

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**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)**

19-____-UT

DIRECT TESTIMONY

OF

ELISABETH A. EDEN

July 1, 2019

**NMPRC CASE NO. 19-____-UT
INDEX TO THE DIRECT TESTIMONY OF
ELISABETH A. EDEN**

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

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PNM Exhibit EAE-1	Resume of Elisabeth A. Eden
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PNM Exhibit EAE-3	Estimated Annual Ongoing Financing Costs for Bonds (Other than Debt Service on the Bonds)
PNM Exhibit EAE-4	Draft form of Energy Transition Property Purchase and Sale Agreement
PNM Exhibit EAE-5	Draft form of Indenture
PNM Exhibit EAE-6	Draft form of Energy Transition Property Servicing Agreement
PNM Exhibit EAE-7	Draft form of Administration Agreement
PNM Exhibit EAE-8	Draft form of Amended and Restated LLC Agreement for SPE

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1

I. INTRODUCTION AND PURPOSE

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

3 **A.** My name is Elisabeth A. Eden. I was the Vice President and Treasurer of PNMR
4 Services Company (“PNMR Services”) for three years, and I am currently the
5 Vice President of Human Resources for PNMR Services. I have been assigned to
6 this role since April 28, 2018. My address is 414 Silver Ave. SW, Albuquerque,
7 New Mexico 87102.

8

9 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES WHEN YOU WERE**
10 **VICE PRESIDENT AND TREASURER OF PNMR SERVICES.**

11 **A.** I had responsibility for providing financial support for PNM Resources, Inc.
12 (“PNMR”) and its subsidiaries, including Public Service Company of New
13 Mexico (the “Company” or “PNM”). My treasury responsibilities included the
14 formulation and implementation of specific financing strategies, direction and
15 management of professional finance staff and external resources, interaction with
16 credit rating agencies, management of financial institution relationships for
17 PNMR and its subsidiaries, and management of corporate and trust investments.
18 A copy of my resume is attached as PNM Exhibit EAE-1.

19

20 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

21 **A.** I support the portions of PNM’s Consolidated Application requesting a financing
22 order (“Financing Order”) to be issued by the New Mexico Public Regulation

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1 Commission (“Commission”) under the Energy Transition Act (“ETA”).
2 Approval of the Financing Order will authorize the issuance of energy transition
3 bonds (“Energy Transition Bonds” or “Bonds”) by a newly created special
4 purpose entity (that will be a wholly-owned subsidiary of PNM (the “SPE” or
5 “Issuer”)), to finance the recovery by PNM of the energy transition costs
6 (“Energy Transition Costs”) identified in the Financing Order. PNM’s
7 Consolidated Application requests approvals to abandon San Juan coal plant,
8 certification of new resources necessitated by the abandonment of San Juan coal
9 plant and issuance of the Financing Order. The issuance of Energy Transition
10 Bonds will benefit customers by addressing San Juan coal plant abandonment
11 costs at a lower cost than would be available through traditional rate-making
12 treatment.

13
14 **Q. WHAT MATTERS WILL YOU ADDRESS THROUGH YOUR**
15 **TESTIMONY?**

16 **A.** My testimony will (i) provide the background on PNM’s request for a Financing
17 Order, (ii) generally describe the proposed securitization transaction to issue
18 Energy Transition Bonds to finance the Energy Transition Costs; (iii) provide an
19 overview of the estimated financing costs (as defined in Section 2(K) of the ETA)
20 that PNM expects to incur in connection with the issuance of Energy Transition
21 Bonds (the “Financing Costs”), other than the estimated financing costs relating to
22 debt service on the Energy Transition Bonds, which are described in the
23 testimony of PNM Witness Atkins, (iv) describe and estimate the payments

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1 (based on the percentages of the Bond proceeds as set forth in Section 16(J) of the
2 ETA) that are a part of the Energy Transition Costs set forth in Section 2(H)(4) of
3 the ETA, and (v) to confirm PNM's commitment to use commercially reasonable
4 efforts to obtain the lowest cost objective (as defined in Section 2(N) of the ETA)
5 and PNM's commitment to file with the Commission (a) following the issuance of
6 the Bonds, (1) a description of the final structure and pricing of the Bonds, (2)
7 updated financing costs and payment amount required pursuant to Section 16 of
8 the ETA, and (3) an updated calculation of the Energy Transition Charges, and (b)
9 the other reports and information described in my testimony.

