

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S)
ABANDONMENT OF SAN JUAN)
GENERATING STATION UNITS 1 AND 4)**

Case No. 19-00018-UT

**REBUTTAL TESTIMONY
OF
CHARLES N. ATKINS II**

November 15, 2019

**NMPRC CASE NO. 19-00018-UT
INDEX TO THE REBUTTAL TESTIMONY OF
CHARLES N. ATKINS II**

**WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO**

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I. INTRODUCTION

1

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

3 **A.** My name is Charles N. Atkins II. I am a Senior Advisor at Guggenheim
4 Securities, LLC, in New York. My business address is 330 Madison Avenue,
5 New York, New York 10017.

6

7 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

8 **A.** The purpose of my rebuttal testimony is principally to refute testimony of
9 Charlotte A. Grubb, filed on behalf of New Energy Economy (“NEE”) asserting
10 that the pending application of Public Service Company of New Mexico (“PNM”)
11 for a financing order issued under the Energy Transition Act (“ETA”) is deficient
12 with respect to the ETA requirement that PNM provide a securities firm
13 memorandum pursuant to Section 62-18-4(B)(5), and her erroneous assertions
14 that my testimony is inconsistent with the lowest cost objective mandate of the
15 ETA. She is not accurate in her testimony, as discussed below.

16

17 In addition, I address queries made by Marc A. Tupler and Anthony R. Sisneros
18 on behalf of the Utility Division Staff (“Staff”) of the New Mexico Public
19 Regulation Commission (“Commission”). In particular, my rebuttal testimony
20 clarifies and expands upon my direct testimony relating to “ancillary agreements”
21 in response to Staff Witness Tupler’s queries regarding “ancillary agreements” as
22 defined in the ETA, and reaffirms the importance of frequent and expeditious

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1 implementation of the true-up adjustment mechanism in response to concerns of
2 Staff Witness Sisneros.

3
4 Finally, I respond to the statement of Andrea C. Crane on behalf of the Office of
5 the New Mexico Attorney General (“NMAG”) indicating that if the ETA is not
6 applicable, she would not be opposed to the use of securitization for recovery of a
7 portion of the abandonment costs of SJGS Units 1 and 4. In particular, I explain
8 that a utility securitization of the type contemplated in the Company’s
9 consolidated application would not be feasible if the ETA did not apply.

10
11 **II. RESPONSE TO CHARLOTTE A. GRUBB TESTIMONY**

12 **Q. IN HER TESTIMONY, NEE WITNESS GRUBB HAS ASSERTED THAT**
13 **GUGGENHEIM SECURITIES, LLC (“GUGGENHEIM SECURITIES”)**
14 **HAS NOT PROVIDED A SECURITIES FIRM MEMORANDUM THAT**
15 **SATISFIES THE REQUIREMENTS OF THE ETA (SECTION 62-18-**
16 **4(B)(5)). ARE THE GROUNDS SHE CITES FOR THIS ASSERTION**
17 **CORRECT?**

18 **A.** No. NEE Witness Grubb’s assertion and the grounds she cites for it are based on
19 her misreading of the Memorandum and the attestation by the New Mexico State
20 Board of Finance and reflect a misunderstanding of my status as a witness and as
21 a Senior Advisor acting on behalf of Guggenheim Securities.

22

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1 **Q. WHAT IS THE ROLE OF GUGGENHEIM SECURITIES WITH**
2 **RESPECT TO PNM'S FINANCING APPLICATION AND YOUR ROLE**
3 **IN PARTICULAR?**

4 **A.** Guggenheim Securities was engaged by PNM to act as PNM's financial advisor
5 in connection with PNM's review and assessment of various capital markets
6 considerations relating to a proposed securitization transaction and related
7 financing application under the ETA. This included assisting PNM in its review
8 and consideration of various structural and financial aspects of the proposed
9 securitization and development of the proposed financing order, as well as
10 preparation of the "securities firm memorandum" contemplated by the ETA
11 (Section 62-18-4(B)(5)) and supporting testimony. The engagement was
12 effectively subject to the approval of Guggenheim Securities and of me personally
13 by the Board of Finance of the State of New Mexico as qualified to provide the
14 securities firm memorandum. As noted below, the attestation to that effect by the
15 Board of Finance is attached as Exhibit 2 to the Memorandum.

