

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE JOINT APPLICATION
FOR APPROVAL TO ACQUIRE NEW MEXICO
GAS COMPANY, INC. BY SATURN UTILITIES
HOLDCO, LLC.**

Case No. 24-00266-UT

JOINT APPLICANTS

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PREPARED DIRECT TESTIMONY

OF

NAOMI A. VELASQUEZ

NEW MEXICO PUBLIC REGULATION COMMISSION

APRIL 18, 2025

TABLE OF CONTENTS

INTRODUCTION.....	1
DIRECT TESTIMONY OVERVIEW	2
TRANSITION OF SHARED SERVICES TO STAND-ALONE	5
GENERAL DIVERSIFICATION PLAN	14
CAPITAL INVESTMENT PLAN	22
CONCLUSION.....	24

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

INTRODUCTION

1

2

3 **Q. Please state your name and business address.**

4 **A.** My name is Naomi A. Velasquez. My business address is the New Mexico Public
5 Regulation Commission ("NMPRC" or "Commission"), 142 W. Palace Ave., Santa
6 Fe NM, 87501.

7

8 **Q. What is your position with the Commission?**

9 **A.** I am a Senior Utility Economist in the Accounting Bureau of the New Mexico
10 Public Regulation Commission-Utility Division.

11

12 **Q. What is your educational background?**

13 **A.** I received a Bachelor's degree in Business Administration with a concentration in
14 Accounting from New Mexico Highlands University. I have sixteen years of
15 experience in governmental accounting and finance. Prior to joining the Utility
16 Division of the NMPRC, I was the lead Accountant for General Services
17 Department in the General Ledger Section. I also worked as a Financial Liaison for
18 the Professional Engineer and Surveyors Board (PEPS) with the State of New
19 Mexico. During my time at the PEPS Board, I was a compliance officer and
20 licensing manager. For most of my career with the State of New Mexico I have
21 worked with agencies that enforce rules, laws, and regulations per the New Mexico

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 Statues Annotated 1978 (“NMSA”) and New Mexico Administrative Code
2 (“NMAC”).
3

4 **Q. Have you previously testified before this Commission?**

5 **A.** Yes, I have testified in Case No. 21-00215-UT (Public Service Company of New
6 Mexico - Resource Replacement), Case No. 22-00178-UT (Southwestern Public
7 Service Company – Grid Modernization), and Case No. 23-00289-TR-R
8 (Transportation Case – Albuquerque Ambulance Service).
9

10 **DIRECT TESTIMONY OVERVIEW**
11

12 **Q. What is the purpose of your direct testimony in this case?**

13 **A.** The purpose of testimony is to provide the Utility Division Staff’s (“Staff’s”) review and analysis of New Mexico Gas Company’s (“NMGC”) Joint Application
14 (“JA”) to be acquired by Saturn Utilities Holdco, LLC (“Saturn” or “Saturn
15 Holdco”) pursuant to NMSA 62-6-12 & 13.¹ In the proposed transaction, Saturn will
16 purchase TECO Energy, LLC (“TECO”), EUSHI and TECO holding and be
17 managed by Bernhard Capital Partners Management (“BCP Management”,
18 “Bernhard” or “BCP”). Currently, New Mexico Gas Company is owned by Emera
19

¹ NMSA 62-6-12. Acquisitions, consolidations, etc.; consent of Commission and 62-6-13. Application; approval of Commission.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 Inc. (“Emera”) and other affiliates New Mexico GI, TECO Energy, EUSHI, and
2 EUSHI and TECO Holdings.

3
4 **Q. Please provide a brief summary of this case.**

5 **A.** On October 28, 2024 a Joint Application was filed with the Commission by New
6 Mexico Gas Company, Inc.; Emera Inc.; Emera U.S. Holdings Inc.; New Mexico
7 Gas Intermediate, Inc.; TECO Holdings, Inc.; TECO Energy, LLC; BCP
8 Infrastructure Fund II, LP; BCP Infrastructure Fund II-A, LP; BCP Infrastructure
9 Fund II GP, LP; Saturn Utilities, LLC; Saturn Utilities Holdco, LLC; Saturn
10 Utilities Aggregator, LP; Saturn Utilities Aggregator GP, LLC; Saturn Utilities
11 Topco, LP; and Saturn Utilities Topco GP, LLC for an approval request to acquire
12 New Mexico Gas Company through a Purchase and Sale Agreement (“PSA”) dated
13 August 5, 2024.²

14 The acquiring price is set at \$1.252 billion, assuming NMGC \$550 million existing
15 debt³ and \$700 million paid in cash at closing.⁴ In addition, Bernhard Management
16 and affiliates intend to transfer Shared Services, currently provided by Emera, from
17 Nova Scotia, Canada and Tampa, Florida,⁵ to New Mexico.

18 According to Dr. Christopher Erickson (“Dr. Erickson”) these positions will
19 provide 51-61 new full-time jobs including a commitment of \$5 million in
20 economic development grants to NMGC.⁶ According to Dr. Erickson, this will

² Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, JA Exhibit JMB-2, Pages 1-147.

³ Joint Application, Page 7, Paragraph A.

⁴ Joint Application, Executive Summary, Summary of Transaction, Page 1, Paragraph 1.

⁵ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, Page 29, Line 19-20.

