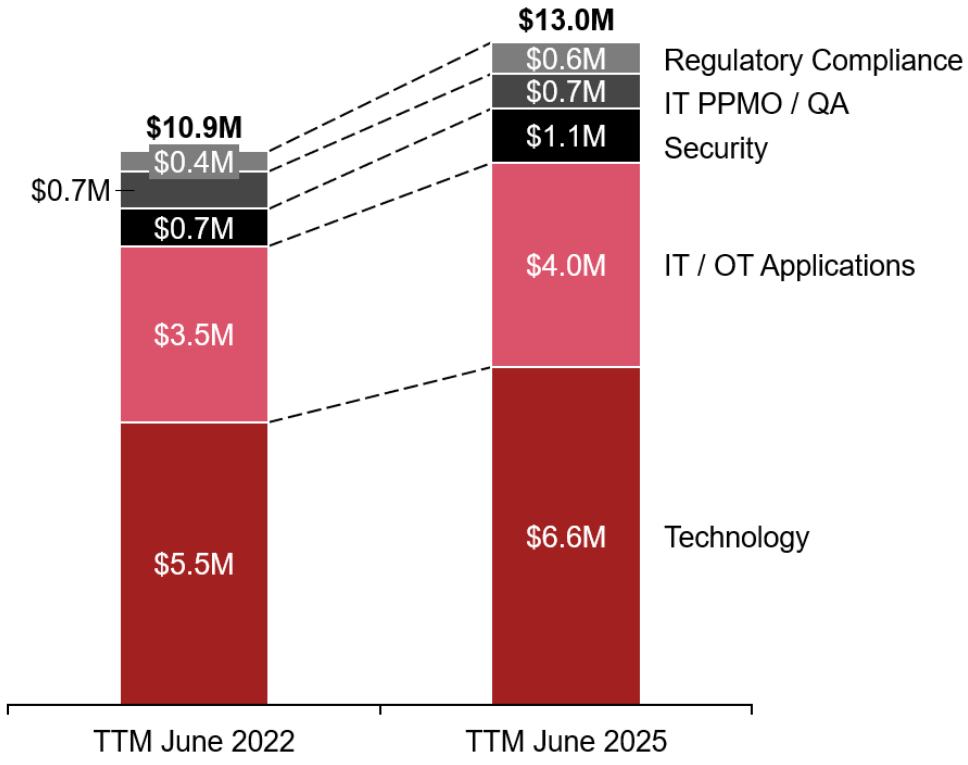
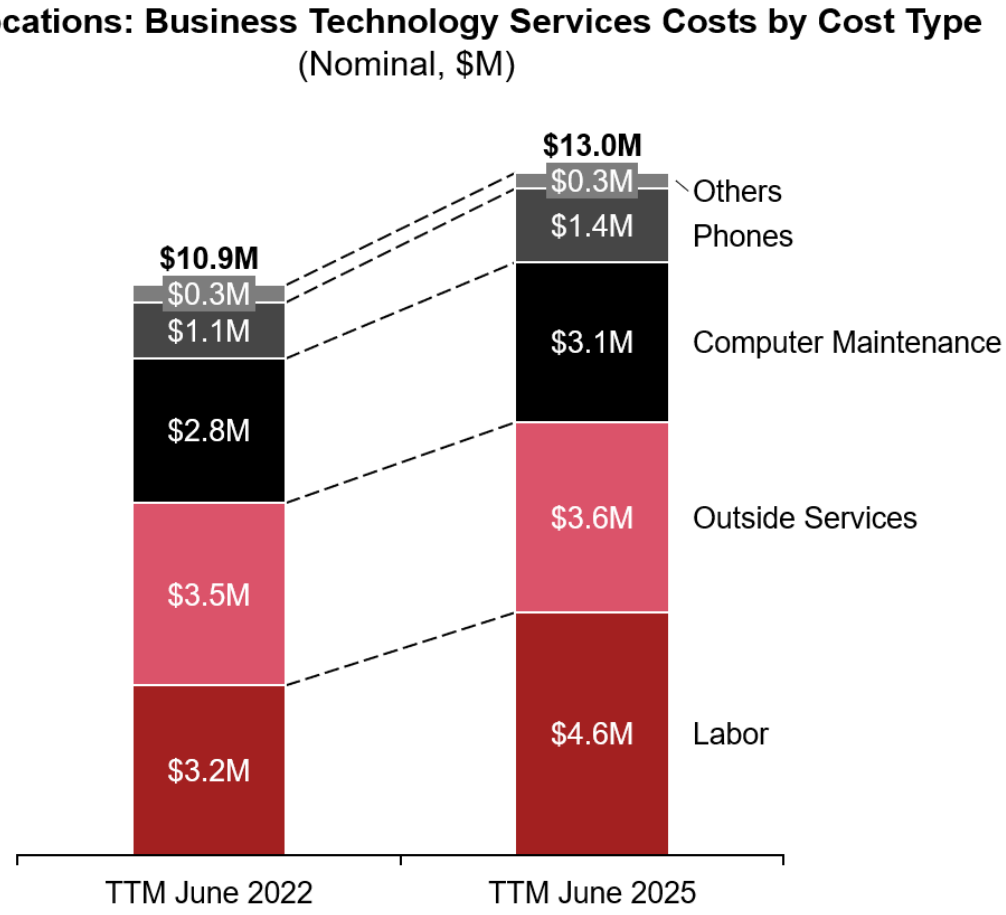


FIGURE 5: TNMP ALLOCATIONS

BUSINESS TECHNOLOGY SERVICES COSTS BY COST TYPE



Q. WHAT HAS BEEN THE TREND IN COSTS ALLOCATED TO TNMP BY THE FUNCTIONS IN RECENT YEARS?

A. In Figure 5 above, the billed cost increase of $2.1 million represents a compound annual growth rate of 6%. Over the three years, continual increase in labor, computer maintenance, and phone/network costs align with the investments made and continued support for expansion of those services. Detailed explanations of cost increases are broken down below by BTS sub-category.