16
17 As noted in my direct testimony, I am a Senior Advisor at Guggenheim
18 Securities, duly licensed as a general securities representative and as an
19 investment banking representative under the rules of the Financial Industry
20 Regulatory Authority. I have extensive experience in the securitization of public
21 utility regulatory assets, beginning with a lead banking role in the \$2.9 billion
22 securitization transaction for Pacific Gas and Electric resulting from California's
23 restructuring of its electricity market in 1997. A more complete description of my

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1 experience, which includes participation in 25 utility securitizations, is included in
2 my direct testimony.

3
4 For purposes of my testimony before the Commission and the Memorandum, I
5 have been specifically authorized by Guggenheim Securities to act as a
6 representative of the Firm in these proceedings. In that capacity, I and a team of
7 professionals working with me at Guggenheim Securities have prepared my
8 written testimony and the Memorandum. I have also worked closely with
9 representatives of PNM to develop an illustrative structure for the energy
10 transition bonds in compliance with the applicable ratings agency criteria and the
11 requirements of the ETA.

12
13 **Q. HAS THE NEW MEXICO STATE BOARD OF FINANCE PROVIDED**
14 **THE ATTESTATION THE ETA (SECTION 62-18-4(B)(5)) REQUIRES**
15 **WITH RESPECT TO GUGGENHEIM SECURITIES?**

16 **A.** Yes, the New Mexico State Board of Finance provided the required attestation on
17 May 21, 2019. A copy of this attestation was attached as page 98 of 121 to the
18 Memorandum. In light of my leading role for Guggenheim Securities on this
19 engagement, the State Board of Finance specifically noted my involvement and
20 experience in its attestation letter. In particular, the letter provides as follows:

21 “As a result, we conclude and attest that Guggenheim Securities, LLC and
22 Charles N. Atkins II have experience in the marketing of bonds similar to
23 the energy transition bonds authorized by the ETA and that the firm has
24 the expertise to provide a memorandum indicating whether the bonds
25 would satisfy the current published AAA or equivalent rating criteria of at

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1 least one nationally recognized statistical rating organization for issuances
2 similar to the proposed energy transition bonds.”

3 This statement confirms that, for purposes of the ETA (Section 62-18-4(B)(5)),
4 Guggenheim Securities and I in particular are experienced in the marketing of
5 bonds similar to those authorized by the ETA and therefore qualified to provide
6 the required securities firm memorandum.

7
8 **Q. ON PAGE 14 OF HER TESTIMONY, NEE WITNESS GRUBB HAS**
9 **ASSERTED THAT PNM HAS FAILED TO SATISFY THE**
10 **REQUIREMENTS OF SECTION 62-18-4(B)(5) BECAUSE YOUR**
11 **TESTIMONY MERELY PROVIDES AN OPINION ON WHAT COULD**
12 **BE THE BEST BOND CONFIGURATION. DO YOU AGREE?**

13 **A.** I do not. NEE Witness Grubb confuses my testimony in support of the
14 Memorandum with the purpose of the Memorandum.

15
16 Page 14 of her testimony includes references to my testimony, rather than to the
17 securities firm memorandum designed to address Section 62-18-4(B)(5). In my
18 testimony, I am providing an overview of utility securitizations and
19 recommendations as to structural provisions to include in furtherance of achieving
20 the highest possible credit ratings for the transaction.

21
22 In contrast, the Memorandum includes a comparison of the key elements of
23 PNM’s proposed Energy Transition Bond issuance with the current Fitch AAA-

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1 rating criteria, and states that this comparison indicates the proposed PNM-
2 sponsored securitization satisfies such criteria. PNM Exhibit CNA-4 provides the
3 Commission with a more complete discussion.

4
5 **Q. DO YOU HAVE A PROFESSIONAL OPINION WITH RESPECT TO THE**
6 **ASSERTION (P.14, L.19-20) THAT YOUR TESTIMONY CONTRAVENES**
7 **THE LOWEST COST OBJECTIVE?**

8 **A.** Yes, in my professional judgment the structuring, marketing and pricing of bonds
9 through the marketed offering process described in my direct testimony is
10 designed to secure the lowest market-clearing interest rate that would allow sale
11 of all of the bonds. Since a lower interest rate results in lower energy transition
12 charges, it is my view as a financial services professional that the marketed
13 offering and pricing process described in my testimony would be in furtherance of
14 the lowest cost objective and would not in any respect contravene the lowest cost
15 objective.