⁶ Joint Application, Direct Testimony of Dr. Christopher Erickson, Page 2, Line 19-20.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 generate a projected annual \$40 to \$40.4 million of New Mexico economic activity,
2 \$22.5 to \$22.7 million in New Mexico Gross Domestic Product (“GDP”),⁷ \$5.1
3 million annually in federal, state and local taxes, and an additional \$605,200 to
4 \$611,500 to local taxes.⁸ Additionally, Emera agrees to provide an 18-month
5 transition period of Shared Services following the closing date.⁹ Other
6 commitments made by Bernhard Management include, but are not limited to, at
7 least 5 years of ownership of NMGC after closing transaction.¹⁰
8

9 **Q. Are there any exhibits attached to your testimony?**

10 **A.** Yes, there is one: Staff Exhibit NAV-1, Staff Exhibit NAV-2, Staff Exhibit NAV-3,
11 Staff Exhibit NAV-4 and Staff Exhibit NAV-5.
12

13 **Q. Can Staff please state their recommendations pertaining to this case?**

14 **A.** Yes, Staff recommends the Commission disapprove the Joint Application until
15 additional documentation, testimony, and analysis are provided to ensure the costs
16 don’t exceed the benefits to NMGC and NMGC ratepayers. If the Commission
17 orders to approve the Joint Application, Staff requests: a 3-year rate freeze, to
18 capped Shared Services costs to \$11.5 million, a detailed time-line of services
19 ending from Emera/TECO to NMGC, creating a regulatory liability to capture tax

⁷ Joint Application, Direct Testimony of Dr. Christopher Erickson, Pages 4-5, Line 19-21 & 1-3.

⁸ Joint Application, Direct Testimony of Dr. Christopher Erickson, Page 5, Line 5-10.

⁹ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, Page 32, Lines 1-3.

¹⁰ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, Page 33, Paragraph 4..

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 savings, BCP provide more detailed information on the grant distribution and
2 including a 10-year ownership period.
3

4 **TRANSITION OF SHARED SERVICES TO STAND-ALONE**

5
6 **Q. Would Staff please provide a concise history of the current Shared Services**
7 **that Emera provides to NMGC?**

8 **A.** The current Shared Services arrangements were created within the Stipulated
9 Agreement in Case No. 15-00327-UT.¹¹ During the case process, Staff and
10 interested parties developed a Cost Allocation Manual (“CAM”). The manual’s
11 goal was to simplify cost allocations for rate cases.¹² There are three obligations
12 within the CAM. The first one states that NMGC management will have strong
13 oversight and examine the company’s business needs, as well as those of their
14 customers, with goods and governance practices in mind. Each year they will
15 determine which TEC Shared Services (formerly referred to as “TSI” or “TECO
16 Services”¹³) will be provided by shared services. Secondly, with respect to good
17 governance practices, and dependent upon the business needs and objectives, it has
18 been agreed upon to consistently seek the best value through cost savings to NMGC

¹¹ Unopposed Stipulation of Joint Applicants, Mexico Public Regulation Commission’s Utility Division Staff, Attorney General of the State of New Mexico, City of Albuquerque, United States Department of Energy National Nuclear Security Administration, and New Mexico Industrial Energy Consumers; Case No. 15-00327-UT; filed on June 8, 2016; Paragraph 28, Pages 11-12 of the Unopposed Stipulation.

¹² Direct Testimony in Support of Unopposed Stipulation of David B. Ault, Case No. 15-00327-UT, Pages 13-14, Lines 8-21 & 1-12.

¹³ TECO Energy, Revised Cost Allocation Manual Effective January 1, 2020, Page 6, Paragraph 5-B.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 customers. One caveat being that, when possible, in-state services shall be
2 performed in New Mexico by NMGC employees. The third obligation of the CAM
3 is that NMGC and TEC Shared Services (“Shared Services”) will provide
4 transparency of charges, assessments, allocations to the “greatest extent possible”¹⁴
5 when finding cost recovery.
6

7 **Q. Would Staff please summarize which Shared Services are currently provided**
8 **by TEC Shared Services?**

9 **A.** Yes, under the current CAM that was updated effective on January 1, 2020,¹⁵ the
10 following are Shared Services currently provided to NMGC: Claim Management
11 Services, Human Resources (“HR”) Benefit Administration, HR Employee
12 Relations, Accounts Payable Services, Procurement, Administrative Services,
13 Corporate Communications Services, Emergency Management Services,
14 Information Technology (“IT”) Services, Accounts Payable Services.
15 Claim Management Services consist of accident investigations, contract reviewers,
16 responsibility for inspections/surveys, self-insurance administration, and the
17 handling of claims.
18 HR provides NMGC employees with benefit plans, assistance with retirement
19 plans, completion of payroll, compensation packages, and managing the HR
20 database. HR Employee Relations provides support to NMGC management and

¹⁴ Unopposed Stipulated, Case No. 15-00327-UT, filed on June 8, 2016, Page 12, Paragraph 28-c of the Unopposed Stipulation.

¹⁵ TECO Energy, Revised Cost Allocation Manual Effective January 1, 2020

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 employees with behavioral concerns, policy changes, employee training, and career
2 recruitments.

3 Additionally, they provide procurement tasks such as the placement of purchase
4 orders, overseeing P-Card and spending, contract standardization, and procurement
5 training. Administrative Services provides added support with records management
6 (including electronic), mass mail insertions, mail delivery, printing services, and
7 graphic design. Corporate Communications Services creates strategic planning,
8 media communications and marketing.

9 Emergency Management Services ensure the compliance of the four emergency
10 management phases, which are intact-preparedness, mitigation, response and
11 recovery at all levels. IT provides NMGC with software applications, training,
12 software compliance, manages the network, application support, support with IT
13 projects, data center operations, security and compliance.

