

C. **Issue 3.b(iii) of the Preliminary Order improperly suggests a weighing of the evidence.**

Issue 3.b(iii) of the Preliminary Order is a sub-issue to the question whether TNMP has undertaken commercially reasonable means. Issue 3.b(iii) provides:

- iii. Did TNMP employ an independent financial advisor to evaluate the sale of TNP One?

As stated above, the Commission is obligated to consider all of TNMP's actions taken as a whole in evaluating whether TNMP used commercially reasonable means. This issue incorrectly presumes that a specific act must be examined and its effect determined in isolation or that a single element of a larger issue can be dispositive. This error of law and arbitrary and capricious action imposed a burden of proof inconsistent with PURA and resulted in substantial harm to TNMP by placing undue weight on the role of Laurel Hill in the auction process as described under Error No. 8.

D. **The Preliminary Order erroneously excluded the consideration of relevant evidence.**

The Preliminary Order listed the second "issue not to be addressed" as follows:

2. Whether an adjustment should be made to account for the Commission's decision in TNMP's final fuel reconciliation to disallow certain operations and maintenance costs.

The Commission's Preliminary Order erred as a matter of law and acted in an arbitrary and capricious manner in removing this issue without consideration of the evidence offered. Applicants offered evidence that O&M expenses, which Applicants properly classified in Docket No. 27576 as eligible fuel expenses recoverable in that docket should therefore be taken into account in this case because those expenses would have affected the calculation of excess earnings. These were expenses which TNMP paid and should be able to recover. The Commission's determination that Applicants were not allowed to recover those costs was not based on any finding that they were imprudent or unnecessary but simply on an incorrect finding that they were incorrectly classified. Applicants sought to rectify the classification choice for these expenses in Docket No. 27576 by taking them into account in this docket. TNMP's evidence was relevant, and it was entitled to have the Commission consider it. The Preliminary Order deprived TNMP of its opportunity to do so, thus limiting its stranded cost recovery making the order inconsistent with law (PURA §39.252) and arbitrary and capricious.

Error No. 29: The Commission has unreasonably interpreted PURA §§ 39.252 and 39.262.

Findings of Fact 141, 141A, 141B, and 141C are erroneous because they are based on an erroneous interpretation of the statute, are arbitrary and capricious, are inconsistent with the statute, and are not based on substantial evidence. These findings are based on the presumption that S.B. 7 does not set a timeline for establishing stranded costs. This is error because S.B. 7 taken as a whole requires true-up applications to be ready to be filed on or about January 2004. For the same reasons the findings are not supported by substantial evidence and are arbitrary and capricious. These findings, even if supportable, are, legally irrelevant, because they are based on an erroneous interpretation and application of the terms “commercially reasonable means,” as described above in Error No. 9 and are implicitly statements about the timing of the sale and thus are legally irrelevant because timing considerations are improper under S.B. 7 as described above in Error No. 10. Finally, these findings are arbitrary and capricious because they impose an after-the-fact view of possible Commission action when the often stated policy of this Commission is that it will not give advisory opinions.

Error No. 30: The Commission’s findings and conclusions related to TNMP’s ability to operate TNP One as a stand-alone unit are erroneous.

Findings of Fact 143 and 143A (and the related discussion on pages 119-121 of the May 28, 2004 PFD and pages 18-21 of the June 3, 2005 Order) are erroneous because they are inconsistent with the findings of the ALJs, are not supported by substantial evidence, are arbitrary and capricious, are not made in conformance with the Texas Government Code, and are legally irrelevant under S.B. 7 because they suggest an improper “timing” of the sale.

Finding of Fact 143 changes ALJs’ proposed Finding of Fact 143 in the May 28, 2004 PFD. Finding of Fact 143A is a new finding. These findings are relevant only to the question whether the “timing” of the sale was proper which is itself a legally irrelevant consideration under PURA § 39.252(d). Finally, these findings are not supported by substantial evidence and are arbitrary and capricious. TNMP offered testimony on the viability of operating TNP One as a stand-alone entity. No witness offered any evidence disputing TNMP’s testimony.

In addition, Conclusion of Law 20B is not supported by substantial evidence, is arbitrary and capricious, and is contrary to law. The Commission has not made sufficient findings to support this conclusion, and there is not substantial evidence to support such findings. No one offered any evidence that a “study” was needed to determine whether TNMP could effectively

operate TNP One as a stand-alone entity. There was direct and uncontroverted evidence that a search was made for the contemporaneous calculations, and they could not be found.⁶² Thus, the findings (Findings of Fact 143 and 143A) are not supported by substantial evidence and are arbitrary and capricious. In addition, a TNMP witness performed the same calculations at the hearing that he had done in the past. Therefore, there is not substantial evidence to support the conclusion. Finally, Conclusion of Law 20B is contrary to law (Tex. Gov't Code §§ 2001.062 and 2003.049) because it was added by the Commission sua sponte, and not in response to Exceptions, and no party was given the opportunity to file Exceptions to the conclusion. Finally, Finding of Fact 144 is not relevant to any consideration in this case and is therefore arbitrary and capricious.

Error No. 31: The Commission has erred by failing to reasonably consider the reasonable and necessary expenses associated with retaining a financial advisor.

Finding of Fact 95 and Conclusion of Law 22 are erroneous because they are not supported by substantial evidence and are arbitrary and capricious. No one offered any evidence that Laurel Hill did not perform such services as would be reasonably provided by advisors in assisting in a sale of this type. Similarly, no one offered any evidence that an advisor would have charged an amount different from that charged by Laurel Hill. To the contrary, TNMP offered substantial evidence concerning the nature of Laurel Hill's services, the value of those services, and the fact that Laurel Hill's fees for those services were ordinary and reasonable and were consistent with the fees that other financial advisors have received for similar services. It is arbitrary and capricious to deprive TNMP of a fee paid to an advisor while at the same time stating that TNMP required an advisor. Similarly, it is arbitrary and capricious to reduce TNMP's stranded costs based on the actions of its advisor while at the same time depriving it of the recovery of the advisor's expenses. Finally, it is also arbitrary and capricious because the Commission adjusts TNMP's stranded costs by making comparisons to assumed "market values" when such market values would necessarily have to be reduced by expenses associated with the sale.

⁶² Tr. at 631, line 20 - 634, line 3 (April 16, 2004).

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Error No. 32: The Commission's June 3, 2005 Order contains clerical errors.

Several findings of fact are erroneous because they contain clerical errors. First, in the first sentence of Finding of Fact 123, the date November 7, 2002, should be November 7, 2001.⁶³ Second, Attachment A contains a minor error on line (20). Part of the heading refers to "(10) minus (14)." The correct reference should state "(13) minus (19)" as shown in the Source column. Similarly, Attachment B contains a minor error on line (19). The heading refers to "(10) minus (14)" when it should refer to "(13) minus (18)."

III. CONCLUSION

For the reasons outlined above, Applicants request that its Motion for Rehearing be granted in all respects.

Respectfully submitted,

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FIRST CHOICE POWER, INC. AND TEXAS GENERATING COMPANY, L.P.

⁶³ See Direct Testimony of Rhonda L. Lenard, TNMP Ex. 4 at RLL-2; see also Direct Testimony of Kathryn Iverson, TIEC Ex. 1 at p. 20, lines 5-6.

CERTIFICATE OF SERVICE

Counsel for Texas-New Mexico Power Company hereby certifies that a true and correct copy of this motion was served on all parties of record on June 23, 2005, by hand delivery, facsimile transmission, electronic transmission, and/or first class mail.


James Guy

EXHIBIT A

SOAH DOCKET NO. 473-04-2459
PUC DOCKET NO. 29206

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APPLICATION OF TEXAS-NEW MEXICO § BEFORE THE STATE OFFICE
POWER COMPANY, FIRST CHOICE §
POWER, INC., and TEXAS GENERATING § OF
COMPANY, L.P. TO FINALIZE §
STRANDED COST UNDER § 39.262 § ADMINISTRATIVE HEARINGS

**ERRATA AND AMENDED DIRECT TESTIMONY
OF STACY R. WHITEHURST**

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SOAH DOCKET NO. 473-04-2459
PUC DOCKET NO. 29206

APPLICATION OF TEXAS-NEW MEXICO POWER COMPANY, FIRST CHOICE POWER, INC., AND TEXAS GENERATING COMPANY, L.P. TO FINALIZE STRANDED COSTS UNDER PURA § 39.262	§ § § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS
---	----------------------------	--

**ERRATA AND AMENDED DIRECT TESTIMONY
OF STACY R. WHITEHURST**

Texas-New Mexico Power Company ("TNMP"), First Choice Power Special Purpose, L.P. ("FCP"), and Texas Generating Company, L.P. ("TGC") (collectively, the "Applicants") file this Errata and Amended Direct Testimony of Stacy R. Whitehurst.