16
17 **Q. ON PAGE 16 OF HER TESTIMONY, NEE WITNESS GRUBB HAS**
18 **ASSERTED THAT PNM EXHIBIT CNA-4 IS NOT A MEMORANDUM**
19 **OF GUGGENHEIM SECURITIES, BUT INSTEAD IS AN INDIVIDUAL**
20 **MEMORANDUM FROM YOU. IS SHE CORRECT?**

21 **A.** She is not correct. I am the author of the Memorandum, but in that capacity I am
22 acting as a duly authorized representative of Guggenheim Securities. The name
23 and business address of Guggenheim Securities is included on every single page

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1 of the Memorandum. References throughout the Memorandum to the review and
2 analyses undertaken to support the conclusions expressed therein refer to work
3 “we” have done. For example, the Executive Summary provides as follows:

4 “*We* have reviewed the Fitch Criteria, and *we* have compared key
5 elements of the proposed Energy Transition Bond transaction with those
6 criteria. *Our* comparison, which includes the preparation of Fitch AAAsf
7 stress cash flow scenarios based upon data provided to us by PNM,
8 indicates that the proposed PNM-sponsored securitization transaction
9 satisfies the Fitch Criteria (Fitch adds the “sf” designation to structured
10 finance ratings).” (emphasis added)

11 As the Notice at the end of the Memorandum makes clear, “we” means
12 Guggenheim Securities, not just Charles Atkins.

13
14 **Q. ON PAGES 16 AND 17 OF HER TESTIMONY, NEE WITNESS GRUBB**
15 **HAS ASSERTED THAT THE MEMORANDUM FAILS TO SATISFY THE**
16 **REQUIREMENTS OF THE ETA (SECTION 62-18-4(B)(5)) ON ACCOUNT**
17 **OF WHAT SHE REFERS TO AS THE “DISCLAIMERS” INCLUDED IN**
18 **THE MEMORANDUM. IS SHE CORRECT?**

19 **A.** She is not correct. The Memorandum describes the review and analysis I and my
20 colleagues at Guggenheim Securities have conducted regarding the structure of
21 the proposed securitization and the approach to marketing and pricing the
22 transaction which, in our professional judgment, would result in the lowest
23 market-clearing price for the bonds and, accordingly, the lowest resulting cost for
24 ratepayers. In particular, as noted above, the Memorandum clearly articulates our
25 conclusion that the proposed securitization satisfies the current published AAA
26 rating or equivalent rating criteria of at least one nationally recognized statistical

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1 rating organization for issuances similar to the proposed energy transition bonds.
2 The so-called “disclaimers” in the Memorandum are standard qualifications for
3 written communications of this kind by Guggenheim Securities’ investment
4 banking personnel and are intended to avoid misunderstanding as to the nature of
5 the communication and our role in providing it. For instance, the “disclaimers”
6 make clear that the purpose of the Memorandum is limited to the specific issue
7 raised by Section 62-18-4(B)(5) and does not purport to speak to any other matter
8 or any transaction. The “disclaimers” also make clear that Guggenheim Securities
9 is not acting as a fact-finder or fiduciary and does not provide other forms of
10 professional advice (such as legal, regulatory, tax or accounting advice). These
11 are essentially points of clarification about what the Memorandum should not be
12 mistaken for. They in no way alter the Memorandum’s fundamental conclusion
13 that the proposed securitization satisfies the Fitch’s AAA-ratings criteria.