14 Accounts Payable Services manages all the accounts payable functions, including
15 creation of vendors, process and disburse payments to merchants, and maintain
16 distribution authorization rules.¹⁶

17
18 **Q. Please describe Emera's and BCP Management's strategy for TEC Shared**
19 **Services and the 12-month transition proposal with an option for a 6-month**
20 **extension period (18-month period)?**

¹⁶ TECO Energy, Revised Cost Allocation Manual Effective January 1, 2020, Page 6, Paragraph 5-B-C.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 **A.** According to the Direct Testimony of Karen Hutt (“Hutt”), TEC Shared Services
2 will be provided for an 18-month transition period after the closure of the
3 transaction.¹⁷ This will allow for a 12-month or up to 18 month transition period
4 for those services received by NMGC; which are presently provided by Emera to
5 relocate back to New Mexico under the Transition Services Agreement (“TSA”). It
6 is posited by the Joint Applicants that this will create 51 to 61 full-time employees
7 within New Mexico to replace the Shared Services job duties.¹⁸

8 According to Ryan A. Shell (“Shell”), NMGC’s preference is for the new positions
9 to be hired in-house. Nevertheless, Shell does state within testimony that there
10 exists the option for these services to be filled by contracting “with outside service
11 providers.”¹⁹ This statement leads Staff’s to believe that there may be a likelihood
12 that non-New Mexico outside service providers could be utilized by NMGC
13 management for unfilled positions. Which would not be beneficial to economic
14 development or NMGC ratepayers. Staff agrees with fellow Staff Felcia Jojola, that
15 BCP Management should provide action plan on how they will ensure jobs stay in
16 New Mexico.

17
18 **Q.** **What is Staff’s recommendation for the proposed period for Emera/TEC**
19 **Shared Services of 18-month transition period, if the application is approved?**

¹⁷ Joint Application, Direct Testimony and Exhibits of Karen Hutt, Page 9, Lines 1-8.

¹⁸ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, Page 24, Paragraph B.

¹⁹ Joint Application, Direct Testimony and Exhibits of Ryan A. Shell, Page 9, Lines 11-14.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 **A.** It is Staff's recommendation that if the Commission decides to approve the
2 application and the 18-month transition period of Shared Services, that the
3 Commission likewise order a rate freeze of 3 years from the date of October 1, 2024
4 (NMGC last rate case effective date). Staff believes a rate freeze will protect
5 NMGC ratepayers from unnecessary rate increases. A rate freeze will provide BCP
6 with the time to research and find the best ways available to provide NMGC
7 customers with these valuable services at the least costs possible. Staff has not
8 found within the Joint Application or interrogatories the process from start to finish
9 of how the transition will be most successful and beneficial to NMGC and NMGC
10 ratepayers.

11 Current NMGC rates became effective on October 1 of 2024 pursuant to the Stipulated
12 Order in Case No. 23-00255-UT.²⁰ It is Staff's understanding, after listening to Ryan
13 Shell's deposition, that the next Rate Case could be filed around end of year 2025 and
14 become effective on an approximate date of October 1, 2026. The projected closing date
15 for this acquisition is planned for September 30, 2025, and if closed on the proposed date,
16 Shared Services will end on or around March 31, 2027. Ultimately, a rate freeze will
17 provide all parties, including BCP Management, with time to properly prepare for this
18 transition without burdening the ratepayers with a rate increase.

²⁰ Certificate of Stipulation, Case No. 23-00255-UT, Page 111, Paragraph 16.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 **Q. Would Staff please provide an analysis of BCP Managements proposal of NMGC**
2 **transfer of services?**

3 **A.** Yes, according to Direct Testimony of Dr. Erickson, a faculty member at New Mexico
4 State University,²¹ this acquisition could provide NMGC with 51 to 61 full-time
5 employee positions based out of Bernalillo County. According to Dr. Erickson's model,
6 the total labor cost would be between \$7.71 to \$7.74 million on an annual basis.²² This is
7 posited to create new jobs for NMGC in the following areas: 35-41 positions in
8 Information Technology, 11-12 positions in Finance and Accounting, 3-4 positions in
9 Human Resources, 2-4 positions in other areas.²³ It is unclear to Staff if there will be
10 additional costs such as employee benefits, equipment, housing cost(s), etc.

11 **Q. What is Staff's recommendation concerning the relocation proposal of the positions**
12 **to New Mexico?**

13 **A.** It is Staff's recommendation that the Commission disapprove BCP Management's
14 request as it currently stands within the JA. Staff is open to the relocation of positions to
15 New Mexico when a justifiable solution is found with reasonable costs so as not to
16 produce a possible rate increase. Staff does, however, remain aware that there may be
17 tangential benefits from the relocation of out-of-state services to New Mexico with
18 respect to state economic development. Nevertheless, Staff's foremost concern in
19 analyzing this application is the public interest of directly relevant stakeholders (i.e., the

²¹ Joint Application, Direct Testimony of Dr. Christopher Erickson, Page 1, Lines 4-5.

²² Joint Application, Direct Testimony of Dr. Christopher Erickson, Page 4, Lines 2-4.

²³ Joint Application, Direct Testimony of Dr. Christopher Erickson, JA Exhibit CAE-1, Page 10 of 18.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

customers and the utility), not hypothetical propositions of state-wide economic development, which remain in the remit of other governmental authorities.

It is Staff's position that while the proposed service transition by BCP Management would conceivably provide NMGC ratepayers with the same services as they currently receive today, they will, nonetheless, likely be provided at a higher cost. Thus, as the below depicted analysis shows, Staff's concern that the costs of the Joint Applicants' proposal will be burdensome to NMGC ratepayers has validity, notwithstanding potential non-customer, indirect economic development benefits.

