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APPLICATION OF SOUTHWESTERN	**§**	**BEFORE THE STATE OFFICE**
PUBLIC SERVICE COMPANY	**§**	**OF**
FOR AUTHORITY TO CHANGE RATES	**§**	**ADMINISTRATIVE HEARINGS**

REDACTED

(REVENUE REQUIREMENT)

DIRECT TESTIMONY

OF

CHARLES S. GRIFFEY

ON BEHALF OF TEXAS INDUSTRIAL ENERGY CONSUMERS

August 4, 2023

SOAH DOCKET NO. 473-23-14020
PUC DOCKET NO. 54634

APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES	**§ § §**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

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DIRECT TESTIMONY OF CHARLES S. GRIFFEY

I. INTRODUCTION

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

A. My name is Charles S. Griffey, and I am a consultant providing services to the electric and natural gas industries. My address is 2918 Todville Rd., Seabrook, Texas 77586.

Q. ON WHOSE BEHALF ARE YOU PROVIDING TESTIMONY?

A. I am testifying on behalf of Texas Industrial Energy Consumers ("TIEC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I discuss the reasonable range for the capital structure of Southwestern Public Service Company (SPS). I provide context for setting SPS's allowed rate of return on equity, and I address Mr. Totten's recommendation to favorably consider the quality of SPS's management in setting its allowed return and capital structure. As part of that discussion, I also address aspects of the benchmarking analysis performed by Mr. Starkweather and the goals of and executive compensation structure at SPS's parent company Xcel Energy (Xcel).

Q. ARE OTHER TIEC WITNESSES DISCUSSING RETURN AND CAPITAL STRUCTURE ISSUES?

A. Yes. Mr. Walters provides recommendations on the appropriate allowed return on equity on behalf of TIEC.

Q. PLEASE OUTLINE YOUR FORMAL EDUCATION AND CERTIFICATIONS.

A. I have a Master of Business and Public Management from the Jones Graduate School of Business at Rice University and a Bachelor of Science in Chemical Engineering from Rice University. I am a Chartered Financial Analyst and a Professional Engineer registered in the State of Texas.

Q. PLEASE STATE YOUR PROFESSIONAL EXPERIENCE.

A. Prior to becoming a consultant in 2009, I was employed by Reliant Energy, Inc. ("Reliant") as Senior Vice President of Regulatory Affairs and Market Design. I was responsible for Reliant's nationwide efforts in the design of competitive markets, regulatory affairs

including interface with state commissions and Regional Transmission Organizations, and government affairs. Reliant owned generation in a number of states and had retail operations in Texas and the Mid-Atlantic region.

I began working for Houston Lighting and Power ("HL&P"), the electric utility serving parts of Southeast Texas and the predecessor company to Reliant, in 1989 in Corporate Planning where I worked on resource planning, including determining what power plants to construct, what projects to cancel, evaluation of owning plants compared to power purchases, and determination of marginal cost. Beginning in 1995, I was also responsible for the rate department, and eventually I became Vice President of Regulatory Planning, with responsibility for resource planning, financial planning, rates, and rate design and cost allocation. Subsequently, I helped lead the integrated utility's efforts in restructuring the ERCOT market and transitioning the company for competition, integrating both wholesale and retail market design and operations, restructuring of utility functions and affiliate issues, and public policy advocacy.

Before working for Reliant, I worked at Austin Energy, at the Public Utility Commission of Texas ("Commission"), and for Bechtel Group, Inc. as an engineer on the Coolwater Coal Gasification Project.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS OR COURTS?

A. Exhibit CSG-1 lists the testimony I have presented and a summary of my work experience.

Q. PLEASE DESCRIBE YOUR EXPERIENCE WITH MATTERS PERTAINING TO UTILITY CREDIT RATINGS AND RETURN.

A. Utility credit rating and return are critical issues in sale/transfer/merger (STM) cases. I have provided testimony addressing utility ring-fencing and financial protections in the following sale/transfer/merger (STM) proceedings before the Commission:

- Docket No. 41223, *Application of Entergy Texas, Inc., ITC Holdings Corp., MidSouth Transco LLC, Transmission Company of Texas, LLC and ITC MidSouth LLC for Approval of Change of Ownership and Control of transmission Business, Transfer of Certification Rights, Certain Cost Recovery Approvals and Related Relief;*

- Docket No. 41850, *Application of Entergy Texas, Inc., ITC Holdings Corp., MidSouth Transco LLC, Transmission Company Texas, LLC, and ITC MidSouth LLC for Approval of Change of Ownership and Control of Transmission Business, Transfer of Certification Rights and Related Relief;*

- Docket No. 45815, *Joint Report and Application of Oncor Electric Delivery Company, LLC, Ovation Acquisition I, LLC, Ovation Acquisition II, LLC and Shary Holdings, LLC for Regulatory Approvals Pursuant to PURA §§ 14.101, 37.154, 39.262(l)-(m), and 39.915;*

- Docket No. 46238, *Joint Report and Application of Oncor Electric Delivery Company LLC and NextEra Energy, Inc. for Regulatory Approvals Pursuant to PURA §§ 14.101, 39.262 and 39.915;*

- Docket No. 48929, *Joint Report and Application of Oncor Electric Delivery Company LLC, Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., and Sempra Energy For Regulatory Approvals Under Pura §§ 14.101, 37.154, 39.262, and 39.915;*

- Docket No. 49849, *Joint Report and Application of El Paso Electric Company, Sun Jupiter Holdings LLC, and IIF US Holding 2 LP for Regulatory Approvals Under PURA§§ 14.101, 39.262, And 39.915;*

- Docket No. 50584, *Joint Report and Application Of Wind Energy Transmission Texas, LLC; Axinfra US LP; Hotspur Holdco 1 LLC; Hotspur Holdco 2 LLC; And 730 Hotspur, LLC, for Regulatory Approvals Under Pura §§ 14.101, 39.262, And 39.915;and*

- Docket No. 51547, *Joint Report and Application of Texas-New Mexico Power Company, Nm Green Holdings, Inc., and Avangrid, Inc. for Regulatory Approvals Under Pura §§ 14.101, 39.262, And 39.91.*

I have also filed testimony regarding financial integrity, utility credit ratings, and return in various rate cases and resource planning cases, including:

- Docket No. 49421, *Application of CenterPoint Energy Houston Electric, LLC For Authority To Change Rates;*

- Docket No. 43695, *Application of Southwestern Public Service Company For Authority To Change Rates*;

- Docket No. 49831, *Application of Southwestern Public Service Company For Authority To Change Rates;*

- Docket No. 51215, *Application of Entergy Texas, Inc. to Amend its Certificate Of Convenience and Necessity for the Acquisition of a Solar Facility in Liberty County;*
- Docket No. 51802, *Application of Southwestern Public Service Company for Authority to Change Rates;*
- Docket No. 52487, *Application Of Entergy Texas, Inc. to Amend its Certificate of Convenience and Necessity to Construct Orange County Advanced Power Station;*
- Docket No. 53719, *Application of Entergy Texas, Inc for Authority to Change Rates.*

Q. IS YOUR TESTIMONY BASED ON YOUR PERSONAL KNOWLEDGE AND EXPERIENCE AND THE INFORMATION YOU REVIEWED IN THIS CASE?

A. Yes.

Q. DID YOU RELY ON SOURCES OF INFORMATION THAT YOU REGARD AS RELIABLE AND ARE ORDINARILY AND CUSTOMARILY USED AND RELIED ON BY THOSE INVOLVED IN THE ELECTRIC INDUSTRY?

A. Yes. I have provided the SPS discovery responses and other workpapers that I relied upon for my testimony as Exhibit CSG-4.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Based on my experience in the industry, as part of the regulatory compact utilities are to receive a reasonable opportunity to earn a reasonable return on invested capital used and useful in providing electric service, in return for which they are to provide reliable service at the lowest reasonable cost to customers within a certificated service area. A utility's rates and allowed return on equity should be set to preserve the financial integrity of the utility.

SPS is requesting a high amount of equity (54.6%) in its capital structure, a level Moody's has described as "robust,"[1] coupled with a high return on equity (10.65%). The level of earnings resulting from such a request is far in excess of what is needed to maintain SPS's financial integrity and would result in unreasonably high rates. Indeed, in recent years SPS has reported and forecasts cash flow–to-debt ratios of 18% - 21%, which are far

[1] Moody's Credit Opinion, December 22, 2022, Schedule K-9 at 49.

in excess of the 15% required to maintain a BBB (Baa2) credit rating. In fact, Moody's recognizes that "SPS's financial profile is strongly positioned."[2]

Unlike in its previous case, SPS is not requesting the Commission commit to putting the utility on a path to an "A" credit rating from more than one credit ratings agency. SPS is, however, asking the Commission to adopt a "policy of a stronger credit profile"[3] for the utility, which is a less specific request for higher earnings. Moreover, SPS claims that if the Commission uses a capital structure with less than 54.6% equity for ratemaking, it will "weaken the financial condition of its operations and adversely impact the Company's ability to address expenses and investments, to the detriment of customers and shareholders."[4]

However, SPS does not address the tradeoff from the ratepayers' perspective of increasing the total return on equity at the utility to avoid a potential increase in cost of debt. Debt yields are approximately 5.75% for 30-year corporate bonds rated Baa by Moody's.[5] SPS itself recently issued 30-year bonds with a yield of 5.15%.[6] Meanwhile, recently authorized utility returns on equity have been between 9.25% and 9.7%[7] in Texas (grossed up for taxes this would be 11.7% to 12.3%). In lieu of pursuing more equity in SPS's capital structure and increasing its rates to boost its earnings and cash flow, it is in customers' interest by approximately $44 million annually for SPS to have higher debt in its capital structure and to maintain its current split A-/Baa ratings at S&P/Moody's to avoid the costs of additional equity. This is particularly true given the current risk-adjusted return available in the utility business, which is still quite attractive to investors even with higher interest rates and inflation.

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[2] *Id.*

[3] Shipman Direct at 7.

[4] Martin Direct at 32-33.

[5] *See* St. Louis Fed Economic Research Division, "Moody's Seasoned Baa Corporate Bond Yield," available at: https://alfred.stlouisfed.org/series?seid=BAA&utm_source=series_page&utm_medium=related_content&utm_term=related_resources&utm_campaign=alfred#0 (last accessed July 7, 2023).

[6] Schedule K-3 of the Application.

[7] Final Orders in Dockets 49421, 49494, 51611, 51415, 52195, 53601, and 53719.

In addition, Mr. Totten would have the Commission recognize what he refers to as SPS's management's "high-quality performance"[8] when setting the Company's allowed rate of return and capital structure. While he recommended a 30 basis point bonus to ROE for ETI's "stellar" performance"[9] in the most recent ETI rate case in this case he is not recommending any specific ROE bonus. Mr. Totten relies on studies and data from Mr. Starkweather to help justify his claim of "high-quality performance." He also cites SPS's drive to retire coal plants, increase renewable generation, and promote electric vehicles as a form of conservation of resources under PURA.[10] Even if they were not conservation of resources, he believes SPS's drive for renewables "warrants consideration for granting a higher return on equity."[11] He even says it is the open-ended policy of the State of Texas to encourage utilities to adopt renewable energy.[12]

In my testimony I show that the bases for Mr. Totten's claims of high quality management performance are unsubstantiated, that SPS's parent Xcel Energy's corporate incentive goals are in tension with providing service at lowest reasonable cost, and that ROE or capital structure adders are not justified for that claimed performance. Specifically:

- SPS's historically lower rates in comparison to an appropriate proxy group are largely due to its relatively high level of industrial sales, its locational natural advantage in acquiring lower cost fossil fuels, decisions made by the Commission, and management decisions made decades ago;
- SPS's request in this case would result in dramatically higher total rates compared to the recent past (8.92 c/kWh compared to the recent 6.5 c/kWh);
- its customer satisfaction levels are average;
- its corporate parent's drive for renewables and commitment to go to 100% carbon-free electric generation sources by 2050 is beyond any policy or goals set by the Texas Legislature or this Commission;
- Xcel's executive compensation is highly weighted toward CO2 reduction compared to other utilities and this will drive decisions at SPS; and

[8] *E.g.* Totten Direct at 13.

[9] Totten Direct at 2 in Docket 53719 - *Application of Entergy Texas, Inc .for Authority to Change Rates.*

[10] Totten Direct at 18.

[11] *Id.* at 20.

[12] *Id.*

- the Commission has previously found that SPS was imprudent in entering a PPA for solar power.

In summary, the claimed bases of high-quality management performance do not support SPS's request for an inflated rate of return or amount of equity in its capital structure. In fact, the financial incentives of existing management may run counter to SPS providing reliable service at lowest reasonable cost in Texas. Utilities have enjoyed a decade where the spread between awarded ROE and Treasury bonds (the risk premium) has been far above average, and every utility's management can attempt to show high quality performance across some metric. As noted, it is already the duty of public utilities to provide reliable service at the lowest reasonable cost, and SPS has not identified any Commission proceedings in which an ROE adder or bonus was awarded to a utility based on the statutory considerations cited by Mr. Totten. The Commission should decline SPS's invitation to deem its performance worthy of a favorable treatment when setting its allowed return or capital structure in this case.

Finally, the Commission has permitted SPS to retain the margin on off-system sales even though SPS witnesses in past cases have been unable to point to any action or additional risk they take that justifies that retention.[13] As long as that vestigial rule remains in place allowing retention of potentially millions in revenue for no risk, the Commission should consider the level of that margin retention and take its effect on cash flow into account when setting ROE and capital structure. To the extent the Commission finds any value in Mr. Totten's contentions, it should be aware of the fact that SPS already receives approximately $1-$2 million in revenue annually (and over $13 million in 2021) that is already a bonus above what is set in rates.[14]

In my opinion, these factors counsel for a more balanced capital structure and significantly lower return on equity than proposed by SPS.

[13] Cross-examination of Mr. Haskins in Docket 53034, discussed in greater detail later in my testimony.

[14] SPS Response to TIEC 10-2.

II. UTILITY RISKS AND CREDIT FACTORS

Q. WHAT ARE SPS'S CURRENT CREDIT RATINGS?

A. SPS currently has a split rating among the ratings agencies, meaning the agencies have ascribed slightly different levels of creditworthiness to the utility. For the corporate credit rating, S&P has SPS rated A-, Fitch at BBB, and Moody's at Baa2.[15] All of these ratings are investment-grade.

Q. ARE HIGH CREDIT RATINGS GOOD FOR CUSTOMERS?

A. It depends. A higher credit rating generally provides a lower cost of debt. However, in order to establish an appropriate return on equity and capital structure, the Commission must consider the cost of the measures that are necessary to achieve a higher credit rating.

Q. PLEASE EXPLAIN THIS TRADE-OFF.

A. A utility's credit rating is primarily a function of its financial strength, regulatory environment, and economic outlook. A higher credit rating generally corresponds to access to lower cost debt, although the spread between bonds rated at different level fluctuates through time due to economic conditions and investor appetite for risk. Access to lower-cost debt is a positive, but it may cause net harm to customers if it means higher rates and weaker regulatory oversight. In particular, in an environment where utility returns on equity are in the 9.25-9.7% range and the incremental cost of debt is approximately 5%, maintaining a high equity layer to avoid a small potential increase in debt costs is unlikely to make sense for customers. This is particularly true given the "gross-up" for federal income taxes on the equity component of a utility's capital structure. Because the equity component of a utility's capital structure counts as income, customers are required to pay a multiplier on the equity component in rates so that the utility can earn its awarded return *after taxes*. At the current corporate federal income tax rates of 21%, this multiplier is 1.27,[16] meaning for each dollar of equity a customer must pay $1.27 in rates. This exacerbates the rate impacts of increasing a utility's return on equity and/or equity ratio.

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[15] Martin Direct at 20.

[16] For a 21% tax rate, the tax gross-up is calculated as 1/(1-0.21) = 1.2658.

Q. HAS SPS DEMONSTRATED THAT HAVING A HIGH EQUITY LAYER AND HIGHER FINANCIAL METRICS IS BETTER FOR CUSTOMERS THAN HAVING A LOWER EQUITY COMPONENT AND A BBB RATING?

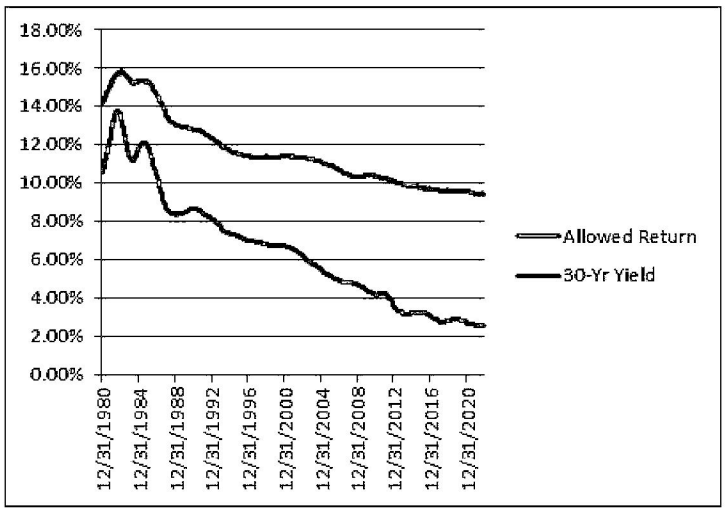
A. No. SPS has not attempted to quantify the costs and benefits to ratepayers of achieving a BBB+ rating or an aspirational rating of A at Moody's and Fitch compared to its existing rating of Baa2 (BBB).

III. BACKGROUND ON UTILITY ROE RISK PREMIUMS

Q. CAN YOU PROVIDE HISTORICAL CONTEXT FOR WHY YOU BELIEVE THE CURRENT RISK-ADJUSTED RETURNS FOR UTILITIES ARE FAVORABLE?

A. Yes. Figure 1[17] shows a comparison of allowed utility returns on equity to the underlying 30-year Treasury yield, while Figure 2 shows the difference between the two.[18] This difference is the premium awarded to utility allowed returns above the risk free rate.

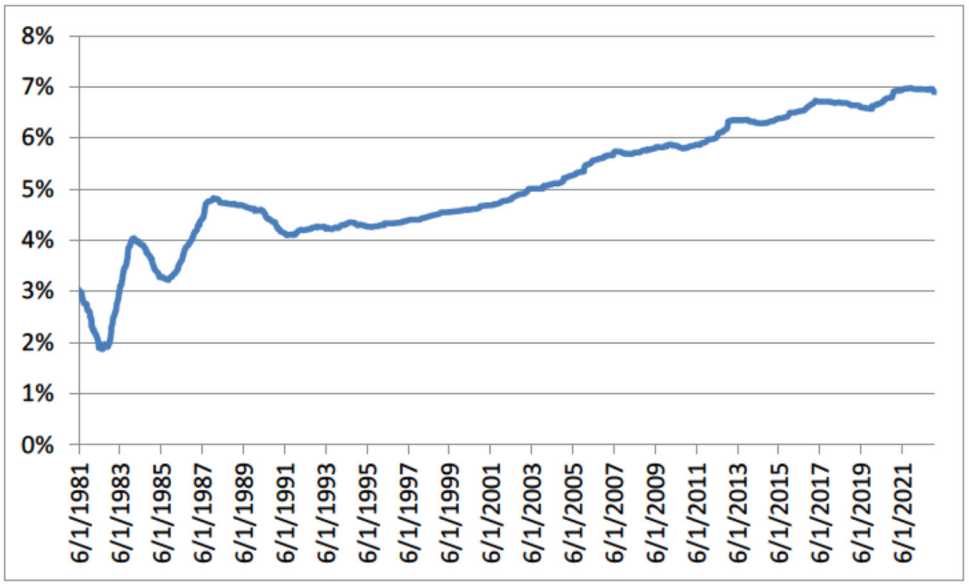
Figure 1
Utility Allowed Returns and 30-Year Treasury Yield Through 2022



[17] Note that all Figures in my testimony are included in Exhibit CSG-3 in larger size.

[18] Data from D'Ascendis workpaper DWD-RR-WP for allowed returns and St. Louis Fed for 30-year treasury yields.

Figure 2
Allowed Return Premium Above 30-Year Treasury Yield Through 2022



Q. WHAT DO THESE CHARTS SHOW?

A. They show that the premiums being awarded to utilities are high relative to the average equity risk premium over the last 40 years. Utility commissions were slow to follow the drop in Treasury yields over that time period. The average premium above 30-year Treasuries over the period 1980 - 2022, which encompasses numerous business cycles and interest rate environments, was 450 basis points. Therefore, SPS's request of a 10.65% ROE, which is about 663 basis points above the current 30-year Treasury yield of 4.02.[19] While this is marginally below the all-time high shown in the chart above, it is still well in excess of the average equity risk premium over the period. In essence, SPS wants to secure nearly the highest ever premiums going forward, regardless of the interest rate environment. Such a high premium to Treasuries is not reasonable.

Q. CAN THESE HIGHER PREMIUMS IN RECENT YEARS BE JUSTIFIED BY HIGHER RISK?

A. No. In the eighties and nineties, utilities were engaged in large generation construction programs that were much riskier to investors than the shorter lead-time renewable generation and low-risk transmission construction that utilities undertake today.

[19] The 30-year Treasury yield on August 2, 2023 was 4.02%. https://fred.stlouisfed.org/series/DGS30.

Furthermore, regulatory lag has dropped significantly due to the introduction of the alphabet soup of recovery methods such as the TCRF,[20] DCRF,[21] and now a GCRR.[22] For instance, Moody's counts the regulatory environment in Texas as a credit strength: "Our view of SPS' credit quality also recognizes that its operations in Texas benefit from more riders and surcharges compared to New Mexico."[23] The historical period also saw corporate tax rates drop in 1986 from 50% to 35%, so the impact of the TCJA is not a new phenomenon. In short, risk is down but the premium awarded utilities above the risk-free rate is up. The rich risk-adjusted return, a return exceeding the actual cost of equity, is a major reason why there is great interest in utility investment both nationally and in Texas.

Q. IN ADDITION TO THE TCRF AND DCRF, HAVE THERE BEEN OTHER CHANGES THAT REDUCE REGULATORY LAG?

A. Yes, as noted, a new cost recovery factor was added during the 2019 legislative session for non-ERCOT utilities – the Generation Cost Recovery Rider. Under the GCRR, a non-ERCOT utility can begin recovering its investment in a new generation plant on the day it goes into service. This further reduces regulatory lag and should remove another argument for higher ROEs and a higher percentage of equity in the capital structure.

Q. HAVE THERE BEEN ANY OTHER RECENT LEGISLATIVE DEVELOPMENTS THAT REDUCE RISK FOR UTILITIES?

A. Yes. The Legislature recently enacted HB2073, which allows utilities to seek pre-approval of PPAs in a similar fashion to the manner in which utilities seek prior approval to construct a power plant or transmission line through the CCN process. This reduces the risk that a utility will enter into a PPA and subsequently have the PPA disallowed from rates on prudence grounds. Additionally, the Legislature recently passed SB 1016 and created PURA § 36.067, which requires the Commission to presume that employee compensation and benefits, including non-executive incentive compensation, are reasonable and

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[20] Transmission Cost Recovery Factor.

[21] Distribution Cost Recovery Factor.

[22] Generation Cost Recovery Rider.

[23] Moody's Credit Opinion, December 30, 2021, Schedule K-9 at 15. Moody's also noted "Historically, the utility's relationship with the NMPRC has demonstrated more signs of inconsistency and unpredictability as evidenced by the utility's track-record of appealing regulatory decisions in New Mexico."

necessary if they are consistent with market compensation studies issued in the last three years. SB 1016 significantly reduces the chance that utilities' employment expenses will be disallowed, and its passage prompted SPS to file supplemental testimony seeking to add approximately $4 million in employee compensation costs to its cost of service.

Q. DOES THE MOVE TOWARD RENEWABLES CHANGE THE RISK PROFILE OF NEW GENERATION INVESTMENT?

A. Yes, it further reduces the risk of new generation investment compared to traditional nuclear and fossil fuel build. Solar and wind also have short lead times, and the tax credits reduce the cost/investment. As SPS has noted, the ability to sell tax credits under the Inflation Reduction Act will also dramatically improve utility cash flow, increasing the cash flow-to-debt metric by four percentage points.[24] Along with the advent of the GCRR, this trend towards renewables means there is little risk associated with generation compared to past investment cycles.

Q. HOW DO YOU RESPOND TO SPS'S ARGUMENT THAT LOWER TREASURY RATES ARE CORRELATED WITH HIGH RISK PREMIUMS?[25]

A. This argument largely confuses correlation with causation and extrapolates the academic literature too far. A more reasonable explanation is that it is the stickiness and circular nature of the regulatory rate-setting process has led to historically high risk premiums. Remember that regulators set allowed returns while the market sets the actual cost of capital. The Commission should also look to how real-world investment professionals estimate the cost of equity when conducting valuation analyses during utility mergers and acquisition, not just to the relatively closed circle of regulatory ROE witnesses. The cost of capital for utilities that investment banks use when evaluating actual transactions is more reliable than that set in regulatory proceedings, which are affected by the circular nature of the ROE-setting process.

Q. WHAT ESTIMATES OF UTILITY COST OF EQUITY HAVE YOU SEEN BEING USED BY INVESTMENT BANKS AND ANALYSTS?

A. The estimates of the cost of equity for utilities that I have seen from investment banks and

[24] Martin Direct at 27-28.

[25] D'Ascendis Direct at 61.

analysts are significantly lower than ROE levels discussed before regulatory commissions. I have testified in numerous utility sale/transfer/merger cases wherein I have noted the actual cost of capital being used to value transactions. Stock analysts regularly use returns on equity in their valuations that are far lower than what is presented to the Commission in rate cases. For instance, SPS's return witness has a range of 9.99% - 10.99% for the proxy group of utilities before adjusting for SPS-specific factors.[26] But stock analysts show much lower costs of equity for SPS's parent Xcel (which is in Mr. D'Ascendis's proxy group): Morningstar uses a 7.5% cost of equity for Xcel,[27] Price Target Research uses 5.4%,[28] and Bank of America uses 7.7%.[29]

Q. WHY DO YOU SAY THAT THE UTILITY ARGUMENT ON A NEGATIVE CORRELATION BETWEEN ROE AND INTEREST RATES GOES TOO FAR?

A. Mr. D'Ascendis uses a regression to predict the equity risk premium whose only independent variable is the yield on A-rated utility bonds.[30] His equity risk premium dependent variable is calculated based on allowed ROEs granted by utility commissions minus the A-rated utility bond yield. That means his regression cannot measure the impact of changes in interest rates against forward looking cost of equity, but that he is instead measuring how utility commissions set utility rates based on lagging interest rates. Thus, the method used by Mr. D'Ascendis measures the outcome of the regulatory process (the allowed rate of return) and cannot logically be used as a proof that actual equity risk premium required by investors (the actual cost of equity capital minus the bond yield) increases as yields decrease to the extent that he claims.

Q. DOES FINANCIAL LITERATURE SUPPORT A ONE VARIABLE RELATIONSHIP BETWEEN RISK PREMIUMS AND INTEREST RATES?

A. No. The two articles cited by Mr. D'Ascendis do not support a conclusion that current utility equity risk premiums are solely related to the yield on utility bonds. The Harris-Marston paper only looks at equity risk premiums for the S&P 500, not utilities

[26] D'Ascendis workpaper DWD-RR-WP.

[27] Exhibit SPS-TIEC 4-20 (V) at 698.

[28] Exhibit SPS-TIEC 4-20 (V) at 751.

[29] Exhibit SPS-TIEC 4-20 (V) at 281.

[30] D'Ascendis Direct at 60-61.

specifically, for the period 1982-1998. It found that there were five significant variables, not one.[31] Harris and Marston found that:

> investors modify their required returns in response to perceived changes in the environment. The findings provide some comfort that our risk premium estimates are capturing, at least in part, under lying changes in the economic environment. Moreover, each of the risk measures appears to contain relevant information for investors. The market risk premium is negatively related to the level of consumer confidence and positively linked to interest rate spreads between corporate and government debt, disagreement among analysts in their forecasts of earnings growth, and the implied volatility of equity returns as revealed in options data.32

Similarly, the Brigham paper he cites does not find a single-variable relationship that is applicable for today's environment either. Mr. D'Ascendis does not explain that Brigham et al. did not find an unvarying relationship between interest rates and risk premiums. Rather, Brigham et al. estimated a positive relationship between risk premiums and interest rates for the 1966 – '79 period and a negative relationship between the variables during the 1980 – '84 period."[33] There is other research that calls into question Mr. D'Ascendis's purported single variable relationship between equity risk premiums and utility bond yields. Maddox et al. (1995) found a R^2 of only 0.22[34] when testing the inverse relationship model between risk premiums and interest rates.[35] Maddox et al. stated that there is a "divergence in risk premiums that corresponded to interest rates of the same general level

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[31] Although Mr. D'Ascendis's variable partially encompasses two of these variables – interest rates and bond spreads against Treasuries.

[32] Robert S. Harris and Felicia C. Marston, *The Market Risk Premium: Expectational Estimates Using Analysts' Forecasts*, Journal of Applied Finance, Vol. 11, No. 1, 2001, at 15.

[33] Eugene F. Brigham, Dilip K. Shome, and Steve R. Vinson, *The Risk Premium Approach to Measuring a Utility's Cost of Equity*, Financial Management, Spring 1985, at 44.

[34] An R^2 of 0.22 means that only 22% of the variation in the dependent variable is explained by changes in the independent variable. That means other variables and random events account for 78% of the changes in the dependent variable.

[35] Maddox. Pipert and Sullivan, "An Empirical Study of Ex Ante Risk Premiums for the Electric Utility Industry," Financial Management, Vol. 24, No./3, Autumn 1995, pages 89-95.

during the study period,"[36] which would not be expected if "a single linear relationship held throughout the observation period."[37] Maddox et al. ultimately had to create dummy variables to account for unknown changes in investor appetite for debt and equity over their 1980 – 1993 study period to achieve a regression result with a higher R^2. This led them to acknowledge "the limitation that our regression model is descriptive of the study period only." Therefore, the Commission should not accept the causal relationship posited by SPS without some other underlying justification.