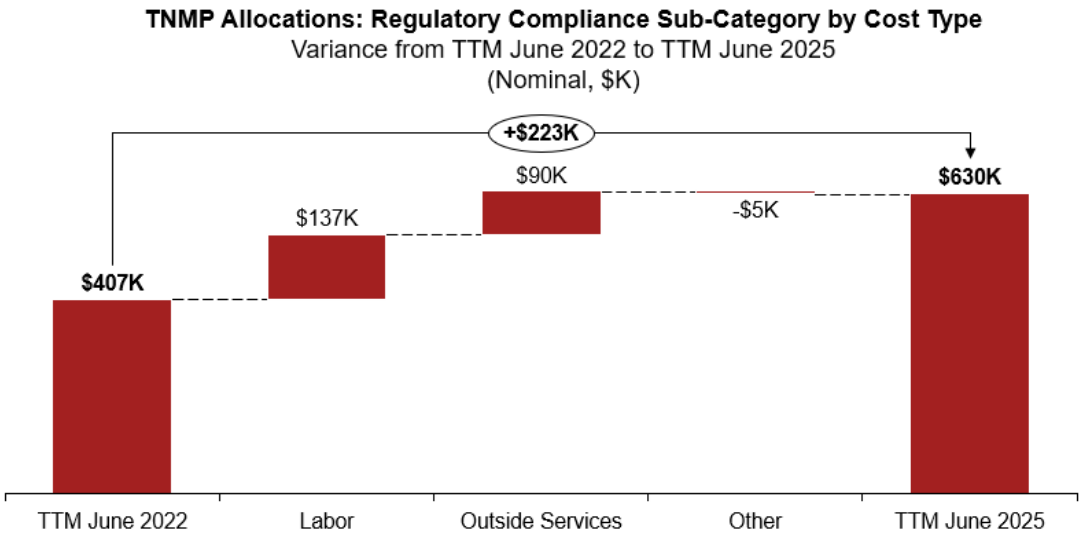
Q. PLEASE EXPLAIN THE DIFFERENTIAL IN TNMP ALLOCATED COSTS FROM THE TRAILING TWELVE MONTHS ENDING JUNE 2022 TO THE TEST YEAR FOR EACH BTS SUB-CATEGORY.

A. Referring to Figures 6 through 10, TNMP allocations for each of the services associated with Regulatory Compliance, IT/OT Applications, Security, and Technology increased slightly over the period, while the cost allocation associated with IT PPMO/QA decreased.

Regulatory Compliance - Allocated costs for Regulatory compliance services are those costs primarily associated with management of the NERC reliability standards compliance program, along with costs associated with management, storage, retrieval, and disposition activities through the records management program. These costs are necessary to ensure TNMP is compliant with the NERC reliability standards, a broad set of mandatory standards aimed at ensuring the reliability of the bulk power system. BTS billings to TNMP for Regulatory Compliance services, noted in Figure 6 below, increased by approximately $223,000 from the trailing twelve months ending June 2022 to the Test Year.

FIGURE 6: TNMP ALLOCATIONS

REGULATORY COMPLIANCE COSTS BY COST TYPE

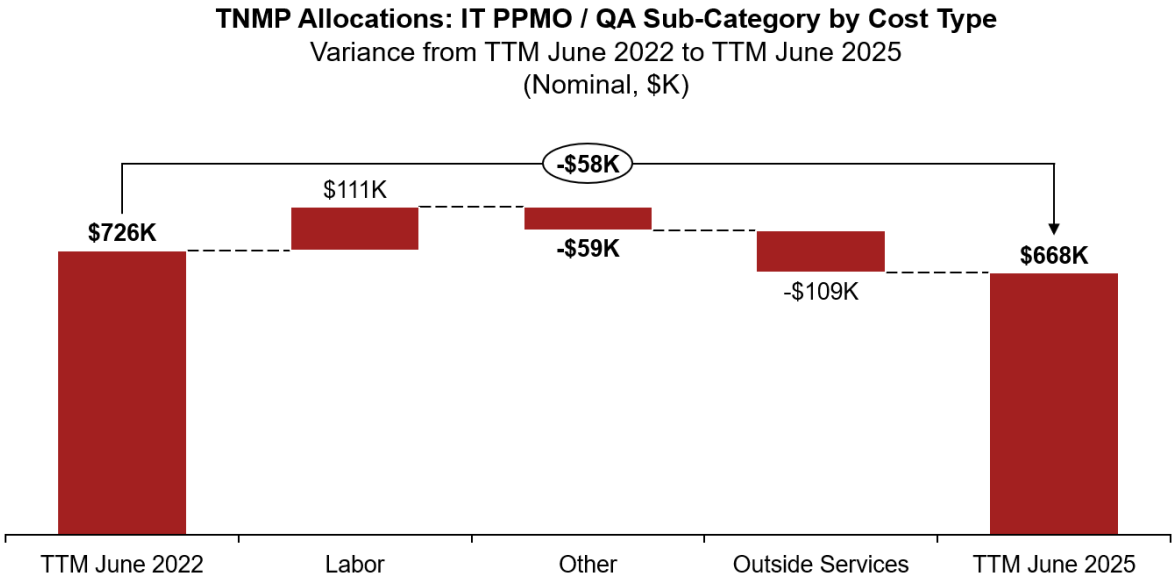


IT PPMO/QA - Billed costs for IT PPMO/QA services are those costs associated with the PPMO and portfolio management, project governance, continuous process improvement, strategic planning, and quality

assurance. These costs also include IT Quality Assurance, which includes ITSM (management of incident, problem, release, change, and configuration), quality control and TCOE, process quality and governance, metrics, and audit compliance. These costs are necessary for providing the expertise needed to successfully manage and implement technology solutions that provide TNMP with new capabilities and efficiencies to provide services to customers. BTS billings to TNMP for IT PPMO/QA services, noted in Figure 7 below, decreased by approximately $58,000 between the trailing twelve months ending June 2022 and the Test Year. An increase in internal labor costs was offset by a reduction in outside services. Additional savings were seen in other expenses resulting in a net reduction in costs.