Staff's analysis in Table NAV-1 and NAV-2 depicts the Shared Services costs and what it is projected to be per BCP Management's calculations for 2025. Staff relied on discovery²⁴ that was submitted to calculate costs for 2022 and 2023 (see Staff Exhibit NAV-1). Staff calculated estimated costs for 2024 by dividing the provided cost total of approximately \$8.6 million by 9-months and then multiplied the amount by 12-months for a full year. See Table NAV-1.

Table NAV-1

Shared Services	2022	2023	2024
Staff Calculations	\$ 10,971,656	\$ 10,765,893	\$ 11,417,569

According to Staff's calculations, future Shared Services are estimated to be between \$11.2 and \$11.3 million. The methodology that Staff used in its estimate are a straight-

²⁴ Joint Applicants' Response to New Energy Economy's Second Set of Interrogatories and Requests for Production of Documents, NEE Interrogatory 2-5.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

line forecasting calculation including inflation percents provided by discovery²⁵ (see Staff Exhibit NAV-2). See Table NAV-2.

Table NAV-2

Shared Services	2025	2026	2027	2028	2029
Staffs forecasted SS	\$ 11,160,369	\$ 11,219,240	\$ 11,216,909	\$ 11,301,072	\$ 11,333,401

Staff calculated that the prior 3-year average of Shared Services amounts to \$11 million annually. According to BCP Management, the stand-alone costs will be \$29 million combined over 2-years in addition to half of the normalized TSA costs (\$5.9 million) before normalizing at \$11.8 million. It is Staff's understanding that it will cost almost twice as much for ratepayers the first two years after the 12-month to 18-month transition period (See NAV Table-3). It is Staff's recommendation that if the Commission approves the Shared Services portion of the JA, the Shared Services cost be capped at \$11.5 million annually.

Table NAV-3

²⁵ Joint Applicants' Response to New Energy Economy's Second Set of Interrogatories and Requests for Production of Documents, NEE Interrogatory 2-55.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

Staff Cost Comparison

Shared Services provided by Emera/TECO			vs.	Stand-Alone Costs by NMGC.		
Year	Total Amount			Year	Total Amount	(Difference)
2025	\$	11,160,369		2025	\$ 20,100,000	\$ (8,939,631)
2026	\$	11,219,240		2025	\$ 20,600,000	\$ (9,380,760)
2027	\$	11,216,909		2027	\$ 11,800,000	\$ (583,091)
2028	\$	11,301,072		2028	\$ 11,800,000	\$ (498,928)
2029	\$	11,333,401		2029	\$ 11,800,000	\$ (466,599)
					Total	\$ (19,869,009)

Staff is also concerned about the duplication of services provided by Emera/TECO Services and NMGC in-house being charged in rates during the same periods of time of the shift in services transition period. To this point, should the Commission approve the TSA, Staff recommends that a detailed timeline of which services will be moved over and specify a date when certain departments will be fully transitioned.

In sum, Staff believes that, with affordability in mind, this Joint Applicant service proposal is not the best option as it could inhibit NMGC ratepayers from paying reasonable rates. As such, Staff believes that, based on the preponderance of evidence regarding this vital portion of the Application, the Joint Applicants' service proposal does not produce a net benefit when assessing against the extant, status quo arrangement with Emera.

GENERAL DIVERSIFICATION PLAN

Q. Can Staff please provide detail as to why NMGC is requesting GDP approval in this case?

A. In accordance with NMAC 17.6.450.10, Commission approval is required to modify a General Diversification Plan (“GDP”) prior to the engagement of Class II Transactions.²⁶ Within the JA, Saturn Utilities Holdco is fully acquiring 100% of the NMGC equity interest; with Holdco ultimately being owned by BCP Infrastructure Funds. Currently, Emera owns EUSHI and TECO holdings, the owners of TECO Energy, which in turn owns NMGI, the immediate owner of NMGC. With the completion of this transaction, Saturn Holdco will acquire TECO Energy from EUSHI and TECO Holdings.²⁷

Q. Would Staff please provide the standards of the Commission when reviewing proposed GDPs?

A. In accordance with NMAC 17.6.450.10(C) the Commission shall approve applications that meet the requirements of this rule as stated in its Paragraphs (1) one through (8) eight. Additional requirements derive from NMAC 17.6.450.10(B) and its Paragraphs (1) one through (11) eleven, which set out what the GDP must include. Together, alongside a transaction application, these GDP requirements

²⁶ Per NMSA 62-3-3(L)(2): “the direct acquisition of the voting securities or other direct ownership interests of a person by a public utility if such acquisition would make the utility the owner of ten percent or more of the voting securities or other direct ownership interests of that person”.

²⁷ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, JA Exhibit JMB-3, Page 3(I)(A).

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 provide a guide for which the Commission can, in part, follow to ascertain whether
2 a proposed transaction will be in the best interest of the public. Moreover, the GDP
3 rule seeks to ensure that the level of investment associated with a proposed
4 transaction is reasonable and offers the utility the ability to provide proper services
5 at fair, just and reasonable rates.

6
7 **Q. Can Staff please go into detail of the rules stated in NMAC 17.6.450.10 (B) (1)**
8 **through (12)?**

9 **A.** Yes, within Title 17-Public Utilities and Utility Services, Chapter 6-Affiliate
10 Transactions, Section 450-Affiliate Transactions, Sub-section 10-Class II
11 Transactions: Approval of General Diversification Plan, and Letter B which
12 outlines the requirements of a General Diversification Plan.

