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 GREGORY S. WILSON

ON BEHALF OF TEXAS-NEW MEXICO POWER COMPANY

NOVEMBER 14, 2025

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION, BUSINESS AFFILIATION, AND BUSINESS ADDRESS.

A. My name is Gregory S. Wilson. I am a consulting actuary specializing in the area of property-casualty actuarial matters. I am a Vice President and Principal at Lewis & Ellis, LLC (L&E). My business address is 6600 Chase Oaks Blvd, Suite 150, Plano, Texas 75023.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I received a Bachelor of Science degree in Applied Mathematics from the University of Rhode Island. In 1992, after completing all of the required examinations, I became a Fellow of the Casualty Actuarial Society ("FCAS"), the highest designation a property-casualty actuary can attain. This designation is obtained through a rigorous process involving separate examinations on topics such as mathematics, probability and statistics, theory of credibility, theory of risk and insurance, economics, insurance coverages, ratemaking, loss reserving, insurance accounting and regulation, and individual risk rating. I am also a Member of the American Academy of Actuaries.

Following college, I was employed by Amica Mutual Insurance Company until 1994, at which time I was a vice president serving as chief actuary and supervising the actuarial department. In 1994, I joined PricewaterhouseCoopers, LLP where I provided actuarial consulting services to a wide variety of clients including insurance companies, state insurance regulators, self-insured entities, and non-

insurance corporations. I joined L&E in 2001, where I continue to provide actuarial consulting services to a wide variety of clients. My resume is attached to this testimony as Exhibit GSW-1.

Q. WHAT IS AN ACTUARY?

A. An actuary is a business professional who estimates the financial implications of future contingent events or risk, which in the context of a rate case such as this one is the risk of damage to the utility's facilities and infrastructure due to currently unknown (or contingent) future events. Actuaries use mathematics, statistics, and financial theory to help manage such risks. In this proceeding, my analysis of future financial consequences is performed in accordance with the Actuarial Standards of Practice adopted by the American Academy of Actuaries, as well as the Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves adopted by the Casualty Actuarial Society.

Q. **HAVE YOU EVER TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS ("COMMISSION")?**

A. Yes. I submitted testimony addressing self-insurance reserve issues similar to those that I address in this testimony in Docket Nos. 16705, 20150, 22356, 30123, 33309, 34800, 37364, 37744, 38339, 38480, 39896, 40606, 41791, 43950, 44704, 44746, 46957, 48371, 48401, 49421, 49494, 51415, 51583, 51611, 53601, 53719, 56165, 56211, 57299, 57467, 57518, 57994, and 58306. I have also testified on self-insurance issues in conjunction with a utility rate filing before the Missouri Public Service Commission.

Q. ARE YOU FAMILIAR WITH PROPERTY AND LIABILITY INSURANCE AND HOW IT MAY AFFECT TNMP'S SELF-INSURANCE RESERVE?

A. Yes. I have over 45 years of actuarial experience in the property and liability insurance field. This includes 30 years consulting for companies doing business in Texas, including Southland Corp., Exxon-Mobil, Entergy, and Nabors Industries. As indicated above, I have also provided testimony on behalf of other Texas utilities in several dockets since 1996 involving self-insurance reserves.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony serves to offer an independent opinion of the reasonableness of the approach Texas-New Mexico Power Company ("TNMP" or "Company") proposes with respect to its self-insurance plan. Specifically, my testimony will (1) estimate the annual accruals needed to provide for the expected losses incurred by TNMP for the losses that are not covered by insurance and for which Section 36.064 of the Texas Public Utility Regulatory Act ("PURA") permits a provision to be made; (2) estimate a target amount to accumulate in the self-insurance reserve along with a recommended time period over which these accruals are to be made; and (3) provide a cost benefit analysis demonstrating that self-insurance at the levels proposed by TNMP is a lower cost alternative to purchasing insurance and is in the public interest, consistent with 16 Tex. Admin. Code ("TAC") § 25.231(b)(1)(G).

Q. WHAT DOES 16 TAC § 25.231(b)(1)(G) STATE REGARDING SELF-INSURANCE?

A. The rule details the requirements that an electric utility must meet in order to create a reserve account for a self-insurance plan. The rule defines a self-insurance plan, how it would work, and what considerations need to be included in the application for the plan. A copy of the rule and Section 36.064 of the PURA are included as Exhibit GSW-2.

