

**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 AND EXHIBITS  
OF  
KYLE T. SANDERS**

**ON BEHALF OF  
TEXAS-NEW MEXICO POWER COMPANY**

**NOVEMBER 14, 2025**

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, PLACE OF**  
3 **EMPLOYMENT, AND POSITION.**

4 A. My name is Kyle T. Sanders. I serve as a Vice President for PNMR Services Company  
5 (“PNMR Services”). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico  
6 87102.

7 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS SENIOR MANAGER,**  
8 **COST OF SERVICE.**

9 A. I am responsible for revenue requirement-related work for the regulated  
10 subsidiaries of TXNM Energy, Inc. (“TXNM Energy”), Texas-New Mexico Power  
11 Company (“TNMP” or the “Company”) and Public Service Company of New Mexico  
12 (“PNM”). This responsibility includes preparation of revenue requirement analyses  
13 and supporting testimony for regulatory filings. I am also responsible for regulatory  
14 matters, including filings, stakeholder outreach, and case management for PNM in  
15 New Mexico.

16 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

17 A. I am testifying on behalf of TNMP.

18 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
19 **PROFESSIONAL EXPERIENCE.**

20 A. My educational background and professional experience are summarized in  
21 Exhibit KTS-1, which includes a list of cases in which I have testified before the  
22 Public Utility Commission of Texas (“Commission”), New Mexico Public Regulation  
23 Commission, and the Federal Energy Regulatory Commission (“FERC”).

24 **Q. HAVE YOU PREPARED ANY EXHIBITS?**

25 A. Yes. I am sponsoring Exhibits KTS-1 through KTS-3, which are attached to my  
26 testimony. These exhibits were prepared under my direction and control. The  
27 information contained in these exhibits is true and correct to the best of my  
28 knowledge and belief.

29 **II. PURPOSE OF TESTIMONY**

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

31 A. The purpose of my testimony is to:

- 1           • Support TNMP’s Rate Filing Package (“RFP”) by verifying that the Test Year  
2           (defined below) cost data is taken from TNMP’s books and records,  
3           including TNMP’s reviewed and audited financial statements;  
4           • Develop the overall revenue requirement; and  
5           • Describe the reasonableness and necessity of the affiliate transactions as  
6           they relate to the Cost of Service function.

7 **Q. PLEASE DESCRIBE THE SCHEDULES THAT YOU SPONSOR OR CO-**  
8 **SPONSOR.**

- 9 A. I co-sponsor Schedule V-K to the extent it addresses the PNMR Services affiliate  
10 costs I support in my testimony. I sponsor or co-sponsor certain components of  
11 the RFP, including:

**SECTION I: SUMMARY**

I-A-1: Summary of Texas Retail

I-A: Cost of Service Summary

I-A-2 Adjustments to Test Year

**Schedule B: Rate Base**

II-B: Summary of Rate Base

II-B-1: Rate Base Accounts – Plant

II-B-2: Rate Base Accounts - General Plant

II-B-3: Rate Base Accounts - Communication Equip.

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II-B-5: Rate Base Accounts Depreciation – Plant

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II-B-7: Rate Base Accounts – Accum. Provisions

II-B-8: Rate Base Acc. - Materials & Supplies

II-B-9: Rate Base Accounts - Cash Working Capital

II-B-10: Rate Base Accounts - Prepayments

II-B-11: Rate Base Accounts – Other

II-B-12: Rate Base Accounts - Regulatory Assets

II-B-13: Gain or Loss on Sale of Utility Assets

II-B-14: Funded/(Unfunded) Pension and other Post-Employment  
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II-B-15A: Allowance for Funds Used During Construction (AFUDC)

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**Schedule D: Operation & Maintenance Expenses**

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II-D-1.1: Monthly O&M Expense

II-D-2: Administrative and General Expense

II-D-2.1: Monthly A&G Expense

II-D-2.2: Bad Debt Expense (part 1)

- II-D-2.2: Bad Debt Expense (part 2)
- II-D-2.3: Summary of Advertising, Contributions, & Dues
- II-D-2.4: Summary of Advertising Expense
- II-D-2.4a: Capitalized Advertising
- II-D-2.5: Summary of Contribution & Donation Expense
- II-D-2.6: Summary of Membership Dues Expense
- II-D-2.6a: Summary of Industry Organization Dues
- II-D-2.6b: Summary of Business/Economic Dues
- II-D-2.6c: Summary of Professional Dues
- II-D-2.7: Outside Services Employed – FERC 900 Series Expenses
- II-D-2.8: Factoring or Sale of Accounts Receivable Expense
- II-D-2.9: Rents and Leases
- II-D-3: Payroll Expenses
  - II-D-3.1: Payroll Information
  - II-D-3.2: Regular and Overtime Payroll by Function
  - II-D-3.3: Functionalized Regular Payroll by Category
  - II-D-3.4: Payroll Capitalized vs. Expensed by Function
  - II-D-3.5: Number of Employees
  - II-D-3.6: Compensation Other Than Standard Compensation by Function
  - II-D-3.7: General Employee Benefit Information
  - II-D-3.8: Pension Expense
  - II-D-3.9: Postretirement Benefits Other Than Pension
  - II-D-3.10: Administration Fees
- II-D-4: Summary of Exclusions from Reporting Period

**Schedule E: Other Items**

- II-E-1: Depreciation and Amortization Expense
- II-E-2: Taxes Other Than Federal Income Taxes
  - II-E-2.1: Ad Valorem Taxes and Plant Balances
- II-E-4: Other Expenses
  - II-E-4.1: Deferred Expenses from Prior Dockets
  - II-E-4.2: Below the Line Expenses
  - II-E-4.3: Nonrecurring or Extraordinary Expenses
  - II-E-4.4: Regulatory Commission Expenses
- II-E-5: Other Revenue Items (credit)

**Schedule F: Functionalization Factor**

- II-F: Functional Allocation Factors - Data

**SECTION III: Base Line Revenue Requirements for TCOS**

- III-A-1: Summary of Wholesale TCOS
- III-B: Rate Base by Function
- III-C: Rate of Return
- III-D-1: O&M Expenses
- III-D-2: A&G Expenses
- III-D-3: Payroll Expenses
- III-D-4: Summary of Exclusions
- III-E-1: Depreciation Expense

III-E-2: Taxes Other Than Income Taxes  
III-E-3: Federal Income Taxes  
III-E-4: Other Expenses  
III-E-5: Revenue Credits

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IV-J-DCRF-B: Rate Base by Function  
IV-J-DCRF-C: Rate of Return  
IV-J-DCRF-D-1: O&M Expenses  
IV-J-DCRF-D-2: A&G Expenses  
IV-J-DCRF-D-3: Payroll Expenses  
IV-J-DCRF-D-4: Summary of Exclusions  
IV-J-DCRF-E-1: Depreciation Expense  
IV-J-DCRF-E-2: Taxes Other Than Income Taxes  
IV-J-DCRF-E-3: Federal Income Taxes  
IV-J-DCRF-E-4: Other Expenses  
IV-J-DCRF-E-5: Revenue Credits

1 **III. TNMP REVENUE REQUIREMENT**

2 **Q. PLEASE DESCRIBE THE PROCESS THAT WAS USED TO DEVELOP THE**  
3 **RFP SCHEDULES THAT ARE DESCRIBED BELOW.**

4 A. The RFP schedules were developed from the books and records of TNMP. I have  
5 included a reconciliation summary of amounts included in the RFP schedules to  
6 TNMP’s audited 2024 10-K and TNMP’s June 30, 2025 10-Q. Please see Exhibit  
7 KTS-2.

8 **Q. WHAT HISTORIC PERIOD IS THE COMPANY’S COST OF SERVICE BASED**  
9 **ON?**

10 A. TNMP’s RFP is based on the twelve month period ending June 30, 2025 (the “Test  
11 Year”).

12 **Q. DID TNMP MAKE ADJUSTMENTS TO THE COMPANY’S BOOKS AND**  
13 **RECORDS TO DEVELOP THE TEST YEAR REVENUE REQUIREMENT?**

14 A. Yes. Proforma adjustments were made to the Company’s books and records for  
15 known and measurable changes in development of the Test Year revenue  
16 requirement. Additionally, certain adjustments were made for operational  
17 programs that are supported by other witnesses in this case. All adjustments to  
18 the Test Year requirement are identified in Exhibit KTS-3 and discussed in the  
19 applicable sections of my testimony below.

20 **Q. WHAT IS THE TEST YEAR REVENUE REQUIREMENT FOR TNMP IN THIS**  
21 **PROCEEDING?**

1 A. The total Test Year revenue requirement for TNMP after adjustments is \$706.5  
 2 million. That revenue requirement includes \$191.9 million for the Transmission  
 3 function and will be used to set the Transmission Cost of Service (“TCOS”) rates.  
 4 For Texas Retail (“TX-Retail”) functions, the revenue requirement is \$514.7 million.  
 5 I will further discuss the components of the Test Year revenue requirement in my  
 6 testimony below.

7 **TRANSMISSION REVENUE REQUIREMENT**

8 **Q. HOW DOES THE TRANSMISSION REVENUE REQUIREMENT REQUEST IN**  
 9 **THIS PROCEEDING COMPARE TO AMOUNTS CURRENTLY COLLECTED**  
 10 **THROUGH TNMP’S TCOS RATES?**

11 A. The revenue requirement in this proceeding reflects an increase of approximately  
 12 \$4.5 million. Please see Table 1 for a comparison of the revenue requirement  
 13 between this proceeding and TNMP’s current TCOS rates as set in Docket No.  
 14 58443.<sup>1</sup>

15 **Table 1 – TNMP’s TCOS Summary**

| Description                               | Reference Schedule | Total Transmission 2025 Rate Case | Total Transmission 6/30 TCOS | Total Transmission Variance |
|---|--------------------|-----------------------------------|------------------------------|-----------------------------|
| Operating and Maintenance Expenses        | II-D-2             | 9,801,525                         | 7,064,252                    | 2,737,273                   |
| Depreciation & Amortization Expenses      | II-E-1             | 58,713,539                        | 56,125,599                   | 2,587,940                   |
| Taxes Other Than Federal Income Tax       | II-E-2             | 15,727,569                        | 14,234,500                   | 1,493,068                   |
| Federal Income Tax                        | II-E-3             | 15,991,999                        | 10,101,725                   | 5,890,274                   |
| Return on Rate Base                       | II-B               | 97,808,992                        | 99,796,325                   | (1,987,334)                 |
| <b>TOTAL COST OF SERVICE</b>              |                    | <b>198,043,624</b>                | <b>187,322,402</b>           | <b>10,721,222</b>           |
| Decommissioning Expense                   |                    | -                                 | -                            | -                           |
| Other Non-Bypassable Charges              | II-E-4             | 481,959                           | 280,227                      | 201,732                     |
| Minus: Other Revenues                     | II-E-5             | (6,661,295)                       | (266,633)                    | (6,394,661)                 |
| <b>TOTAL ADJUSTED REVENUE REQUIREMENT</b> |                    | <b>191,864,288</b>                | <b>187,335,996</b>           | <b>4,528,293</b>            |

<sup>1</sup> Application Of Texas- New Mexico Power Company For Interim Update Of Wholesale Transmission Rates, Docket No. 58443, Final Order (Sept. 19, 2025).