Q. ARE THERE OTHER REASONS YOU BELIEVE SPS'S APPROACH CONFUSES CORRELATION WITH CAUSATION?

A. Yes. Mr. D'Ascendis and the cited literature do not test the circularity argument at the heart of his regression equation. The other studies cited above didn't find a consistent relationship solely between risk premiums and interest rates, yet Mr. D'Ascendis finds correlation when comparing allowed return to interest rates. This is evidence that something else is a major contributor to the negative relationship between allowed return and bond yields. There is good reason to believe that a missing variable is the "stickiness" in the setting of allowed ROE in regulatory settings. Mr. D'Acendis uses *allowed* ROE minus bond yield as a proxy for the *required* equity risk premium, but this is the point at issue. His method does not test for the proposition that regulators were too slow to adjust allowed returns to come closer to the true cost of capital as interest rates fell. Instead, SPS's approach simply demonstrates my point, which is that regulators were too slow to adjust allowed returns lower to follow interest rates.

Q. IS THE ACTUAL COST OF CAPITAL FOR UTILITIES EQUAL TO THE ROE AWARDED BY UTILITY COMMISSIONS?

A. No. In my experience reviewing investment banks' calculations of the Weighted Average Cost of Capital (WACC) and cost of equity for utilities, the WACC calculated by the financial advisors has been universally lower than the rate of return granted utilities by regulators. This is because the actual cost of equity is lower than the granted ROE, and because utility holding companies use back leverage to fund "equity" at the utility,

[36] *Id.*

[37] *Id.*

resulting in an actual capital structure at the utility parent being more highly leveraged than the utility subsidiary. This general observation regarding a more highly leveraged parent is true for Xcel and SPS, which means that "equity" at the utility is actually being partly funded by debt at the parent. In 2023-2027, Xcel expects its capital structure to include only 40% equity,[38] while SPS is requesting 54.6% equity. Approximately 25% of the total debt at Xcel is at the parent,[39] and Xcel's operating subsidiaries are all regulated utilities, so Xcel is capitalizing equity at the utility level with the debt at the parent. If the parent company debt, serviced by equity dividends from the subsidiary utilities, were instead placed directly at each utility, the cost to ratepayers would be less.

Q. DO INVESTMENT PRACTITIONERS USE ESTIMATES OF COST OF EQUITY THAT ARE AS HIGH AS THE HISTORICALLY LARGE RISK PREMIA BEING SOUGHT BY SPS?

A. No. Rather than just relying on the closed coterie of regulatory professionals and academics, the Commission should look toward what is actually occurring in the investment community. Utilities are trading at large premiums to book value, positioning themselves as growth investments and seeking to build rate base. Indeed, Xcel is proposing to invest approximately $30 billion in capital expenditures over the next five years, with SPS accounting for almost $4 billion in investment over that time.[40] Over the last decade, the industry has continued to consolidate. A reasonable conclusion that explains this state of the industry is that utilities are currently earning in excess of their true cost of capital. Regulated industries have less earnings volatility than most competitive industries. And the premium that regulated utilities have been able to lock in between allowed return and actual required returns helps explain why they have been trading at a premium to book value. It also helps explain the desire of regulated utilities to build rate base, and the infusion of capital into mergers and acquisitions in the utility industry, including in Texas.[41] Finally, while the actual cost of capital used by investment bankers in providing

[38] Xcel Presentation at JPMorgan Conference on June 22, 2023 at 43. https://s25.q4cdn.com/680186029/files/doc_presentations/2023/06/j-p-morgan-investor-presentation-6-2023.pdf.

[39] *Id.*

[40] Xcel Energy Presentation to JP Morgan Conference, 6/22/23 at 7 and 50.

[41] For example, the multiple companies that sought to acquire Oncor, private equity firms acquiring El Paso Electric and WETT, the acquisition of TNMP by Avangrid.

valuation opinions in merger cases is highly confidential and cannot be used outside of those dockets under the terms of Commission protective orders, there is publicly available information in this case as to the level of actual cost of capital used by investment analysts. As described above, the publicly available range is 5.4% - 7.73% for SPS's parent Xcel.

Q. IS THERE A DIFFERENCE BETWEEN ACHIEVED RETURN AND ALLOWED RETURN?

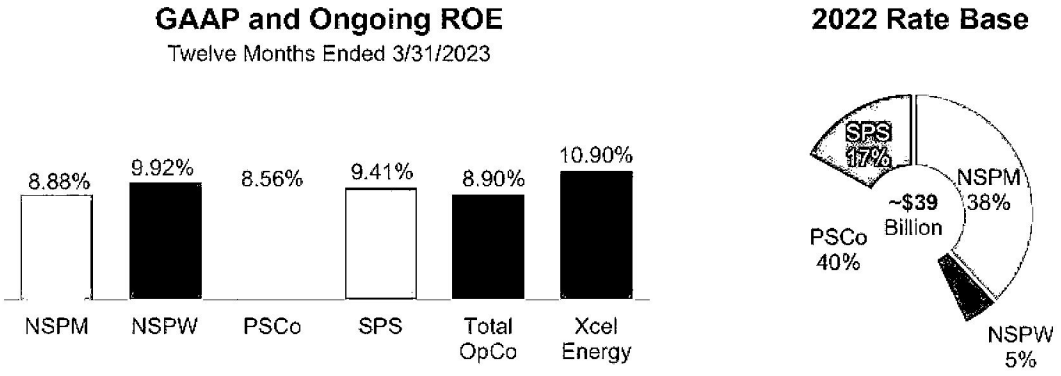
A. Yes. Achieved return may be higher or lower than allowed return.

Q. WHAT HAVE SPS'S ACHIEVED RETURNS BEEN IN THE LAST TWO YEARS?

A. For the twelve months ending March 31, 2023, Xcel shows that the actual ROE for SPS (total company) was 9.41%. All of Xcel's operating companies averaged 8.9% and Xcel Energy achieved a 10.9% actual ROE. The latter ROE is achieved through the added leverage at the parent:

Figure 3[42]

ROE Results – GAAP and Ongoing Earnings



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Q. WHAT CAN BE DRAWN FROM THIS RECENT HISTORY ON ACHIEVED ROE AND ACTUAL INVESTMENT PRACTICE?

[42] Xcel Energy presentation to JPMorgan Conference, June 8, 2021 at 54.

A. SPS has earned approximately 9.22% - 9.71% for the last four years.[43] The Commission should expect that SPS can come close to earning, and possibly be able to exceed, the allowed ROE that will be established in this case. SPS's current investment program is smaller relative to its size than in previous years,[44] and the cost recovery riders in Texas mitigate the effects of regulatory lag. Further, the fact that incremental equity at SPS will be funded by debt and equity at the parent means that the actual cost of capital to fund SPS's investment needs will be less than what the Commission has traditionally allowed. Finally, investment analysts estimate the actual cost of equity at much lower levels than do ROE witnesses in regulatory proceedings. The Commission should consider these facts as it determines the allowed ROE for SPS.

Q. ARE THERE ANY OTHER FACTORS THE COMMISSION SHOULD CONSIDER WHEN ESTABLISHING SPS'S RATE OF RETURN IN THIS CASE?

A. Yes. The Commission should also bear in mind that it allows utilities to keep 10% of the margin on their off-system sales, even though these sales are created by the utilities' regulated (and ratepayer-funded) operations, and even though there is no longer any incentive-based justification for allowing utilities to retain margins.[45] In most years, this amount is relatively small for SPS—for the 12 months ending 12/31/20, its monthly fuel reports show that the 10% margin was $2 million for total SPS, or about $1.2 million for the Texas jurisdiction. But due to sales during Winter Storm Uri, the 10% retained margin for the 12 months ending 3/31/2021was approximately $12 million for Texas retail.[46] These earnings and cash flow are not included in SPS's adjusted test year nor in its estimate of the required cash flow, return on equity, or credit metrics.

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[43] Xcel Energy presentations dated 3/11/20 at 51, 3/23/21 at 58, 3/1/22 at 49 and 2/28/23 at 53. https://investors.xcelenergy.com/news-market-information/presentations/

[44] Moody's Credit Opinion, December 30, 2021, Schedule K-9 at 17: "SPS plans to invest a total of $3.6 billion over the 2022-2026 period. However, we note some moderation in the utility's planned capex compared to the total investments of nearly $4.1 billion during the 2016-2020 period" and " in relative terms we calculate that on average, SPS' annual capital outlays will represent nearly 2.0x the utility's depreciation expense during the 2022-2026 period compared to a ratio that averaged 3.7x during the 2016-2020 period."

[45] Please refer to Appendix A, which contains a lengthy discussion of why there is no longer a justification for incentives for sales into day-ahead markets in organized Regional Transmission Organizations.

[46] See SPS's Supplemental Response to Staff 3-1, Exhibit SPS-Staff 3-1 (SUPP 1) in Docket 53034.

IV. CAPITAL STRUCTURE

Q. WHAT CAPITAL STRUCTURE IS SPS REQUESTING?

A. It is requesting a capital structure with 54.6% equity and 45.4% debt. This request is based in part on the claim that this is SPS's actual capital structure.[47]

Q. DOES SPS ACTUALLY EXPECT TO HAVE A CAPITAL STRUCTURE OF 54.6% EQUITY AND 45.4% DEBT?

A. No. SPS's requested capital structure is based on a calculation that ignores short-term debt. Because it expects to have short-term debt, its capital structure actually has a lower equity component than it requests in this case. In fact, in preparing its expected credit metrics, SPS forecasts having [redacted] in short-term debt.[48] Incorporating that short-term debt shows that SPS's forecasted capital structure is actually 53% equity, not 54.6%.

Q. SHOULD THE COMMISSION SET SPS'S CAPITAL STRUCTURE BASED ON THE AMOUNT OF BOOK EQUITY SPS CLAIMS TO SHOW, AS SPS HAS REQUESTED?

A. No. The Commission should set the capital structure based not on how Xcel has chosen to capitalize its wholly owned subsidiary SPS, but instead to provide just and reasonable rates and preserve the financial integrity of the utility. In fact, in SPS's last litigated Texas rate case, the Commission set a hypothetical ratemaking capital structure over SPS's objections that the Commission should use the structure with which Xcel has chosen to capitalize SPS.[49] Using a regulatory capital structure to set rates rather than using whatever capital structure SPS's parent chooses at a particular point in time does not violate any financial principles. The market establishes the cost of capital, while in ratemaking the Commission uses a capital structure and allowed rate of return that maintains financial integrity while preserving just and reasonable rates.

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[47] Martin Direct at 32-33.

[48] Exhibit SPS 4.1.1 (confidential) at tab "Model" at cell P52.

[49] *See Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Final Order at 4 (Dec. 18, 2015); *see also* Docket No. 43695, SPS's Motion for Rehearing at 7-8 (Jan. 7, 2016) (arguing against the Commission's decision to use a hypothetical capital structure).

SPS's level of equity is controlled by its parent Xcel and should not be the driving factor in setting its regulatory capital structure. Equity at SPS is provided by capital infusions from Xcel. As seen by Xcel's own projections, the majority of these capital infusions are likely to come from debt at Xcel.[50] Indeed, S&P notes that at Xcel "[c]apital spending contributes to negative discretionary cash flow (DCF). The company is investing in eight wind generation sites…the expected negative DCF will require external funding that we believe will include incremental debt, weakening Xcel's financial measures."[51] Xcel has an incentive to fund SPS's investment needs so long as Xcel's cost of capital (debt and equity) is lower than the Commission granted rate of return, and it will do so with the lowest cost funds it can. This results in more leverage at Xcel than at SPS.

Q. WHAT IS XCEL'S CAPITAL STRUCTURE RELATIVE TO SPS'S?

A. It is obvious that Xcel is funding "equity" at SPS with debt at the parent when you look at Xcel's capital structure. Xcel has recently forecast its capital structure to be constant at 40% equity for 2023 -2027, with holding company debt between 24% - 25% of total debt. Note that Xcel refers to itself and all of its subsidiaries (including SPS) as having "strong credit metrics:"

[50] Xcel Energy presentation to JPMorgan Conference, June 22, 2023 at 54.

[51] S&P Global Ratings Score Snapshot for Xcel Energy dated December 6, 2021. Schedule K-9 at 72.

Figure 4
Xcel Capital Structure[52]

Strong Credit Metrics

Plan	2023	2024	2025	2026	2027
FFO/Debt	~18%	~19%	~18%	~18%	~18%
Debt/EBITDA	4.9x	4.9x	4.9x	4.9x	4.9x
Equity Ratio	40%	40%	40%	40%	40%
Hold Co Debt/Total Debt	24.1%	24.3%	24.9%	24.7%	24.9%

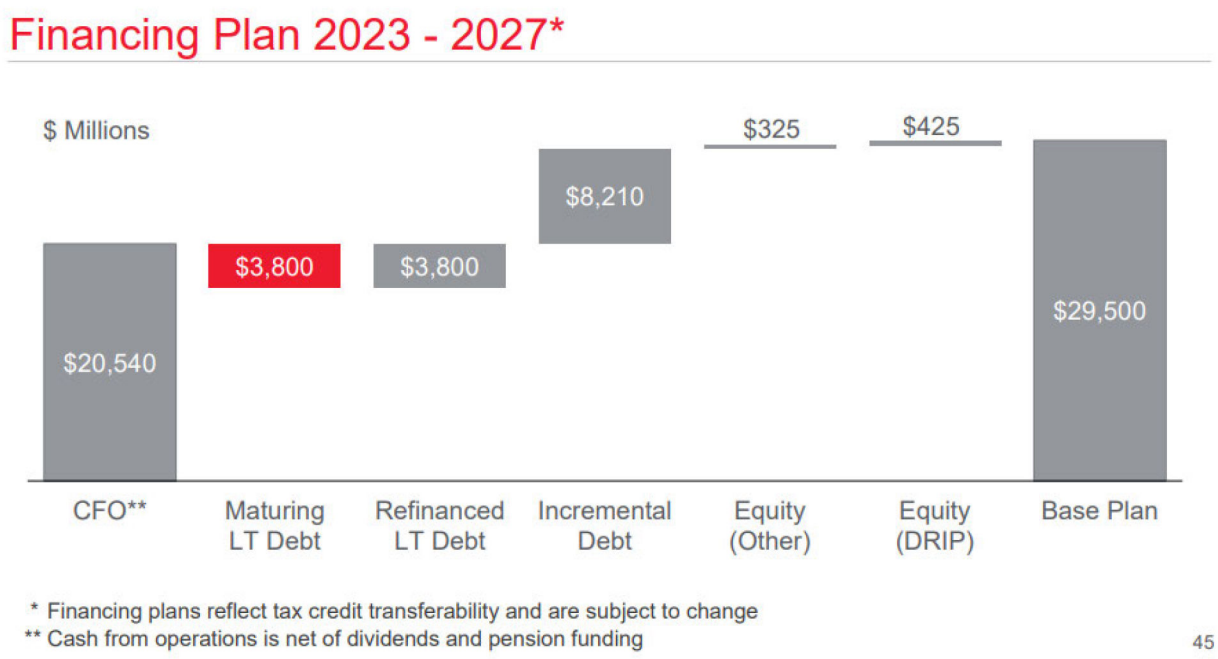
Credit Ratings	Moody's	S&P	Fitch
Xcel Energy Unsecured	Baa1	BBB+	BBB+
NSPM Secured	Aa3	A	A+
NSPW Secured	Aa3	A	A+
PSCo Secured	A1	A	A+
SPS Secured	A3	A	A-

Credit metrics based on base capital plan, include tax credit transferability and do not reflect rating agency adjustments 43

It is planning to achieve this by raising $8.2 billion of incremental debt compared to $0.75 billion of incremental equity as shown in the figure below:

[52] Xcel Presentation at JPMorgan Conference on June 22, 2021 at 43. https://s25.q4cdn.com/680186029/files/doc_presentations/2021/06/RBC-Conference-6-8-2021.pdf.

Figure 5
Xcel Financing Plan[53]

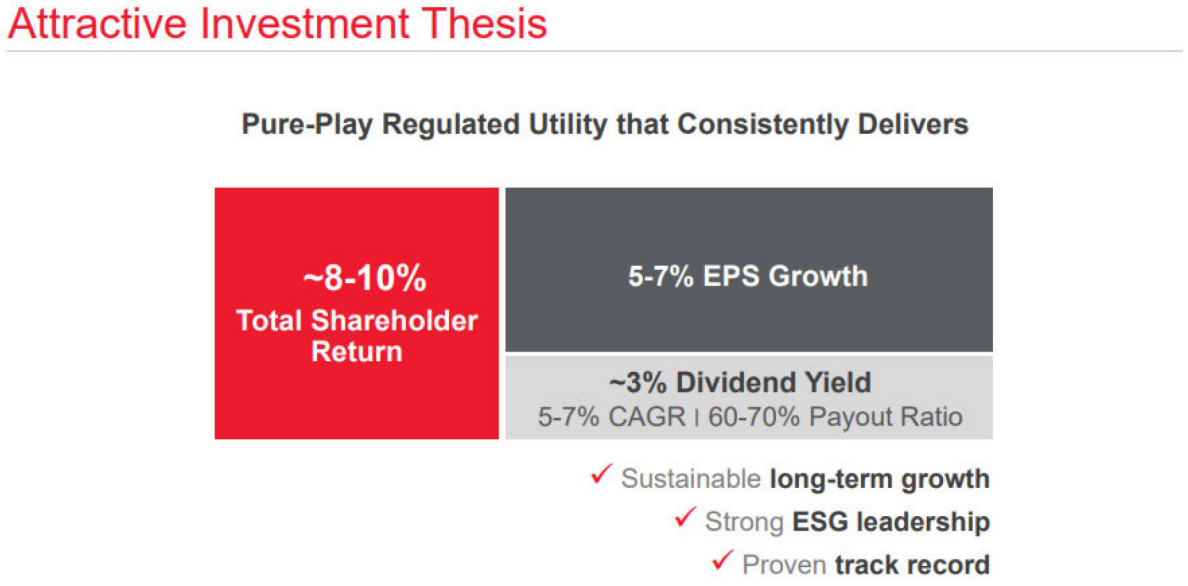


Q. DOES XCEL INTEND TO MAINTAIN A HIGH CAPITAL INVESTMENT PLAN?

A. Yes. It is planning to spend approximately $30 billion over the next 5 years to grow rate base 7% annually and achieve long-term earnings per share growth at 5% - 7% while paying a dividend yield of 2.6% annually.

[53] *Id.* at 45.

Figure 6
Xcel Shareholder Return Forecast[54]



This is a strong growth plan in an industry where underlying usage is growing at fractions of that. Xcel's aggressive growth plan demonstrates that it believes that its operating companies' allowed returns on equity will exceed their actual cost of capital, which makes growth an attractive option.

Q. DOES SPS REQUIRE A "ROBUST" EQUITY COMPONENT OF ITS CAPITAL STRUCTURE GIVEN THE RISKS IT FACES?

A. No. As I discussed above, regulatory risk is actually lower than it has been in the past. Further, if investment were truly a problematic risk to a utility, the utility would constrain its capital expenditures, not tout those same capital expenditures in renewables, electric vehicles and green hydrogen to equity investors, as Xcel is doing.[55]

Q. HOW DOES SPS'S REQUEST FOR AN EQUITY COMPONENT OF 54.6% COMPARE TO THE CAPITAL STRUCTURES OF THE OTHER UTILITIES IN TEXAS?

A. SPS's requested equity component is 3%-5% higher than the amount of equity in the capital

[54] *Id.* at 2.

[55] *Id.* at 4-7.

structures of the other non-ERCOT utilities. In SWEPCO's most recent rate case, the Commission ordered a capital structure comprised of 49.37% equity.[56] In ETI's pending rate case, the Commission approved a capital structure including 51.21% equity.[57] EPE's approved capital structure in its last rate case consists of 49% debt and 51% equity.[58] Most ERCOT transmission and distribution utilities have capital structures comprised of 42.5% equity.

Q. HOW SHOULD THE COMMISSION EVALUATE SPS'S CONTENTIONS REGARDING ITS CAPITAL STRUCTURE?

A. As an initial matter, the Commission's goal in setting SPS's ratemaking capital structure should be to maintain the financial viability of the utility and to provide just and reasonable rates. With respect to SPS's credit ratings, they are solidly investment grade today. Note that SPS's desire is to move toward an A rating is for SPS's unsecured debt at Moody's and Fitch – its senior secured debt is already rated A by all three major ratings agencies, and S&P also rates SPS at A- for its issuer credit rating (although S&P's stand-alone credit rating is BBB+).[59] In considering SPS's arguments in this case regarding potential changes to its unsecured ratings, the Commission should understand how the credit rating agencies currently set ratings for SPS and what might cause the agencies to increase or lower the rating. The Commission should also evaluate the impact that ratings have on the goals of just and reasonable rates and financial integrity.

Q. HOW DOES S&P EVALUATE THE CREDIT RATING OF SPS?

A. Because it considers SPS to be a core subsidiary of Xcel, S&P evaluates SPS under a group rating method, i.e., it assigns the same credit rating to SPS as it does to SPS's parent Xcel:

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[56] *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 51415, Final Order at FoF 103 (Jan. 14, 2022).

[57] *Application of Entergy Texas, Inc.'s Statement of Intent and Application. for Authority to Change Rates*, Docket No. 53719, Unopposed Stipulation and Settlement Agreement at 4 (May 10, 2023) (approved orally at Aug. 3, 2023 Open Meeting, order pending).

[58] *Application of El Paso Electric Company for Authority to Change Rates*, Docket No. 52195, Final Order at FoF 64 (Sept. 15, 2022).

[59] Martin Direct at Table PLM-RR-2.

A- (while on a stand-alone basis S&P's issuer credit rating for SPS is BBB+).[60]

Q. WOULD ANY COMMISSION ACTION WITHIN A REASONABLE RANGE FOR CAPITAL STRUCTURE LIKELY CAUSE S&P TO CHANGE ITS RATING ON SPS?

A. No. As long as SPS remains a core subsidiary of Xcel, under the group rating method, S&P is unlikely to alter SPS's credit rating to be different from Xcel's rating.

Q. HOW DOES MOODY'S EVALUATE THE CREDIT RATING OF SPS?

A. It performs a SPS-specific evaluation.

Q. HOW DOES MOODY'S EVALUATE THE CREDIT RATING FOR SPS?

A. Moody's assigns weightings to both financial ratios and more subjective factors such as regulatory framework. The financial strength, as measured by financial ratios receives 40% weighting, while regulatory framework (25%), ability to recover costs and earn returns (25%), and diversification (10%) make up the rest of the weightings. Note that the scorecard-indicated rating is Baa1, while the actual rating assigned is Baa2.[61] One reason is that Moody's ranks SPS below the scorecard because of regulatory uncertainty. Moody's discussion of regulation is that this negative movement is due to regulation in New Mexico, not in Texas.[62] Texas ratepayers should not have to pay higher rates due to the results of regulation in New Mexico.

Q. IS THERE ONE PARTICULAR FINANCIAL RATIO UPON WHICH MOODY'S FOCUSES FOR SPS?

A. Yes. Moody's is focused on pre-working capital cash from operations relative to debt, which it calls "CFO pre-WC/Debt." According to Moody's, "SPS financial metrics have been strong including a ratio of CFO pre-W/C to debt to 20.5% for the 12-months ended 30 September 2022.[63] Moody's states that an "upgrade of SPS is possible if there is a significant improvement in the credit supportiveness of the regulatory environments where it operates, particularly in New Mexico, and if SPS is able to maintain robust financial

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[60] S&P Global Ratings Score Snapshot for SPS, September 20, 2022. Schedule K-9 at 8.

[61] Schedule K-9 at 20.

[62] *Id.* at 49.

[63] *Id.* at 54.

metrics including a ratio of CFO pre-W/C to debt sustained above 20%."[64] Similarly, Moody's states that SPS's rating could be downgraded upon a "deterioration in SPS' regulatory support or its relationships with key stakeholders, or a weakening of SPS' financial profile that causes its ratio of CFO pre-W/C to debt to fall below 15% for an extended period."[65]

Q. WHAT DOES SPS PROJECT FOR MOODY'S CALCULATION OF CFO PRE-WC TO DEBT?

A. SPS projects 20.3% and 17.8% for CFO pre-WC/Debt for 2023 and 2024, respectively.[66] SPS's claims that this projection is based on a 54.6% equity scenario, but it is actually based on 54.6% equity after reducing rate base by the amount of short-term debt. In 2024 this debt is projected to be [redacted] million.[67] So as a percentage of rate base, the amount of equity is actually 53.0% on average in 2024 in Ms. Martin's projections. Ms. Martin's testimony doesn't state what ROE is assumed in SPS's forecast of its credit metrics, but in fact she assumed that SPS's ROE would be [redacted] in 2023 and [redacted] in 2024, far below what SPS has been earning historically.[68]

Q. WOULD THESE RATIOS LEAD TO AN UPGRADE OR DOWNGRADE FROM MOODY'S?

A. The ratios SPS projects would not lead to an upgrade nor a downgrade, as Moody's states it will not change the rating for SPS unless the ratio is sustainably above 20% or below 15%, and SPS's projections are ~18%. Given that SPS's investment program is forecast by Moody's to be relatively smaller in size going forward than it has previously been and that the tax credits available from the Inflation Reduction Act will help cash flow, the projections for this metric are likely to improve going forward past 2022 as SPS incurs proportionally less debt and dedicates proportionally less of its cash from operations to new investment.

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[64] *Id.*at 49.

[65] *Id.* at 50.

[66] Martin Direct at 26.

[67] Attachment to SPS's Response to TIEC 4-1.1 (Confidential).

[68] Calculations based on the spreadsheet provided in SPS Response to TIEC 4-1.1 (Confidential).

Q. MS. MARTIN PRESENTS FORECASTS OF SPS'S CREDIT METRICS THAT PURPORT TO BE BASED ON A 54.6% AUTHORIZED EQUITY RATIO. ARE THOSE FORECASTS ACTUALLY BASED ON A CAPITAL STRUCTURE WITH 54.6% EQUITY AND 45.4% LONG-TERM DEBT?

A. No. Ms. Martin's projections are based on SPS's projected capital structure, which includes a short-term debt component, which reduces the equity component (as well as the long-term debt component). Based on the average short-term debt projected for 2022, the actual equity component used in Ms. Martin's projections relative to rate base is 53.0%. That is significant, because the Commission sets a capital structure based on long-term debt and equity and multiplies that by rate base (grossed up for taxes) to set rates (typically without including short-term debt). Thus, the 54.6% level of equity Ms. Martin claims she used in her financial projections for rating agency metrics is not the same as setting rates using a 54.6% capital structure. Instead, Ms. Martin's metrics reflect a ratemaking capital structure with only 53.0% equity. The impact is that Ms. Martin's ratio for CFO pre W/C to debt is too low—she shows 17.8% from using a capital structure that includes a short-term debt component in her projections, while using a ratemaking capital structure would show 18.6%. That is the metric using her assumed [redacted] ROE; if the earned ROE is actually 9.4%—in line with SPS's actual earned ROE for the year ending 3/31/2023—the CFO pre W/C to debt metric would be 19.6%.

Q. BASED ON YOUR REVISIONS TO MS. MARTIN'S ANALYSIS, WHAT WOULD BE THE IMPLICATIONS OF AWARDING SPS ITS REQUESTED CAPITAL STRUCTURE, ASSUMING IT EARNS A RETURN ON EQUITY IN LINE WITH ITS RECENT PERFORMANCE?

A. SPS's financial metrics are already solidly investment grade. Given SPS's recent history of being above 18% for the CFO pre W/C to debt metric, earning a 9.4% ROE at SPS's requested 54.6%/45.4% capital structure would be indicative of an upgrade under Moody's criteria.

Q. ARE THE PROJECTIONS FOR CFO PRE-WC/DEBT IN MS. MARTIN'S TESTIMONY ACTUALLY BASED ON SPS'S REQUEST IN THIS CASE?

A. No. The calculations are based on a forecasted achieved ROE of [redacted] in 2024. This is a major discrepancy compared to SPS's request of 10.65% in this case, and its recent history of achieving ROE at well above this forecasted ROE assumption.

Q. WHAT HAS SPS SAID IS THE BASIS FOR THIS ASSUMPTION?

A. Ms. Martin states that it assumes "base rate recovery is roughly in line with historical outcomes."[69]

Q. WHAT IS THE IMPORT OF USING AN ASSUMPTION OF A LOWER ACHIEVED ROE COMPARED TO SPS'S REQUESTED ROE IN THE CREDIT METRIC FORECASTS?

A. It implies that SPS's current request will result in a CFO pre W/C to Debt ratio that is much lower than it will actually achieve if it can earn that requested allowed ROE (or anything close to it).

Q. IF THE ROE IS CHANGED FROM [redacted] TO SPS'S REQUEST OF 10.65% WITHOUT CHANGING ANY OTHER ASSUMPTION, HOW DOES THE CFO PRE-WC/DEBT RATIO CHANGE?

A. It goes from 17.8% to 20.1% in 2024 based on the requested ROE of 10.65%.

Q. WHAT WOULD THE METRIC BE IF ONE ASSUMED NO SHORT-TERM DEBT AND SPS'S REQUESTED ROE WAS USED?

A. The CFO Pre W/C to Debt ratio goes from SPS's claimed 17.8% to 21.0% in 2024 based on SPS's requested ROE of 10.65% and its requested regulatory capital structure of 54.6% equity.

Q. WHAT WOULD BE THE IMPACT OF GRANTING SPS ITS REQUESTED RATE OF RETURN?

A. It would significantly raise costs to ratepayers with limited corresponding benefit. Even if SPS were to get a one-notch upgrade from Moody's based on its requested return on equity and capital structure, it would have a limited impact on SPS's marginal cost of debt.[70] An upgrade to Baa1 would only lower SPS's marginal cost of debt by approximately 20 basis points,[71] or a $3 million annual reduction in rates.[72] In comparison, as shown in Exhibit

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[69] Martin Direct at 26.