FIGURE 7: TNMP ALLOCATIONS

IT PPMO/QA COSTS BY COST TYPE

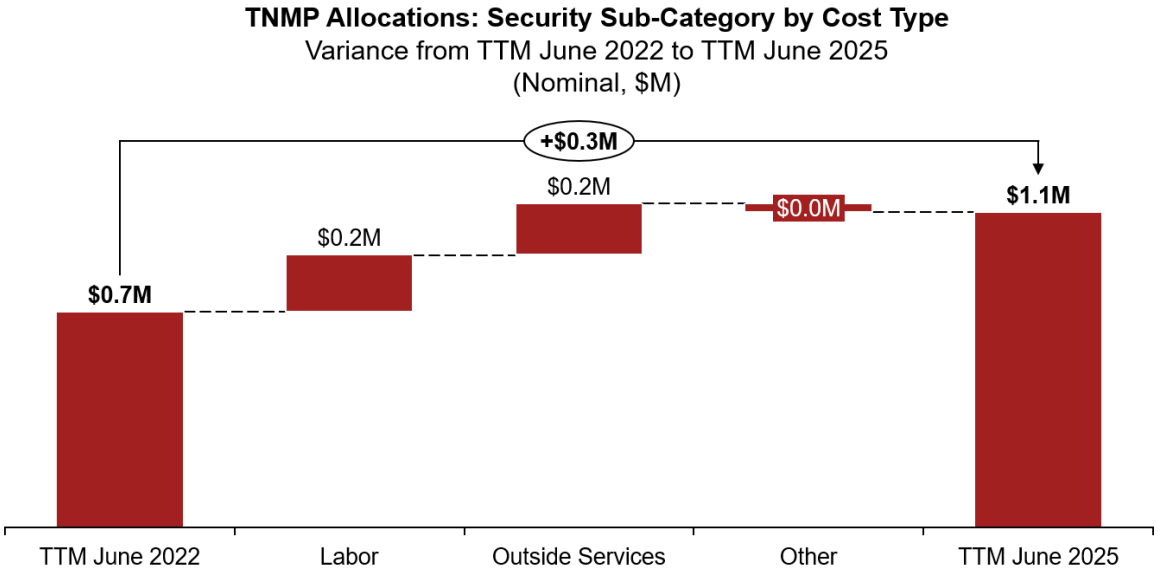


Security - Billed costs for Security services are those costs associated with physical and cyber security measures to protect TNMP, employees, systems, data, and facilities. These costs are necessary to protect TNMP from breaches in data security, sabotage on company assets like transmission substations, and ensuring the protection for staff to work in a safe environment. BTS billings to TNMP for Security services, noted in Figure 8

below, increased by approximately $300,000 between the trailing twelve months ending June 2022 and the Test Year. The increase is explained by the increase in labor costs and outside services for physical security support, break fix, and systems operation center.

FIGURE 8: TNMP ALLOCATIONS

SECURITY COSTS BY COST TYPE

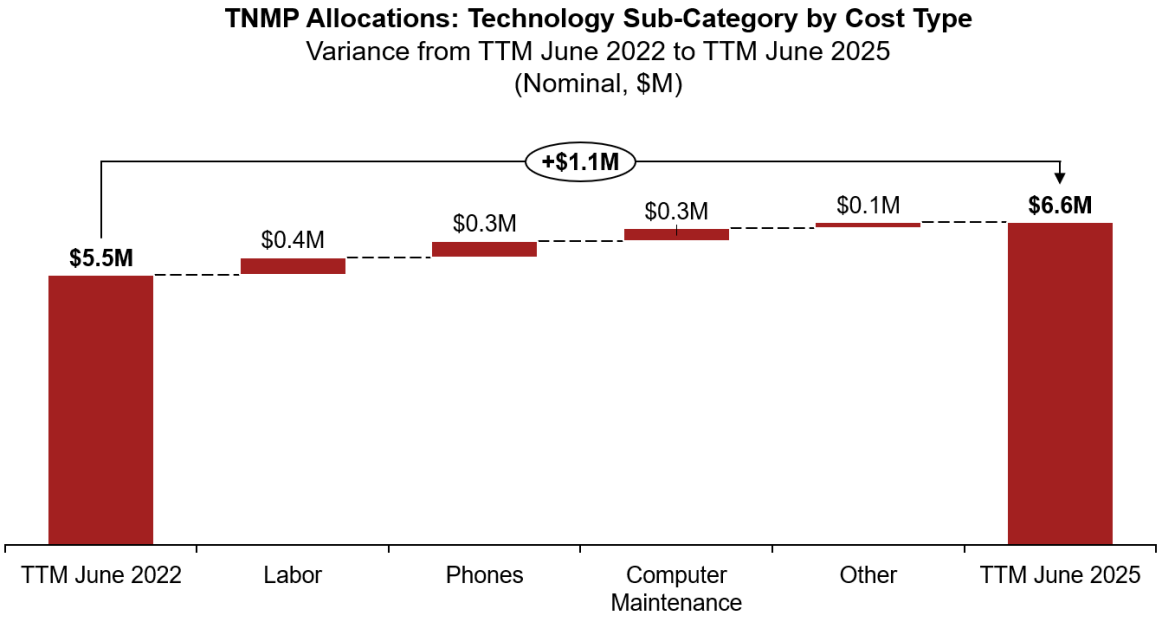


Technology - Allocated costs for Technology services are primarily associated with data center services, service desk (the help desk), desktop services, telecommunications, and enterprise architecture, which are all responsible for company systems and services that support business applications and user productivity, ensuring that business productivity tools and technologies are available for use, including desktops and laptops, servers and tools, disaster recovery and service desk support. These centralized services are necessary to provide the foundational equipment, data, and support for TNMP to perform the daily activities for their operations. It is more cost effective for TNMP to use enterprise services, where costs are shared, as opposed to providing each service on its own. As noted in Figure 9, TNMP allocated costs increased by approximately $1.1M from the trailing twelve months ending June 2022 to the

Test Year, primarily as the result of increases in data and transport related to extending fiber to various locations and increase in costs from telecom providers, and increase in conference room capabilities. Cost increases related to computer maintenance are normal escalations in vendor contracts that average 3-15% annually.