1 **Q. PLEASE SUMMARIZE THE KEY DRIVERS FOR THE INCREASE IN TNMP'S**  
2 **TRANSMISSION REVENUE REQUIREMENT.**

3 A. TNMP's Transmission revenue requirement increase is driven by the following key  
4 elements:

- 5 1. Changes to the Weighted Average Cost of Capital ("WACC") increased  
6 the transmission revenue requirement by \$1.9 million.
  - 7 a. Requested ROE of 10.4%, compared to the currently authorized  
8 9.65%, results in an increase of \$5.6 million to transmission.
  - 9 b. Changes in the cost of debt, moving from an imbedded cost of  
10 debt of 6.45% to 5.60%, results in a decrease of \$5.5 million to  
11 transmission.
  - 12 c. Changes to the weight between equity and debt, moving to  
13 TNMP's actual capital structure of to 47.54% equity from the  
14 currently authorized 45% equity, results in an increase of \$1.8  
15 million to transmission.
- 16 2. Increases in operating expenses of \$2.7 million.
- 17 3. Changes to the amortization of Excess Accumulated Deferred Federal  
18 Income Taxes ("ADFIT") increased the transmission revenue  
19 requirement by \$3.9 million.
- 20 4. Inclusion of the credit for merger related debt transactions decreased  
21 the transmission revenue requirement by \$6.3 million.
- 22 5. Other impacts such as changes to core rate base for General and  
23 Intangible accounts not updated in TCOS filings, updates to taxes other  
24 than income tax ("TOTI"), and the requested depreciation rate change  
25 increased the revenue requirement by approximately \$2.3 million.

26 **TX-RETAIL REVENUE REQUIREMENT**

27 **Q. HOW DOES THE TX-RETAIL REVENUE REQUIREMENT REQUEST**  
28 **COMPARE TO AMOUNTS CURRENTLY COLLECTED THROUGH TNMP'S**  
29 **BASE RATES AND DISTRIBUTION COST RECOVERY FACTOR ("DCRF")?**

30 A. The revenue requirement in this proceeding reflects an increase of approximately  
31 \$137.2 million. Please see Table 2 below for a comparison of the revenue

1 requirement between this proceeding and TNMP’s current DCRF rates as set in  
 2 Docket No. 57816. However, \$85.3 million of this increase is related to increased  
 3 transmission wheeling expense collected through TNMP’s Transmission Cost  
 4 Recovery Factor (“TCRF”) and currently included in customers’ rates. After  
 5 normalizing for the TCRF component of the increase, the net increase is \$51.9  
 6 million.

7 **Table 2 – TNMP’s TX-Retail Cost of Service Summary**

| Description                               | Reference Schedule | Total TX-Retail 2025 Rate Case | Total TX-Retail 12/31/24 DCRF | Total Retail Variance |
|---|--------------------|--------------------------------|-------------------------------|-----------------------|
| Operating and Maintenance Expenses        | II-D-2             | 255,318,560                    | 139,066,128                   | 116,252,433           |
| Depreciation & Amortization Expenses      | II-E-1             | 87,661,007                     | 88,292,891                    | (631,885)             |
| Taxes Other Than Federal Income Tax       | II-E-2             | 37,778,210                     | 32,307,237                    | 5,470,973             |
| Federal Income Tax                        | II-E-3             | 19,947,468                     | 10,617,886                    | 9,329,583             |
| Return on Rate Base                       | II-B               | 121,914,323                    | 102,488,140                   | 19,426,183            |
| <b>TOTAL COST OF SERVICE</b>              |                    | <b>522,619,569</b>             | <b>372,772,281</b>            | <b>149,847,287</b>    |
| Decommissioning Expense                   |                    | -                              | -                             | -                     |
| Other Non-Bypassable Charges              | II-E-4             | 4,408,608                      | 8,011,155                     | (3,602,547)           |
| Minus: Other Revenues                     | II-E-5             | (12,349,726)                   | (3,338,927)                   | (9,010,799)           |
| <b>TOTAL ADJUSTED REVENUE REQUIREMENT</b> |                    | <b>514,678,451</b>             | <b>377,444,510</b>            | <b>137,233,941</b>    |

8  
 9 **Q. PLEASE SUMMARIZE THE KEY DRIVERS FOR THE INCREASE IN TNMP’S**  
 10 **TX-RETAIL REVENUE REQUIREMENT.**

11 **A.** TNMP’s TX-Retail revenue requirement increase is driven by the following key  
 12 elements:

- 13 1. Changes to the WACC increased the transmission revenue requirement  
 14 by \$14.7 million.
  - 15 a. Requested ROE of 10.4%, compared to the 10% used under the  
 16 alternative WACC methodology in DCRF filings, results in an  
 17 increase of \$3.7 million to TX-Retail.

- 1                   b. Changes in the cost of debt, moving from an imbedded cost of  
2                   debt of 4.628% to 5.60%, results in an increase of \$7.8 million to  
3                   TX-Retail.
- 4                   c. Changes to the weight between equity and debt, moving to  
5                   47.54% equity from the currently authorized 45% equity, results  
6                   in an increase of \$3.1 million to TX-Retail.
- 7                   2. Core rate base additions between December 31, 2024, and the end of  
8                   the Test Year, increased the revenue requirement by \$16.4 million.
- 9                   3. Increases in operating expenses of \$30.9 million, including the  
10                  requested higher level of costs for vegetation management, increased  
11                  payroll costs, and higher costs for insurance premiums.
- 12                  4. Changes to the amortization of Excess ADFIT increased the TX-Retail  
13                  revenue requirement by \$5.0 million.
- 14                  5. The requested change to depreciation rates results in a decrease of \$6.5  
15                  million to the TX-Retail revenue requirement.
- 16                  6. Inclusion of the credit for merger related debt transactions decreased  
17                  the TX-Retail revenue requirement by \$7.9 million.
- 18                  7. Other small impacts, such as changes to amortizations on regulatory  
19                  assets and TOTI, result in a net decrease of \$0.7 million to the revenue  
20                  requirement.

21                                   **RFP SCHEDULE A: COST OF SERVICE**

- 22   **Q. PLEASE SUMMARIZE TNMP'S REVENUE REQUIREMENT REQUEST IN THIS**  
23   **PROCEEDING.**
- 24   A. Table 3, which also appears in Schedule A, summarizes TNMP's request in this  
25   proceeding:

1

**Table 3 – TNMP’s Cost of Service Summary**

| Description                               | Reference Schedule | Test Year Total Electric | Company Adjustments | Company Total Request | Transmission Function (TRAN) | Total TX-Retail    |
|---|--------------------|--------------------------|---------------------|-----------------------|------------------------------|--------------------|
| Operating and Maintenance Expenses        | II-D-2             | 249,226,949              | 15,893,137          | 265,120,086           | 9,801,525                    | 255,318,560        |
| Depreciation & Amortization Expenses      | II-E-1             | 134,909,647              | 11,464,898          | 146,374,545           | 58,713,539                   | 87,661,007         |
| Taxes Other Than Federal Income Tax       | II-E-2             | 52,858,327               | 647,452             | 53,505,779            | 15,727,569                   | 37,778,210         |
| Federal Income Tax                        | II-E-3             | 39,853,989               | (3,914,521)         | 35,939,467            | 15,991,999                   | 19,947,468         |
| Return on Rate Base                       | II-B               | 243,083,832              | (23,360,517)        | 219,723,315           | 97,808,992                   | 121,914,323        |
| <b>TOTAL COST OF SERVICE</b>              |                    | <b>719,932,744</b>       | <b>730,448</b>      | <b>720,663,192</b>    | <b>198,043,624</b>           | <b>522,619,569</b> |
| Decommissioning Expense                   |                    | -                        | -                   | -                     | -                            | -                  |
| Other Non-Bypassable Charges              | II-E-4             | 611,779                  | 4,278,788           | 4,890,568             | 481,959                      | 4,408,608          |
| Minus: Other Revenues                     | II-E-5             | (172,486,507)            | 153,475,486         | (19,011,021)          | (6,661,295)                  | (12,349,726)       |
| <b>TOTAL ADJUSTED REVENUE REQUIREMENT</b> |                    | <b>548,058,016</b>       | <b>158,484,723</b>  | <b>706,542,739</b>    | <b>191,864,288</b>           | <b>514,678,451</b> |

2

3

**RFP SCHEDULE B: RATE BASE**

4

**Q. PLEASE DEFINE RATE BASE AND THE COSTS THAT HAVE BEEN INCLUDED IN THE COMPANY’S FILING.**

5

6

A. As described in 16 Tex. Admin. Code (“TAC”) § 25.231(c)(2), a utility’s “rate base, sometimes referred to as invested capital, includes as a major component the original cost of plant, property, and equipment, less accumulated depreciation, used and useful in rendering service to the public.” This component of rate base is referred to as “Net Plant in Service” in the RFP.

7

8

9

10

11

**Q. WHAT COMPONENTS DOES TNMP INCLUDE IN ITS RATE BASE?**

12

A. The following components are included in TNMP’s rate base:

13

- Original Cost of Plant (Intangible, transmission and distribution plant);

14

- General Plant;

15

- Communication Equipment;

16

- Accumulated Depreciation;

17

- Construction Work-in-Progress and Retirement Work-in-Progress;

18

- Plant Held for Future Use;

19

- Accumulated Deferred Income Taxes;

20

- Accumulated Provisions;

21

- Materials and Supplies;

22

- Cash Working Capital;

1                   • Prepayments;  
 2                   • Regulatory Assets and Liabilities (Rate Base Other); and,  
 3 Table 4, which also appears in Schedule B, summarizes TNMP’s rate base in this  
 4 proceeding.

5 **Table 4 – TNMP’s Rate Base Summary**

| Description                     | Reference Schedule | Test Year Total Electric | Company Adjustments  | Company Total Request | TRAN                 | Total TX-Retail      |
|---------------------------------|--------------------|--------------------------|----------------------|-----------------------|----------------------|----------------------|
| Original Cost of Plant          | II-B-1             | 3,682,402,200            | -                    | 3,682,402,200         | 1,570,634,163        | 2,111,768,037        |
| General Plant                   | II-B-2             | 112,254,400              | 77,231,078           | 189,485,477           | 55,545,879           | 133,939,598          |
| Communication Equipment         | II-B-3             | 2,134,844                | 1,811,964            | 3,946,808             | 1,825,446            | 2,121,362            |
| <b>Total Plant</b>              |                    | <b>3,796,791,444</b>     | <b>79,043,041</b>    | <b>3,875,834,485</b>  | <b>1,628,005,488</b> | <b>2,247,828,997</b> |
| Minus: Accumulated Depreciation | II-B-5             | (825,147,515)            | (42,280,087)         | (867,427,602)         | (261,905,337)        | (605,522,265)        |
| Net Plant In Service            |                    | <b>2,971,643,929</b>     | <b>36,762,954</b>    | <b>3,008,406,883</b>  | <b>1,366,100,151</b> | <b>1,642,306,732</b> |
| <b>Other Rate Base Items:</b>   |                    |                          |                      |                       |                      |                      |
| CWIP and RWIP                   | II-B-4             | 275,075,528              | (261,776,196)        | 13,299,332            | 319,292              | 12,980,040           |
| Plant Held for Future Use       | II-B-6             | 14,798                   | (14,798)             | -                     | -                    | -                    |
| Accumulated Provisions and ADIT | II-B-7             | (226,479,411)            | (17,002,292)         | (243,481,703)         | (110,535,685)        | (132,946,018)        |
| Materials & Supplies            | II-B-8             | 28,289,643               | (3,560,824)          | 24,728,819            | 11,229,214           | 13,499,605           |
| Cash Working Capital            | II-B-9             | -                        | (3,346,416)          | (3,346,416)           | (1,939,782)          | (1,406,634)          |
| Prepayments                     | II-B-10            | 10,207,382               | (4,882,016)          | 5,325,365             | 2,418,218            | 2,907,148            |
| Rate Base - Other               | II-B-11            | (82,405,308)             | (0)                  | (82,405,308)          | (37,419,773)         | (44,985,534)         |
| Regulatory Assets               | II-B-12            | 108,122,132              | (42,599,893)         | 65,522,239            | 10,917,792           | 54,604,448           |
| <b>Subtotal</b>                 |                    | <b>112,824,764</b>       | <b>(333,182,435)</b> | <b>(220,357,671)</b>  | <b>(125,010,725)</b> | <b>(95,346,946)</b>  |
| <b>TOTAL RATE BASE</b>          |                    | <b>3,084,468,694</b>     | <b>(296,419,481)</b> | <b>2,788,049,213</b>  | <b>1,241,089,426</b> | <b>1,546,959,787</b> |

