

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S APPLICATION)
FOR APPROVAL OF A 345 KV TRANSMISSION)
LINE AND ASSOCIATED FACILITIES PURSUANT)
TO THE PUBLIC UTILITY ACT,)
)
PUBLIC SERVICE COMPANY OF NEW MEXICO,)
)
Applicant.)
_____)**

Case No. 18-00__UT

DIRECT TESTIMONY

OF

KELLI C. ALCANTAR

August 10, 2018

NMPRC CASE NO. 18-00__-UT
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WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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PNM EXHIBIT KCA-1	Résumé of Kelli C. Alcantar
PNM EXHIBIT KCA -2	Estimated Annualized Revenue Requirement

AFFIDAVIT

**DIRECT TESTIMONY OF
KELLI C. ALCANTAR
NMPRC CASE NO. 18-00 ___-UT**

I. INTRODUCTION

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

A. My name is Kelli C. Alcantar. I serve as Manager, Cost of Service for PNMR Services Company (“PNMR Services”) and its affiliates, including Public Service Company of New Mexico (“PNM” or the “Company”). My business address is Public Service Company of New Mexico, 414 Silver SW, Albuquerque, NM 87102.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. My educational background and professional experience are summarized in PNM Exhibit KCA-1.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS MANAGER OF COST OF SERVICE.

A. As Manager, Cost of Service, I am responsible for revenue requirement-related work for all regulated subsidiaries of PNM Resources, Inc., including PNM and Texas New Mexico Power Company. This responsibility includes preparation of revenue requirement analyses and supporting testimony for regulatory filings.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My testimony supports PNM’s application to the New Mexico Public Regulation Commission (“Commission”) for issuance of a Certificate of Public Convenience and

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1 Necessity (“CCN”) and related approvals for a 345kV transmission project and associated
2 facilities located in Santa Fe and Sandoval counties, New Mexico (the “BB2 Project” or
3 “Proposed Project”). Among the approvals sought, PNM is requesting that the Commission
4 determine the ratemaking principles and treatment that will apply to the BB2 Project in all
5 future ratemaking proceedings. My testimony describes the BB2 Project’s revenue
6 requirements and addresses the following specific approvals requested in PNM’s
7 Application:

- 8 • to include the actual cost to construct the BB2 Project, estimated at \$85.0 million,
9 including the Allowance for Funds Used During Construction (“AFUDC”), in PNM’s
10 total company rate base in future ratemaking proceedings as the capital cost for the
11 BB2 Project. To the extent there are any cost overruns, PNM seeks authorization to
12 recover those additional costs in rates upon the Commission determining that the
13 additional costs were prudently incurred, using 17.3.580 NMAC (“Rule 580”) to
14 guide that review; and
- 15 • to recover in future ratemaking proceedings the reasonable actual operation and
16 maintenance (“O&M”) costs, property taxes and depreciation expenses associated
17 with the BB2 Project.

18
19 **Q. HAVE YOU PREPARED EXHIBITS IN ADDITION TO PNM EXHIBIT KCA-1?**

20 **A.** Yes, I also prepared PNM Exhibit KCA-2: BB2 Project – Estimated Annualized Revenue
21 Requirement.

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1 **II. COST AND REVENUE REQUIREMENTS**

2 **Q. WHAT IS THE ESTIMATED COST OF THE BB2 PROJECT?**

3 **A.** PNM estimates construction and construction-related costs to be \$85.0 million, including
4 AFUDC of approximately \$3.5 million calculated using the formula prescribed in the Federal
5 Energy Regulatory Commission (“FERC”) Uniform System of Accounts. Actual AFUDC
6 rates will be calculated based on actual capital costs as funds are expended on the project.
7 PNM is asking the Commission for authorization to include the actual reasonable cost of the
8 BB2 Project in PNM’s total company rate base in future ratemaking proceedings as the
9 capital cost for the facility. The final costs actually incurred will be subject to review
10 through the general rate case process, to assure that they are consistent with the costs set
11 forth in this case. PNM proposes that the Commission apply Rule 580, which applies to
12 generation CCN projects, to ensure that if there are additional capital costs in excess of the
13 estimated \$85 million, any additional amounts PNM ultimately recovers will be reasonable
14 and prudent. Rule 580 provides that a utility may not “obtain rate recovery of any cost
15 overrun in the construction of electric generating plant until the Commission determines,
16 upon notice and hearing, whether those costs have been incurred prudently.” 17.3.580.11
17 NMAC.