FIGURE 9: TNMP ALLOCATIONS

TECHNOLOGY COSTS BY COST TYPE

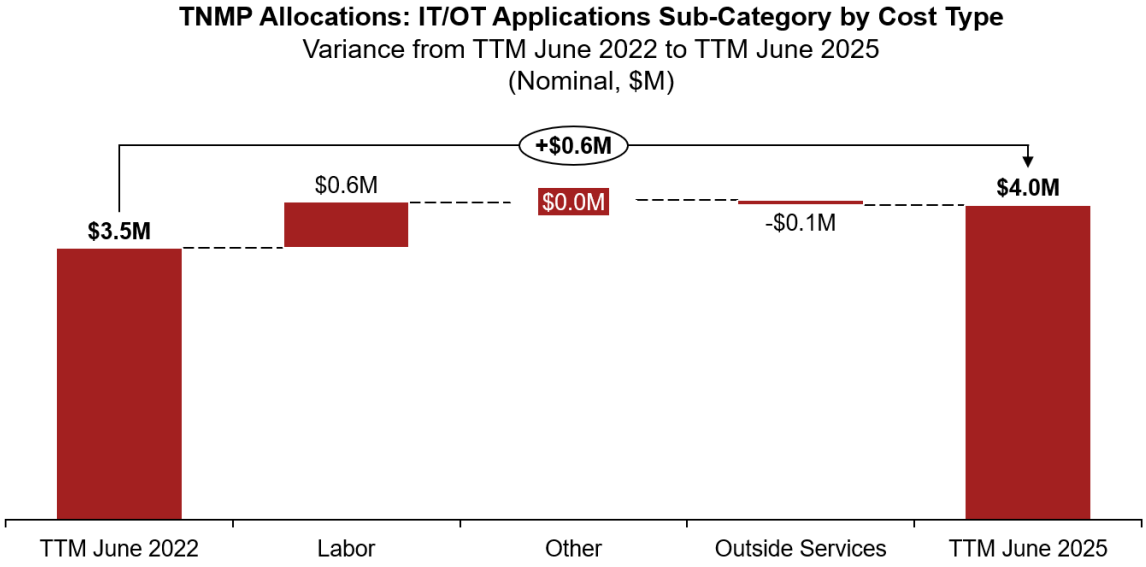


IT/OT Applications - The costs associated with IT/OT Applications are primarily related to application support and development for applications used to support business functions across the enterprise. IT/OT Applications costs also contribute to coordination of advanced technology analysis, development, and implementation, including facilitation of research partnerships with federal and industry research institutes. These costs are necessary to provide TNMP the tools and applications necessary to perform daily activities in its operations so that it can effectively provide services to its customers. As noted in Figure 10, the TNMP allocated costs for IT/OT Applications services increased by $600,000 from the trailing twelve months ending June 2022 to the Test Year. The driver for this increase was labor. This labor increase was related to an

increase in the number of FTEs (13 FTE increase), as well as normal merit increases in salary.

FIGURE 10: TNMP ALLOCATIONS

IT/OT APPLICATIONS COSTS BY COST TYPE



Q. ARE THE COSTS PREVIOUSLY DESCRIBED REASONABLE? WHY?

A. Yes. As set forth above, given the increases in costs associated with improving critical security for TNMP systems and facilities, reasonable incremental annual labor and outsourcing cost increases, along with increases in TNMP technology capabilities supported by BTS, the changes in costs were reasonable. Further, the nominal increases in cost partially mitigated with BTS cost reduction and control initiatives keep cost increases at minimum levels compared to the increase in services and capabilities.

VI. COST ALLOCATION

Q. WHAT ARE THE PREDOMINANT BILLING METHODS USED FOR THE AFFILIATE SERVICES YOU ARE DISCUSSING?

A. The billing methods used by BTS include direct, transactional and general allocation methodologies. Please refer to EJ Lopez's testimony for additional explanations of each billing method and the associated cost allocations (EJL-

4). Direct allocation means the costs are directly billed to the operating companies when they are incurred while performing tasks specifically for that operating company. Transactional billing utilizes appropriate cost drivers to allocate costs to the appropriate operating company. General allocations are used for costs that cannot be directly charged or do not have a direct causative cost driver to use a transactional allocation. Regarding BTS' transactional allocations to TNMP, these cost drivers primarily include the number of general ledger transactions, number of vendor payments, number of depreciable assets in plants, number of network IDs, number of transactions in the work and asset management system, employee headcount not tied to network IDs, and occupied square footage. The best example of how these allocations work is demonstrated through the functions of the Human Resources system. It would be very difficult to measure and manage how much (in terms of time or resources) each of TXNM Energy's business units utilize the HR system, so it is more logical and generally more acceptable to allocate the costs to support that system based on the number of employees in the business unit, in this case TNMP. The general allocation factor is used for corporate matters such as Executive Policy Committee support. A breakdown of allocation factors is below in Table 1.