6  
 7 **Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO THE BASE LEVEL**  
 8 **OF ORIGINAL COST OF PLANT, IDENTIFIED IN THE RFP UNDER THE**  
 9 **COLUMN “COMPANY ADJUSTMENTS”?**

10 A. No. TNMP did not identify any adjustments needed to the Original Cost of Plant.

11 **Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO THE BASE LEVEL**  
 12 **OF GENERAL PLANT, IDENTIFIED IN THE RFP UNDER THE COLUMN**  
 13 **“COMPANY ADJUSTMENTS”?**

14 A. Yes. Many corporate services are provided to TNMP by PNMR Services. PNMR  
 15 Services’ employees reside in both New Mexico and Texas. TNMP has included  
 16 in rate base its allocated share of the General Plant used by PNMR Services  
 17 employees and TNMP employees. This includes computer systems and software  
 18 that are used by TNMP. As shown on WP/II-B-2, column 2, line 25, the total  
 19 allocated plant is \$79.4 million. Additionally, TNMP has removed all non-utility  
 20 plant property in the amount of \$2.1 million, as shown on WP/II-B-2, column 3, line  
 21 25.

1 **Q. IS THE ALLOCATED SHARE OF THE GENERAL PLANT USED BY PNMR**  
2 **SERVICES AND TNMP EMPLOYEES AT A HIGHER PRICE TO TNMP THAN**  
3 **OTHER AFFILIATES?**

4 A. No.

5 **Q. IS THE ALLOCATED SHARE OF THE GENERAL PLANT USED BY PNMR**  
6 **SERVICES AND TNMP EMPLOYEES REASONABLE AND NECESSARY?**

7 A. Yes, the share of General Plant used by PNMR services and TNMP employees is  
8 reasonable and necessary for the reliable operation of those business units. These  
9 investments provide the necessary back-off computer systems that are critical to  
10 the operations of a company, such as accounting systems, procurement  
11 management systems, disaster recovery, and cyber security functions.

12 **Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO THE BASE LEVEL**  
13 **OF COMMUNICATION PLANT, IDENTIFIED IN THE RFP UNDER THE**  
14 **COLUMN “COMPANY ADJUSTMENTS”?**

15 A. Yes. As mentioned above, TNMP has included in rate base its allocated share of  
16 Communication Plant used by PNMR Services employees. As shown on Schedule  
17 “II-B-3 Comm. Equip.” column 3, line 2, the total allocated plant is \$1.8 million.

18 **Q. WHAT WAS THE UNADJUSTED LEVEL OF ACCUMULATED DEPRECIATION**  
19 **AS OF JUNE 30, 2025, IDENTIFIED IN THE RFP UNDER THE COLUMN “TEST**  
20 **YEAR TOTAL ELECTRIC”?**

21 A. The unadjusted Accumulated Depreciation is \$825.1 million as of June 30, 2025,  
22 as shown above in Table 4. This amount reflects the total accumulated  
23 depreciation including the impacts of the depreciation rates that became effective  
24 January 2018, under the settlement that was approved in Docket No. 48401.

25 **Q. HAS THE COMPANY INCLUDED IN THE RESERVE FOR ACCUMULATED**  
26 **DEPRECIATION AN AMOUNT UNDER THE COLUMN “COMPANY**  
27 **ADJUSTMENT”?**

28 A. Yes. The reserve for Accumulated Depreciation has been adjusted by \$42.3  
29 million as shown above in Table 4. This adjustment reflects the allocated portion  
30 of PNMR Services’ intangible, general, and communications plant accumulated  
31 depreciation.

1 **Q. HAS THE COMPANY INCLUDED ALL CONSTRUCTION WORK-IN-**  
2 **PROGRESS (“CWIP”) AND RETIREMENT WORK-IN-PROGRESS (“RWIP”) IN**  
3 **RATE BASE?**

4 A. No. The Company is proposing to include only the portion of CWIP and RWIP  
5 associated with projects that have been completed and are in service, but for which  
6 the costs have not yet been unitized and transferred to plant in service. The  
7 amount of CWIP and RWIP included in rate base is \$13.3 million out of the total of  
8 \$275.1 million, as shown above in Table 4.

9 To determine if CWIP or RWIP is included in rate base, I analyzed Accounts 107  
10 and 108, found on Schedule “WP/II-B-4,” to determine if the plant or net cost of  
11 removal was either completed or in-service prior to June 30, 2025.

12 **Q. IS THE COMPANY PROPOSING TO INCLUDE ANY PLANT HELD FOR**  
13 **FUTURE USE IN RATE BASE?**

14 A. No. The unadjusted level of Plant Held for Future Use as of June 30, 2025,  
15 identified in the RFP under the column “test year total electric” is \$14.8 thousand.  
16 The Company is not requesting inclusion of any of the amount of Plant Held for  
17 Future Use in this proceeding.

18 **Q. WHAT WAS THE UNADJUSTED LEVEL OF ACCUMULATED PROVISIONS**  
19 **AND ACCUMULATED DEFERRED FEDERAL INCOME TAXES AS OF JUNE**  
20 **30, 2025, IDENTIFIED IN THE RFP UNDER THE COLUMN “TEST YEAR TOTAL**  
21 **ELECTRIC?**

22 A. The unadjusted level of Accumulated Provisions and ADFIT is \$226.5 million as of  
23 June 30, 2025.

24 **Q. IS THE COMPANY PROPOSING ANY ADJUSTMENTS TO THE BASE LEVEL**  
25 **OF ACCUMULATED PROVISIONS AND ADFIT, IDENTIFIED IN THE RFP**  
26 **UNDER THE COLUMN “COMPANY ADJUSTMENTS”?**

27 A. Yes. The unadjusted amounts and the adjustments to ADFIT are supported by  
28 TNMP witness Larry Morris.

29 **Q. HAS THE COMPANY INCLUDED A CASH WORKING CAPITAL**  
30 **REQUIREMENT IN RATE BASE?**

1 A. Yes. To reflect the timing differences between the receipts of revenues and the  
2 remittance of payments made for goods and services rendered, a lead-lag study  
3 was performed by Expergy, and sponsored by TNMP witness Jay Joyce. The  
4 negative cash working capital requirement of \$3.3 million on Schedule "II-B-9  
5 CWCcapital," column 3, line 3, has been included in Rate Base.

6 **Q. HOW DID YOU DETERMINE THE APPROPRIATE LEVEL OF MATERIALS AND  
7 SUPPLIES TO INCLUDE IN THE ADJUSTED RATE BASE?**

8 A. I calculated the thirteen-month average of actual month end balances from the  
9 period June 2024 through June 2025. The thirteen-month average calculation  
10 during this period is \$24.7 million, found on Schedule "II-B-8 M&S," column 4, line  
11 8, and was included in rate base associated with Materials and Supplies.

12 **Q. HOW WAS THE APPROPRIATE LEVEL OF PREPAYMENTS TO INCLUDE IN  
13 THE ADJUSTED RATE BASE DETERMINED?**

14 A. I calculated the thirteen-month average of actual month end balances from the  
15 period June 2024 through June 2025. The thirteen-month average calculation  
16 during this period is \$5.3 million, found on Schedule "II-B-10 Prepayments,"  
17 column 4, line 8, and was included in rate base associated with Prepayments.

18 **Q. PLEASE DISCUSS THE ADJUSTMENTS INCLUDED IN SCHEDULE II-B-12  
19 REG. ASSETS.**

20 A. TNMP has several regulatory assets that needed to be adjusted:

- 21 1. Catastrophe Reserve under collection was reduced by an adjustment of  
22 \$3.2 million to reflect the amortization to achieve the needed reserve  
23 accrual.
- 24 2. Pension Regulatory Asset was adjusted to reflect the cost benefit  
25 analysis performed in Schedule WP II-B-12 2.
- 26 3. Adjustment to the Interim AMS Recovery Regulatory asset to reflect the  
27 allowable carrying charges and associated income taxes.
- 28 4. Removal of accounting carrying charges on the interim AMS regulatory  
29 asset.
- 30 5. Inclusion of the known change to the Excess ADFIT regulatory asset for  
31 activity incurred through September 2025.

6. Removal of regulatory assets for which TNMP is not seeking recovery in this proceeding, including the System Resiliency Program Costs, Hurricane Beryl Costs, deferred costs under House Bill 5247, and Unamortized Loss on Reacquired Debt.

**Q. WHAT IS THE RESULTING LEVEL OF RATE BASE AFTER ALL PRO FORMA ADJUSTMENTS?**

A. The requested level of rate base is \$2.8 billion as shown above in Table 4. Please see Table 5 and Table 6 below for a summary of changes to rate base compared to what is currently included in customer rates.

**TABLE 5 – TNMP’S TRANSMISSION RATE BASE CHANGES**

| Description                     | Reference Schedule | Total Transmission 2025 Rate Case | Total Transmission 6/30 TCOS | Total Transmission Variance |
|---------------------------------|--------------------|-----------------------------------|------------------------------|-----------------------------|
| Original Cost of Plant          | II-B-1             | 1,570,634,163                     | 1,583,214,128                | (12,579,964)                |
| General Plant                   | II-B-2             | 55,545,879                        | 13,985,191                   | 41,560,689                  |
| Communication Equipment         | II-B-3             | 1,825,446                         | -                            | 1,825,446                   |
| <b>Total Plant</b>              |                    | <b>1,628,005,488</b>              | <b>1,597,199,318</b>         | <b>30,806,170</b>           |
| Minus: Accumulated Depreciation | II-B-5             | (261,905,337)                     | (241,356,031)                | (20,549,307)                |
| Net Plant In Service            |                    | <b>1,366,100,151</b>              | <b>1,355,843,287</b>         | <b>10,256,864</b>           |
| <b>Other Rate Base Items:</b>   |                    |                                   |                              |                             |
| CWIP and RWIP                   | II-B-4             | 319,292                           | 272,256                      | 47,036                      |
| Plant Held for Future Use       | II-B-6             | -                                 | -                            | -                           |
| Accumulated Provisions and ADIT | II-B-7             | (110,535,685)                     | (52,372,577)                 | (58,163,108)                |
| Materials & Supplies            | II-B-8             | 11,229,214                        | 1,911,903                    | 9,317,310                   |
| Cash Working Capital            | II-B-9             | (1,939,782)                       | (1,008,576)                  | (931,206)                   |
| Prepayments                     | II-B-10            | 2,418,218                         | 417,649                      | 2,000,569                   |
| Rate Base - Other               | II-B-11            | (37,419,773)                      | (50,966,863)                 | 13,547,090                  |
| Regulatory Assets               | II-B-12            | 10,917,792                        | 10,747,944                   | 169,848                     |
| <b>Subtotal</b>                 |                    | <b>(125,010,725)</b>              | <b>(90,998,265)</b>          | <b>(34,012,460)</b>         |
| <b>TOTAL RATE BASE</b>          |                    | <b>1,241,089,426</b>              | <b>1,264,845,023</b>         | <b>(23,755,597)</b>         |

