**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

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| **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** | ) | |

**DIRECT TESTIMONY**

**OF**

**GERARD T. ORTIZ**

**December 7, 2016**

**NMPRC CASE NO. 16-00276-UT**
**INDEX TO THE DIRECT TESTIMONY OF GERARD T. ORTIZ**
**WITNESS FOR**
**PUBLIC SERVICE COMPANY OF NEW MEXICO**

**DIRECT TESTIMONY OF**
**GERARD T. ORTIZ**
**NMPRC CASE NO. 16-00276-UT**

## I. INTRODUCTION AND PURPOSE

**Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

**A.** My name is Gerard T. Ortiz. I am the Vice President of Regulatory Affairs for Public Service Company of New Mexico ("PNM" or "Company"). My business address is Public Service Company of New Mexico, Headquarters Building, 414 Silver SW, Albuquerque, New Mexico 87102.

**Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT, REGULATORY AFFAIRS.**

**A.** I am responsible for PNM's overall regulatory strategy in New Mexico. I oversee Regulatory Services, Regulatory Policy and Case Management, and Energy Efficiency.

**Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL QUALIFICATIONS.**

**A.** I graduated from New Mexico State University in 1981 with a Bachelor of Science degree in Electrical Engineering. I obtained a Master of Business Administration degree, with a concentration in Finance, from the Robert O. Anderson Graduate School of Management at the University of New Mexico in 1988. I am a Registered Professional Engineer in the State of New Mexico (Registration No. 9687). Since 1981, I have been employed by PNM, and have held a variety of engineering, supervisory, and managerial positions in Distribution Engineering, Electric Marketing, Business Planning, and Market Services in addition to my current assignment. I was promoted to my current position in

August 2012. A statement of my experience and qualifications, including a list of the New Mexico Public Regulation Commission ("NMPRC" or "Commission") proceedings in which I have either testified or filed testimony, is attached as PNM Exhibit GTO-1.

**Q. PLEASE DESCRIBE PNM'S RATE FILING PACKAGE.**

**A.** PNM's rate filing package includes the following:

1. PNM's Application, proposed form of Notice and Executive Summary;
2. Advice Notice No. 533, which contains PNM's proposed changes to its existing rates and tariffs;
3. Testimonies and exhibits of PNM witnesses in support of Advice Notice No. 533, including exhibits that support PNM's proposal to phase-in the requested rate increase, if the Commission adopts PNM's proposed revenue requirement;
4. PNM's Rule 530 Schedules, which provide all required data for PNM's Base Period and Test Period, as modified in accordance with the Future Test Year Rule, Rule 17.1.3 NMAC ("FTY Rule"); and
5. PNM's fully functional, electronic Cost of Service Model, together with PNM's electronic class cost of service and rate design models, which comply with the requirements of the FTY Rule.

**Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

**A.** The purpose of my testimony is to:

(1) identify PNM's requested approvals and the major drivers in this case;

(2) identify the witnesses who provide testimony and exhibits in support of PNM's filing;

(3) summarize the general ratemaking principles reflected in PNM's cost of service, including the future test period that PNM is using in accordance with the FTY Rule and the Public Utility Act ("PUA");

(4) explain PNM's proposed ratemaking actions relating to changes in PNM's generation resource portfolio in 2018, pursuant to the Commission's Final Order in NMPRC Case No. 13-00390-UT (the "BART Case"), including the granting of certificates of public convenience and necessity ("CCNs") for 134 MW in Unit 3 of the Palo Verde Nuclear Generating Station ("Palo Verde" or "PVNGS") and 132 MW in Unit 4 of the San Juan Generating Station ("San Juan" or "SJGS") and the cost of associated Selective Non-catalytic Reduction ("SNCR") emission control technology and the abandonment of SJGS Units 2 and 3;

(5) provide high-level policy discussion of the inclusion in New Mexico jurisdictional rates of ongoing capital investments, including costs associated with the Four Corners Selective Catalytic Reduction ("SCR");

(6) provide high-level policy discussion of key rate design proposals, including support for a phased-in rate change if PNM's full revenue requirement is approved by the Commission;

(7) support PNM's proposed implementation of a Lost Contribution to Fixed Cost ("LCFC") mechanism to remove the regulatory disincentives for energy efficiency measures; and

(8) address PNM's compliance with the Commission's determinations in NMPRC Case No. 15-00261-UT (the "2015 Rate Case"), and demonstrate PNM's compliance with other applicable Commission orders and rules.

**Q. ARE YOU SPONSORING ANY RULE 530 ("17.9.530 NMAC") SCHEDULES?**

**A.** Yes, I am sponsoring Rule 530 Schedule Q-2 (Description of Company).

## II. SUMMARY OF REQUESTED RATE CHANGES AND KEY DRIVERS

**Q. PLEASE OUTLINE THE COMPONENTS OF PNM'S REQUESTED RATE CHANGE.**

**A.** PNM is requesting changes to its non-fuel base rates beginning January 1, 2018. Based on current rates, PNM will have a non-fuel revenue deficiency of $99.2 million in 2018. PNM projects a non-fuel revenue requirement of $791.6 million for the Test Period (January 1 to December 31, 2018). Approximately 65% of the $99.2 million revenue deficiency directly relates to PNM's capital investments and previously approved resource additions or abandonments, including depreciation, property taxes, return on investment and associated income taxes. Continued flat energy sales account for approximately 11% of the identified revenue deficiency, or approximately $11 million. The remaining balance is attributable to a variety of other changes.

The average rate increase will be 14.33%. To smooth out the rate impact to customers if PNM's total requested revenue requirement is approved by the Commission, PNM proposes to phase-in the non-fuel revenue requirement increase by implementing a 7.2% non-fuel revenue increase beginning January 1, 2018 and a 7.1% non-fuel revenue increase on January 1, 2019. After banding the impact of the revenue requirement on all classes, PNM's requested non-fuel revenue increase results in an average rate impact to the residential customer rate class of 15.76%. This in turn translates into an average residential customer bill impact, with all other charges, of 12.79%.