10
11 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

12 **A.** Yes. I am sponsoring the following exhibits described below and attached to my
13 testimony:

- 14 • PNM Exhibit EAE-1: Resume of Elisabeth A. Eden
- 15 • PNM Exhibit EAE-2: Estimated upfront Financing Costs for issuance of
16 the Energy Transition Bonds
- 17 • PNM Exhibit EAE-3: Estimated Annual Ongoing Financing Costs in
18 connection with the Energy Transition Bonds (other than debt service on
19 the Bonds)

20 In addition, I am sponsoring the exhibits set forth below, which are draft forms of
21 the principal financing documents that PNM expects will be required in the
22 issuance of the Energy Transition Bonds, based on consultations with the PNM
23 Witness Atkins and legal counsel:

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- 1 • PNM Exhibit EAE-4: Draft form of Energy Transition Property Purchase
2 and Sale Agreement (the “Purchase Agreement”) between PNM, as seller
3 and the SPE and purchaser;
- 4 • PNM Exhibit EAE-5: Draft form of indenture (the “Indenture”) between
5 the SPE, as Bond Issuer and the trustee for the bondholders (the
6 “Trustee”);
- 7 • PNM Exhibit EAE-6: Draft form of Energy Transition Property Servicing
8 Agreement (the “Servicing Agreement”) among PNM, the Issuer and the
9 Trustee;
- 10 • PNM Exhibit EAE-7: Draft form of Administration Agreement
11 (“Administration Agreement”) between PNM, as administrator and the
12 SPE;
- 13 • PNM Exhibit EAE-8: Draft form of Amended and Restated LLC
14 Agreement (“SPE LLC Agreement”)

15 The Purchase Agreement, Indenture, Servicing Agreement, Administration
16 Agreement, and SPE LLC Agreement are collectively referred to in my testimony
17 as the “Transaction Documents”.

18
19 PNM Witness Atkins is discussing the details of Transaction Documents,
20 including the principal terms and conditions thereof.

21

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II. PNM'S REQUEST FOR A FINANCING ORDER

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Q. WHAT IS PNM REQUESTING FROM THE COMMISSION IN REGARD TO THE PROPOSED FINANCING TRANSACTIONS?

A. PNM is requesting that the Commission determine that the Consolidated Application satisfies the requirements of Section 4 of the ETA and approve the issuance of the requested Financing Order under the ETA that will contain the necessary approvals and authorizations from the Commission, including approvals, among other things:

- to form the SPE, as described in the testimony of PNM Witness Atkins;
- for the SPE to issue Energy Transition Bonds, in one or more series, for a scheduled final maturity of no more than 25 years, provided that a rated final maturity may exceed 25 years, as described in the testimony of PNM Witness Atkins;
- to use the Energy Transition Bonds to finance the maximum amount of Energy Transition Costs as described in the testimony of PNM Witness Monroy, as may be adjusted pursuant to Section 4(B)(6) of the ETA;
- to recover the Energy Transition Costs as described in the testimony of PNM Witness Monroy as may be adjusted pursuant to Section 4(B)(6) of the ETA through the Energy Transition Charges;
- to approve the Energy Transition Charges necessary to recover the Energy Transition Costs, as described in the testimony of PNM Witness Settlage;

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- 1 • to approve the ongoing adjustment mechanism for the Energy Transition
2 Charges in compliance with Section 6 of the ETA, as described in
3 testimony of PNM Witness Settlage (the “True-Up Adjustment
4 Mechanism”);
- 5 • creation of the energy transition property described in and created by the
6 Financing Order (the “Energy Transition Property”) that may be sold by
7 PNM to the SPE pursuant to the Purchase Agreement and used to pay, and
8 secure payment of, the Energy Transition Bonds authorized in the
9 Financing Order, as described in the testimony of PNM Witness Atkins;
- 10 • to provide that creation of the Energy Transition Property will be
11 simultaneous with the sale of the Energy Transition Property to the SPE
12 and the SPE’s pledge of the Energy Transition Property to secure the
13 Energy Transition Bonds, as required by Section 5(G) of the ETA;
- 14 • for PNM and the SPE, as the case may be, to enter into the Transaction
15 Documents and to enter into any appropriate ancillary agreements
16 designed to promote the credit quality and marketability of the Energy
17 Transition Bonds, as described in the testimony of PNM Witness Atkins;
- 18 • approval of PNM’s proposed ratemaking method, as described in the
19 testimony of PNM Witness Monroy, for the reconciliation of the
20 differences between the estimated upfront Energy Transition Costs that are
21 included in the Energy Transition Bond issuance and the actual final
22 upfront Energy Transitions Costs; and

