

**PUBLIC SERVICE COMPANY OF NEW MEXICO
RENEWABLE ENERGY PORTFOLIO PROCUREMENT PLAN FOR 2009**

I. INTRODUCTION

Public Service Company of New Mexico (“PNM”) has prepared this Renewable Energy Portfolio Procurement Plan for 2009 (“2009 REP”) in compliance with the Renewable Energy Act (“REA”), §§ 62-16-1 *et seq.* NMSA 1978 and Title 17.9.572 NMAC (“Rule 572”) of the rules of the New Mexico Public Regulation Commission (“NMPRC” or “Commission”).

II. RENEWABLE PROCUREMENT PLAN

PNM has sufficient renewable energy resources to comply with the Renewable Portfolio Standard (“RPS”) of 6% in 2009 using renewable energy certificates (“RECs”) from previously approved resources including the New Mexico Wind Energy Center (“NMWEC”), various PNM photovoltaic (“PV”) facilities, and customer-sited PV facilities. However, additional resources may be required to meet the RPS in 2010 and the RPS and diversity targets in 2011. This need for additional resources is due to reduced output from the NMWEC in 2007, higher than projected growth in PNM’s SkyBlue program (which reduces RECs available for RPS compliance) and the termination of the Western Water and Power Production (“WWPP”) contract for renewable biomass energy. This 2009 REP includes plans for programs or activities related to the procurement of renewable energy resources to be used for compliance with the RPS and resource diversity targets.

III. CLARIFICATION ON EXISTING RENEWABLE RESOURCES

Small PV REC Purchase Program (“Small PV Program”) – Customer participation in the Small PV Program, implemented in March 2006, has been well above

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projections. Under the Small PV Program, PNM purchases RECs from net-metered customers with PV systems sized no larger than 10 kW_{AC} (hereinafter referred to only by kW). PNM seeks clarification that the projected total budget for this program of \$2,781,166 previously authorized for recovery in rates does not constitute a limitation on cost recovery and that PNM is authorized to recover all expenditures made to purchase RECs under the Small PV Program for the duration of the program. Without such authorization, new customer participation would have to be curtailed starting as soon as 2010 since the currently approved budget could be fully committed by that date.

IV. APPROVAL OF NEW RENEWABLE RESOURCES

Large PV REC Purchase Program (“Large PV Program”) – PNM seeks authorization to implement a program in early 2009 through which PNM will procure RECs generated by interconnected and net-metered, customer-sited PV facilities sized between 10 kW and 1 MW at a cost per REC of \$0.13 per kWh produced and seeks authorization to recover through a future rate proceeding the costs that will be incurred pursuant to the Large PV Program. The energy generated by the customer-sited PV facility will be metered by a separate REC meter and PNM will use the RECs procured to meet the RPS and the distributed generation resource diversity targets of Rule 572. PNM estimates the potential market growth for the Large PV Program to be between 600 kW and 1,300 kW annually.

V. FUTURE RENEWABLE RESOURCE ADDITIONS

PNM seeks approval to supplement this 2009 REP if it proceeds with the procurement of additional renewable energy resources in 2009 as a result of two Requests for Proposals (“RFPs”) that PNM is issuing during 2008.

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- **RFP for a Solar Trough Resource:** PNM is participating with other New Mexico electric utilities and cooperatives in issuing an RFP for the energy and RECs to be generated by a parabolic trough solar thermal resource (“Solar Trough RFP”). Proposals will be considered for parabolic trough resources that could begin operations by 2011 or as soon practicable thereafter.
- **All-Source Renewable RFP:** PNM will also issue a separate all-source renewable RFP, excluding only solar parabolic trough resources qualifying for the Solar Trough RFP. The goals of the all source renewable RFP will be to procure sufficient resources for RPS compliance in 2010 and to obtain a fully diversified set of resources to meet the RPS and the resource diversity targets of Rule 572 in 2011.

VI. RPS REQUIREMENTS AND REDUCTIONS

PNM’s projected RPS requirements for 2009 and 2010 are shown in Table 1, taking into account the requirements of Rule 572 with regard to certain qualifying large, non-governmental consumers and the Reasonable Cost Threshold (“RCT”).

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TABLE 1: CALCULATIONS OF THE ESTIMATED RPS REQUIREMENTS FOR 2009-2010

Year	2009	2010
Projected Retail Sales (MWh)	9,120,742	9,343,898
RPS Percentage	6%	6%
RPS Before Adjustments (MWh)	547,245	560,634
Adjustments for Large Customers (MWh)	-12,982	-16,205
Adjustments for the RCT (MWh)	0	0
Projected Net RPS Requirement (MWh)	534,263	544,429
Projected Effective RPS as a Percentage	5.9%	5.8%
Projected Sky Blue Retirements (MWh)	180,000	188,300
Projected <i>Total</i> REC Retirements	714,263	732,729
Projected REC Retirements as a % of Retail Sales	7.8%	7.8%

In determining the adjustment for large customers, PNM took into account the renewable energy costs authorized for recovery by the Commission in PNM's most recent electric rate case, costs authorized in renewable energy procurement proceedings, and the most recent calculation of incremental costs for wind energy. The following assumptions were projected concerning REC retirement:

- For 2009, PNM will use RECs acquired from the NMWEC during 2007-2009 and RECs acquired from PNM's solar PV facilities and the Small PV Program during 2008-2009.
- For 2010, PNM will use RECs acquired from the NMWEC during 2009-2010, and RECs acquired from PNM's solar PV facilities and through the Small PV Program during 2009-2010. PNM will also use RECs acquired from the Large PV Program in 2009-2010, if the program is approved, and RECs acquired from approved projects that result from the RFPs. Calculations for the large customer adjustment in 2010 could be affected based on the final approved costs of the future resource additions.