PNM also projects a revenue requirement associated with forecasted fuel and purchased power expenses of $141 million for 2018. PNM's current Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC") was approved by the Commission in Case No. 13-00187-UT (as modified by the 2015 Rate Case) for a period of up to four years, in accordance with Rule 17.9.550.17(A) NMAC. Pursuant to the Final Order in the 2015 Rate Case, PNM recovers all of its non-renewable fuel and purchased power costs through its FPPCAC Factor. Consistent with those orders, PNM will continue to collect 100% of its non-renewable fuel and purchased power expenses through the FPPCAC Factor. The FPPCAC Factor will continue to be reset quarterly. Pursuant to 17.9.550 NMAC, PNM will seek approval to continue its FPPCAC through a FPPCAC continuation proceeding, to be filed no later than April 23, 2018. The costs of renewable energy procured primarily for Renewable Portfolio Standard compliance and for energy efficiency are separately collected through specific riders and are subject to review and approval by the Commission in separate annual proceedings.

**Q. WHAT ARE THE KEY DRIVERS OF PNM'S PROPOSED RATE CHANGES?**

**A.** There are four key drivers which account for approximately 85% of PNM's Test Period revenue deficiency.

First, the changes to PNM's generation portfolio approved in the BART Case are responsible for approximately $35 million of the Test Period revenue deficiency.

Second, PNM's ongoing investments in capital, including depreciation and property taxes, to provide safe and reliable electricity service to its customers, as well as other changes to rate base account for approximately $29 million of the revenue deficiency.

Third, changes in jurisdictional allocations account for approximately $9 million of the revenue deficiency.

Fourth, retail customer usage and load characteristics, which result in overall lower energy-related billing determinants in this case as compared to the 2015 Rate Case, account for approximately $11 million of the revenue deficiency.

**Q. DO THE RATES APPROVED IN THE 2015 RATE CASE REFLECT THE REGULATORY APPROVALS RECEIVED IN THE BART CASE?**

**A.** No. With the exception of the savings from the new coal supply agreement for San Juan, which are being passed through the FPPCAC beginning in 2016, and PNM's portion of the costs associated with the SNCR emission control technology installed on PNM's 170

MW of San Juan Unit 1 and 195 MW of San Juan Unit 4, PNM's current rates do not reflect the approvals received in the BART Case. The Test Period for the 2015 Rate Case, filed on August 27, 2015, was based on a twelve-month period ending September 30, 2016, which was prior to the implementation date for the resource retirements and additions approved in the BART Case.

**Q. WHAT RESOURCE PORTFOLIO CHANGES WERE APPROVED IN THE BART CASE?**

**A.** As I discuss below, the approvals that were ordered in the BART Case and that apply to this rate case include:

1. The abandonment of SJGS Units 2 and 3 effective December 31, 2017.
2. The granting of a CCN, effective January 1, 2018, for 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 including SNCR; and for 134 MW of Palo Verde Unit 3 at its actual net book value at December 31, 2017, estimated at approximately $1,101 per kW.
3. Recovery of 50% of the undepreciated investment in SJGS Units 2 and 3 as shown on PNM's books as of December 31, 2017, which is estimated to be approximately $256.4 million.
4. The accelerated depreciation of the capital costs of the SNCR investment at SJGS by July 1, 2022.

In addition, the BART Case provided that customers would receive certain Department of Energy ("DOE") refunds relating to PVNGS Unit 3 spent fuel, to be refunded through the

FPPCAC. The Commission also authorized PNM to acquire an additional 65 MW of SJGS Unit 4 as a non-jurisdictional asset.

**Q. ARE OTHER CAPITAL PROJECTS ALSO INCLUDED IN THE PROPOSED RATE BASE?**

**A.** Yes. PNM invests in various capital projects that are required to provide cost-effective service and to keep the system operating safely and reliably. These include investments in various generation assets such as pollution control equipment at Four Corners, and investments in transmission and distribution projects that accommodate load and system operational requirements. These investments are necessary, even in light of PNM's declining load, to ensure reliable and safe service for customers. Regardless of the level of load growth, there are continuing investment requirements for regulatory compliance, preventive maintenance, and for facilities which PNM co-owns with other utilities. Detailed support for these capital investments is provided in the direct testimonies of PNM Witnesses Olson, Mechenbier, and Mendez.

I note that although PNM is seeking required approvals for its Advanced Metering Infrastructure ("AMI") project in Case No. 15-00312-UT, no costs associated with the proposed AMI project are included in this case. If the Commission grants PNM's requested approvals in that case, the associated costs and any approved related regulatory assets would be subject to recovery through rates in a future general rate case.

**Q. HOW DOES PNM'S DEMAND AND ENERGY FORECAST IMPACT PNM'S REVENUE DEFICIENCY?**

**A.** Changes in customer usage patterns continue to impact PNM's ability to recover its costs to provide service through existing rate structures. PNM's continued success with energy efficiency programs is a primary factor in these changes. As discussed by PNM Witness Chan, Test Period energy billing determinants in this case are more than 2.2% lower than the billing determinants used in the 2015 Rate Case.

**Q. HOW DO REVENUE DEFICIENCIES IMPACT PNM'S ABILITY TO RELIABLY MAINTAIN AND INVEST IN ITS SYSTEM?**

**A.** When rates are insufficient to cover the reasonable costs of providing service, PNM's ability to provide customer service and reliably maintain its system is impaired. Further, without adequate revenues, PNM cannot attract the capital at favorable rates that is needed over the next several years to fund new capital projects and refinance maturing long-term debt, as discussed by PNM Witness Eden.

## III. INTRODUCTION OF WITNESSES

**Q. PLEASE INTRODUCE THE OTHER WITNESSES TESTIFYING ON BEHALF OF PNM AND THE SUBJECT MATTERS OF THEIR TESTIMONIES.**

**A.** There are 14 additional witnesses testifying on behalf of PNM:

- Henry Monroy, Director of Cost of Service and Audit Services, addresses PNM's revenue requirements. Additionally, Mr. Monroy covers certain items included in the calculation of PNM's revenue requirement and explains PNM's request for Commission approval to establish regulatory assets and liabilities. He sponsors the fully functional cost of service model. Mr. Monroy also supports the forecasted fuel and purchased power expenses, which are not included in base rates but instead will be fully recovered through PNM's FPPCAC Factor, pursuant to the 2015 Rate Case. Mr. Monroy provides an overview of accounting matters relating to PNM's books and records; the most recent Lead-Lag Study; asset retirement obligations; pension and other postretirement benefits; capital loads; and allocated costs. He also provides cost/benefit analyses supporting the inclusion in the cost of service of prepaid pension assets, non-qualified retirement plans, post-employment benefits other than pension, and the unamortized balance of loss on reacquired debt. He testifies about the Company's capital budgeting process as it relates to linkage data and the Test Period, the calculation and allocation of budgeted capital clearings to the FERC Electric Plant Accounts, and the calculations relating to forecasted cost of removal and retirements.