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- 1 • approval of PNM’s proposed ratemaking method, as described in the
2 testimony of PNM Witness Monroy, to protect customers in the instance
3 that customers begin to pay for the Energy Transition Charge and
4 customers base rates have not been adjusted to reflect the removal of the
5 undepreciated investment of San Juan coal plant.

6
7 A proposed draft form of the Financing Order is provided as Appendix 3 to the
8 Consolidated Application.

9
10 **Q. IS PNM REQUIRED BY LAW TO SEEK COMMISSION AUTHORITY**
11 **FOR THESE FINANCING TRANSACTIONS?**

12 **A.** Yes. PNM is governed by the terms of the New Mexico Public Utility Act (“the
13 PUA”) and the ETA. Section 5(D) of the ETA provides that the issuance of a
14 Financing Order shall be the only approval required for the authority granted in
15 the Financing Order. As a result, PNM is not required to file a separate financing
16 application pursuant to Section 62-6-6 of the PUA.

17
18 **Q. DID PNM INCLUDE THE PROPOSED ENERGY TRANSITION BONDS**
19 **IN ITS MOST RECENT ANNUAL INFORMATIONAL FILING (“AIFF”)**
20 **FOR THE PERIOD MAY 1, 2019 TO APRIL 30, 2020?**

21 **A.** Yes. The AIFF was filed with the Commission on April 30, 2019.
22

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1 **Q. IS PNM REQUESTING THAT THE COMMISSION ISSUE A**
2 **FINANCING ORDER AUTHORIZING THE PROPOSED**
3 **TRANSACTIONS WITHIN SIX MONTHS AFTER THE DATE HEREOF?**

4 **A.** Yes. PNM respectfully requests that the Commission, pursuant to Section 5(A) of
5 the ETA, issue an order within six months of the date of the filing of PNM's
6 Consolidated Application in this proceeding.

7

8 **III. OVERVIEW OF THE PROPOSED SECURITIZATION**

9 **Q. PLEASE PROVIDE AN OVERVIEW OF PNM'S REQUEST TO FINANCE**
10 **ENERGY TRANSITION COSTS THROUGH A SECURITIZATION**
11 **TRANSACTION AUTHORIZED BY THE ETA.**

12 **A.** The testimony of PNM Witness Atkins provides an overview of utility
13 securitizations in general and PNM's securitization proposal specifically. PNM
14 proposes that the Commission approve the issuance of Energy Transition Bonds
15 to finance PNM's Energy Transition Costs. PNM will form the SPE, which will
16 be a wholly owned subsidiary of PNM, and the SPE will issue the Energy
17 Transition Bonds.

18

19 **Q. PLEASE IDENTIFY THE ENERGY TRANSITION COSTS THAT PNM IS**
20 **SEEKING TO FINANCE AND RECOVER THROUGH THE ISSUANCE**
21 **OF ENERGY TRANSITION BONDS.**

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1 **A.** PNM proposes to issue Energy Transition Bonds to finance (1) the estimated costs
2 associated with the abandonment of San Juan coal plant, as provided in Section
3 2(H)(2) of the ETA (“Abandonment Costs”), as described in the testimony of
4 PNM Witnesses Fallgren and Monroy, (2) any payments required under Section
5 16 of the ETA (“Section 16 Payments”), as described further in the testimony of
6 PNM Witness Darnell and (3) Financing Costs associated with the Energy
7 Transition Bonds, as described further herein.