Q. PLEASE DESCRIBE HOW YOUR DIRECT TESTIMONY IS ORGANIZED

A. First, I provide an explanation of how a self-insurance reserve works, and I explain my analysis and recommendation of: (1) a reasonable and necessary annual accrual in order to provide for unexpected losses that are not covered by commercial insurance and for which PURA § 36.064 and 16 Texas Administrative Code ("TAC") § 25.231(b)(1)(G) permit a provision to be made; and (2) a target amount to accumulate in the self-insurance reserve.

Finally, I explain the independent cost-benefit analysis that I performed to determine whether TNMP's self-insurance reserve plan is in the public interest as a lower-cost alternative to purchasing commercial insurance. Based on this analysis, I conclude that TNMP's self-insurance reserve plan is prudent and reasonable and in compliance with PURA § 36.064 and 16 TAC § 25.231(b)(1)(G).

Q. WHAT HAS THE COMMISSION ESTABLISHED AS THE SELF-INSURANCE EXPENSE AND RESERVE TARGET FOR TNMP?

A. The settlement agreed to in Docket No. 36025 noted that TNMP may fund a self-insurance reserve in the amount of $952,000 over an eight year accrual period with an annual accrual of $119,000, to be used for property damage and related losses in excess of $50,000 caused by catastrophic events that are not covered,

paid, or reimbursed by commercial insurance, provided that the reserve will not be used to pay third-party liability claims.[1] The parties stipulated in Docket No. 38480 that the amount of the annual accrual be increased to $154,268.[2]

In Docket No. 48401 the parties stipulated that TNMP would increase its annual accrual to its self-insurance reserve to $1,006,500 to be used for (a) amortization of prior property damages and related losses charged to the reserve and (b) property damages and related losses in excess of $50,000 caused by catastrophic events that are not covered, paid, or reimbursed by commercial insurance, provided that the reserve is not used to pay any third-party liability claims.[3] The parties further agreed that this accrual would continue for a maximum of five years and that, after that time, if TNMP had not commenced or been the subject of another base-rate proceeding, TNMP would reduce its annual accrual to $349,700.

Q. DOES TNMP SEEK COMMISSION APPROVAL TO UTILIZE ITS SELF-INSURANCE RESERVE FOR ANY ADDITIONAL COVERAGES?

A. Yes. As noted in 1(a) above, the Company is proposing to expand the coverage of its self-insurance reserve to the full extent authorized by law. Please refer to the direct testimony of TNMP Witness Rebecca Tafoya for additional pertinent information.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I recommend the following:

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[1] *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Docket No. 36025, Stipulation (July 13, 2009).
[2] *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Docket No. 38480, Stipulation (Dec. 10, 2010).
[3] *Application of Texas-New Mexico Power Company for Authority to Change Rates*, Docket No. 48401, Stipulation (Nov. 2, 2018).

1. TNMP's self-insurance reserve account be charged for:

(a) the utility's potential liability or catastrophic property loss, including windstorm, fire, wildfire, and explosion losses, that could not have been reasonably anticipated and included under operating and maintenance expenses; and

(b) potential damages the utility may be liable for resulting from personal injury or property damage caused by a wildfire.[4]

2. TNMP's self-insurance reserve account should be used for losses of $50,000 or more as defined above which could not have been reasonably anticipated and are caused by events that are not covered, paid, or reimbursed by commercial insurance. If the loss is in excess of $50,000 then the entire amount should be charged to the self-insurance account.

3. TNMP's self-insurance reserve be funded by an annual accrual of $6,031,000, which is comprised of two elements. First, an annual accrual of $2,848,000 each year to provide for average annual expected losses from all losses identified in item 1 above. Second, an accrual of $3,183,000 each year accrued over five years to achieve the target reserve level from the current reserve level, which sits at a deficit of ($6,827,252). As explained herein, the $6,031,000 annual accrual aligns with the average annual expected loss, estimated using a Monte Carlo simulation run on the loss history of the Company. The target reserve level should be set at $9,089,000. This estimate is shown on Exhibit GSW-3.

[4] The coverage of TNMP's proposed self-insurance reserve is consistent with PURA § 36.064(a)(1)-(2).

