

RESEARCH & POLLING INC



PNM
SOUTHEAST NEW MEXICO COMMUNITY SURVEY
AUGUST 2015

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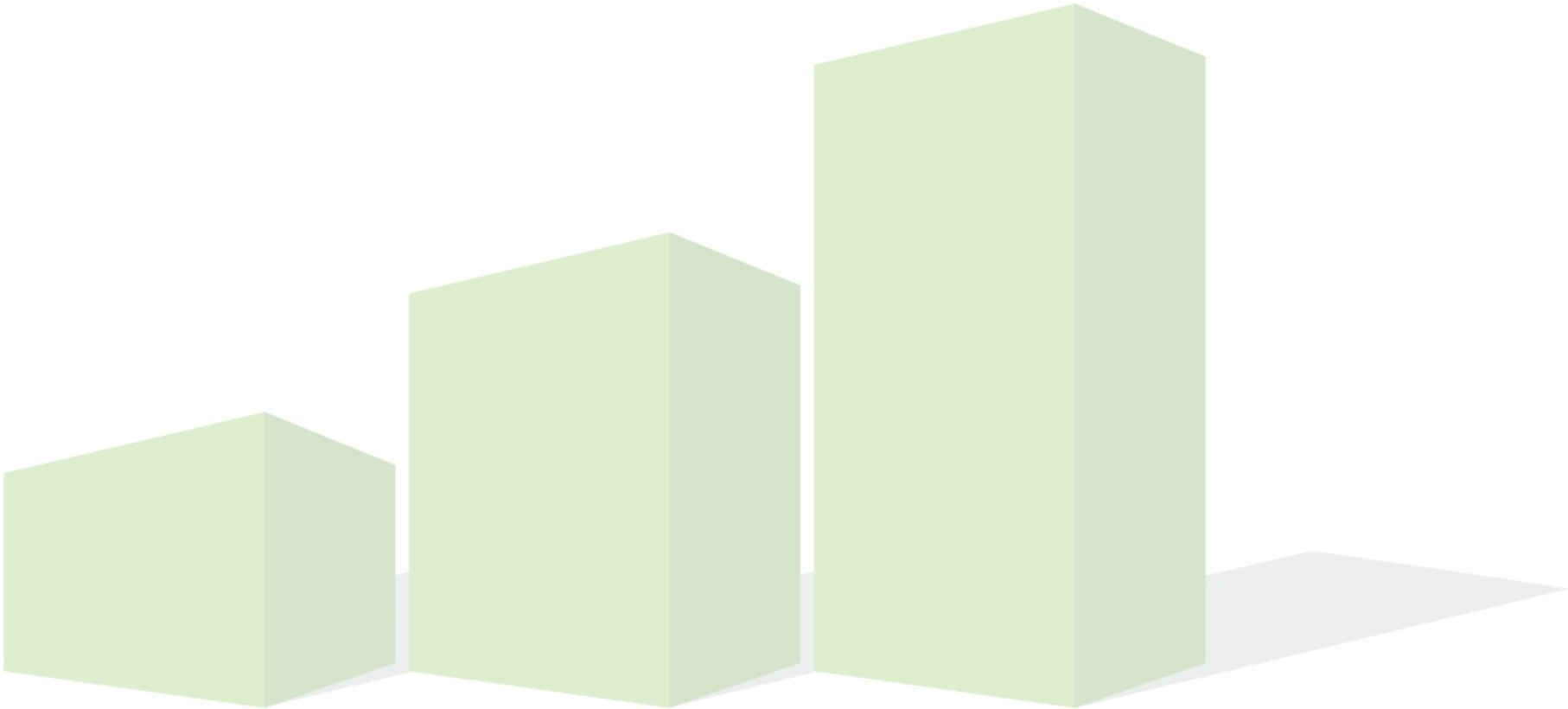
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I. INTRODUCTION



METHODOLOGY

This research study was commissioned by PNM in order to assess which electric utility attributes PNM customers believe are most important. This study also measured customers' awareness of PNM's plan to close a portion of the San Juan Generating Station, as well as customers' preferences as they relate to closing two of the four coal-fired units or closing the entire power plant.

THE INTERVIEW

A stratified random sample of PNM customers in New Mexico was interviewed by telephone. Customers were stratified by service area so that each region would have a sufficiently large cell size in order to review the results with a greater degree of accuracy. Cell phone and landline telephone numbers were generated from the PNM customer database. Customers were stratified by the following regions:

- **Southeastern New Mexico (n=205)**
- Albuquerque Metro Area (n=401)
- Santa Fe (n=406)
- Northern New Mexico (n=200)
- Southwestern New Mexico (n=306)

In order to not skew results, surveys were weighted to their true proportion of the regional population of residential PNM customers in New Mexico. This report is among PNM customers in the Southeastern New Mexico area. All interviews were conducted between July 22nd and August 6th, 2015.

The telephone interviewers are professionals who are brought together for a training session prior to each survey. This ensures their complete and consistent understanding of the survey instrument. A total of 205 PNM customers in the Southeastern area completed interviews. PNM's Southeast region service area includes Alamogordo, Tularosa, Ruidoso, and Ruidoso Downs.

