BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 533	)	**Case No. 16-00276-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant	)	

APPLICATION FOR REVISION OF RETAIL ELECTRIC RATES

Public Service Company of New Mexico ("PNM"), through its undersigned counsel, files its Application for Revision of Retail Electric Rates and supporting schedules, testimonies, exhibits, models in electronic format, and workpapers (collectively, the "Application") pursuant to Rules 17.9.530 NMAC, 17.1.2.10 NMAC, 17.1.3 NMAC ("FTY Rule"), and 17.1.210 NMAC. Advice Notice No. 533 contains the rates PNM supports in the Application. The rates proposed in Advice Notice No. 533 are just and reasonable, are fully supported in the Application, and should be approved. PNM is filing this Application, in part, to implement the New Mexico Public Regulation Commission's ("NMPRC" or "Commission") Final Order in Case No. 13-00390-UT (the "BART Case"), which together with other changes, materially alter PNM's 2018 operating and financial conditions from the conditions that existed at the time PNM's current rates were set in Case No. 15-00261-UT ("2015 Rate Case"). To incorporate the ratemaking treatment necessitated from the BART Case in PNM's rates as of January 1, 2018, PNM requests that the Commission issue a Final Order in this case that approves this Application and the rates contained in Advice Notice No. 533 no later than December 14, 2017. In support of its Application and Advice Notice No. 533, PNM states the following:

1. PNM is a public utility that provides retail electric service in New Mexico subject to the jurisdiction of the Commission.

2. PNM's current rates for electric service were authorized by the Commission in the approvals set forth in its *Final Order Partially Adopting Corrected Recommended Decision* ("Final Order") issued on September 28, 2016 in the 2015 Rate Case.

3. PNM's Application complies with the filing requirements of 17.9.530 NMAC and the FTY Rule; incorporates the ratemaking treatment necessary to implement the Commission's order in the BART Case; incorporates the approvals and capital investment disallowances set forth in the 2015 Rate Case Final Order; and addresses specific compliance requirements ordered by the Commission in the 2015 Rate Case. Among other things, implementation of the Commission's Final Order in the BART Case requires changes in PNM's cost of service, effective January 1, 2018, associated with:

a. the abandonment of Units 2 and 3 of the San Juan Generating Station ("SJGS") effective December 31, 2017; and

b. the granting of Certificates of Public Convenience and Necessity, effective January 1, 2018, for 1) replacement resources of 132 MW of SJGS Unit 4 with an initial rate base valuation of zero plus the cost of reasonable and prudent ongoing investments in SJGS Unit 4, which include the installation of selective non-catalytic reduction emission control technology; and 2) for 134 MW of Palo Verde Nuclear Generating Station ("PVNGS") Unit 3 at its actual net book value at December 31, 2017 estimated at approximately $1,101 per kW.

4. PNM's proposed rates are based on a twelve-month Future Test Year Period ("Test Period") that begins January 1, 2018 and is consistent with NMSA 1978, Section 62-3-

3(P) (2009); Section 62-6-14 (2009); and the FTY Rule. The Test Period reflects the expected financial and operating conditions PNM will experience during the first year the proposed rates are in effect.

5. PNM's Application includes a Base Period, Adjusted Base Period, and linkage data, as addressed in the Direct Testimony of PNM Witness Henry E. Monroy, that meet the data requirements of Rule 530 and the FTY Rule. The Base Period, which reflects PNM's actual experience according to its book balance of accounts, is the twelve-month period ending June 30, 2016. PNM's Adjusted Base Period includes fully explained annualizations, normalizations, and adjustments for known and measurable changes that occur within the Base Period. The linkage data and information provide specific and detailed descriptions of all line items for July 1, 2016 through December 31, 2017, the period between the Base Period and the Test Period.

6. PNM projects a non-fuel revenue requirement of $791.6 million for the Test Period. The Application demonstrates 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. Approximately 65% of this $99.2 million revenue deficiency directly relates to PNM's ongoing capital investments and previously approved resource additions or abandonments, including depreciation, property taxes, return on investment and associated income taxes. The requested rate increase will result in a projected overall system average non-fuel revenue requirement increase of 14.33%. PNM has capped the average non-fuel revenue requirement increase for the residential class to 15.76%.

7. If the Commission approves PNM's full non-fuel revenue requirement, PNM voluntarily proposes to recover that revenue requirement through a two-part phase-in of rates. Advice Notice No. 533 contains all the rates and charges necessary to collect PNM's full revenue

requirement, including the rates for the full increase and one-year rates that would apply in 2018 if the phase-in schedule is approved. PNM's phase-in proposal would result in a rate increase of $50 million, which represents a 7.2% increase in non-fuel revenues, effective January 1, 2018; and the remaining increase of $49.2 million, or an additional 7.1% increase, would take effect January 1, 2019. Under the phase-in approach, PNM estimates that a typical residential customer bill would increase by $5.82 in 2018 and by $4.67 in 2019. The actual average bill increase will vary among rate classes.