1

**TABLE 6 – TNMP’S TX-RETAIL RATE BASE CHANGES**

| Description                     | Reference Schedule | Total Retail<br>2025 Rate Case | Total Retail<br>12/31/24 DCRF | Total Retail<br>Variance |
|---------------------------------|--------------------|--------------------------------|-------------------------------|--------------------------|
| Original Cost of Plant          | II-B-1             | 2,111,768,037                  | 2,125,863,845                 | (14,095,808)             |
| General Plant                   | II-B-2             | 133,939,598                    | -                             | 133,939,598              |
| Communication Equipment         | II-B-3             | 2,121,362                      | -                             | 2,121,362                |
| <b>Total Plant</b>              |                    | <b>2,247,828,997</b>           | <b>2,125,863,845</b>          | <b>121,965,152</b>       |
| Minus: Accumulated Depreciation | II-B-5             | (605,522,265)                  | (558,521,892)                 | (47,000,373)             |
| Net Plant In Service            |                    | <b>1,642,306,732</b>           | <b>1,567,341,953</b>          | <b>74,964,779</b>        |
| <b>Other Rate Base Items:</b>   |                    |                                |                               |                          |
| CWIP and RWIP                   | II-B-4             | 12,980,040                     | 1,622,112                     | 11,357,928               |
| Plant Held for Future Use       | II-B-6             | -                              | -                             | -                        |
| Accumulated Provisions and ADIT | II-B-7             | (132,946,018)                  | (85,180,154)                  | (47,765,864)             |
| Materials & Supplies            | II-B-8             | 13,499,605                     | (620,439)                     | 14,120,045               |
| Cash Working Capital            | II-B-9             | (1,406,634)                    | (2,235,050)                   | 828,415                  |
| Prepayments                     | II-B-10            | 2,907,148                      | 2,941,657                     | (34,509)                 |
| Rate Base - Other               | II-B-11            | (44,985,534)                   | (78,238,346)                  | 33,252,811               |
| Regulatory Assets               | II-B-12            | 54,604,448                     | 49,078,175                    | 5,526,273                |
| <b>Subtotal</b>                 |                    | <b>(95,346,946)</b>            | <b>(112,632,044)</b>          | <b>17,285,099</b>        |
| <b>TOTAL RATE BASE</b>          |                    | <b>1,546,959,787</b>           | <b>1,454,709,909</b>          | <b>92,249,877</b>        |

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3

**RFP SCHEDULE D: OPERATIONS AND MAINTENANCE (“O&M”) AND  
ADMINISTRATIVE AND GENERAL (“A&G”)**

4

5 **Q. WHAT WAS THE UNADJUSTED LEVEL OF O&M EXPENSES DURING THE**  
6 **TEST YEAR?**

7 A. TNMP’s unadjusted level of O&M expenses total \$198.1 million, as shown on  
8 Schedule II-D-1 O&M, column 1, line 101.

9 **Q. IS TNMP PROPOSING ANY ADJUSTMENTS TO THE TEST YEAR LEVEL OF**  
10 **O&M EXPENSES?**

11 A. Yes. TNMP is proposing an adjustment of \$34.3 million to the Test Year balance.

12 **Q. CAN YOU SUMMARIZE THE O&M ADJUSTMENTS AND IDENTIFY THE**  
13 **APPROPRIATE SPONSORS?**

1 A. Yes. Please see Exhibit KTS-3 for a full listing of adjustments including workpaper  
2 references and the applicable supporting witnesses.

3 **Q. PLEASE DESCRIBE THE EMPLOYEE MEAL ADJUSTMENT FOR WHICH YOU**  
4 **ARE THE SPONSORING WITNESS.**

5 A. TNMP has removed the costs of meals over \$25.00 per person associated with  
6 TNMP employee meals.

7 **Q. PLEASE DESCRIBE THE MISCELLANEOUS FEES ADJUSTMENT FOR**  
8 **WHICH YOU ARE THE SPONSORING WITNESS.**

9 A. TNMP has removed certain employee expenses and travel agent fees. TNMP  
10 utilizes Egencia travel agency for all company sponsored travel. TNMP has  
11 removed these travel agent fees and employee expenses that the Company is not  
12 seeking to recover.

13 **Q. PLEASE DESCRIBE THE TCOS ADJUSTMENT.**

14 A. TNMP is both a transmission and distribution provider. Therefore, as a distribution  
15 provider, TNMP is billed by the transmission providers, through the Electric  
16 Reliability Council of Texas ("ERCOT") wholesale transmission matrix. This  
17 adjustment is to update the current approved \$/KW fee for all the transmission  
18 providers as of June 30, 2025.

19 **Q. PLEASE DESCRIBE THE O&M PAYROLL ADJUSTMENT.**

20 A. The Company has annualized the payroll in the Test Year by utilizing the last pay  
21 period in the Test Year of June 15, 2025, and multiplying the pay period by 26 (the  
22 number of pay periods in a year), to determine the annualized Test Year payroll  
23 expenses. In addition, TNMP is including the payroll costs associated with new  
24 positions that are necessary to serve the TNMP's regions as described by TNMP  
25 witnesses Keith Nix and Chris Gerety. TNMP witness Becky Teague supports a  
26 market equity adjustment for certain TNMP employees. Finally, TNMP increased  
27 the annual payroll to account for the annual merit increase of 5% for union  
28 employees and 4% for non-union employees.

29 **Q. WHAT WAS THE UNADJUSTED LEVEL OF A&G EXPENSES DURING THE**  
30 **TEST YEAR?**

1 A. TNMP's unadjusted A&G expenses total \$51.1 million, as shown on Schedule II  
2 D-2 A&G, column 1, line 18.

3 **Q. IS TNMP PROPOSING ANY ADJUSTMENTS TO THE TEST YEAR LEVEL OF**  
4 **A&G EXPENSES?**

5 A. Yes. TNMP is proposing an adjustment that reduces the Test Period A&G  
6 expense by \$18.4 million.

7 **Q. CAN YOU SUMMARIZE THE A&G ADJUSTMENTS AND IDENTIFY THE**  
8 **APPROPRIATE SPONSORS?**

9 A. Yes. Please see Exhibit KTS-3 for a full listing of adjustments including workpaper  
10 references and the applicable supporting witnesses.

11 **Q. PLEASE DESCRIBE THE A&G PAYROLL ADJUSTMENT.**

12 A. The Company made the same adjustment for payroll recorded to A&G as  
13 described earlier for O&M. Additionally, TNMP is including the payroll costs  
14 associated with new positions as supported by TNMP witness Carter Cherry.

15 **Q. PLEASE DESCRIBE THE EMPLOYEE MEAL ADJUSTMENT ASSOCIATED**  
16 **WITH A&G EXPENSES FOR WHICH YOU ARE THE SPONSORING WITNESS.**

17 A. Similar to the adjustment made in O&M, TNMP has removed the costs of meals  
18 over \$25.00 per person associated with TNMP employee meals.

19 **Q. PLEASE DESCRIBE THE MISCELLANEOUS FEES ADJUSTMENT FOR**  
20 **WHICH YOU ARE THE SPONSORING WITNESS.**

21 A. Similar to the adjustment made in O&M, TNMP has removed travel agent fees and  
22 certain employee expenses that the Company is not seeking to recover.

23 **Q. PLEASE DESCRIBE THE SHARED SERVICE ADJUSTMENT.**

24 A. TNMP witness EJ Lopez is testifying regarding the shared service adjustment.

25 **Q. PLEASE DESCRIBE THE CATASTROPHE RESERVE ADJUSTMENT.**

26 A. TNMP has adjusted the amount of expense included in the Test Year associated  
27 with the Catastrophe Reserve. TNMP is seeking to increase the annual accrual  
28 associated with the catastrophe reserve and is also seeking recovery of previously  
29 incurred costs as described in more detail by TNMP witness Greg Wilson.

30 **Q. PLEASE DESCRIBE THE PENSION EXPENSE ADJUSTMENT.**

1 A. TNMP witness Brian Arnell describes a decrease to pension expense in the year  
2 following the Test Year. This adjustment reduces the expense in the Test Year to  
3 reflect the lower expense.

4 **Q. PLEASE DESCRIBE THE ENERGY EFFICIENCY ACCRUAL ADJUSTMENT.**

5 A. 16 TAC § 25.182(d) requires that all energy efficiency costs be recovered through  
6 an energy efficiency cost recovery factor, not base rates.

7 **Q. PLEASE DESCRIBE THE NON-STANDARD METERING ADJUSTMENT.**

8 A. In the test year, TNMP amortized costs for non-standard metering associated with  
9 customers who have chosen to opt-out of an AMS meter. These costs are  
10 recovered through opt-out fees charged to customers. TNMP eliminated this  
11 amortization expense recorded in the Test Year, see WP II-D-2 3.

12 **RFP SCHEDULE E: DEPRECIATION AND OTHER ITEMS**

13 **Q. WHAT PARTS OF SCHEDULE E WILL YOU BE DISCUSSING?**

14 A. This part of my testimony will cover TNMP's depreciation and amortization, TOTI,  
15 other expenses, and other revenues.

16 **Q. REFERENCING TNMP'S DEPRECIATION SCHEDULE, PLEASE DESCRIBE  
17 THE AMOUNTS UNDER THE 'TOTAL COMPANY.'**

18 A. As part of a unanimous settlement agreement in Docket No. 48401, TNMP  
19 implemented new depreciation rates on January 1, 2019. The "Total Company"  
20 depreciation expense of \$134.9 million as shown on Schedule "II-E-1 Dep Exp."  
21 Column 1, line 73, reflects the actual depreciation expense recorded during the  
22 Test Year using these approved rates on existing plant balances.

23 **Q. IS TNMP PROPOSING TO MAKE ANY CHANGES TO THE DEPRECIATION  
24 EXPENSE?**

25 A. Yes. TNMP witness Dane Watson has conducted a depreciation study for TNMP,  
26 using TNMP plant balances as of December 31, 2024. Using the depreciation  
27 rates supported by TNMP witness Dane Watson, and applying those depreciation  
28 rates to plant balances as of June 30, 2025, TNMP calculated the depreciation to  
29 be included in the Test Year. In addition, TNMP included the associated  
30 depreciation and amortization expense associated with assets on shared services  
31 that are utilized by TNMP. These costs were reclassified from A&G to depreciation

1 expense to ensure appropriate functionalization of these costs. See testimony of  
2 TNMP witness EJ Lopez for additional discussion. TNMP has an adjusted  
3 depreciation expense of \$146.4 million, as found in WP/ II-E-1, column 5, line 75.

4 **Q. PLEASE DESCRIBE THE UNADJUSTED TOTI EXPENSES INCLUDED IN THE**  
5 **RFP.**

6 A. TNMP has included an unadjusted amount of \$1.6 million for payroll taxes, an  
7 unadjusted amount of \$44.4 million for property related taxes, and an unadjusted  
8 amount of \$6.9 million for non-income related revenue taxes.

9 **Q. IS TNMP PROPOSING AN ADJUSTMENT TO PAYROLL TAXES?**

10 A. Yes, however, the adjustment is driven by the adjustment to O&M and A&G  
11 expense that annualized payroll dollars, increased headcount, and addressed the  
12 recent salary increases described above. The adjustment for payroll taxes is \$0.6  
13 million and the details that support the adjustment can be found on WP/II-E-2 6.