- Robert B. Hevert, Partner at Scott Madden Management Consultants, addresses the return on equity ("ROE") PNM is seeking and related topics, including current economic conditions. Mr. Hevert also confirms the reasonableness of PNM's proposed capital structure.
- Chris M. Olson, PNM Vice President, Generation, supports PNM's capital investments in generation facilities and non-fuel Operation and Maintenance ("O&M") generation expenses, 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 for PNM, supports PNM's capital investments in transmission and distribution facilities and the related O&M expenses. He also supports PNM's requested changes relating to transmission customers and right-of-way renewals.
- Sheila M. Mendez, Director of IT Program/Portfolio Management and Quality for PNM, supports the corporate capital investments needed to maintain facilities, equipment, and reliable computer systems.
- Yannick Gagne, Senior Consultant and Actuary for Willis Towers Watson, provides testimony in support of PNM's contributions to its pension plan, including PNM's prepaid pension asset and an analysis of the annuitization of pension.
- Elisabeth A. Eden, PNM's Vice President and Treasurer, addresses why maintaining PNM's financial health is in the best interests of PNM's customers and she supports PNM's proposed capital structure and weighted-average cost of capital ("WACC"). Ms. Eden addresses contributions to the Palo Verde Nuclear Decommissioning Trust Fund. Ms. Eden also provides the Company's recommendation on the analysis of the annuitization of pension performed by Mr. Gagne.
- Laurie S. Monfiletto, PNM Vice President of Human Resources, supports the revenue requirements associated with employee base salary and incentive compensation programs, as well as employee benefits.
- Leonard D. Sanchez, PNM 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, PNM Director of Income Tax, addresses income tax expenses and accumulated deferred income taxes included in rate base. Mr. Harland also supports PNM's proposals relating to specific tax-related regulatory assets and liabilities.
- Stella Chan, PNM Executive Director of Strategic Marketing and Product Management, introduces the Company's overall rate design strategy; supports PNM's demand and energy forecasts; introduces the Company's proposal for a Transitional Incremental Interruptible Power Rate ("IIPR") in order to mitigate significant rate impacts for the Company's current Rider 8 – IIPR customers; and discusses the Company's collaborative efforts with interested stakeholders as part of a Commission-ordered mediation process to develop future Time-of-Use rates.
- Scott Vogt, PNM's Manager of Pricing and Business Analytics, explains and supports the Company's process for allocating costs to customer classes, which includes the development and execution of the Company's Embedded Class Cost of Service Study; discusses the classification of distribution facilities for purposes of using a minimum distribution system methodology; and demonstrates that no other customer class will subsidize the new customer served under Rate 36B –Special Service Rate – Renewable Energy Resource.
- Julio C. Aguirre, Lead Pricing Analyst in PNM's Pricing Department, supports the development of rates using the Company's Rate Design Model and PNM's banding proposal that will mitigate significant rate impacts for certain customer classes; details the overall bill impact by customer class of PNM's proposed rates; supports and explains the newly proposed Rider 48 – Lost Contribution to Fixed Cost rider that

removes regulatory disincentives for energy efficiency measures; supports other rate design proposals and modifications to tariffs; and discusses PNM's ongoing stakeholder engagement with Streetlighting customers.

## IV. OVERVIEW OF GENERAL RATEMAKING PRINCIPLES REFLECTED IN PNM'S COST OF SERVICE

**Q. PLEASE PROVIDE A BRIEF OVERVIEW OF PNM'S COST OF SERVICE.**

**A.** PNM's proposed rate changes are based on a fully forecasted future test year in accordance with the FTY Rule. The "Base Period" is the twelve-month period ending June 30, 2016.[1] The Base Period expenses are derived from PNM's books and records. PNM's "Test Period" is the twelve-month calendar year period between January 1 and December 31, 2018. The intervening period is referred to as the Linkage Period. PNM's rate base contains plant in-service that is already reflected on PNM's books and records, and utility plant and facilities that will be reflected on PNM's books during PNM's Capital Investment Period, encompassing the Linkage and Test Periods. Test Period O&M expenses, for the most part, have been escalated from the adjusted Base Period expenses.

PNM's proposed cost of service reflects the increased capital investments and other changes in forecasted expenses for the Test Period. In compliance with the Commission's Final Order in the 2015 Rate Case, PNM's resulting base rates are designed to recover the non-fuel cost of service. All fuel and purchased power expenses,

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1 On October 19, 2016 PNM filed a request for variance from the 150-day requirement and on November 9, 2016, the Commission granted a variance of an additional 19 days, until December 16, 2016.

renewable energy and energy efficiency and load management expenses are recovered outside of this proceeding.

**Q. DOES PNM'S FILING MEET THE FTY REQUIREMENTS OF THE COMMISSION'S ORDERS AND FTY RULE?**

**A.** Yes. A public utility may propose a fully forecasted future test year that begins up to thirteen months after filing the application and the advice notice. PNM's Application and supporting testimonies, exhibits, and models meet the requirements of the FTY Rule, as well as the other rate case filing requirements set out in Rule 17.9.530 NMAC. PNM utilizes the same fully functional cost of service model and the same class cost of service and rate design models filed by PNM and relied on by the Commission to set final rates in the 2015 Rate Case.

**Q. WHY HAS PNM PROPOSED A TEST PERIOD AND EFFECTIVE DATE FOR NEW RATES BEGINNING IN 2018?**

**A.** There are significant changes in PNM's generation resources in 2018 as PNM removes from service two SJGS coal-fired units and brings into jurisdictional service replacement resources approved by the NMPRC in the BART Case. Calendar year 2018 is an appropriate Test Period because it will align the change in costs for the approved resource portfolio with new rates. The timing of this filing provides for a review and determination by the Commission within the full statutory suspension period that applies to PNM's Advice Notice No. 533.

**Q. HOW DOES THE TEST PERIOD DEVELOPED BY PNM REFLECT FUTURE OPERATING CONDITIONS?**

**A.** As explained by PNM Witness Monroy, PNM's Base Period begins with historical data from PNM's books and records, and then adjusts that Base Period to appropriately annualize or normalize certain information and to reflect known and measurable changes. The Base Period data are then rolled forward to reflect the linkage data, from July 1, 2016, through December 31, 2017, and then through the Test Period. The Test Period data reflect applicable escalation factors, and include other adjustments based on forecasted changes and planned-for capital investments that occur during the Test Period.