8
9 **Q. WHAT AMOUNT OF ENERGY TRANSITION BONDS WOULD BE
10 REQUIRED TO FINANCE THE ENERGY TRANSITION COSTS
11 IDENTIFIED ABOVE?**

12 **A.** The Company’s current estimate of the aggregate amount of these costs is
13 approximately \$361 million, as described in the testimony of PNM Witness
14 Monroy. In accordance with Section 4(B)(6) of the ETA, the Company will
15 provide the Commission updated upfront Financing Costs and Section 16
16 Payments amounts following the issuance of the Energy Transition Bonds. The
17 Company proposes that the maximum principal amount of the Energy Transition
18 Bonds to be issued pursuant the Financing Order would be equal to the sum of
19 (A) the approximately \$331.6 million of estimated Abandonment Costs set forth
20 in this Consolidated Application, (B) Section 16 Payments (updated as of the time
21 of issuance and provided to the Commission following issuance in accordance
22 with Section 4(B)(6) of the ETA), and (C) upfront Financing Costs (updated as of
23 the time of issuance and provided to the Commission following issuance in

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1 accordance with Section 4(B)(6) of the ETA). If the Company identifies
2 additional Abandonment Costs or any costs required to comply with changes in
3 law as provided in Section 2(H)(3) of the ETA, the Company may seek an
4 amendment to the Financing Order pursuant to Section 7(B)(2) of the ETA to
5 update the maximum principal amount of the Energy Transition Bonds that may
6 be issued.

7
8 As detailed in my testimony below, once the Energy Transition Bonds are issued,
9 there will be ongoing Financing Costs associated with the Energy Transition
10 Bonds. The Energy Transition Charges to be imposed following the issuance of
11 the Energy Transition Bonds will provide for recovery of these ongoing Financing
12 Costs.

13
14 **Q. HOW WILL THE FINANCING OF ENERGY TRANSITION COSTS**
15 **THROUGH A SECURITIZATION UNDER THE ETA BENEFIT**
16 **CUSTOMERS?**

17 **A.** As described in detail in the testimony of PNM Witness Monroy, the issuance of
18 Energy Transition Bonds to finance PNM's recovery of Energy Transition Costs
19 will result in lower revenue requirements than recovery of these costs through
20 traditional rate-making treatment. The beneficial provisions of the ETA will
21 allow the financing of the Energy Transition Costs through the SPE, which will be
22 capitalized with an equity contribution from PNM representing 0.5% of the SPE's
23 total capital and the issuance of the Energy Transition Bonds representing 99.5%

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1 of the SPE's total capital. This mix of capital will provide for a substantially
2 lower weighted-average cost of capital than would be available if PNM were to
3 recover the Energy Transition Costs through traditional rate-making treatment,
4 resulting in lower costs to customers. Under the traditional rate-making formula
5 in place today, customers would pay a weighted average cost of capital of 7.20%,
6 but by using securitized Energy Transition Bonds, the cost paid by customers is
7 much lower.

8
9 **Q. WILL PNM CONTRIBUTE ANY EQUITY CAPITAL TO THE SPE?**

10 **A.** Yes. The SPE will be capitalized through the issuance of the Energy Transition
11 Bonds and a concurrent equity capital contribution from PNM. PNM's capital
12 contribution will be deposited with the Trustee for the Energy Transition Bonds in
13 a capital subaccount to be maintained under the Indenture. Unless a higher equity
14 capitalization is necessary to satisfy rating agency stress tests or other applicable
15 requirements at the time of issuance of the Bonds, PNM will contribute equity
16 capital to the SPE that will equal 0.5% of the total capital of the SPE (with the
17 Energy Transition Bonds representing the remaining 99.5% of the capitalization
18 of the SPE). For example, if the SPE issues \$361 million in aggregate principal
19 amount of Energy Transition Bonds, then PNM will be required to contribute
20 approximately \$1,815,000 to the capital subaccount from PNM's own funds (and
21 not from customer collections). In no event will PNM's equity capital
22 contribution be less than 0.5% of the total capital of the SPE, which is the
23 minimum capitalization level required under Section 4(B)(8) of the ETA.

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Q. DOES PNM INTEND TO USE THE PROCEEDS FROM THE ENERGY TRANSITION BONDS FOR PURPOSES AUTHORIZED UNDER THE ETA?

A. Yes. In accordance with Section 10 of the ETA, PNM intends to use the proceeds of the issuance of the Energy Transition Bonds only (1) for purposes related to providing utility service to customers, including paying certain Abandonment Costs (such as severance and job training payments) financed with the Bonds, (2) to make required Section 16 Payments (3) to pay Financing Costs, and (4) to pay Change in Law Costs, if any.