III. SELF-INSURANCE RESERVE BACKGROUND

Q. PLEASE DESCRIBE THE PURPOSE OF A SELF-INSURANCE RESERVE AND EXPLAIN HOW IT OPERATES.

A. The purpose of a self-insurance reserve like TNMP's is to cover both unexpected liability losses and unexpected property losses resulting from damage to the Company's transmission property and infrastructure for losses not covered by commercial insurance. This includes any loss to the transmission property and payment of any deductibles or losses below the per-occurrence deductible amounts for the commercially insured assets. Operation and maintenance expenses will be recovered, but capital expenses will not.

Each year, an amount of money would be accrued in the self-insurance reserve which should provide for losses expected to occur in the calendar year. In addition to this amount, an accrual would be made to raise the self-insurance reserve to a level that would serve as a financial buffer in the event that actual losses exceed the accrued annual expected loss amount. Accruals would be made to this reserve until it reaches the recommended target level, at which point contributions to the reserve would reduce to the lower of annual expected losses or actual losses.

Q. WHAT HAPPENS IF THE ANNUAL AGGREGATE LOSSES DO NOT EQUAL THE AMOUNT ACCRUED IN ANY GIVEN YEAR?

A. If the annual aggregate losses exceed the amount accrued in any given year, the remaining reserve would be drawn upon to provide the additional amounts needed. If the annual aggregate losses are less than the amount accrued for that purpose,

the excess annual accrual would remain in the self-insurance reserve, serving to bring the self-insurance reserve closer to its target level.

Q. WHY IS IT NECESSARY TO BUILD THE SELF-INSURANCE RESERVE UP TO A CERTAIN TARGETED LEVEL?

A. The range of expected losses covered by the self-insurance reserve varies considerably from year to year, as will the actual losses that TNMP will incur. The self-insurance reserve needs to be sufficient to cover the losses for each year, knowing that any given year's actual losses may be very different from the average expected losses. Hence, a reserve large enough to provide for some variation in the annual aggregate amount of losses is needed.

Q. IS TNMP'S PROPOSED SELF-INSURANCE RESERVE IN THE CUSTOMERS' BEST INTEREST?

A. Yes. TNMP's proposed self-insurance reserve is in the best interest of the Company's customers. As will be shown later, it provides a lower cost alternative than purchasing insurance for all losses. At the same time, it provides for utility rate stability by providing for a self-insurance reserve to absorb the variation in the experience from the expected annual losses so that customers' rates will not reflect dramatically different self-insurance losses from one year to the next.

IV. ANNUAL EXPECTED LOSSES

Q. HOW MUCH MONEY SHOULD TNMP ACCRUE ANNUALLY IN THE SELF-INSURANCE RESERVE TO COVER THE EXPECTED LOSSES FOR EACH YEAR?

A. The amount I recommend to be accrued annually for expected losses for the self-insurance reserve is $2,848,000. This amount is the average value of the annual losses expected to be incurred by TNMP. The recommended amount is calculated using a Monte Carlo simulation using the parameters calculated from the loss history between July 2015 and June 2025 (summarized on Exhibit GSW-4).

A Monte Carlo simulation is a statistical technique incorporating a computer program to simulate loss experience over a longer period of time than the period captured in the available loss history. The program simulates individual losses on an annual basis for TNMP for 50,000 iterations of annual experience. A statistical distribution is estimated from TNMP's loss experience adjusted to reflect current conditions and current cost levels and then input into the model. The model is run 50,000 times, each time simulating a possible outcome. From these 50,000 iterations of simulated experience, I was able to determine that the average annual indicated loss over this period was $2,848,000.

Exhibit GSW-5 contains an example showing how each historic loss was adjusted to reflect the current cost levels using the Handy-Whitman index of cost trends of electric utility construction for the South Central Region. The Handy-Whitman index data is a standard type of database used to measure cost changes for utility companies. The loss in the example occurred on February 03, 2022, for $1,141,289. The Handy-Whitman index as of January 1, 2022, was 855; as of July 1, 2022, it was 897. Interpolating between these two points to February 03, 2022, produces an expected index of 862.657. As of July 1, 2025, the Handy-Whitman index was 1259. Thus, the change from February 03, 2022, to July 1, 2025, was

1259 divided by 862.657 or 1.459 (45.9% increase). Multiplying the loss of $1,141,289 by 1.459 gives a cost-adjusted loss of $1,665,140. This procedure was used for each loss that occurred during the experience period. This approach is reasonable because it adjusts historic costs to current dollar levels.