MARGIN OF ERROR

A sample size of 205 at a 95% confidence level provides a maximum margin of error of approximately 6.8%. In theory, in 95 out of 100 cases, the results based on a sample of 205 will differ by no more than 6.8 percentage points in either direction from what would have been obtained by interviewing all PNM customers in the Southeast region service area.

SAMPLE BIAS

In any survey, there are some respondents who will refuse to speak to the professional interviewer. A lower response rate among certain types of individuals can result in a sample wherein certain types of individuals are over-represented or under-represented. The potential for sampling bias increases as the response rate decreases. Research & Polling, Inc. often sets quotas for various segments of the population who are historically undercounted. This has the effect of minimizing, but not necessarily eliminating, sampling bias.

THE REPORT

This report summarizes the results from each question in the survey and reports on any variances in attitude or perception, where significant, among demographic subgroups. The subgroups examined in this report include:

- Age
- Income
- Ethnicity
- Education attainment level
- Region

EXECUTIVE SUMMARY

PNM customers in the Southeast region service area were surveyed in order to assess which electric utility attributes they believe are most important, as well as to measure customers' awareness of PNM's plan to close a portion of the San Juan Generating Station. This study also assessed customers' preferences as they relate to closing two of the four coal-fired units or closing the entire power plant.

EXPECTATIONS FROM THEIR ELECTRIC UTILITY PROVIDER

When customers were asked to rate items that may or may not be important to them in what they expect from their electric utility company, all items tested are perceived as important (a score of 8, 9, or 10 on a zero to ten scale) by PNM customers in the Southeast region service area. Providing the most reliable electric service (91%) is rated as important by the majority of PNM customers, followed closely by having the highest quality customer service (84%). Three-quarters of customers rate having the lowest electric rates as important, 68% say developing more renewables is important, and 66% say reducing pollution from power plants is important.

When customers were reminded of which items they gave the highest marks to and asked which they believe is the single most important expectation from their electric utility, providing the most reliable electric service (31%) was selected most often, followed by having the lowest rates in the West (25%), developing more renewables (18%), reducing pollution (12%), and providing the highest quality customer service (10%).

AWARENESS AND OPINIONS OF PNM'S PLAN FOR THE SAN JUAN GENERATING STATION

Four-fifths of PNM customers in the Southeast region service area are unaware of PNM's plan to close two of the four coal-fired units at the San Juan Generating Station. Men are more likely than women to be aware of PNM's plan to close two of the four units.

Customers were read two different viewpoints regarding the closure at the San Juan Generating Station. Two-thirds (66%) of PNM customers agree with PNM's plan to close two of the four coal-fired units versus closing the entire plant, while 17% say PNM should close the entire plant.

When asked to give reasons for their opinions of whether PNM should close two units or close the entire plant, 16% of customers who say that PNM should close the entire plant mention that PNM should be pursuing more renewables, while 7% mention a reduction in air pollution. Those who say PNM should close two of the four coal-fired units mention a need for more reliable electricity (20%), solar/wind are not as reliable (8%), will cut jobs (7%), electric rates will go up (7%), to take electric generating unit closures one step at a time (6%), and transition over time (6%). Seven percent say they need more information.

| BIGGEST ISSUES OR PROBLEMS FACING THE COMMUNITY | |
|---|-----|
| TOP 8 UNAIDED RESPONSES | |
| SOUTHEAST NEW MEXICO TOTAL SAMPLE (N=205) | |
| WATER SHORTAGE/WATER SUPPLY | 13% |
| LACK OF GOOD JOBS | 9% |
| CRIME | 8% |
| ILLEGAL DRUG USE | 7% |
| WEAK ECONOMY | 5% |
| ROADS/STREETS/HIGHWAYS ARE IN BAD CONDITION | 5% |
| NOTHING IN PARTICULAR | 21% |
| DON'T KNOW/WON'T SAY | 14% |

PNM customers in the Southeast region service area were asked, in an unaided, open-ended manner, what they believe are the **biggest issues or problems facing their community**. Thirteen percent of PNM customers say that the water shortage/water supply is the biggest issue or problem, followed by 9% who mention the lack of good jobs and 8% who mention crime. Seven percent say illegal drug use is the biggest issue or problem, while 5% mention either the weak economy or roads/streets/highways are in bad condition. Two percent mention power outages, 1% say PNM is not meeting people's needs, and another 1% say utilities costs are too high. Notably, 35% of PNM customers did not mention a particular problem or issue facing their community.

| CUSTOMERS' EXPECTATIONS FROM THEIR ELECTRIC UTILITY COMPANY (SUMMARY TABLE) | | | | | | | | | | | | | |
|--|------------------------------|-----|-----|----|----|-----|----|----|----|----|----------------------------------|-----------|-------|
| SOUTHEAST NEW MEXICO TOTAL SAMPLE (N=205) RANKED BY HIGHEST "EXTREMELY IMPORTANT" | | | | | | | | | | | | | |
| | EXTREMELY IMPORTANT 10 | 09 | 08 | 07 | 06 | 05 | 04 | 03 | 02 | 01 | NOT IMPORTANT AT ALL 00 | DK/ WS | MEAN† |
| PROVIDING THE MOST RELIABLE ELECTRIC SERVICE TO YOUR HOME | 68% | 10% | 13% | 4% | 1% | 3% | - | - | - | - | - | 1% | 9.3 |
| PROVIDING THE HIGHEST QUALITY CUSTOMER SERVICE | 57% | 11% | 16% | 7% | 2% | 4% | - | 1% | - | - | - | - | 8.9 |
| HAVING THE LOWEST ELECTRIC RATES IN THE WEST | 54% | 7% | 14% | 7% | 3% | 12% | 1% | 2% | - | - | - | 1% | 8.5 |
| REDUCING POLLUTION FROM POWER PLANTS | 42% | 11% | 13% | 5% | 2% | 13% | 1% | 1% | 2% | 2% | 4% | 4% | 7.8 |
| DEVELOPING MORE RENEWABLE ENERGY SOURCES, SUCH AS SOLAR AND WIND | 40% | 12% | 16% | 7% | 4% | 8% | 1% | 1% | 3% | 1% | 3% | 3% | 7.9 |