Specifically, the SPE will issue the Energy Transition Bonds and will receive the proceeds of the sale of the Energy Transition Bonds. The SPE will use the proceeds it receives from the sale of the Energy Transition Bonds to (i) pay the upfront Financing Costs incurred in connection with the issuance of the Bonds (including reimbursement to PNM of any such costs paid by PNM) and (ii) purchase the Energy Transition Property from PNM pursuant to the terms of the Purchase Agreement. The Purchase Agreement is further described in the testimony of PNM Witness Atkins. The SPE will pledge the Energy Transition Property to the Trustee as collateral for the benefit of the holders of the Energy Transition Bonds, as described in the testimony of PNM Witness Atkins.

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1 PNM will use the proceeds it receives from the sale of the Energy Transition
2 Property to the SPE (i) to make required Section 16 Payments and (ii) for
3 purposes of providing utility service to customers, including paying certain
4 Abandonment Costs financed with the Bonds.

5

6 **Q. WILL PNM FILE PERIODIC REPORTS WITH THE COMMISSION**
7 **SHOWING THE RECEIPT AND DISBURSEMENT OF THE ENERGY**
8 **TRANSITION BOND PROCEEDS?**

9 **A.** Yes. As contemplated by Section 5(J) of the ETA, the Company will file periodic
10 reports with the Commission showing the receipt and disbursement of the Energy
11 Transition Bond proceeds. Under the proposed form of Financing Order attached
12 as Appendix 3 to the Consolidated Application, PNM will file a report, within 30
13 days following receipt of the proceeds from the sale of the Energy Transition
14 Bonds and annually thereafter until all bond proceeds have been disbursed (the
15 “Disbursement Reports”), specifying (1) the gross amount of proceeds arising
16 from the sale of the Energy Transition Bonds, (2) any amounts expended for
17 payment of upfront Financing Costs (including reimbursement to PNM for such
18 costs paid by PNM), (3) the amount of Section 16 Payments made, (4) the amount
19 of proceeds remaining after such payments, and (5) the use of the remaining
20 proceeds for purposes related to providing utility service to customers.

21

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1 **Q. HAS THE COMPANY DEVELOPED A PRELIMINARY STRUCTURE**
2 **FOR THE ISSUANCE OF THE ENERGY TRANSITION BONDS,**
3 **INCLUDING A PROPOSED MATURITY FOR THE BONDS?**

4 **A.** Yes. A preliminary financing structure and terms developed in the context of
5 current market conditions is included in PNM Exhibit CNA-4 to the testimony of
6 PNM Witness Atkins. PNM expects that the Energy Transition Bonds will be
7 issued in multiple tranches with varying maturities. PNM will target ratings of
8 AAA for the Energy Transition Bonds. As discussed in the testimony of PNM
9 Witness Atkins, the Energy Transition Bonds will be structured in a manner that
10 is designed to provide for essentially levelized annual payments over the life of
11 the Bonds.

12
13 As described further in the testimony of PNM Witness Atkins, rating agency
14 requirements and investor demand at the time of pricing will determine the
15 number, size and tenor of the series and tranches offered to investors, and as a
16 result, an example of the structures and pricing terms is provided on an estimated
17 basis, and the actual structures and pricing may differ.

18
19 **Q. IS THE PROPOSED RECOVERY PERIOD FOR THE ENERGY**
20 **TRANSITION BONDS CONSISTENT WITH THE ETA?**

21 **A.** Yes. The preliminary financing structure included in PNM Exhibit CNA-4 to the
22 testimony of PNM Witness Atkins reflects a proposed scheduled final maturity of
23 the Energy Transition Bonds of 25 years and a proposed final legal maturity of 28

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1 years consistent with Section 5(H) of the ETA. The actual scheduled final
2 maturity and final legal maturity for the Energy Transition may differ from the
3 projections in PNM Exhibit CNA-4 based on market conditions and rating agency
4 requirements at the time of issuance, but in no event will the scheduled final
5 maturity exceed 25 years.

6
7 **Q. WHEN ARE THE ENERGY TRANSITION BONDS EXPECTED TO BE**
8 **ISSUED?**

9 **A.** PNM expects to issue the Bonds as promptly as possible after the last of the
10 following events have occurred: 1) issuance of a final non-appealable Financing
11 Order acceptable to PNM; 2) the abandonment of San Juan coal plant; 3) delivery
12 of any necessary Securities and Exchange Commission (“SEC”) approvals under
13 the Securities Act of 1933; and 4) completion of the rating agency process. After
14 the last of the listed events has occurred, the Company and its lead underwriter(s)
15 will consult and refine the marketing timetable for the bonds, taking into account
16 such items as general fixed income market conditions, timing of potential Federal
17 Reserve interest rate announcements, and potential upcoming holidays and “slow
18 weeks” for the market.