18
19 **Q. WHAT IS PNM’S RETAIL SHARE OF THE ESTIMATED ANNUALIZED**
20 **REVENUE REQUIREMENT IN OF THE BB2 PROJECT?**

21 **A.** Because the expected in-service date for the BB2 Project is November 2020, PNM calculated
22 an annualized retail revenue requirement of \$5.4 million that would be included in PNM’s

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1 Cost of Service. The revenue requirement calculation is shown in PNM Exhibit KCA-2. The
2 annualized revenue requirement includes a return on average rate base and annualized O&M
3 costs, property taxes, depreciation expense, and income taxes.

4
5 **Q. HOW DID PNM DETERMINE THE AMOUNT OF REVENUE REQUIREMENTS**
6 **TO ALLOCATE TO RETAIL ON PNM EXHIBIT KCA-2?**

7 **A.** The cost of the capital investments and related O&M expenses were allocated between the
8 PNM retail jurisdiction and the FERC wholesale transmission jurisdiction based on each
9 jurisdiction's contribution to the 12 monthly coincident peak ("CP") demands on the
10 transmission system. This is the same allocation method PNM used to establish its
11 "Transmission Demand Allocator" to allocate its transmission system costs in its most recent
12 general rate case, Case No. 16-00276-UT.

13
14 **Q. HOW MUCH OF THE ANNUALIZED REVENUE REQUIREMENT IS**
15 **ALLOCATED TO THE NEW MEXICO RETAIL JURISDICTION?**

16 **A.** As reflected in PNM Exhibit KCA-2, PNM utilized an allocation of 51.16% of the revenue
17 requirement to the New Mexico retail jurisdiction. In the illustrative cost of service
18 supporting the approved modified revised stipulation in NMPRC Case No. 16-00276-UT, the
19 allocation of all transmission-related costs for the 2018 Test Period was 51.82% to PNM's
20 retail jurisdiction and 48.18% to PNM's FERC wholesale transmission jurisdiction. The
21 addition of the BB2 Project reduces the allocation to PNM retail customers to 51.16% and
22 increases the allocation to FERC wholesale transmission customers to 48.84% for purposes

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1 of calculating the annualized revenue requirement. The actual allocation of revenue
2 requirements will be determined in future ratemaking proceedings.

3
4 **Q. DOES PNM ANTICIPATE THAT ITS RECOVERY OF THE COSTS OF THE BB2**
5 **PROJECT THROUGH THE NORMAL RATEMAKING PROCESS WILL RESULT**
6 **IN AN INCREMENTAL COST INCREASE TO PNM'S RETAIL CUSTOMERS?**

7 **A.** No. As I explained above, the BB2 Project will result in an overall shift in transmission
8 related costs from retail customers to wholesale customers. In addition, and as discussed by
9 PNM witness Jeff Mechenbier in his Direct Testimony, the BB2 Project is required to
10 interconnect the La Joya wind farm. The output of that facility will be purchased by PNM
11 through the La Joya PPA approved in Case No. 18-00009-UT to serve the Facebook data
12 center in Los Lunas, New Mexico ("Data Center Customer") and by FERC wholesale
13 transmission customers. The increased energy usage by the Data Center Customer will result
14 in increased transmission revenues from the Data Center Customer. These increased
15 revenues, plus the shift in transmission allocation away from retail customers, will offset the
16 costs of the BB2 Project on a net present value ("NPV") basis.