† THE MEAN SCORE IS DERIVED BY TAKING THE AVERAGE SCORE BASED ON THE 10-POINT SCALE. THE EXTREMELY IMPORTANT RESPONSE IS ASSIGNED A VALUE OF 10; THE NOT IMPORTANT AT ALL RESPONSE IS ASSIGNED A VALUE OF 00. THE DON'T KNOW/WON'T SAY RESPONSES ARE EXCLUDED FROM THE CALCULATION OF THE MEAN.

PNM customers in the Southeast region service area were read a list of **items that may or may not be important to them in what they expect from their electric utility company**. For each item, customers were asked to rate how important each item is, using a zero to ten scale where zero means *not important at all* and ten means *extremely important*.

PROVIDING THE MOST RELIABLE ELECTRIC SERVICE TO YOUR HOME

Nine-in-ten (91%) PNM customers in the Southeast region service area rate providing the most reliable electric service to their homes as important (a score of 8, 9, or 10), with the majority (68%) saying this is *extremely important*.

PROVIDING THE HIGHEST QUALITY CUSTOMER SERVICE

Eighty-four percent of PNM customers rate providing the highest quality customer service as important (a score of 8, 9, or 10), with almost three-fifths (57%) saying this is *extremely important*.

HAVING THE LOWEST ELECTRIC RATES IN THE WEST

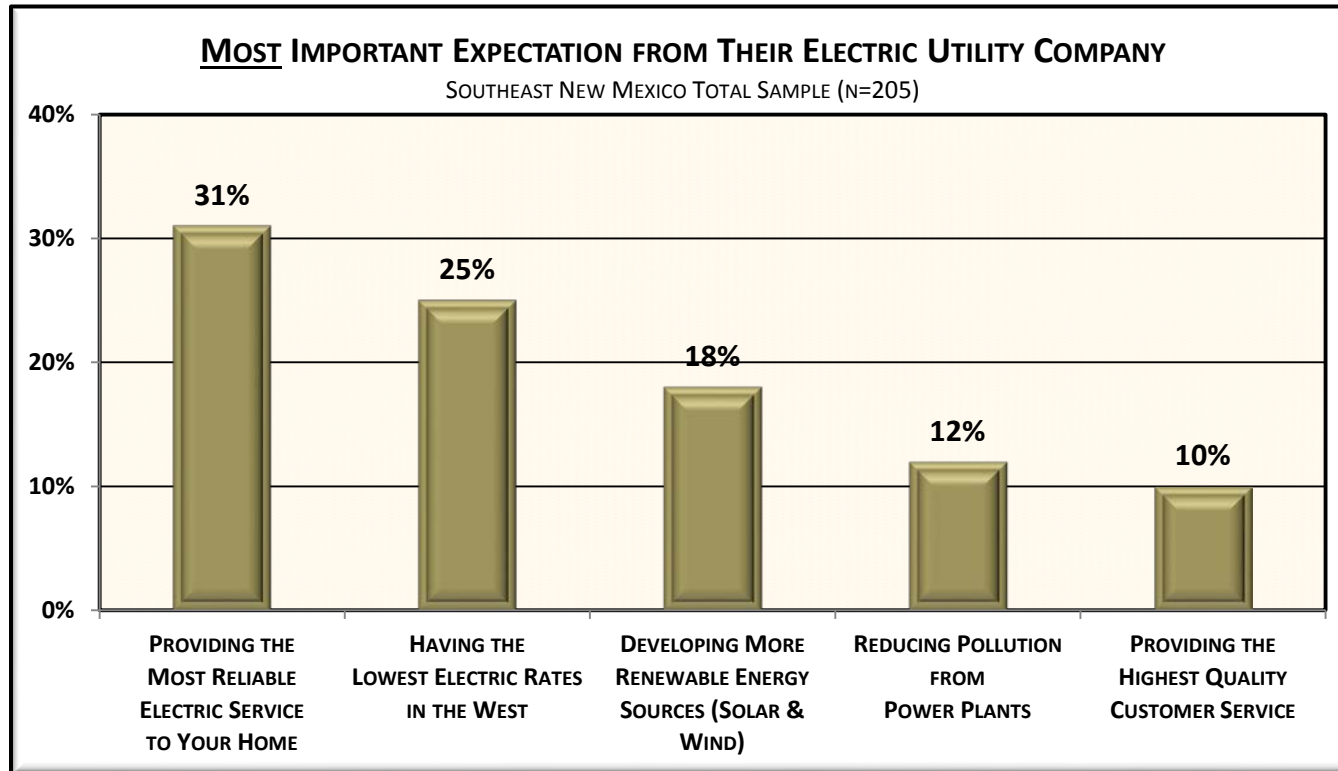
Three-quarters of PNM customers say that having the lowest rates in the West is important with more than half (54%) saying this is *extremely important*. More than one-fifth (22%) have a neutral opinion or felt this was slightly important (a score of 5, 6 or 7).