V. TARGET RESERVE

Q. WHAT IS THE TARGET AMOUNT OF MONEY NEEDED TO PROVIDE FOR AN ADEQUATE SELF-INSURANCE RESERVE?

A. The recommended total target amount of the reserve is $9,089,000, which is the amount of O&M damage expected to result from a 25-year event. The Company needs to provide for severe losses to ensure safe, reliable, and adequate service to ratepayers.

Q. WHY IS IT NECESSARY TO ACCRUE MORE TO THE SELF-INSURANCE RESERVE THAN THE AMOUNT FOR EXPECTED LOSSES?

A. The accrual is intended to cover only the average annual expected loss from a covered occurrence. These losses can range from very low to millions of dollars in any one year. The self-insurance reserve needs to be built up to provide for extreme or catastrophic events in any one year.

Q. **HOW WAS YOUR TARGET RESERVE OF $9,089,000 DEVELOPED?**

A. As indicated above, I ran a Monte Carlo simulation on the loss history of TNMP. From the 50,000 iterations of simulated experience, I was able to determine that in any 25-year period, the largest expected loss is approximately $9,089,000.

Q. WHY IS THIS RESERVE LEVEL APPROPRIATE?

A. This reserve level is the amount that should be carried by TNMP to make an actuarially sound provision for coverage of the self-insured losses. The target reserve will be sufficient if annual losses are equal to or less than the target in a given year provided the reserve is already in place at its target amount; but if the actual losses exceed the amount accrued for the expected annual amount for several years in a row, the self-insurance reserve may be depleted.

For example, once the reserve level has been reached, if there are several years with losses of approximately $2,800,000, then the reserve will remain unused. However, if there are two consecutive years with annual aggregate losses of more than $7,500,000 each year, the self-insurance reserve would be in a deficit position. The deficit amount would need to be collected from future ratepayers.

Q. WHAT IS THE CURRENT STATUS OF THE BALANCE OF THE RESERVE?

A. As of the end of the test year period, the self-insurance reserve was at a deficit of $6,827,252.

Q. WHAT ARE THE INDIVIDUAL COMPONENTS OF THE ANNUAL ACCRUAL TO THE SELF-INSURANCE RESERVE INDICATED BY YOUR ANALYSIS?

A. The annual amount to be accrued each year is $6,031,000, which is composed of two elements. First, there is $2,848,000 each year to provide for the year's annual expected losses Second, there should be an accrual of $3,183,000 each year for five years to provide for the variation in annual losses from year to year by building the total self-insurance reserve from the current balance up to the $9,089,000 level. I have recommended a five-year period to balance the interests of future ratepayers versus past ratepayers.

Q. ARE THESE CALCULATIONS PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACTUARIAL PROCEDURES?

A. Yes. The process reflects generally accepted actuarial procedures. However, I have made certain adjustments to reflect the nature of ratemaking for public utilities. For example, it would be customary to project losses to the anticipated cost level of the future time period during which rates will be in effect. Because of the historical test year approach to utility ratemaking and the adjustment of expense items based on known and measurable quantities only, I have limited loss adjustments to the cost levels. The dates to which the losses were adjusted reflect the dates of the most recent indices available at the time the adjustments were made. On the other hand, common actuarial practice would be to project the cost of expected losses to the future period when they will be incurred, a level that would be greater than the figure contained in my testimony.

In addition, no adjustment has been made to reflect future increased exposure to loss. For example, in 2026 TNMP may own more property in the service area that is exposed to loss than it had in years prior to 2025. This would increase the exposure to loss, and lead to a higher recommended reserve.

Q. HOW WILL THE SELF-INSURANCE RESERVE ACCRUALS OPERATE?

A. The excess of annual expected losses over actual self-insured losses, to the extent there is any such excess, will accrue to the self-insurance target reserve and cause TNMP to reach its target earlier, all other things being equal. Any deficiency between the annual expected losses and the actual self-insured layer losses in

any calendar year will serve to extend the period over which the Company can expect to reach its target.