13 There are (12) twelve requirements which are:

- 14 (1) To state the Class II transactions subjects and to provide name,
15 home/office address, affiliate chief executive officer(s), corporate
16 subsidiaries, holding company or person(s).
- 17 (2) A goal statement and the effects of the Class II transaction on the
18 utility. Which includes an analysis of the benefits, risks, potential
19 costs, all tax effects on the utility both on a consolidated and as a
20 stand-alone basis.
- 21 (3) The planned corporate structure.
- 22 (4) How the planned structure will be executed which includes
23 amendments to corporate articles, issues, cancellations, exchanges,
24 transfers,
- 25 (5) The projected capital structure for the next five years.
- 26 (6) The projected annual and investment increases in each affiliate for
27 the next five years including the percentage of projected net utility.
28 Including a description of the reasoning behind investment and
29 validating it will not increase risks to the public utility investment.
- 30 (7) A description of the affiliate's financials which include to whom
31 the finance will be, type, amount of capital, instruments or
32 indebtedness.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

- (8) A description of the affiliate's capital structure, cost of capital, and the ability to secure funding at reasonable rates.
- (9) A description of how the utility can ensure that acceptable funds are made available for essential construction of new utility plants and not to exceed costs the utility would have incurred, if it had not participated in this Class II transaction.
- 10) To the degree that is not answered in (9) a description of how ratepayers will be protected and safeguarded from risks, costs, or any other substantial effects that could be caused by the Class II transaction.
- 11) In the event the company plans to divest, a 10-year strategy be provided stating how it will be accomplished, the effects on utility operations, financial health, capital cost, and maintaining the quality of service.
- 12) To the degree not mentioned above, such material or representation allows the Commission to issue a ruling pursuant NMSPC Rule 450.7(c) (also referred to as NMAC 17.6.45.10(C))

Q. Does Staff believe that the Joint Application meets the requirements as defined in NMAC 17.6.450.10 (B)?

A. No. While the Joint Applicants have provided responses to NMAC 17.6.450(B), which can be found within the Joint Application in JA Exhibit JMB-3 Pages 3 through 29, Staff has found some deficiencies in the following areas.

Per NMAC 17.6450.10(B)(2), a complete statement of transaction tax effects must be fully provided. Pursuant to the as-filed Amended GDP and subsequent interrogatory responses (see Exhibit Staff NAV-3),²⁸ Staff questions whether said Amended GDP sufficiently illustrates the full extent of tax effects on NMGC following the proposed transaction. As this exhibit shows, in interrogatory responses regarding tax implications of the transaction on NMGC, the Joint

²⁸ Joint Applicants' Response to NMDOJ's Third Set of Interrogatories and Requests for Production of Documents, NMDOJ Interrogatory 3-7.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 Applicants routinely used responses predicated on statements like “plan to” or
2 “expect” and where definitive analyses of tax effects are requested, no responsive
3 material exists.

4 Stemming from this, Staff recommends that in the event there are any tax effects of
5 transaction, particularly positive ones, these should be clearly stated within the
6 Amended GDP. Additionally, should this transaction be approved, Staff
7 recommends that a regulatory liability be established in the case of tax savings for
8 review within the next rate case.

9 Within the GDP, BCP Management plans to make a \$5 million grant contribution
10 to economic development over a 5-year period.²⁹ According to the JA, the grants
11 will be granted to NMGC service territory with a focus on the establishment of new
12 businesses, research and development to New Mexico education institutions,
13 community needs for natural-gas, new or an extension broadband of electrical
14 services, energy services to new data centers, supporting local businesses and
15 economic development associations.³⁰ Dr. Erickson also states that this grant will
16 presumably create 54 jobs and generate an output of \$8.6 million.³¹

17 In addition to the pledge above, BCP management will make a charitable
18 contribution in the amount of \$500,000 a total of five years “to qualified, tax-
19 exempt organizations that are engaged in the development and improvement of
20 communities and citizens in NMGC’s service territory.”³² It is also stated that

²⁹ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, JA Exhibit JMB-3, Page 15, Second bullet point.

³⁰ Joint Application, Executive Summary, Summary of Transaction, Page 2, Paragraph 3.

³¹ Joint Application, Direct Testimony of Dr. Christopher Erickson, Page 6, Lines 10-11.

³² Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, JA Exhibit JMB-3, Page 15, Third bullet point.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 NMGC will not seek recovery for these in-kind contributions in rates.

2 Staff finds it concerning that there seems to be minimal criteria of who will receive
3 these grants as well as whether there will be a codified and scrutable vetting process
4 for recipients. Here, Staff notes the lack of essential details that would need to be
5 provided for the distribution process to truly approach providing New Mexicans
6 with a net benefit. Nevertheless, as discussed earlier in this testimony, it is
7 paramount to differentiate between a BCP proposal to (indirectly) benefit New
8 Mexicans and one that seeks to directly benefit the public interest (i.e., impacting
9 ratepayers and the utility). Staff's understanding is that the net benefits of the
10 transaction – relative to the status quo of existing ownership – must be geared
11 towards the latter. Thus, Staff questions whether these grants and charitable
12 contributions are in the public interest given the central goal that the Commission
13 seeks to advance fair, just, and reasonable rates for safe and reliable electrical
14 service.

15 Furthermore, BCP management states within their Amended GDP their vow to own
16 NMGC for a minimum 5-year period. This will begin after the closing date of
17 September 30, 2025. Staff sees this as a potential issue and would propose at
18 least a 10-year ownership requirement. This provides NMGC with long-term
19 stability and would better ensure that the utility, with its customer-created value, is
20 not simply used as a short-term investment.