REDUCING POLLUTION FROM POWER PLANTS

Two-thirds (66%) of PNM customers rate reducing pollution from power plants as important, with 42% saying this is *extremely important*. One-fifth have a neutral opinion or felt this was slightly important, while one-in-ten say this is unimportant.

DEVELOPING MORE RENEWABLE ENERGY SOURCES, SUCH AS SOLAR AND WIND

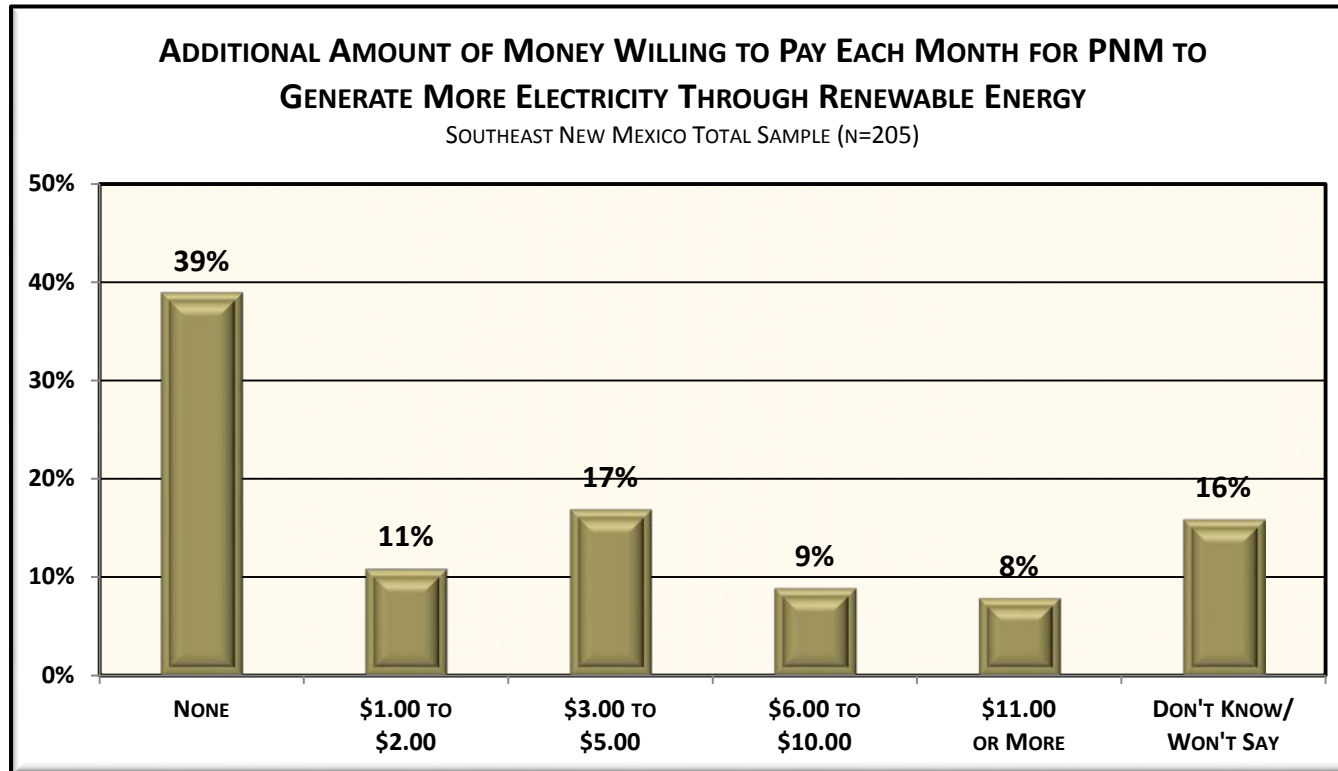
More than two-thirds (68%) of PNM customers rate developing more renewable energy sources as important, with two-fifths who say this is *extremely important*. One-fifth (19%) have a neutral opinion or felt this was slightly important, while one-in-ten (9%) say this is unimportant.