19
20 **Q. WILL PNM PROVIDE THE COMMISSION WITH COPIES OF ANY**
21 **FILINGS MADE WITH THE SEC WITH RESPECT TO THE PROPOSED**
22 **SECURITIZATION?**

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1 Estimated upfront Financing Costs for the proposed issuance of Energy Transition
2 Bonds of approximately \$8.7 million are shown in more detail in PNM Exhibit
3 EAE-2. The portion of the estimated upfront Financing Costs related to PNM's
4 Consolidated Application to abandon San Juan coal plant and obtain the
5 Financing Order are discussed in the testimony of PNM Witness Monroy. As
6 shown in more detail in PNM Exhibit EAE-3, the estimated annual ongoing
7 Financing Costs (other than debt service, for which estimates are contained in the
8 testimony of PNM Witness Atkins) for the proposed issuance of Energy
9 Transition Bonds are approximately \$515,000.

10
11 **Q. HOW DID PNM DEVELOP ITS ESTIMATED UPFRONT AND**
12 **ONGOING FINANCING COSTS?**

13 **A.** PNM developed its estimates of upfront and ongoing Financing Costs by
14 reviewing publicly available data regarding the costs incurred by other utilities in
15 similar securitization transactions.

16
17 These estimates are subject to change, as the costs are dependent upon the timing
18 of issuance, market conditions at the time of issuance and other factors beyond the
19 control of PNM, including, but not limited to, rating agency fee changes and
20 requirements.

21

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1 **Q. PLEASE IDENTIFY UPFRONT FINANCING COSTS THAT MAY BE**
2 **INCURRED IN CONNECTION WITH THE ISSUANCE OF THE**
3 **ENERGY TRANSITION BONDS.**

4 **A.** The estimated upfront Financing Costs, which will be financed with a portion of
5 the proceeds of the Energy Transition Bonds, include (i) the fees and expenses
6 incurred by PNM in connection with the application to abandon San Juan coal
7 plant and obtain the Financing Order, including costs set forth in Section 2(K) of
8 the ETA and the bond counsel fee to Commission staff as contemplated by
9 Section 5(L) of the ETA, and (ii) the fees and expenses associated with issuing
10 the Energy Transition Bonds. Examples of these costs are included in PNM
11 Exhibit EAE-2. The fees and expenses incurred by PNM in connection with the
12 Consolidated Application to abandon San Juan coal plant and to obtain the
13 Financing Order are described in the testimony of PNM Witness Monroy.

14

15 **Q. PLEASE DISCUSS THE BASIS OF THE ESTIMATED FEES IN PNM**
16 **EXHIBIT EAE-2.**

17 **A.** These estimated fees are based on a review of the fees incurred by other utilities
18 in similar transactions, vendor estimates and regulatory filing fees, and PNM's
19 estimates of these types of fees based on previous financings.

20

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1 **Q. DOES THE COMPANY EXPECT TO INCUR ANY THIRD-PARTY**
2 **CONSENT FEES AS CONTEMPLATED BY SECTION 2(K)(5) OF THE**
3 **ETA?**

4 **A.** The Company does not anticipate incurring any such fees.

5

6 **Q. PLEASE DISCUSS THE ESTIMATED ANNUAL ONGOING FINANCING**
7 **COSTS (OTHER THAN DEBT SERVICE) REFLECTED IN PNM**
8 **EXHIBIT EAE-3.**

9 **A.** In addition to the debt service on the Energy Transition Bonds, there will be other
10 ongoing expenses that will be incurred throughout the life of the Energy
11 Transition Bonds in order to support the ongoing operations of the SPE. These
12 other ongoing costs are estimated to be approximately \$515,000 annually, and
13 will include servicing fees, administration costs, auditing fees, legal fees, rating
14 agency surveillance fees, Trustee fees, independent director or manager fees, the
15 return on the invested capital, and other miscellaneous fees and expenses.