TABLE 1: BTS BILLING METHODS

Allocation Method	Location	Allocation Driver	PNMR Allocations	TNMP Allocations
General	941	MMF - Employee Headcount, Gross Margin, Net Plant.	7.7%	9.4%
	948	MMF - Employee Headcount, Gross Margin, Net Plant.	0.2%	-
	951	MMF - Employee Headcount, Gross Margin, Net Plant.	2.4%	-
Direct	942	PNM Electric Services	10.9%	-
	946	PNM Bulk Power Marketing	1.8%	-
	947	PNM Electric Transmission Services	2.2%	-
	953	TNMP – Texas	9.4%	32.1%
Transactional	911	Number of General Ledger Transactions	3.4%	4.4%
	914	Number of Depreciable Assets	0.02%	-
	968	Number of Network ID's	56.6%	48.8%
	980	Number of Occupied Square Footage	3.1%	2.9%
	986	Number of Maximo transactions	0.6%	0.8%
	993	Employee Headcount	1.6%	1.6%

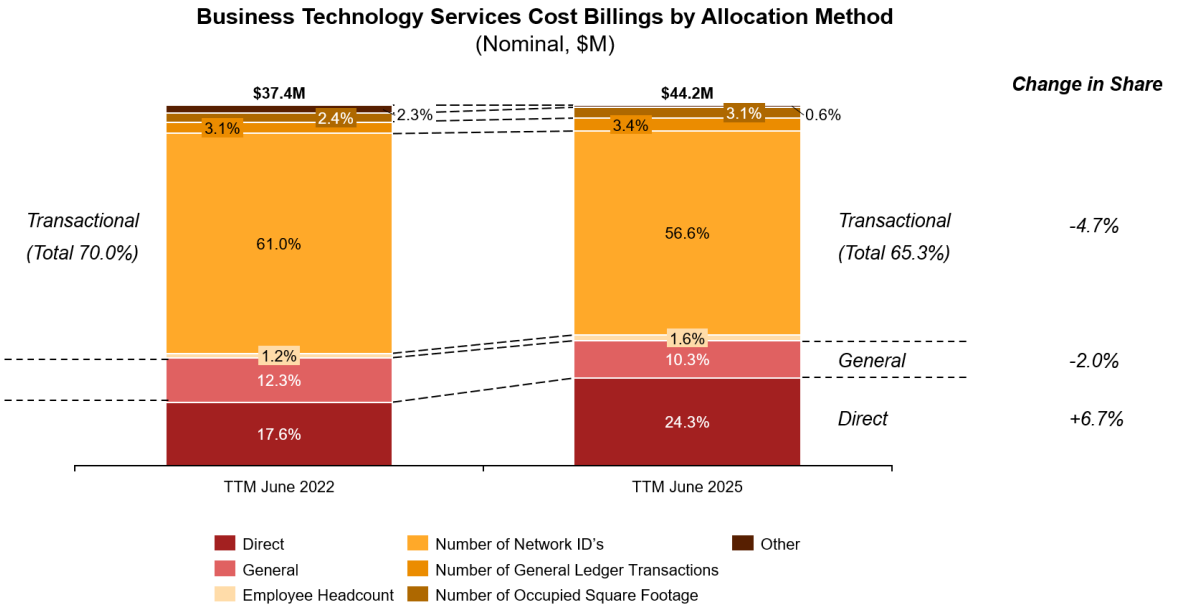
Q. WHICH ENTITIES ARE BILLED FOR THE PNMR SERVICES' COSTS AND HOW ARE THE COSTS BILLED TO THESE ENTITIES?

A. PNMR Services' BTS costs are billed to all business units of TXNM Energy that PNMR Services supports. The costs are direct billed whenever possible and when that is not possible, the costs are allocated based on the allocation factor driving the costs. PNMR Services currently bills the following entities: TXNM Energy, PNM and TNMP. Each entity receives its direct and allocated share of the BTS costs per the cost allocation manual as discussed in the testimony of EJ Lopez.

Q. WHAT PERCENTAGE OF BTS AFFILIATE EXPENSES DISCUSSED ARE "DIRECT" BILLED VERSUS COSTS THAT ARE "ALLOCATED" TO THE OPERATING COMPANIES, AND WHAT TRENDS HAVE YOU NOTICED?

A. As shown in Figure 11, in the Test Year, BTS allocated 24.3% of its total affiliate costs on a direct bill basis, 65.3% on a transactional allocation basis, and 10.3% on a general allocation basis. Direct charges increased by 6.7% while Transactional charges decreased by 4.7%. Transactional charges tend to be higher in BTS than other PNMR services affiliates given the number of enterprise systems that are supported, such as desktops/laptops, telephones, data networks, conference room technologies, cyber and physical security, infrastructure, and tools like Microsoft Office Suite and PeopleSoft HR/Finance systems.