21 According to Karen Hutt, it is stated within testimony BCP Management and Saturn
22 Holdco are excited to invest in New Mexico, and their focus is on local

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 management, local board members, and influencing growth within NMGC.³³ In
2 addition, Direct Testimony of Jeff Baudier states BCP Management is interested in
3 pursuing investments within the State of New Mexico, and they have an
4 appreciation for NM Culture³⁴. Which Staff believes per the Joint Applicants
5 statements that a long-term investment could be of value to BCP Management.
6 Therefore, it is Staff's recommendation for a 10-year ownership period if this Joint
7 Application is approved by the Commission.
8 Importantly, these issues have led Staff to believe that this transaction is, at best,
9 one denoted by status quo – relative to the existing relationship with Emera – with
10 benefits to NMGC and its ratepayers being nebulous under the most optimistic of
11 scenarios.
12 Potential net costs to ratepayers do, however, exist. As stated, multiple times
13 throughout the Joint Application, new job relocations are posited to bring
14 “economic development” benefits to New Mexico. Under the new services
15 arrangement, which was discussed in Staffs above analysis and will be discussed
16 further by Staff Witness, Larry Blank, NMGC ratepayers will ultimately be the
17 bearers of the one-time estimated costs of \$29 million, and there are no current
18 commitments by BCP Management group to provide NMGC customers with
19 offsetting bill credits – unlike with past acquisition transactions. This does not align
20 with Staff's responsibility to ensure just, reasonable and

³³ Joint Application, Direct Testimony and Exhibits of Karen Hutt, Page 10, Lines 15-18.

³⁴ Joint Application, Direct Testimony and Exhibits of Jeffrey M. Baudier, Page 15-16, Lines 9-21 & 1-17.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 fair rates³⁵ through the balancing of utility and ratepayers' interest.

2
3 **Q. Please detail the requirements stated in NMAC 17.6.450.10 (C) (1) through**
4 **(8)?**

5 **A.** Within Title 17-Public Utilities and Utility Services, Chapter 6-Affiliate
6 Transactions, Section 450-Affiliate Transactions, Sub-section 10-Class II
7 Transactions: Approval of General Diversification Plan, and Letter C which
8 requires that the utility have met the following (8) eight standards.

- 9 (1) The utility's books and records remain separate from non-
10 regulated activities business per the Uniform System of
11 Accounts.
12 (2) The Commission and Staff will have access to utility
13 books, records, accounts, affiliate documents, corporate
14 subsidiary, or the holding company in accordance with
15 NMSA 1978, 62-6-17 and 62-6-19.
16 (3) Pursuant to the Public Utility Act, the regulation and
17 supervision will not be obstructed, hindered, diminished,
18 impaired, or overcomplicated.
19 (4) Excessive dividends will not be paid to a formed holding
20 company. Nor will the holding company take actions that
21 will have an adverse and material effect on the utility's
22 ability to provide reasonable rates and proper service at fair,
23 just and reasonable.
24 (5) The public utility will not act on the following without prior
25 Commission Approval
26 i. Loan funds, securities, or transfer similar assets to
27 any affiliate interest, or
28 ii. Purchase debt instruments of any affiliated interest or
29 guarantee or assume liabilities of such affiliate
30 interest;
31 (6) Comply with all relevant rules, statues, federal and state
32 levels.
33 (7) An allocation study shall be provided when required by the
34 commission. This allocation study will not be charged to

³⁵ NMAC 17.6.450.6

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

ratepayers, and the selection process of the firm shall be at the discretion of the Commission.

- (8) A management audit shall be provided when required by the commission to determine if there will be any adverse effect to the utility by the Class II transaction. This allocation study will not be charged to ratepayers, and the selection process of the firm shall be at the discretion of the Commission.

Q. Does Staff believe that the Joint Application meets the requirements as defined in NMAC 17.6.450.10 (C)?

A. While the Joint Applicants have provided responses to NMAC 17.6.450(C), which can be found within the Joint Application in JA Exhibit JMB-3 Page 26 to 27, Staff has concerns in the following area.

Although BCP Management makes frequent representation in the Amended General Diversification Plan within the Joint Application, there are no explanations in adjoining testimony as to how or why this transaction meets NMAC 17.6.450.10(C)(3). This prompts Staff to believe that there exists uncertainty as to whether this transaction fully fulfills the rule requirements.

Currently, the structure of NMGC exists in a complex web of affiliated entities within Emera's business portfolio. Staff presumes there are no immediate issues with compliance with the rule given former relationships of Emera and affiliated entities. Nevertheless, Staff should not be placed in a position where assumptions are necessary. Compliance with the rule should have been explicitly demonstrated in application testimony.

Nonetheless, with the potential sale of NMGC to the BCP Joint Applicants, applicants that constitute a private equity entity, there could possibly exist a risk to

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 the supervision of regulation of the public utility pursuant to the Public Utility Act.
2 This could result in obstruction, hindrance, diminished, impaired supervision
3 produced by the creation of a potentially unduly complex new NMGC ownership
4 and funding structure within the portfolio of the acquiring private equity owner.
5 Staff's intentions are to ensure the Commission has full oversight of NMGC and
6 any entity who has an impact on NMGC.
7

8 **CAPITAL INVESTMENT PLAN**

9
10 **Q. Please describe the Applicants' proposed capital investment plan for system**
11 **reliability and safety for the period preceding NMGC's next general rate case?**

12 **A.** The BCP Management group have testified to commit to investing a minimum of
13 the 3-year rolling average for NMGC's depreciation and amortization expenses on
14 an average annual basis in the Company's system, which is needed to ensure
15 reliability and safety until the issuance of the final order in NMGC's next general
16 rate case. Moreover, the BCP Applicants state that NMGC and the applicants agree
17 that all such investments will be subject to the customary prudence review in a
18 future rate case. BCP's Managements plan is to make a similar commitment as
19 approved in previous Case No. 15-00327-UT (see Staff Exhibit NAV-4).³⁶

³⁶ Joint Applicants' Response to Staff Third Set of Interrogatories and Requests for Production of Documents, Staff Interrogatory 3-1 and Certification of Stipulation, Case No. 15-00327-UT, Page 43, Paragraph 11.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

1 Staff believes it is essential to maintain gas system, reliability, and safety. Hence, it
2 is critical to adequately invest in the system. Staff recognizes that there is a balance
3 with respect to capital investments. An underinvestment could result in insufficient
4 service, reliability, and safety. While overinvestment could produce comparatively
5 unproductive, and inflated costs to rate base. Any commitment to make capital
6 expenditures must meet an appropriate balance.