After the Applicants filed the Direct Testimony of Stacy R. Whitehurst, they discovered a formulaic error in the spreadsheets used by Mr. Whitehurst to calculate the interest on stranded costs. Exhibits SRW-2 and SWR-3 show the calculation and accumulation of interest on stranded costs (Balances "A" and "B" respectively) beginning on January 2002 and continuing until July 22, 2004. As originally set up, however, the spreadsheets do not calculate the interest on the January 1, 2002 balance for the month of January. This is illustrated by looking at line 6 of Exhibit SRW-2 and Exhibit SRW-3. SRW-2, Column (c), line 6 shows a beginning balance of \$128,820,365 (i.e. Balance "A"). Column (i), line 6 shows the identical balance even though a full month of interest had accumulated. (Note also the "blank" entry under Column (g), which should have been the interest calculated for the month of January.) This same balance is carried forward and used to calculate the interest in the month of February. The failure to calculate and accumulate interest in the initial month caused each subsequent month, which relied on the previous month's determination, to be in error as well. This same formulaic error occurs in Exhibit SRW-3.

Corrected versions of Exhibits SRW-2 and SRW-3, along with associated supporting testimony, are attached hereto. Additionally, for the sake of convenience, a complete Amended Direct Testimony of Stacy R. Whitehurst is attached hereto as well. No other changes have been made to the testimony or exhibits.

SOAH DOCKET NO. 473-04-2459
PUC DOCKET NO. 29206

Errata to Direct Testimony of Stacy R. Whitehurst

Page 5, lines 11 – 14 has been changed as shown to read as follows:

Q. WHAT IS THE AMOUNT OF INTEREST CALCULATED FOR THE PERIOD JANUARY 1, [2002] THROUGH JULY 22, 2004 USING BALANCE "A"?

A. The amount of interest calculated using Balance "A," is \$40,184,508 \$41,736,027 as shown on line 42 43, column (g) of Exhibit SRW-2.

Page 5, lines 24 – 27 has been changed as shown to read as follows:

Q. WHAT IS THE AMOUNT OF INTEREST CALCULATED FOR THE PERIOD JANUARY 1, 2002 THROUGH JULY 22, 2004 USING BALANCE "B"?

A. The amount of interest calculated using Balance "B," is \$43,620,268 \$45,304,441 as shown on line 42 43, column (g) of Exhibit SRW-3.

Amended Exhibits SRW-2 and SRW-3 are attached hereto as Attachment 1. A complete Amended Direct Testimony and Exhibits of Stacy R. Whitehurst is attached hereto as Attachment 2.

Respectfully submitted,



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**SOAH DOCKET NO. 473-04-2459
PUC DOCKET NO. 29206**

CERTIFICATE OF SERVICE

Counsel for Applicants hereby certifies that a true and correct copy of the attached Errata and Amended Direct Testimony of Stacy R. Whitehurst was served on all parties of record on November 29, 2004, by hand delivery, facsimile transmission, electronic transmission, and/or first class mail.


James Guy

EXHIBIT A

Page 5 of 28

ATTACHMENT 1

EXHIBIT SRW-2

(AMENDED)

PAGE 1 OF 1

**TEXAS-NEW MEXICO POWER COMPANY
TOTAL TEXAS
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004
BALANCE "A"**

SPONSOR : S.R. WHITEHURST

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (\$)	CUMULATIVE NET STRANDED COST (\$)	COST OF CAPITAL RATE (%)	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING (%)	INTEREST ON PREV. MONTH'S CUM. STRANDED COST AND INTEREST BAL. (\$)	CUMULATIVE INTEREST ACCRUAL BALANCES (\$)	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY (\$)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 342,441,064	Net Book Value of Generating Assets					
2			213,620,699	less Net Market Value of Generating Assets					
3			\$ 128,820,365	Net, verifiable nonmitigable stranded costs					
4									
5	Reg. Balance		\$ 128,820,365						
6	DEC	01	\$ 128,820,365	\$ 128,820,365	11.59%	0.00918032	\$ -	\$ -	\$ 128,820,365
7	JAN	02	\$ 128,820,365	\$ 128,820,365	11.59%	0.00918032	\$ 1,182,612	\$ 1,182,612	\$ 130,002,977
8	FEB	02		128,820,365	11.59%	0.00918032	1,193,469	2,376,081	131,196,446
9	MAR	02		128,820,365	11.59%	0.00918032	1,204,425	3,580,507	132,400,872
10	APR	02		128,820,365	11.59%	0.00918032	1,215,482	4,795,989	133,616,354
11	MAY	02		128,820,365	11.59%	0.00918032	1,226,641	6,022,630	134,842,995
12	JUN	02		128,820,365	11.59%	0.00918032	1,237,902	7,260,532	136,080,897
13	JUL	02		128,820,365	11.59%	0.00918032	1,249,266	8,509,799	137,330,164
14	AUG	02		128,820,365	11.59%	0.00918032	1,260,735	9,770,534	138,590,899
15	SEP	02		128,820,365	11.59%	0.00918032	1,272,309	11,042,842	139,863,207
16	OCT	02		128,820,365	11.59%	0.00918032	1,283,989	12,326,832	141,147,197
17	NOV	02		128,820,365	11.59%	0.00918032	1,295,777	13,622,608	142,442,973
18	DEC	02		128,820,365	11.59%	0.00918032	1,307,672	14,930,280	143,750,645
19	JAN	03		\$ 128,820,365	11.59%	0.00918032	\$ 1,319,677	\$ 16,249,957	\$ 145,070,322
20	FEB	03		128,820,365	11.59%	0.00918032	1,331,792	17,581,749	146,402,114
21	MAR	03		128,820,365	11.59%	0.00918032	1,344,018	18,925,768	147,746,133
22	APR	03		128,820,365	11.59%	0.00918032	1,356,357	20,282,125	149,102,490
23	MAY	03		128,820,365	11.59%	0.00918032	1,368,800	21,650,933	150,471,298
24	JUN	03		128,820,365	11.59%	0.00918032	1,381,375	23,032,308	151,852,673
25	JUL	03		128,820,365	11.59%	0.00918032	1,394,066	24,426,365	153,246,730
26	AUG	03		128,820,365	11.59%	0.00918032	1,406,864	25,833,219	154,653,594
27	SEP	03		128,820,365	11.59%	0.00918032	1,419,770	27,252,988	156,073,363
28	OCT	03		128,820,365	11.59%	0.00918032	1,432,803	28,685,792	157,506,157
29	NOV	03		128,820,365	11.59%	0.00918032	1,445,957	30,131,749	158,952,114
30	DEC	03		128,820,365	11.59%	0.00918032	1,459,231	31,590,980	160,411,345
31	JAN	04		\$ 128,820,365	11.59%	0.00918032	\$ 1,472,628	\$ 33,063,608	\$ 161,883,973
32	FEB	04		128,820,365	11.59%	0.00918032	1,486,147	34,549,755	163,370,120
33	MAR	04		128,820,365	11.59%	0.00918032	1,499,790	36,049,545	164,869,910
34	APR	04		128,820,365	11.59%	0.00918032	1,513,559	37,563,103	166,383,468
35	MAY	04		128,820,365	11.59%	0.00918032	1,527,454	39,090,557	167,910,922
36	JUN	04		128,820,365	11.59%	0.00918032	1,541,476	40,632,033	169,452,398
37	JUL	04	Through July 22, 2004	128,820,365	11.59%	0.00918032	1,103,994	41,736,027	170,556,392
38									
39									
40									
41									
42									
43	TOTAL PERIOD		\$ 128,820,365	\$ -			\$ 41,736,027	\$ 41,736,027	\$ 170,556,392

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EXHIBIT A

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ATTACHMENT 1

EXHIBIT SRW-3

(AMENDED)

PAGE 1 OF 1

TEXAS-NEW MEXICO POWER COMPANY
TOTAL TEXAS
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004
BALANCE "B"