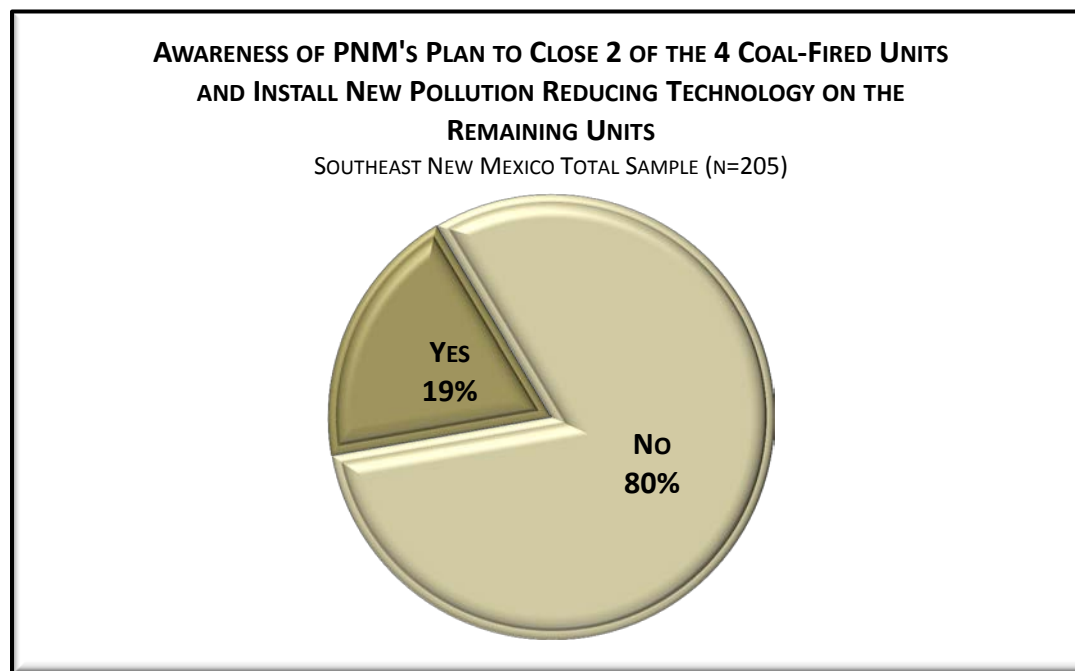
Customers were reread the five attributes from page seven and asked **which item is the most important to them** in what they expect from their electric utility. Overall, providing the most reliable electric utility service (31%) is the most important attribute, followed by 25% who say having the lowest electric rates in the West is the most important. The third most important attribute among PNM customers is developing more renewable energy sources (18%), followed by reducing pollution from power plants (12%), and providing the highest quality customer service (10%).

| <u>MOST IMPORTANT EXPECTATION FROM THEIR ELECTRIC UTILITY COMPANY</u> | | | | | | |
|--|--------------|-------------|----------------|-----------------|-----------------|-----------------|
| SEGMENTED BY PNM SERVICE REGIONS | | | | | | |
| | ABQ METRO | SANTA FE | NORTHERN NM | SOUTHWEST NM | SOUTHEAST NM | TRIBAL AREAS |
| PROVIDING THE MOST RELIABLE ELECTRIC SERVICE TO YOUR HOME | 30% | 25% | 38% | 30% | 31% | 27% |
| HAVING THE LOWEST ELECTRIC RATES IN THE WEST | 27% | 13% | 24% | 27% | 25% | 24% |
| DEVELOPING MORE RENEWABLE ENERGY SOURCES, SUCH AS SOLAR AND WIND | 20% | 35% | 15% | 16% | 18% | 18% |
| REDUCING POLLUTION FROM POWER PLANTS | 14% | 17% | 12% | 13% | 12% | 17% |
| PROVIDING THE HIGHEST QUALITY CUSTOMER SERVICE | 7% | 5% | 9% | 9% | 10% | 10% |

Shown above are customers' most important expectations segmented by PNM service regions. The percentages in boxes highlight the most important expectation of each region. For example, providing the most reliable electric service is the most important among customers in every region except Santa Fe, whose customers say developing more renewables is the most important. The percentages in **bold** highlight each regions second most important expectation; in all regions except Santa Fe, PNM customers say having the lowest electric rates in the West is second most important. Among Santa Fe customers, providing the most reliable electric service is the second most important expectation.