14 **Q. IS TNMP PROPOSING AN ADJUSTMENT TO AD VALOREM TAXES?**

15 A. Yes. TNMP is making two adjustments to the Test Year to ad valorem taxes. First,  
16 TNMP annualized the ad valorem taxes for the Test Year using the June 30, 2025  
17 plant balances. The ad valorem expense in the Test Year was based on balances  
18 as of December 31, 2023 for taxes incurred during 2024 and December 31, 2024  
19 for taxes incurred during 2025. TNMP is adjusting the ad valorem taxes to be  
20 based on June 30, 2025 plant balances and the current tax rates. Please refer to  
21 WP II-E-2.1 5 for this calculation. Second, TNMP included the associated ad  
22 valorem tax expense associated with assets on shared services that are utilized  
23 by TNMP. These costs were reclassified from A&G to ad valorem taxes to ensure  
24 appropriate functionalization of these costs. See testimony of TNMP Witness EJ  
25 Lopez for additional discussion.

26 **Q. IS TNMP PROPOSING AN ADJUSTMENT TO STREET RENTAL OR**  
27 **FRANCHISE FEE TAXES?**

28 A. Yes. As discussed by TNMP Witness Stacy Whitehurst, TNMP is adjusting the  
29 franchise fee or street rental amounts charged to certain cities.

30 **Q. IS TNMP PROPOSING AN ADJUSTMENT TO REVENUE RELATED TAXES?**

1 A. Yes. Sales and Use tax is directly passed through to customers. Therefore, TNMP  
2 has removed these amounts from the cost of service. The details of this  
3 adjustment can be found on WP/II-E-2 4. Finally, TNMP has calculated the  
4 estimated Texas Margin Tax, based on the requested revenue requirements  
5 determined in this proceeding. Please refer to TNMP Witness Larry Morris for  
6 additional discussion.

7 **Q. PLEASE DESCRIBE THE UNADJUSTED EXPENSES LISTED UNDER THE**  
8 **OTHER EXPENSES SCHEDULE.**

9 A. TNMP has included the annual depreciation expense associated with the Asset  
10 Retirement Obligation (“ARO”) asset, accretion expense for the ARO liability, and  
11 donation expenses. Additionally, TNMP has included amortization expenses  
12 associated with regulatory assets and deferred expenses described earlier in my  
13 testimony, including: 1) Trans Line Safety Inspections; 2) REP Bad Debt; 3)  
14 Benefit Cost Tracker; 4) Interim AMS Recovery; 5) Non-Standard Metering; 6)  
15 Deferred Expenses AMS investments; and 7) Deferred Expenses associated with  
16 TNMP System Resiliency Filing Costs.

17 **Q. DO THE COMMISSION RULES ALLOW THE INCLUSION OF DONATIONS?**

18 A. Yes. 16 TAC § 25.231(b)(1)(E) allows for the actual expenditures for ordinary  
19 advertising, contributions, and donations, as long as the total sum of all such items  
20 allowed in the cost of service shall not exceed three-tenths of 1.0% (0.3%) of the  
21 gross receipts of the electric utility for services rendered to the public. The  
22 amounts included by TNMP in this category are within this standard.

23 **Q. PLEASE DESCRIBE TNMP’S UNADJUSTED OTHER REVENUES.**

24 A. TNMP has included revenues associated with discretionary fees, non-standard  
25 metering fees, revenues from rent for the use of TNMP’s electric property,  
26 wholesale transmission revenues, and other revenues.

27 **Q. IS TNMP MAKING ANY ADJUSTMENTS TO THE OTHER REVENUES**  
28 **BALANCES?**

29 A. Yes. TNMP has \$7.9 million of other electric revenues associated with the  
30 recording of the Excess ADFIT tracking as authorized in Docket 48401. TNMP  
31 has removed the \$160.4 million of transmission revenues collected through

1 TNMP's TCRF charges. Lastly, TNMP has included the Refinancing Adjustments  
2 as described in TNMP witness Sabrina Greinel's Testimony.

3 **Q. HOW IS THE ADJUSTMENT TO REDUCE THE REVENUE REQUIREMENT**  
4 **FOR THE MERGER-RELATED REFINANCING ACTIVITIES REFLECTED IN**  
5 **THE SCHEDULES?**

6 A. As discussed by TNMP witness Sabrina Greinel, the full impact of the merger-  
7 related refinancing activities is \$148.2 million. An annual reduction of \$14.2 million  
8 within the revenue requirement schedules, implemented over a 10.4 year period,  
9 will prevent the new cost of debt from being passed to TNMP's customers. This  
10 adjustment is reflected in RFP Schedule II-E-5 Other Revenues.

11 **Q. IS TNMP REQUESTING ANY ADDITIONAL REGULATORY TREATMENT**  
12 **RELATED TO THIS ADJUSTMENT?**

13 A. Yes. TNMP is requesting the ability to track the Refinance Adjustment in  
14 accordance with Docket 58536 and preserve any excess in a regulatory asset that  
15 TNMP could seek recovery of in a subsequent case after the 10-year period has  
16 expired.

17 **RFP SCHEDULE F: FUNCTIONALIZATION FACTORS**

18 **Q. WHAT IS THE BASIS FOR THE ACCOUNTING AND COST SEPARATION OF**  
19 **THE FINANCIAL RECORDS OF TNMP?**

20 A. As required by 16 TAC § 25.72(c), as well as General Instruction No. 1 of the RFP,  
21 TNMP maintains its books and records in compliance with the methodologies  
22 prescribed in the FERC Uniform System of Accounts ("USOA"). Utilization of the  
23 FERC USOA ensures consistency and accuracy when utilizing the  
24 functionalization factors proposed in this proceeding.

25 **Q. PLEASE DESCRIBE THE FUNCTIONALIZATION OF COSTS USED IN THE**  
26 **RFP.**

27 A. TNMP is principally engaged in (1) providing wholesale transmission services to  
28 the Company's distribution business function, other investor-owned distribution  
29 utilities, electric cooperatives, and municipal utilities; (2) providing electric  
30 distribution delivery service; (3) providing interconnections to generators,  
31 distributed generation, and other transmission and distribution electric providers in

1 ERCOT; (4) metering and monthly billing; and (5) customer and REP service  
2 functions, such as move-in, move-out, and meter test.

3 For regulatory purposes, the five regulated business functions identified in the  
4 “General Instructions” of the RFP are as follows: (1) Transmission (“TRAN”); (2)  
5 Distribution (“DIST”); (3) Transmission and Distribution Utility Metering System  
6 Services (“MET”); (4) Transmission and Distribution Utility Billing System Services  
7 (“TBILL”); (5) Additional Billing Services (“ABILL”); and (6) Transmission and  
8 Distribution Utility Customer Service (“TDCS”). TNMP does not perform ABILL  
9 services, therefore no costs have been functionalized to this function. For  
10 purposes of my testimony, the term business function refers to one or more of  
11 these remaining five classifications of electric utility costs to which the Company’s  
12 cost of service and rate base amounts are allocated or “functionalized” in the  
13 manner specified by the RFP.

14 The FERC USOA serves to guide the functionalization of a significant portion of  
15 the Company’s costs; however, some accounts contain costs for more than one  
16 business function. Therefore, in order to directly allocate TNMP’s costs to the  
17 fullest extent possible between the Commission’s prescribed functions, the  
18 Company relies on additional detail contained in its accounting systems, such as  
19 location codes, customer specific data, sub accounts to the FERC USOA, and  
20 transaction descriptions.

21 **Q. WHY IS COST FUNCTIONALIZATION BETWEEN THE TRANSMISSION,**  
22 **DISTRIBUTION AND OTHER UTILITY FUNCTIONS NECESSARY IN**  
23 **ESTABLISHING TNMP’S RATES?**

24 A. TNMP provides both wholesale transmission service and retail distribution service  
25 within the ERCOT region. Because the Company’s wholesale transmission  
26 customers and retail distribution customers are different, it is necessary to  
27 appropriately functionalize the Company’s costs to ensure that TNMP’s cost of  
28 service is recovered from those customers who benefit from the service provided  
29 and who cause TNMP to incur particular costs. Additionally, because certain costs  
30 such as meter reading and billing activities are recovered through a customer  
31 charge rather than a volume or demand based tariff, it is necessary to functionalize

1 these amounts separately from the other transmission and distribution costs.  
2 TNMP witness Stacy Whitehurst will discuss how the functionalization of costs is  
3 used to develop the class cost of service and ultimate rate design.

4 **Q. HAS TNMP ASSIGNED ITS TEST-YEAR COSTS TO THE UTILITY FUNCTIONS**  
5 **IN ACCORDANCE WITH THE COMMISSION'S RATE FILING PACKAGE**  
6 **INSTRUCTIONS?**

7 A. Yes. The Commission's cost functionalization objectives are set forth in General  
8 Instruction No. 11 of the RFP, which prescribes a three-tier functionalization  
9 process. First, for each FERC account, costs are directly assigned to the fullest  
10 extent possible. TNMP used the suggested functional factors included in the RFP.  
11 Second, for costs that cannot be directly assigned, the Company derives either an  
12 account-specific functionalization factor based on the directly assigned costs or an  
13 appropriate cost-causation principle, while adequately justifying any such  
14 assignments. Finally, for adequately documented costs that remain, and for which  
15 direct assignment or account specific functionalization cannot be identified, an  
16 appropriate functionalization factor prescribed in RFP Schedule II-F Alloc. Factor  
17 is used.

18 The Commission, through this three-tier approach to cost functionalization, has  
19 directed TNMP to determine the best method it has available to directly assign its  
20 costs to the fullest extent possible. The RFP instructions do not prescribe the  
21 method to be used to accomplish cost functionalization, as each utility has varying  
22 degrees of recorded accounting information and sophistication within its  
23 computerized accounting system. In accordance with the RFP instructions, TNMP  
24 has directly assigned all costs contained within its rate filing schedules to the fullest  
25 extent possible.

26 **Q. PLEASE DESCRIBE THE PROCESS FOR FUNCTIONALIZING TNMP'S**  
27 **TRANSMISSION RATE BASE.**

28 A. The Commission Substantive rules and the General Instructions for the RFP  
29 provide guidance of functionalizing rate base and other costs. 16 TAC  
30 § 25.341(14) states:

1 For purposes of § 25.344(g)(2)(B) of this title, transmission relates to  
2 system and discretionary services associated with facilities at or  
3 above 60 kilovolts necessary to transform and move electricity from  
4 the point of interconnection of a generation source or third-party  
5 electric grid facilities, to the point of interconnection with distribution,  
6 retail customer or other third-party facilities, and related processes  
7 necessary to perform such transformation and movement.  
8 Transmission does not include activities related to transmission and  
9 distribution utility billing system services, additional billing services,  
10 transmission and distribution utility metering system services, and  
11 transmission and distribution utility customer services as defined by  
12 this section.

13 TNMP books its investment in electric plant in service associated with transmission  
14 in FERC accounts 349 – 359. This is consistent with the General Instruction in the  
15 RFP. While preparing the functionalization for this case, TNMP determined that  
16 meters associated with transmission level customers were booked to this account.  
17 Therefore, TNMP has calculated the amounts in account 353 that are more  
18 accurately functionalized similar to assets in account 370, TNMP has broken these  
19 out separately as a subaccount of 353. This subaccount will be directly assigned  
20 to the MET function.