SPONSOR : S.R. WHITEHURST

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (\$)	CUMULATIVE NET STRANDED COST (\$)	COST OF CAPITAL RATE (%)	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING (%)	INTEREST ON PREV. MONTH'S CUM. STRANDED COST AND INTEREST BAL. (\$)	CUMULATIVE INTEREST ACCRUAL BALANCES (\$)	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY (\$)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 299,362,064	Net Book Value of Generating Assets					
2			119,527,507	less Net Market Value of Generating Assets					
3			\$ 139,834,457	Net, verifiable nonmitigable stranded costs					
4									
5		Beg. Balance	\$ 139,834,457						
6	DEC	01	\$ 139,834,457	\$ 139,834,457	11.59%	0.00918032	\$ -	\$ -	\$ 139,834,457
7	JAN	02	\$ 139,834,457	\$ 139,834,457	11.59%	0.00918032	\$ 1,283,725	\$ 1,283,725	\$ 141,118,182
8	FEB	02		139,834,457	11.59%	0.00918032	1,295,510	2,579,235	142,413,692
9	MAR	02		139,834,457	11.59%	0.00918032	1,307,403	3,886,639	143,721,096
10	APR	02		139,834,457	11.59%	0.00918032	1,319,406	5,206,045	145,040,502
11	MAY	02		139,834,457	11.59%	0.00918032	1,331,518	6,537,563	146,372,020
12	JUN	02		139,834,457	11.59%	0.00918032	1,343,742	7,881,305	147,715,762
13	JUL	02		139,834,457	11.59%	0.00918032	1,356,078	9,237,383	149,071,840
14	AUG	02		139,834,457	11.59%	0.00918032	1,368,527	10,605,910	150,440,367
15	SEP	02		139,834,457	11.59%	0.00918032	1,381,091	11,987,001	151,821,458
16	OCT	02		139,834,457	11.59%	0.00918032	1,393,770	13,380,771	153,215,228
17	NOV	02		139,834,457	11.59%	0.00918032	1,406,565	14,787,336	154,621,793
18	DEC	02		139,834,457	11.59%	0.00918032	1,419,478	16,206,814	156,041,271
19	JAN	03		\$ 139,834,457	11.59%	0.00918032	\$ 1,432,509	\$ 17,639,322	\$ 157,473,779
20	FEB	03		139,834,457	11.59%	0.00918032	1,445,660	19,084,982	158,919,439
21	MAR	03		139,834,457	11.59%	0.00918032	1,458,931	20,543,914	160,378,371
22	APR	03		139,834,457	11.59%	0.00918032	1,472,325	22,016,239	161,850,696
23	MAY	03		139,834,457	11.59%	0.00918032	1,485,841	23,502,080	163,336,537
24	JUN	03		139,834,457	11.59%	0.00918032	1,499,482	25,001,562	164,836,019
25	JUL	03		139,834,457	11.59%	0.00918032	1,513,248	26,514,809	166,349,268
26	AUG	03		139,834,457	11.59%	0.00918032	1,527,140	28,041,949	167,876,408
27	SEP	03		139,834,457	11.59%	0.00918032	1,541,159	29,583,108	169,417,565
28	OCT	03		139,834,457	11.59%	0.00918032	1,555,308	31,138,416	170,972,873
29	NOV	03		139,834,457	11.59%	0.00918032	1,569,586	32,708,002	172,542,459
30	DEC	03		139,834,457	11.59%	0.00918032	1,583,995	34,291,997	174,126,454
31	JAN	04		\$ 139,834,457	11.59%	0.00918032	\$ 1,598,537	\$ 35,890,534	\$ 175,724,991
32	FEB	04		139,834,457	11.59%	0.00918032	1,613,212	37,503,745	177,338,202
33	MAR	04		139,834,457	11.59%	0.00918032	1,628,022	39,131,767	178,966,224
34	APR	04		139,834,457	11.59%	0.00918032	1,642,967	40,774,734	180,608,191
35	MAY	04		139,834,457	11.59%	0.00918032	1,658,050	42,432,785	182,267,242
36	JUN	04		139,834,457	11.59%	0.00918032	1,673,272	44,106,058	183,940,513
37	JUL	04	Through July 22, 2004	139,834,457	11.59%	0.00918032	1,198,385	45,304,441	185,138,898
38									
39									
40									
41									
42									
43	TOTAL PERIOD		\$ 139,834,457	\$ -			\$ 45,304,441	\$ 45,304,441	\$ 185,138,898

SOAH DOCKET NO. 473-04-2459

PUC DOCKET NO. 29206

BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

**APPLICATION OF
TEXAS-NEW MEXICO POWER COMPANY,
FIRST CHOICE POWER SPECIAL PURPOSE, LP
AND TEXAS GENERATING COMPANY, L.P.
TO FINALIZE STRANDED COSTS UNDER PURA § 39.262**

**AMENDED DIRECT TESTIMONY AND EXHIBITS
OF
STACY R. WHITEHURST**

**ON BEHALF OF
TEXAS-NEW MEXICO POWER COMPANY,
FIRST CHOICE POWER SPECIAL PURPOSE, LP,
AND TEXAS GENERATING COMPANY, L.P.**

NOVEMBER 29, 2004

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Stacy R. Whitehurst

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EXHIBIT SRW-1

EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE

EXHIBIT SRW-2 (AMENDED)

**CALCULATION OF INTEREST ON STRANDED COST PER JULY 22
ORDER – BALANCE “A”**

EXHIBIT SRW-3 (AMENDED)

**CALCULATION OF INTEREST ON STRANDED COST PER JULY 22
ORDER – BALANCE “B”**

EXHIBIT SRW-4

CALCULATION OF THE TAX ADJUSTED RATE OF RETURN

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Stacy R. Whitehurst

1 I. **INTRODUCTION AND QUALIFICATIONS**

2 Q. **PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. I am Stacy R. Whitehurst. I serve as a Senior Regulatory Analyst in the
4 Regulatory Affairs Division at Texas-New Mexico Power Company ("TNMP"), a
5 wholly owned subsidiary of TNP Enterprises ("TNP"), in the Shared Services
6 organization. My business address is 4100 International Plaza, Fort Worth,
7 Texas 76109.

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

9 A. I am testifying on behalf of TNMP, First Choice Power Special Purpose, L.P.
10 ("FCP"), and Texas Generating Company, L.P. ("TGC"), collectively referred to
11 as "Applicants."

12 Q. **PLEASE DESCRIBE YOUR EDUCATIONAL AND EMPLOYMENT HISTORY.**

13 A. Exhibit SRW-1 describes my educational background and my work experience.
14

15 II. **PURPOSE OF TESTIMONY**

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

17 A. The purpose of my testimony is to discuss the method and perform the
18 calculations to determine the amount of interest that the Applicants are entitled
19 to on the stranded cost balance and on the alternative stranded cost balance, as
20 quantified in the Public Utility Commission's ("Commission") July 22, 2004 Order.
21

22 III. **EXHIBITS SPONSORED**

23 Q. **WERE THE TESTIMONY AND EXHIBITS WHICH YOU ARE SPONSORING
24 PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND
25 CONTROL?**

26 A. Yes.

27 Q. **IS THE INFORMATION IN THE TESTIMONY AND EXHIBITS THAT YOU ARE
28 SPONSORING TRUE AND CORRECT TO THE BEST OF YOUR
29 KNOWLEDGE AND BELIEF?**

30 A. Yes.

Stacy R. Whitehurst

1 **IV. BACKGROUND**

2 **Q. WHAT ISSUES ARE TO BE CONSIDERED IN THE COMMISSION'S REMAND**
3 **OF DOCKET NO. 29206 TO THE STATE OFFICE OF ADMINISTRATIVE**
4 **HEARINGS ("SOAH")?**

5 **A. The Commission has remanded this proceeding to SOAH to quantify the amount**
6 **of interest due to the Applicants on the stranded cost balances found in the July**
7 **22, 2004 Order.**

8 **Q. WHAT DOES THE COMMISSION'S REMAND ORDER REQUIRE OF THE**
9 **APPLICANTS?**

10 **A. The Applicants are required to propose an interest rate and calculate the amount**
11 **of interest based upon the two alternative stranded cost balances identified in the**
12 **Commission's July 22, 2004 Order.**

13 **Q. WHAT OTHER GUIDANCE HAVE YOU RELIED UPON IN ARRIVING AT A**
14 **GENERAL METHODOLOGY FOR THE CALCULATION OF INTEREST?**

15 **A. The Texas Supreme Court issued its revised opinion in *CenterPoint Energy, Inc.***
16 ***v. Public Utility Commission of Texas*, 143 S.W.3d 81 (Tex. 2004), on September**
17 **3, 2004. In that opinion, the Court requires that interest on stranded costs be**
18 **calculated beginning January 1, 2002. Additionally, the Commission's**
19 **Substantive Rules (P.U.C. Subst. R. 25.263(1)(3)) require the Applicants to**
20 **calculate carrying charges or interest on the total True-Up Balance. My**
21 **testimony describes the specific inputs and method used to calculate the interest**
22 **due on the stranded cost balances.**

23

24 **V. COMPONENTS USED FOR THE DETERMINATION OF INTEREST ON**
25 **STRANDED COST**

26 **Q. WHAT ARE THE TWO STRANDED COST BALANCES IDENTIFIED IN THE**
27 **JULY 22, 2004 ORDER UPON WHICH APPLICANTS ARE TO CALCULATE**
28 **INTEREST?**

29 **A. Applicants are to calculate interest on the following stranded cost balances as**
30 **set forth in the Commission's July 22, 2004 Order. The stranded cost balance**
31 **on page 64 of the Order (Finding of Fact No. 194) is referred to in the table**
32 **below as "Balance A," and the alternative stranded cost balance on page 65**
33 **(Finding of Fact No. 194A) is referred to below as "Balance B."**

Stacy R. Whitehurst

1

TABLE 1 – STRANDED COST BALANCE

DESCRIPTION	BALANCE "A"	BALANCE "B"
Net Book Value of Generating Assets	\$342,441,064	\$259,362,064
Net Market Value of Generating Assets	213,620,699	119,527,607
Stranded Cost Balance	\$128,820,365	\$139,834,457

2

3

4 Q. WHAT RATE ARE THE APPLICANTS PROPOSING TO USE TO CALCULATE
5 INTEREST ON THE STRANDED COST BALANCES?

6 A. The Applicants are proposing to use an interest rate based on the weighted
7 average cost of capital that was approved in TNMP's Unbundled Cost of Service
8 ("UCOS") proceeding, P.U.C. Docket No. 22349.