17
18 **Q. HAS PNM DONE A NET PRESENT VALUE ANALYSIS COMPARING THE COSTS**
19 **OF THE BB2 PROJECT WITH THESE INCREMENTAL TRANSMISSION**
20 **REVENUES?**

21 **A.** Yes. In Case No. 18-00009-UT PNM demonstrated that the NPV of the BB2 Project was a
22 \$48 million cost, while the NPV of the change in transmission costs allocation was \$8
23 million cost reduction to retail ratepayers and the NPV of the increased transmission

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1 revenues from the Data Center Customer was \$65 million. *See* Direct Testimony of Henry E.
2 Monroy at 7, PNM Table HEM-2. The Final Order (Paragraph 60) in that case reviewed
3 those calculations and found that PNM provided the necessary transmission cost information
4 to support approval of PNM’s renewable energy purchased power agreements for the Data
5 Center Customer.

6
7 Those NPVs remain the same at this time because there has been no change in the estimated
8 costs of the BB2 project, transmission allocators, or Data Center Customer’s transmission
9 revenues from when PNM filed its application and supporting testimonies in Case No. 18-
10 00009-UT.

11
12 **Q. WHAT COST OF CAPITAL DID PNM USE IN CALCULATING THE RETURN**
13 **COMPONENT OF THE REVENUE REQUIREMENT FOR THE BB2 PROJECT?**

14 **A.** PNM used the capital structure and debt cost included in the illustrative cost of service
15 approved in NMPRC Case No. 16-00276-UT¹ (found in PNM’s January 23, 2018
16 compliance filing in that docket). For the cost of equity, PNM used 9.575%; the after tax
17 Weighted Average Cost of Capital (“WACC”) reflected in PNM’s revenue requirement
18 estimate is 7.20% as calculated in PNM Table KCA-1:
19

See: January 23, 2018: “Modified Revised Stipulation in Compliance with Conforming to Commission’s Orders Granting Conditional Approval.

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1 **PNM Table KCA-1 – Weighted Average Cost of Capital**

Table KCA-1					
Weighted Average Cost of capital		A	B	C	D
Line No.	Capital Component (in thousands)	Total Capitalization	Percentage of Total Capitalization	Capital Component Cost	Weighted Average Cost
1	Long Term Debt	1,465,870	50.00%	4.87%	2.43%
2	Preferred Stock	11,529	0.39%	4.62%	0.02%
3	Common Equity	1,454,340	49.61%	9.575%	4.75%
4	Total - After Tax WACC	2,931,739	100.00%		7.20%
5	Pre-Tax WACC				8.83%

2

3 **Q. IS PNM ASKING THE COMMISSION TO APPROVE THE SPECIFIC CAPITAL**
 4 **STRUCTURE AND COST COMPONENTS USED IN THE WACC CALCULATION?**

5 **A.** No. The capital structure and cost components used in the WACC calculation are used to
 6 illustrate the potential impact on revenue requirements resulting from the construction of the
 7 BB2 Project. The WACC actually used to establish revenue requirements and set rates will
 8 be determined in future ratemaking proceedings.

9

10 **Q. WHAT RATE TREATMENT IS PNM REQUESTING FOR RECOVERY OF O&M**
 11 **COSTS, PROPERTY TAXES, AND DEPRECIATION EXPENSE FOR THE BB2**
 12 **PROJECT?**

13 **A.** PNM is requesting authority to recover in future ratemaking proceedings the actual costs
 14 incurred for O&M, property taxes, and depreciation expenses for the BB2 Project. PNM
 15 estimates that these annual costs will total \$3,040,795 in the first full year. Property taxes
 16 were estimated based on the projected composite property tax rate for transmission assets

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1 included in Case No. 16-00276-UT of 3.30%. Depreciation expense will be determined in a
2 manner consistent with how other PNM-owned transmission assets are being depreciated,
3 based on approved depreciation rates. For the revenue requirement estimate, PNM assumed a
4 useful life of 38 years, which is consistent with current approved depreciation study. These
5 expense items are shown on PNM Exhibit KCA-2 lines 25, 29 and 31.