**Q. WHY IS IT IMPORTANT FOR PNM TO HAVE RATES BASED ON A FUTURE TEST YEAR?**

**A.** Section 62-6-14 of the PUA directs that the test period used in a rate case "best reflect the conditions to be experienced during the period of time when the new rates will be in effect." PNM's proposed Test Period does this.

The proposed rates will recover not only the capital additions currently on PNM's books and records, but also those being placed in-service during the Test Period and will reflect the significant 2018 resource changes approved in the BART Case. The O&M costs upon which rates are based start with the Base Period, as adjusted for known and measurable changes and accounting for O&M expenses associated with the new plant that will be in-service, with a modest escalation from the Base Period. Finally, the rates will be designed using billing determinants reflective of the time period when the rates are expected to become effective, which take into account customer-specific information and the impacts of PNM's ongoing energy efficiency and distributed generation programs.

**Q. ARE THERE SOUND POLICY REASONS TO USE A FUTURE TEST YEAR?**

A. Yes. The longer the period of time between the historical conditions and data and the effective date of new rates, the greater the regulatory lag and mismatch between rates and contemporaneous conditions and costs, such as implementation of the BART Case resource portfolio changes. Relationships among investments, expenses and revenues do not remain constant. The FTY more accurately captures applicable future operating conditions and requirements. Ratemaking principles that address regulatory lag are an important consideration for credit rating agencies and investors, as well. The FTY also accounts for, rather than ignores, known upward pressures on costs that are not within PNM's direct control, and which can put reliability and customer service at risk. Further, the continued weak general economic activity in New Mexico and the strong promotion of efficient energy use make it unrealistic to assume that sales growth will automatically cover reasonably projected future operating costs and the costs of needed capital projects.

**Q. PLEASE PROVIDE A BRIEF OVERVIEW OF PNM'S RATE DESIGN.**

A. PNM's current rate design, implemented on October 1, 2016, made progress in aligning customers' rates with cost causation. The rate design proposals for this case balance the competing objectives of making progress toward aligning cost causation and cost recovery with mitigating the otherwise significant rate impacts that would result for certain rate classes. Consistent with the 2015 Rate Case outcome, PNM proposes a rate design that combines an embedded class cost of service methodology with the need to keep the proposed rate changes within a range or "band" that reduces the disproportionate impacts by class of cost allocations.

**Q. IS PNM CONDITIONALLY PROPOSING ANY ADDITIONAL RATE IMPLEMENTATION MEASURES IN THIS CASE?**

A. Yes. If the Commission approves the full rate increase requested by PNM, the Company is proposing to implement the increase in two steps. This proposed approach serves to balance the need for a timely rate increase with a two-phase rate path to implement the full rate impact beyond the time frame provided for under the PUA. Section 62-8-7 requires that the Commission establish a reasonable revenue requirement and adopt new rates designed to collect that revenue requirement within a statutory period of no more than thirteen months from the date a general rate case is filed. PNM is proposing to implement the requested increase over a two-year period in order to mitigate the impact to customers.

Specifically, PNM proposes to phase-in the non-fuel revenue requirement increase by implementing a 7.2% non-fuel revenue increase beginning January 1, 2018 and the remaining 7.1% non-fuel revenue increase on January 1, 2019. Although PNM had several years without rate increases, new rates were approved by the Commission, effective October 1, 2016, which represented an overall average non-fuel revenue increase of 9.54%. With the need to again change rates beginning in 2018, PNM recognizes that the required non-fuel revenue increase of 14.33% on average for the system can place financial pressure on its customers. In addition to recognizing the financial impact on customers, PNM's proposed phase-in assists in achieving certain of the Commission's rate design policies that balance the need for cost-based customer class responsibilities and a gradual approach to cost parity among rate classes.

**Q. IS PNM SEEKING ANY CHANGES IN ITS FPPCAC OR ENERGY EFFICIENCY AND RENEWABLE ENERGY RATE RIDERS IN THIS CASE?**

**A.** No. As discussed above, PNM's FPPCAC currently reflects the changes ordered by the Commission in the 2015 Rate Case, and a continuation filing for the FPPCAC is not required until April 2018; I note that while the FPPCAC itself is not being changed, PNM Witness Aguirre sponsors revised voltage adjustment factors that result from updated energy losses. No changes are necessary to PNM's renewable energy and energy efficiency rate riders, because they are annually reviewed and revised as necessary by the Commission in separate proceedings filed pursuant to the applicable Commission rules.

## V. OVERVIEW OF ADJUSTMENTS TO RATE BASE TO IMPLEMENT BART CASE APPROVALS AND OTHER REGULATORY REQUIREMENTS

**Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF THE PURPOSE OF THE BART CASE RESOURCE PORTFOLIO CHANGES SUMMARIZED ABOVE.**

**A.** The Commission's approval of the Modified Stipulation in the Final Order in the BART Case was the culmination of efforts by PNM and the majority of other parties in the case to implement the Revised State Implementation Plan ("RSIP") in compliance with the federal Clean Air Act and the Environmental Protection Agency's ("EPA") Regional Haze Rule. The RSIP was a less costly alternative to the originally required Federal Implementation Plan ("FIP"), which would have required installation of more expensive SCR technology on all four units of San Juan. The RSIP required abandonment of SJGS Units 2 and 3, thereby reducing the amount of coal-fired generation in New Mexico by 836 megawatts ("MW"), and the installation of SNCR emission controls on SJGS Units 1 and 4. However, PNM could not abandon SJGS Units 2 and 3 and replace capacity and energy supplied by those units without approval from the Commission.

**Q. WHAT IS THE EFFECT OF THE APPROVED ABANDONMENT OF SJGS UNITS 2 AND 3?**

**A.** The abandonment of SJGS Units 2 and 3 represents 418 MW of coal-fired generation in PNM's resource portfolio and results in the permanent closure of 836 MW of coal generation in New Mexico. The Modified Stipulation approved in the BART Case provided for that abandonment, but recognized that additional capacity would be required to replace the retired resources. The retail jurisdictional acquisition of the 134 MW of PVNGS Unit 3 and 132 MW of SJGS Unit 4 partially offset the loss of that existing capacity without increasing the amount of coal-fired generating resources already operating in New Mexico. The Commission's approvals in the BART Case specifically reduced PNM's jurisdictional coal generation by a net 286 MW.