16

17 **Q. WHAT IS THE ESTIMATED SERVICING FEE AND HOW WILL IT BE**
18 **CALCULATED?**

19 **A.** In consideration for its servicing responsibilities, the servicer, initially PNM, will
20 receive the periodic servicing fee (reflected in Line 1 of PNM Exhibit EAE-3)
21 which will be recovered through the Energy Transition Charges. As discussed in
22 the testimony of PNM Witness Atkins, in order to support the bankruptcy analysis
23 necessary to achieve the highest credit rating for the Energy Transition Bonds, the

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1 servicing fee must be at market-based rates. Such servicing responsibilities will
2 be set forth in the Servicing Agreement, which is discussed by PNM Witness
3 Atkins, and include such items such as billing, monitoring, collecting and
4 remitting the Energy Transition Charges.

5
6 The annual servicing fee to be paid to the Company is currently estimated to be
7 0.05% of the original principal amount of the Energy Transition Bonds, payable
8 on each securitization bond payment date. Because a third-party replacement
9 servicer would likely charge more if it were to perform the same functions, the
10 Servicing Agreement provides for a higher annual servicing fee of up to 0.60% of
11 such original principal amount of the Energy Transition Bonds. The Company
12 proposes that the Company may not resign from its duties as servicer unless (i)
13 the Company determines that performance of its duties as servicer is no longer
14 permissible under applicable law, or (ii) the Company shall have received the
15 consent of the Commission and confirmation that the resignation will not result in
16 a suspension, reduction or withdrawal of the then current ratings on the Energy
17 Transition Bonds.

18
19 The servicing fee estimates described above represent reasonable good faith
20 estimates of market-based fees for servicing securitization bonds and are
21 consistent with the rates in other recent transactions.

22

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1 **Q. PLEASE DISCUSS THE RETURN ON INVESTED CAPITAL**
2 **REFLECTED IN LINE 2 OF PNM EXHIBIT EAE-3.**

3 **A.** As previously discussed, PNM will make a capital contribution to the SPE at the
4 time the Energy Transition Bonds are issued. This capital contribution, which
5 will be at least 0.5% of the total capital of the SPE as required by Section 4(B)(8)
6 of the ETA, will be deposited into a capital subaccount with the Trustee. The
7 capital subaccount will serve as collateral to facilitate the timely payment of
8 principal of and interest on the Energy Transition Bonds. To the extent that the
9 capital subaccount must be drawn upon to pay these amounts due to a shortfall in
10 Energy Transition Charge collections, the capital subaccount will be replenished
11 to its original level through the True-Up Adjustment Mechanism as described by
12 PNM Witness Settlage. The funds in the capital subaccount will be invested by
13 the Trustee in high quality, short-term investments and, if necessary, such funds
14 (including investment earnings) will be used by the Trustee to pay interest and
15 principal on the Energy Transition Bonds and the other ongoing Financing Costs
16 of the SPE. PNM proposes that the rate of return on its invested capital be equal
17 to the interest rate on the longest maturing tranche of the Energy Transition
18 Bonds. This return on invested capital will be a component of the ongoing
19 Financing Costs that will be recovered through the Energy Transition Charges.
20 The invested capital will return to PNM upon retirement of the bonds.

21

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1 **Q. PLEASE DISCUSS THE ANNUAL ADMINISTRATION FEE.**

2 **A.** The SPE will require ongoing administrative services, such as corporate
3 maintenance, reporting and internal accounting functions. The SPE will have no
4 staff, so these services will be performed by PNM pursuant to the Administration
5 Agreement. PNM proposes an annual fee of \$50,000 plus out-of-pocket expenses
6 for performing these services. In establishing the proposed fee for administrative
7 services, PNM has reviewed the administration fee amounts in other utility
8 securitization transactions. The proposed fee amount is consistent with amounts
9 included in comparable other utility securitization transactions. As discussed in
10 the testimony of PNM Witness Atkins, in order to support the bankruptcy analysis
11 necessary to achieve the highest credit rating for the Energy Transition Bonds, the
12 administration fee must be at market-based rates.