8. The $99.2 million non-fuel revenue deficiency is caused by the following:

a. approximately $35 million is attributable to changes to PNM's generation portfolio approved in the BART Case;

b. approximately $29 million is attributable to ongoing capital projects needed to provide safe and reliable electricity service to customers;

c. approximately $11 million is attributable to retail customer usage and load characteristics that are reflected in the proposed cost of service and rate design; and

d. approximately $9 million is attributable to updated jurisdictional allocations.

The remainder of the deficiency consists of a variety of other cost of service adjustments.

9. PNM is requesting all approvals and determinations necessary to implement the rates as set forth in this Application and Advice Notice No. 533, including approval of the cost of service, regulatory assets and liabilities, cost allocations, and tariffs for electric service, and including:

a. approval of a Test Period non-fuel revenue requirement of $791.6 million, including a return on equity ("ROE") of 10.125% and an after-tax weighted average cost of capital of 7.51%;

b. approval to establish certain new regulatory assets and liabilities, including (1) a new regulatory asset to begin recovering incremental rate case expenses incurred in this proceeding; (2) a new regulatory asset to begin recovering costs incurred to enter into the SJGS Coal Agreement, which is providing significant fuel savings to customers; and (3) a new regulatory asset to begin recovering impairment of additional state net operating loss ("NOL") carryforwards incurred after the 2015 Rate Case;

c. approval to begin recovery or refunds of previously approved regulatory assets and liabilities, including: the regulatory asset to recover 50% of the undepreciated investment in SJGS Units 2 and 3; and the regulatory liability for PVNGS Unit 3 Department of Energy spent fuel refunds, to be refunded through PNM's Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC");

d. approval to continue recovery of other previously approved regulatory assets in the 2015 Rate Case, including (1) the unamortized Las Vegas decommissioning regulatory asset and liability, (2) the regulatory asset for the 2015 Rate Case expenses, and (3) the regulatory asset associated with the impairment of state NOL carryforwards over a three-year period, beginning January 1, 2018;

e. approval to begin amortizing estimated excess deferred state income taxes over a twenty-year period, subject to future true-up;

f. approval of comprehensive rate design modifications that rely on an embedded class cost of service study to allocate the revenue requirement among rate classes, subject to mitigation of disproportionate impacts for some customer classes;

g. approval of rate design changes that better align cost causation with cost recovery, including: recovering customer-related costs through monthly customer charges and demand-related costs through demand charges; and modifying inclining block rates; and

h. approval of the proposed new Rider No. 48 – Lost Contribution to Fixed Costs ("LCFC") to remove regulatory disincentives for energy efficiency programs as required by NMSA 1978, Section 62-17-5(F) of the Efficient Use of Energy Act ("EUEA").

10. For informational purposes only, PNM projects a revenue requirement associated with forecasted fuel and purchased power expenses of $141 million for 2018. Consistent with the Final Order in the 2015 Rate Case and with the Commission's Final Order in Case No. 13-00187-UT, PNM will continue to collect 100% of its non-renewable fuel and purchased power expenses through the FPPCAC with a quarterly adjustment factor. PNM's current FPPCAC was approved in Case No. 13-00187-UT for a period of up to four years, in accordance with Rule 17.9.550.17(A) NMAC. Because PNM will seek approval to continue its FPPCAC through a separate proceeding initiated no later than April 23, 2018, no approvals are necessary in this case with regard to PNM's ongoing recovery of its fuel and purchased power expenses through the FPPCAC.

11. In addition to the anticipated implementation of the Commission's orders in the BART Case, other circumstances that have materially changed from the test period described in the 2015 Rate Case include PNM's undertaking of additional, necessary and ongoing capital investments in public utility plant and property in order to provide reliable service to its customers and to comply with applicable regulatory requirements; and increasing annual expenses. PNM's necessary capital investments include investments in various generation assets, such as selective catalytic reduction ("SCR") pollution control equipment at the Four

Corners power plant, and investments in transmission and distribution projects to accommodate load and system operational requirements.

12. PNM's proposed rates reflect changes in wholesale generation and transmission customers, which impact the jurisdictional allocations to PNM's retail customers during the Test Period; and reductions in the Test Period billing determinants in comparison with the 2015 Rate Case billing determinants, attributable in part to changes in energy usage per customer.