VII. EXISTING WIND ENERGY RESOURCES

A. NMWEC RECs: In 2009 and 2010, PNM will continue to procure wind energy generated at the NMWEC and the RECs associated with that energy from FPL Energy, Inc. (“FPLE”) under the parties’ 25-year contract initiated in mid-2003. PNM anticipates that RECs equivalent to approximately 525,000 MWh of wind energy will be acquired each year. Taking into account existing contract sales and REC retirements for PNM’s SkyBlue program, NMWEC RECs available for PNM’s use for RPS compliance in 2009 and 2010 are projected to be 285,050 MWh and 254,543 MWh, respectively.

B. COST AND COST RECOVERY: For purposes of the adjustment projections in this report, PNM has used the value of \$3.43/MWh as the incremental cost of renewable energy from wind based on PNM’s response to the NMPRC’s Third Bench Request in Case No. 07-00077-UT. PNM intends to update this value in its next general electric rate case. Additionally, starting in 2008, RECs used by PNM for RPS compliance are required to be registered, transferred or retired through the Western Renewable Energy Generation Information System (“WREGIS”). The costs associated with WREGIS participation have been authorized for recovery and are included in the calculations of the large customer adjustment to the RPS.

VIII. EXISTING SOLAR PV RESOURCES

A. CUSTOMER-OWNED SOLAR PV INCENTIVE PROGRAM: PNM procures RECs from interconnected, net-metered customers under the Small PV Program, approved by the Commission in December 2005. The RECs are procured under a tariff that became effective on March 1, 2006, which includes a REC purchase price of \$0.13 per REC per kWh

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produced. The RECs from the Small PV program are valued at a weight of 3:1 when retired for compliance with the RPS. Customer participation in this program, which reached 187 customers at year-end 2007, has been well above projected levels, and PNM is seeking the clarification and approval discussed above in order to continue with the program beyond 2009.

B. OTHER SOLAR PROGRAMS: Additional solar energy will continue to be generated at the PNM-owned 25 kW Algodones PV and at the PNM-owned 5 kW Aztec PV. The RECs from Algodones and Aztec also retain a weighting of 3:1 when retired for RPS compliance.

C. COST AND COST RECOVERY: Pursuant to prior Commission approvals, PNM has recorded Small PV Program RECs as a regulatory asset, at a cost of \$0.13 per kWh. Recovery of the costs in rates for the Small PV Program RECs will be requested in PNM's next general electric rate case, along with recovery of associated WREGIS costs. Beginning in 2008, costs for the 25 kW Algodones PV facility, amortized over 3 years, have been included in the determination of the large customer adjustment to the RPS.

IX. BIOMASS RESOURCES

A. WWPP Biomass Project: In 2006, the NMPRC approved a contract between PNM and WWPP for energy and RECs to be supplied from a biomass generation project. On June 12, 2008, PNM notified WWPP that it was immediately terminating the Negotiated Contract for the Purchase of Capacity and Energy from a Renewable Biomass Power Generation Facility dated July 17, 2006, as amended by Amendment No. 1, dated August 16, 2006, and Amendment No. 2, dated December 29, 2006 (collectively, "Agreement") based on Section 3.1 of the Agreement. PNM terminated the Agreement because WWPP had not

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satisfied all of the Conditions Precedent by the Drop Dead Date. WWPP provided PNM notice on June 23, 2008, that WWPP disputed PNM's basis for terminating the Agreement. PNM is evaluating the notice and formulating a response but is no longer projecting the use of RECs from the WWPP biomass project for RPS compliance. Potentially, biomass developers may respond to PNM's upcoming All-Source Renewable RFP.

B. COST AND COST RECOVERY: Costs for a biomass assessment study conducted in 2005-2006, which were approved in PNM's most recent electric rate case to be amortized over 3 years beginning in 2008 and have been applied to the determination of the adjustment to the RPS for large customers.

X. RESOURCE DIVERSITY BY 2011

The resource diversity targets of Rule 572 require PNM to achieve a fully diversified renewable energy portfolio no later than January 1, 2011. PNM is actively pursuing compliance with these targets using existing wind and distributed solar resources, proposed distributed solar resources and resources to be approved as a result of the two renewable RFPs to be issued during 2008.

XI. CONCLUSION

PNM projects that its actual RPS requirements in 2009 and 2010, respectively, will be 534,263 MWh and 544,429 MWh. PNM is planning to meet these requirements with existing resources and several new renewable energy projects, consistent with the approvals requested in this 2009 REP. PNM is seeking clarification of its ability to continue adding customers to the Small PV Program and recover the costs, notwithstanding the previously approved program budget. PNM is also seeking approval to implement a Large PV Program

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and to supplement this 2009 REP if it proceeds with the procurement of additional renewable energy resources in 2009 as a result of the two RFPs to be issued during in 2008.