**Q. DID THE BART CASE ESTABLISH PLANT VALUES AND RATEMAKING TREATMENT FOR THE REPLACEMENT RESOURCES?**

**A.** Yes. Consistent with NMSA 1978, § 62-9-1(B), the BART Case Final Order also addressed the rate base valuation and ratemaking treatment for PVNGS Unit 3 and the SJGS Unit 4 capacity, and specified customers' responsibility for decommissioning costs associated with PVNGS Unit 3. The Modified Stipulation approved by the Commission in the BART Case established the 132 MW of SJGS 4 at an initial rate base value of zero to reflect PNM's actual acquisition cost, and an initial rate base value for PVNGS Unit 4 equivalent to a calculated book value as of January 1, 2018, including transmission and other plant related assets. Specifically, Paragraph 22 of the Modified Stipulation as approved by the Commission provides:

> PNM shall be granted a CCN to include its 10.2% ownership share of Palo Verde Unit 3, with a capacity of 134 MW, in rate base to serve New Mexico retail customers, effective January 1, 2018. Palo Verde Unit 3 shall be included in rate base at its actual net book value at December 31, 2017, currently estimated to be approximately $1,100 per kW.

**Q. DID THE BART CASE RESULT IN FUEL SAVINGS ASSOCIATED WITH THE SJGS RESOURCES?**

**A.** Yes. While the BART Case was proceeding, PNM also negotiated a favorable new Coal Supply Agreement for SJGS ("SJGS CSA") that, beginning in January 2016, has resulted in average annualized fuel savings to customers of approximately $52 million through the term of the SJGS CSA, which ends June 30, 2022. These savings have already been recognized by the Commission in the 2015 Rate Case, through the consideration and inclusion of the fuel saving results in the final determinations and revenue requirements established in that proceeding.

**Q. HOW HAS PNM REFLECTED THE RETIREMENT OF SAN JUAN UNITS 2 AND 3 EFFECTIVE AS OF DECEMBER 31, 2017, IN ITS COST OF SERVICE?**

**A.** As shown by PNM Witness Monroy, PNM has removed the $256.4 million undepreciated investment balance of SJGS Units 2 and 3 from its plant in-service balance as of December 31, 2017.

**Q. IS PNM INCLUDING THE UNDEPRECIATED INVESTMENT OF SJGS UNITS 2 AND 3 AS A REGULATORY ASSET IN THIS CASE?**

**A.** Yes, consistent with approvals in the BART Case, PNM has included 50% of the undepreciated investment in SJGS Units 2 and 3, or approximately $128.2 million, in a regulatory asset included in this case. For additional information on the regulatory asset for the undepreciated investment of SJGS Units 2 and 3 please see the Direct Testimony of PNM Witness Monroy.

**Q. WAS PNM GRANTED A CCN FOR 132 MW OF SJGS UNIT 4?**

**A.** Yes. In the BART Case, PNM was granted a CCN to acquire 132 MW of SJGS Unit 4 to be included in New Mexico jurisdictional rates beginning January 1, 2018. The Direct Testimony of PNM Witness Monroy shows the inclusion of SJGS Unit 4 in the Test Period revenue requirement. PNM Witness Olson presents additional information about SJGS Unit 4 and its role in PNM's generation resource portfolio.

In addition to the 132 MW of SJGS Unit 4, PNM was also authorized to acquire an additional 65 MW interest in SJGS Unit 4 as a non-jurisdictional resource. As provided in the Modified Stipulation, PNM is not including this additional 65 MW of capacity in SJGS Unit 4 in jurisdictional rates. The additional 65 MW are shown as an excluded asset in the cost of service sponsored by PNM Witness Monroy.

**Q. HAS PNM INCLUDED ACCELERATED DEPRECIATION FOR THE SNCR EMISSION CONTROLS RECENTLY INSTALLED AT SAN JUAN?**

**A.** Yes. As approved in the BART Case, PNM's cost of service includes the accelerated depreciation of the SJGS SNCR technology to provide for its full depreciation by July 1, 2022. The Commission provided (page 56 of the Certification of Stipulation in the BART Case) that "higher depreciation rates will be approved for recovery and will go into effect with the first rate case that approves new base rates effective after December 31, 2017, but in no event later than December 31, 2018."

**Q. WAS PNM GRANTED A CCN FOR 134 MW OF PVNGS UNIT 3?**

**A.** Yes. In the BART Case PNM was granted a CCN to include 134 MW of PVNGS Unit 3 in New Mexico jurisdictional rates beginning January 1, 2018. PNM Witness Olson provides additional information about PVNGS Unit 3 and its role in PNM's generation resource portfolio.

**Q. HAS PNM INCLUDED PVNGS UNIT 3 IN ITS TEST PERIOD COST OF SERVICE?**

**A.** Yes. PNM has included 134 MW of PVNGS Unit 3 and the associated transmission costs at $1,101/kW in rate base effective January 1, 2018. PNM is also recovering the stipulated and approved decommissioning costs for PVNGS Unit 3 in rates. PNM Witness Monroy shows the inclusion of PVNGS Unit 3 capital investments and related costs in the Test Period revenue requirement.

**Q. IN ADDITION TO THE ASSETS INCLUDED IN RATE BASE IN COMPLIANCE WITH THE BART CASE, ARE THERE OTHER RATE BASE INVESTMENTS THAT PNM HAS INCLUDED TO PROVIDE ADEQUATE UTILITY SERVICE AND COMPLY WITH OTHER REGULATORY REQUIREMENTS?**

**A.** Yes. PNM must meet a variety of safety and reliability standards, as well as environmental and other regulatory requirements, in order to provide utility service to its customers as contemplated in the PUA. As more fully described by PNM Witnesses Olson, Mechenbier and Mendez, PNM is investing in ongoing capital projects to meet these requirements. One example of these necessary and prudent investments is the cost of installing SCRs at Four Corners. The owners of Four Corners installed SCR technology to comply with the Regional Haze Best Available Retrofit Requirements of the Clean Air Act imposed by the EPA, as described more fully in the Direct Testimony of PNM Witness Olson.