13. PNM's proposed rates reflect the Commission's rate design approvals in the 2015 Rate Case, and include additional rate design adjustments to move toward more cost-based rates among and within customer classes. Consistent with the Commission's approvals in the 2015 Rate Case and to mitigate the disproportionate impacts of rates among rate classes, PNM proposes to cap its rate increase for any single rate class at 15.76%, applying an upper and lower range, or "banding," of customer class revenue requirement increases.

14. Pursuant to Section 62-17-5 of the EUEA, PNM is proposing its new LCFC mechanism Rider No. 48, applicable to residential and small power customers, to remove the regulatory disincentives that result from PNM's implementation of energy efficiency and load management programs. PNM's LCFC mechanism identifies the set total amount of fixed costs to be recovered through volumetric charges from residential and small power customers, subject to the Commission's final determination in this case. PNM's LCFC mechanism is narrowly tailored, and meets the objectives of the EUEA, as well as the criteria set forth by the Commission in the 2015 Rate Case for an acceptable energy efficiency disincentive mechanism.

15. Advice Notice No. 533 has a proposed thirty-day effective date of January 2017, or as otherwise ordered by the Commission, in accordance with the provisions of Rules 17.1.210.9 NMAC, 17.9.530.7(L) NMAC, and 17.9.530.9 NMAC. Because the proposed rates

are based on a FTY period for 2018, PNM intends for the rates to become effective January 1, 2018. Based upon past practice, PNM reasonably believes that the Commission will suspend the proposed new rates within thirty days of the Advice Notice filing, pending a hearing in accordance with NMSA 1978, Section 62-8-7(C) (2011). PNM requests timely consideration of its Application and Advice Notice No. 533 within a nine-month suspension period as provided for in Section 62-8-7(C). Should the Commission ultimately require an additional period of suspension, PNM respectfully requests that the Commission issue a final order no later than December 14, 2017, to allow sufficient time for PNM to file its compliance Advice Notice so that the approved rates go into effect January 1, 2018. Advice Notice No. 533 contains tariff sheets that, if the full revenue requirement is approved, allow for the full rates to be implemented in two phases, with an initial rate change effective January 1, 2018 and the remaining rate change effective January 1, 2019.

16. As of January 1, 2018, PNM's currently authorized rates will no longer be just and reasonable and will not allow for a reasonable return on PNM's investment in public utility plant and property.

17. As of January 1, 2018, PNM's rates and authorized revenues as presently allocated will not adequately reflect the cost of service for the respective classes of electric customers.

18. Pursuant to Rule 17.1.2.10(B) and (C) NMAC, PNM is submitting a copy of the Advice Notice No. 533 with this Application. In addition, the Application and PNM's proposed rates are accompanied and supported by Rule 530 Schedules A through Q (as modified by the FTY Rule, 17.1.3.8(A) NMAC), and supporting workpapers; and the direct testimonies and exhibits of the following fifteen witnesses:

- Gerard T. Ortiz, Vice President of Regulatory Affairs, is PNM's policy witness, provides an overview of the circumstances requiring rate relief, supports PNM's proposed LCFC mechanism, and summarizes PNM's requested approvals and compliance with Commission orders and rules;
- Henry E. Monroy, Director of Cost of Service and Audit Services, supports PNM's requested revenue requirement, regulatory assets and liabilities, and sponsors the fully functional cost of service model;
- Robert B. Hevert, Partner at Scott Madden Management, supports PNM's proposed ROE and addresses related topics, including current economic conditions, and confirms the reasonableness of PNM's proposed capital structure;
- Chris M. Olson, Vice President of PNM Generation, supports PNM's capital investments in generation facilities, and non-fuel operations and maintenance expenses ("O&M"), including appropriate expense adjustments related to the timing of plant outages and changes in the composition of the generation fleet;
- Jeff R. Mechenbier, Director of Transmission and Distribution Planning Contracts, supports PNM's capital investments in transmission and distribution and the related O&M expenses, addresses impacts of wholesale transmission contracts, and supports PNM's requested rights-of-way renewals;
- Sheila M. Mendez, Director of IT Program/Portfolio Management and Quality, supports the corporate capital investments needed to maintain facilities, equipment, and reliable computer systems;

- Yannick Gagne, Senior Consultant and Actuary for Willis Towers Watson, supports PNM's contributions to its pension plan, including PNM's prepaid pension asset, and analyzes the possible annuitization of the PNM electric operations pension plan;
- Elisabeth A. Eden, Vice President and Treasurer, addresses why maintaining PNM's financial health is in the best interests of PNM's customers, supports PNM's proposed capital structure and weighted average cost of capital, supports recovery of contributions to the Palo Verde Nuclear Decommissioning Trust Fund, and provides the Company's position on annuitization of the electric operations pension plan, based on the analysis performed by Mr. Gagne;
- Laurie S. Monfiletto, Vice President of Human Resources, supports the revenue requirements associated with employee base salary and incentive compensation programs, as well as employee benefits;
- Leonard A. Sanchez, Associate General Counsel, supports the reasonableness and prudence of PNM's request for recovery of litigation expenses;
- Meaghan Cavanaugh, Senior Corporate Communications Representative, supports the reasonableness of PNM's request for advertising expenses;
- Matthew F. Harland, Director of Income Tax, addresses income tax expenses and accumulated deferred income taxes included in rate base and supports PNM's proposals relating to specific tax-related regulatory assets and liabilities;
- Stella Chan, Executive Director of Strategic Marketing and Product Management, supports PNM's demand and energy forecasts, a Transitional Rider No. 8 – Incremental Interruptible Power Rate and overall rate design proposals;