FIGURE 11: BTS COSTS BY ALLOCATION METHOD

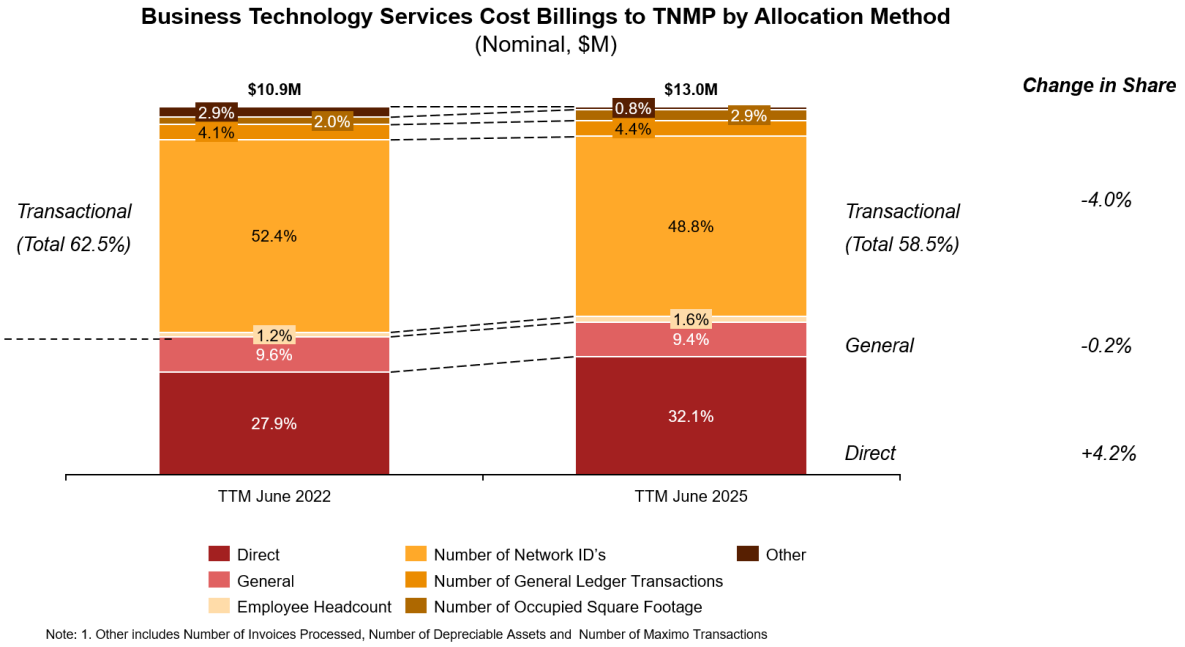


Note: 1. Other includes Number of Invoices Processed, Number of Depreciable Assets and Number of Maximo Transactions

Q. WHAT TRENDS HAVE YOU NOTICED REGARDING DIRECT AND TRANSACTIONAL CHARGES SPECIFICALLY TO TNMP?

A. In Figure 12 below, from the trailing twelve months ending June 2022 to the Test Year, direct charges to TNMP have increased by 4.2% while transactional charges allocated to TNMP have decreased by 4%. Based on the projects and services delivered for TNMP specifically, the trend is acceptable. As the number of TNMP specific projects increased, so did the direct costs.

FIGURE 12: BTS COSTS to TNMP BY ALLOCATION METHOD



Note: 1. Other includes Number of Invoices Processed, Number of Depreciable Assets and Number of Maximo Transactions

Q. WHAT IS YOUR OVERALL CONCLUSION WITH RESPECT TO THE APPROPRIATENESS OF THE COST ALLOCATION / BILLING METHODS USED?

A. I believe the cost allocation and billing methods are appropriate and the services being performed for the benefit of TNMP are appropriate. We continue to improve our transparency by effectively managing the daily operational costs and are always striving to direct bill affiliates whenever possible.

VII. NECESSITY AND REASONABLENESS OF SERVICES

Q. ARE THE SERVICES PROVIDED TO THE OPERATING COMPANIES NECESSARY TO SUPPORT THE BUSINESS OF THE OPERATING COMPANIES?

A. Yes, for the reasons established previously, the services provided by the BTS function to the operating companies are necessary to support the business activities of the operating companies.

Q. WHAT TYPE OF CORPORATE OVERSIGHT IS IN PLACE TO ENSURE THAT THE SERVICES PROVIDED ARE THOSE THAT ARE MOST

BENEFICIAL TO SUPPORT THE OPERATING COMPANIES' PROVISION OF UTILITY SERVICES?

A. As discussed above, the leadership team, in coordination with the BTS employees who provide relationship management, ensure that the services provided by BTS are the most beneficial to support each operating company, including TNMP. Further oversight is provided through the BTS department following the standard PNMR Services budgeting process that provides transparency into the services provided for each area. BTS develops annual budgets (at a monthly granularity) for both O&M and capital using the O&M and Capital targets. The detailed budgets are created at the home center level by cost type. Additionally, many services performed by the BTS department are mandated by regulation, legislation, or other security requirements. Therefore, several of the BTS services that are the most beneficial to support the operating companies' utility services are those that ensure TXNM Energy and its operating units adhere to requirements and expectations established by PUCT, NERC, Sarbanes-Oxley, Payment Card Industry-Data Security Standards, and other regulatory or industry requirements.

Q. ARE THE SERVICES PROVIDED BY THE DEPARTMENTS DUPLICATED BY PERSONNEL WITHIN THE OPERATING COMPANIES?

A. There are three complementary services provided across BTS and TNMP: desktop services; NERC regulatory compliance; and telecommunications. Although complimentary, the services are not duplicated and are segregated between enterprise and operations technology assets as outlined in Table 2.

TABLE 2: DELINATION OF ROLES AND RESPONSIBILITIES

Function	PNMR Services Roles	TNMP Roles	Role Clarity Rationale
Business Technology Services	• Manages the lifecycle of corporate network-connected devices, including hardware acquisition, system functionality, compliance with company standards, and application of security updates. • Provides governance and audit approach for maintaining compliance with NERC reliability standards across the enterprise. • Manages TNMP's enterprise data, voice, and transport networks across all corporate sites. • Tracks and manages standardized IT/OT equipment (where applicable) to support enterprise ELAs, optimize hardware negotiations, and enable cross-functional support for common systems such as servers, storage, PCs, and networking gear. • Oversees network monitoring, incident response, lifecycle management, security mitigation (cyber and physical), crisis management and resilience, and telecom carrier coordination. • Provides client services such as desktop engineering and support, service desk, corporate, and data center services. Centrally manages record compliance to ensure adherence to legal standards.	• Manages devices connected on the TNMP Operations Technology (OT) network, including all devices associated with Energy Management Systems (EMS). • Responsible for the implementation of the required compliance standards. Oversees NERC related system operator training. • Responsible for TNMP Utility Field Operations data and transport network for all TNMP substation, control and data center sites. • Responsible for data, voice and transport network for all TNMP substations, control and data center sites for TNMP Utility Field Operations.	• PNMR Services focuses on enterprise-wide IT infrastructure and compliance oversight, while TNMP manages field-level OT systems and local network operations specific to TNMP utility functions.

Q. IS IT NECESSARY AND REASONABLE FOR THESE ACTIVITIES TO BE PROVIDED BY AN AFFILIATE (AS OPPOSED TO THE OPERATING COMPANIES PROVIDING THESE SERVICES THEMSELVES)?