VI. COST BENEFIT ANALYSIS

Q. **DID YOU PERFORM A COST-BENEFIT ANALYSIS TO DETERMINE IF THE USE OF A SELF-INSURANCE RESERVE IS A LOWER COST ALTERNATIVE FOR THE COMPANY THAN THE PURCHASE OF COMMERCIAL INSURANCE?**

A. Yes, I did.

Q. WHAT IS THE RESULT OF THE COST BENEFIT ANALYSIS?

A. The cost benefit analysis shows that a self-insurance accrual in the amount recommended in this testimony is a lower cost alternative that the purchase of commercial insurance, if such insurance is even available in the market.

Q. HOW DID YOU DETERMINE THAT SELF INSURANCE IS A LOWER COST OPTION THAT PURCHASING INSURANCE?

A. Insurance companies include provisions in their premiums for all costs associated with the transfer of the insurance risk. Hence, they include provisions for losses, loss adjustment expenses, non-loss related expenses, premium taxes, and a profit. A self-insurance reserve, such as TNMP's reserve, does not need to include many of the provisions other than those for losses and loss-related expenses. For example, a self-insurance reserve does not need to pay premium taxes and other state-imposed fees. In addition, an insurance company needs to make a profit on the business it transacts. A self-insurance reserve, on the other hand, is not intended to generate a profit and, hence, no provision for profit needs to be

included in the accrual provisions. Insurance companies also incur costs associated with the acquisition of insured risks. The largest of these expenses is that associated with the payment of commissions to insurance agents or brokers to place the business, which costs the Company's self-insurance reserve does not incur. Finally, an insurance company must expend resources to underwrite risks, market its products, and maintain overhead expenses. Here as well, a self-insurance reserve does not need to account for these costs.

Furthermore, when an insurance company provides coverage for large losses, it includes a loading to reflect the risk that the insured will incur a major loss in the next year. This is referred to as a risk load, which increases the cost of the insurance. Because the self-insurance reserve is built up to a desired level, there is no need to include a risk load.

The final, and perhaps the most important advantage to self insuring is that if the expected levels of losses are not realized in any particular year, the insurance reserve will grow and provide additional protection for future losses. As required by PURA § 36.064, ratepayers will realize the benefit of the self-insurance reserve balance, because any revenues collected in excess of the amounts netted against losses in a year will accrue to be applied to future losses. Conversely, if commercial insurance is purchased, the insurance company would retain the premium and there would be no benefit to the ratepayers.

Q. **WHAT OTHER ANALYSIS HAVE YOU RELIED UPON TO SHOW THAT THE COST FOR THE SELF-INSURED LAYER IS LOWER THAN THE COST OF**

COMMERCIAL INSURANCE FOR THE SAME LAYER OF INSURANCE AND IS IN THE INTEREST OF THE COMPANY'S CUSTOMERS?

A. Comparing the cost of self-insurance versus the cost of buying insurance is another way to establish that it is more cost effective for TNMP to self-insure. TNMP's experience is that this type of coverage is significantly more expensive than self-insurance. My understanding is that private coverage continues to be prohibitively expensive. Please refer to the testimony of TNMP witness Rebecca Tafoya for additional detail. As a result, I conclude that commercial insurance is not an economically feasible or reasonable option and the most viable way to protect TNMP's assets is through the recommended self-insurance program.

VII. CONCLUSION

Q. **WHAT DO YOU CONCLUDE REGARDING TNMP'S REQUEST FOR SELF-INSURANCE RESERVE TO T&D PROPERTY LOSSES?**

A. I have conducted an analysis that meets the Commission's rule requirements and have demonstrated that self-insurance is necessary and desirable given the lack of reasonably priced commercial insurance.

My conclusion is that TNMP's annual accrual amount should be set at $6,031,000 which is composed of $2,848,000 each year to cover the annual expected losses and $3,183,000 to build the self-insurance reserve to a reasonable target level. In addition, I conclude that the requested self-insurance plan is a lower cost alternative to purchasing commercial insurance, when considering all costs. Finally, I conclude that the plan is in the best interests of TNMP's customers and

that TNMP's customers will receive the benefits of the savings produced by the plan.