9 Q. WHAT IS THE BASIS FOR USING THE UCOS WEIGHTED AVERAGE COST
10 OF CAPITAL AS THE BASIS OF THE APPROPRIATE INTEREST RATE?

11 A. The Applicants are using the UCOS rate based on (i) the clear directive of the
12 Commission at the Open Meeting held on September 30, 2004, when the
13 remand order was issued; (ii) the direction in P.U.C. Substantive Rule
14 25.263(l)(3); and (iii) the Direct Testimony of expert witness Samuel Hadaway.

15 Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL THAT WAS
16 DETERMINED IN TNMP'S UCOS PROCEEDING?

17 A. The final order in Docket No. 22349 established TNMP's weighted average cost
18 of capital as 9.17 percent. This rate is an after-tax rate that represents the
19 necessary cost of capital to allow TNMP a fair and reasonable rate of return.
20 Exhibit SRW-4 summarizes the cost rates and capital structure that was used by
21 the Commission in that docket.

22 Q. BASED ON THIS COST OF CAPITAL, WHAT RATE DID YOU USE IN
23 CALCULATING THE INTEREST ON STRANDED COSTS?

24 A. I applied an interest rate of 11.59 percent to calculate the interest on stranded
25 costs.

EXHIBIT A
Page 12 of 28
ATTACHMENT 2

Stacy R. Whitehurst

- 1 **Q. WHAT DOES THE 11.59 PERCENT RATE REPRESENT?**
- 2 **A. The 11.59 percent rate represents the pre-tax rate based on the weighted**
3 **average cost of capital that was determined in TNMP's UCOS Docket No. 22349**
4 **(i.e., the 9.17% rate adjusted for federal income taxes).**
- 5 **Q. PLEASE DESCRIBE THE CALCULATION YOU PERFORMED TO ARRIVE AT**
6 **THE 11.59% RATE.**
- 7 **A. Exhibit SRW-4 shows the calculation that was performed to arrive at the 11.59%**
8 **rate. In short, a tax rate of 35% is utilized in the following formula: ([Tax**
9 **Rate/(1-Tax Rate)] * Equity Return) + Equity Return = Pre-Tax Rate.**
- 10 **Q. WHY IS THE APPLICATION OF THE PRE-TAX RATE (AS OPPOSED TO THE**
11 **AFTER-TAX RATE) APPROPRIATE FOR CALCULATION OF THE INTEREST**
12 **ON STRANDED COST?**
- 13 **A. The final order in Docket No. 22349 allows TNMP to earn a rate of return of**
14 **9.17%. In order to achieve this rate of return, the cost of equity portion of the**
15 **rate of return must be adjusted to reflect the requirement that TNMP will pay**
16 **federal income taxes on the revenues it receives.**
- 17 **Q. OVER WHAT PERIOD OF TIME HAVE YOU CALCULATED THE INTEREST**
18 **ON STRANDED COSTS?**
- 19 **A. Based on the Texas Supreme Court's opinion in *CenterPoint Energy, Inc. v.***
20 ***Public Utility Commission of Texas*, I have calculated a total balance which**
21 **includes stranded costs and interest beginning on January 1, 2002, and ending**
22 **on July 22, 2004.**
- 23 **Q. DOES INTEREST CONTINUE TO ACCRUE AFTER JULY 22, 2004?**
- 24 **A. Yes. For purposes of this proceeding, I have calculated interest beginning on**
25 **January 1, 2002, and ending on July 22, 2004, the date the Commission**
26 **established the stranded cost balances, to obtain a total stranded cost balance**
27 **(including interest). The Commission's rules provide that Applicants are entitled**
28 **to interest on the stranded costs until they are fully recovered.**

Stacy R. Whitehurst

1 VI. CALCULATION OF THE INTEREST AMOUNT

2 Q. HAVE YOU CALCULATED THE INTEREST ON THE STRANDED COST
3 BALANCE REFERRED TO AS BALANCE "A" IN TABLE 1 ON PAGE 3 OF
4 YOUR TESTIMONY?

5 A. Yes. Exhibit SRW-2 demonstrates the calculation.

6 Q. PLEASE DESCRIBE THE CALCULATION.

7 A. As shown in Table 1 of my testimony, the net, verifiable, nonmitigable stranded
8 cost from line 3 is \$128,820,365. This amount was utilized in Exhibit SRW-2
9 when calculating the interest amount. Interest was calculated on this balance at
10 11.59%, compounded monthly.

11 Q. WHAT IS THE AMOUNT OF INTEREST CALCULATED FOR THE PERIOD
12 JANUARY 1, THROUGH JULY 22, 2004 USING BALANCE "A"?

13 A. The amount of interest calculated using Balance "A," is \$41,736,027 as shown
14 on line 43, column (g) of Exhibit SRW-2.

15 Q. HAVE YOU CALCULATED THE INTEREST ON THE STRANDED COST
16 BALANCE REFERRED TO AS BALANCE "B" IN TABLE 1 ON PAGE 3 OF
17 YOUR TESTIMONY?

18 A. Yes. Exhibit SRW-3 demonstrates the calculation.

19 Q. PLEASE DESCRIBE THE CALCULATION.

20 A. As shown in Table 1 of my testimony, the net, verifiable, nonmitigable stranded
21 cost from line 3 is \$139,834,457. This amount was utilized in Exhibit SRW-3
22 when calculating the interest amount. Interest was calculated on this balance at
23 11.59%, compounded monthly.

24 Q. WHAT IS THE AMOUNT OF INTEREST CALCULATED FOR THE PERIOD
25 JANUARY 1, 2002 THROUGH JULY 22, 2004 USING BALANCE "B"?

26 A. The amount of interest calculated using Balance "B," is \$45,304,441 as shown
27 on line 43, column (g) of Exhibit SRW-3.

28

29 VII. CONCLUSION

30 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

31 A. Yes, it does.

Exhibit SRW-1

Page 1 of 1

STACY R. WHITEHURST

EDUCATION BACKGROUND AND BUSINESS EXPERIENCE

Stacy R. Whitehurst is a Senior Analyst in the Regulatory Affairs at Texas-New Mexico Power Company. Mr. Whitehurst graduated from Texas A&M University in 1994 with a Bachelor's Degree in Political Science. He began his career as a consultant at Van Duzee and Associates in 1995 and took an analyst/programmer position with Harris Methodist Health Systems in 1997. Mr. Whitehurst has been employed in the electric utility industry since 2000, when Mr. Whitehurst took a position as a senior programmer analyst with Texas-New Mexico Power Company. In this capacity, he was responsible for creation of and modifications to TNMP's customer information systems to support the deregulation of electricity. In August 2003, Mr. Whitehurst took his current position in the Regulatory Affairs department.

EXHIBIT A

Page 15 of 28

ATTACHMENT 2

EXHIBIT SRW-2

(AMENDED)

PAGE 1 OF 1

TEXAS-NEW MEXICO POWER COMPANY
TOTAL TEXAS
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004
BALANCE "A"