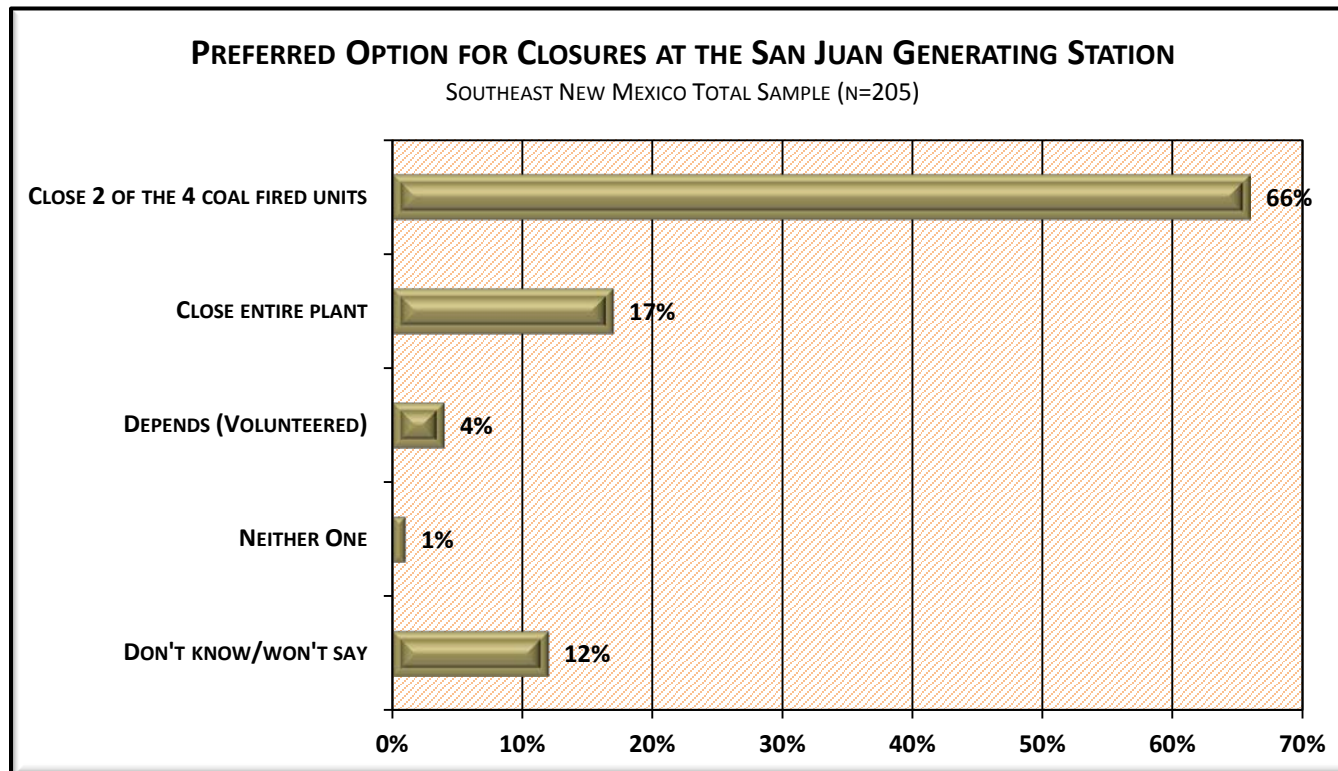


Customers were asked how much of a **dollar increase in their monthly electric bill** they would be willing to pay for PNM to generate more electricity through renewable energy sources, such as solar and wind. Nearly two-fifths (39%) of PNM customers in the Southeast region service area say they are unwilling to pay any additional amount on their monthly bill, while 11% mention they are willing to pay one to two dollars more a month. Seventeen percent are willing to pay three to five dollars more a month, while 17% are willing to pay six dollars or more.



Customers were informed that PNM has filed a plan to permanently close two of the four coal-fired generating units at the San Juan Generating Station near Farmington and install pollution-reducing technology on the remaining two units. Customers were also told that this plan would cut PNM's coal use at San Juan by 37% and that the new pollution controls would also reduce greenhouse gas emissions and water use at the generating station by 50%. They were then **asked if they had heard of this plan**.

Four-fifths of PNM customers in the Southeast region service area say they have not heard of PNM's plan, while one-fifth (19%) say they have heard of it. Men are more likely than women to be aware of PNM's plan to close two of the four units.



“Some environmental groups oppose PNM’s plan because they believe it doesn’t go far enough in reducing pollution and water usage. They want PNM to close all 4 coal-fired generating units at the San Juan electric power plant and replace them with natural gas-fired power plants and more renewable energy sources like solar and wind. They feel that PNM should stop investing in old technologies such as coal-fired electric plants and develop more renewable energy options.”

“PNM’s plan would keep two of the four coal-fired generating units at the San Juan electric plant operating. The company feels it is important to use a mix of energy sources including coal, natural gas, nuclear from an existing plant (Palo Verde), and solar and wind. PNM believes this plan will ensure reliable electricity is available to its customers, since solar and wind power are not available 24 hours a day and cannot supply enough electricity during peak use periods.”

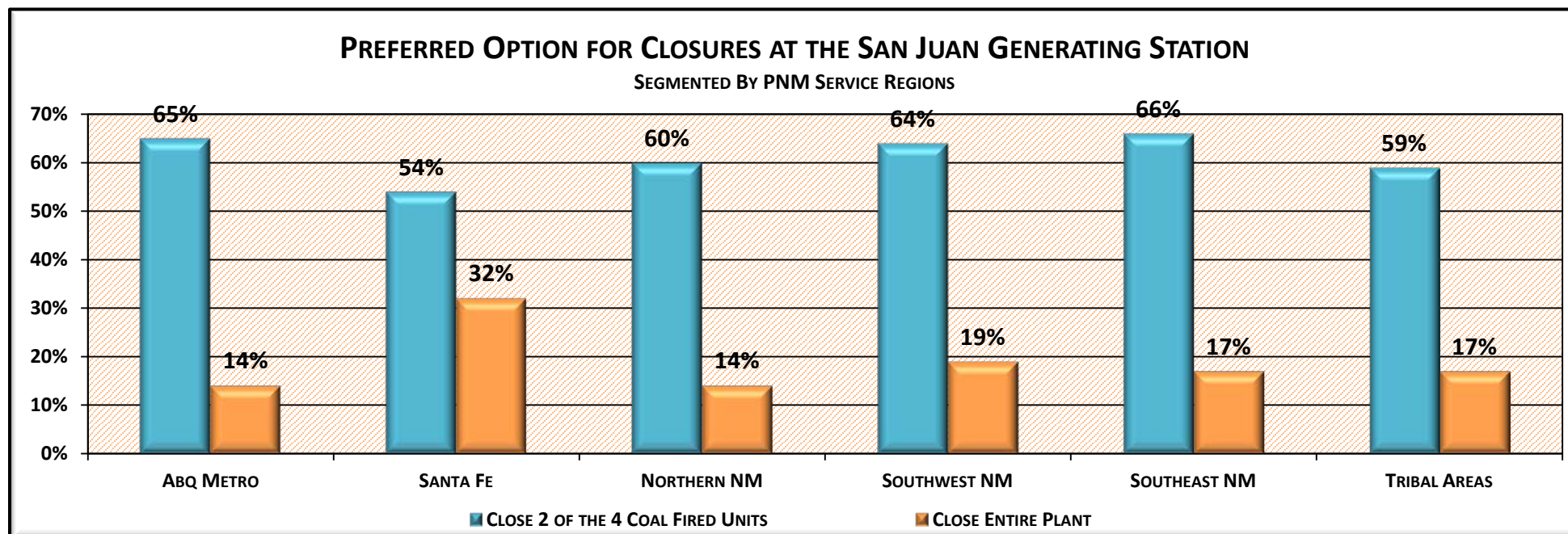
Customers were read **two different viewpoints (shown above, rotated when read to survey participants)** about the San Juan Generating Station operated by PNM and were asked, after being read both statements, if they support PNM’s plan to close two of the four coal-fired units at the San Juan plant, or if they prefer that PNM close the entire power plant. Two-thirds (66%) of PNM customers in the Southeast region service area say they support PNM’s plan to close two of the four coal-fired units, while 17% say PNM should close the entire plant. Four percent say “it depends” and 12% did not offer an opinion.