## VI. OVERVIEW OF PNM'S PROPOSED REGULATORY ASSETS AND LIABILITIES

**Q. PLEASE SUMMARIZE THE AUTHORIZATIONS PNM IS REQUESTING WITH RESPECT TO REGULATORY ASSETS AND LIABILITIES IN THIS PROCEEDING.**

**A.** PNM is requesting approval to: (1) establish a new regulatory asset to begin recovering incremental rate case expenses incurred in this proceeding; (2) establish a new regulatory asset to begin recovering costs incurred to enter into the SJGS CSA, which is providing significant fuel savings to our customers; (3) begin recovery of the approved regulatory asset to recover 50% of the undepreciated investment in SJGS Units 2 and 3; (4) begin recovering the approved regulatory liability to refund the PVNGS DOE Unit 3 spent fuel; and (5) continue recovery of the Las Vegas decommissioning regulatory asset and liability and extend recovery of the previously approved regulatory asset for the 2015 Rate Case expenses. The proposed treatment of the regulatory assets and liabilities is discussed by PNM Witness Monroy. As supported by PNM Witness Harland and consistent with the approvals granted in the 2015 Rate Case, PNM also seeks approval to continue recovery of the unamortized state net operating loss ("NOL") carryforward regulatory asset approved in the 2015 Rate Case, and the establishment and recovery of a regulatory asset associated with additional impairment of state NOL carryforwards, over a three-year period. Further, PNM proposes to defer excess deferred state income taxes, and to begin the amortization of an estimate of the excess deferred state income taxes in this case subject to future true-up, also as supported by PNM Witness Harland.

## VII. OVERVIEW OF FORECAST AND JURISDICTIONAL ALLOCATIONS

**Q. DO PNM'S PROPOSED RATES INCORPORATE THE LATEST LOAD FORECAST?**

**A.** Yes. PNM's proposed rates incorporate PNM's most recent load forecasts as explained by PNM Witness Chan.

**Q. HAS PNM UPDATED ITS JURISDICTIONAL ALLOCATIONS FOR TRANSMISSION DEMAND?**

**A.** Yes. PNM adjusts its jurisdictional transmission demand allocation each time it files a rate case. PNM is updating its jurisdictional transmission demand allocation to reflect the projected composition of PNM's FERC wholesale transmission customers and New Mexico retail customers. For further discussion on changes related to PNM's FERC wholesale transmission customers please see the testimony of PNM Witness Mechenbier. PNM's Test Period transmission allocation factors reflect the projected customer composition as shown by PNM Witness Monroy.

**Q. IS PNM UPDATING ITS JURISDICTIONAL GENERATION DEMAND AND ALLOCATION?**

**A.** Yes. PNM also adjusts its jurisdictional allocation of generation demand and energy each time it files a rate case. PNM is updating its generation demand and energy jurisdictional allocation to reflect the projected composition of PNM's FERC wholesale generation customers and New Mexico retail customers. During portions of the Base Period, PNM's

FERC wholesale Generation customers included the City of Aztec, the Jicarilla Apache Nation ("JAN"), and Navopache Electric Cooperative ("NEC"). PNM's wholesale contract with the City of Aztec expired in June 2016. PNM's wholesale contract with JAN was terminated on November 30, 2016. The NEC wholesale contract will be reduced to 10 MW beginning in January 2017, and terminates at the end of 2017. PNM's Test Period generation allocation factors reflect these jurisdictional changes, as shown by PNM Witness Monroy.

## VIII. RATE DESIGN PRINCIPLES

**Q. PLEASE SUMMARIZE THE RATE DESIGN PRINCIPLES THAT ARE REFLECTED IN PNM'S PROPOSED RATES.**

**A.** PNM's current rates reflect the progress made toward updating its rate design in the 2015 Rate Case. As an example of the progress made in the 2015 Rate Case, the Commission approved a three-summer, one-winter coincident peak ("3S1WCP") generation demand and transmission demand allocation methodology, as well as more cost-based customer and demand charges. These proposals resulted in rates that better reflect the Company's cost of service, as well as how it incurs cost for the system as a whole. The proposals in this case are meant to further this progress from the 2015 Rate Case; in particular, these proposals aim to more accurately reflect the cost of service while balancing the ultimate rate class impacts in recognition of the long-accepted principle of gradualism. For example, PNM is proposing to implement additional changes in customer-related and demand-related fixed charges. To mitigate rate impacts for some classes that would experience more impacts, PNM is proposing to band its rate increase such that no customer class will experience an increase more than 110% over the system average increase of 14.33%.

**Q. WHAT OTHER CONDITIONAL PROPOSAL IS PNM MAKING TO SMOOTH THE IMPACT OF A FULL RATE INCREASE ON CUSTOMERS?**

**A.** If PNM's full revenue requirement is approved, PNM proposes to implement that rate increase in two parts. The PUA requires that the Commission determine an annual revenue requirement and approve rates that collect that amount within a statutory time frame of thirteen months from the date a rate application is filed. PNM recognizes, however, that the relatively close proximity of the 2015 Rate Case implementation to the effective date of the rates proposed in this case has consequences for customers. In the event that the full rate increase is approved and the Commission accepts PNM's proposal to phase-in the rate increase, PNM would implement a 7.2% non-fuel revenue increase beginning January 1, 2018 reflecting recovery of $50 million of the total non-fuel revenue deficiency, $99.2 million, with the remaining 7.1% non-fuel revenue increase reflecting the remaining revenue deficiency of $49.2 million becoming effective January 1, 2019.

**Q. IS PNM ALSO PROPOSING TO ADDRESS THE DISINCENTIVES THAT RESULT FROM ITS CONTINUING ENERGY EFFICIENCY AND LOAD MANAGEMENT PROGRAMS?**

**A.** Yes. As I discuss in greater detail below, PNM is also proposing a rate design mechanism to address the identified disincentives that result from PNM's successful implementation of energy efficiency and load management programs.