21 **Q. PLEASE DESCRIBE THE PROCESS FOR FUNCTIONALIZING TNMP'S**  
22 **DISTRIBUTION RATE BASE.**

23 A. The Commission Substantive rules and the General Instructions for the RFP  
24 provide guidance of functionalizing rate base and other costs. 16 TAC § 25.341(5)  
25 states:

26 For purposes of § 25.344(g)(2)(C) of this title (relating to Cost  
27 Separation Proceedings), distribution relates to system and  
28 discretionary services associated with facilities below 60 kilovolts  
29 necessary to transform and move electricity from the point of  
30 interconnection of a generation source or third-party electric grid  
31 facilities, to the point of interconnection with a retail customer or other

1 third-party facilities, and related processes necessary to perform  
2 such transformation and movement. Distribution does not include  
3 activities related to transmission and distribution utility billing  
4 services, additional billing services, transmission and distribution  
5 utility metering services, and transmission and distribution customer  
6 services as defined by this section.

7 TNMP books its investment in electric plant in service associated with transmission  
8 in FERC accounts 360 – 374. TNMP has directly functionalized these accounts to  
9 the DIST function, except accounts 362, 370 and 371. TNMP has created a  
10 separate functionalization factor for account 362. As discussed in 16 TAC  
11 § 25.192, there are substation facilities on the high side of the transformer, in a  
12 substation where power is transformed from a voltage higher than 60 kilovolts to a  
13 voltage lower than 60 kilovolts, that should be functionalized to the TRAN function.  
14 Account 370 – Meters has been directly assigned to the MET function, and  
15 Account 371 - “Install on Customer Prem.” has been directly assigned to the TDCS  
16 function.

17 **Q. PLEASE DESCRIBE THE PROCESS FOR FUNCTIONALIZING TNMP’S**  
18 **INTANGIBLE PLANT IN RATE BASE.**

19 A. To functionalize intangible plant, TNMP has developed an internal functional factor  
20 that is based on Net Plant in Service for all functions, other than intangible plant.  
21 TNMP applies that factor to the intangible plant balances.

22 **Q. PLEASE DESCRIBE THE PROCESS FOR FUNCTIONALIZING TNMP’S**  
23 **GENERAL PLANT AND COMMUNICATIONS PLANT IN RATE BASE.**

24 A. To functionalize TNMP’s general plant, TNMP has developed several internal  
25 functional factors based on employee counts by function, net plant excluding  
26 general plant, and net general plant functional factor.

27 **Q. PLEASE DESCRIBE THE PROCESS FOR FUNCTIONALIZING TNMP’S CWIP**  
28 **AND RWIP BALANCES THAT WERE MOVED TO PLANT IN SERVICE.**

29 A. Since these projects were completed at the end of the Test Year, with the input of  
30 TNMP Operations, TNMP was able to directly functionalize these costs.

1 **Q. WHEN TNMP FUNCTIONALIZED THE ACCUMULATED DEPRECIATION, DID**  
2 **TNMP USE THE CORRESPONDING ALLOCATORS THAT WERE USED FOR**  
3 **PLANT IN SERVICE?**

4 A. Yes.

5 **Q. PLEASE DESCRIBE THE PROCESS FOR FUNCTIONALIZING TNMP'S O&M**  
6 **EXPENSES AND A&G EXPENSES.**

7 A. TNMP uses the suggested functionalization factors included in the General  
8 Instructions for the RFP.

9 **Q. WHEN TNMP FUNCTIONALIZED DEPRECIATION EXPENSE, DID TNMP USE**  
10 **THE CORRESPONDING ALLOCATORS THAT WERE USED FOR PLANT IN**  
11 **SERVICE?**

12 A. Yes.

13 **Q. HOW DID TNMP FUNCTIONALIZE OTHER TAXES IN SCHEDULE "II-E-2**  
14 **TAXES OTHER"?**

15 A. For payroll related taxes, TNMP used the PAYXAG functionalization factor. For  
16 ad valorem taxes, TNMP used the net plant excluding intangible plant  
17 functionalization factor. For franchise fees, TNMP is following the cost causation  
18 principles and directly assigning the franchise fees assigned and passed through  
19 to the transmission customers, and allocating the remainder on the DIST  
20 functionalization factor, since franchise fees are paid to cities based on kWh sales  
21 on the distribution system. Finally, revenue related taxes were allocated on the  
22 total revenue allocator.

23 **Q. HOW DID TNMP FUNCTIONALIZE OTHER EXPENSE IN SCHEDULE "II-E-4**  
24 **EXPENSES OTHER"?**

25 A. For the amounts associated with the asset retirement obligation and the gain on  
26 sale of plant, TNMP used the Net Plant in Service allocator, as these items are  
27 directly related to plant in service. The amortization of the deferred expenses  
28 related to the CTC appeal and the debt costs associated with TNMP securitization,  
29 TNMP utilized the total revenue functionalization factors. For all regulatory asset  
30 amortizations associated with AMS, TNMP allocates these costs to the MET

1 function. The remaining expenses were functionalized using the distribution  
2 functional factor.

3 **Q. HOW DID TNMP FUNCTIONALIZE OTHER REVENUES IN SCHEDULE “II-E-5**  
4 **OTHER REVENUES”?**

5 A. TNMP functionalized revenues from discretionary fees and rent from electric  
6 property using the distribution functional factor. The revenues received from  
7 interdepartmental rent are functionalized using a net general plant allocator.

8 **RFP Schedules Section III: Base Line Revenue Requirements for TCOS and**  
9 **Section IV-J: Base Line Revenue Requirements for DCRF**

10  
11 **Q. HAVE YOU PROVIDED THE RFP SCHEDULES FOR SECTION III RELATED**  
12 **TO WHOLESALE TCOS?**

13 A. Yes. I have included in my RFP schedules, Section III RFP schedules which  
14 summarize TNMP’s wholesale TCOS based on the Test Year revenue  
15 requirements requested in this proceeding. Using an ERCOT 4-CP demand of  
16 81,042,657kW and a Wholesale TCOS of \$191.9 million, results in a TCOS rate of  
17 \$2.367448 per kW.

18 **Q. HAVE YOU PROVIDED THE RFP SCHEDULES FOR SECTION IV-J RELATED**  
19 **TO TX-RETAIL DCRF?**

20 A. Yes. I have included in my RFP schedules, Section IV-J RFP schedules which  
21 summarize TNMP’s TX-Retail DCRF base-line based on the Test Year revenue  
22 requirements requested in this proceeding. The resulting base-line for future  
23 DCRF filings is a Revenue requirement is \$514.7 million for total TX-Retail.

24 **IV. AFFILIATE COST OF SERVICE FUNCTION EXPENSES**

25 **1. Organization of the Cost of Service Sub Function**

26 **Q. PLEASE BRIEFLY DESCRIBE / SUMMARIZE THE COST OF SERVICE**  
27 **SUBFUNCTION INCLUDED IN THE FINANCE FUNCTION**

28 A. Cost of Service is a sub function with the Finance function and will be referred to  
29 as the Cost of Service Function throughout my testimony. The Cost of Service  
30 function and group are responsible for historical and forecasted revenue  
31 requirement analysis for the regulatory jurisdictions of the subsidiaries of TXNM

1 Energy, including TNMP. The group provides the financial support and expert  
2 testimony for regulatory filings.

3 **Q. PLEASE PROVIDE AN OVERVIEW OF HOW THE COST OF SERVICE**  
4 **FUNCTION IS ORGANIZED.**

5 A. The department consists of a Vice President, Senior Manager, Project Manager  
6 and two revenue requirement analysts. This department reports through the Chief  
7 Financial Officer function at PNMR Services Company.

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

10 A. PNMR Services uses General Service Agreements to set terms and provisions of  
11 services provided by the Service Company to the operating companies. The Cost  
12 of Service function periodically meets with senior management and leaders in the  
13 affiliated companies to discuss service needs.

14 **Q. HOW DO THE OPERATING COMPANIES OBTAIN THE COST OF SERVICE**  
15 **FUNCTION SERVICES?**

16 A. In addition to meetings described above, the cost of service function staff also  
17 coordinates with affiliate company managers about their specific needs on an ad-  
18 hoc basis. Additionally, affiliated company leaders may also request special  
19 projects that would require input/services from the groups within this function.

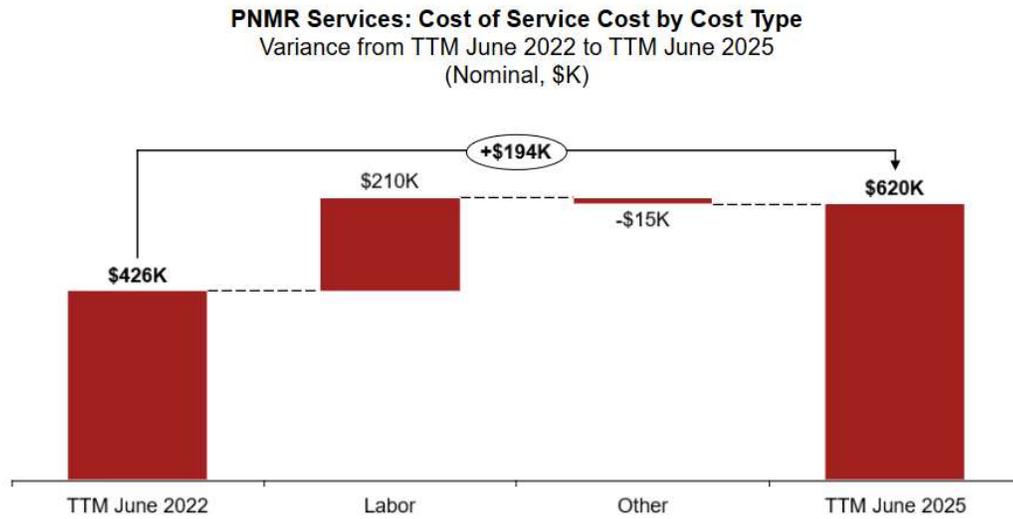
20 **2. Cost Levels and Cost Trends**

21 **Q. WHAT ARE THE TOTAL COSTS OF THE COST OF SERVICE FUNCTION**  
22 **DURING THE TEST YEAR AND WHAT ARE THE COSTS BROKEN DOWN BY**  
23 **SERVICES?**

24 A. The total Test Year Cost of Service function costs for TXNM Energy and all of its  
25 operating companies are \$0.6 million. Table 7 shows total PNMR Services for the  
26 Cost of Service function affiliate costs by cost type for Trailing Twelve Months  
27 ending June 2022 ("TTM June 2022") and the Test Year.



