

PNM 2015 Electric Rate Case Executive Summary

PNM's electric rate case filing requests a rate increase of approximately \$123.5 million, which PNM proposes to become effective by July 1, 2016. The incremental revenue increase for residential customers has been limited to 15.83%, with an average revenue increase for all customers of approximately 14.39%. In combination with changes to PNM's fuel rates and other riders projected to occur between January 1 and July 1, 2016, the overall bill impact for the residential class could be as low as 7.91% and the average bill impact for all customers as a whole could be as low as 5.42%. Even with the proposed rate increase, PNM residential customers will still pay less for electric service as a percentage of household income than in most other states, including Arizona and Texas.

It has been nearly five years since PNM customers have seen a base rate increase. Since its last rate case in 2010, PNM has invested in utility plant and facilities to protect the environment, to install solar and other clean energy technologies, and to maintain safe and reliable service to our customers. The primary reason behind the requested increase is to recover the costs associated with those investments, including depreciation. Because of PNM's aggressive cost control efforts, O&M expenses have stayed relatively flat. These cost control efforts are reflected in PNM's rate request.

While a growing system demand has required PNM to increase investments in our electric system, PNM's energy sales have declined since our last rate case. Customers' changing usage patterns are not only contributing to the needed rate increase, but are driving necessary changes in the structure of PNM's rates. As a result, PNM is proposing several changes to its rates to reflect how customers use energy today.

PNM's proposals reflect a measured approach in making changes that impact customers. PNM's new rate design improves price signals so customers can make more informed decisions about their energy use. It also balances rate impacts among customer classes. Even after implementation of the proposed rates, PNM will continue to offer low, competitive rates for New Mexico business and residential consumers.

PNM's success with energy efficiency programs has contributed to the decline of energy sales over time. PNM proposes to use a decoupling mechanism for residential and small power customers to remove the disincentives these successful measures create for PNM, as part of its efforts to match cost recovery to how energy is used.

Highlights of the Case

- A revenue requirement including base fuel revenues of \$981,455,795
 - Increased revenue requirement of \$123,498,612
 - ROE of 10.5%
- PNM's proposed rates are based on a Future Test Year Period (Test Period)
 - Test Period is October 1, 2015, through September 30, 2016 with a Base Period of April 1, 2014 through March 31, 2015 and linkage data.
 - Test Period is based on the Commission's recent directives for future test year rate cases.
 - Cost of service information is presented in an electronic, fully functional model.

- Key Drivers for the rate request
 - Increase in rate base from June 30, 2010, through the Test Period ending September 30, 2016, of \$655 million
 - Depreciation Expense
 - Increased investment in plant as well as the results of a new depreciation study.
 - PNM's recommended depreciation rates increase annual depreciation expense by approximately \$21 million per year.
 - Declining sales contributing to nearly \$31 million of the revenue deficiency
 - Significant change due to low customer growth, declining usage per customer and energy efficiency.
 - The recovery of the U.S. economy since 2009 has failed to take hold in New Mexico.
 - PNM's projected 2016 sales are 4.5% lower than sales included in the 2010 rate case.
 - Savings on Palo Verde lease expenses help to offset these increases by nearly \$17 million.

- Rate Design - PNM seeks to update its current rate design to better reflect customers' use of the system. PNM has proposed several rate design modifications consistent with its rate design principles, including:
 - The use of an embedded cost allocation as required by PNM's last rate case as the starting point. To balance the uneven rate impacts to residential and irrigation customers, PNM applied a 15.6% cap on the amount of non-fuel base rate increases allocated to any customer class. When base fuel rates are included, the overall increase for the residential customer class is 15.83%.
 - A four-year pilot decoupling mechanism (the Revenue Balancing Account) for residential and small power customers to remove the regulatory disincentives for energy efficiency programs. The Revenue Balancing Account helps to solve the cost recovery problem inherent in PNM's rate design, where a significant portion of its fixed costs are recovered through volumetric energy charges.
 - Implementation of a new economic development tariff for large commercial and industrial customers that will offer a discount on billed demands to encourage new industry to locate in the state and existing customers to expand their operations.
 - Although most of PNM's costs are fixed and do not vary with the amount of electricity sold, recovery of the majority of these costs has been tied to sales volumes. PNM is including more of these fixed costs in customer and demand charges rather than energy rates, because that better matches how costs are incurred with how they are recovered.

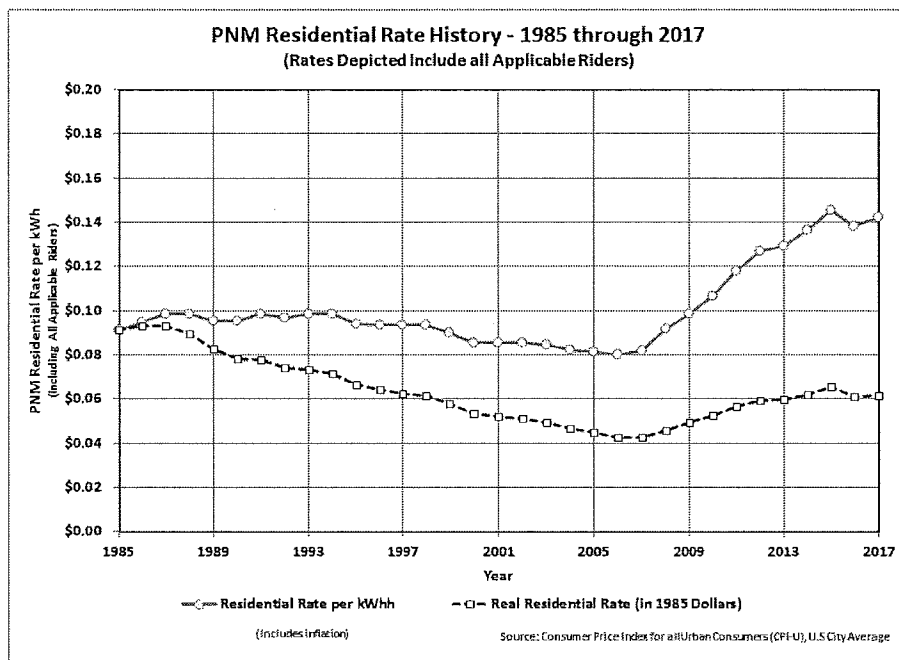
- Continuation of the Renewable Energy Rider, a beneficial mechanism for both customers and PNM to recover costs incurred to comply with the Renewable Energy Act.
 - PNM's proposed new base rates will not include the costs that are recovered through PNM's Renewable Energy Rider, Rider 36.
 - Continue the Earnings Test process to assure that use of the Renewable Energy Rider does not result in excessive earnings by PNM.

The base rate increase and the current bill impact for major customer classes is provided below:

Proposed Rate Increase and Bill Impact for Major Classes		
Class	% Revenue Increase	% Bill Increase ¹
Residential	15.83%	7.91%
Small Power	14.42%	7.00%
General Power	14.47%	5.17%
Large Power	14.24%	2.81%
Large Power >= 8,000	9.36%	-2.64%
Universities	9.34%	-2.39%
Manufacturing	9.38%	-4.83%
System Total	14.39%	5.42%

¹ Reflects impact of proposed rate increases when combined with other anticipated FPPCAC and rider changes that may occur prior to July 2016.

Even with the proposed rate increase, PNM rates will be lower in real dollars than in 1985.



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