A. Yes, it is necessary and reasonable for these activities to be provided by an affiliate. One of the primary benefits of the BTS function is the overall cost savings generated by the economies of scale the BTS function provides. The BTS function requires employees with specific skill sets and generally deals with applications that transcend the operating companies to leverage economies of scale. Furthermore, IT maintenance and support are naturally centralized activities. For instance, the BTS Service Desk is a central activity, which allows us to smooth the peaks and valleys associated with IT support. The current setup maximizes the utilization of IT representatives. Finally, a centralized IT organization allows for greater consistency of applications and quality of support across operating companies.

Q. IN SUMMARY, ARE THE SERVICES THAT THE FUNCTION PROVIDES NECESSARY TO PROVIDE RELIABLE ELECTRIC SERVICE TO TNMP CUSTOMERS?

A. Yes, given the need to automate processes to improve consistency and reduce costs, and the necessity of real-time data in today's business environment, the

services that the BTS function provides are necessary to provide reliable electric service to TNMP customers.

VIII. COST MANAGEMENT

Q. HOW DOES BTS ENSURE THAT ITS CHARGES TO TNMP ARE NO HIGHER THAN THE CHARGES TO OTHER AFFILIATES FOR THE SAME OR SIMILAR SERVICES, AND THAT THE CHARGES REASONABLY APPROXIMATE THE ACTUAL COST OF PROVIDING THE SERVICE TO TNMP?

A. The accounting system at TXNM Energy is configured such that PNMR Services' actual costs are allocated. No mark up or additional calculations are systematically applied to costs; the costs are simply assigned to affiliates using the allocation methodology associated with the location code applied to the costs. The Corporate Accounting Department performs certain controls on a monthly basis, verifying the results of shared services allocations to ensure all costs are appropriately allocated.

Q. WHAT PROCESSES DO YOU EMPLOY TO ENSURE THAT AFFILIATE EXPENSES INCURRED BY OR ON BEHALF OF THE OPERATING COMPANY ARE REASONABLE?

A. To ensure that BTS expenses are incurred by or on behalf of the operating companies are reasonable, the BTS leadership team performs monthly budget variance reviews. The monthly report presents detailed information about service company charges and provides transparency to the service charges. Budget variances are reviewed monthly at various levels in the BTS group from departmental mangers, directors, and to the Vice President / CIO levels.

Q. DISCUSS HOW THE BTS DEPARTMENT UTILIZES BUDGETING, PLANNING, COST REVIEW AND REPORTING TO CONTROL CHARGES TO THE OPERATING COMPANIES.

A. BTS builds an annual budget based on the guidelines established in the AOP. Every quarter, through a quarterly reforecast, the BTS budget is updated with

refined information, which requires careful cost planning and discipline within the function. BTS leadership is held accountable for this budget through monthly variance reports, which compare budgeted costs to actual costs incurred. BTS leadership must explain significant variances. If the variance report is significantly under or over budget, it will be reviewed by senior management, who then may determine whether the budget warrants adjustment or whether cost-cutting measures should be imposed.

Q. WHAT TYPES OF CONTROLS ARE IN PLACE THAT EFFECTIVELY CONTROL BUDGETS WITHIN THE FUNCTIONAL ORGANIZATIONS COVERED IN YOUR TESTIMONY?

A. The BTS function works closely with the Controller's office to ensure that all costs are direct billed when possible and allocated fairly when they are not able to be direct billed. This adds transparency to BTS costs and allows the organization to determine the budget's validity. Furthermore, as discussed in the testimony of EJ Lopez, PNM Services' short-term incentives program links incentive pay to workgroup O&M budget targets. Meeting O&M budget targets is one criterion included in the performance scorecards. If workgroup targets are not met, then incentives are scaled accordingly. Performance against the scorecard goals determines the bonus opportunity. Finally, BTS is evaluated on the aforementioned monthly variance report.

Q. WHAT BENCHMARKING HAS BEEN CONDUCTED BY THE FUNCTIONAL AREAS TO EVALUATE COST AND / OR PERFORMANCE LEVELS?

A. For several years, BTS has subscribed to Corporate Executive Board ("CEB") for access to research, best practices, and business intelligence data, which also includes the ability to conduct functional benchmarking or service diagnostics/controls maturity for several key BTS areas. The CEB benchmarking results included efficiency recommendations and cost comparisons in various functional areas, such as PMO, Enterprise Architecture, Security, and Applications. The evaluations within this effort indicated that the overall pricing for outsourced services provided by Cognizant

and Infosys were below market. Additionally, BTS initiated an ongoing subscription service with Gartner research to provide additional cost and performance level benchmarking that allows for iterative evaluation of services over time.

IX. CONCLUSION

Q. WHAT IS YOUR OVERALL CONCLUSION ON THE REASONABLENESS AND NECESSITY OF COSTS FOR THESE SERVICES?

A. In conclusion, I believe the services offered by BTS are necessary and reasonable to provide reliable electrical delivery services. To ensure that BTS expenses incurred by or on behalf of the operating companies are reasonable, the BTS leadership team is subject to cost controls and performs monthly budget variance reviews. The monthly report presents detailed information about service company charges and provides transparency to the service charges. The VP/CIO and department directors receive systematic budget to actual variance reports, participate in the annual corporate budgeting process, and perform quarterly reforecasts.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

AFFIDAVIT

STATE OF NEW MEXICO §
§
COUNTY OF BERNALILLO §

BEFORE ME, the undersigned authority, on this day personally appeared Tobe C. Phelps, who, upon proving his identity to me and by me being duly sworn, deposes and states the following:

"My name is Tobe C. Phelps. I am of legal age, a resident of the State of New Mexico, and have never been convicted of a felony. I certify that the foregoing testimony, offered by me on behalf of Texas-New Mexico Power Company, is true and correct and based upon my personal knowledge and experience."

Witness

* * * * *

SWORN TO AND SUBSCRIBED before me, Notary Public, on this 7 day of November, 2025, to certify which witness my hand and seal of office.