[70] Recall that S&P already rates SPS as A- under a family rating, and this would be unlikely to change.

[71] *See* D'Ascendis Direct at 53.

[72] 0.002% change in debt rate * 45.4% debt in capital structure * 3.613 billion in rate base = $3 million. This calculation actually overstates the true impact because the higher interest rate would only affect new issuances, not SPS's embedded cost of debt. On the other hand, the higher rates from SPS's requested rate of return would impact ratepayers immediately upon implementation.

CSG-2, granting SPS's request for a 54.6% equity capital structure, assuming SPS's requested ROE of 10.65%, would raise rates by $58 million relative to a 48% equity component with a 9.5% ROE. Less debt in the capital structure only partially offsets the increase from equity, leading to a net customer loss of $44 million annually. Customers will not receive anywhere near enough savings from a lower interest rate on debt to offset the higher rates from SPS's requested high equity capital structure and high ROE. And SPS's current credit rating is already comfortably investment grade.

Q. IF THE COMMISSION WERE INTERESTED IN MAINTAINING A CFO PRE-W/C TO DEBT CREDIT RATIO SUSTAINABLY IN THE RANGE OF 16% - 17%, WHAT CAPITAL STRUCTURE SHOULD THE COMMISSION APPROVE?

A. Moody's has indicated that if the CFO pre-WC/Debt declines below 15% for an extended period, SPS could be downgraded. That financial ratio is largely dependent on ROE, capital structure, and the amount of depreciation. I have included below a table showing the CFO pre-W/C to Debt ratio based on SPS's credit model, but adjusted with different capital structures, ROEs and depreciation levels:

Figure 7
CFO Pre-WC to Debt Metric in 2024 Sensitivities

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	SPS Credit Model Adjusted for ST Debt	SPS Credit Model per Request	SPS ROE Request	SPS ROE Request but target 17% Metric	TIEC Case Lower Range for Equity	TIEC Case Upper Range for Equity	TIEC Low ROE Targeting 16% Metric
ROE	[redacted]	[redacted]	10.65%	10.65%	9.50%	9.50%	9.05%
Equity weight in Regulatory Capital Structure	53.0% including ST debt	54.6%	54.6%	47.9%	48.0%	50.0%	49.3%
CFO pre-WC/Debt	17.8%	18.6%	21.0%	17.0%	16.0%	17.0%	16.0%

Q. PLEASE EXPLAIN THE DIFFERENT COLUMNS IN THE TABLE.

A. Column (1) shows the key assumptions used in Ms. Martin's calculation of the CFO pre-WC/Debt metric per Moody's and the resulting ratio of 17.8% for 2024. It includes the

[redacted] million in short-term debt in the capital structure that is in Ms. Martin's modeling but that she did not present in her testimony. Column (2) shows Ms. Martin's calculation if there were no short term debt. Making this adjustment shows that using a 54.6% equity weighting in the regulatory capital structure results in an 18.6% ratio in 2024 using Ms. Martin's other assumptions. Column (3) shows the credit metric result (21.0%) based on SPS's request in this case of a 10.65% ROE and 54.6% equity, using Ms. Martin's other assumptions.

In Column (4), I show when using SPS's request of a 10.65% ROE an equity weighting of 47.9% would provide a credit metric of 17.0% for CFO pre W/C to debt. Column (5) shows the lower end of my recommended range along with Mr. Walters' recommended allowed return on equity. Under these assumptions, a 48.0 % equity weighting would allow SPS to achieve a 16.0% CFO Pre W/C to debt ratio. Column (7) shows the upper end of my recommended range. Using the TIEC assumptions for ROE and depreciation, a 50.0% equity weighting would lead to a 17.0% result for the key credit metric. Finally, column (8) shows, for illustrative purposes, that using the low end of Mr. Walters' recommended ROE range and a 49.3%/50.7% capital structure yields a 16% CFO Pre W/C to Debt credit metric. This is above Moody's downgrade threshold of 15%.

Q. DO THESE CALCULATIONS INCLUDE THE IMPACT OF SPS RETAINING REVENUES FROM OFF-SYSTEM SALES MARGINS?

A. No. These calculations do not include those revenues.

Q. WHAT DO YOU RECOMMEND?

A. Columns (5) and (6) show my recommended range based on Mr. Walters' recommendation of a 9.5% ROE. Under these assumptions, a capital structure of 48.0% - 50.0% equity would provide CFO pre-WC/Debt at well above Moody's 15% downgrade target for that metric for 2024. The higher end of the range, 50.0%, leads to a CFO pre W/C to Debt ratio at the lower end of Moody's current range of expectations, and is in the middle of its previous expected range of 16% - 18%. Such a capital structure should not risk SPS's Baa2 bond rating, should improve dramatically with the transferability of tax credits under the IRA, and represents a gradual move toward a lower amount of equity in the capital structure.

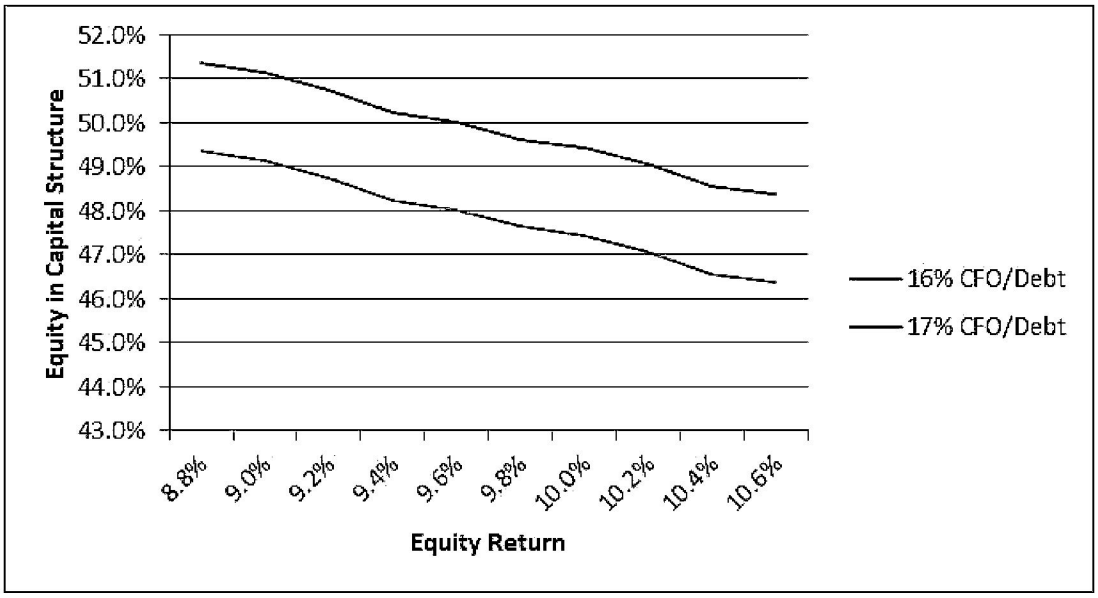
Column (1) shows that SPS's own calculations with an [redacted] ROE and its requested equity weighting lead to a 18.6% CFO to pre-WC/Debt ratio. But SPS has been earning considerably above the [redacted] ROE assumption, which has no objective basis. Using SPS's requested ROE and capital structure, the metric would be 21.0%. As evidenced by this calculation, there is room to lower ROE and/or reduce the equity capitalization from SPS's requests and still maintain Moody's key credit metric within the Baa1-Baa2 range for SPS. As shown above, a capital structure in the range of 48.0% - 50.0% leads to reasonable results for the key credit metric across a wide range of depreciation and ROE assumptions. As discussed above, ratepayers are better off paying lower equity returns and the resulting A-/Baa2 split rating by S&P/Moody's than they are paying higher equity returns and a split rating of at best A-/Baa1. For these reasons, I believe an equity layer of 48.0% - 50.0% best meets the goals of ensuring financial integrity for the utility and setting just and reasonable rates.

Q. CAN YOU PROVIDE ANOTHER WAY TO VISUALIZE THE RELATIONSHIP BETWEEN RETURN, CAPITAL STRUCTURE AND CFO-PRE WC/DEBT?

A. Yes, in Figure 8 below in show what allowed return and the amount of equity in the capital structure would be to result in a 16% and a 17% CFO pre-WC/Debt metric. So if the Commission wants to give a 9% allowed return, the amount of equity in the capital structure would need to be 49.1% for a 16% CFO-pre WC/debt metric and 51.1% for a 17% value for the same metric.[73] Alternatively, if the Commission chooses 9.6% for allowed return, to have a 17% CFP pre-WC/debt metric the equity layer would be 49.7%. For 16% on the same metric the equity would need to be 47.7%. At 10.6% allowed equity return, the equity in the capital structure could be as low as 46% and still provide a 16% CFO pre-WC/debt ratio.

[73] These calculations use TIEC's recommended adjustment to depreciation.

Figure 8
Relationship Between Capital Structure, Allowed Return, and Credit Metric



Q. DO YOU AGREE THAT ADOPTING SPS'S PROPOSED CAPITAL STRUCTURE "CAN PUT THE UTILITY ON A PATH TOWARD REDUCED COST OF CAPITAL?"[74]

A. No. First of all, it is worth reemphasizing that S&P's issuer credit rating for SPS is already at the "A-" level and that SPS' secured debt is rated A by all three major agencies. Second, as I have demonstrated, the cost to ratepayers of sustaining credit metrics at higher equity levels is much higher than the benefit today. Credit spreads have generally been low,[75] such that one or two notch upgrades do not provide much in the way of interest rate savings. Further, these savings only apply to new or refinanced debt, not the much larger amount of SPS's existing debt. Thus, any meaningful savings can only be achieved years from now. Yet to achieve these relatively small interest rate savings requires large increases in ROE and the amount of equity in the regulatory capital structure compared to what is necessary to maintain a solid Baa rating. These increases in cost to ratepayers would be immediate and long-lasting. Finally, much of the increased cost to ratepayers will flow to SPS's parent Xcel as dividends, allowing Xcel to use back leverage to increase its own.

[74] Shipman Direct at 16.

[75] Mr. D'Ascendis assumed 20 basis points for a one notch move. *See* D'Ascendis Direct at 53.

While it is true that a higher rating provides more financial flexibility, the question is whether that flexibility is worth the cost. It is also true that there are certain short periods when financial markets are closed due to crisis and panics, although they are likely just as closed to companies with Baa1 rated credit as a Baa2 rated credit during those periods. During other periods credit spreads may widen before falling. Utilities have the ability to delay going to market for debt during those times by using short-term debt, or delaying the start time for projects. Given such inherent flexibility, the benefit of achieving an A rating is currently not worth the cost.

V. MR. TOTTEN'S RECOMMENDATION

Q. IS MR. TOTTEN RECOMMENDING THE COMMISSION GRANT A HIGHER ROE OR HIGHER EQUITY IN SPS'S CAPITAL STRUCTURE FOR SPS'S QUALITY OF MANAGEMENT AND EFFORTS TO INCREASE ITS USE OF RENEWABLE RESOURCES?

A. It is unclear. He states that he "has recommended that the Commission approve a reasonable rate of return in this case and has not proposed an incentive beyond that."[76] However, in his conclusion he states:

> I conclude that SPS has performed well on several of the factors set out in PURA Section 36.052, and that it is appropriate for the Commission to consider this performance in setting a reasonable rate of return. In addition, PURA §§ 36.204 and 36.206 support granting a reasonable rate of return to SPS as an incentive for its high level of power purchases, to offset the financial risks associated with such purchases, and as an incentive for its use of renewable energy and conservation efforts.[77]

So it appears that Mr. Totten wants the Commission to choose the higher end of a range of reasonableness for allowed return and capital structure as an incentive for SPS to continue procuring renewable resources.

[76] SPS Response to TIEC 6-20.

[77] Totten Direct at 23.

Q. HAS MR. TOTTEN RECOMMENDED ROE BONUSES FOR UTILITIES IN THE PAST?

A. Yes. I am aware that he has recommended ROE bonuses for management performance in the most recent rate case for Entergy Texas and in the last rate case for SPS.

Q. CAN THE COMMISSION GRANT ROE BONUSES OR PENALTIES IN SETTING RATES?

A. I am aware of the Commission enacting penalties on ROE in the past. For instance, I recall a ROE penalty of 0.25% applied to Houston Lighting & Power Company in the early 1990s for failure to pursue conservation programs with sufficient zeal. In the aftermath of the oil price crash of 1986 in Texas, HL&P's peak load had declined for the first time ever, and the utility had put in place incentives to rebuild load (incentives for heat pumps and all-electric housing, etc.). As part of setting rates after the South Texas Nuclear plant went into service, the Commission implemented that penalty.

Q. HAS THE COMMISSION EVER GRANTED A BONUS TO ROE FOR THE QUALITY OF A UTILITY'S MANAGEMENT?

A. I am not aware of any instance where the Commission has explicitly ordered such a bonus and neither is Mr. Totten.[78]

Q. HAS THE COMMISSION GRANTED OTHER INCENTIVES OR PROFIT SHARING TO UTILITIES?

A. Yes. The sharing of 10% of the margin on off-system sales is one example that has been in place for over 20 years. The incentive was part of a rulemaking to encourage participation in what were then wholesale markets in their infancy. But now all non-ERCOT utilities except for El Paso Electric are in Regional Transmission Organizations and have turned the dispatch of their generation fleets over to the RTO.[79] As a result, SPS bids in its generation at cost and off-system sales are created by the grid-wide dispatch algorithm. Events have overtaken the intent of the rule, but the rule lives on. SPS has retained millions of dollars in off system sales margins over the last several years, but its operations witness has admitted that SPS would have made the same decisions with or

[78] SPS Response to TIEC 6-21.

[79] Refer to my Appendix A for a lengthy discussion of why there is no longer a justification for incentives for sales into day-ahead markets in organized Regional Transmission Organizations.

without margin sharing.[80] The Commission should avoid granting incentives that utilities then treat as property rights.

Q. DO YOU BELIEVE THAT LOW RATES, INCORPORATING HIGH LEVELS OF RENEWABLE ENERGY OR PURCHASING POWER JUSTIFY PICKING THE HIGHER END OF A REASONABLE RANGE FOR ALLOWED RETURN OR CAPITAL STRUCTURE?

A. Not in this case. SPS's low total rates cited by Mr. Totten are not due to current management, but are based on SPS's customer mix, investment decisions made decades ago, and SPS's favorable location relative to fuel sources. In any case, according to SPS's current forecast, SPS requested rates would climb significantly toward the average of other utilities, with an expected jump from 6.5 c/kWh to 8.94 c/kWh.[81] High levels of renewables and purchasing power should not be artificially incentivized – a utility's resource decisions should be based on lowest reasonable cost and reliability, not on choosing a specific type of generation. In return for a monopoly service area, under the regulatory compact a utility is supposed to serve all customers and be given a reasonable opportunity to earn a reasonable return on invested capital used and useful in providing electric service. To the extent that SPS seeks something beyond the regulatory compact, that request should be rejected.

Below I address various aspects of SPS's performance to demonstrate that the Commission should not grant SPS any additional compensation related to the quality of its management.

A. Mr. Totten's Claim that SPS Has Low Retail Rates

Q. UPON WHAT DOES MR. TOTTEN BASE HIS CONCLUSION THAT LOW RATES ARE AN EXAMPLE OF HIGH QUALITY MANAGEMENT PERFORMANCE?

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[80] During Winter Storm Uri SPS initially claimed that purchases of gas from an affiliate and actions to bring Harrington back from outage were influenced by margin sharing. But on cross-examination SPS witness Haskins stated that these two actions were related to reliability and would have occurred anyway. Tr. in Docket 53034 hearing at 596:25-597:7 and 560:14-561:8, 562:23-563:5 (Haskins Cross) (Sept. 1, 2022).

[81] Rodriguez Direct at Table JLR-RR-1.

A. Mr. Totten implies low rates are *ipso facto* proof of high quality management.[82] He doesn't appear to entertain the possibility that SPS has had low total rates because the Commission has not accepted the full amount of increases that SPS has been requesting over the last decade.[83]

Q. DID HE PERFORM ANY ANALYSIS TO SUBSTANTIATE THAT CLAIM?

A. No. He cites Mr. Rodriguez's testimony that in October 2022 SPS's Texas total rates are 39% lower than average total rates charged by other utilities in Texas and 49% lower than other utilities nationwide. He also cites Mr. Starkweather's benchmarking study.[84]

Q. HOW DID MR. STARKWEATHER SELECT HIS PEER GROUPS AND TIME PERIOD?

A. He had a national peer group and a Texas peer group, and looked at data from 2017-2021 for integrated regulated utilities and T&D utilities serving 10,000 or more customers that file FERC Form 1.

Q. HAS MR. STARKWEATHER EXPRESSED AN OPINION ON WHETHER CLAIMED LOW RATES IN THE 2017-2021 PERIOD WERE CAUSED BY MANAGEMENT PERFORMANCE?

A. No. Mr. Starkweather states

> [T]o determine to what extent a utility's management processes and actions (or decisions) lead to lower costs and rates during a specific time period (e.g., 2017-2021) would require a detailed review and analysis of the utility's business processes, cost structure, and rates.

> Mr. Starkweather did not perform any analysis that quantifies the impact of management performance relative to SPS' s ability to access natural gas from the Waha hub, coal from the Powder River Basin, percentage of sales from industrial customers, or other

[82] Totten Direct at 14-15.

[83] For instance, in Docket No. 43695, SPS originally requested a $64.8 million increase in Texas retail base rate revenue, but the Commission ordered that SPS receive a decrease of over $4 million. *Application of Southwestern Public Service Company for Authority to Change Rates*, Order on Rehearing at FoFs 37A, 237A (Feb. 23, 2016).

[84] SPS Response to TIEC 6-16.

factors unrelated to management performance. Such analysis was outside the scope of Mr. Starkweather's benchmarking analysis.[85]

Mr. Totten used Mr. Starkweather's analysis anyway to claim that SPS has high quality management.

Q. HAVE SPS RATES BEEN MEANINGFULLY LOWER THAN OTHER SIMILARLY SITUATED UTILITIES?

A. That depends on what is meant by similarly situated utilities. SPS's rates have been lower than other utilities, but I will show that is largely due to factors other than current management performance.

Q. IS THE PERIOD 2017-2021 AN UNBIASED PERIOD FOR COMPARISON?

A. No. Natural gas prices are a major factor in the level of rates for many utilities, including SPS, so a focus on the low gas price years of 2017-2021 will favor utilities who purchase more natural gas (and energy priced on natural gas) compared to utilities who have more solid fuel generation.

Q. IS THE LEVEL OF UTILITY RATES LARGELY INFLUENCED BY THE PERFORMANCE OF CURRENT UTILITY MANAGEMENT?

A. No. For regulated integrated utilities such as SPS the level of rates is more influenced by decisions made many years before by previous managers, particularly with respect to previous choices of fuel mix, how to finance generation plant, and the level of environmental controls on generation plant. For instance, many years ago I oversaw an analysis that demonstrated differences in electric rates between Reliant Energy and City Public Service of San Antonio ("CPS") could be explained by (1) how each entity financed the South Texas Nuclear Plant (pay as you go for CPS vs. capitalization of financing cost by HL&P/Reliant), and (2) the fact that CPS did not then have SO2 controls on its coal plants while HL&P did. In a previous case, Mr. Starkweather admitted that decisions made prior to 2017 would have an impact on fuel costs, operations cost, and base rate investment, but did not do a study to determine the impact such earlier decisions would have on utility

[85] SPS Response to TIEC 10-11.

rates during any specific time period.[86]

Q. WAS MR. STARKWEATHER'S CHOICE TO INCLUDE UTILITIES THAT ARE MUCH SMALLER THAN SPS APPROPRIATE?

A. No. Smaller utilities are not comparable to an entity such as SPS which has nearly 300,000 customers. Mr. Starkweather included utilities with as few as 10,000 customers, which is about 3% of SPS's size. Mr Starkweather ignores the economies of scale that should be accounted for in such an analysis.

Q. HOW MANY UTILITIES DID MR. STARKWEATHER END UP HAVING IN HIS TEXAS PEER GROUP FOR HIS RATE BENCHMARKING?

A. There were only three other than SPS – El Paso Electric, Entergy Texas, and SWEPCO.

Q. DOES A QUARTILE RANKING MAKE SENSE WITH SUCH A SMALL PEER GROUP?

A. No. It is true SPS had the lowest total rates among those four utilities, but the question is why. Mr. Totten proposed ROE bonuses for ETI "stellar" management performance pointing to low rates as a factor. Yet here he argues that SPS has high quality management with rates even lower than the utility whom he testified had "stellar" performance for low rates. Of course in that case, Mr. Starkweather chose a larger regional peer group with whom to compare ETI.

Q. HOW WOULD YOU BENCHMARK SPS'S RATES?

A. I would look at the integrated utilities in the Energy Information Agency's ("EIA") defined region of West South Central (Texas, Oklahoma, Louisiana, and Arkansas).[87] EIA uses this region to compare utilities and create a regional average and has done so for many years.

Q. WHY DO YOU BELIEVE THE WEST SOUTH CENTRAL REGION IS COMPOSED OF SIMILARLY SITUATED UTILITIES?

A. The utilities in this region are similarly situated with regard to access to natural gas and coal from the Powder River Basin. In contrast, many utilities nationally have not had the

[86] ETI Response to TIEC 5-10 in Docket 53719.

[87] West South Central is an official Census Bureau Region and is used by EIA for comparing rates. https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_5_6_a.

same access to natural gas and purchase coal from other coal regions. Further, I did not include El Paso Electric because it is in the Western Interconnect, is not part of an RTO, and did not have access to the same fuel sources.

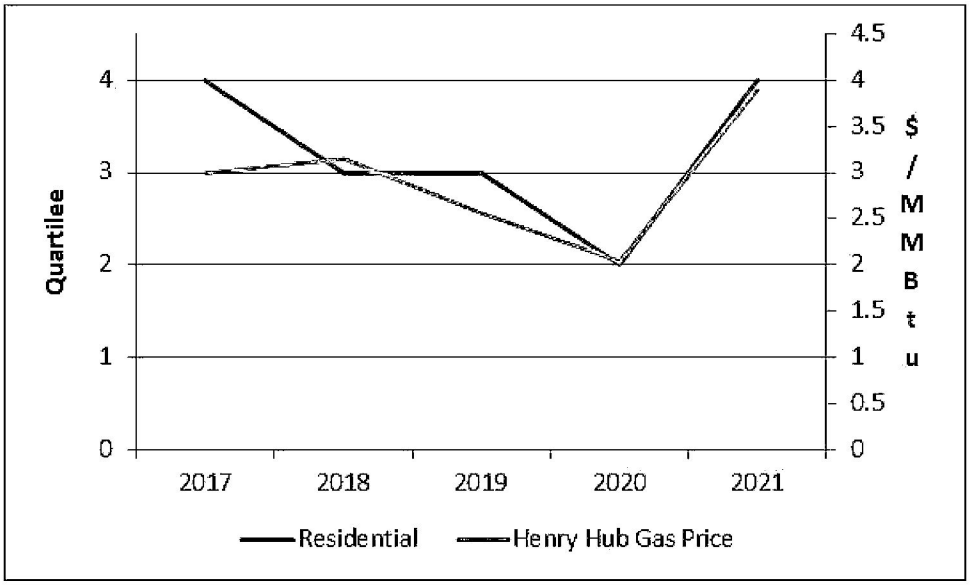
Q. WHAT WAS YOUR DATA SOURCE FOR THE WEST SOUTH CENTRAL UTILITIES?

A. I used data from EIA Form 861 for residential, commercial, industrial and total rates. I chose all investor owned and municipal utilities with total energy sales to end-use customers that were at least one-quarter of SPS's total energy sales.

Q. WHAT DOES YOUR COMPARISON SHOW?

A. While there is variability in how SPS's rates rank relative to others within a customer class during the period 2017-2021, on a total rate basis SPS is always in the lowest quartile. Second, within a customer class such as the Residential class, SPS's relative ranking is correlated with gas prices, as shown below:

Figure 9
Quartiles for Residential Rates and Natural Gas Prices
SPS vs. West South Central Utilities



Q. WHAT DO YOU CONCLUDE FROM THIS FIGURE?

A. First, the Residential rate quartile correlates with natural gas prices but the Total Rate quartile stays flat, suggesting that customer mix, not management performance, plays a

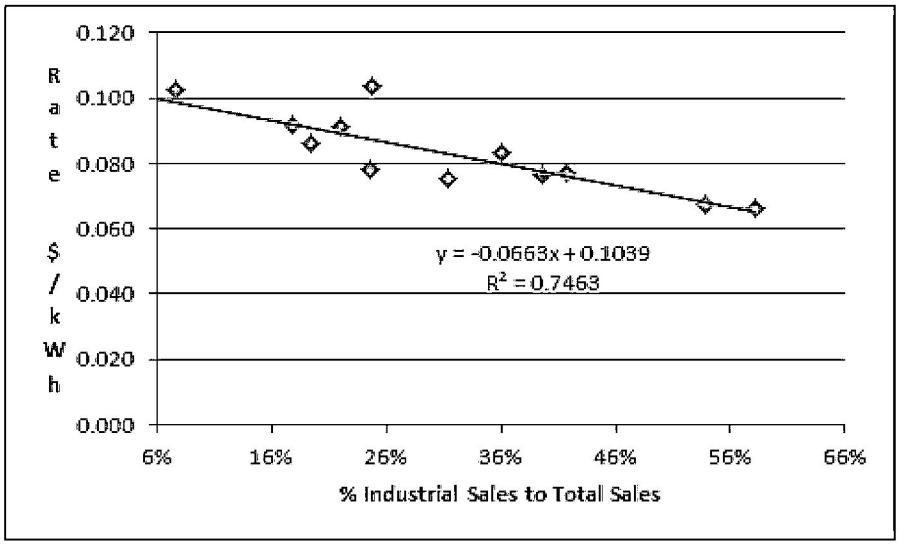
role in SPS having low total rates. Large industrial customers are less costly to serve on a per kWh basis because they typically have a higher load factor. So a utility like SPS that happens to serve an area with a large industrial concentration will tend to have lower average rates per kwh. In fact, since SPS has the highest mix of high load factor industrial customers compared to other utilities, the low total rates are not surprising. Over the five year period reviewed by Mr. Totten and Mr. Starkweather, the customer mix is largely beyond utility management control. Mr. Starkweather does not address customer mix in his testimony.

If one is familiar with the history of natural gas pricing, one can also see a relationship between the residential quartile ranking for SPS and natural gas prices. Natural gas prices were the lowest in 2018-2020 among those five years. The figure above shows that during 2017-2021 the quartile where SPS resides in a residential rate comparison was correlated with Henry Hub natural gas prices. Natural gas prices are set in a competitive continental market with increasing international influence for most utilities, but for SPS there is also a locational advantage – SPS can access natural gas from the Waha hub. As explained below, Waha often trades at a discount to Henry Hub and this gives SPS an advantage compared to other utilities. As will be seen, the Waha basis differential was very high in 2018-2020 and looks to remain high going forward. In any case, natural gas prices are unaffected by current utility management decisions. If the ranking changes with gas prices and is due to the existing fuel mix, which was largely determined by decisions over the last 30-40 years, then the rankings are not driven by current utility management actions.

Q. DID YOU DO ANY ANALYSIS TO CONFIRM THAT THE MIX OF CUSTOMERS EXPLAINS MUCH OF SPS'S COMPARATIVE TOTAL RATE PERFORMANCE?

A. Yes, for each of the years 2017-2021 I performed a linear regression of the peer utilities' total rates against the percentage of their sales coming from the industrial class. The analysis for the year 2017 is shown below:

Figure 10
Relationship of Customer Mix and Rate Level



The percentage of each utility's energy sales is the independent variable and shown on the x-axis, while the total rate is shown on the y-axis. SPS is the bottommost and rightmost data point, indicating it had the highest percentage of industrial sales and the lowest total rates. Entergy Louisiana is the point next to SPS, with the second highest industrial sales as a percentage of total sales and the second lowest rates. I ran a best fit regression line that is shown on the chart. The R-squared metric from the regression indicates that industrial sales as a percent of total sales explains 75% of the variance in the data. Interestingly, the regression equation predicts a rate of 6.5 c/kWh for an entity with 58% of its sales from industrial customers, which comes very close to the 6.7c/kWh value for SPS. That mean SPS had unexplained variance of only 0.2 c/KWh; in other words, the regression model predicts SPS should have lower rates than it did that year by 0.2c/kWh.

Q. WHAT DO THE RESULTS FOR 2018-2021 SHOW?

A. The R-square continues to be high in 2018-2020, varying from 0.68 – 0.73. During those years, industrial mix by itself explains over 2/3 of the variance in rates among the peer group. In 2021 the R-square for the equation based on industrial mix fell to 0.32. This is due to SWEPCO Texas (with an industrial customer mix of 38%) showing an unusually large rate increase in 2021. Without SWEPCO Texas in the data, the R-square would have been 0.6. It is also possible that different treatment among utilities of the high cost of Winter Strom Uri explains some of the loss of explanatory power. The magnitude of the

costs, and how quickly and over what period those costs were passed on to ratepayers varied among utilities.