SPONSOR : S.R. WHITEHURST

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (\$)	CUMULATIVE NET STRANDED COST (\$)	COST OF CAPITAL RATE (%)	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING (%)	INTEREST ON PREV. MONTH'S CUM. STRANDED COST AND INTEREST BAL. (\$)	CUMULATIVE INTEREST ACCRUAL BALANCES (\$)	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY (\$)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 342,441,084	Net Book Value of Generating Assets					
2			213,620,699	less Net Market Value of Generating Assets					
3			\$ 128,820,365	Net, verifiable nonmitigable stranded costs					
4									
5	Beg. Balance		\$ 128,820,365						
6	DEC	01	\$ 128,820,365	\$ 128,820,365	11.59%	0.00918032	\$ -	\$ -	\$ 128,820,365
7	JAN	02	\$ 128,820,365	\$ 128,820,365	11.59%	0.00918032	\$ 1,182,612	\$ 1,182,612	\$ 130,002,977
8	FEB	02		128,820,365	11.59%	0.00918032	1,193,469	2,376,081	131,196,448
9	MAR	02		128,820,365	11.59%	0.00918032	1,204,425	3,580,507	132,400,872
10	APR	02		128,820,365	11.59%	0.00918032	1,215,482	4,795,989	133,616,354
11	MAY	02		128,820,365	11.59%	0.00918032	1,226,641	6,022,630	134,842,995
12	JUN	02		128,820,365	11.59%	0.00918032	1,237,902	7,260,532	136,080,897
13	JUL	02		128,820,365	11.59%	0.00918032	1,249,268	8,509,799	137,330,164
14	AUG	02		128,820,365	11.59%	0.00918032	1,260,735	9,770,534	138,590,899
15	SEP	02		128,820,365	11.59%	0.00918032	1,272,309	11,042,842	139,863,207
16	OCT	02		128,820,365	11.59%	0.00918032	1,283,989	12,326,832	141,147,197
17	NOV	02		128,820,365	11.59%	0.00918032	1,295,777	13,622,608	142,442,973
18	DEC	02		128,820,365	11.59%	0.00918032	1,307,672	14,930,280	143,750,645
19	JAN	03		\$ 128,820,365	11.59%	0.00918032	\$ 1,319,677	\$ 16,249,957	\$ 145,070,322
20	FEB	03		128,820,365	11.59%	0.00918032	1,331,792	17,581,749	146,402,114
21	MAR	03		128,820,365	11.59%	0.00918032	1,344,016	18,925,768	147,746,133
22	APR	03		128,820,365	11.59%	0.00918032	1,356,357	20,282,125	149,102,490
23	MAY	03		128,820,365	11.59%	0.00918032	1,368,809	21,650,933	150,471,298
24	JUN	03		128,820,365	11.59%	0.00918032	1,381,375	23,032,308	151,852,673
25	JUL	03		128,820,365	11.59%	0.00918032	1,394,056	24,426,365	153,246,730
26	AUG	03		128,820,365	11.59%	0.00918032	1,406,854	25,833,219	154,653,584
27	SEP	03		128,820,365	11.59%	0.00918032	1,419,770	27,252,988	156,073,353
28	OCT	03		128,820,365	11.59%	0.00918032	1,432,803	28,685,792	157,506,157
29	NOV	03		128,820,365	11.59%	0.00918032	1,445,957	30,131,749	158,952,114
30	DEC	03		128,820,365	11.59%	0.00918032	1,459,231	31,590,980	160,411,345
31	JAN	04		\$ 128,820,365	11.59%	0.00918032	\$ 1,472,628	\$ 33,063,608	\$ 161,883,973
32	FEB	04		128,820,365	11.59%	0.00918032	1,486,147	34,549,755	163,370,120
33	MAR	04		128,820,365	11.59%	0.00918032	1,499,790	36,049,545	164,869,910
34	APR	04		128,820,365	11.59%	0.00918032	1,513,559	37,563,103	166,383,468
35	MAY	04		128,820,365	11.59%	0.00918032	1,527,454	39,090,557	167,910,922
36	JUN	04		128,820,365	11.59%	0.00918032	1,541,478	40,632,033	169,452,398
37	JUL	04	Through July 22, 2004	128,820,365	11.59%	0.00918032	1,103,994	41,736,027	170,556,392
38									
39									
40									
41									
42									
43	TOTAL PERIOD		\$ 128,820,365	\$ -			\$ 41,736,027	\$ 41,736,027	\$ 170,556,392

EXHIBIT A

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ATTACHMENT 2

EXHIBIT SRW-3

(AMENDED)

PAGE 1 OF 1

TEXAS-NEW MEXICO POWER COMPANY
TOTAL TEXAS
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004
BALANCE "B"

SPONSOR : S.R. WHITEHURST

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (\$)	CUMULATIVE NET STRANDED COST (\$)	COST OF CAPITAL RATE (%)	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING (%)	INTEREST ON PREV. MONTH'S CUM. STRANDED COST AND INTEREST BAL. (\$)	CUMULATIVE INTEREST ACCRUAL BALANCES (\$)	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY (\$)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 258,362,064	Net Book Value of Generating Assets					
2			119,527,807	less Net Market Value of Generating Assets					
3			\$ 139,834,457	Net, verifiable nonmitigable stranded costs					
4									
5		Beg. Balance	\$ 139,834,457						
6	DEC	01	\$ 139,834,457	\$ 139,834,457	11.59%	0.00918032	\$ -	\$ -	\$ 139,834,457
7	JAN	02	\$ 139,834,457	\$ 139,834,457	11.59%	0.00918032	\$ 1,283,725	\$ 1,283,725	\$ 141,118,182
8	FEB	02		139,834,457	11.59%	0.00918032	1,295,510	2,579,235	142,413,692
9	MAR	02		139,834,457	11.59%	0.00918032	1,307,403	3,886,639	143,721,096
10	APR	02		139,834,457	11.59%	0.00918032	1,319,406	5,206,045	145,040,502
11	MAY	02		139,834,457	11.59%	0.00918032	1,331,518	6,537,563	146,372,020
12	JUN	02		139,834,457	11.59%	0.00918032	1,343,742	7,881,305	147,715,762
13	JUL	02		139,834,457	11.59%	0.00918032	1,356,078	9,237,383	149,071,840
14	AUG	02		139,834,457	11.59%	0.00918032	1,368,527	10,605,910	150,440,367
15	SEP	02		139,834,457	11.59%	0.00918032	1,381,091	11,987,001	151,821,458
16	OCT	02		139,834,457	11.59%	0.00918032	1,393,770	13,380,771	153,215,228
17	NOV	02		139,834,457	11.59%	0.00918032	1,406,565	14,787,336	154,621,793
18	DEC	02		139,834,457	11.59%	0.00918032	1,419,478	16,206,814	156,041,271
19	JAN	03		\$ 139,834,457	11.59%	0.00918032	\$ 1,432,509	\$ 17,639,322	\$ 157,473,779
20	FEB	03		139,834,457	11.59%	0.00918032	1,445,660	19,084,982	158,919,439
21	MAR	03		139,834,457	11.59%	0.00918032	1,458,931	20,543,914	160,378,371
22	APR	03		139,834,457	11.59%	0.00918032	1,472,325	22,016,239	161,850,696
23	MAY	03		139,834,457	11.59%	0.00918032	1,485,841	23,502,080	163,336,537
24	JUN	03		139,834,457	11.59%	0.00918032	1,499,482	25,001,562	164,836,019
25	JUL	03		139,834,457	11.59%	0.00918032	1,513,248	26,514,809	166,349,268
26	AUG	03		139,834,457	11.59%	0.00918032	1,527,140	28,041,949	167,876,406
27	SEP	03		139,834,457	11.59%	0.00918032	1,541,159	29,583,108	169,417,565
28	OCT	03		139,834,457	11.59%	0.00918032	1,555,306	31,138,416	170,972,873
29	NOV	03		139,834,457	11.59%	0.00918032	1,569,586	32,706,002	172,542,459
30	DEC	03		139,834,457	11.59%	0.00918032	1,583,995	34,291,997	174,126,454
31	JAN	04		\$ 139,834,457	11.59%	0.00918032	\$ 1,598,537	\$ 35,890,534	\$ 175,724,991
32	FEB	04		139,834,457	11.59%	0.00918032	1,613,212	37,503,746	177,338,202
33	MAR	04		139,834,457	11.59%	0.00918032	1,628,022	39,131,767	178,966,224
34	APR	04		139,834,457	11.59%	0.00918032	1,642,967	40,774,734	180,609,191
35	MAY	04		139,834,457	11.59%	0.00918032	1,658,050	42,432,785	182,267,242
36	JUN	04		139,834,457	11.59%	0.00918032	1,673,272	44,106,056	183,940,513
37	JUL	04	Through July 22, 2004	139,834,457	11.59%	0.00918032	1,198,385	45,304,441	185,138,898
38									
39									
40									
41									
42									
43	TOTAL PERIOD		\$ 139,834,457	\$ -			\$ 45,304,441	\$ 45,304,441	\$ 185,138,898

**TEXAS-NEW MEXICO POWER COMPANY
CALCULATION OF THE TAX ADJUSTED RATE OF RETURN**

SPONSOR : S.R. WHITEHURST

Ln. No.	AS FILED			PER SETTLEMENT				
	Percent	Cost	Wtd Cost		Percent	Cost	Wtd Cost	
1	Debt	60.00%	7.78%	4.67%	Debt	60.00%	7.78%	4.67%
2	Equity	40.00%	11.50%	4.60%	Equity	40.00%	11.25%	4.50%
3	Total	100.00%		9.27%	Total	100.00%		9.17%

Source: UCOS Docket No. 22349

Calculation

Adjustment for Income Taxes

	Percent	Cost	Wtd Cost
4 Debt	60.00%	7.78%	4.67%
5 Equity*	40.00%	17.31%	6.92%
6 Total	100.00%		11.59%

$[(\text{Tax Rate} / (1 - \text{Tax Rate})) * \text{Equity Return}] + \text{Equity Return}$

Tax rate = 35.00%
Return On Equity 11.25%

AFFIDAVIT

STATE OF TEXAS

§
§
§
§

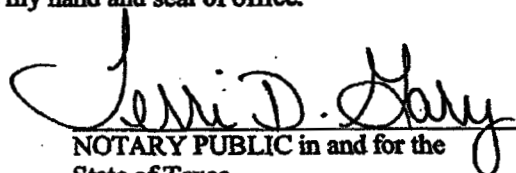
COUNTY OF TARRANT

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

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


STACY WHITEHURST

SWORN TO AND SUBSCRIBED before me, Notary Public, on this 29th day of November, 2004, to certify which witness my hand and seal of office.