## IX. DISINCENTIVES ASSOCIATED WITH IMPLEMENTATION OF ENERGY EFFICIENCY AND LOAD MANAGEMENT PROGRAMS

**Q. HOW IS PNM PROPOSING TO ELIMINATE THE DISINCENTIVES ASSOCIATED WITH ITS IMPLEMENTATION OF ENERGY EFFICIENCY AND LOAD MANAGEMENT PROGRAMS?**

**A.** PNM is proposing a Lost Contribution to Fixed Costs ("LCFC") mechanism in this rate case, which is akin to a Lost Revenue Adjustment Mechanism ("LRAM"), to remove the regulatory disincentives PNM experiences as a result of implementing energy efficiency and load management programs under the Efficient Use of Energy Act ("EUEA"). LCFC or LRAM mechanisms permit a utility to recover the fixed costs it would otherwise not collect as a direct result of energy efficiency and load management savings. Pursuant to the Commission's directives in the 2015 Rate Case, PNM has narrowly tailored its LCFC mechanism to recover only the lost fixed costs associated with the energy sales reductions directly attributable to the verified savings from PNM's energy efficiency programs. I provide policy support for this mechanism and demonstrate the reasonableness of PNM's request. PNM Witness Aguirre supports the derivation of the LCFC rates in the proposed Rate Rider No. 48 – Lost Contribution to Fixed Cost mechanism.

**Q. WHY IS PNM PROPOSING THE LCFC MECHANISM RATHER THAN REVISING ITS PREVIOUS DECOUPLING PROPOSAL?**

**A.** PNM is proposing the LCFC Mechanism to address the regulatory disincentives of utility energy efficiency programs for two primary reasons. First, an LRAM type of mechanism better meets the criteria of an acceptable mechanism to address energy efficiency ("EE") disincentives established by the Commission in the 2015 Rate Case. Second, the LCFC directly addresses the regulatory disincentive as it has been previously defined by the Commission. I note that the previous Commission definition of a regulatory disincentive is consistent with the definition that is generally found in industry literature discussing energy efficiency programs and their effects on utilities. As I discuss in greater detail later in my testimony, the Commission has found that "the loss of fixed cost recovery resulting from the implementation of energy efficiency and load management programs has acted as a disincentive to utilities developing and offering such programs." Case No. 08-00024-UT, Final Order Repealing and Replacing 17.7.2 NMAC, at 39-40, ¶ 98 (Apr. 8, 2010).

**Q. WHAT WERE THE DIRECTIVES FROM THE 2015 RATE CASE FOR AN ACCEPTABLE DISINCENTIVE REMOVAL MECHANISM?**

**A.** In rejecting the RBA decoupling mechanism in the 2015 Rate Case, the Commission and Hearing Examiner provided PNM with direction on the features the Commission believes are necessary for an acceptable disincentive removal proposal.[2] The Commission

[2] This guidance comes both from the Commission's Final Order in the 2015 Rate Case and from the Corrected Recommended Decision ("CRD") issued by the Hearing Examiner. Given that the Final Order (page 82, ¶ 239)

established the following criteria for an acceptable or satisfactory disincentive mechanism (CRD at 272-274). Specifically, the mechanism should:

1. be more narrowly tailored than previously rejected mechanisms and should not:
   a. Shift the risks of economic cycles and weather fluctuations from utilities to customers; or
   b. Place the risk of the economic impacts of recession on customers and shield shareholders by permitting PNM to recover revenues as a result or lower than projected sales;
2. address the potential for over-earning;
3. adjust for the number of customers;
4. address the impact on PNM's proposed ROE as a result of reduced risk to shareholders;

In addition, the Commission considered the following:

5. whether it would otherwise recover its lost fixed costs incurred in the Test Period, given that its sales forecast projects reduced energy sales as a result of energy efficiency programs and the expected timing of another rate case can mitigate any forecasting errors;
6. whether distributed generation customers contribute to PNM's lost fixed costs and whether recovery for those losses would be included in the mechanism;

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adopts the CRD, I often refer to the CRD rather than to the Commission's Final Order in terms of guidance for this rate case's disincentive proposal.

7. whether disincentives to energy efficiency are impacted by PNM's ability to materially increase its sales, or by PNM exceeding the savings requirement under EUEA.

**Q. PLEASE PROVIDE AN OVERVIEW OF PNM'S PROPOSED LCFC.**

**A.** PNM's LCFC will allow the Company to collect the fixed costs that are under-recovered as a result of customers' participation in PNM's energy efficiency programs. The amount that is recovered under the LCFC will be determined by multiplying the measured and verified energy efficiency savings by the amount of fixed cost per kWh that is collected through the energy charges to applicable rate classes. There will be a reconciliation of the amount collected in a year to the amount of the measured and verified savings to ensure that only the precise amount of disincentive is recovered. PNM is proposing that the mechanism apply only to the residential and small power rate classes due to the high percentage of fixed costs that are collected from those customers through the energy charge. Since savings resulting from energy efficiency programs accumulate over time, the amount of the disincentive grows each year. Despite the fact that PNM's energy efficiency programs generally result in savings over an eight year period, PNM is proposing to cap the recovery of disincentive at four years of program savings. The accumulated disincentive will be reset to zero whenever new general rates are approved and implemented. PNM will include LCFC earnings in the calculation of the annual earnings test that PNM first implemented with the approval of PNM's renewable rider.

**Q. PLEASE SUMMARIZE THE COMPONENTS OF PNM'S LCFC PROPOSAL.**

A. As detailed below, the LCFC is based on the amount of fixed costs per kWh that is recovered through the volumetric energy rate for each applicable rate class (residential and small commercial classes), as determined by the Commission in this case, multiplied by the projected energy savings from PNM's energy efficiency and load management programs for the upcoming calendar year. The LCFC Rider Rate is calculated by dividing the resulting lost fixed cost amount by the annual forecasted billing determinants for the applicable customer classes. The LCFC Rider will be trued up on an annual basis through a reconciliation filing (timed to coincide with the energy efficiency reconciliation), accounting for the difference between PNM's annual energy efficiency plan projected savings in the prior year and the measured and verified energy efficiency savings.

**Q. PLEASE PROVIDE AN OVERVIEW OF YOUR TESTIMONY IN SUPPORT OF THE LCFC MECHANISM.**

A. My testimony first explains the impacts of energy efficiency and load management implementation on a utility, the requirements of the EUEA that address these utility impacts, how PNM has fully met its own EUEA obligations, and the importance of Commission action. I quantify the amount of lost fixed costs that the Company experiences as a result of its energy efficiency and load management programs. I discuss why program cost recovery and an incentive for achieving cost-effective savings do not address the disincentives that occur as a result of energy efficiency implementation.

My testimony details how the LCFC Rider Rate will be derived and implemented, which is further supported by PNM Witness Aguirre. I explain how PNM's proposed LCFC mechanism satisfies the disincentive removal criteria and concerns the Commission articulated in the 2015 Rate Case. To provide additional context, my testimony also discusses the regulatory history of disincentive proceedings before the Commission.