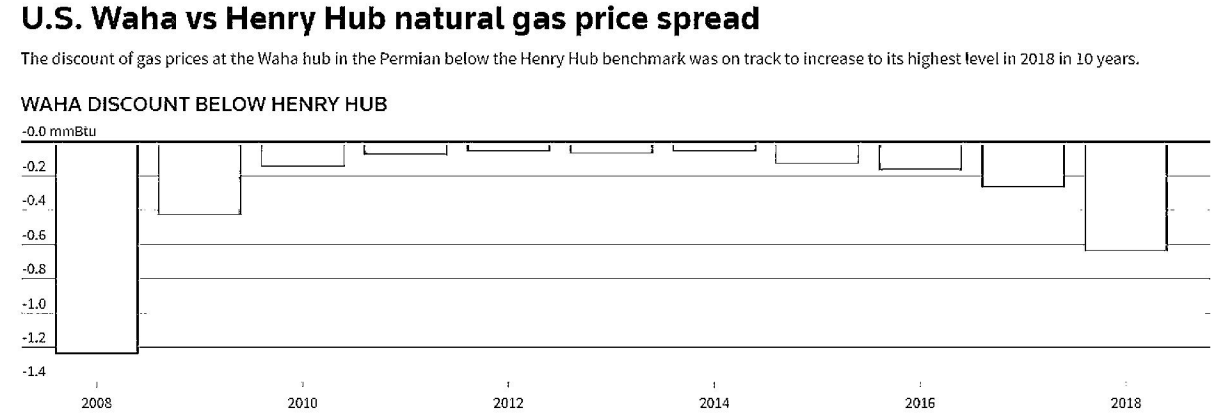
Q. IN ADDITION TO CUSTOMER MIX, WHAT ADDITIONAL FACTORS DO YOU BELIEVE EXPLAIN SPS'S RELATIVE RANKING ON RATES?

A. Investment decisions made decades ago explain a large portion of rate levels – what fuel source was chosen, what level of environmental controls were installed, etc. Location also plays a part – SPS is able to access natural gas from the Waha hub, which has been cheaper than other natural gas regions of late, and SPS is closer to the Powder River Basin and has less costly rail transportation.

Q. PLEASE DESCRIBE THE LEVEL OF BASIS DIFFERENTIAL BETWEEN HENRY HUB AND THE WAHA HUB.

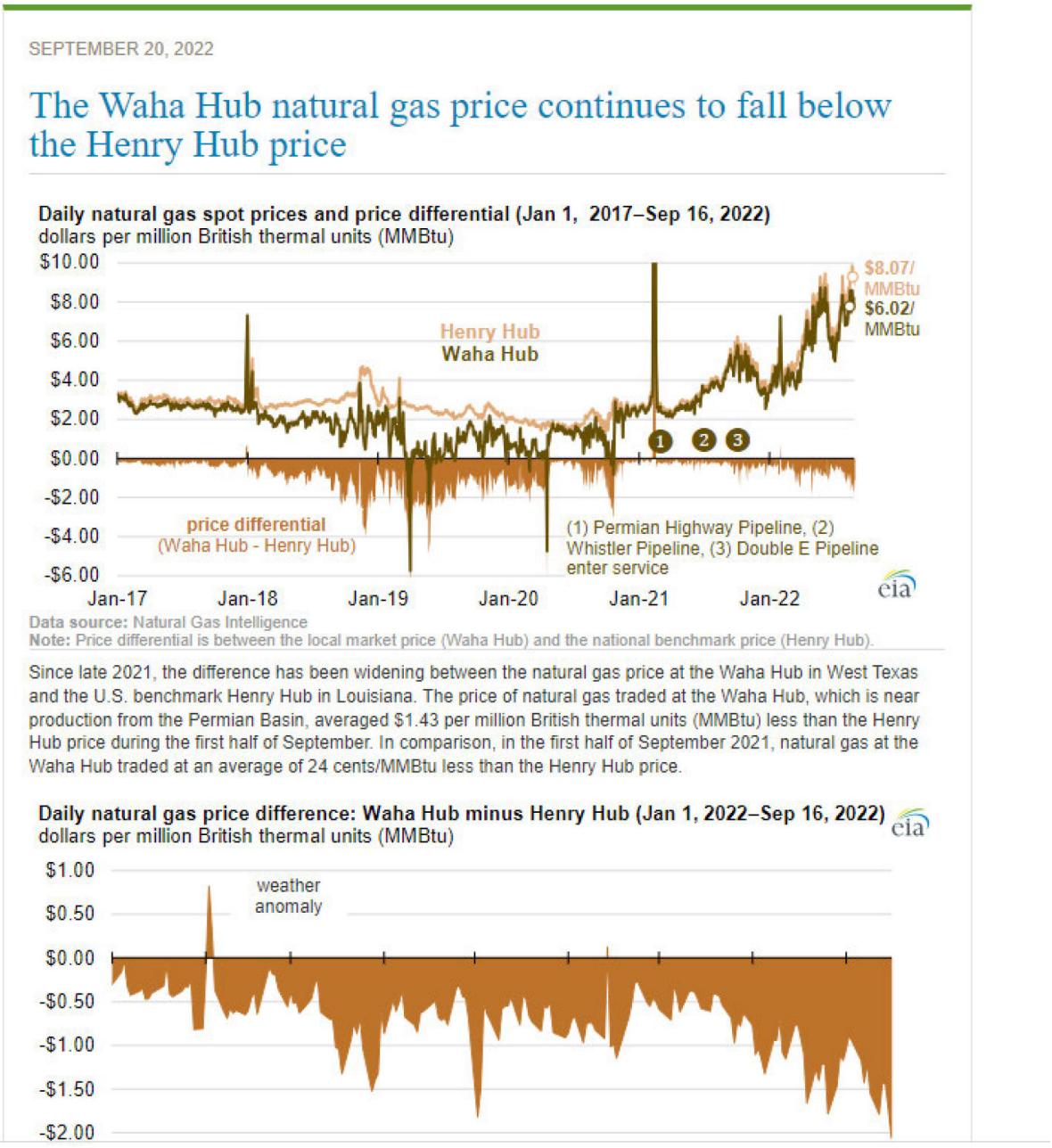
A. Over the last fifteen years the Waha hub has consistently had lower prices than Henry Hub. The figures below show the price differential from 2008-2018, from 2019- 2022, as well as the July 7, 2023 closing price for Waha basis futures from the ICE exchange. These figures indicate that there is a substantial pricing advantage to being able to access natural gas at Waha:

Figure 11
Waha Basis Differential 2008-2018[88]



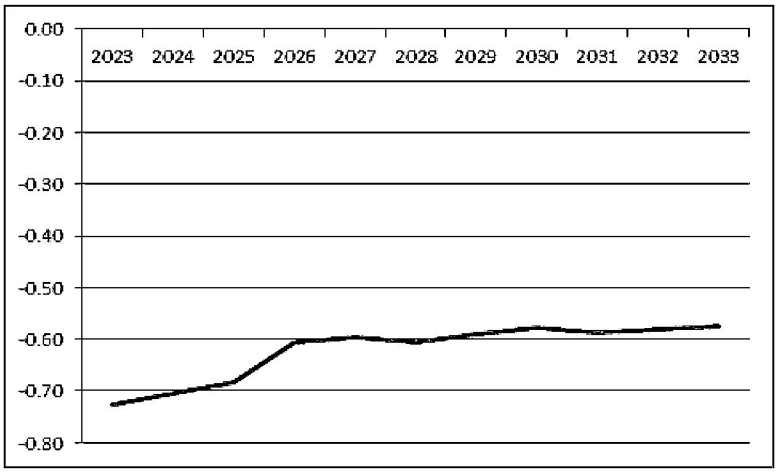
[88] https://fingfx.thomsonreuters.com/gfx/editorcharts/NATGAS-PERMIAN-PIPELINES/0H0014BNY1NR/index html.

Figure 12
Waha Basis Differential 2019-2022[89]



[89] https://www.eia.gov/todayinenergy/detail.php?id=53919.

Figure 13
Waha Basis Futures[90]



Q. IS SPS'S ABILITY TO ACCESS GAS AT WAHA COMPARED TO HENRY HUB REFLECTED IN ITS RELATIVE RANKING FOR RESIDENTIAL RATES?

A. Yes. SPS's cost of gas in the years 2018-2020 was $2.24/MMBtu, $1.14/MMBtu, and $1.43/MMBtu, respectively, meaning that SPS's cost of gas was at a discount to Henry Hub of $0.91, $1.42, and $0.60 per MMBtu, respectively. Since most of the other utilities in the peer group could not access gas at Waha, it is not surprising that SPS's relative ranking on residential rates improves in 2018-2020. In fact, for the Residential class the differential between SPS's WACOG and the Henry Hub price explains 70% of the change in SPS's Residential rate relative to the other utilities in the peer group.

Figure 12 also shows that in weather anomalies such as Winter Strom Uri, gas at Waha can trade higher than Henry Hub. Since a significant amount of gas may be purchased during those winter storms, on a volume weighted basis SPS's WACOG can go higher than Henry Hub pricing. Thus, it is expected that SPS's residential rate ranking relative to its peers gets worse during those periods, as we see in the quartile change from 2020 to 2021.

Q. WHAT DOES YOUR BENCHMARKING TO WEST SOUTH CENTRAL UTILITIES SHOW?

A. It shows that in a comparison of SPS's total rates to other utilities, the fact that SPS has the

[90] https://www.theice.com/marketdata/reports/142.

largest industrial base results largely explains why SPS's total rates are lower than other utilities. Further, SPS's ability to access gas at Waha helps explain its low rates during 2018-2020 and why its relative ranking for residential rates changes as it does. Fuel prices and customer mix are independent of the quality of management, and do not support adjusting where the Commission would otherwise set allowed return or capital structure.

B. Reliability

Q. DOES MR. TOTTEN BELIEVE THAT SPS'S RECENT LEVEL OF RELIABILITY SHOULD AFFECT THE COMMISSION'S JUDGEMENT IN SETTING ALLOWED RETURN OR CAPITAL STRUCTURE?

A. Mr. Totten doesn't say one way or another. He states that SPS's SAIDI and SAIFI metrics have improved and are in the second quartile of mid-sized utility peers. However, second quartile performance does not necessarily say anything about the quality of utility management. Do second quartile reliability metrics imply second quartile management quality? If so, that is near average quality management, but Mr. Totten doesn't say one way or another.

Mr. Totten then addresses SPS's performance during Winter Storm Uri. In contrast to his claim that "SPS was able to keep its system generation resources above load requirements throughout the event," Mr. Totten admits that he "does not contend that SPS's generation output always exceeded customer load during Winter Storm Uri,"[91] which puts a damper on the claim in his testimony. In any case, SPS retained nearly $12 million in margin from off-system sales during the week on Winter Storm Uri. SPS's own operational witnesses confirmed they would have made the same decisions with or without that margin sharing. There is no reason for the Commission to allow SPS to charge customers yet again for Winter Storm Uri by increasing ROE or equity in the capital structure.

C. Conservation of Resources

Q. IN WHAT MANNER DOES SPS CONSERVE RESOURCES ACCORDING TO MR. TOTTEN?

A. He believes that Xcel Energy's and SPS's aggressive moves toward renewables constitute

[91] SPS Response to TIEC 6-17.

conservation of resources. SPS's parent company, Xcel Energy, has pledged to reduce CO2 emissions by 70% by the year 2030 compared to 2005, and to have 100% "carbon-free" generation by 2050.[92] While agreeing that the substitution of fossil fuels with renewable power is not technically conservation, Mr. Totten nonetheless argues that it results in one similar outcome. Namely, a reduction in emissions, and the preservation of "the air in and beyond the region in which SPS operates."[93]

Q. DOES MR. TOTTEN CLAIM THAT A STRONG RENEWABLE ENERGY PROGRAM WARRANTS CONSIDERATION FOR GRANTING A HIGHER ALLOWED RETURN ON EQUITY?

A. Yes.[94] He further argues that it is the policy of the state of Texas that utilities are encouraged to adopt renewable energy.

Q. UPON WHAT BASIS DOES MR. TOTTEN MAKE THIS CLAIM?

A. He references PURA § 39.904 and § 36.204. He claims §39.904 sets a minimum goal for renewables, and he states that § 36.204 "may be regarded as an open-ended encouragement of renewable energy for regulated utilities."[95]

Q. DO YOU AGREE WITH HIS VIEWS ON THAT TEXAS HAS AN OPEN-ENDED POLICY TO SUPPORT RENEWABLES?

A. No. I think it is clear that neither the Legislature nor the PUC has an open-ended policy to support renewables, and certainly not at the expense of consumers or of reliability. The section of PURA he references for a minimum amount of renewables was repealed in the most recent session.[96] The first part of § 36.204 states the Commission *may* "allow timely recovery of the *reasonable* costs of conservation, load management, and purchased power."[97] That is not open-ended encouragement, but is rather permissive and not

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[92] Xcel Energy Presentation to JP Morgan Conference, 6/22/23 at 16. Note that compared to a net zero carbon emissions goal, which allows the use of CO2 offsets to reach a claimed no net emissions, carbon-free means precisely that – the power generation will produce no CO2 emissions.

[93] Totten Direct at 19.

[94] *Id.* at 20.

[95] *Id.*

[96] *See* recently enacted HB 1500 at Section 46.

[97] PURA § 36.204(1), emphasis added.

obligatory, and is constrained by the costs having to be reasonable. The second part of the statutory provision allows but does not require the commission to authorize additional incentives, including for renewables.[98] This section was enacted as part of SB7 in 1999. Having been involved in that session, I do not believe anyone present looked at that as open-ended encouragement of renewables. Rather, it provided the Commission a tool they might choose (or not) to use to encourage cost-effective alternatives to utility-owned traditional generation.

Q. TO YOUR KNOWLEDGE HAS THE COMMISSION EVER RELIED ON THIS SECTION TO GRANT ADDITIONAL INCENTIVES FOR RENEWABLES?

A. No.

Q. HOW HAS THE COMMISSION RULED IN RECENT CCN CASES REGARDING UTILITY REQUESTS TO BUILD RENEWABLE GENERATION OR TRANSMISSION TO SERVE RENEWABLE GENERATION?

A. I am aware that the Commission has rejected three attempts by SWEPCO to build renewable generation or transmission to serve renewable generation.[99] I am also aware the Commission rejected ETI's request to purchase a solar facility,[100] and in late 2019 found SPS's purchase of 140 MW of solar power to be imprudent.[101] The Commission did approve a settlement allowing for the construction of SPS's Hale and Sagamore wind facilities, albeit only after raising questions as to whether the uncontested settlement in that case should be approved.[102]

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[98] PURA § 36.204(2).

[99] Docket No. 47461 – *Application of Southwestern Electric Power Company for Certificate of Convenience and Necessity Authorization and Related Relief for the Wind Catcher Energy Connection Project in Oklahoma;*

Docket No. 49737 – *Application of Southwestern Electric Power Company for Certificate of Convenience and Necessity Authorization and Related Relief for the Acquisition of Wind Generation Facilities;*

Docket No. 53625 – *Application of Southwestern Electric Power Company for Certificate Of Convenience and Necessity Authorization and Related Relief for the Acquisition of Generation Facilities.*

[100] Docket 52215 – *Application of Entergy Texas, Inc. to Amend its Certificate Of Convenience and Necessity for the Acquisition of a Solar Facility in Liberty County.*

[101] Docket 48973 – *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs.*

[102] *Application of Southwestern Public Service Company for Approval of Transactions With ESI Energy LLC, and Invenergy Wind Development North America LLC, to Amend a Certificate of Convenience and Necessity for Wind Generation Projects and Associated Facilities in Hale County, Texas and Roosevelt County, New Mexico,*

Q. WHAT CONCLUSION DO YOU DRAW FROM YOUR EXPERIENCE?

A. Neither the State nor the Commission have an open-ended policy of promoting renewable power. Rather, and quite rightly, the Commission has carefully scrutinized applications involving renewable projects and required the utility to demonstrate that a renewable proposal was the best choice for consumers given economic and reliability considerations before it approves CCNs for such facilities.

Q. SHOULD THE COMMISSION CONSIDER SPS'S GREATER RELIANCE ON RENEWABLE ENERGY AS A FAVORABLE FACTOR IN SETTING ALLOWED RETURN?

A. No. Contrary to Mr. Totten's claims, the State of Texas does not have an open-ended policy of promoting renewable energy development. Additionally, SPS has provided no valid reason why its unilateral decision to pursue these goals merits a higher ROE or level of equity in the capital structure.

D. Purchased Power

Q. MR. TOTTEN SAYS THAT PURCHASE POWER POTENTIALLY AFFECTS SPS'S CREDIT RATINGS. DO YOU AGREE?

A. I do not believe that purchased power currently has an impact on SPS's credit rating. All of SPS's senior debt is rated in the "A" category. While S&P has identified some $460 million of imputed lease obligations, it is unclear how much of that is purchased power. In any case, this is included in their ratings analysis, and S&P's unsecured rating for SPS is "A" also. Meanwhile, Moody's only adjusts debt by $42 million. While credit ratings agencies are free to make their own analyses, the Financial Accounting Standards board issued ASC 842 in 2019. As long as a utility did not design or strongly influence the design of the renewable facility, under this standard a utility entering a PPA with a renewable project will not have debt from that PPA imputed onto its balance sheet under Generally Accepted Accounting Principles. Given SPS's intent to move forward with renewable PPAs, this means that SPS is largely free from concerns about imputed debt under GAAP. As such, imputed debt does not need to be a consideration for the Commission in

and for Related Approvals, Docket No. 46936, Final Order (May 25, 2018).

determining capital structure in this case.

Q. HAS SPS'S APPROACH TO BUYING RENEWABLES BEEN REASONABLE?

A. SPS, and its parent Xcel Energy, strongly tout their program to lead the energy transition away from fossil fuels. As noted in SPS's 2022 RFP for power "[f]or more than a decade, SPS has strived to serve its customers with a reliable, secure, diverse, and increasingly cleaner mix of generating resources, while working to keep customer energy bills low. SPS has continued along this path by adding 1,230 megawatts ("MW") of low-cost wind generation to its fleet since 2018 and has a goal of reducing carbon emissions 80% by 2030 and delivering carbon-free electricity by 2050."[103] I have not been asked to do an in-depth review of SPS' renewables program. However, I would note two things. In early 2020, the Commission has found that SPS was imprudent in entering into two 25- year solar PPAs totaling 140 MW in 2015: "SPS's decision-making process regarding whether to enter into the solar purchased power agreements was imprudent."[104]
These imprudent contracts committed SPS to paying $425 million for high-priced solar power (~$42/MWh) over the life of the contracts.[105]

Second, in 2022 SPS issued an RFP for 947 MW of new or existing generation. The RFP contains provisions that unequivocally state that the "Company is unwilling to be subject to any accounting or tax treatment that results from a PPA's finance lease or consolidated variable interest entity classification."[106] The Commission is no doubt aware that one of the reasons it denied a CCN for Entergy Texas, Inc.'s proposed Liberty County Solar Facility was that ETI used a similar provision to reject a PPA that had $48 million more value to consumers than ETI's chosen ownership project.[107] Furthermore, because of the previously mentioned ASC 842, this RFP provision effectively makes it difficult for developers of fossil fuel generation to participate, because renewable facilities are unlikely

[103] Southwestern Public Service Company 2022 Request for Proposals, 11/28/22 at 5.

[104] *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs*, Docket No. 48973, Order on Rehearing at FoF 149 (Feb. 18, 2020).

[105] *Id.* at FoF 103-104.

[106] Southwestern Public Service Company 2022 Request for Proposals, 11/28/22 at 18.

[107] *Application of Entergy Texas, Inc. to Amend a Certificate of Convenience and Necessity for the Acquisition of a Solar Facility in Liberty County*, Docket No. 51215, Final Order at FoF 51-52 (Oct. 19, 2021).

to be deemed a finance lease while fossil fuel generation is more likely to be deemed a financial lease. The fact that SPS ex ante refuses to evaluate potentially less costly PPAs in its most recent RFP (issued after the Final Order in the Liberty County case) is troubling.

It is not reasonable to award SPS a higher allowed return or capital structure for their efforts in purchasing power given an imprudence finding in 2019 and their ex ante restriction on certain types of PPAs in 2022. This is particularly true since, as part of the regulatory compact, SPS is already obligated to make sound decisions with respect to the mix of PPA and self-owned resources that it uses to provide power to its captive customers.

E. Customer Satisfaction

Q. IN DISCUSSING QUALITY OF MANAGEMENT DID MR. TOTTEN ADDRESS CUSTOMER SATISFACTION?

A. No.

Q. IS CUSTOMER SATISFACTION AN IMPORTANT MEASUREMENT TO CONSIDER WHEN CONSIDERING THE QUALITY OF UTILITY MANAGEMENT?

A. Xcel believes so.

Q. CAN YOU POINT TO ANY OTHER SOURCES WHO CONSIDER IT IMPORTANT?

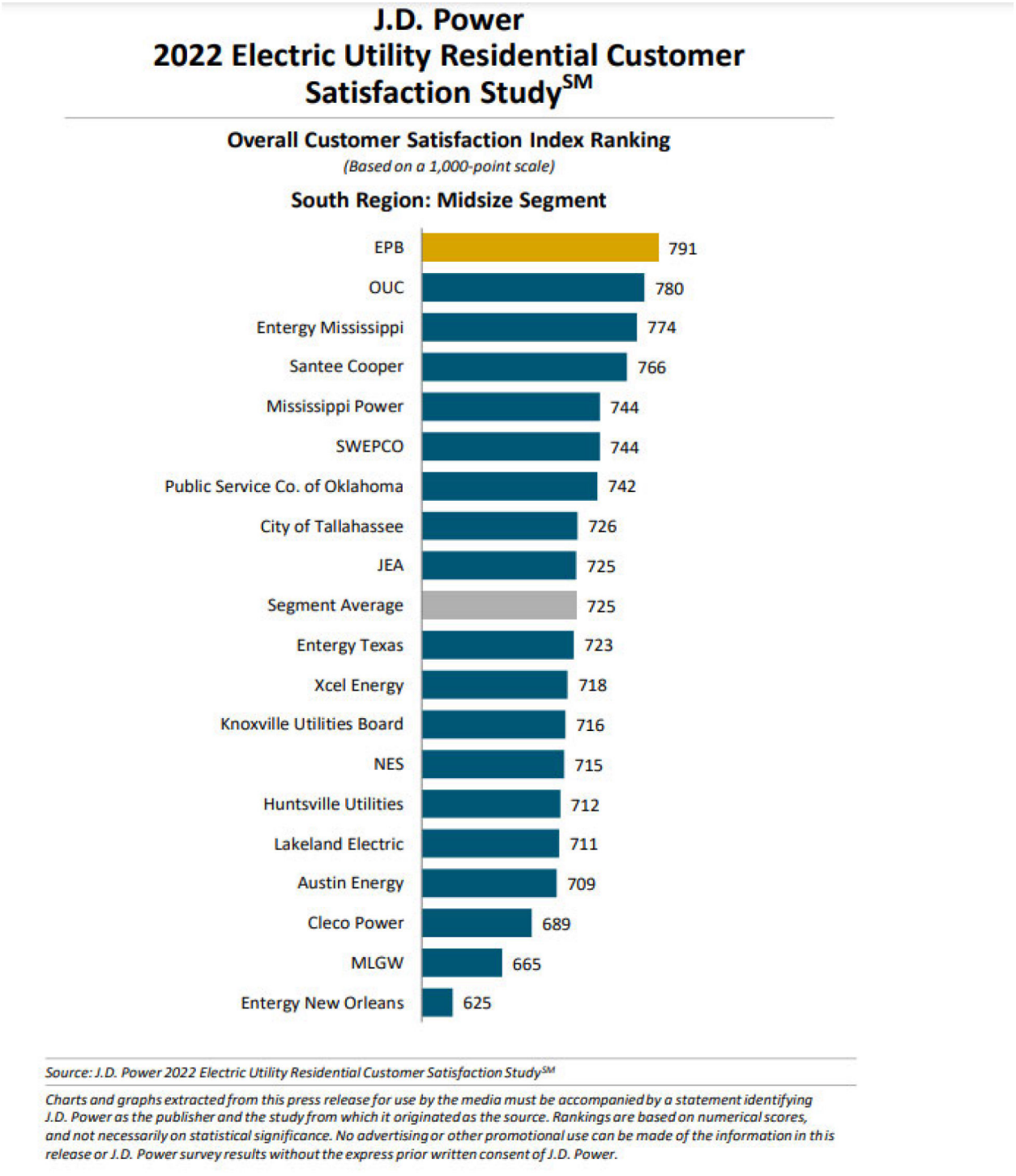
A. Mr. Starkweather discusses customer satisfaction. More importantly, Xcel Energy's board believes customer satisfaction is an important metric in grading executive performance. For instance, in setting annual incentive goals for Xcel Energy's CEO and his direct reports, customer satisfaction as measured by the JD Power Residential Customer Survey makes up 20% of the target annual incentive pay for those individuals.[108]

Q. HOW DOES SPS RANK ON THE MOST RECENT JD POWER SURVEY?

A. For residential customers, SPS is just below the average of the rankings created by JD Power for mid-size utilities in the South:

[108] Xcel Energy 2023 Proxy Statement at 37.

Figure 14
JD Power Rankings[109]



[109] https://www.jdpower.com/sites/default/files/file/2022-

Q. HOW HAS SPS'S RANKING IN THE JD POWER SURVEY CHANGED OVER THE LAST FOUR YEARS?

A. In 2019 SPS's Customer Satisfaction Index Rank was 752 and the average for peer utilities was 733. In 2020, SPS also ranked above the average (at 771 compared to the average of 752); in 2021 SPS was slightly below average, but had a customer satisfaction index of 747. The current 2022 index ranking of 718 is a significant decrease from the 2020 ranking of 771.

Q. DID XCEL ENERGY'S EXECUTIVES GET COMPENSATION UNDER THE CUSTOMER SATISFACTION METRIC FOR 2022?

A. No. Threshold performance was set at 737 under the JD Power Residential Survey. Company performance was 726, so the executives got no compensation based on customer satisfaction.

Q. WHAT DO YOU CONCLUDE ABOUT CUSTOMER SATISFACTION WITH SPS?

A. Customer satisfaction for SPS is average among peer utilities when looking at both residential and business customers, but there has been in decline in satisfaction among residential customers over the last four years. Xcel Energy's executives are measured in part on customer performance, and in 2022 that portion of their pay was found wanting by their own Board. The Commission should not reward average or poor performance.

F. Xcel Energy's Management Goals

Q. IN DISCUSSING QUALITY OF MANAGEMENT, DOES MR. TOTTEN ADDRESS THE ACTUAL GOALS THAT HAVE BEEN SET FOR MANAGEMENT?

A. No.

Q. WHAT ARE SPS'S GOALS?

A. Although he never comes out and says these are the goals, Mr. Rodriguez, implies that SPS's goals are keeping customer bills low, reliably leading the clean energy transition,

12/2022184%20Electric%20Utility%20Residential.pdf.

enhancing the customer experience, and benefitting Texas customers and communities.[110]

Q. DO THESE GOALS ALIGN WITH HOW XCEL MANAGEMENT IS COMPENSATED?

A. Not very well. Xcel Energy's management compensation is heavily skewed toward the clean energy transition, not the reliable or low cost clean energy transition.

Q. IN YOUR EXPERIENCE DOES MANAGEMENT COMPENSATION MATTER WITH REGARD TO HOW A COMPANY IS RUN?

A. Yes. Top executives are motivated to reach their goals and try to steer their company toward meeting those compensation goals.

Q. PLEASE DESCRIBE XCEL MANAGEMENT'S COMPENSATION.

A. Xcel Energy's 2023 Proxy Statement and Xcel's most recent August 2022 ESG Report both address the compensation of Xcel's CEO and Named Executive Officers (NEOs). Their compensation is a mix of base pay, annual incentive pay, long-term compensation in the form of stock, and retention pay in the form of restricted stock units. Base pay is only 12% of the CEO's compensation, 16% is in annual incentives, and 72% is long-term incentives or retention pay. For the NEO's those figures are 24%, 20%, and 56%, respectively. So long-term compensation is the largest portion of their compensation. The long-term compensation is split between performance-based awards of stock (80%) and restricted shares awarded for retention (20%).

Q. DO SPS EMPLOYEES SHARE IN XCEL ENERGY'S GOALS?

A. Yes. It varies by the individual's level in the company. For instance, the President of SPS shares in the same programs, but has a greater percentage of his compensation in base pay and annual incentive pay, and only 35% in long-term incentives.[111]

Q. UPON WHAT IS THE PERFORMANCE LONG-TERM COMPENSATION BASED?

A. The performance shares are paid out based on (1) total stock return and (2) reduction in

[110] Rodriguez Direct, Section II.B.

[111] SPS Response to TIEC 10-3.

CO2 emissions from company operation:[112]

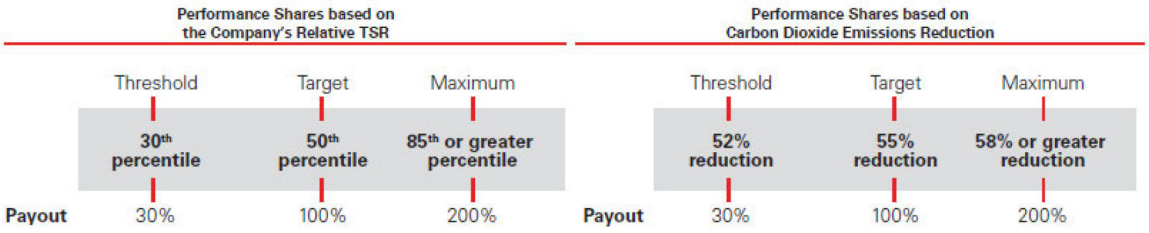
Figure 15
Xcel Energy Long-Term Performance Executive Compensation

Grant of 2022-2024 LTI Awards

Long-term incentive compensation is approximately 72% of the CEO's target total direct compensation and 56% of the average of the other NEOs' target total direct compensation and is primarily performance based. Prior to vesting, long-term incentive awards may not be sold, encumbered or otherwise transferred by the participant. Stock earned under long-term incentive compensation is subject to our Stock Ownership Policy (see page 40).

Performance Shares

In 2022, the GCN Committee approved the grant of performance shares to each NEO which are subject to the achievement of pre-determined performance metrics for the three-year period ending December 31, 2024. These performance metrics are relative TSR and carbon dioxide emissions reduction.



For performance between percentiles, the number of performance shares earned is determined by straight line interpolation.