NOTARY PUBLIC in and for the
State of Texas

My Commission expires

May 11, 2005

RECEIVED

SOAH DOCKET NO. 473-04-2459
PUC DOCKET NO. 29206

04 NOV 30 AM 11:40

FILING CLERK

APPLICATION OF TEXAS-NEW
MEXICO POWER COMPANY, FIRST
CHOICE POWER, INC., AND TEXAS
GENERATING COMPANY, L.P. TO
FINALIZE STRANDED COSTS
UNDER PURA §39.262

§
§
§
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§

BEFORE THE STATE OFFICE OF

ADMINISTRATIVE HEARINGS

COMMISSION STAFF'S ERRATA TO THE TESTIMONY OF DARRYL TIETJEN

TO THE HONORABLE ADMINISTRATIVE LAW JUDGE:

NOW COMES Staff of the Public Utility Commission of Texas ("Commission Staff" or "Staff"), representing the public interest, in the above titled and numbered cause, to submit these Errata to the Testimony of Darryl Tietjen:

On November 29, 2004, Texas-New Mexico Power Company, First Choice Power, Inc., and Texas Generating Company, L.P. (collectively, the "Applicants") filed errata to the testimony of Mr. Stacy Whitehurst which included changes to documents labeled exhibits "SRW-2" and "SRW-3." Mr. Tietjen relied on SRW-2 and 3 in preparing his own testimony; therefore, the errors in those documents were reflected in Mr. Tietjen's testimony and attached spreadsheets. These errata correct those errors.

In reviewing his testimony, Mr. Tietjen also identified one typographical error on page 11, line 15: "10.80%" should be "10.93%." Mr. Tietjen's errata also correct that error.

These errata reflect the correct numbers both in testimony and in the spreadsheets. Please use the attached pages to substitute into the previously filed testimony.

364 74

Respectfully submitted,

Thomas S. Hunter
Division Director - Legal and Enforcement Division

Keith Rogas
Director - Legal and Enforcement Division,
Electric Section



William L. Huie
Attorney, State Bar No. 24007411
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas, 78711-3326
Tel. 512 936 7379
Facs. 512 936 7268

CERTIFICATE OF SERVICE

I certify that a copy of this document was served on all parties of record by first class U.S. mail, postage pre-paid on this date, November 30, 2004, in accordance with P.U.C. Procedural Rule 22.74.



William L. Huie

PUC Docket 29206—Interest on Stranded Costs

Amended Page 4 of 15

1 Q. Based on the true-up balances authorized by the Commission for TNMP, what
2 would be the amount of interest as calculated with your recommended
3 methodology using the two different interest-rate assumptions?

4 A. In its order in this case dated July 22, 2004, the Commission provided two stranded-
5 cost balances—the “Balance A” amount of \$128,820,365 (reflected on page 1 of
6 Supplemental Exhibits DT-1 and DT-2); and the “Balance B” amount of
7 \$139,834,457³ (reflected on page 2 of Supplemental Exhibits DT-1 and DT-2). For
8 each of these balances, the amount of interest under the two interest-rate assumptions
9 is shown in the table below:

	Interest @	Interest @
	10.93%	7.50%
10 Balance A stranded costs: \$128,820,365	\$37,720,379	\$25,260,046
11 Balance B stranded costs: \$139,834,457	\$40,945,457	\$27,419,770
12	\$39,166,214	\$26,191,449
13	\$42,514,910	\$28,430,808
14		

15 Q. What amount of interest did the Applicants request in their interest testimony in
16 this docket?

17 A. Based on TNMP witness Mr. Whitehurst’s use of an interest rate of 11.59%, Exhibits
18 SRW-2 and SRW-3 from his testimony respectively show interest for “Balance A” as
19 \$40,184,508 and for “Balance B” as \$43,620,268.

21 III. BACKGROUND OF STRANDED-COST INTEREST ISSUE

22 Q. Please provide a brief history of how interest on stranded costs became a separate
23 issue in the Applicants’ true-up proceeding.

24 A. In December 2001, the Commission adopted Substantive Rule 23.263 (*True-up*
25 *Proceeding*). This rule included in its subsection (1), paragraph (3) the provision that
26 “carrying costs [on the true-up balance] . . . shall be calculated for the period of time

³ Amounts for “Balance A” and “Balance B” are in Findings of Fact 194 and 194A in the July 22, 2004, Order in this docket, and they are also shown in the Order’s Attachments A and B. All these documents are included in my Supplemental Exhibit DT-5.

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1 interest on true-up balances due to TNMP reflects an appropriate level of risk related
2 to the recovery of stranded costs.

3
4 **V. RECOMMENDED METHODOLOGY FOR CALCULATION OF**
5 **INTEREST ON TRUE-UP AMOUNTS**
6

7 **Q. Please describe your recommended methodology for determining the appropriate**
8 **amount of interest on Applicants' authorized true-up balances.**

9 **A. As previously stated, my recommended methodology is generally consistent with that**
10 **used by TNMP in its interest testimony. Basically, the amount of interest is calculated**
11 **on the Commission-authorized stranded-cost balances using a straightforward monthly**
12 **compounding basis. Accordingly, I have adopted the Excel spreadsheets that Mr.**
13 **Whitehurst used in his testimony. Supplemental Exhibit DT-1, page 1, line 42 shows**
14 **interest of \$37,720,379 \$39,166,214 on the "Balance A" amount using an interest rate**
15 **of 10.80% 10.93%, while page 2 of that exhibit shows interest of \$40,945,457**
16 **\$42,514,910 on the "Balance B" amount at that same rate.**

17 In contrast, Supplemental Exhibit DT-2, page 1, line 42 shows interest of
18 \$25,260,046 \$26,191,449 on the "Balance A" amount using my recommended risk-
19 adjusted interest rate of 7.50%, while page 2 of that exhibit shows interest of
20 \$27,419,770 \$28,430,808 on the "Balance B" amount at that same rate.
21

22 **Q. Do you recommend any adjustments to the *balance* of stranded costs (as reflected**
23 **in "Balance A" and "Balance B") on which interest is calculated?**

24 **A. Yes. Before the Commission performs its *final* calculation of interest on TNMP's**
25 **stranded costs, I recommend that the stranded-cost balance be adjusted for carrying**
26 **charges related to the \$19,340,031 amount of additional depreciation that the**

November 22, 2004

Supplemental Direct Testimony of Darryl Tietjen

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PUC Docket No. 29206

Amended Supplemental Exhibit DT-1

**Calculation of Interest on Stranded Costs
Using 10.93% Estimated Pretax WACC**

November 22, 2004

Supplemental Direct Testimony of Darryl Tietjen

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Docket No. 29206—Interest on Stranded Cost
Public Utility Commission

AMENDED Supplemental Exhibit DT-1
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TEXAS-NEW MEXICO POWER COMPANY
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004

Assumptions

Stranded-cost amount: "Balance A"