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

A. Yes, at this time.

AFFIDAVIT

STATE OF HAWAII §
§
COUNTY OF MAUI §

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

"My name is Gregory S. Wilson. I am of legal age, a resident of the State of Hawaii, 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 3 day of November, 2025, to certify which witness my hand and seal of office.

Julie R Clark
NOTARY PUBLIC in and for the State of Hawaii
Printed Name: Julie R Clark
My Commission expires: 10-20-28
Notary ID#: 24-184

Doc. Date: 11/3/25 # Pages: 1
Notary Name: Julie R Clark Second Circuit
Doc. Description: affidavit
Julie R Clark
Notary Signature Date
11/3/25

JULIE R. CLARK NOTARY PUBLIC No. 24-184 STATE OF HAWAII
10/20/28

JULIE R. CLARK NOTARY PUBLIC No. 24-184 STATE OF HAWAII
10/20/28

GREGORY S. WILSON, FCAS, MAAA
Vice President and Principal

CURRENT POSITION

Mr. Wilson is a Vice President and Principal with Lewis & Ellis, Inc.

EXPERIENCE:

Mr. Wilson's responsibilities include evaluating the adequacy of insurance company reserve levels in conjunction with actuarial certification for the annual statement as well as state insurance department examinations. He also evaluates the adequacy of loss reserves for several self-insured companies. In addition, he performs rate level analyses for insurance companies and helps them prepare filings for the state insurance departments, as well as self-insured analyses for electric utilities and prepares testimony for the Public Utility Commission.

Prior to joining the firm, Mr. Wilson was a Principal Consultant at PricewaterhouseCoopers LLP. His responsibilities were similar to his current responsibilities. In addition, he reviewed retrospective rating calculations for several companies involved in class action litigation in Texas. He also performed several funding analyses for governmental entities.

Prior to joining PricewaterhouseCoopers LLP, Mr. Wilson was Vice President of Amica Mutual Insurance Company in Providence, Rhode Island.

There, he supervised all aspects of ratemaking, from procedures to recommendations, helped negotiate the purchase of reinsurance, determined IBNR, developed a strategy for Massachusetts Automobile and developed other states' residual market strategies, in particular, New York and New Jersey.

EDUCATION

Mr. Wilson received his Bachelor’s degree in Applied Mathematics from the University of Rhode Island.

PROFESSIONAL ACTIVITIES

Mr. Wilson is a former member of the Casualty Actuarial Society's Examination Committee, Committee on Ratemaking, and Committee on Reserving. He is also a Past President of the Southwest Actuarial Forum.

Sec. 36.064. SELF-INSURANCE. (a) An electric utility may self-insure all or part of:

(1) the utility's potential liability or catastrophic property loss, including windstorm, fire, wildfire, and explosion losses, that could not have been reasonably anticipated and included under operating and maintenance expenses; and

(2) potential damages the utility may be liable for resulting from personal injury or property damage caused by a wildfire.

(b) The commission shall approve a self-insurance plan under this section if the commission finds:

(1) the coverage is in the public interest;

(2) one of the following:

(A) the plan, considering all costs, is a lower cost alternative to purchasing commercial insurance;

(B) commercial insurance alone is insufficient to cover potential liability, damages, or catastrophic property loss; or

(C) the electric utility cannot obtain commercial insurance for a reasonable premium; and

(3) ratepayers will receive the benefits of the savings.

(c) In computing an electric utility's reasonable and necessary expenses under this subchapter, the regulatory authority, to the extent the regulatory authority finds is in the public interest, shall allow as a necessary expense the money credited to a reserve account for self-insurance. The regulatory authority shall determine reasonableness under this subsection:

(1) from information provided at the time the self-insurance plan and reserve account are established; and

(2) on the filing of a rate case by an electric utility that has a reserve account.

(c-1) In approving a self-insurance plan under this section, the commission shall prioritize the consideration of the presence and potential extent of wildfire losses, including:

(1) historical data;

(2) actuarial studies and analyses; and

(3) the risk of the electric utility's exposure to losses from multiple types of disasters occurring within the utility's service territory.

(d) After a reserve account for self-insurance is established, the regulatory authority shall:

(1) determine whether the reserve account has a surplus or shortage under Subsection (e); and

(2) subtract any surplus from or add any shortage to the utility's rate base.