Performance shares are based on the achievement of specified levels of the Company's TSR relative to our peer group. Payout range is from 0% to 200% of target.	Performance shares are based on the achievement of a specified reduction in carbon dioxide emissions in 2024 below 2005 levels associated with electric service. Payout range is from 0% to 200% of target.
The relative TSR goal links the interest of executive officers with those of our shareholders by rewarding NEOs for creating superior shareholder returns relative to utility industry peer companies.	The reduction in carbon dioxide emissions goals align to our lead the clean energy strategic priority to provide 100% carbon-free electricity by 2050.
Dividend equivalents are credited on each performance share during the three-year cycle to the same extent that dividends are paid on shares of our common stock. The credited dividend equivalents are paid only if the associated performance share vests and is paid in accordance with the achieved three-year performance goal. If threshold performance is not achieved at the end of the three-year performance cycle, then all associated performance shares and dividend equivalents would be forfeited. Each performance share represents one share of Xcel Energy common stock.	
Grant awards at target: • CEO: 51,516 • Other NEOs range: 8,979 to 12,805	Grant awards at target: • CEO: 30,910 • Other NEOs range: 5,387 to 7,683
Settled as cash, shares or a combination, as elected.	Settled as shares.

Working through the ratios, at the target level, reduction in carbon dioxide emissions are 38% of performance-based long-term compensation, which is 80% of total long-term compensation, which is 72% of the CEOs compensation. So 22%[113] of Xcel Energy's CEO

[112] 2023 Xcel Energy Proxy Statement at 38.

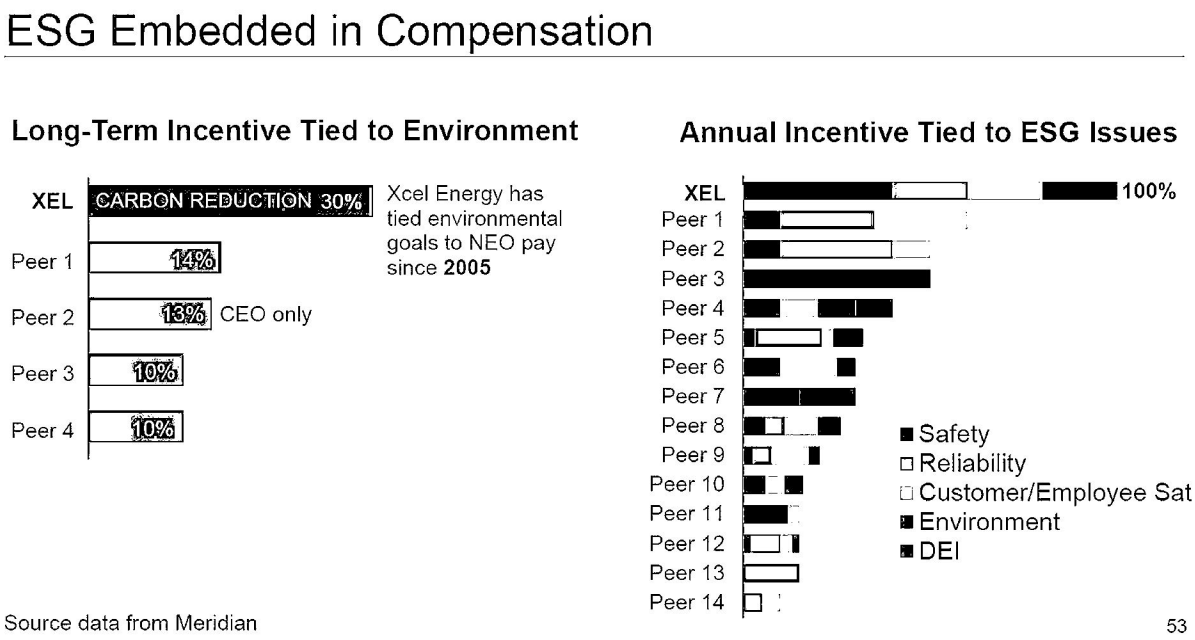
[113] 38% * 80% * 72% = 22%

compensation is tied to reducing CO2 emissions from utility operations.[114] .

Q. UPON WHAT ARE THE ANNUAL INCENTIVES BASED?

A. Xcel Energy touts that 100% of its annual incentive is based on ESG considerations, far in excess of its peer utilities:[115]

Figure 16
Xcel Energy Annual Incentive Compensation



Q. DO YOU HAVE ANY OBSERVATIONS ON HOW XCEL MEASURES THESE GOALS?

A. Yes. Safety is measured based on an index, while reliability is measured based only on the System Average Interruption Duration Index (SAIDI) and does not include any measure of frequency. While it is good that Xcel includes safety and reliability indices, SAIDI is but one component of reliability.

Customer Satisfaction is based on the JD Power Residential Customer Satisfaction Survey. However, this goal is not very meaningful because Xcel has structured their annual

[114] SPS does not deny that these considerations have impacted resource planning. SPS states "[t]o date, Xcel Energy's CO2 emission reduction and ESG goals have not been a ***defining*** factor in SPS's resource planning decisions." SPS Response to TIEC 10-4 (emphasis added).

[115] Xcel Energy Report "Managing Environmental, Social and Governance Issues, August 2022" at 53.

incentive pay such that even if customer satisfaction is below threshold with no payout, the Board can increase the overall payout for the targets that were met. This happened in 2022 – the threshold for customer satisfaction was not met and there was a zero payout for that metric. Yet the Board increased the payout for the NEOs from 79% of target to 132% of target based on Xcel's financial performance. So even when the Customer Satisfaction metric is not met, the NEOs can still receive annual bonuses well in excess of 100% of what is earned by the ESG metrics.

Finally, the environmental goal is measured solely by Wind Project equivalent availability. The measurement of environmental benefits based solely on availability of wind projects is also skewed away from consumers' interests because consumers are interested in low cost, but even if looking only at wind they are interested in the actual output of wind facilities, not just their availability. Projects located in constrained areas can lead to payouts to executives based on availability, even though the wind projects' capacity factors would be lower.

Q. WHAT IS MISSING FROM XCEL ENERGY'S ANNUAL INCENTIVE AND LONG-TERM INCENTIVE PAY?

A. There is no mention of cost to consumers at all.

Q. DOES XCEL STATE A GOAL FOR CUSTOMER RATES?

A. In its presentations to investors, Xcel claims it wants to keep increases in customer bills to less than the rate of inflation.[116]

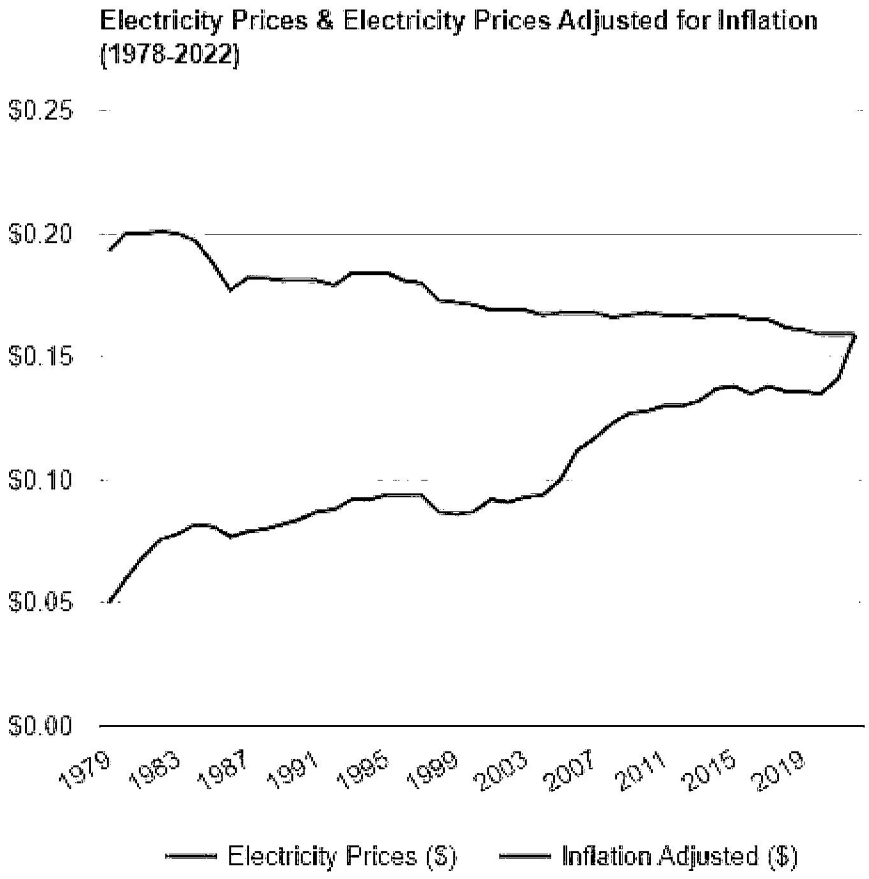
Q. IS KEEPING RATE INCREASES BELOW THE RATE OF INFLATION A STRETCH GOAL FOR A UTILITY?

A. Not over the long-run. In a cost-based industry such as regulated electric utilities, it is the norm and not the exception. In fact, over the last forty years, inflation-adjusted electricity rates have steadily fallen:[117]

[116] Xcel Energy Presentation to JP Morgan Conference, June 22, 2023 at 17.

[117] https://www.usinflationcalculator.com/inflation/electricity-prices-adjusted-for-inflation/, accessed July 16, 2023.

Figure 17



So Xcel's goal on customer bills would come close to beating the forty year average, and that goal does not have any executive compensation tied to it.

Q. WHAT DOES SPS EXPECT TO HAPPEN TO ITS RATES AS A RESULT OF ITS REQUEST IN THIS PROCEEDING?

A. Mr. Rodriguez testifies that total rates are expected to be 8.92 c/kWh[118] as a result of this case. That is a far cry from the 6.5 c/kWh figure cited by Mr. Totten and Mr. Starkweather in their claims of low rates. And the proposed total base rate increase in this case, which is 21%, greatly exceeds inflation.[119]

[118] Rodriquez Direct at 12.

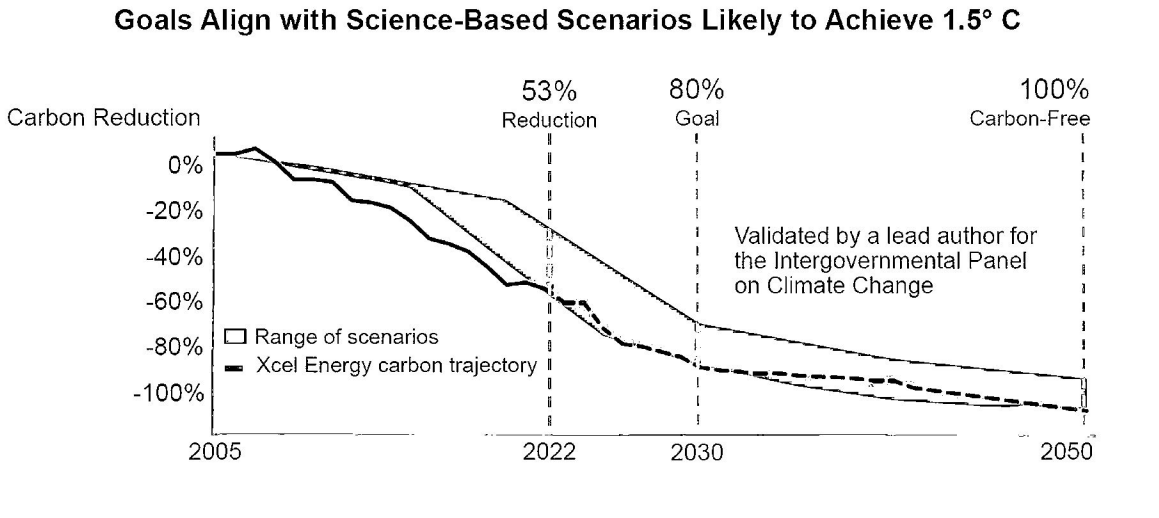
[119] Schedule Q-7.

Q. HAS XCEL COMMUNICATED OTHER GOALS TO INVESTORS?

A. Yes. In addition to the financial goals on growth and the incentive goals discussed above, they have a number of sustainability goals, including 80% CO2 reduction by 2030 and 100% CO2-free generation by 2050.[120]

Figure 18.

Carbon Goals Aligned With Paris Accord: Electric Utility



Q. HAS XCEL PUBLICLY PRESENTED A PLAN FOR HOW THEIR ELECTRIC UTILITY SUBSIDIARIES SUCH AS SPS WILL ACHIEVE 100% CO2-FREE POWER GENERATION BY 2050?

A. Not that I have been able to find.

Q. DOES SPS HAVE SUCH A PLAN?

A, SPS claims that it does not currently have one, further stating that Xcel's 2050 goal is enterprise-wide and not specific to SPS.[121] Of course, if the enterprise goal is to be 100% carbon-free, that leaves no room for SPS to be anything other than 100% carbon-free.

Q. DO YOU HAVE ANY OTHER COMMENTS ON A UTILITY ADOPTING GOALS AROUND CO2 EMISSIONS REDUCTION OR OTHER GOALS THAT ARE DISTINCT FROM PROVIDING RELIABLE SERVICE AT THE LOWEST REASONABLE COST?

[120] Xcel Energy Presentation to JP Morgan Conference, June 22, 2023 at 28.

[121] SPS Responses to TIEC 10-5, 10-6, and 10-7.

A. Yes. When a utility or its holding company announces such goals, its captive customers become subject to them, since such customers have no alternative to obtain service (other than self-generating) under the regulated paradigm. By contrast, when unregulated companies announce or commit to such goals, they are putting shareholders' money at risk – if a customer doesn't like what the unregulated company is doing, the customer can purchase the product elsewhere and the investors in the unregulated company are ultimately at risk. But in the monopoly utility context, it is the ratepayer that is at risk. Ratepayers therefore depend on the regulator to ensure that utility costs are just and reasonable. That is why the Commission should ensure that the utility or its holding company management are not imposing their policy preferences in place of the policies of the state with respect to providing reliable service at the lowest reasonable cost. At a minimum, the Commission should not award the utility a higher ROE for attempting to set policy for the state or its captive ratepayers on these issues.

Q. WHAT DO YOU CONCLUDE FROM YOUR EXAMINATION OF XCEL ENERGY'S COMPENSATION GOALS?

A. The goals are heavily weighted toward CO2 reduction and ESG considerations, and not toward providing utility service at the lowest reasonable cost subject to reliability considerations. Executive compensation drives performance, as Xcel Energy's compensation strategy makes clear. Further, management compensation is largely not geared toward the management quality metrics upon which Mr. Totten suggests the Commission focus. As a result, the Commission should not adjust allowed return or set capital structure based on Mr. Totten's testimony.

VI. CONCLUSION

Q. WHAT ARE YOUR RECOMMENDATIONS?

A. SPS's credit rating remains solidly investment grade today. Given TIEC's recommended ROE, I recommend a capital structure of 48.0% - 50.0% equity and 51.4% - 50% debt. If the Commission adopts a ROE higher than that recommended by Mr. Walters then it should also adopt a capital structure with an equity weighting at the lower end of my range. I believe these levels would ensure the financial viability of the utility and lead to just and reasonable rates.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.

APPENDIX A – DISCUSSION OF OFF-SYSTEM SALES MARGINS

Q. WHAT IS AN OFF-SYSTEM SALE?

A. Historically, it means a sale made to a third-party that is not part of a utility's obligation to serve its customers (including contractual obligations to wholesale buyers). Prior to integrated markets, such sales were bilateral in nature and utilities incurred incremental transaction costs and additional market and regulatory risks in making them. Under the integrated market construct, it is less clear what should be considered an "off-system sale" given that, as discussed further below, utilities simply bid their generation resources into the market at cost and dispatch decisions are made by the centralized authority. In an integrated market, utilities no longer undertake any efforts or incur additional costs or risks to make sales into an integrated market as was the case under traditional off-system sales.

Q. WHEN DID THE COMMISSION PROMULGATE THE RULE THAT SPS RELIES ON AS AUTHORIZING RETENTION OF 10% OF ITS OFF-SYSTEM SALES?

A. It was first offered for adoption by the PUC Legal Division in 1998, some 23 years ago.[122] Comments were taken in the spring of 1999, before Senate Bill 7 (which opened the ERCOT market) was passed by the House. The rule was approved in June 1999.

Q. WHAT IS THE IMPORTANCE OF THOSE DATES?

A. The rule was established well before any non-ERCOT utility was in an integrated market where generation is offered into day-ahead and real-time markets for centralized dispatch. For example, the SPP integrated market, in which SPS operates, was established in 2014. Prior to that time, utility off-system sales were made in bilateral markets and often for periods much longer than next day or real-time sales. Further, wholesale markets were in their infancy at the time.

Q. WHAT DID THE COMMISSION SAY WAS THE PURPOSE OF ALLOWING UTILITIES TO RETAIN 10% OF OFF-SYSTEM SALES?

---

[122] *Review Of Subst. R. 23.23 As It Relates To Electric Service Providers Including Modifications And Movement To Subst. R. Chapter 25*, Project No. 19865, Recommendation for Adoption in Project No. 19865 for November 19, 1998 Open Meeting (Nov. 12, 1998).

A. In the order adopting rule containing the margin sharing,[123] the Commission stated

> The commission notes that a 10% share of the margins by utilities should stimulate the wholesale market, without risking the ratepayers' existing benefit from off-system energy sales. The commission is also concerned that the greater the percentage share of margins, the greater the possibility that the utilities will inappropriately game the system.[124]

Q. WHAT ARGUMENTS DID UTILITIES, INCLUDING SPS, MAKE IN FAVOR OF ALLOWING THEM TO RETAIN A PORTION OF OFF-SYSTEM SALES?

A. According to the Commission,

> SPS offered four reasons for the commission to implement margin sharing for off-system sales: (1) competitive wholesale markets require increasingly greater effort and creativity; (2) the competitive wholesale market will require higher incentives to compensate for risk than in the past; (3) SPS's wholesale non-firm sales generated on Texas gas support the Texas economy and should be encouraged; and (4) sharing margins would more appropriately reflect the equities of the situation and would provide an increased incentive to achieve even more wholesale non-firm sales.[125]

> CSW noted that the current regulatory framework provides few incentives for utilities to participate in the off-system sales markets. Increasing the incentives will increase the possibility for off-system sales and compensate for uncertainties and risks that were not part of past markets. CSW also argued that permitting utilities to retain larger shares of margins allows the utilities to recover some of the costs necessary for the trading and sales organizations to obtain the additional sales.[126]

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[123] *Review Of Subst. R. 23.23 As It Relates To Electric Service Providers Including Modifications And Movement To Subst. R. Chapter 25*, Project No. 19865, Order Adopting New §§25.234-25.238 as Approved at the May 25, 1999 Open Meeting (Jun. 15, 1999).

[124] *Id.* at 6.

[125] *Id.* at 5.

[126] *Id.* at 4.

> EGS and EPEC commented that the proposed 10% share is too small, and that a 50-50 sharing of margins is more equitable. EPEC further argued that the potential rewards do not outweigh the potential risks of total immersion in the wholesale market.[127]

Q. ARE ANY OF THE REASONS PROPOSED BY THE UTILITIES OR ADVANCED BY THE COMMISSION IN 1999 RELEVANT TODAY?

A. Not for day-ahead or real-time sales for a utility like SPS that is part of an integrated market. Some of them may be relevant for a utility that is not part of an integrated market, and some may be relevant for longer term sales of excess generation.

Q. PLEASE EXPLAIN.

A. Utilities in integrated markets are required to cover their own load in the day ahead and real time markets. Because the centralized security constrained economic dispatch algorithm of the integrated market determines what generation operates to meet the least cost dispatch for all participants in the integrated market, the optimal approach for any utility without market power is to bid its generation in at cost. This allows the utility to buy less expensive generation if it is available from others and to sell its generation to others if that utility's generation is cheaper than other utilities generation. As SPS witness Mr. Grant explained in a prior case:

> SPS is required to provide SPP with SPS's estimate of the amount of obligation load it will have in each hour of the following day. SPS also offers its available generation to SPP for economic dispatch in those hours, with varying prices for the generating units, and SPS must commit enough generation to serve its obligation load. SPP then takes the offers for the SPS generating units and places them in the economic dispatch stack with the other generators offers. During each hour, SPP dispatches the generating units it needs to serve all of the load in the SPP footprint, including the SPS load. If the amount of generation produced from SPS's units exceeds the amount of SPS's obligation load in that hour, SPS is deemed to have made an off-system sale. If the amount of SPS's obligation load in a particular hour exceeds the amount of generation produced by SPS's

[127] *Id.*

> units during that hour, SPS is deemed to have made a purchase of energy from the market.[128]

Thus, as Mr. Grant acknowledged in that case, "SPS does not even know until after a particular hour if one of its units served SPS load or an off-system sale."[129]

Q. IN THE SPP MARKET, DOES SPS DO ANYTHING DIFFERENTLY TO MAKE OFF-SYSTEM SALES THAN IT DOES TO SERVE ITS OWN RETAIL LOAD?

A. No. Consistent with the optimal bidding strategy, SPS offers its generation at marginal cost to be dispatched by SPP. SPP makes dispatch decisions and decides which units in the entirety of SPP are used to serve load. This allows for the lowest cost security-constrained dispatch. It also removes the need for an incentive for a utility such as SPS to make off-system sales in the day ahead and real-time markets—the sales are arranged and settled automatically by SPP without any risk to SPS. In the SPP marketplace, SPS is not required to arrange bilateral transactions (and assume the risks associated with those transactions) to make off-system sales, as under the traditional utility construct. Indeed, as SPS witness Mr. Grant conceded in a prior case, "off-system sales are simply a byproduct of the requirements that SPS serve its obligation load and that it offer its available generating units to SPP for economic dispatch."[130] When a utility is in a Regional Transmission Organization with day-ahead and real-time markets, the argument that the utility requires an incentive to make off-system sales—and thus should be permitted to keep 10% of the margin—collapses.

Q. WITH WHAT RESOURCES DO UTILITIES LIKE SPS MAKE OFF-SYSTEM SALES?

A. SPS makes off-system sales from plants and resources that are paid for by ratepayers.

Q. WHAT ARE THE CRITERIA UNDER THE RULE AT ISSUE WITH RESPECT TO WHETHER AN OFF-SYSTEM SALE IS ELIGIBLE FOR MARGIN SHARING?

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[128] Docket No. 48973, Rebuttal Testimony of William A. Grant at 47 (Jun. 21, 2019).

[129] *Id.* Note that SPS has argued that it does know in real time that it has made an off-system sales based on it metered generation and tie-line flows. Nevertheless, it certainly does not know the price or margin it will receive.

[130] *Id.* at 53 (Jun. 21, 2019).

A. The three conditions are (1) whether the electric utility participates in a transmission region governed by an independent system operator or a functionally equivalent independent organization, (2) whether a generally-applicable tariff for firm and non-firm transmission service is offered in the transmission region in which the electric utility operates, and (3) whether the transaction is not found to be to the detriment of its retail customers. As the Commission's own findings in the rulemaking project indicated, the belief was that stimulation of the wholesale market would lead to larger level of off-system sales to the benefit of ratepayers. But under the current market construct, these sales happen automatically without the need for an incentive or any additional action by SPS. Thus, there is good cause for the Commission to not consider off-system sales made through integrated markets to be eligible for the 10% margin sharing. In particular, good cause exists to not allow margin sharing during the month of February 2021.

Q. IS THERE ANY WAY THAT ENERGY MARGIN FROM OFF-SYSTEM SALES INTO THE SPP MARKET COULD BE NEGATIVE?

A. Not if SPS is offering its generation at incremental cost. Thus, allowing SPS to retain 10% of the margin will always be a one-sided opportunity for SPS. The worst it can do is zero, and on average it will make several million annually. But during extreme weather events, the utility might have the opportunity to add millions of dollars to its earnings at the expense of customers.

Q. UNDER THE INTEGRATED MARKET CONSTRUCT, IS THERE ANY NEED TO INCENTIVIZE UTILITIES TO MAKE OFF-SYSTEM SALES?

A. No. For the reasons discussed above, making off-system sales through integrated wholesale markets does not require greater effort and creativity, does not require compensation for risk (because there is no additional risk), does not incrementally support the Texas economy, does not induce any greater level of wholesale sales, does not increase costs, and does not require an incremental trading or sales organization. In fact, consistent with the referenced prior testimony from Mr. Grant, in an integrated market utilities may not even know until after-the-fact whether they made an off-system sale, at what price, or how much margin was generated by the sale. Thus, none of the factors advanced by utilities to claim a need for a sharing of sales margins are present. Nor is there a need to further stimulate the wholesale market, because the utility is (and all utilities in the RTO are) already bidding

100% of its generation into the centralized integrated market. Ratepayers pay 100% of the costs of the generation and should receive 100% of the benefit in the case of operations in an integrated market such as SPP.

Q. DO YOU AGREE THAT SPS NEEDS AN INCENTIVE TO SELL ALL OF ITS POWER AT COST INTO THE SPP INTEGRATED MARKET?

A. No. SPS needs no incentive to do that. In Texas the regulatory paradigm is that utilities earn a reasonable return on prudent investment that is used and useful in providing electric service above reasonable and necessary operating expenses. Prudently incurred fuel and purchased power costs are treated as a pass-through item on which the utility is not supposed to earn a return. In return for its reasonable rate of return on invested capital, the utility is supposed to procure power for its customers at the lowest reasonable cost.[131]

As described above, the rationale of the current margin-sharing rule was to provide an incentive to utilities to make sales that would not have otherwise occurred. In such a context, it may be reasonable to provide some sharing of the margin from bilateral off-system sales in order to have encouraged utilities to join RTOs and stimulate the wholesale market. But now the entirety of the RTO schedules 100% of its generation through the integrated marketplace. Moreover, in an integrated market the least cost way to procure power ensures that off-system sales can occur without any extra effort by the utility simply by bidding generation in at cost. For an entity without market power in an integrated market, the cost minimizing/profit-maximizing approach is also to bid in generation at cost. Thus a least-cost acquirer of power and a profit maximizer for off-system sales would take the same actions. No incentive is needed because the utility will take the same actions to meet its obligation to procure power at the lowest reasonable cost that it takes to make off-system sales.

Q. IN YOUR OPINION, IF A UTILITY DID NOT RECEIVE A SHARE OF OFF-SYSTEM SALES MARGINS WOULD IT OFFER ITS GENERATION IN AT SOMETHING OTHER THAN COST?

A. No. Offering in at cost is the method that ensures the lowest cost of power.

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[131] I am not a lawyer and am not providing a legal interpretation of PURA. Rather, the opinion stated herein is based on my nearly 40 years of experience in the electric industry.

Charles S. Griffey

CAREER SUMMARY

Mr. Griffey is a consultant to participants in the power industry. Previously, he was a senior energy executive who managed the regulatory planning and government affairs function for one of the nation's leading competitive electricity companies. Consulted closely with other senior executives to devise and implement commercial/regulatory/political strategies to manage risks and position the firm to be successful in competitive wholesale and retail electric markets. Recognized as leader in electric market design and as an expert witness on electric policy, market design, and resource planning matters. Skilled in:

- ◊ Corporate Strategy/Risk Management
- ◊ Electric Market Design
- ◊ Policy Advocacy
- ◊ Power Plant Economics
- ◊ Rate Setting and Design
- ◊ Retail and Wholesale Competition

PROFESSIONAL EXPERIENCE

Energy Consultant, Houston, Texas **2009 – Present**

Provide consulting services across the energy value chain, from generation to customer sales for both electricity and natural gas. Clients include independent power producers, large industrial consumers, and retail electric providers. Sample engagements include:

- Assist Texas Office of Public Counsel with Sale Transfer Merger ring-fencing of water utilities
- Consulting with industrial customers on disputes arising from Winter Storm Uri
- Expert testimony on utility mergers
- Expert testimony and consulting on resource planning, solar and wind projects projects, and early retirement
- Expert testimony and consulting expert on cost of combined cycle gas turbines
- Expert testimony on rate case issues, including return, credit risk, and capital structure
- Expert testimony on transmission planning
- Expert testimony on mitigation of generation market power
- Expert testimony/advice on prudence of decisions to construct nuclear, coal-fired steam, and IGCC generating plants
- Expert testimony on distributed generation
- Expert testimony in civil litigation regarding commercial reasonability of retail electric contracts.
- Consulting services regrading prudence of planning to build nuclear and IGCC facilities
- Consulting services related to decision to build cogeneration and/or configure service at industrial facilities
- Consulting services to large industrial companies regarding electric market design
- Consulting services to a large retail electric provider regarding market opportunities and regulatory/government affairs.
- Consulting services to a developer of compressed air energy storage on regulatory and government affairs.
- Expert testimony regarding market design, the meaning of PURPA and the appropriate payment to Qualifying Facilities for power provided to the grid.
- Expert testimony in a contract dispute between a retail electric provider and a customer regarding pass-through charges.
- Consulting expert on interpretation of purchased power contract between an investor-owned utility and a municipally-owned utility.
- Expert testimony on retail rate design.
- Develop and implement advocacy plan to avoid power plant retirements from a proposed policy to ban once-through cooling in a coastal state; manage compliance filing for two power plants.
- Advise on the economics of energy storage technologies.
- Advise on the feasibility of opening additional retail gas markets to competition.
- Advise on how to structure a regulatory and government affairs organization.

Charles S. Griffey

Adjunct Professor of Management at Rice University's Jones Graduate School of Business 2010-2016, specializing in the economics of the electricity value chain, management of risk, and related public policy considerations.

RRI ENERGY (RELIANT ENERGY, INC.), Houston, Texas **1989 – 2009**

Sr. VP Regulatory Affairs and Market Design *2007 - 2009*

Reporting directly to the CEO, co-managed the company's national, regional, and state level government, regulatory, community affairs, and communications functions, with emphasis on electricity regulation, competitive market design, and associated legislation. Oversaw a staff of 70 people and a managed a budget of $30 million.