1 **TABLE 8: PNMR SERVICES COST OF SERVICE FUNCTION COSTS BY COST**  
 2 **TYPE**



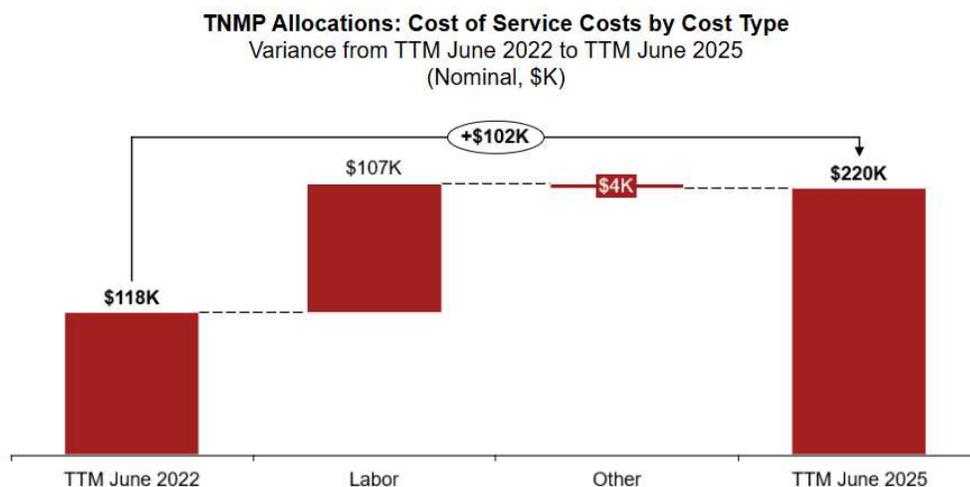
3 Notes: 1. Other includes Employee Expenses, Outside Services, Repro and Printing – Internal, Outside Services and Other Expenses  
 Source: PNMR Billings to Affiliates, Strategy & Analysis

4  
 5 **Q. WHAT HAS BEEN THE TREND IN COSTS BILLED TO TNMP IN RECENT**  
 6 **YEARS?**

7 A. From TTM June 2022 to the Test Year, TNMP billings by the Cost of Service  
 8 functions increased by \$0.1 million from \$0.1 million to \$0.2. million. Table 9 below  
 9 shows the trend in actual expenditures for the Cost of Service function by cost  
 10 type.

1

**TABLE 9: FINANCE COST TRENDS – TNMP ALLOCATION**



Notes: 1. Other includes Employee Expenses, Outside Services, Repro and Printing – Internal, Outside Services and Other Expenses  
 Source: PNMR Billings to Affiliates, Strategy & Analysis

2

3 **Q. PLEASE EXPLAIN THE VARIATION IN COSTS AND THE REASON FOR**  
 4 **VARIATION IN TEST YEAR COSTS.**

5 A. As shown above, the charges to TNMP increased in the Test Year as a result of  
 6 increased labor costs. This reflects annual merit increases for employees, as well  
 7 as additional headcount additions during this time frame to accommodate  
 8 increased regulatory filing needs, in part driven by the 2023 Texas Senate Bill  
 9 1015, which changed the law to allow utilities to make two DCRF filings in a year.

10 **Q. ARE THE CHANGES IN THE COSTS PREVIOUSLY DESCRIBED**  
 11 **REASONABLE?**

12 A. Yes, the changes in costs previously described are reasonable.

13 **3. Cost Allocation of the Cost of Service function Services**

14 **Q. WHAT ARE THE PREDOMINANT BILLING METHODS USED FOR THIS**  
 15 **FUNCTION OF SERVICE?**

16 A. The billing methods used by the Cost of Service functions are based on general  
 17 allocation. General allocations are based on a Massachusetts method which is  
 18 used when the management activities are not assignable using the other methods,  
 19 or for activities which benefit the entire group of TXNM Energy affiliates. The Cost

of Service function uses the 941-Employee Headcount, Gross Margin, Net Plant methodology to assign costs.

TABLE 10: COST OF SERVICE COST BY BILLING METHOD – TEST YEAR

Cost of Service Category Billing Methods

Category Billing Methods, TTM June 2025, %

| Allocation Method | Location | Allocation Driver                                  | PNMR Allocations | TNMP Allocations |
|-------------------|----------|--|------------------|------------------|
| General           | 941      | MMF - Employee Headcount, Gross Margin, Net Plant. | 100%             | 100%             |

**Q. PLEASE EXPLAIN THE RATIONALE AND IMPORTANCE OF THE BILLING METHODS USED.**

A. The billing methods used by the Cost of Service function are appropriate because they relate to the causality of the costs. Revenue requirement calculation and analyses benefit more than one operating unit, and thus costs are allocated based on transactions that reflect the activity’s primary cost driver.

**Q. WHAT TXNM ENERGY AFFILIATES DOES THE COST OF SERVICE FUNCTION SUPPORT?**

A. The Cost of Service function costs are billed to TXNM Energy and all of TXNM Energy active business units, including PNM, TNMP, and TXNM Energy. Each entity receives its direct and allocated share of the service company costs per the cost allocation manual.

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

A. The cost allocations and billing methods used by cost of service functions are appropriate and necessary to assign the costs to the unit which caused them to be incurred.

**4. Necessity and Reasonableness of the Cost of Service function Services**

**Q. ARE THE SERVICES PROVIDED BY THE COST OF SERVICE FUNCTION TO THE OPERATING COMPANIES NECESSARY TO SUPPORT THE BUSINESS OF THE OPERATING COMPANIES?**

A. Yes, the services provided by the Cost of Service function involves utility and regulatory accounting, and financial analysis related to the operating companies.

1           These activities are critical for management control, cost recovery, and risk  
2           management.

3   **Q.   WHAT TYPE OF CORPORATE OVERSIGHT OF THE COST OF SERVICE**  
4   **FUNCTION ACTIVITIES ARE IN PLACE TO ENSURE THAT ITS SERVICES**  
5   **ARE THOSE THAT ARE MOST BENEFICIAL FOR THE SUPPORT OF THE**  
6   **OPERATING COMPANIES' UTILITY SERVICE?**

7   A.   To ensure that the services provided by the Cost of Service functions are beneficial  
8       to supporting the affiliated companies, the corporate budget, financial and strategic  
9       planning, and cost of service functions coordinates with the affiliate managers on  
10      an as-needed basis for specific revenue requirements and other cost of service  
11      analysis, as well as short-term and long-term budget and planning needs.

12 **Q.   DO THESE SERVICES DUPLICATE SERVICES PROVIDED BY PERSONNEL**  
13 **WITHIN THE OPERATING COMPANIES OUTSIDE OF THE COST OF SERVICE**  
14 **FUNCTION?**

15 A.   No.  These services do not duplicate services provided by personnel within the  
16      operating companies outside of the Cost of Service functions.

17 **Q.   ARE ANY OR ALL OF THESE SERVICES PROVIDED BY THE COST OF**  
18 **SERVICE FUNCTION AVAILABLE THROUGH THE OPERATING COMPANY'S**  
19 **OWN CAPABILITIES?**

20 A.   No.  Employees that reside outside of the Cost of Service function in the operating  
21      companies do not perform the Cost of Service activities.

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

25 A.   Yes, the Cost of Service function provides services to TXNM Energy, benefiting all  
26      affiliated companies, as well as the individual affiliated companies.  Common  
27      services that are shared among affiliated companies can be provided more  
28      efficiently on a consolidated basis than if they were performed separately within  
29      multiple affiliated companies.  Centralization also minimizes the potential for  
30      duplication of resources and efforts among the affiliated companies.

1 **Q. IN SUMMARY, ARE THE SERVICES THAT THE COST OF SERVICE**  
2 **FUNCTION PROVIDES NECESSARY FOR TNMP TO PROVIDE RELIABLE**  
3 **ELECTRIC SERVICE?**

4 A. Yes, the services that the Cost of Service function provide are necessary for TNMP  
5 to conduct its business and to provide reliable electric delivery service.

6 **5. Cost Management**

7 **Q. WHAT PROCESSES DO YOU EMPLOY TO ENSURE THAT THE COST OF**  
8 **SERVICE FUNCTION EXPENSES INCURRED BY OR ON BEHALF OF THE**  
9 **OPERATING COMPANY ARE REASONABLE?**

10 A. To ensure that the Cost of Service function expenses are incurred by or on behalf  
11 of the operating companies are reasonable, the Accounting group performs  
12 monthly budget variance reviews. The monthly report presents detailed  
13 information about service company charges and provides transparency to the  
14 service charges. The corporate Cost of Service function receives systematic  
15 budget to actual variance reports and participates in the corporate budgeting  
16 process.

17 **Q. WHAT IS YOUR OVERALL CONCLUSION ON THE REASONABLENESS AND**  
18 **NECESSITY OF COSTS IN THE COST OF SERVICE FUNCTION?**

19 A. My overall conclusion is that the costs of the Cost of Service function are  
20 reasonable and necessary for TNMP to conduct its business and to provide reliable  
21 electric delivery service.

22 **V. CONCLUSION**

23 **Q. WHAT ACTION DO YOU PROPOSE THAT THE COMMISSION TAKE IN THIS**  
24 **PROCEEDING?**

25 A. TNMP is requesting the Commission to approve TNMP's revenue requirement,  
26 approve the riders and tariff described herein, approve the requested regulatory  
27 assets and liabilities and associated recovery periods, and approve the shared  
28 services costs. Finally, TNMP requests the Commission approve TNMP's new  
29 Riders and tariffs to be implemented December 23, 2025.

30 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

31 Yes, it does.

**AFFIDAVIT**

**STATE OF NEW MEXICO** §  
§  
**COUNTY OF BERNALILLO** §

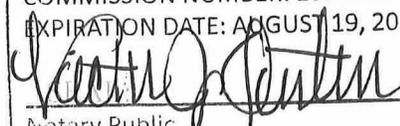
BEFORE ME, the undersigned authority, on this day personally appeared Kyle T. Sanders, who, upon proving his identity to me and by me being duly sworn, deposes and states the following:

“My name is Kyle T. Sanders. 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 10<sup>th</sup> day of November, 2025, to certify which witness my hand and seal of office.

STATE OF NEW MEXICO  
NOTARY PUBLIC  
VICTORIA J QUINTANA  
COMMISSION NUMBER: 1096321  
EXPIRATION DATE: AUGUST 19, 2026  
  
\_\_\_\_\_  
Notary Public

  
\_\_\_\_\_  
NOTARY PUBLIC in and for the  
State of New Mexico  
Printed Name: Victoria J. Quintana  
My Commission expires: 8/19/2026  
Notary ID# 1096321

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

**Name:** Kyle T. Sanders

**Address:** PNM Resources Inc.  
MS 1105  
414 Silver SW  
Albuquerque, NM 87102

**Position:** Vice-President, PNM Regulatory

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

**Employment:** PNM Services Company:  
Senior Revenue Requirements Analyst (2012-2013) Financial Analyst (2013-2015)  
Manager of Cost of Service (2015-2017)  
Director Financial Planning and Load Forecasting (2017) Director of Corporate  
Budget and Cost of Service (2019-2023)  
Executive Director of Financial Planning, Corporate Budget, and Cost of Service  
(2023-2025)  
Vice-President, PNM Regulatory (Current)  
New Mexico Gas Company:  
Director of Planning and Forecasting (2017-2019)

**Testimony and Affidavits Filed:**

Texas Public Utility Commission

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

- In the Matter of the Application of Texas-New Mexico Power Company for A Distribution Cost Recovery Factor, PUCT Docket No. 51959, filed April 6, 2021

New Mexico Public Regulation Commission

- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 26, 2016 (PNM's Rider No. 36 Reconciliation for 2015.)
- In the Matter of PNM's Application for Approval of Its Renewable Energy Act Plan for 2017 and Proposed 2017 Rider Rate under Rate Rider No. 36, NMPRC Case No. 16-00148-UT, filed June 1, 2016
- In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 28, 2017 (PNM's Rider No. 36 Reconciliation for 2016.)
- In the Matter of PNM's Application for Approval of Its Renewable Energy Act Plan for 2018 and Proposed 2018 Rider Rate under Rate Rider No. 36, NMPRC Case No. 17-00129-UT, filed June 1, 2017
- In the Matter of PNM's Application for Approval of Two Purchased Power Agreements and an Energy Storage Agreement Pursuant to 17.9.551 NMAC, An Addendum to the Special Service Contract with Great Kudu LLC, and Amended Rider No. 49, NMPRC Case No. 21-00031-UT, filed February 8, 2021
- In the Matter of the Application of Public Service Company of New Mexico for Decertification and Abandonment of 114 MW of Leased Palo Verde Nuclear Generating Station Capacity and Sale and Transfer of Related Assets and for Approval to Procure New Resources under 17.9.551 NMAC, NMPRC Case No. 21-00083-UT, filed April 2, 2021
- In the Matter of Public Service Company of New Mexico's Request for Approval of New Resources under 17.9.551 NMAC to Replace 114 MW of Leased Palo Verde Nuclear Generating Station Capacity, NMPRC Case No. 21-00215-UT, filed August 27, 2021
- In the Matter of Public Service Company of New Mexico's Request for Continued Use of Fuel and Purchased Power Cost Adjustment Clause, NMPRC Case No. 21-00166-UT, filed June 17, 2022
- In the Matter of Public Service Company of New Mexico's Application for Authorization to Implement Grid Modernization Components that Include Advanced Metering Infrastructure and Application to Recover the Associated Costs Through a Rider, Issuance of Related Accounting Orders and Other Associated Relief, NMPRC Case No. 22-00058-UT, filed October 3, 2022

- In the Matter of The Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice Notice No. 595, NMPRC Case No. 22-00270-UT, filed December 5, 2022
- In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice Notice No. 625, NMPRC Case No. 24-00089-UT, filed June 14, 2024.
- In the Matter of the Application of Public Service Company of New Mexico for a Certificate of Public Convenience and Necessity to Construct, Own, and Operate 30 Mega Watts of Battery Energy Storage Facilities, NMPRC Case No. 25-00055-UT, filed August 6, 2025.