6
7 **Q. IS PNM ASKING THE COMMISSION TO AUTHORIZE A CHANGE IN RATES AT**
8 **THIS TIME?**

9 **A.** No. PNM is not asking for a change in rates at this time. PNM seeks approval of the rate
10 treatment to be applied to the BB2 project in PNM's future rate cases.

11
12 **III. CONCLUSION**

13 **Q. PLEASE SUMMARIZE THE RATEMAKING PRINCIPLES AND TREATMENT**
14 **THAT PNM IS REQUESTING.**

15 **A.** PNM is requesting that the Commission establish a Certificated Estimated Cost, including
16 AFUDC, of \$85.0 million for the proposed BB2 Project, in accordance with the standards in
17 Rule 17.3.580 NMAC. PNM also requests authorization, pursuant to NMSA 1978, 62-9-
18 1(B), to include the actual cost of construction in total company rate base in future
19 ratemaking proceedings as the capital cost for the facility, subject to Commission review at
20 that time, to assure that the incurred costs are consistent with this case and any additional
21 costs in excess of the estimated \$85 million are prudent and reasonable. PNM is also
22 requesting that the Commission authorize PNM to recover in future ratemaking proceedings

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1 the reasonable costs of O&M, property taxes, and depreciation expenses associated with the
2 BB2 Project, estimated to be \$3.0 million in the first year of plant operation.

3 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

4 **A. Yes.**

GCG # 524905

KELLI C. ALCANTAR
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Kelli C. Alcantar

Address: PNM Resources Inc.
MS 0915
414 Silver SW
Albuquerque, NM 87102

Position: Manager, Cost of Service

Education: Bachelor of Accountancy, New Mexico State University, 2003

Employment: Employed by Public Service Company of New Mexico since 2005.

Positions held within the Company include:

- Manager, Cost of Service
- Sr. Analyst, Financial Planning
- Sr. Analyst, Cost of Service
- Project Manager, Corporate Budget
- Sr. Accountant, Corporate Accounting

	A	B	C	D	E
1	PNM Exhibit KCA-2				
2	BB2 Project - Estimated Annualized Revenue Requirement				
3					
4					
5					
6					Annualized Revenue Requirement
7					
8					
9	Gross Plant				85,001,000
10					
11	Accumulated Reserve				(1,019,750)
12					
13	Net Book Value Plant in Service				83,981,250
14			<i>(Line 9 + Line 11)</i>		
15	ADIT				(110,082)
16					
17	Average Rate Base				\$ 83,871,168
18			<i>(Line 13 + Line 15)</i>		
19					
20	WACC				7.20%
21					
22	Return on Rate Base				\$ 6,038,724
23			<i>(Line 17 * Line 20)</i>		
24					
25	Depreciation Expense				2,039,500
26					
27	Income Taxes				1,367,100
28					
29	Property Tax				923,794
30					
31	O&M				77,501
32					
33	Subtotal				\$ 10,446,619
34			<i>(Line 22 + Line 25 + Line 27 + Line 29 + Line 31)</i>		
35					
36	PNM Retail Share of Non-Fuel revenue requirement <i>(Line 33 * 51.16%)</i>				\$ 5,344,104
37					
38	Revenue Tax @ 0.508573%				27,179
39	Annualized Non-Fuel Revenue Requirement				\$ 5,371,282
40			<i>(Line 36 + Line 38)</i>		
41					

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TO THE PUBLIC UTILITY ACT,)
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PUBLIC SERVICE COMPANY OF NEW MEXICO,)
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Applicant.)
_____)

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

KELLI ALCANTAR, Manager, Cost of Service at Public Service Company of New Mexico, upon being duly sworn according to law, under oath, deposes and states:
I have read the forgoing **Direct Testimony of Kelli Alcantar** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 7th day of August, 2018.

Kelli Alcantar
KELLI ALCANTAR

SUBSCRIBED AND SWORN to before me this 7th day of August, 2018.

Ronda Morehead
NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