- Managed to an outcome wherein no laws or regulations harmful to the company were passed.
- Analyzed risk associated with the company's retail business (~ 1.8 million customers) and the wholesale business (~14,000 Mw installed capacity) and implemented regulatory risk mitigation strategies that aligned with corporate vision and goals.
- Coordinated policy between retail and wholesale business units to establish sound policy and design principles and to present a single voice to external stakeholders.
- Testified on electric policy, smart energy, and demand response in legislative, regulatory, and judicial arenas, drawing effectively on significant industry knowledge and experience.
- Achieved outstanding results on employee survey regarding departmental leadership and management capability (100% score on treating employees fairly, holding them accountable, making use of their skills, trusting them to make appropriate decisions, and improving own performance based on employee feedback).

Sr. VP Regulatory Affairs *2003 - 2007*

- Managed Reliant's national regulatory and market design efforts and legislative efforts in Texas.
  - Achieved Texas PUC ruling on excess mitigation credits that effectively averted requirement that Reliant Energy pay $375 million to CenterPoint Energy to lower stranded cost; and,
  - Successfully designed rules at Texas PUC regarding provider of last resort, price to beat, customer protections, and financial standards for retailers.
- Collaborated closely with legislative and executive branches in Texas, including Governor, Lt. Governor, Speaker, Chairs and members of Senate Business and Commerce and House Regulated Industries to achieve:
  - Successful transition to retail competition in Texas, creating a political/regulatory environment to allow Reliant's $500 million contribution margin retail business the opportunity to thrive with appropriate government oversight; and,
  - Settlement of the political/regulatory intervention in retail pricing following Hurricanes Katrina and Rita. The settlement led to a phase-in of price increases which set the stage for a successful 2007 legislative session and emergence into full competition
- Provided expert witness testimony in regulatory, government, and court proceedings.
- Intimately involved in settlement of Reliant Energy's issues regarding the 2000-2001 California Energy crisis. Led response to FERC's March 2003 report accusing Reliant Energy of "churning" in its purchases of natural gas for its California power plants.

Charles S. Griffey

VP Regulatory Strategy and Planning *1998 - 2003*

Directed Reliant's Texas regulatory and market design efforts. Responsible for financial forecasting, rates, and capital budgeting for Reliant Energy HL&P through 2001, including analysis of capital investment and mothball decisions, power purchase and sales agreements.

- Created and developed risk adjusted wholesale price forecasting tool that provided a distribution of future prices for use in investment analysis to value real options in the generation fleet and the retail contract portfolio.
- Led regulatory strategy to move Reliant Energy from being a regulated utility to becoming separate companies – a wires-only transmission and distribution utility and a company involved in competitive generation and retail activities.
- Deeply involved in passage and implementation of SB 7, the Texas law establishing a competitive market:
  - Competitive market design,
  - IPO of Reliant Resources, its option to buy Texas Genco, and use of that option price as the stranded cost valuation method for purposes of the statutory stranded cost true-up, and
  - Settlement of initial Price to Beat rate, and securitization of regulatory assets worth $760 million.

Various positions in Corporate/Regulatory Planning *1989 - 1998*

Led a variety of processes that involved evaluation and establishment of company's generation, resource planning, rate setting, and load forecasting, including power plants, energy efficiency, and demand response.

AUSTIN ENERGY, Austin, Texas **1988 - 1989**
Manager, Gas Purchasing and Fuel Planning

Held overall responsibility for purchasing natural gas for the utility's power plants, as well as planning construction of second gas pipeline to serve power plants.

PUBLIC UTILITY COMMISSION OF TEXAS, Austin, Texas **1986 - 1988**
Fuel Analyst

Investigated prudence of utility fuel and power procurement and integrated resource planning.

BECHTEL GROUP, INC., Houston, Texas **1981 - 1983**

Process Design Engineer

Worked on the Coolwater Coal Gasification Power Plant, the first IGCC ever built.

EDUCATION

JESSE H. JONES GRADUATE SCHOOL OF BUSINESS, RICE UNIVERSITY, Houston, Texas
Master of Business and Public Management, *1985*
Majors - Finance and Entrepreneurship Honors - Outstanding Finance Student

RICE UNIVERSITY, Houston, Texas
BS, Chemical Engineering, *1981*

PROFESSIONAL CERTIFICATIONS

CHARTERED FINANCIAL ANALYST, No. 12245

PROFESSIONAL ENGINEER IN THE STATE OF TEXAS, NO. 73184

Charles S. Griffey

Testimony before the Public Utility Commission *of* Texas

Docket	On behalf of	Description
6032	*PUCT Staff*	*Petition of Central Power & Light Company for fixing of refund with interest and amendment of monthly interim fuel factor. Performed fuel forecast.*
6611	*PUCT Staff*	*Petition of Southwestern Electric Power Company for recovery of unrecovered fuel expense with interest thereon and the setting of revised fixed fuel factors. Performed prudence investigation which resulted in fuel refunds; fuel forecast.*
6765	*PUCT Staff*	*Application by Houston Lighting & Power Company for authority to change rates. Prudence of fuel procurement and fuel forecast.*
6963	*PUCT Staff*	*Investigation regarding the reasonableness of Houston Lighting & Power Company's Spring Creek and Ken McGee Coal Contract Costs. Prudence of long-term coal contracts.*
6992	*PUCT Staff*	*Investigation regarding Texas-New Mexico Power Company for a Certificate of Convenience and Necessity for a proposed generating station (coal-fired) within Robertson County. Economic study of best and most economic option for utility resource acquisition.*
7195/6755	*PUCT*	*Application of Gulf States Utilities Company for authority to change rates. Inquiry of the Public Utility Commission of Texas into the prudence and efficiency of fhe planning and management of the construction of the River Bend Nuclear Generating Station. Prudence of fuel procurement and fuel forecast* .
7460	*PUCT Staff*	*Application of El Paso Electric Company for authority to change rates. Prudence of fuel procurement and fuel forecast.*
7510	*PUCT Staff*	*Application of West Texas Utilities Company for authority to change rates. Prudence of fuel procurement and fuel forecast.*
7512	*PUCT Staff*	*Application of Lower Colorado River Authority for authority to change rates. Prudence of fuel procurement and fuel forecast.*
10473	*HL&P*	*Notice of Intent of Houston Lighting & Power Company for a Certificate of Convenience and Necessity for DuPont Project, Webster Units 1 & 2 Refurbishment Project, and Greens Bayou Units 3 & 4 Refurbishment Project. Economic study of resource procurement.*
10832	*HL&P*	*Houston Lighting & Power Company's Standard Avoided Cost Calculation for the Purchase of Firm Energy and Capacity from Qualifying Facilities Pursuant to Subst. R. 23.66(h)(3). History of resource planning and appropriateness of marginal cost.*
11000	*HL&P*	*Application of Houston Lighting & Power Company for a Certificate of Convenience and Necessity for the DuPont Project. Economic study of resource procurement.*
11999	*HL&P*	*Application of Houston Lighting & Power Company for Approval of Tariff for Economic Improvement Service - Rate Schedule EIS.* Appropriateness of marginal cost.
12138	*HL&P*	*Notice of Intent of Houston Lighting & Power Company for a Certificate of Convenience and Necessity for Advanced Gas Turbine Projects. Economic study of resource procurement.*
12065	*HL&P*	*Complaint of Kenneth D. Williams Against Houston Lighting & Power Company,* Prudence of utility planning; industry restructuring.

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Testimony before the Public Utility Commission of Texas, con't

Docket	On behalf of	Description
12957	*HL&P*	*Application of Houston Lighting & Power Company for Approval of Experimental Tariff for Special Contract Pricing, Rate Schedule SCP. Appropriateness of marginal cost.*
I5000	*HL&P*	*An Investigation into Issues Related to the Electric Utility Industry and Regulatory Restructuring.* Industry restructuring.
15001	*HL&P*	*An Investigation into Potentially Stranded Investment in the Electric Utility Industry in Texas.* Industry restructuring.
15002	*HL&P*	*An Investigation into the Scope of Competifion in the Electric Utility Industry in Texas.* industry restructuring.
21665	*Reliant*	*Application* of *Reliant Energy, Incorporated for a Financing Order to Securitize Regulatory Assets and Other Qualified Costs.* Industry restructuring and securitization of regulatory assets.
21956	*Reliant*	*Application of Reliant Energy, Inc. for Approval of Business Separation Plan.* Industry restructuring.
22355	*Reliant*	*Application* of *Reliant Energy HL&P for Approval of Unbundled Cost Of Service Rate Pursuant to PURA $39.207 and Public Utility Commission Substantive Rules25.344.* Industry restructuring and recovery of stranded costs.
23950	*Reliant*	*Petition* of *Reliant Energy, Inc. to Establish Price to Beat Fuel Factor and Request for Good Cause Exception to Subst. R.25.47.* Industry restructuring and setting of default service rate.
24790	*Reliant*	*Petition to Appoint Provider of Last Resort Pursuant to PURA 39.7 06 for Residential and Small Non-Residential Customers in the Entergy, TXU East-DFW, and TXU West-DFW Service Areas and for Large Non-Residential Customers in the Reliant North, Reliant South, CPL Gulf Coast, CPL Valley, WTU, and SWEPCO Service Areas.* Industry restructuring and setting of POLR rate.
29526	*Reliant*	*Application Of CenterPoinf Energy Houston Electric For A True-Up Filing.* Rate design for stranded cost true-up
35620	*Reliant*	*Application of CenetrPoint Houston Electric LLC for Approval to Implement Advanced Meter Information Network Pursuant to PURA 39.107(i).* Benefits of smart meter deployment.
37361	*Occidental*	*Application of Southwestern Public Service Company for Authority to Revise Its Tariff for Purchase of Non-Firm Energy from Qualifying Facilities.* Appropriate price to pay for non-firm energy deliveries in SPP
38448	*Just Energy*	*Petition of Just Energy Texas, LP for the Commission to Resolve a Billing Dispute.* Nature of unaccounted for energy and how to calculate the amount of unaccounted for energy to bill a customer under a contract allowing pass-through of such charges
40443	*TIEC*	*Application Of Southwestern Electric Power Company For Authority To Change Rates And Reconcile Fuel Costs.* Prudence of decision to continue construction of Turk coal plant and impact of Turk Plant on Texas
40449	*Occidental*	*Complaint of Ascendant Renewable Energy Corp. Against Southwestern Public Service.* Appropriate interconnection procedure for a distribution level Qualifying Facility in SPP and interpretation of SPS tariffs and contracts
40545	*PUCT Staff*	*Petition of Calpine for Approval of Voluntary Mitigation Plan.* Evaluation of market power mitigation under proposed plan
41223	*Occidental*	*Application Of Entergy Texas, Inc. and ITC Holdings Corp. for Approval of Change of Ownership and Control of Transmission Business.* Determination of whether transaction is in the public interest

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41437 *Occidental*	*Application of EntergyTexas, Inc. for Approval of LQR Tariff.* Appropriate price to pay for deliveries of non-firm energy from QFs
42511 *TIEC/Luminant*	*Complaint Of Calpine Corporation And NRG Energy, Inc., Against The Electric Reliability Council Of Texas And Appeal Of Decision Concerning The Houston Import Project.* Determination of whether ERCOT followed its procedures in approving the Houston Import Project
43695 *Occidental*	*Application Of Southwestern Public Service Company For Authority To Change Rates.* Issues regarding post test year adjustments, transmission charges, and cost allocation and rate design
44547 *TIEC/Luminant*	*Application of Centerpoint Energy Houston Electric, LLC to Amend a Certificate Of Convenience and Necessity for a Proposed 345-Kv Transmission Line Within Grimes, Harris, And Waller Counties.* Appropriate transmission planning procedures.
45188 *TIEC*	*Joint Report And Application Of Oncor Electric Delivery Company Llc, Ovation Acquisition I, L.L.C., Ovation Acquisition Ii, L.L.C., And Shary Holdings, L.L.C. For Regulatory Approvals Pursuant To Pura §§ 14.101, 37.154, 39.262(L)-(M), And 39.915.* Public interest findings with respect to the sale/transfer/merger of a utility with a REIT.
45624 *TIEC*	*Application Of The City Of Garland, Texas, For A Certificate Of Convenience And Necessity For The Proposed Rusk To Panola Double-Circuit 345-Kv Transmission Line In Rusk And Panola Counties, Texas.* Conditions for the line to be in the public interest and proper way to do a cost/benefit analysis for a DC tie.
46050 *TIEC*	*Application Of AEP Texas Central Company, AEP Texas North Company, And AEP Utilities, Inc. For Approval Of Merger.* Estimation of merger savings.
46238 *TIEC*	*Joint Report And Application of Oncor Electric Delivery Company LLC And Nextera Energy, Inc. for Regulatory Approvals Pursuant to Pura §§14.101, 39.262 And 39.915.* Public interest findings with respect to the sale/transfer/merger of a utility.
45414 *TIEC*	*Review of the Rates of Sharyland Utilities, L.P., Establishment of Rates for Sharyland Distribution & Transmission Services, L.L.C., and Request For Grant of A Certificate of Convenience And Necessity and Transfer of Certificate Rights.* Whether to include federal income tax as expense of a public utility REIT, issues regarding transfer of development of transmission lines among affiliates of electric utility, recovery of regulatory asset.
46416 *TIEC*	*Application of Entergy Texas, Inc. for a Certificate of Convenience and Necessity to Construct Montgomery County Power Station.* Appropriate method to use to analyze resources of different lives, and appropriateness of including imputed debt as a cost for PPAs.
46831 *FMI*	*Application of El Paso Electric Company to Change Rates.* Appropriateness of cost allocation, issues regarding interruptible rates and customers contracts, rates for residential distributed solar resources, possible directed purchase options.
47576 *TIEC*	*Application of The City of Lubbock Through Lubbock Power and Light for Authority to Connect a Portion of Its System with the Electric Reliability Council of Texas.* Appropriate method to evaluate whether a utility outside of ERCOT joining ERCOT is in the public interest.
48400 *TIEC*	*Joint Application of Rayburn Country Electric Cooperative, Inc. and Lone Star Transmission, LLC to Transfer Load to Ercot,and for Sale of Transmission Facilities and Transfer of Certificate Rights in Henderson and Van Zandt Counties.* Evaluate whether a utility outside of ERCOT joining ERCOT is in the public interest and best method to interconnect to ERCOT.
48929 *TIEC*	*Joint Report And Application Of Oncor Electric Delivery Company LLC, Sharyland Distribution & Transmission Services, L.L.C., Sharyland Utilities, L.P., And Sempra Energy For Regulatory Approvals Under Pura §§ 14.101, 37.154, 39.262, And 39.915.* Public interest findings with respect to the sale/transfer/merger of a utility.

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48973 *TIEC*	*Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs.* Prudence of decision to enter into solar power contracts and proper analysis techniques for resource planning.
49421 *TIEC*	*Application of Centerpoint Energy Houston Electric, LLC for Authority to Change Rates.* Financial ring-fencing and context for return on equity, debt, and capital structure.
49737 *TIEC*	*Application of Southwestern Electric Power Company for Certificate of Convenience and Necessity Authorization and Related Relief for the Acquisition of Wind Generation Facilities.* Reasonableness of proposal to acquire new wind facilities.
49831 *TIEC*	*Application of Southwestern Public Service Company for Authority to Change Rates.* Appropriate capital structure, credit risks, and return on equity.
49849 *TIEC*	*Joint Report and Application of El Paso Electric Company, Sun Jupiter Holdings LLC, And IIF US Holding 2 LP for Regulatory Approvals Under PURA§§ 14.101, 39.262, And 39.915.* Public interest findings with respect to the sale/transfer/merger of a utility.
50584 *TIEC*	*Joint Report and Application Of Wind Energy Transmission Texas, LLC; Axinfra US LP; Hotspur Holdco 1 LLC; Hotspur Holdco 2 LLC; And 730 Hotspur, LLC, for Regulatory Approvals Under Pura §§ 14.101, 39.262, And 39.915.* Public interest findings with respect to the sale/transfer/merger of a utility.
51547 *TIEC*	*Joint Report And Application of Texas-New Mexico Power Company, NM Green Holdings, Inc. and Avangrid, Inc.fFor Regulatory Approvals Under Pura §§ 14.101, 39.262, And 39.915.* Public interest findings with respect to the sale/transfer/merger of a utility.
51215 TIEC	*Application of Entergy Texas, Inc. to Amend its Certificate Of Convenience and Necessity for the Acquisition of a Solar Facility in Liberty County.* Reasonableness of proposal to build a new solar facility.
51802 TIEC	*Application of Southwestern Public Service Company for Authority to Change Rates.* Appropriate capital structure, credit risks, off-system sales margins, and return on equity.
52210 TIEC	*Application Of Southwestern Public Service Company For Authority To Implement An Interim Net Surcharge For Under-Collected Fuel Costs.* Off-system sales margin, financing costs, appropriate recovery period.
52322 TIEC	*Application of Electric Reliability Council of Texas, Inc. for A Debt Obligation Order Pursuant To Chapter 39, Subchapter N, of The Public Utility Regulatory Act.* Process for securitization and recovery of Winter Storm Uri uplift.
52397 TIEC	*Application Of Southwestern Electric Power Company For Authority To Implement An Interim Net Surcharge For Under-Collected Fuel Costs.* Financing costs, appropriate recovery period.
52487 TIEC	*Application Of Entergy Texas, Inc. to Amend its Certificate of Convenience and Necessity to Construct Orange County Advanced Power Station.* Reasonableness of proposal to build a new CCGT facility capable of co-firing with hydrogen.
53034 TIEC	*Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs for the Period July 1, 2018 through June 20, 2021.* Off-system sales margins.
53442 ARM & TCPA	*Application of CenterPoint Energy Houston Electric, LLC for Approval to Amend its Distribution Cost Recovery Factor.* Prudence of decision to lease 500 MW of mobile generation and related issues.
53625 TIEC	*Application of Southwestern Electric Power Company for Certificate Of Convenience and Necessity Authorization and Related Relief for the Acquisition of Generation Facilities.* Conditions required for wind and solar facilities to be in the public interest.

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53719 TIEC — *Application of Entergy Texas, Inc .for Authority to Change Rates.* Whether an ROE bonus should be awarded for quality of ETI management

Colorado Public Service Commission

16A-0396E *Coalition of Ratepayers* — *In The Matter Of The Application Of Public Service Company Of Colorado For Approval Of Its 2016 Electric Resource Plan.* Whether retirement of two coal units and implementation of the Colorado Energy Plan is the lowest cost alternative for ratepayers.

17A-0797E *Coalition of Ratepayers* — *Re: In The Matter Of The Application Of Public Service Company Of Colorado To Modify The Depreciation Schedules For The Early Retirement Of Comanche 1 And Comanche 2 Generating Units, Establish A Regulatory Asset To Collect Incremental Depreciation, Reduce The Renewable Energy Standard Adjustment Collection To One Percent, And Implement A General Rate Schedule Adjustment, Contingent On The Approval Of The Colorado Energy Plan Portfolio In Proceeding No. 16A-0396E.*Issues with PSCo's evaluation of economics of early retirement in favor of Colorado Energy Plan and deferral of accelerated depreciation into a regulatory asset.

Indiana Utility Regulatory Commission

45806 Alliance Coal — *Verified Petition of Southern Indiana Gas and Electric Company D/B/A Vectren Energy Delivery of Indiana, Inc., for: (1) Authority to Construct, Own and Operate a Solar Energy Project and a Finding that Such Project Constitutes a Clean Energy Project Pursuant to Ind. Code Ch. 8-1-8.8; (2) Issuance of a Certificate Of Public Convenience And Necessity for the Construction of the Solar Energy Project Pursuant to Ind. Code Ch. 8-1- 8.5; and (3) Authority to Timely Recover Costs Incurred During Construction and Operation of the Project in Accordance with Ind. Code § 8-1-8.5-6.5 and Ind. Code § 8-1- 8.8-11.* Economics of a solar project in Indiana.

45159 ICARE, ICC — *Petition Of Northern Indiana Public Service Company LLC Pursuant To Ind. Code §§ 8-1-2-42.7, 8-1-2-61 And, Ind. Code § 8-1- 2.5-6 For (1) Authority To Modify Its Rates And Charges For Electric Utility Service Through A Phase In Of Rates; (2) Approval Of New Schedules Of Rates And Charges, General Rules And Regulations, And Riders; (3) Approval Of Revised Common And Electric Depreciation Rates Applicable To Its Electric Plant In Service; (4) Approval Of Necessary And Appropriate Accounting Relief; And (5) Approval Of A New Service Structure For Industrial Rates.* Flaws in NIPSCO's Integrated Resource Plan.

45194 ICC — *Verified Joint Petition Of Northern Indiana Public Service Company Llc ("Nipsco") And Rosewater Wind Generation Llc (The "Joint Venture") For (1) Issuance To Nipsco Of A Certificate Of Public Convenience And Necessity For The Purchase And Acquisition Of A 102 Mw Wind Farm ("The Rosewater Project"); (2) Approval Of The Rosewater Project As A Clean Energy Project Under Ind. Code § 8-1-8.8-11; (3) Approval Of Ratemaking And Accounting Treatment Associated With The Rosewater Project; (4) Authority To Establish Amortization Rates For Nipsco's Investment In The Joint Venture; (5) Approval Pursuant To Ind. Code § 8-1-2.5-6 Of An Alternative Regulatory Plan Including Establishment Of Joint Venture Through Which The Rosewater Project Will Support Nipsco's Generation Fleet And The Reflection In Nipsco's Net Original Cost Rate Base Of Its Investment In Joint Venture; (6) Approval Of Purchased Power Agreements Through Which Nipsco Will Receive The Energy Generated By The Rosewater Project, Including Timely Cost Recovery Pursuant To Ind. Code § 8-1-8.8-11 Through Nipsco's Fuel Adjustment Clause; (7) Authority To Defer Amortization And To Accrue Post-In Service Carrying Charges On Nipsco's Investment In Joint Venture; (8) To The Extent Generally Accepted Accounting Principles Would Treat Any Aspect Of Joint Venture As Debt On Nipsco's Financial Statements, Approval Of Financing; (9) Approval Of An Alternative Regulatory Plan For Nipsco In Order To Facilitate The Implementation Of The Rosewater Project; And (10) To The Extent Necessary, Issuance Of An Order Pursuant To Ind. Code § 8-1-2.5-5 Declining To Exercise Jurisdiction Over Joint Venture As A Public Utility.* Reasonableness of proposal to build a 102 MW of wind project.

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45195 ICC — *Verified Petition Of Northern Indiana Public Service Company LLC For Approval Pursuant To Ind. Code §§ 8-1-2-42(A), 8-1-8.8-11, And To The Extent Necessary Ind. Code §8-1-2.5-6, Of A Renewable Energy Power Purchase Agreement With Jordan Creek Wind Farm LLC, Including Timely Cost Recovery.* Reasonableness of proposal to purchase 400 Mw of wind energy.

45196 ICC — *Verified Petition Of Northern Indiana Public Service Company LLC For Approval Pursuant To Ind. Code §§ 8-1-2-42(A), 8-1-8.8-11, And To The Extent Necessary Ind. Code § 8-1-2.5-6, Of A Renewable Energy Power Purchase Agreement With Roaming Bison Wind, LLC, Including Timely Cost Recovery.* Reasonableness of proposal to purchase 300 Mw of wind energy.

Kansas Corporation Commission

12-KG&E-17-CON *Occidental* — *Application Of Kansas Gas And Electric Company For Approval Of The Energy Supply Agreement Between Kansas Gas And Electric Company And Frontier El Dorado Refining Company LLC.* Economics of special contracts and customer bypass of utility service.

LOUISIANA PUBLIC SERVICE COMMISSION

Dockets On behalf of	Description
U-32538 *Occidental*	*In Re: Joint Application of Entergy Louisiana, LLC, Entergy Gulf States Louisiana, LLC, Mid South Transco, LLC, Transmission Company Louisiana I, LLC, Transmission Company Louisiana II, LLC, ITC Holdings Corp. and ITC MidSouth LLC for Approval of Change of Ownership of Electric Trnasmission Businesses, For Certain Cost-Recovery Related Adjustments and for Related Relief.* Determination of whether transaction is in the public interest
U-33950 *Occidental*	*In Re: Entergy Louisiana, LLC Compliance Submission Regarding Deactivation Of Little Gypsy 1, Ninemile 3, And Willow Glen 2 And 4, As Required By Order No. U – 33510.* Evaluation of economics of decision to deactivate Willow Glen 2 and 4.
U-34283 *Occidental*	*In Re: Application of Entergy Louisiana, LLC for Approval to Construct Lake Charles Power Station, and for Cost Recovery.* Appropriate method to use to analyze resources of different lives, and appropriateness of including imputed debt as a cost for PPAs.
U-34447 *Occidental*	*Application Of Entergy Louisiana , LLC Regarding Continued Participation In The Midcontinent Independent System Operator, Inc. Regional Transmission Organization.* Recommended conditions to for ELL to continue membership in MISO, recommended change case for measurement of benefits of MISO membership.

MARYLAND PUBLIC SERVICE COMMISSION

9063 *Reliant* — *In The matter of The Optimal Market Design For The Electric Industry In Maryland.* Wholesale and Retail Market design.

Mississippi Public Service Commission

2015-UN-80 *Greenleaf* — *Notice Of Intent Of Mississippi Power Company For A Change In Rates Supported By A Conventional Rate Filing Or, In The Alternative, By A Rate Mitigation Plan In Connection With The Kemper County IGCC Project.* Amount of investment to count as prudent for the CCGT portion of an IGCC. Reasons why Kemper IGCC project should be abandoned.

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2017-AD-112 *Greenleaf* — *Encouraging Stipulation of Matters In Connection With the Kemper County IGCC Project.* Amount of prudent investment in Kemper CCGT that should be allowed in rates, and setting of O&M expense and annual revenue requirement.

New Mexico Public Resource Commission

19-00018-UT *Westmoreland* — *In The Matter Of Public Service) Company Of New Mexico's Consolidated Application For Approvals For The Abandonment, Financing And Resource Replacement For San Juan Generating Station Pursuant To The Energy Transition Act. Consideration of Replacement Resources.*

Pennsylvania Public Utilities Commission

P-00032071 *Reliant* — *Duquesnse Light Company Petition for Approval of Plan for Post Transition POLR Service.* Wholesale and Retail Market design and supply procurement.

P-00052188 *RESA*[1] — *Petition of Pennsylvania Power Co. for Approval of Interim PLR Supply Plan.* Wholesale and Retail Market design.

Testimony Filed with the Federal Energy Regulatory Commission

FERC Dockets	On behalf of	Description
ER98-927-000	*Reliant*	*Application of Reliant Energy Mandalay, L. L.C., to sell energy, capacity and ancillary services at market based rates.* Market Power study.
ER98-928400	*Reliant*	*Application of Reliant Energy Ellwood, L.L. C., to sell energy, capacity and ancillary services at market based rates.* Market Power study.
ER98-930-000	*Reliant*	*Application of Reliant Energy Etiwanda, L.L. C., to sell energy, capacity and ancillary services at market based rates.* Market Power study.
ER98-93 1400	*Reliant*	*Application* of *Reliant Energy Cool Water, L. L. C., to sell energy, capacity and ancillary services at market based rates.* Market Power study.
ER98-2878-000	*Reliant*	*Application of Reliant Energy Ormond Beach, L. L C.,* to *sell energy, capacity and ancillary services at market based rates.* Market Power study.
ER99-3 143-000	*Reliant*	*Application of Reliant Energy Indian River, L. L. C., to sell energy, capacity and ancillary services at market based rates.* Market Power study.
EL13-61-000	*Occidental*	*Exelon Wind et al Complaint and Petition for Enforcement.* Determination of whether a Legally Enforceable Obligation was established between a QF and a utility
ER19-1486-000	*Load/Customer Coalition*	*PJM Interconnection, L.L.C.* Comments on ORDC design
EL19-58-000	*Load/Customer Coalition*	*PJM Interconnection, L.L.C.* Comments on ORDC design

CIVIL LITIGATION

CAUSE NO. C-356-10-A — *Lorali, Ltd, Danhana, Ltd, RGV Warehouse, Ltd, and Richann, Inc. v. Sempra Energy Soultion, LLC and Priority Power, LL, 92nd Judicial Court, Hidalgo County, Texas.*

[1] Retail Electric Suppliers' Association

Charles S. Griffey

Commercial Reasonability of Retail Electric Contracts and Wholesale and Retail Market Design.

CAUSE NO. A-09-CA-917-SS — *JD Wind v. Public Utility Commission of Texas, United States District Court, Western District of Texas, Austin Division.* History of PURPA implementation and avoided cost.

CAUSE NO. D-1-GN-10-004130 — *Exelon Wind v. Public Utility Commission of Texas, State District Court, Austin, Texas.* History of PURPA implementation and avoided cost.

CAUSE NO. D-1-GN-12-0021S6 — *Lower Colorado River Authority v. Central Texas Electric Cooperative, Fayette Electric Cooperative and San Bernard Electric Cooperative.* Damages calculation for breach of purchased power contract.

CAUSE NO. 121-001-B — *Lower Colorado River Authority v.City Of Kerrville, Acting By And Through Kerrville Public Utility Board.* Damages calculation for breach of purchased power contract.

CAUSE NO. 3:08-cv-780-CWR-LRA — *The State Of Mississippi, Ex Rel. Jim Hood, Attorney General For The State Of Mississippi, Plaintiff, v. Entergy Mississippi, Inc., Et Al., Defendants.* Reasonableness of power procurement by utility.

CIVIL ACTION NO. 4:21-cv-01447 — *Olin Corporation Plaintiff, v. Tenaska Power Services Co. Defendant.* Operation of the ERCOT market for RRS, what entity bears responsibility for ancillary service imbalance charges.

Cause No. NO. 2021-52307 — *Air Liquide Large Industries U.S. LP and Air Liquide USA LLC, Plaintiffs and Counter-Defendants, v. EDF Energy Services, L.L.C., Defendant and Counter-Claimant.* Operation of the ERCOT market for RRS, what entity bears responsibility for ancillary service imbalance charges.