7
8 **Q. Does Staff believe that this level of capital investment made prior to the next**
9 **rate case to be sufficient?**

10 **A.** No, Staff does find some concern with the minimal investments made to NMGC
11 systems. Staff directs attention to Table NAV-4 in 2023 NMGC annual expenditures
12 sat at \$130,409,374, but the amount of the last 3-year rolling depreciation and
13 amortization expense amounts to \$117,878,429, which falls below annual costs to
14 the system. Previously, Staff found this acceptable because the percentage of the 3-
15 year rolling average was ranging between 55% to 47%, although currently, the
16 percentages have declined significantly, in Staff's opinion. Please see Table NAV-
17 4³⁷ (Staff Exhibit NAV-5) below as an illustration of the 3-year rolling average
18 costs.

19
20 Table NAV-4

³⁷ Joint Applicants' Response to Staff Third Set of Interrogatories and Requests for Production of Documents, Staff Interrogatory 3-2.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

Year	Annual Capital Expenditures	Rolling 3-yr Average for Depreciation & Amortization Expense	% of the 3yr rolling average	Total sum of Rolling 3-yr Average of Depr & Amor Exp
2014	\$ 41,615,091			117,878,429
2015	\$ 50,884,135			
2016	\$ 63,352,676	\$ 34,703,424	55%	
2017	\$ 67,104,639	\$ 33,886,095	50%	
2018	\$ 74,258,619	\$ 35,042,708	47%	
2019	\$ 69,057,446	\$ 36,811,847	53%	
2020	\$ 140,733,895	\$ 37,610,234	27%	
2021	\$ 88,096,477	\$ 38,255,955	43%	
2022	\$ 107,460,322	\$ 38,639,422	36%	
2023	\$ 130,409,374	\$ 40,983,052	31%	

*Last column is the sum of 2021-2023 Rolling 3yr Average Depr & Amortization Exp.

CONCLUSION

Q. Can Staff please summarize their recommendation and what has been written in testimony pertaining to this case?

A. Yes, Staff has recommended the following for NMGC Acquisition:

- The elements of the proposed transaction reviewed herein have not risen to the threshold of providing ratepayers with a net benefit, which is an integral part of determining whether the proposal is in the public interest.
- Staff recommends disapproving the relocation of Shared Services to New Mexico as has been proposed in BCP Management's Joint Application until more detailed information is provided to the Commission.

PREPARED STAFF TESTIMONY
OF NAOMI A. VELASQUEZ

CASE NO. 24-00266-UT

- If this acquisition is to be approved by the Commission, Staff recommends the following:
 - Staff recommends a 3-year rate freeze from October 1, 2024.
 - Staff recommends a more detailed timeline of service relocations to avoid duplicate charges to ratepayers in addition to capping costs at \$11.5 million.
 - Staff recommends a regulatory liability be established to capture any potential tax savings from this transaction.
 - Staff recommends a detailed process for grant distributions.
 - Staff recommends a 10-year ownership period.

Q. Does this conclude your testimony.

A. Yes, it does.

Staff Exhibit NAV-1

Charge Type	2020	2021	2022	2023	2024 YTD September
TECO					
Asset Usage	907,756	1,029,257	1,408,004	1,662,147	1,501,528
Direct Labor **	417,704	394,655	552,900	438,562	302,885
Corporate Services	2,433,576	2,098,753	2,576,549	2,425,799	1,406,348
IT & Telecom	4,260,499	4,452,279	4,663,604	4,575,381	3,482,008
Human Resources & Benefits	507,334	395,465	487,808	522,111	276,127
Procurement	62,630	63,233	86,094	42,756	37,442
Safety and Emergency Management	109,251	111,142	120,108	82,854	61,421
Accounts Payable	113,719	155,506	197,978	163,564	129,641
Claims	12,618	4,661	6,092	11,147	7,776
Total TECO Charges	8,825,088	8,704,950	10,099,136	9,924,323	7,205,175
Emera					
Corporate Services	896,850	946,460	763,756	733,147	1,276,188
BOD Expenses	90,773	119,393	108,764	108,424	81,814
Total Emera Charges	987,623	1,065,853	872,519	841,570	1,358,002
Total Intercompany O&M Charges	9,812,711	9,770,802	10,971,656	10,765,893	8,563,177