13

14 **Q. PLEASE DISCUSS THE OTHER ESTIMATED ANNUAL ONGOING**
15 **FINANCING COSTS SET FORTH IN PNM EXHIBIT EAE-3.**

16 **A.** In addition, there are other costs such as estimated annual auditor fees, rating
17 agency fees, legal fees, Trustee fees, independent director or manager fees and
18 other miscellaneous related costs. These costs were also developed utilizing fees
19 incurred by other utilities for similar transactions, vendor estimates, and PNM's
20 estimates based on past financings.

21

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1 **Q. WHAT HAPPENS TO ANY DIFFERENCE BETWEEN THE ACTUAL**
2 **AND ESTIMATED LEVELS OF THESE OTHER ONGOING FINANCING**
3 **COSTS?**

4 **A.** The Company will adjust the Energy Transition Charges through the True-Up
5 Adjustment Mechanism described in the testimony of PNM Witness Settlage.

6

7 **Q. DOES PNM ANTICIPATE THAT THE ENERGY TRANSITION BONDS**
8 **WILL PAY FIXED OR FLOATING INTEREST RATES?**

9 **A.** Based on the recommendations included in the testimony of PNM Witness
10 Atkins, PNM will issue the Energy Transition Bonds at interest rates fixed
11 through maturity to create a predictable payment obligation.

12

13 **V. ESTIMATED PAYMENTS REQUIRED UNDER SECTION 16 OF**
14 **THE ETA.**

15 **Q. PLEASE EXPLAIN PNM'S REQUEST TO FINANCE PAYMENTS**
16 **REQUIRED UNDER SECTION 16 OF THE ETA.**

17 **A.** Section 1(H)(4) of the ETA provides that the Energy Transition Costs that may be
18 financed through the issuance of Energy Transition Bonds include any payments
19 required pursuant to Section 16 of the ETA. Section 16(J) of the ETA requires
20 that within 30 days after receiving the proceeds of Energy Transition Bonds,
21 PNM will be required to transfer the following percentages of the financed
22 amount of the Energy Transition Bonds as follows:

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- 1 • 0.50% to the Indian affairs department for deposit in the energy transition
2 Indian affairs fund established under the ETA;
- 3 • 1.65% to the economic development department for deposit in the energy
4 transition economic development assistance fund established under the
5 ETA; and
- 6 • 3.35% to the workforce solutions department in the energy transition
7 displaced worker assistance fund established under the ETA.

8 With regard to the requirements of Section 16 of the ETA, using an illustrative
9 issuance of \$361 million of Energy Transition Bonds, PNM would be required to
10 make a payment of (1) \$1.8 million of the proceeds of the Energy Transition
11 Bonds for deposit in the energy transition Indian affairs fund, (2) \$6.0 million of
12 the proceeds of the Energy Transition Bonds for deposit in the energy transition
13 economic development assistance fund, and (3) \$12.1 million of the proceeds of
14 the Energy Transition Bonds for deposit in the energy transition displaced worker
15 assistance fund. PNM Witness Monroy provides a more specific calculation of
16 the illustrative amounts in Table HEM-2.

17

18 As described in the testimony of PNM Witness Darnell the Section 16 Payments
19 are designed to fund programs to benefit the communities impacted by the
20 proposed closure of San Juan coal plant. PNM may make payments of amounts
21 representing a portion of the Section 16 Payments to the agencies administering
22 these programs in advance of the issuance of the Energy Transition Bonds, as
23 described in the testimony of PNM Witness Darnell. In such a case, a portion of

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1 the proceeds of the Energy Transition Bonds would be used to fund the remaining
2 required Section 16 Payments and to reimburse PNM for the amounts previously
3 paid.

VI. LOWEST COST OBJECTIVE

6 **Q. DOES PNM COMMIT THAT COMMERCIALY REASONABLE**
7 **EFFORTS WILL BE USED TO OBTAIN THE LOWEST COST**
8 **OBJECTIVE?**

9 **A.** Yes. PNM will use commercially reasonable efforts to design the structuring,
10 marketing and pricing of the Energy Transition Bonds to result in the lowest
11 Energy Transition Charges consistent with prevailing market conditions at the
12 time of pricing of the Bonds and the structure and terms of the Bonds approved in
13 the Financing Order. PNM believes that the Commission's approval of a
14 Financing Order substantially in the form filed with the Consolidated Application
15 (and including all of the key provisions identified in the testimony of PNM
16 Witness Atkins) will best position the Company to achieve the lowest cost
17 objective.

VII. CONCLUSION

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

21 **A.** Yes, it does.

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