CIVIL ACTION NO. 4:21-CV-04129 — *AIR LIQUIDE LARGE INDUSTRIES US LP AND AIR LIQUIDE USA LLC, Plaintiffs, v. TENASKA POWER SERVICES CO., Defendant.* Operation of the ERCOT market for RRS, what entity bears responsibility for ancillary service imbalance charges.

LEGISLATIVE TESTIMONY

Texas Senate Business and Commerce Committee, March 2023 – ERCOT Market Design

Joint Meeting of Texas House Interim Committee of Natural Resources and House Regulated Industries, May 2009

Texas House Regulated Industries, February 2007 - State of the Electric Industry

Texas Senate Business and Commerce, February 2007 – State of the Electric Industry

Texas House Regulated Industries, March 2005 - State of the Electric Industry

EXHIBIT CSG-2
Calculation of Customer Savings from Maintaining Baa2 Rating

Assumptions		
Tax rate	22.11%	
Extra Cost of Baa2 vs. Baa1 (basis points)	20	D'Ascendis assuption at p.54

SPS Proposed Capital Structure

	Capital Structure	Cost	Weighted Cost	Pre-tax Weighted Cost
LT Debt	45.40%	4.19%	1.90%	1.90%
Equity	54.60%	10.65%	5.81%	7.47%
			7.72%	9.37%

Recommeded Capital Structure and ROE

	Capital Structure	Cost	Weighted Cost	Pre-tax Weighted Cost
LT Debt	52.00%	4.39%	2.28%	2.28%
Equity	48.00%	9.50%	4.56%	5.85%
			6.84%	8.14%

Texas Retail Rate Base	$	**3,613,360,841**	AXM 1-7(a)
Change in Cost of Debt	$	13,814,262	
Change in Cost of Equity	$	(58,215,516)	
Annual savings to ratepayers	**$**	**44,401,254**	

Figure 1
Utility Allowed Returns and 30-Year Treasury Yield Through 2022

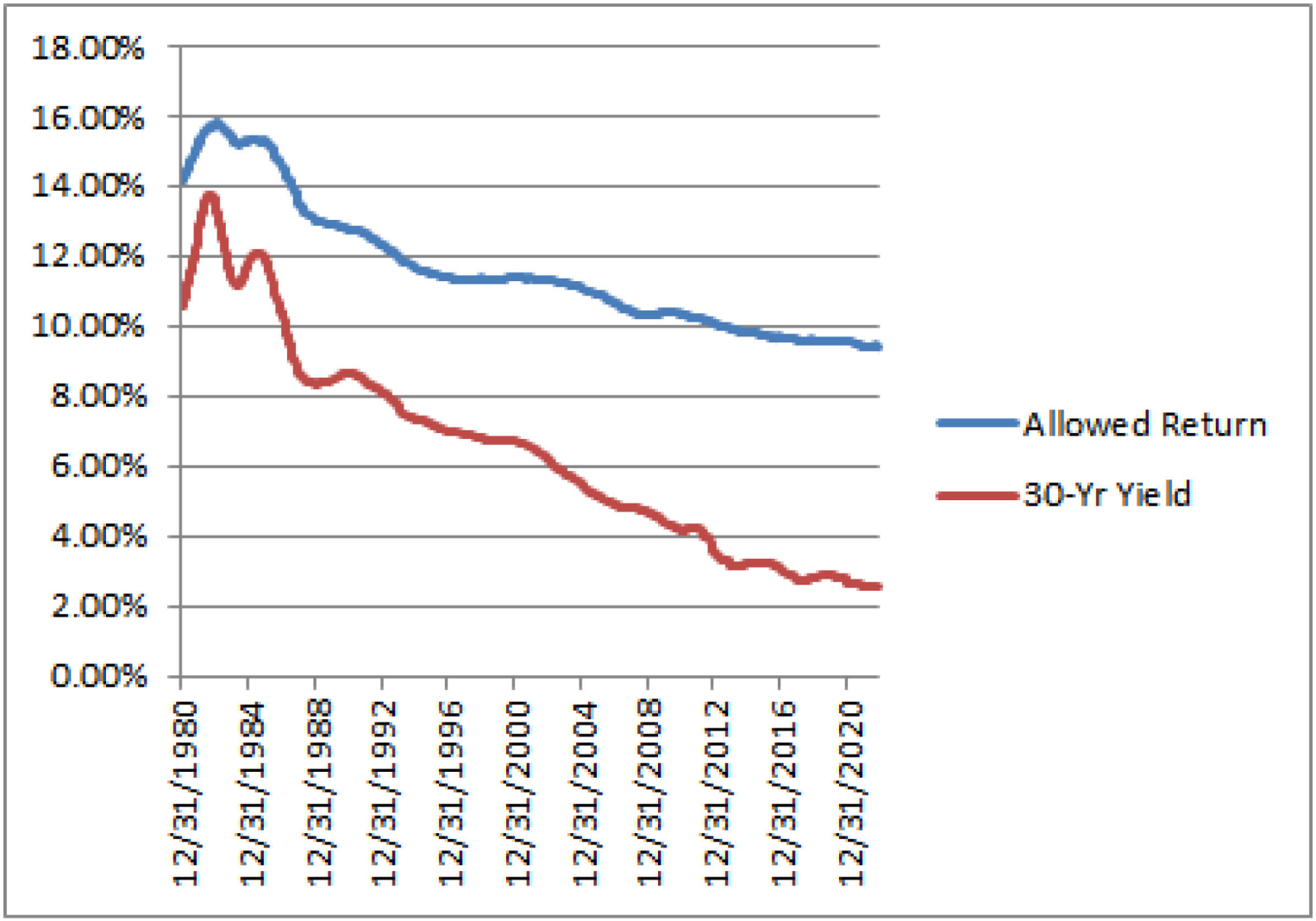


Figure 2
Allowed Return Premium Above 30-Year Treasury Yield Through 2022

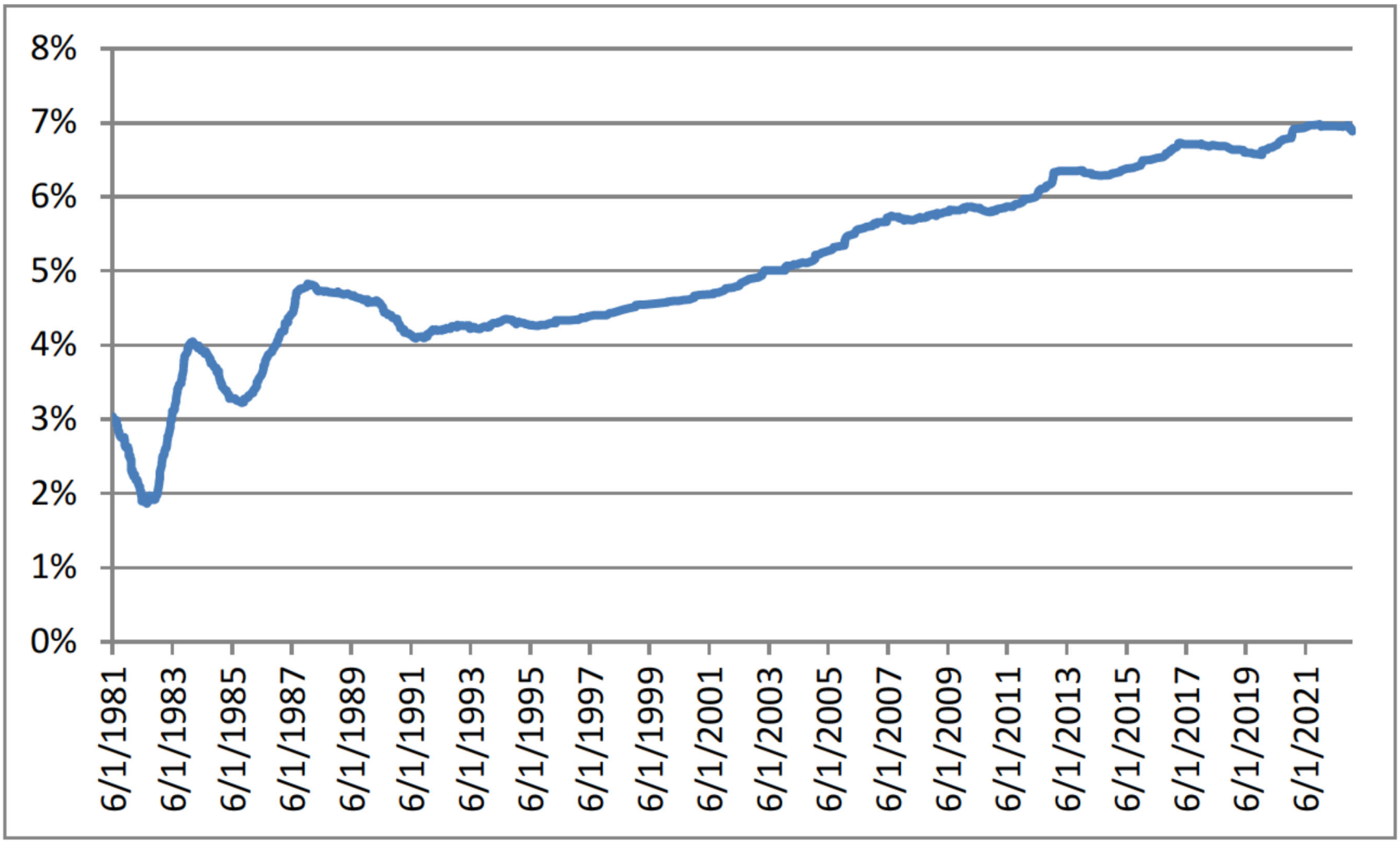
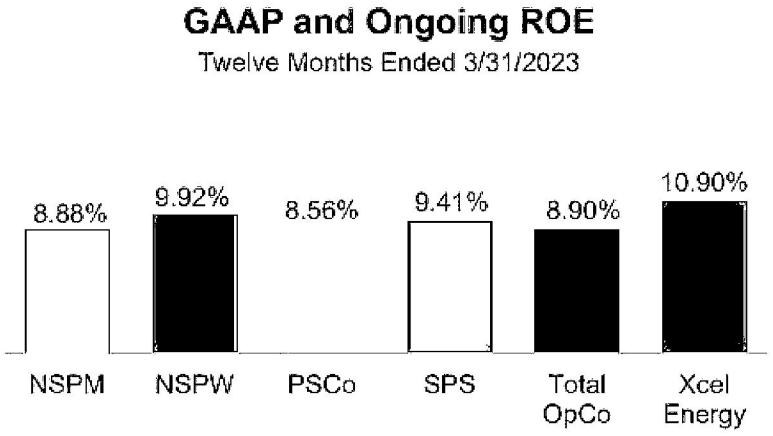


Figure 3

ROE Results – GAAP and Ongoing Earnings



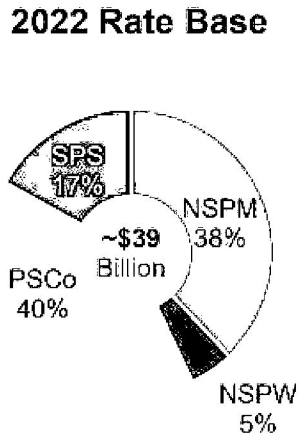


Figure 4
Xcel Capital Structure

Strong Credit Metrics

Plan	2023	2024	2025	2026	2027
FFO/Debt	~18%	~19%	~18%	~18%	~18%
Debt/EBITDA	4.9x	4.9x	4.9x	4.9x	4.9x
Equity Ratio	40%	40%	40%	40%	40%
Hold Co Debt/Total Debt	24.1%	24.3%	24.9%	24.7%	24.9%

Credit Ratings	Moody's	S&P	Fitch
Xcel Energy Unsecured	Baa1	BBB+	BBB+
NSPM Secured	Aa3	A	A+
NSPW Secured	Aa3	A	A+
PSCo Secured	A1	A	A+
SPS Secured	A3	A	A-

Credit metrics based on base capital plan, include tax credit transferability and do not reflect rating agency adjustments 43

Figure 5
Xcel Financing Plan

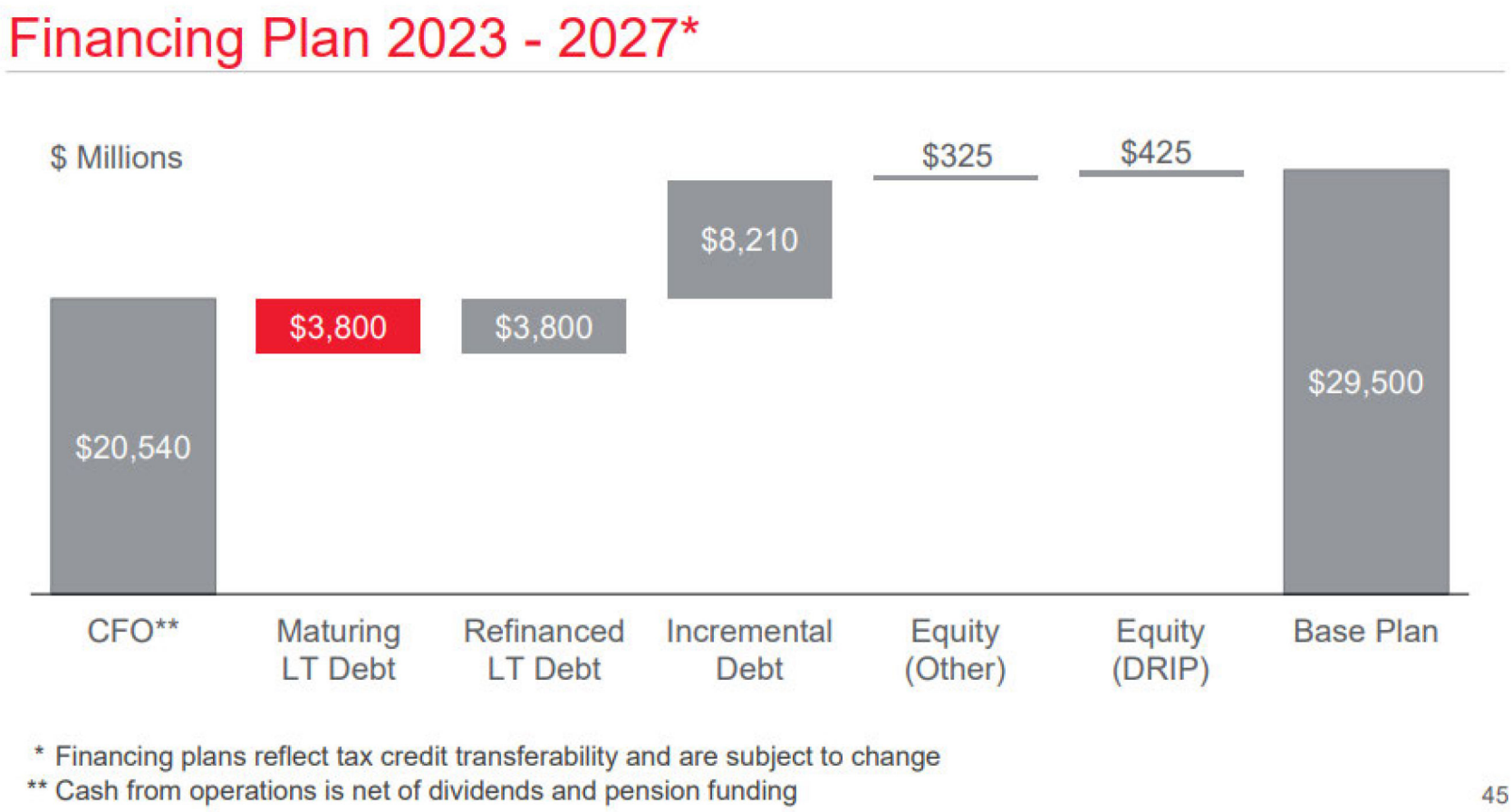


Figure 6
Xcel Shareholder Return Forecast

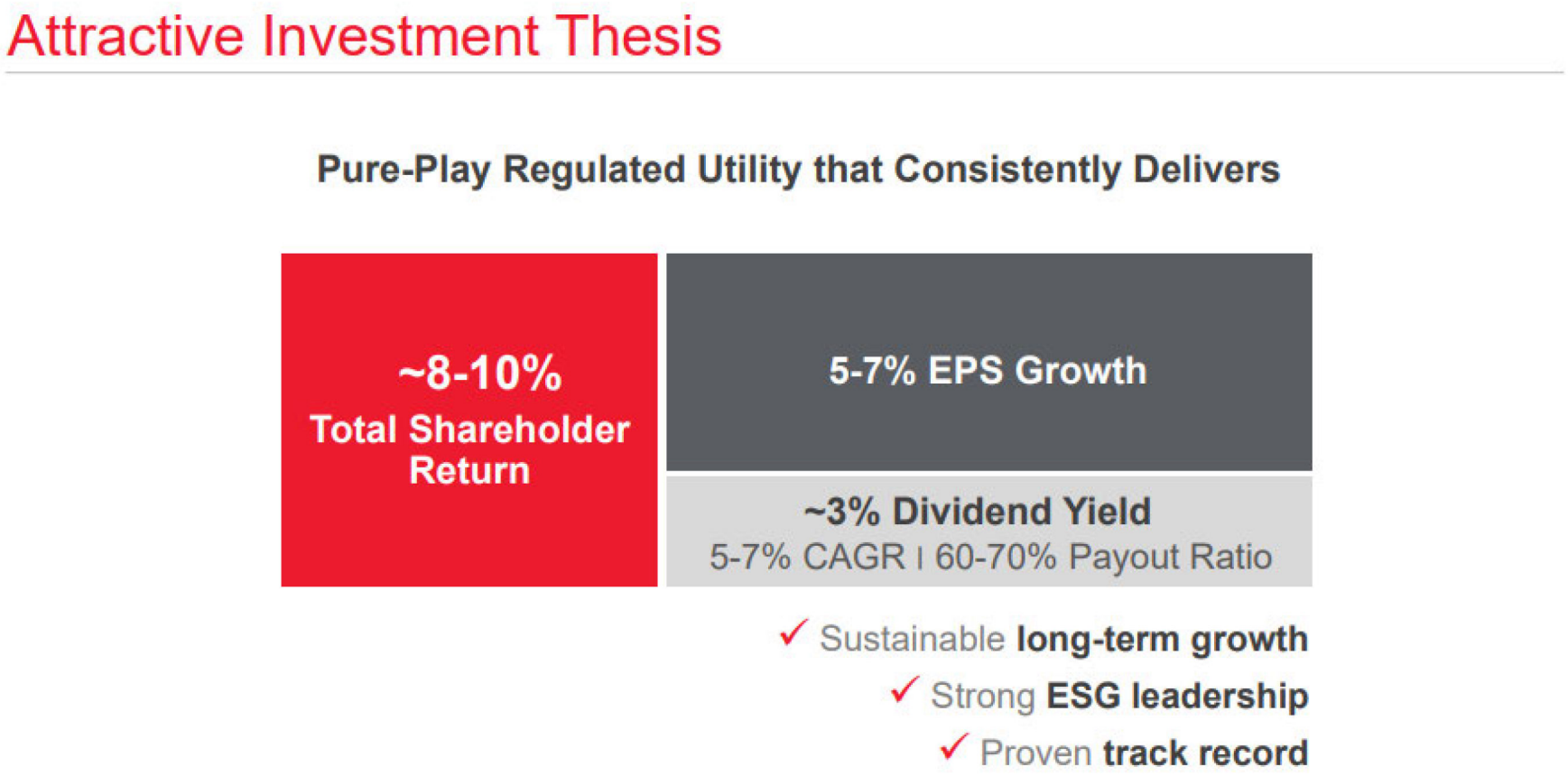


Figure 7 (CONFIDENTIAL)
CFO Pre-WC to Debt Metric in 2024 Sensitivities

	(1)	(2)	(3)	(4)	**(5)**	**(6)**	(7)
	SPS Credit Model Adjusted for ST Debt	SPS Credit Model per Request	SPS ROE Request	SPS ROE Request but target 17% Metric	**TIEC Case Lower Range for Equity**	**TIEC Case Upper Range for Equity**	TIEC Low ROE Targeting 16% Metric
ROE	[redacted]	[redacted]	10.65%	10.65%	**9.50%**	**9.50%**	9.05%
Equity weight in Regulatory Capital Structure	53.0% including ST debt	54.6%	54.6%	47.9%	**48.0%**	**50.0%**	49.3%
CFO pre-WC/Debt	17.8%	18.6%	21.0%	17.0%	**16.0%**	**17.0%**	16.0%

Figure 8
Relationship Between Capital Structure, Allowed Return, and Credit Metric