Interest rate: 10.93% estimated pre-tax WACC

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (See Note 1)	CUMULATIVE NET STRANDED COST	COST OF CAPITAL RATE	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING	INTEREST ON PREV. MONTHS CUM. STRANDED COST AND INTEREST BAL.	CUMULATIVE INTEREST ACCRUAL BALANCES	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 342,441,064	Net Book Value of Generating Assets					
2			213,620,692	less Net Market Value of Generating Assets					
3			\$ 128,820,365	Net, verifiable nonmitigable stranded costs					
4									
5	Reg. Balance		\$ 128,820,365						
6	JAN	2002	\$ 128,820,365	\$ 128,820,365	10.93%	0.00868157	\$ 1,118,363	\$ 1,118,363	\$ 129,938,728
7	FEB	2002		128,820,365	10.93%	0.00868157	1,128,072	2,246,434	131,066,799
8	MAR	2002		128,820,365	10.93%	0.00868157	1,137,865	3,384,300	132,204,665
9	APR	2002		128,820,365	10.93%	0.00868157	1,147,744	4,532,043	133,352,408
10	MAY	2002		128,820,365	10.93%	0.00868157	1,157,708	5,689,751	134,510,116
11	JUN	2002		128,820,365	10.93%	0.00868157	1,167,759	6,857,510	135,677,875
12	JUL	2002		128,820,365	10.93%	0.00868157	1,177,897	8,035,406	136,855,771
13	AUG	2002		128,820,365	10.93%	0.00868157	1,188,123	9,223,529	138,043,894
14	SEP	2002		128,820,365	10.93%	0.00868157	1,198,437	10,421,966	139,242,331
15	OCT	2002		128,820,365	10.93%	0.00868157	1,208,842	11,630,808	140,451,173
16	NOV	2002		128,820,365	10.93%	0.00868157	1,219,336	12,850,144	141,670,509
17	DEC	2002		128,820,365	10.93%	0.00868157	1,229,922	14,080,066	142,900,431
18	JAN	2003		\$ 128,820,365	10.93%	0.00868157	\$ 1,240,600	\$ 15,320,666	\$ 144,141,031
19	FEB	2003		128,820,365	10.93%	0.00868157	1,251,370	16,572,036	145,392,401
20	MAR	2003		128,820,365	10.93%	0.00868157	1,262,234	17,834,269	146,654,634
21	APR	2003		128,820,365	10.93%	0.00868157	1,273,192	19,107,461	147,927,826
22	MAY	2003		128,820,365	10.93%	0.00868157	1,284,245	20,391,707	149,212,072
23	JUN	2003		128,820,365	10.93%	0.00868157	1,295,393	21,687,101	150,507,466
24	JUL	2003		128,820,365	10.93%	0.00868157	1,306,641	22,993,742	151,814,107
25	AUG	2003		128,820,365	10.93%	0.00868157	1,317,984	24,311,726	153,132,091
26	SEP	2003		128,820,365	10.93%	0.00868157	1,329,426	25,641,153	154,461,518
27	OCT	2003		128,820,365	10.93%	0.00868157	1,340,968	26,982,121	155,802,486
28	NOV	2003		128,820,365	10.93%	0.00868157	1,352,610	28,334,731	157,155,096
29	DEC	2003		128,820,365	10.93%	0.00868157	1,364,332	29,699,083	158,519,448
30	JAN	2004		\$ 128,820,365	10.93%	0.00868157	\$ 1,376,197	\$ 31,075,280	\$ 159,895,645
31	FEB	2004		128,820,365	10.93%	0.00868157	1,388,145	32,463,425	161,283,790
32	MAR	2004		128,820,365	10.93%	0.00868157	1,400,196	33,863,621	162,683,986
33	APR	2004		128,820,365	10.93%	0.00868157	1,412,352	35,275,973	164,096,338
34	MAY	2004		128,820,365	10.93%	0.00868157	1,424,613	36,700,586	165,520,931
35	JUN	2004		128,820,365	10.93%	0.00868157	1,436,981	38,137,567	166,957,932
36	JUL	2004	Through 7/22/04	128,820,365	10.93%	0.00868157	1,028,647	39,166,214	167,986,579
37									
38									
39									
40									
41									
42	TOTAL PERIOD		\$ 128,820,365	\$ -			\$ 39,166,214	\$ 39,166,214	\$ 167,986,579

Note 1: The final stranded-cost balance should reflect carrying charges on the the additional \$19.341 million of additional depreciation ordered for TNMP. See Section V of my testimony.

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Docket No. 29206--Interest on Stranded Cost
Public Utility Commission

AMENDED Supplemental Exhibit DT-1

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TEXAS-NEW MEXICO POWER COMPANY
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004

Assumptions

Stranded-cost amount: "Balance B"

Interest rate: 10.93% estimated pre-tax WACC

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (See Note 1)	CUMULATIVE NET STRANDED COST	COST OF CAPITAL RATE	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING	INTEREST ON PREV. MONTHS CUM. STRANDED COST AND INTEREST BAL.	CUMULATIVE INTEREST ACCRUAL BALANCES	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 259,362,064	Net Book Value of Generating Assets					
2			119,527,607	less Net Market Value of Generating Assets					
3			\$ 139,834,457	Net, verifiable nonmalleable stranded costs					
4									
5	Beg. Balance		\$ 139,834,457						
6	JAN	2002	\$ 139,834,457	\$ 139,834,457	10.93%	0.00868157	\$ 1,213,982	\$ 1,213,982	\$ 141,048,439
7	FEB	2002		139,834,457	10.93%	0.00868157	1,224,521	2,438,504	142,272,961
8	MAR	2002		139,834,457	10.93%	0.00868157	1,235,152	3,673,656	143,508,113
9	APR	2002		139,834,457	10.93%	0.00868157	1,245,875	4,919,531	144,753,988
10	MAY	2002		139,834,457	10.93%	0.00868157	1,256,691	6,176,223	146,010,680
11	JUN	2002		139,834,457	10.93%	0.00868157	1,267,601	7,443,824	147,278,281
12	JUL	2002		139,834,457	10.93%	0.00868157	1,278,606	8,722,430	148,556,887
13	AUG	2002		139,834,457	10.93%	0.00868157	1,289,707	10,012,137	149,846,594
14	SEP	2002		139,834,457	10.93%	0.00868157	1,300,903	11,313,040	151,147,497
15	OCT	2002		139,834,457	10.93%	0.00868157	1,312,197	12,625,237	152,459,694
16	NOV	2002		139,834,457	10.93%	0.00868157	1,323,589	13,948,826	153,783,283
17	DEC	2002		139,834,457	10.93%	0.00868157	1,335,080	15,283,906	155,118,363
18	JAN	2003		\$ 139,834,457	10.93%	0.00868157	\$ 1,346,670	\$ 16,630,577	\$ 156,465,034
19	FEB	2003		139,834,457	10.93%	0.00868157	1,358,362	17,988,938	157,823,395
20	MAR	2003		139,834,457	10.93%	0.00868157	1,370,154	19,359,093	159,193,590
21	APR	2003		139,834,457	10.93%	0.00868157	1,382,049	20,741,142	160,575,739
22	MAY	2003		139,834,457	10.93%	0.00868157	1,394,048	22,135,190	161,969,647
23	JUN	2003		139,834,457	10.93%	0.00868157	1,406,150	23,541,340	163,375,797
24	JUL	2003		139,834,457	10.93%	0.00868157	1,418,358	24,959,698	164,794,155
25	AUG	2003		139,834,457	10.93%	0.00868157	1,430,671	26,390,370	166,224,827
26	SEP	2003		139,834,457	10.93%	0.00868157	1,443,092	27,833,462	167,667,919
27	OCT	2003		139,834,457	10.93%	0.00868157	1,455,620	29,289,082	169,123,539
28	NOV	2003		139,834,457	10.93%	0.00868157	1,468,257	30,757,339	170,591,796
29	DEC	2003		139,834,457	10.93%	0.00868157	1,481,004	32,238,343	172,072,800
30	JAN	2004		\$ 139,834,457	10.93%	0.00868157	\$ 1,493,862	\$ 33,732,205	\$ 173,566,662
31	FEB	2004		139,834,457	10.93%	0.00868157	1,506,831	35,239,035	175,073,492
32	MAR	2004		139,834,457	10.93%	0.00868157	1,519,912	36,758,948	176,593,405
33	APR	2004		139,834,457	10.93%	0.00868157	1,533,107	38,292,055	178,126,512
34	MAY	2004		139,834,457	10.93%	0.00868157	1,546,417	39,838,472	179,672,929
35	JUN	2004		139,834,457	10.93%	0.00868157	1,559,843	41,398,315	181,232,772
36	JUL	2004	Through 7/22/04	139,834,457	10.93%	0.00868157	1,116,595	42,514,910	182,349,367
37									
38									
39									
40									
41									
42	TOTAL PERIOD		\$ 139,834,457	\$ -			\$ 42,514,910	\$ 42,514,910	\$ 182,349,367

Note 1: The final stranded-cost balance should reflect carrying charges on the the additional \$19.341 million of additional depreciation ordered for TNMP. See Section V of my testimony.