(e) A surplus in the reserve account exists if the charges against the account are less than the money credited to the account. A shortage in the reserve account exists if the charges against the account are greater than the money credited to the account.

(f) The allowance for self-insurance under this title for ratemaking purposes is not applicable to nuclear plant investment.

(g) The commission shall adopt rules governing self-insurance under this section.

(h) Subsection (a)(2) does not authorize an electric utility to self-insure under this section for damages from a wildfire event the utility caused intentionally, recklessly, or with gross negligence.

Acts 1997, 75th Leg., ch. 166, Sec. 1, eff. Sept. 1, 1997.

Amended by:

Acts 2025, 89th Leg., R.S., Ch. 1072 (H.B. 145), Sec. 1, eff. June 20, 2025.

CHAPTER 25. SUBSTANTIVE RULES APPLICABLE TO ELECTRIC SERVICE PROVIDERS.
Subchapter J. COSTS, RATES AND TARIFFS.
DIVISION 1. RETAIL RATES.
§25.231. Cost of Service.

***

(a) **Components of cost of service.** Except as provided for in subsection (c)(2) of this section, relating to invested capital; rate base, and §23.23(b) of this title, (relating to Rate Design), rates are to be based upon an electric utility's cost of rendering service to the public during a historical test year, adjusted for known and measurable changes. The two components of cost of service are allowable expenses and return on invested capital.

(b) **Allowable expenses.** Only those expenses which are reasonable and necessary to provide service to the public will be included in allowable expenses. In computing an electric utility's allowable expenses, only the electric utility's historical test year expenses as adjusted for known and measurable changes will be considered, except as provided for in any section of these rules dealing with fuel expenses.

(1) **Components of allowable expenses.** Allowable expenses, to the extent they are reasonable and necessary, and subject to this section, may include, but are not limited to the following general categories:

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(G) Accruals credited to reserve accounts for self-insurance under a plan requested by an electric utility and approved by the commission. The commission may consider approval of a self insurance plan in a rate case in which expenses or rate base treatment are requested for a such a plan. For the purposes of this section, a self insurance plan is a plan providing for accruals to be credited to reserve accounts. The reserve accounts are to be charged with property and liability losses which occur, and which could not have been reasonably anticipated and included in operating and maintenance expenses, and are not paid or reimbursed by commercial insurance. The commission will approve a self insurance plan to the extent it finds it to be in the public interest. In order to establish that the plan is in the public interest, the electric utility must present a cost benefit analysis performed by a qualified independent insurance consultant who demonstrates that, with consideration of all costs, selfinsurance is a lower-cost alternative than commercial insurance and the ratepayers will receive the benefits of the self insurance plan. The cost benefit analysis must present a detailed analysis of the appropriate limits of self insurance, an analysis of the appropriate annual accruals to build a reserve account for self insurance, and the level at which further accruals should be decreased or terminated.

Texas New Mexico Power Company
Calculation of Recommended Accrual

(1)	Expected Annual Loss	2,848,000
(2)	Target Reserve	9,089,000
(3)	Current Deficit	6,827,252
(4)	Incremental Amount to Build Reserve [(2)+(3)]/5.0	3,183,000
(5)	Total Annual Accrual (1)+(3)	6,031,000

Texas-New Mexico Power Company
Charges to Self-Insurance Reserve
Adjusted to Current Cost Levels
2015-2025

Year	Actual Loss	Trended Loss
2nd half 2015	37,297	71,609
2016	74,013	141,587
2017	650,847	1,193,823
2018	174,806	307,501
2019	132,264	223,129
2020	2,845,317	4,620,494
2021	4,836,178	7,439,295
2022	5,119,671	7,330,787
2023	3,075,677	3,412,636
2024	1,368,546	1,368,546
1st half 2025	780,329	780,329
Total	19,094,944	26,889,736
Average	1,909,494	2,688,974

Texas-New Mexico Power Company
Example of Loss Trending Methodology

1)	Date of Loss	3-Feb-22
2)	Amount of Loss	$1,141,289
3)	Handy-Whitman Index - Electric Utility Construction South Central Region - Distribution Plant	
	a) January 1, 2022	855
	b) July 1, 2022	897
	c) February 3, 2022	862.657
	d) July 1, 2025	1259
4)	Trend Factor (3d) / (3c)	1.459
5)	Cost-Adjusted Losses (2) x (4)	$1,665,140

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

WORKPAPERS FOR THE DIRECT TESTIMONY OF GREGORY WILSON

None of Mr. Wilson's workpapers are voluminous under RFP General Instruction No. 12(c).