NOTARY PUBLIC in and for the
State of New Mexico

Printed Name: Catherine Alvarez

My Commission expires: 9/11/2028

Notary ID# 2004208

STATE OF NEW MEXICO
NOTARY PUBLIC
CATHERINE DEBBIE ALVAREZ
COMMISSION #2004208
COMMISSION EXPIRES 09/11/2028

Dr. Tobe Phelps

Tobe.phelps@txnmenergy.com

PROFESSIONAL SUMMARY

Technology, digital innovation, data architecture, and project management experience with leadership and hands-on experience overseeing complex, global technical ecosystems. Strong record of success in using organizational data to drive innovation. Proven record of aligning a PMO with the strategic direction of the organization. Forward-thinking executive with a proven record of accomplishment in Executive Leadership Consulting, Semiconductor Manufacturing, Services Consulting, Higher Education, and Utilities during 30-year career. Driven and ambitious change manager dedicated to continuous business improvement focused on enhancing revenue and streamlining business operations through data driven continuous improvement. Culturally diverse IT executive with experience leading change in over 35 countries.

WORK HISTORY

TXNM Energy (formerly PNM Resources) – Associate Director Project Management Office
Albuquerque, NM • 12/2020 – Present

Currently direct a large cross functional team including all program manager, project manager, programmer analyst, and business analyst functions. Under my leadership, the PMO has made significant advances in project and process transparency, process automation, and reduction of process complexity. The current portfolio is complex and challenges myself and my team to manage significant risk and run at an accelerated pace while juggling multiple priorities. Unlike most other PMOs, I own the financials for all capital projects falling in my portfolio and my Project Managers are required to manage the financials for all projects.

PNMR (Robert Half International) – Enterprise M365 Program Manager
Albuquerque, NM • 09/2020 – 12/2020

Worked as a contract program manager to manage and facilitate migration and integration of Microsoft's M365 suite. This complex program was successfully implemented on time with minimal defects and high customer satisfaction.

Central New Mexico Community College – Chief Technology Innovation Officer
Albuquerque, NM • 10/2014 – 06/2020

Focused on technology innovation at the college level through efforts such as blockchain, artificial intelligence, machine learning, and virtual reality. Successfully issued blockchain diplomas to all graduating students gaining global media attention for the college including the innovator of the year award in 2018. Developed multiple leading-edge technology integrations into classroom instruction through the use of strategic vendor partnerships and strong financial and project management efforts.

- Responsible for the startup of the CNM Online College. Had the online college up and running within a year and healthy enough to be passed back to the academic side of the house for operations.
- Have lectured, guest taught, and presented at various venues around North America. My presentations on blockchain technology in higher education are considered groundbreaking in the sector.
- Work, day to day, with the executive leadership at the college to plan technology innovation and implement strategies for leading edge educational technology. Some examples are blockchain credentials, aquaponics integration on campus as a living lab, Office 365, access control, and eSports.

- Student-driven decision making across the gambit of educational departments and priorities including a focus on an enrollment task force over 3 years using data to drive needed changes to student experience in order to positively influence enrollment numbers.

Hewlett Packard Enterprise Co (formerly EDS) – Project Executive
Auburn Hills, MI • 07/1996 - 04/2014

Led sales initiatives to offer managed services and hardware to various large corporations, then was responsible for delivering those services based on long term projects. During my tenure at HP, I sold and delivered enterprise solutions to General Motors, Molson Coors, Conway Freight, Deutsche Bank, Kraft Foods, and Mondelēz International. Each engagement lasted 1-3 years including the sales cycle and delivery. Each implementation included the complete replacement or retrofit of all IT systems including ITIL based service delivery models, data architecture. and governance. Successfully delivered over $7 billion in contract value in 38 countries across 8 years of sales and delivery. While working under Electronic Data Systems (before the merger with HP), I worked as a Semiconductor subject matter expert and lead executive. I successfully consulted with and delivered semiconductor automation solutions across North America and Singapore.
A few examples of typical engagements:

- Executive Programme Manager responsible for splitting Kraft Foods into two companies (Kraft Foods NA and Mondelez) then implementing a new corporate-wide IT infrastructure.
    - 3-year engagement
    - 35 direct reports with another 120 matrixed employees
    - TCV : ~ $7 million - came in well under budget
- Executive Programme Manager responsible for replacing the ticketing system for Conway Freight. Implementation included the integration of ITIL processes into Conway's business acumen
    - 2-year engagement
    - 14 direct reports with another 35 matrixed employees
    - TCV : ~$4 million; on budget
- Directed the 35-person team responsible for renegotiation of IT services contract with General Motors. Negotiated scope of IT services, service level agreements and price.
    - TCV : $2 billion over 10 years

Philips Semiconductors - Senior Production Specialist
Albuquerque, NM • 07/1993 - 07/1996

Worked to provide quality etch engineering and production support through leading edge process and quality improvements. Had first-hand operational and maintenance knowledge of a variety of photolithography and etch equipment.

Intel Corp - Etch Engineering Tech
Rio Rancho, NM • 09/1989 - 05/1992
Increased production reliability and yield through strong short run statistical process improvements. Characterized etch processing equipment for production reliability.

Education

Doctor of Management in Organizational Leadership – University of Phoenix
11/2018

Dissertation titled: Organizational Change in Higher Education, a Grounded Theory Approach.
Theory generated: Barycentric Leadership

MBA (Masters of Business Administration) – University of Phoenix
08/2015

BSBM (Bachelors of Science in Business Management) – University of Phoenix
10/2006

Certifications

PMP (Project Management Professional) – PMI
09/2003 – 09/2025 #74121

PMI-ACP (Agile Certified Practitioner) – PMI
12/2016 – 12/2025 #1992628

ITIL Foundations v3 - CSME

Organizational Affiliations

Board member – United Way of Central New Mexico Community Impact Council

APPLICATION OF TEXAS-NEW MEXICO POWER COMPANY FOR AUTHORITY TO CHANGE RATES

WORKPAPERS FOR THE DIRECT TESTIMONY OF Dr. TOBE C. PHELPS

TNMP Witness Tobe Phelps has no supporting workpapers for his direct testimony.