** Primarily direct labor related to Tax, IT and Risk

Staff Exhibit NAV-2

JA Exhibit NEE 2-55

Page 1 of 1

Inflation %		2.11%	2.08%	2.14%	2.12%
	2025 Budget	2026	2027	2028	2029
TECO intercompany charges					
Direct labor **	538,739	550,080	561,659	573,482	585,554
Corporate services	1,954,530	1,995,674	2,037,144	2,080,730	2,124,929
IT Charges	4,947,078	5,051,216	5,156,181	5,266,500	5,378,371
Human Resources & Benefits	415,869	424,624	433,447	442,721	452,125
Procurement Charges	51,293	52,373	53,461	54,605	55,765
Emergency Mgmt Charges	47,925	48,934	49,951	51,019	52,103
Accounts Payable Charges	183,299	187,157	191,046	195,134	199,279
Claims Charges	11,480	11,722	11,965	12,221	12,481
TECO intercompany charges	8,150,213	8,321,778	8,494,854	8,676,413	8,860,607
Asset Usage Fee	2,059,084	2,102,428	2,146,117	2,192,035	2,238,598
Total TECO charges	10,209,297	10,424,206	10,640,971	10,868,448	11,099,205
EMERA intercompany charges					
Corporate services	1,948,297	1,989,309	2,030,647	2,074,094	2,118,152
BOD Expenses	110,000	112,316	114,649	117,102	119,590
Total EMERA charges	2,058,297	2,101,625	2,145,297	2,191,197	2,237,742
Total shared services	12,267,594	12,525,831	12,786,268	13,059,645	13,336,947

** Direct labor related to IT and Corporate Services

NMDOJ INTERROGATORY 3-7:

Reference response to NMDOJ Interrogatory 1-29. How will NMGC be compensated for its

Net Operating Losses utilized at the consolidated level?

RESPONSE:

Jeffrey M. Baudier

The BCP Applicants do not plan on having a tax sharing agreement that would transfer any future Net Operating Losses (“NOL”) beyond the entities in NMGC’s consolidated tax return. NMGC’s NOL position will be retained by NMGC on the transaction closing date, and we expect NMGC will continue to utilize its net operating loss balances to offset taxable income in future periods.

**JOINT APPLICANTS' RESPONSE
TO STAFF'S THIRD SET OF INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS**

STAFF INTERROGATORY 3-1:

Please explain why a rolling 3-year average for depreciation and amortization expense was selected as the minimum level of proposed capital investment until the next rate case. If other metrics were considered, please explain why these were not selected.

RESPONSE:

Jeffrey M. Baudier / Ryan A. Shell

The proposed regulatory commitment for maintaining a minimum level of capital investment based on a rolling 3-year average for depreciation and amortization expense until the next rate case was selected because a similar commitment was included as part of the regulatory commitments approved in Case No. 15-00327-UT involving the acquisition of TECO and NMGC by Emera. *See* Stipulation at ¶ 17, Case 15-00327-UT. The Joint Applicants wished to replicate and preserve certain of the regulatory commitments that were approved in Case No. 15-00327-UT. As stated in the proposed regulatory commitment, its objective is to help “ensure reliability and safety until the issuance of the final order in NMGC’s next general rate case.” *See* Joint Application, ¶ B.1. at 11. Other metrics in this regard were not considered. Please note that the referenced regulatory commitment sets a “minimum.” The BCP Applicants state that NMGC management will have the ability to make capital investments in its system as necessary to ensure safe and reliable service.

**JOINT APPLICANTS' RESPONSE
TO STAFF'S FIRST SET OF
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS**

STAFF INTERROGATORY 1-21:

Please provide a comparison of investing a minimum of the rolling 3-year average for depreciation and amortization expense on an average annual basis compared to NMGC capital investment for each calendar year since the company's inception.

RESPONSE:

Jeffrey M. Baudier / Ryan A. Shell

Please see table below which reflects a comparison of the rolling 3-year average for depreciation and amortization expense with the annual capital expenditures by NMGC since NMGC was acquired by Emera.

Year	Annual Capital Expenditures	Rolling 3-year average for Depreciation & Amortization Expense
2014	41,615,091	
2015	50,884,135	
2016	63,352,676	34,073,424
2017	67,104,639	33,886,095
2018	74,258,619	35,042,708
2019	69,057,446	36,811,847
2020	140,733,895	37,610,234
2021	88,096,477	38,255,955
2022	107,460,322	38,639,422
2023	130,409,374	40,983,052

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE JOINT APPLICATION)
FOR APPROVAL TO ACQUIRE NEW MEXICO)
GAS COMPANY, INC. BY SATURN UTILITIES) Case No. 24-00266-UT
HOLDCO, LLC.)
)
)
JOINT APPLICANTS)
)
)

AFFIRMATION OF NAOMI A. VELASQUEZ

Pursuant to 1.2.2.10(E) and 1.2.2.35(A)(3) NMAC of the Public Regulation Commission Rules of Procedure, Naomi A. Velasquez files this unsworn affirmation and states as follows:

I hereby affirm in writing under penalty of perjury under the laws of the State of New Mexico that the statements contained in the foregoing *Prepared Direct Testimony of Naomi A. Velasquez*. are true and correct to the best of my knowledge, information, and belief.

FURTHER, AFFIRMANT SAYETH NAUGHT.

Executed on April 18, 2025.

/s/ Naomi A. Velasquez
Naomi.velasquez1@prc.nm.gov
1.2.2.7(E)(2) and 1.2.2.10(E)(4) NMAC electronic signature
Senior Economist, Accounting Bureau
Utility Division
New Mexico Public Regulation Commission

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE JOINT)
APPLICATION FOR APPROVAL TO)
ACQUIRE NEW MEXICO GAS COMPANY,)
INC. BY SATURN UTILITIES HOLDCO,)
LLC.)
)
)
JOINT APPLICANTS)**

Case No. 24-00266-UT

CERTIFICATE OF SERVICE

**I CERTIFY that on this date I sent via email a true and correct copy of the Prepared Direct
Testimony of Naomi A. Velasquez to the parties listed here.**

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DATED this April 18, 2025

NEW MEXICO PUBLIC REGULATION COMMISSION

/s/ *Peggy Martinez-Rael* (Electronically signed)
Peggy Martinez-Rael, Paralegal