14
15 **Q. ON PAGE 18 OF HER TESTIMONY, NEE WITNESS GRUBB ASSERTED**
16 **THAT THE MEMORANDUM ONLY PROVIDES A CHECKLIST OF**
17 **THE REQUIREMENTS THAT PNM’S BONDS WOULD HAVE TO MEET**
18 **AND DOES NOT REFLECT A CONCLUSION THAT THE PROPOSED**
19 **TRANSACTION ACTUALLY MEETS THE CURRENT AAA-RATING**
20 **CRITERIA OF FITCH. IS THE MEMORANDUM NOTHING MORE**
21 **THAN A CHECKLIST OF THE APPLICABLE REQUIREMENTS OF**
22 **FITCH?**

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1 **A.** Absolutely not. The Memorandum provides a substantive analysis responsive to
2 Section 62-18-4(B)(5). That subsection of the ETA requires “a memorandum
3 with supporting exhibits from a securities firm, such firm to be attested to by the
4 state board of finance as being experienced in the marketing of bonds and capable
5 of providing such memorandum, that the proposed issuance satisfies the current
6 published AAA rating or equivalent rating criteria of at least one nationally
7 recognized statistical rating organization for issuances similar to the proposed
8 energy transition bonds.”

9
10 I refer the Commission to the language from the Executive Summary of the
11 Memorandum that is cited in my testimony above. This language states that we
12 compared the key elements of PNM’s proposed Energy Transition Bond issuance
13 with the current Fitch AAA-rating criteria, and that our comparison indicates the
14 proposed PNM-sponsored securitization satisfies such criteria.

15
16 The remainder of the memorandum summarizes the more detailed analysis we
17 performed to reach this conclusion. In particular, the remainder of the
18 memorandum identifies qualitative Fitch AAA-rating criteria and shows (by
19 check mark) that we determined such factors were satisfied. In addition, the
20 memorandum includes results of our quantitative cash flow modeling.

21
22 I refer you to PNM Exhibit CNA-4 for a more complete discussion.

23

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1 **Q. NEE WITNESS GRUBB’S TESTIMONY INDICATES THERE ARE**
2 **ERRORS IN YOUR CROSS-REFERENCES TO VARIOUS STATUTORY**
3 **PROVISIONS OF THE ETA. CAN YOU PLEASE ADDRESS THESE**
4 **CONCERNS?**

5 **A.** Yes. On pages 18 and 19, NEE Witness Grubb has identified two statutory
6 references she views as being incorrect. The first is a typographical error. With
7 respect to the reference to Section 9(G) that is noted on page 19 of her testimony,
8 we have identified a transcription error and that this reference was intended to be
9 to Section 9(C) of the ETA. In contrast, I believe that we have appropriately
10 identified Section 2(I) of the ETA on page 3 of our memorandum in the section
11 relating to “Property Right.” The Fitch criteria require that a special property
12 right be created in the implementing legislation. Consistent with the Fitch
13 criteria, the ETA creates “energy transition property” and this term is defined in
14 Section 2(I). The defined term energy transition property is used throughout the
15 ETA – in theory we could have referenced numerous additional statutory
16 provisions in the ETA. However, that was not necessary to make the point that
17 the ETA does in fact create a special property right, and that this property right is
18 “energy transition property.”

19
20 **Q. ON PAGE 17 OF HER TESTIMONY, NEE WITNESS GRUBB**
21 **INDICATES THAT THE MEMORANDUM FAILS TO ADDRESS THE**
22 **PENDING CHALLENGES TO THE CONSTITUTIONALITY OF THE**
23 **ETA AND THUS FAILS TO ADDRESS FITCH’S RATINGS**

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1 **REQUIREMENTS. DOES THE MEMORANDUM ADDRESS THE**
2 **RELEVANT FITCH CONSIDERATIONS?**

3 **A.** Yes. The Fitch AAA-rating criteria consider whether appropriate provisions are in
4 place to protect against future state action after the issuance of the bonds that
5 would impair the rights of bondholders. These considerations are addressed in the
6 second column of the table on page 3 of PNM Exhibit CNA-4 (under the heading
7 “Irrevocability and State Support”). As noted in this table, Section 7(A) of the
8 ETA provides that any financing order issued under the ETA is irrevocable and
9 Section 19(A) of the ETA provides the State’s pledge to take no action that would
10 impair the rights of bondholders.

11
12 In addition, the ETA (Section 62-18-8) provides for an expedited New Mexico
13 Supreme Court review of any legal challenges to an ETA financing order. In my
14 experience, no bond issuance would occur until these legal proceedings are
15 complete. Were the ETA found to be unconstitutional through these proceedings,
16 there would be no bond issuance.