Federal Energy Regulatory Commission

- Public Service Company of New Mexico Filing to Revise Depreciation Rates in PNM's Transmission Formula Rate, FERC Docket No. ER 16-2713-000, filed September 30, 2016
- Public Service Company of New Mexico Filing of Transmission Service Agreements with Leeward Renewable Energy Development, LLC, FERC Docket No. ER 21- 1363-001, affidavit filed April 19, 2021





**PUBLIC UTILITY COMMISSION OF TEXAS**  
**TEXAS-NEW MEXICO POWER COMPANY**  
**Exhibit KTS-3 - Listing of Adjustments and Supporting Witnesses**  
**TEST YEAR ENDING 6/30/2025**  
**DOCKET NO. 58964**

| <b>Rate Base Adjustments</b> |   |                   |                           |
|------------------------------|---|-------------------|---------------------------|
| <b>RFP Schedule</b>          | <b>Brief Description</b>  | <b>Amount</b>     | <b>Supporting Witness</b> |
| II-B-2                       | Remove non-utility plant property                                   | (2,127,809)       | TNMP Witness Sanders      |
| II-B-2                       | PNMR Corporate Plant Allocation (Gross Plant)                       | 79,358,886        | TNMP Witness Sanders      |
| II-B-3                       | PNMR Corporate Plant Allocation (Gross Plant)                       | 1,811,964         | TNMP Witness Sanders      |
| II-B-4                       | Removal of Non-requested CWIP                                       | (259,262,057)     | TNMP Witness Sanders      |
| II-B-4                       | Removal of Non-requested RWIP                                       | (2,514,139)       | TNMP Witness Sanders      |
| II-B-5                       | PNMR Corporate Plant Allocation (Accumulated Depreciation)          | (42,280,087)      | TNMP Witness Sanders      |
| II-B-6                       | Removal of Plant Held for Future Use                                | (14,798)          | TNMP Witness Sanders      |
| II-B-7                       | Removal of Accumulated Provisions for Worker Comp                   | 4,165,458         | TNMP Witness Morris       |
| II-B-8                       | Materials & Supplies 13 Month Average adjustment                    | (3,560,824)       | TNMP Witness Sanders      |
| II-B-9                       | Add Cash Working Capital from Lead Lag Study                        | (3,346,416)       | TNMP Witness Sanders      |
| II-B-10                      | Pre-payments 13 Month Average adjustment                            | (4,882,016)       | TNMP Witness Sanders      |
| II-B-12                      | Catastrophe Reserve Adjustment                                      | (3,183,300)       | TNMP Witness Wilson       |
| II-B-12                      | Reg Asset-Pension Qualified Adjustment                              | (1,404,406)       | TNMP Witness Arnell       |
| II-B-12                      | Inclusion of Carrying Charges and Taxes I-2018 Interim AMS Recovery | 7,549,612         | TNMP Witness Sanders      |
| II-B-12                      | Removal of Accounting Interim AMS Carrying Charges                  | (2,756,454)       | TNMP Witness Sanders      |
| II-B-12                      | Removal of TNMP System Resiliency - Program Costs                   | (158,548)         | TNMP Witness Sanders      |
| II-B-12                      | Inclusion of Activity through September TNMP Excess ADFIT           | 1,421,181         | TNMP Witness Sanders      |
| II-B-12                      | Removal of TNMP Hurricane Beryl Reg Asset                           | (20,390,361)      | TNMP Witness Sanders      |
| II-B-12                      | Removal of TNMP HB 5247 Reg Asset                                   | (605,971)         | TNMP Witness Sanders      |
| II-B-12                      | Removal of Unamortized Loss on Reacquired Debt Reg Asset            | (23,071,646)      | TNMP Witness Sanders      |
| II-C-2.1                     | Removal of Goodwill from Equity                                     | (226,664,902)     | TNMP Witness Greinel      |
| II-C-2.1                     | Removal of Debt Transaction balances from Debt                      | (1,939,027)       | TNMP Witness Greinel      |
| II-C-2.4                     | Adjustment for Known transactions on Debt Costs                     | N/A -Rate Changes | TNMP Witness Greinel      |

| <b>Operating Expense Adjustments</b> |   |               |  |
|--------------------------------------|---|---------------|--|
| <b>RFP Schedule</b>                  | <b>Brief Description</b>  | <b>Amount</b> | <b>Supporting Witness</b>  |
| II-D-1                               | Removal of Unallowable Meals  | (59,173)      | TNMP Witness Sanders   |
| II-D-1                               | Removal of Unallowable Fees   | (1,598)       | TNMP Witness Sanders   |
| II-D-1                               | Update Wheeling Expense to Current amounts  | 17,876,087    | TNMP Witness Sanders   |
|                                      |   |               | TNMP Witness Sanders - Annualization & Escalation                                  |
| II-D-1                               | Labor Adjustments - New Positions, Annualization, Escalations, & Market Adjustments | 7,673,107     | TNMP Witnesses Nix & Gerety - Headcount<br>TNMP Witness Teague - Market Adjustment |
| II-D-1                               | Removal of Vegetation Management expense collected in SRP Rider                     | (377,343)     | TNMP Witness Nix   |
| II-D-1                               | Incremental Vegetation Management Expense   | 9,170,309     | TNMP Witness Nix   |
| II-D-2                               | Removal of Unallowable Meals (A&G)  | (3,715)       | TNMP Witness Sanders   |
| II-D-2                               | Removal of Unallowable Fees (A&G)   | (262,787)     | TNMP Witness Sanders   |
| II-D-2                               | Increased Expense for Catastrophe Reserve   | 5,681,600     | TNMP Witness Wilson  |
| II-D-2                               | Removal of Energy Efficiency Costs  | (6,096,315)   | TNMP Witness Sanders   |
| II-D-2                               | Removal of non-standard metering costs  | (49,950)      | TNMP Witness Sanders   |
| II-D-2                               | Adjustment to Pension and Retiree Medical Costs                                     | 247,932       | TNMP Witness Arnell  |
| II-D-2                               | Shared Services Adjustments   | (18,296,796)  | TNMP Witness Lopez   |
| II-D-2                               | Excess Liability Insurance Adjustment   | 448,917       | TNMP Witness Tafoya  |
|                                      |   |               | TNMP Witness Sanders - Annualization & Escalation                                  |
|                                      |   |               | TNMP Witnesses Nix & Gerety - Headcount  |
| II-D-2                               | Labor Adjustments - New Positions, Annualization, Escalations, & Market Adjustments | (57,138)      | TNMP Witness Teague - Market Adjustment  |
| II-E-1                               | PNMR Corporate Plant Allocation (Depreciation Expense)                              | 5,252,928     | TNMP Witness Sanders   |
| II-E-1                               | Annualize Depreciation at New Rates   | 6,538,706     | TNMP Witnesses Sanders & Watson  |
| II-E-1                               | Remove Fleet Loading Depreciation   | (326,736)     | TNMP Witness Sanders   |
| II-E-2                               | FICA Accrual Adjustment   | 561,297       | TNMP Witness Morris  |
| II-E-2                               | Ad Valorem Annualization Adjustment   | 2,894,213     | TNMP Witness Morris  |
| II-E-2                               | Street Rental Adjustment  | 356,549       | TNMP Witness Morris  |
| II-E-2                               | Sales and Use Tax Adjustment  | (2,013,304)   | TNMP Witness Morris  |
| II-E-2                               | Texas Margin Tax Adjustment   | 873,272       | TNMP Witness Morris  |
| II-E-3                               | Remove Non-Regulated or Non-Electric items  | (27,731)      | TNMP Witness Morris  |
| II-E-3                               | Synchronized Interest Adjustment  | 8,703,890     | TNMP Witness Morris  |
| II-E-3                               | Meals and Entertainment Adjustment  | (41,698)      | TNMP Witness Morris  |
| II-E-4                               | Include Trans Line Safety Inspections Amortization                                  | 270,724       | TNMP Witness Sanders   |
| II-E-4                               | Include REP Bad Debt Regulatory Asset Amortization                                  | 216,720       | TNMP Witness Sanders   |
| II-E-4                               | Include Reg Asset-Benefit Cost Track Amortization                                   | 60,735        | TNMP Witness Sanders   |
| II-E-4                               | Include I-2018 Interim AMS Recovery Amortization                                    | 3,315,079     | TNMP Witness Sanders   |
| II-E-4                               | TNMP Load Shed Incentives Reg Asset Amortization                                    | 8,462         | TNMP Witness Sanders   |
| II-E-4                               | TNMP AMS Defd Depr & Interest Reg Asset Amortization                                | 268,263       | TNMP Witness Sanders   |
| II-E-4                               | TNMP System Resiliency - Filing Costs Reg Asset Amortization                        | 512,177       | TNMP Witness Sanders   |

**PUBLIC UTILITY COMMISSION OF TEXAS****TEXAS-NEW MEXICO POWER COMPANY****Exhibit KTS-3 - Listing of Adjustments and Supporting Witnesses****TEST YEAR ENDING 6/30/2025****DOCKET NO. 58964**

|        |  |               |                      |
|--------|--|---------------|----------------------|
| II-E-4 | TNMP Circuit Segmentation Reg Asset Amortization           | 53,344        | TNMP Witness Sanders |
| II-E-5 | Miscellaneous Customer Revenue                             | 482,768       | TNMP Witness Sanders |
| II-E-5 | Non-Standard Metering                                      | (624)         | TNMP Witness Sanders |
| II-E-5 | Remove Revenues from Transmission of Electricity of Others | (160,359,284) | TNMP Witness Sanders |
| II-E-5 | Include Revenues from DC Exports                           | 18,525        | TNMP Witness Sanders |
| II-E-5 | Other Electric Revenue                                     | (7,852,887)   | TNMP Witness Sanders |
| II-E-5 | Include Debt Refinance Adjustment                          | 14,236,016    | TNMP Witness Sanders |

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

WORKPAPERS FOR  
THE DIRECT TESTIMONY OF  
KYLE SANDERS

TNMP Witness Kyle Sanders has no supporting workpapers for his direct testimony.