NOTE ON SURVEY QUESTION

Issues revolving around the fate of the San Juan Generating Station are complex. PNM and interested parties to this regulatory matter disagree on many of the underlying assumptions and projections built into the various scenarios that have been proposed. It would be impossible to design a survey question for the general population that would take into account all of issues pertaining to PNM's: ownership restructuring agreements, coal supply contracts, stranded assets, absorption of excess capacity at the remaining two units and cost projections for future coal supply, construction of natural gas plants, and renewable energy costs.

Much of the recent debate about the future of the San Juan Generating Station revolves around whether to allow PNM to absorb excess coal capacity in one of the two units that would remain open, if and when the utility closes the other two units. The question that was asked of PNM customers in the survey was not intended to measure that issue.

Instead, the question posed to PNM customers addressed a bigger picture question as to whether customers support the general concept of keeping two of the four generating units open, while using a mix of energy sources including less coal, or whether they would prefer to close the entire plant down and completely replace coal with other energy sources. PNM wanted customer feedback on this larger issue. Also, the survey question did not address the issue of cost, since the different parties to this debate disagree as to which scenario is the most cost effective.



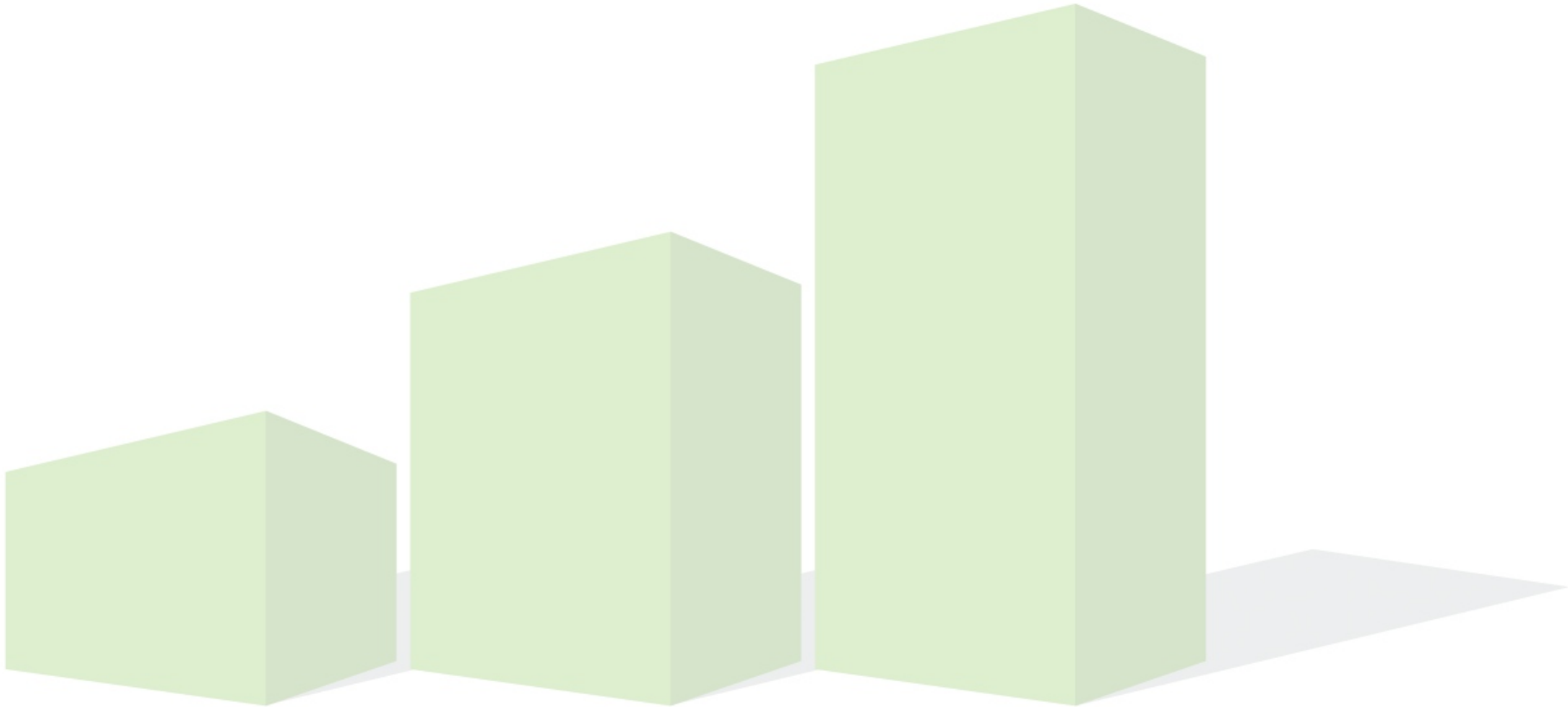
| PREFERRED OPTION FOR ADDRESSING CLOSURES AT THE SAN JUAN GENERATING STATION | | | | | | |
|---|-----------|----------|-------------|--------------|--------------|--------------|
| SEGMENTED BY PNM SERVICE REGIONS | | | | | | |
| | ABQ METRO | SANTA FE | NORTHERN NM | SOUTHWEST NM | SOUTHEAST NM | TRIBAL AREAS |
| CLOSE 2 OF THE 4 COAL-FIRED UNITS | 65% | 54% | 60% | 64% | 66% | 59% |
| CLOSE ENTIRE PLANT | 14% | 32% | 14% | 19% | 17% | 17% |
| DEPENDS (VOLUNTEERED) | 8% | 7% | 6% | 7% | 4% | 6% |
| NEITHER (VOLUNTEERED) | 2% | 1% | 2% | 1% | 1% | - |
| DON'T KNOW/WON'T SAY | 10% | 6% | 18% | 9% | 12% | 19% |