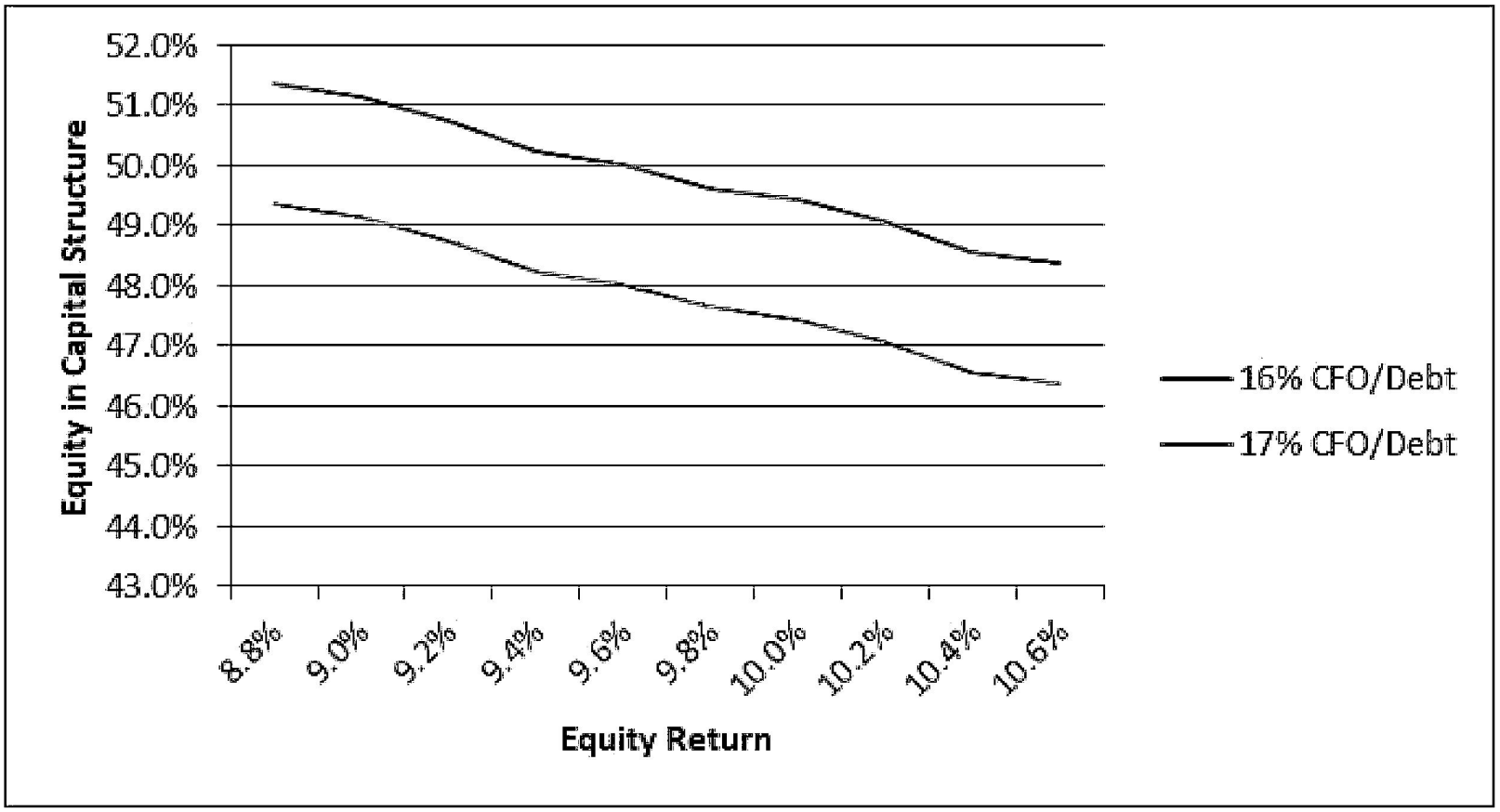


Figure 9
Quartiles for Residential Rates and Natural Gas Prices

SPS vs. West South Central Utilities

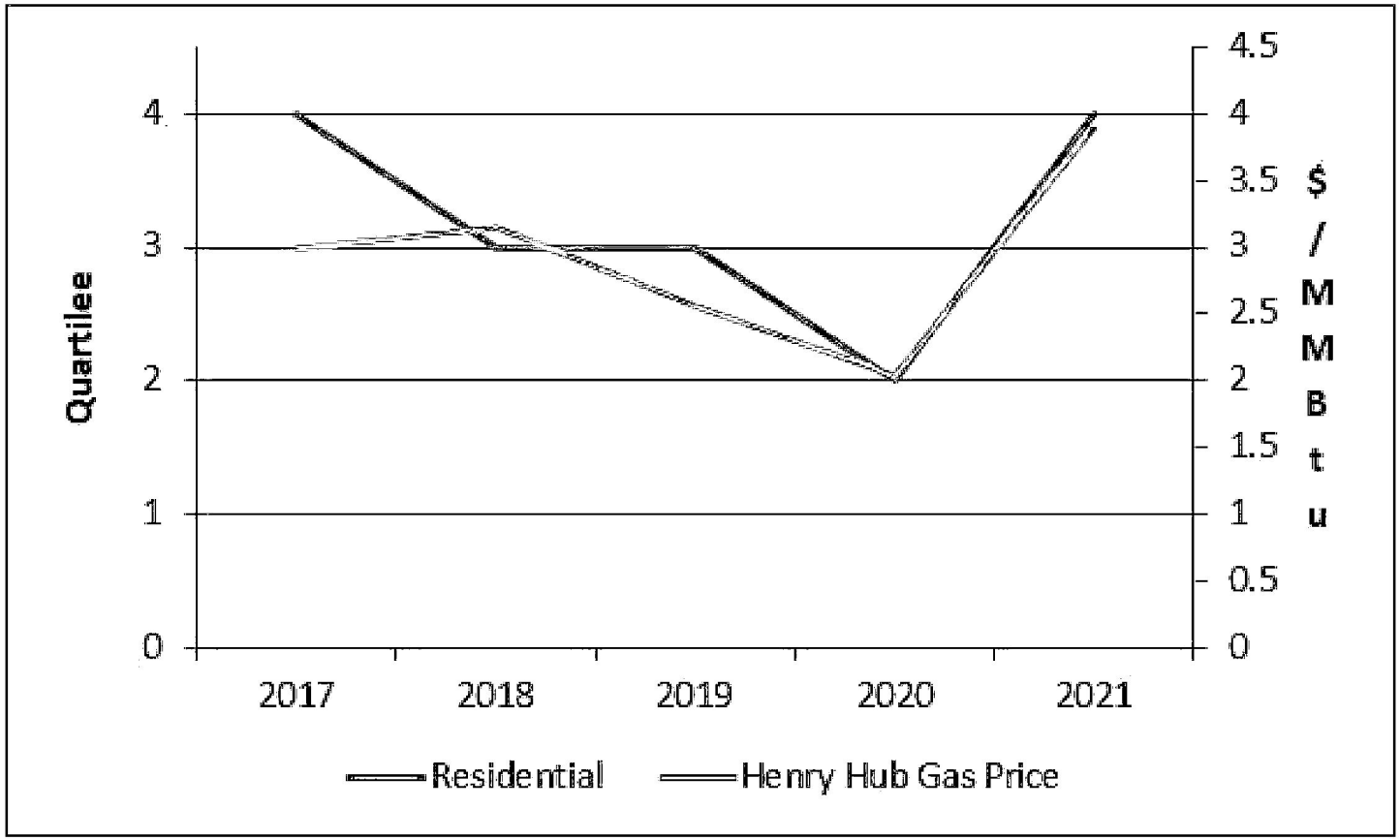


Figure 10
Relationship of Customer Mix and Rate Level

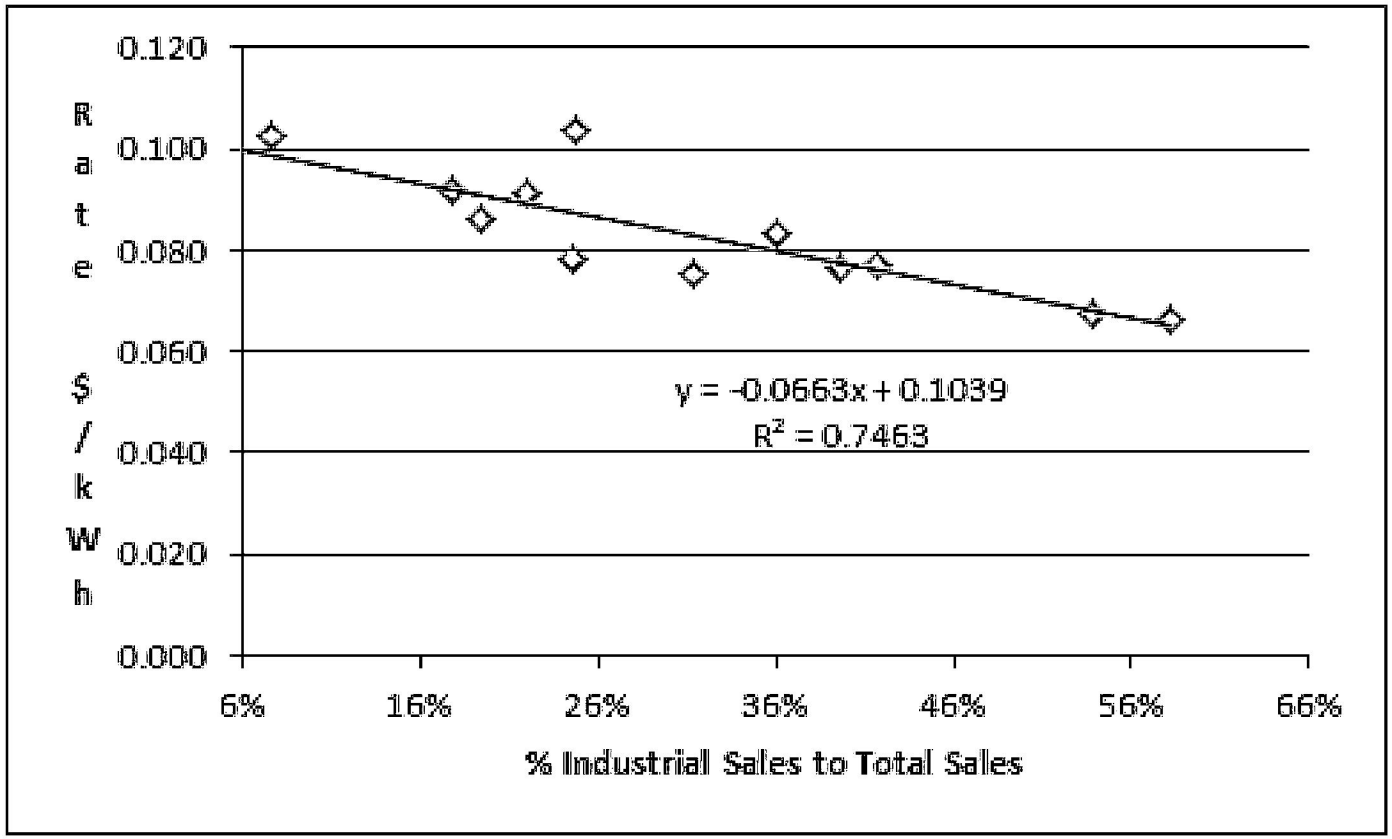


Figure 11
Waha Basis Differential 2008-2018

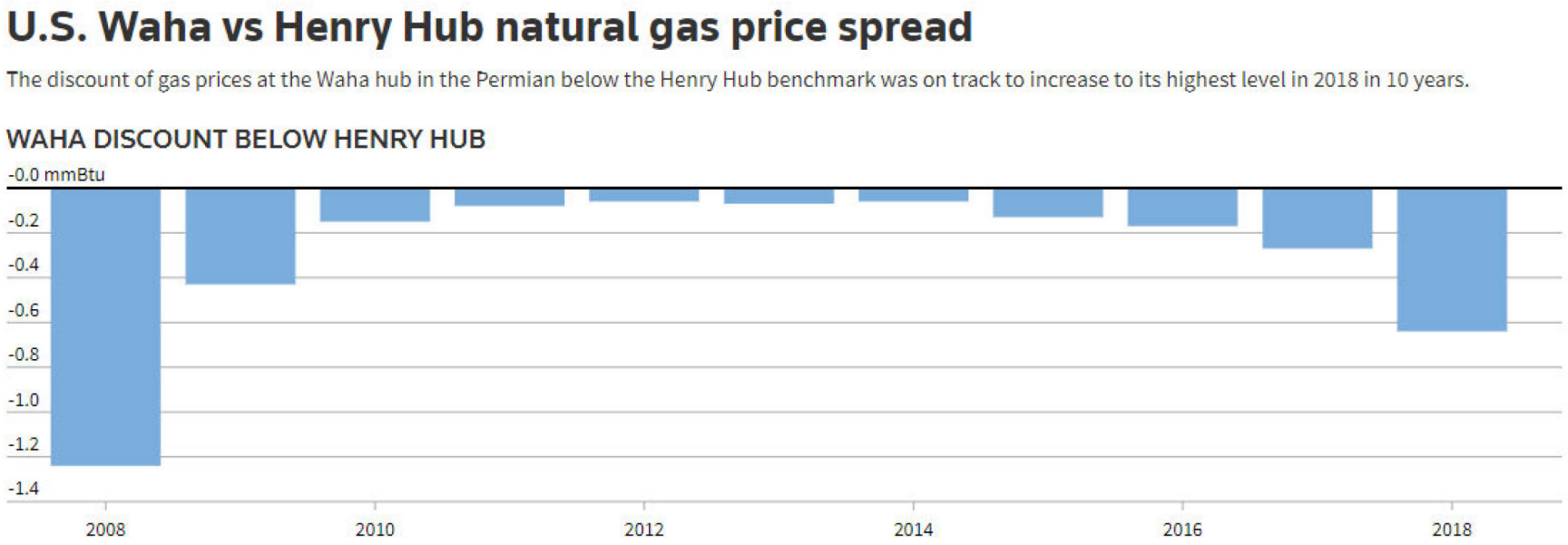
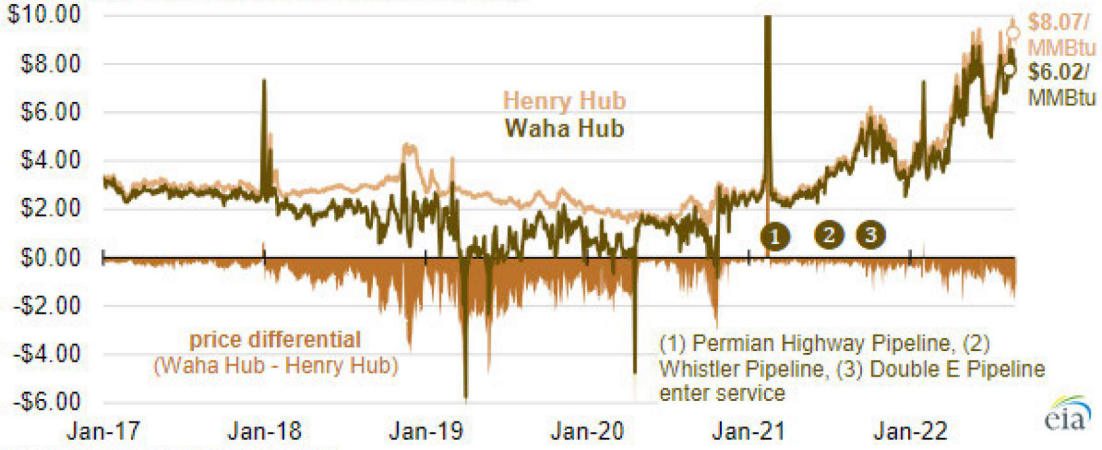


Figure 12
Waha Basis Differential 2019-2022

SEPTEMBER 20, 2022

The Waha Hub natural gas price continues to fall below the Henry Hub price

Daily natural gas spot prices and price differential (Jan 1, 2017–Sep 16, 2022)
dollars per million British thermal units (MMBtu)



Data source: Natural Gas Intelligence
Note: Price differential is between the local market price (Waha Hub) and the national benchmark price (Henry Hub).

Since late 2021, the difference has been widening between the natural gas price at the Waha Hub in West Texas and the U.S. benchmark Henry Hub in Louisiana. The price of natural gas traded at the Waha Hub, which is near production from the Permian Basin, averaged $1.43 per million British thermal units (MMBtu) less than the Henry Hub price during the first half of September. In comparison, in the first half of September 2021, natural gas at the Waha Hub traded at an average of 24 cents/MMBtu less than the Henry Hub price.

Daily natural gas price difference: Waha Hub minus Henry Hub (Jan 1, 2022–Sep 16, 2022)
dollars per million British thermal units (MMBtu)

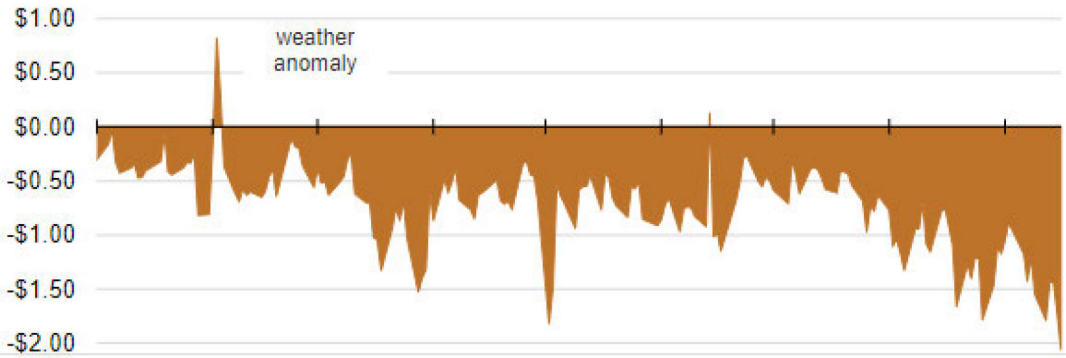


Figure 13
Waha Basis Futures

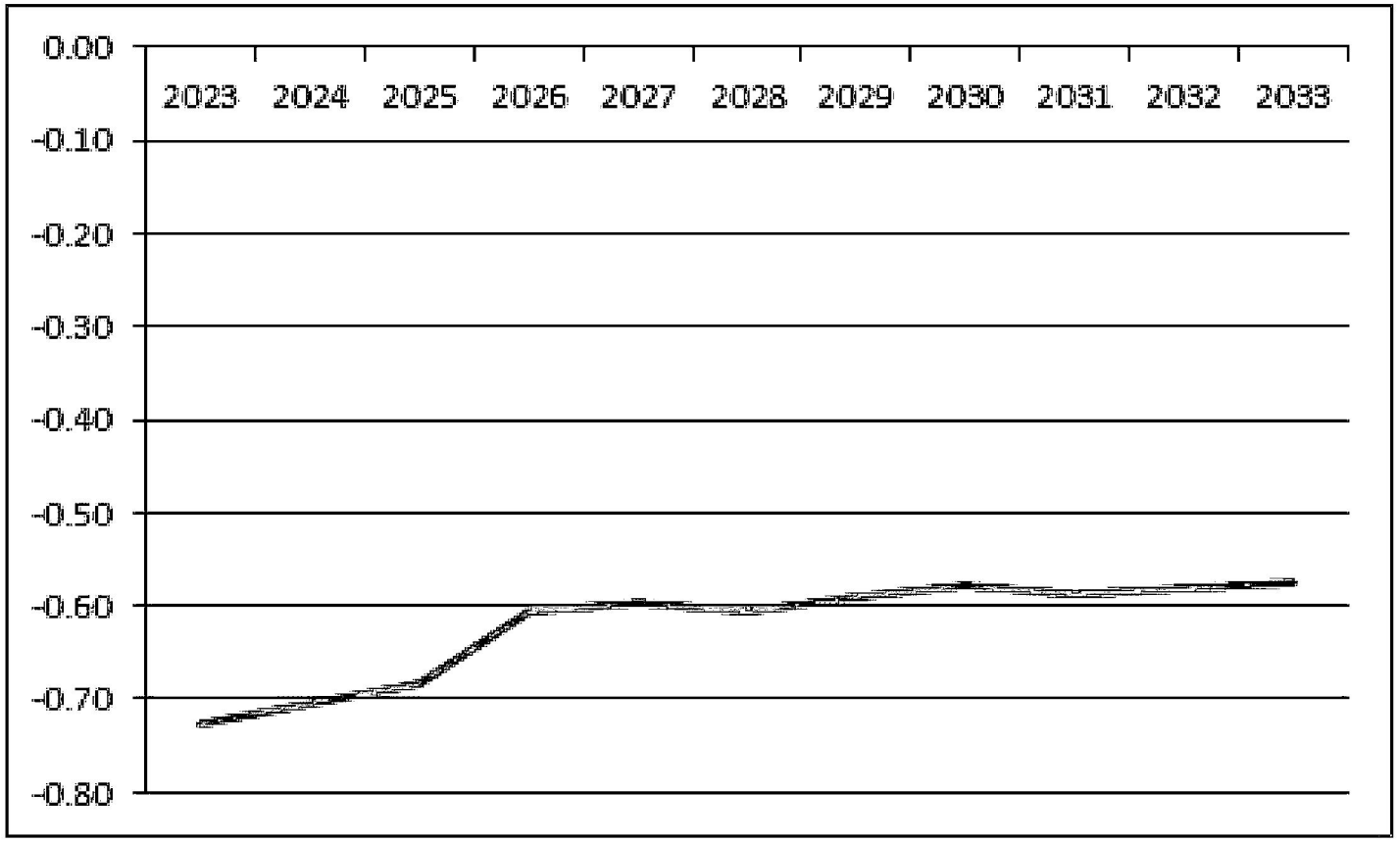
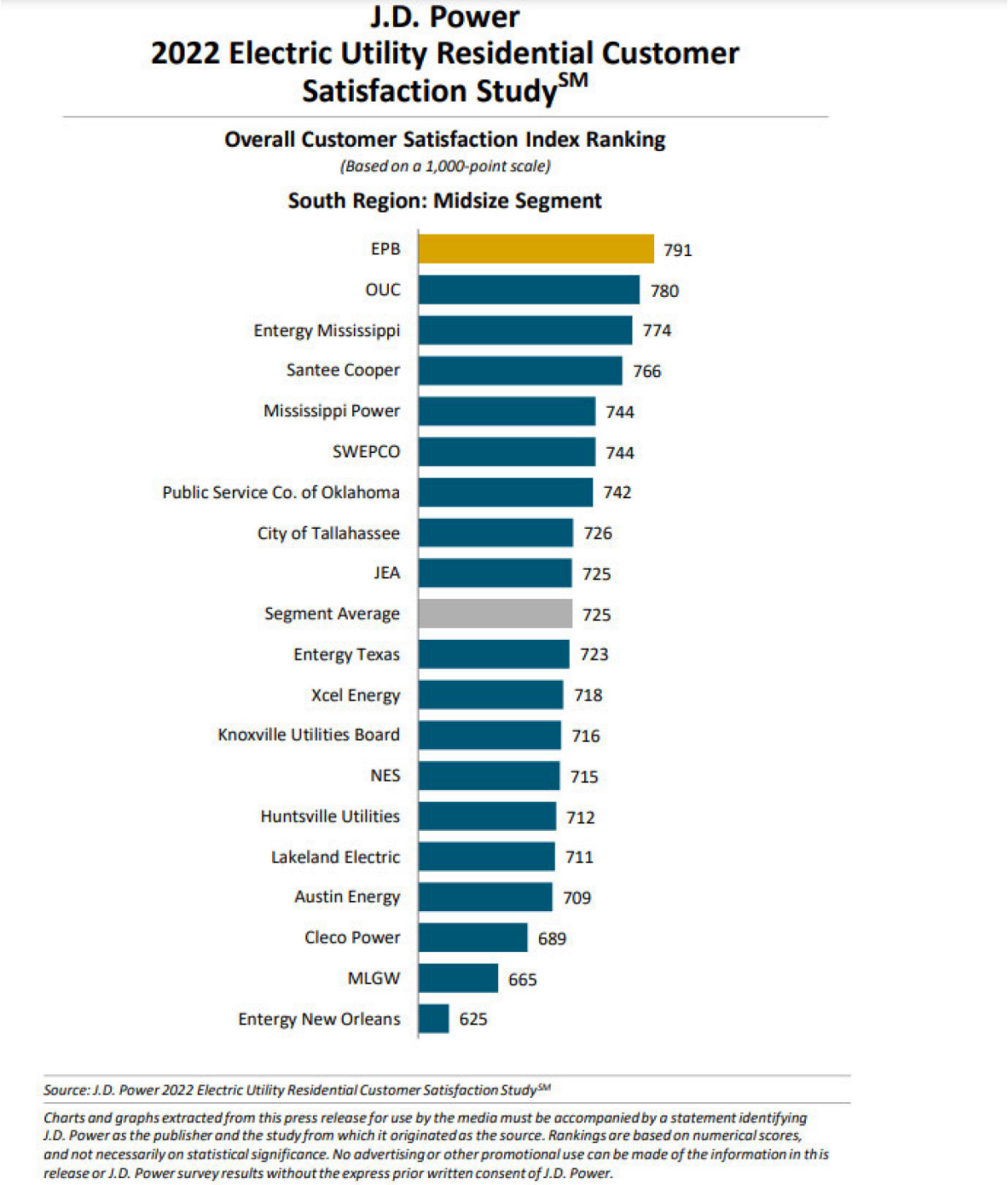


Figure 14
JD Power Rankings



Source: J.D. Power 2022 Electric Utility Residential Customer Satisfaction Study℠

Charts and graphs extracted from this press release for use by the media must be accompanied by a statement identifying J.D. Power as the publisher and the study from which it originated as the source. Rankings are based on numerical scores, and not necessarily on statistical significance. No advertising or other promotional use can be made of the information in this release or J.D. Power survey results without the express prior written consent of J.D. Power.

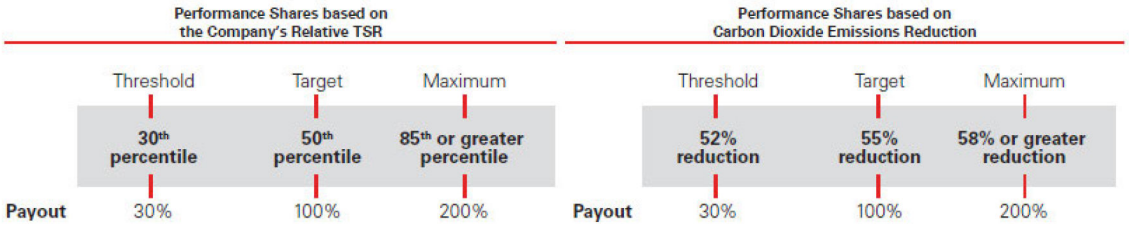
Figure 15
Xcel Energy Long-Term Performance Executive Compensation

Grant of 2022-2024 LTI Awards

Long-term incentive compensation is approximately 72% of the CEO's target total direct compensation and 56% of the average of the other NEOs' target total direct compensation and is primarily performance based. Prior to vesting, long-term incentive awards may not be sold, encumbered or otherwise transferred by the participant. Stock earned under long-term incentive compensation is subject to our Stock Ownership Policy (see page 40).

Performance Shares

In 2022, the GCN Committee approved the grant of performance shares to each NEO which are subject to the achievement of pre-determined performance metrics for the three-year period ending December 31, 2024. These performance metrics are relative TSR and carbon dioxide emissions reduction.



For performance between percentiles, the number of performance shares earned is determined by straight line interpolation.

Performance shares are based on the achievement of specified levels of the Company's TSR relative to our peer group. Payout range is from 0% to 200% of target.	Performance shares are based on the achievement of a specified reduction in carbon dioxide emissions in 2024 below 2005 levels associated with electric service. Payout range is from 0% to 200% of target.
The relative TSR goal links the interest of executive officers with those of our shareholders by rewarding NEOs for creating superior shareholder returns relative to utility industry peer companies.	The reduction in carbon dioxide emissions goals align to our lead the clean energy strategic priority to provide 100% carbon-free electricity by 2050.
Dividend equivalents are credited on each performance share during the three-year cycle to the same extent that dividends are paid on shares of our common stock. The credited dividend equivalents are paid only if the associated performance share vests and is paid in accordance with the achieved three-year performance goal. If threshold performance is not achieved at the end of the three-year performance cycle, then all associated performance shares and dividend equivalents would be forfeited. Each performance share represents one share of Xcel Energy common stock.	
Grant awards at target: • CEO: 51,516 • Other NEOs range: 8,979 to 12,805	Grant awards at target: • CEO: 30,910 • Other NEOs range: 5,387 to 7,683
Settled as cash, shares or a combination, as elected.	Settled as shares.

Figure 16
Xcel Energy Annual Incentive Compensation

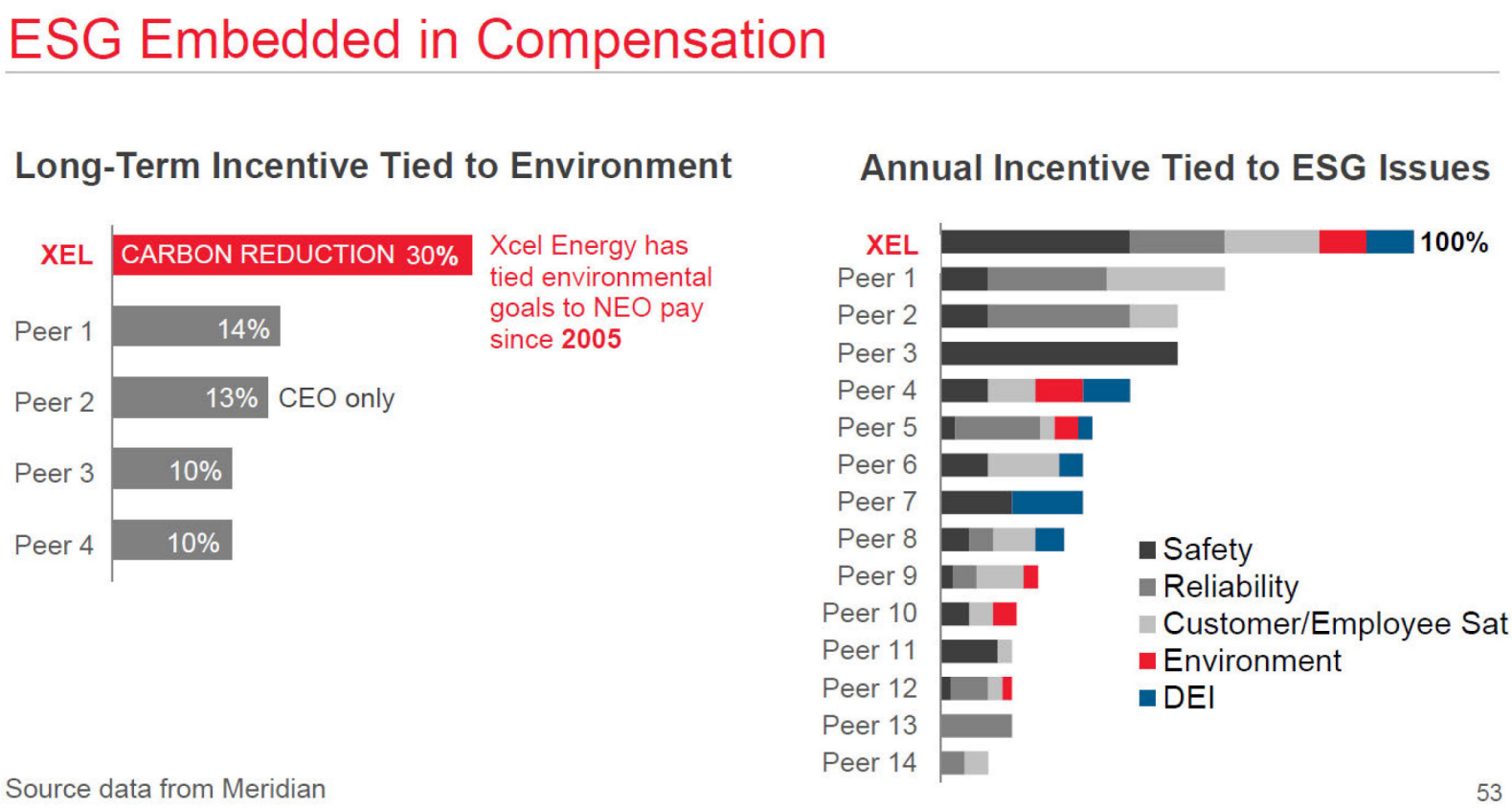


Figure 17

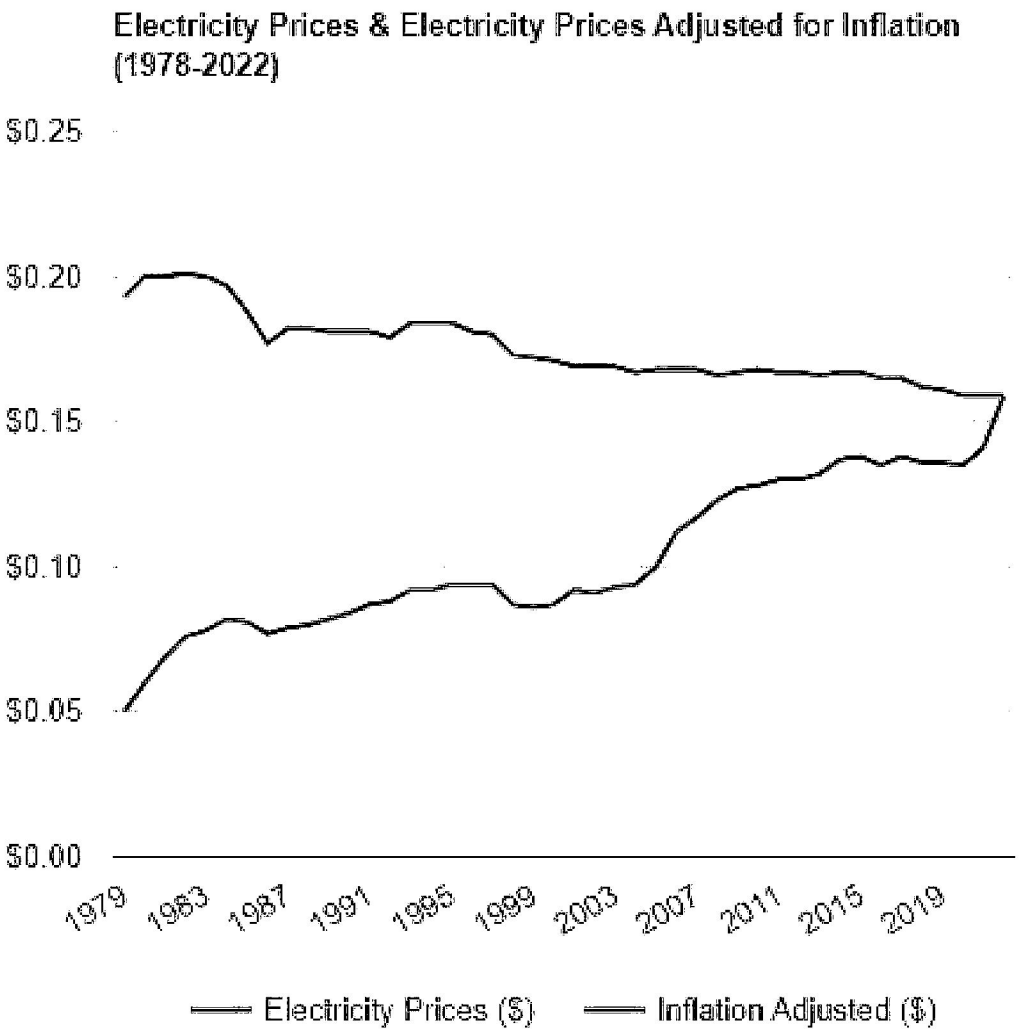
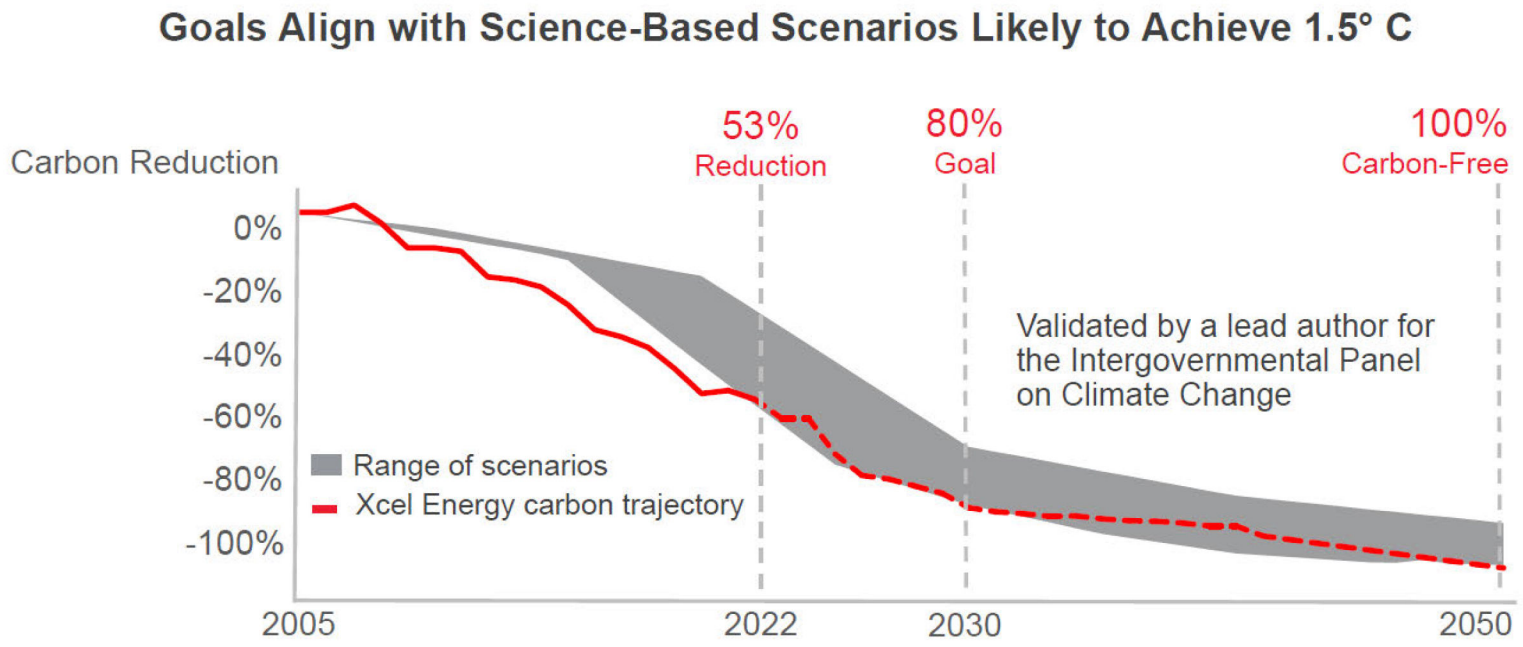

Electricity Prices & Electricity Prices Adjusted for Inflation
(1978-2022)
$0.25
$0.20
$0.15
$0.10
$0.05
$0.00
1979
1983
1987
1991
1995
1999
2003
2007
2011
2015
2019
Electricity Prices ($)
Inflation Adjusted ($)

Figure 18

Carbon Goals Aligned With Paris Accord: Electric Utility



Goal includes owned and purchased power