Date of Storm/Index	Trans. & Dist. Gross Loss	Handy-Whitman Index	Interpolated Index	Trend Factor	Trended Loss	Natural Log
01/01/15		649				
02/18/15	2,000,000		649.000	1.940	3,880,000	15.1713457
07/01/15		649				
09/12/15	396,533		652.571	1.929	764,912	13.5475164
10/17/15	182,071		654.283	1.924	350,304	12.7665575
11/15/15	37,297		655.701	1.920	71,609	11.1789816
01/01/16		658				
05/15/16	13,905		658.000	1.913	26,601	10.1886937
06/15/16	60,108		658.000	1.913	114,986	11.6525673
07/01/16		658				
01/01/17		672				
01/04/17	97,058		672.199	1.873	181,789	12.1106044
02/15/17	70,872		674.983	1.865	132,177	11.7918984
05/15/17	43,675		680.884	1.849	80,756	11.2991852
07/01/17		684				
08/25/17	536,299		688.185	1.829	980,890	13.7962161
01/01/18		698				
05/20/18	91,781		707.215	1.780	163,370	12.0037737
07/01/18		710				
11/04/18	83,025		725.065	1.736	144,131	11.8784766
01/01/19		732				
07/01/19		734				
09/18/19	132,264		746.451	1.687	223,129	12.3155065
01/01/20		763				
02/26/20	65,237		767.154	1.641	107,053	11.5810805
05/27/20	250,629		773.904	1.627	407,774	12.9184682
06/19/20	2,000,000		775.610	1.623	3,246,000	14.992934
07/01/20		776.5				
07/27/20	80,419		776.005	1.622	130,439	11.7786621
08/27/20	449,032		775.416	1.624	729,228	13.4997417
01/01/21		773				
01/10/21	79,155		774.144	1.626	128,706	11.7652868
02/15/21	638,954		778.718	1.617	1,033,188	13.8481599
02/15/21	294,693		778.718	1.617	476,519	13.0742634
07/01/21		796				
09/15/21	1,823,376		820.370	1.535	2,798,882	14.8447305
11/11/21	2,000,000		838.647	1.501	3,002,000	14.9147893
01/01/22		855				
02/03/22	1,141,289		862.657	1.459	1,665,140	14.3254198
02/04/22	719,423		862.890	1.459	1,049,638	13.8639561
02/22/22	1,258,959		867.066	1.452	1,828,009	14.418738
07/01/22		897				
07/06/22	2,000,000		903.168	1.394	2,788,000	14.8408351
01/01/23		1124				
03/01/23	2,604,954		1133.290	1.111	2,894,104	14.8781862
03/06/23	190,949		1134.077	1.110	211,953	12.2641221
06/08/23	226,890		1148.878	1.096	248,672	12.4238895
06/16/23	52,884		1150.138	1.095	57,907	10.9666018
07/01/23		1152.5				
01/01/24		1259				
03/15/24	367,482		1259.000	1.000	367,482	12.8144303
04/10/24	333,352		1259.000	1.000	333,352	12.7169543
05/25/24	99,880		1259.000	1.000	99,880	11.5117251

Date of Storm/Index	Trans. & Dist. Gross Loss	Handy-Whitman Index	Interpolated Index	Trend Factor	Trended Loss	Natural Log
05/28/24	209,373		1259.000	1.000	209,373	12.2518717
05/31/24	109,686		1259.000	1.000	109,686	11.6053753
07/01/24		1259				
09/11/24	248,773		1259.000	1.000	248,773	12.424298
01/01/25		1259				
01/10/25	391,368		1259.000	1.000	391,368	12.8774032
01/20/25	295,699		1259.000	1.000	295,699	12.5970979
05/18/25	93,262		1259.000	1.000	93,262	11.4431722
07/01/25		1259				

Total

Average

Total Number of Claims	39
Number of Years	10
Average per year	3.90
Avg Natural Log of Losses	12.7172351
Std Dev of Natural Log	1.2568368
Average Annual Accrual	2,127,260
Indicated Reserve Size	8,190,914