As shown above, the majority of PNM customers in each service region throughout the state are apt to support PNM's plan to close two of the four coal-fired units. Santa Fe customers are more likely than those in other regions to say that PNM should close the entire plant. However, the majority of Santa Fe customers (54%) still agree that PNM should close two of the four coal-fired units.

| REASONS FOR CHOOSING PREFERRED OPTION FOR ADDRESSING CLOSURE AT THE SAN JUAN GENERATING STATION | |
|--|-----|
| AMONG THOSE WHO CHOSE A CLOSURE OPTION SOUTHEAST NEW MEXICO RESPONSES TOP 9 UNAIDED RESPONSES | |
| PNM SHOULD CLOSE ENTIRE PLANT | |
| SHOULD BE PURSUING MORE RENEWABLES (SOLAR/WIND) | 16% |
| WILL REDUCE AIR POLLUTION | 7% |
| SHOULD CLOSE 2 OF THE 4 COAL FIRED UNITS | |
| NEED MORE RELIABLE ELECTRICITY | 20% |
| SOLAR/WIND ARE NOT AS RELIABLE | 8% |
| WILL CUT JOBS | 7% |
| ELECTRIC RATES WILL GO UP | 7% |
| TAKE CLOSURES ONE STEP AT A TIME | 6% |
| TRANSITION OVER IN TIME | 6% |
| NEUTRAL | |
| NEED MORE INFORMATION | 7% |

Customers were asked to give the **primary reasons for their opinion** on which option they believe is best in regards to addressing closures at the San Juan Generating Station. Sixteen percent of customers in the Southeast region who say that PNM should close the entire plant mention that PNM should be pursuing more renewables, while 7% mention a reduction in air pollution. Those who say PNM should close two of the four coal-fired units mention a need for more reliable electricity (20%), solar/wind are not as reliable (8%), will cut jobs (7%), electric rates will go up (7%), to take generating unit closures one step at a time (6%), and transition over time (6%). Seven percent say they need more information.

II. DEMOGRAPHICS



DEMOGRAPHICS: RANDOM COMPONENT OF PNM SERVICE AREA

SOUTHEAST TOTAL SAMPLE (N=205)

GENDER

| | |
|--------|-----|
| MALE | 49% |
| FEMALE | 51% |

AGE

| | |
|-------------------|-----|
| 18 TO 34 YEARS | 19% |
| 35 TO 49 YEARS | 14% |
| 50 TO 64 YEARS | 42% |
| 65 YEARS OR OLDER | 23% |
| WON'T SAY | 1% |

EDUCATION

| | |
|--|-----|
| HIGH SCHOOL GRADUATE OR LESS | 33% |
| SOME COLLEGE/ASSOCIATE DEGREE/VOCATIONAL CERTIFICATE | 38% |
| COLLEGE GRADUATE (4 YEARS) | 18% |
| GRADUATE DEGREE | 9% |
| WON'T SAY | 2% |

ETHNICITY

| | |
|------------------------|-----|
| ANGLO | 60% |
| HISPANIC | 26% |
| BLACK/AFRICAN-AMERICAN | 1% |
| NATIVE AMERICAN INDIAN | 3% |
| OTHER DESCENT | 7% |
| WON'T SAY | 4% |

HOUSEHOLD INCOME

| | |
|----------------------|-----|
| LESS THAN \$20,000 | 22% |
| \$20,000 TO \$39,999 | 20% |
| \$40,000 TO \$59,999 | 18% |
| \$60,000 TO \$79,999 | 8% |
| \$80,000 AND OVER | 16% |
| WON'T SAY | 16% |