17
18 **Q. IS NEE WITNESS GRUBB’S TESTIMONY CORRECT IN ASSERTING**
19 **THAT MARKETING BONDS TO SECURE THE LOWEST MARKET-**
20 **CLEARING COST CONTRAVENES THE ETA (SECTION 4(B)(12))?**

21 **A.** No. Marketing bonds to secure the lowest market-clearing cost minimizes the
22 financing costs to be recovered through securitization consistent with the lowest
23 cost objective. Her testimony states conclusions without supporting analysis and

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1 misstates the marketed offering process my testimony described and the effect of
2 a high credit rating. There is nothing inconsistent between marketing bonds to
3 secure the lowest market clearing price and the ETA lowest cost objective and
4 ratepayer interests in the lowest cost objective. On the contrary, it would be
5 inconsistent with the lowest cost objective to approach the securitization with any
6 objective other than securing the lowest market-clearing cost.

7
8 **Q. HOW DOES NEE WITNESS GRUBB'S TESTIMONY MISSTATE THE**
9 **MARKETED OFFERING PROCESS YOUR TESTIMONY DESCRIBED?**

10 **A.** It suggests that underwriters will have an interest inconsistent with the lowest cost
11 objective as a result of their fear of "being left holding the bonds." That concern is
12 not presented at all by the marketed offering process I described on pages 32-37
13 of my testimony.

14
15 **Q. WHY ARE UNDERWRITERS NOT CONCERNED WITH BEING "LEFT**
16 **WITH THE BONDS" IN A MARKETED OFFERING AS YOU**
17 **DESCRIBED?**

18 **A.** Pages 32 through 37 of my testimony include a description of the typical
19 marketing process and pricing process used in utility securitization transactions,
20 known as a marketed offering. Using this process, the utility engages one or more
21 investment banks as underwriters for its securitization bonds, and those
22 underwriters offer the bonds for sale to investors in the broader capital markets
23 through a marketing process. As part of this process, the underwriters solicit bids

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1 from investors, and then determine a market-clearing interest rate for the bonds
2 based on the bids received. A market-clearing interest rate is the lowest rate for
3 which there are sufficient bids to sell all of the bonds. Once the market-clearing
4 rate is determined, the underwriters buy the bonds from the issuer and
5 immediately sell the bonds to the investors who submitted the bids. This process
6 does not involve underwriters bearing a risk of “being left holding the bonds” as
7 suggested by NEE Witness Grubb’s testimony. Instead, this process is designed
8 to identify the lowest market clearing interest rate available consistent with
9 prevailing market conditions at the time of pricing of the bonds.

10
11 **Q. IS THE DIFFERENT PROCESS ASSUMED BY NEE WITNESS GRUBB’S**
12 **TESTIMONY TYPICAL OF PUBLIC UTILITY SECURITIZATIONS?**

13 **A.** No, it is not. I will note that bonds are sometimes sold through competitive
14 bid/bought deal structure. Under this approach, rather than engaging one or more
15 investment banks to market the bonds to investors, the bonds are offered for sale
16 directly to a group of investment banks. Each investment bank is required to
17 submit a bid for the bonds and the bank that provides the bid with the lowest
18 interest rate purchases all of the bonds. The investment bank then goes to the
19 broader capital markets and attempts to sell the bonds to the ultimate investors. If
20 the investment bank bids an interest rate that is too low, the investment bank may
21 be unable to sell all of the bonds to investors without taking a loss. Under this
22 structure, an investment bank would have to take into consideration the risk of
23 taking a loss or being left holding the bonds when submitting its interest rate bid.

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1 As a result, the investment bank would, in my view, be most likely to increase its
2 interest rate bid, thereby making the bonds more expensive to the issuer and, by
3 extension, ratepayers. There is also no assurance that the competitive bid/bought
4 deal approach would attract sufficient interest among investment banks to
5 generate an effective auction process.

6
7 To my knowledge, only one utility securitization has used a competitive
8 bid/bought deal structure. All other utility securitizations have used a marketed
9 offering approach, and the vast majority of other securitizations use a marketed
10 offering approach. I did not describe the competitive bid/bought deal structure in
11 my direct testimony because, in my professional judgment, it would not produce
12 in the lowest cost result mandated by the ETA. The marketed offering process is
13 the process I would recommend and expect to be used and thus is the process I
14 described in my direct testimony.