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PUC Docket No. 29206

Amended Supplemental Exhibit DT-2

**Calculation of Interest on Stranded Costs
Using 7.50% Recommended Risk-adjusted Rate**

November 22, 2004

Supplemental Direct Testimony of Darryl Tietjen

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EXHIBIT A

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Public Utility Commission

AMENDED Supplemental Exhibit DT-2

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TEXAS-NEW MEXICO POWER COMPANY
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004

Assumptions

Stranded-cost amount: "Balance A"

Interest rate: 7.50% recommended risk-adjusted rate

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (See Note 1) (\$)	CUMULATIVE NET STRANDED COST (\$)	COST OF CAPITAL RATE (%)	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING (%)	INTEREST ON PREV. MONTHS CUM. STRANDED COST AND INTEREST BAL. (\$)	CUMULATIVE INTEREST ACCRUAL BALANCES (\$)	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY (\$)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 342,441,064	Net Book Value of Generating Assets					
2			213,620,699	less Net Market Value of Generating Assets					
3			\$ 128,820,365	Net, verifiable nonamortizable stranded costs					
4									
5	Reg. Balance		\$ 128,820,365						
6	JAN	2002	\$ 128,820,365	\$ 128,820,365	7.50%	0.00604492	\$ 778,709	\$ 778,709	\$ 129,599,074
7	FEB	2002		128,820,365	7.50%	0.00604492	783,416	1,562,125	130,382,490
8	MAR	2002		128,820,365	7.50%	0.00604492	788,152	2,350,276	131,170,641
9	APR	2002		128,820,365	7.50%	0.00604492	792,916	3,143,192	131,963,557
10	MAY	2002		128,820,365	7.50%	0.00604492	797,709	3,940,901	132,761,266
11	JUN	2002		128,820,365	7.50%	0.00604492	802,531	4,743,432	133,563,797
12	JUL	2002		128,820,365	7.50%	0.00604492	807,382	5,550,815	134,371,180
13	AUG	2002		128,820,365	7.50%	0.00604492	812,263	6,363,077	135,183,442
14	SEP	2002		128,820,365	7.50%	0.00604492	817,173	7,180,250	136,000,615
15	OCT	2002		128,820,365	7.50%	0.00604492	822,113	8,002,363	136,822,728
16	NOV	2002		128,820,365	7.50%	0.00604492	827,082	8,829,445	137,649,810
17	DEC	2002		128,820,365	7.50%	0.00604492	832,082	9,661,527	138,481,892
18	JAN	2003		\$ 128,820,365	7.50%	0.00604492	\$ 837,112	\$ 10,498,639	\$ 139,319,004
19	FEB	2003		128,820,365	7.50%	0.00604492	842,172	11,340,811	140,161,176
20	MAR	2003		128,820,365	7.50%	0.00604492	847,263	12,188,074	141,008,439
21	APR	2003		128,820,365	7.50%	0.00604492	852,385	13,040,459	141,860,824
22	MAY	2003		128,820,365	7.50%	0.00604492	857,537	13,897,996	142,718,361
23	JUN	2003		128,820,365	7.50%	0.00604492	862,721	14,760,717	143,581,082
24	JUL	2003		128,820,365	7.50%	0.00604492	867,936	15,628,653	144,449,018
25	AUG	2003		128,820,365	7.50%	0.00604492	873,183	16,501,836	145,322,201
26	SEP	2003		128,820,365	7.50%	0.00604492	878,461	17,380,297	146,200,662
27	OCT	2003		128,820,365	7.50%	0.00604492	883,771	18,264,068	147,084,433
28	NOV	2003		128,820,365	7.50%	0.00604492	889,113	19,153,181	147,973,546
29	DEC	2003		128,820,365	7.50%	0.00604492	894,488	20,047,669	148,868,034
30	JAN	2004		\$ 128,820,365	7.50%	0.00604492	\$ 899,895	\$ 20,947,565	\$ 149,767,930
31	FEB	2004		128,820,365	7.50%	0.00604492	905,335	21,852,900	150,673,265
32	MAR	2004		128,820,365	7.50%	0.00604492	910,808	22,763,707	151,584,072
33	APR	2004		128,820,365	7.50%	0.00604492	916,313	23,680,021	152,500,386
34	MAY	2004		128,820,365	7.50%	0.00604492	921,852	24,601,873	153,422,238
35	JUN	2004		128,820,365	7.50%	0.00604492	927,425	25,529,298	154,349,663
36	JUL	2004	Through 7/22/04	128,820,365	7.50%	0.00604492	662,151	26,191,449	155,011,814
37									
38									
39									
40									
41									
42	TOTAL PERIOD		\$ 128,820,365	\$ -			\$ 26,191,449	\$ 26,191,449	\$ 155,011,814

Note 1: The final stranded-cost balance should reflect carrying charges on the the additional \$19,341 million of additional depreciation ordered for TNMP. See Section V of my testimony.

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Docket No. 29206—Interest on Stranded Cost
Public Utility Commission

AMENDED Supplemental Exhibit DT-2
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TEXAS-NEW MEXICO POWER COMPANY
CALCULATION OF INTEREST ON STRANDED COST PER JULY 22 ORDER
FOR THE PERIOD JANUARY 1, 2002 TO JULY 22, 2004

Assumptions

Stranded-cost amount: "Balance B"

Interest rate: 7.50% recommended risk-adjusted rate

LINE NO.	MON	YR	STRANDED COST PER FINAL ORDER (See Note 1)	CUMULATIVE NET STRANDED COST	COST OF CAPITAL RATE	EFFECTIVE INTEREST FACTOR FOR ANNUAL COMPOUNDING	INTEREST ON PREV. MONTHS CUM. STRANDED COST AND INTEREST BAL.	CUMULATIVE INTEREST ACCRUAL BALANCES	CUMULATIVE NET STRANDED COST & INTEREST RECOVERY
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1			\$ 259,362,064	Not Book Value of Generating Assets					
2			119,527,607	less Net Market Value of Generating Assets					
3			\$ 139,834,457	Net, verifiable nonamortizable stranded costs					
4									
5	Beg. Balance		\$ 139,834,457						
6	JAN	2002	\$ 139,834,457	\$ 139,834,457	7.50%	0.00604492	\$ 845,288	\$ 845,288	\$ 140,679,745
7	FEB	2002		139,834,457	7.50%	0.00604492	850,398	1,695,686	141,530,143
8	MAR	2002		139,834,457	7.50%	0.00604492	855,538	2,551,224	142,385,681
9	APR	2002		139,834,457	7.50%	0.00604492	860,710	3,411,934	143,246,391
10	MAY	2002		139,834,457	7.50%	0.00604492	865,913	4,277,847	144,112,304
11	JUN	2002		139,834,457	7.50%	0.00604492	871,147	5,148,994	144,983,451
12	JUL	2002		139,834,457	7.50%	0.00604492	876,413	6,025,407	145,859,864
13	AUG	2002		139,834,457	7.50%	0.00604492	881,711	6,907,118	146,741,575
14	SEP	2002		139,834,457	7.50%	0.00604492	887,041	7,794,159	147,628,616
15	OCT	2002		139,834,457	7.50%	0.00604492	892,403	8,686,562	148,521,019
16	NOV	2002		139,834,457	7.50%	0.00604492	897,798	9,584,360	149,418,817
17	DEC	2002		139,834,457	7.50%	0.00604492	903,225	10,487,584	150,322,041
18	JAN	2003		\$ 139,834,457	7.50%	0.00604492	\$ 908,685	\$ 11,396,269	\$ 151,230,726
19	FEB	2003		139,834,457	7.50%	0.00604492	914,177	12,310,446	152,144,903
20	MAR	2003		139,834,457	7.50%	0.00604492	919,704	13,230,150	153,064,607
21	APR	2003		139,834,457	7.50%	0.00604492	925,263	14,155,413	153,989,870
22	MAY	2003		139,834,457	7.50%	0.00604492	930,856	15,086,269	154,920,726
23	JUN	2003		139,834,457	7.50%	0.00604492	936,483	16,022,753	155,857,210
24	JUL	2003		139,834,457	7.50%	0.00604492	942,144	16,964,897	156,799,354
25	AUG	2003		139,834,457	7.50%	0.00604492	947,839	17,912,736	157,747,193
26	SEP	2003		139,834,457	7.50%	0.00604492	953,569	18,866,305	158,700,762
27	OCT	2003		139,834,457	7.50%	0.00604492	959,333	19,825,639	159,660,096
28	NOV	2003		139,834,457	7.50%	0.00604492	965,132	20,790,771	160,625,228
29	DEC	2003		139,834,457	7.50%	0.00604492	970,966	21,761,737	161,596,194
30	JAN	2004		\$ 139,834,457	7.50%	0.00604492	\$ 976,836	\$ 22,738,573	\$ 162,573,030
31	FEB	2004		139,834,457	7.50%	0.00604492	982,741	23,721,314	163,555,771
32	MAR	2004		139,834,457	7.50%	0.00604492	988,681	24,709,995	164,544,452
33	APR	2004		139,834,457	7.50%	0.00604492	994,658	25,704,653	165,539,110
34	MAY	2004		139,834,457	7.50%	0.00604492	1,000,671	26,705,324	166,539,781
35	JUN	2004		139,834,457	7.50%	0.00604492	1,006,719	27,712,043	167,546,500
36	JUL	2004	Through 7/22/04	139,834,457	7.50%	0.00604492	718,765	28,430,808	168,265,265
37									
38									
39									
40									
41									
42	TOTAL PERIOD		\$ 139,834,457	\$ -			\$ 28,430,808	\$ 28,430,808	\$ 168,265,265

Note 1: The final stranded-cost balance should reflect carrying charges on the the additional \$19.341 million of additional depreciation ordered by TNMP. See Section V of my testimony.

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