- Scott A. Vogt, Manager of Pricing and Business Analytics, supports the customer class allocation process and the Embedded Class Cost of Service Study; and
- Julio C. Aguirre, Lead Pricing Analyst, supports PNM's Rate Design Model and proposed modifications to existing rate structures, explains the bill impact associated with PNM's proposed rates, and supports the derivation of the proposed LCFC mechanism.

19. Pursuant to Rule 17.1.3.11 NMAC, revenue requirements information and data related to the Base Period, adjusted Base Period, linkage data and Test Period are being provided in fully functional electronic format so that amounts in schedules and supporting work papers required by the FTY Rule can be traced with relative ease to the supporting, detailed data. PNM has identified the information and data that it is not providing in fully functional electronic format together with an explanation as to why it has not done so. To the extent inputs to the fully functioning electronic support for the Test Period are fed by systematic calculations within other PNM programs that are not downloadable to fully functioning and executable spreadsheets, PNM will rerun such supporting programs for input changes reasonably required by the Commission's Utility Division Staff or intervenors in accordance with 17.1.3.11(B) NMAC.

20. Pursuant to Rule 17.1.2.10(B)(2)(a) and (b) NMAC, PNM's proposed Notice to Customers is attached as Appendix A to this Application. The proposed Notice includes a statement of the present and proposed non-fuel rates for each customer class and the anticipated non-fuel bill impacts to residential customers at various usage levels under the proposed new rates. Appendix A is provided for informational purposes only and the level of authorized revenue and final rate design approved by the Commission may change the rates ultimately charged to each customer class and for each consumption level from those proposed by PNM.

21. In compliance with Rule 17.1.210.11(C) NMAC, PNM states that the information and tables contained in the Notice to Customers concisely state the anticipated changes in annual revenue resulting from the proposed changes to the rates as set forth in this Application, for each rate class affected, and the impact on customers at a class average of consumption within each class as nearly as may be calculated.

22. In compliance with Rule 17.1.210.11(B) NMAC, PNM will serve a copy of this Application and Advice Notice No. 533 on the Attorney General and all counsel of record and pro se parties in PNM's 2015 Rate Case.

23. Pursuant to Rule 17.1.2.10(B)(2)(d) NMAC, PNM has fully complied with all Commission final orders in each of PNM's cases decided during the preceding five years, as evidenced by PNM's Rule 510 Annual Report filing of April 29, 2016, and as further addressed in the testimonies in support of this Application.

24. PNM also requests approval of variances from any rules, regulations, or provisions of prior Commission orders that the Commission may determine are necessary for approval of and to implement the rates contained in Advice Notice No. 533.

25. PNM's exact legal name, address/ and telephone number are:

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The names, address, and telephone numbers of PNM's attorneys are:

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Mr. Richard L. Alvidrez, Mr. Robert H. Clark, and Ms. Debrea Terwilliger also appear in this proceeding as counsel of record for PNM; Ms. Terwilliger appears subject to the requirements of Rule 1.2.2.9.E NMAC.

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In addition to service on Mr. Phillips and Ms. Goodwin and electronic service on Mr. Alvidrez, Mr. Clark and Ms. Terwilliger as indicated below, PNM requests that all pleadings, correspondence and other documents served on PNM be e-mailed, mailed and delivered to:

Mark Fenton
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PNM further requests that all pleadings, correspondence and other documents also 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; Jennifer Hall, jhall@mstlaw.com; and Debrea Terwilliger, DTerwilliger@wbklaw.com.

WHEREFORE, PNM requests that the Commission, after notice and hearing, issue a final order granting all approvals required for PNM to implement the revised rates set forth in Advice Notice No. 533, and to implement or continue other proposals set forth in PNM's Application and supporting testimonies and exhibits. PNM requests that the Commission set such procedural schedules as are necessary for PNM to implement the resulting rate changes on January 1, 2018 and for such further relief as the Commission deems proper under the circumstances.

Respectfully submitted this 7th day of December, 2016.

PUBLIC SERVICE COMPANY OF NEW MEXICO

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