15
16 **Q. AT LINES 13 THROUGH 16 OF PAGE 19 OF HER TESTIMONY, NEE**
17 **WITNESS GRUBB RECITES A SENTENCE FROM YOUR TESTIMONY**
18 **AND SUGGESTS IT IS AN ADMISSION THE PROPOSED**
19 **SECURITIZATION IS DESIGNED TO RESULT IN THE HIGHEST**
20 **COSTS, INCONSISTENT WITH THE LOWEST COST OBJECTIVE OF**
21 **THE ETA (SECTION 62-18-4(B)(5)). IS THAT AN ACCURATE**
22 **STATEMENT OF YOUR TESTIMONY?**

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1 **A.** No. NEE Witness Grubb appears to have read my sentence as implying the
2 highest credit ratings would provide for the highest interest rates on the bonds.
3 To be clear, the testimony she recites indicates that the proposed securitization
4 has been structured to achieve “the highest possible credit ratings.” A bond with
5 a higher credit rating than another bond generally will be viewed as having a
6 lower risk and thus investors will require a lower rate of interest on the higher
7 rated bond. It is precisely by achieving the highest possible credit ratings that
8 bonds are able “to price at the lowest market-clearing interest costs consistent
9 with investor demand and market conditions at the time of pricing.” This is
10 entirely consistent, rather than inconsistent, with the lowest interest rate goal NEE
11 Witness Grubb identifies in this portion of her testimony.

12
13 **III. QUERIES FROM STAFF WITNESSES TUPLER AND SISNEROS**

14 **Q.** **ON PAGES 13 AND 14 OF HIS TESTIMONY, AND IN STAFF EXHIBIT**
15 **MAT-1, STAFF WITNESS TUPLER INDICATES HE WAS UNABLE TO**
16 **VALIDATE WHETHER PNM HAD SATISFIED THE REQUIREMENTS**
17 **OF SECTION 62-18-4(B)(9). IN PARTICULAR, HE INDICATES THERE**
18 **WAS NO MENTION OF ANCILLARY AGREEMENTS. DID YOU**
19 **INCLUDE ANY DISCUSSION OF ANCILLARY AGREEMENTS IN**
20 **YOUR DIRECT TESTIMONY?**

21 **A.** Under Section 62-18-2(B), an “ancillary agreement” means a bond, insurance
22 policy, letter of credit, reserve account, surety bond, interest rate lock or swap

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1 arrangement, hedging agreement, liquidity or credit support arrangement or other
2 similar agreement or arrangement entered into in connection with the issuance of
3 an energy transition bond that is designed to promote the credit quality and
4 marketability of the bond or to mitigate the risk of an increase in interest rates.

5
6 Without specifically using the phrase “ancillary agreements”, I addressed
7 ancillary agreements in lines 15 through 22 on page 42 of my direct testimony. In
8 particular, my direct testimony was as follows:

9 “The capital subaccount funded with an amount equal to 0.50% of the
10 initial capitalization of the Energy Transition Bond transaction, will also
11 serve as credit enhancement of the transaction. Also, it is important that
12 the Financing Order provide flexibility to include other forms of credit
13 enhancement and other mechanisms (e.g., letters of credit, additional
14 amounts of overcollateralization or reserve accounts, or surety bonds) to
15 improve the marketability of the Energy Transition Bonds. None are
16 anticipated but it is important to have such built-in flexibility.”

17
18 **Q. COULD YOU PLEASE PROVIDE SOME FURTHER EXPLANATION OF**
19 **THESE AGREEMENTS?**

20 **A.** Certainly. As discussed in my direct testimony, the statutory true-up mechanism
21 to adjust the energy transition charges and the 0.5% capitalization account will
22 serve as protections to investors against the risk of non-payment of the bonds. To
23 provide further protection to investors against the risk of non-payment, a surety
24 bond could be provided by a highly-rated insurance company and could be drawn
25 upon to pay interest and principal on the bonds if at any time there was a shortfall
26 in energy transition charge collections such that sufficient amounts were not

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1 available to pay required principal and interest. A letter of credit would work in a
2 similar manner, but would be provided by a highly-rated financial institution.
3 Alternatively, the size of the bond offering could be increased to fund additional
4 reserve accounts, such as an overcollateralization account, to protect against non-
5 payment. There would be an additional cost in implementing any of these credit
6 enhancements. As a result, these credit enhancements would only be appropriate
7 if the cost of the enhancement would be outweighed by a reduction in the interest
8 rate that investors would require on the bonds.

