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December 7, 2016

Ms. Melanie Sandoval
Records Bureau Chief
New Mexico Public Regulation Commission
1120 Paseo De Peralta
Santa Fe, NM 87501

**Re: PNM Application for Revision to Rates in Case No. 16-00276-UT
and Advice Notice No. 533**

Dear Ms. Sandoval:

Pursuant to the requirements of 17.1.210.11(B) and 17.9.530.9 NMAC, Public Service Company of New Mexico ("PNM"), hereby submits its request for an increase in retail electric rates. Included in this filing are the original plus six copies of PNM's Advice Notice No. 533, an Executive Summary, the Application for Revision of Retail Electric Rates including a Proposed Form of Notice to Customers, proposed Rate Schedules, required Rule 530 Schedules, PNM's supporting Direct Testimonies and Exhibits and a Certificate of Service. PNM's Application, Advice Notice No. 533 and filing documents are described below.

Application

PNM is requesting a rate increase based on a future test year period for the twelve-month period beginning January 1, 2018. PNM projects a non-fuel revenue requirement of \$791.6 million for the Test Period. PNM will experience a non-fuel revenue deficiency of \$99.2 million for the Test Period, which reflects a material change in circumstances from the test period utilized in the 2015 Rate Case. Among other things, the filing implements the ratemaking requirements that result from the resource retirements and replacements approved by the Commission in NMPRC Case No. 13-00390-UT, which account for approximately \$35 million of the total revenue deficiency. Other drivers include ongoing capital investments in plant of approximately \$29 million; changes in billing determinants from changing customer usage patterns, with an impact of approximately \$11 million; and revisions in jurisdictional allocations of approximately \$9 million. The filing seeks a return on equity of 10.125%. A summary of PNM's requested approvals is contained in the Application. PNM's revenue requirement does not include the Commission's disallowances in the 2015 Rate Case related to PNM's investments in 64.1 MW of capacity in Palo Verde Unit 2 and Balanced Draft conversion at San Juan Generating Station.

PNM is requesting approval of a narrowly tailored disincentive removal proposal. In compliance with the requirements in the Commission's Energy Efficiency Rule, 17.7.2 NMAC, PNM is submitting Rider 48 – Lost Contribution to Fixed Costs ("LCFC") applicable to Retail Rate Schedules 1A, 1B, 2A and 2B to remove regulatory disincentives for energy efficiency. The LCFC mechanism is a rate rider that will recover amounts associated with the fixed costs included in volumetric charges that are otherwise not recovered because of reduced energy sales that result from savings achieved through PNM's energy efficiency and load management programs.

If the Commission grants PNM the full amount of rate relief being requested, PNM proposes to phase-in the rates, as more fully described in the Application and Testimonies, in recognition of the close proximity in time between this case and the recent rate increase that became effective October 1, 2016. Therefore, PNM is also filing with its Advice Notice a set of rate schedules that reflect its phase-in proposal, as described below. PNM's proposal would result in a first phase rate increase of \$50 million, which is a 7.2% increase, effective January 1, 2018; the second phase would add the remaining \$49.2 million, or an additional 7.1%, effective January 1, 2019. For a PNM residential customer using an average amount of 563 kWh per month, the average bill including the projected applicable riders would increase by \$10.49 per month. PNM estimates that an average residential customer's monthly bill would increase by \$5.82 in 2018 and by an additional \$4.67 in 2019.

PNM's filing uses a twelve month Base Period ending June 30, 2016, and a twelve month Test Period of calendar year 2018. On November 9, 2016, the Commission granted PNM a variance to extend the Base Period 150-day time limit, permitting this case to be filed no later than December 16, 2016, using this Base Period. At the time PNM filed for this variance, this case was identified as Case No. 16-00276-UT, and the application fee of \$25.00 was paid.

Notice of the proposed changes will be given as required by 17.1.210 and 17.9.530 NMAC.

Advice Notice No. 533

PNM is filing Advice Notice No. 533 with an effective date of January 6, 2017 or as otherwise ordered by the Commission. PNM understands that the Commission will suspend the effectiveness of the new rates pending hearing in accordance with § 62-8-7C NMSA 1978. Because the rates are based on a future test year of 2018, it is PNM's intent that the rates go into effect on January 1, 2018. Issuance of a Final Order before the end of a twelve-month suspension from the effective date of the Advice Notice will allow new rates to go into effect on the intended date. If PNM's full revenue requirement is approved by the Commission in this case, PNM voluntarily proposes to implement the full rate increase in two phases so that the first phase of rates is in effect January 1 through December 31, 2018; and the rates for the full increase go into effect January 1, 2019. The rate schedules filed in the Advice Notice include the rates proposed to recover the full amount of the requested revenue requirement, as well as an attachment that contains rates for the one-year period of the first phase of PNM's phase-in proposal, if so approved. PNM's Advice Notice No. 533 follows the format filed and accepted by the Commission's Records Bureau in Advice Notice No. 397 for PNM's requested phase in of the rates in NMPRC Case No. 10-00086-UT.

Filing Documents

The filing documents submitted in support of the proposed rate increase are as follows:

- Executive Summary
- Advice Notice No. 533
- Application and Proposed Form of Notice to Customers
- Rule 530 Schedules A - Q
- Direct Testimony and Exhibits of PNM Witnesses Ortiz, Monroy, Hevert, Olson, Mechenbier, Mendez, Eden, Gagne, Monfiletto, Sanchez, Cavanaugh, Harland, Chan, Vogt, Aguirre.
- DVDs containing Functional Electronic Models, 530 Schedules, and Workpapers.

In compliance with 17.2.210.11(B) NMAC, PNM is serving a copy of this Application and supporting documents, including the Advice Notice, on the Attorney General and all counsel of record and pro se parties in PNM's last general rate case, Case No. 15-00261-UT. PNM is providing those specifically identified in the Certificate of Service with either a hard copy or an electronic submittal of the entire filing. Additionally, three DVD's are being provided: 1) DVD of the Transmittal letter, Executive Summary, Application, Advice Notice, Form of Notice to Customers, Rule 530 Schedules, Testimonies and Exhibits and Certificate of Service; 2) DVD of PNM Exhibits HEM-3 and HEM-4 (revenue requirements and workpapers) in fully functional electronic format consistent with 17.1.3.11 NMAC as well as PNM's ECCOSS and rate design models; and 3) DVD of certain 530 Schedules and PNM Witness Exhibits that are available in Microsoft Excel® format and, for ease of review and navigation, Microsoft Word® versions of the direct testimonies and select large exhibits.

All notices, pleadings, documents and other communications regarding this case should be sent to:

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PNM further requests that all pleadings, correspondence and other documents be delivered electronically to the following email addresses: Carey Salaz, Carey.Salaz@pnm.com; Ryan Jerman, Ryan.Jerman@pnmresources.com; Richard Alvidrez, ralvidrez@mstlaw.com; Robert Clark, rclark@mstlaw.com; Debrea Terwilliger, DTerwilliger@wbklaw.com; and Jennifer Hall, jhall@mstlaw.com.

Included is the \$22.00 filing fee for the Advice Notice. The original and five copies are for filing. Please conform the sixth copy of the Application and the Advice Notice for our files and return it with our courier. If you have any questions, please contact me at 505-241-2561.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerard Ortiz", written over the printed name.

Gerard Ortiz
Vice President, PNM Regulatory Affairs

Enclosures

GCG#522680