9
10 In my prior experience with utility securitization, the statutory true-up mechanism
11 and capitalization account have been sufficient credit enhancement and additional
12 forms of credit enhancement have not been used. As a result, my direct testimony
13 indicated none of these credit enhancements were anticipated. However, I believe
14 it is advisable to provide flexibility in case market conditions change, as it would
15 make sense to use one or more of these enhancements if the reduction in interest
16 costs outweighed the cost of the credit enhancement.

17
18 **Q. ON PAGE 19 OF HIS TESTIMONY, STAFF WITNESS SISNEROS**
19 **EXPRESSED CONCERNS REGARDING THE FREQUENCY OF TRUE-**
20 **UP ADJUSTMENTS TO THE ENERGY TRANSITION CHARGES AND**
21 **THE LIMITED REVIEW PROVIDED IN THE ETA. IN YOUR OPINION,**
22 **IS THE TRUE-UP PROCESS PRESCRIBED IN THE ETA AND THE**

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1 **COMPANY’S CONSOLIDATED APPLICATION IMPORTANT IN**
2 **ACHIEVING THE LOWEST COST OBJECTIVE?**

3 **A.** Yes. As discussed on page 40 of my direct testimony, the true-up adjustment
4 mechanism will serve as the primary form of credit enhancement for the energy
5 transition bonds. As noted on page 41 of my direct testimony, the frequency of
6 true-up adjustments will be described in the final offering document for the
7 energy transition bonds and will be consistent with ETA requirements and with
8 rating agency considerations for achieving the highest credit ratings. In my
9 experience, the Company’s proposal that true-up adjustments would occur at least
10 semi-annually during the life of the energy transition bonds (and quarterly true-
11 ups during the final two years) as required by the ETA is consistent with rating
12 agency considerations for achieving the highest credit ratings.

13
14 Also, as noted on page 42 of my direct testimony, it is critical for rating agency
15 purposes that, insofar as Commission action is required, true-up adjustments are
16 automatic and implemented on an immediate basis subject only to mathematical
17 and transcription error review.

18
19 **IV. RESPONSE TO COMMENT OF NMAG WITNESS CRANE**

20 **Q.** **ON PAGE 57 (LINES 18-20) OF HER TESTIMONY, NMAG WITNESS**
21 **CRANE INDICATES SHE WOULD NOT BE OPPOSED TO THE USE OF**
22 **SECURITIZATION TO RECOVER COSTS OF ABANDONMENT IF THE**

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

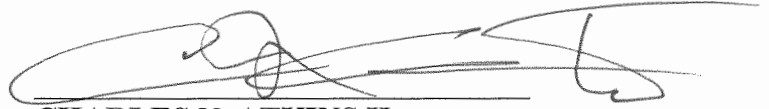
IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S)
ABANDONMENT OF SAN JUAN) Case No. 19-00018-UT
GENERATING STATION UNITS 1 AND 4)

AFFIDAVIT

STATE OF NEW YORK)
) ss
COUNTY OF WESTCHESTER)

CHARLES N. ATKINS II, Senior Advisor, Guggenheim Securities, LLC,
upon being duly sworn according to law, under oath, deposes and states: I have read the
foregoing **Rebuttal Testimony of Charles N. Atkins II** and it is true and correct based
on my personal knowledge and belief.

SIGNED this 8th day of November, 2019.



CHARLES N. ATKINS II

SUBSCRIBED AND SWORN to before me this 8th day of November, 2019.

FLORENCE A TILLMAN
NOTARY PUBLIC, STATE OF NEW YORK
Registration No. 01TI6382327
Qualified in New York County
My Commission Expires: _____
My Commission Expires: _____



NOTARY PUBLIC IN AND FOR
THE STATE OF NEW YORK

Sep, 2022