### *A. Utility Impacts Resulting from the Energy Efficiency Requirements of the EUEA*

**Q. HOW IS A UTILITY IMPACTED BY ENERGY EFFICIENCY IMPLEMENTATION?**

**A.** A utility is impacted by the implementation of energy efficiency programs in the following ways: 1) incurrence of direct costs to administer its programs; 2) lost opportunity to earn a profit on supply-side resources; and 3) disincentives in the form of reduced fixed cost recovery because of decreased energy sales to participating customers.

**Q. HOW DOES THE EUEA ADDRESS THESE IMPACTS ON UTILITIES?**

**A.** The EUEA mandates that utilities offer a broad range of energy efficiency and load management programs in recognition that customers benefit from the availability of cost-effective load-side resources, and addresses each of these impacts on utilities. First, Section 62-17-6(A) of the EUEA authorizes recovery of a utility's reasonable program costs and incentives. Second, Sections 62-17-3 and 62-17-5(F) require that utilities be provided an opportunity to earn an incentive or profit on energy efficiency and load management resources with satisfactory performance. Third, Sections 62-17-3 and 62-

17-5(F) recognizes that utilities have a disincentive to implement energy efficiency programs and requires that the Commission eliminate this disincentive in a manner that balances the public interest, consumers' interest and investors' interests.

**Q. HAS THE LEGISLATURE REINFORCED THE IMPORTANCE OF REMOVING DISINCENTIVES UNDER THE EUEA SINCE PNM BEGAN OFFERING ITS ENERGY EFFICIENCY PROGRAMS IN 2007?**

**A.** Yes. The current version of the EUEA is unequivocal that the Commission must remove regulatory disincentives. The original version of the EUEA required Commission identification of disincentives "that may exist" and "if found", such disincentives were required to be eliminated. See EUEA, § 62-17-5(F) (2005). By contrast, the 2008 amendment to this same subsection provides that the Commission "shall ... identify regulatory disincentives" and "ensure that they are removed." See EUEA, § 62-17-5(F) (2008). While I am not a lawyer, it seems that the Legislature's deletion of the qualifying language as to whether disincentives "may exist" or might be eliminated "if found" and its addition of language requiring that the Commission "shall ... identify regulatory disincentives" and "ensure that they are removed" indicates a strengthening of this policy toward mandatory action on the part of the Commission to act to address a utility's disincentive.

**Q. HAS THE COMMISSION ADDRESSED THE EUEA'S REQUIREMENTS?**

**A.** Not completely. As part of annual energy efficiency proceedings for each utility, the Commission has approved mechanisms that address two of the three requirements of the

EUEA. Currently, PNM recovers its program costs through the EE rider. PNM also is given the opportunity to earn a modest performance incentive, which is also collected through PNM's EE rider. However, the Commission has required utilities to separately request disincentive recovery through a general rate case, in order to quantify the loss of fixed cost recovery, but has not yet adopted a mechanism that eliminates the significant disincentives associated with energy efficiency programs.

**Q. HAS PNM SATISFIED THE EUEA'S POLICY OBJECTIVES AND MANDATES?**

**A.** Yes. PNM has aggressively and successfully implemented cost-effective energy efficiency and load management programs since 2007. The Commission has specifically found that PNM has implemented cost-effective energy efficiency and load management programs in compliance with the EUEA.[3] In particular, PNM achieved the EUEA's targeted energy savings of 5% of 2005 sales in 2014. Moreover, PNM's energy efficiency programs provided 501 GWh of cumulative savings as of 2015, as measured and verified by the Commission-appointed independent evaluator.[4] These cumulative savings numbers are projected to grow to 575 GWh through 2016 and 614 GWh in 2017.[5] I testified in Case No. 16-00096-UT that the savings PNM believes it can achieve as a result of the 2017 Energy Efficiency Plan, exceeds the level of straight-line performance

[3] *See* Certification of Stipulation, Case No. 14-00310-UT, at pp. 69-71; Final Order Adopting the Certification of Stipulation and the Stipulation, Case No. 14-00310-UT, at Ordering Paras. A and B (adopting, approving and accepting Certification of Stipulation and Stipulation).
[4] PNM Energy Efficiency Program 2015 Annual Report, Case No. 16-00096-UT, at 9, Fig. 1. Please note that these figures represent the sum of all energy efficiency savings since 2008.
[5] *Id.*

needed to meet the EUEA's mandate for 2020 that PNM achieve 8% savings based upon 2005 total retail kWh sales.[6]

The purpose of removing disincentives is to address the consequences to the utility of successfully meeting, or exceeding, what are compulsory savings targets.

**Q. WHY IS IT CRITICAL FOR THE COMMISSION TO ADDRESS REGULATORY DISINCENTIVES?**

**A.** There is no question that the Company is harmed by offering utility energy efficiency programs mandated by the EUEA. PNM Witness Chan's testimony shows the effect of energy efficiency on the Company's retail energy sales forecast. As she describes, energy efficiency lowers PNM's energy sales forecast more significantly than any other factor, including distributed generation. Reductions to PNM's sales and revenues resulting from energy efficiency and load management programs also have a significant impact on usage per customer ("UPC"). PNM's projected monthly residential UPC in the Test Period is 564 kWh.[7] If PNM had not implemented energy efficiency programs, the UPC would have been 578 kWh. Moreover, the decline in the energy sales forecast as a result of energy efficiency measures increases each year, with the resulting harm of energy efficiency mandates accumulating year-after-year between rate cases.

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[6] Direct Testimony of Gerard T. Ortiz, Case No. 16-00096-UT, at 8, lines 16-19.
[7] For residential class including both Rate 1A and Rate 1B.

### *B. PNM's EUEA Implementation Costs and Recovery*

**Q. WHY ARE THERE LOST FIXED COSTS ON AN ONGOING BASIS?**

A. Under the Company's current rate structure, it collects a significant share of its fixed costs through volumetric (per-kWh) rates; recovery of fixed costs through volumetric charges is common in utility rate design policies. For example, PNM collects 88% of its fixed costs through the residential customer's volumetric charge under current rates. Under the proposed rates, PNM will still collect just under 80% of its fixed costs in volumetric rates. When PNM's residential customers use less energy as a result of mandated energy efficiency programs, the Company does not recover that significant percentage of fixed costs in its volumetric rate, resulting in lost fixed costs.

**Q. WHY IS THE DISINCENTIVE NOT ELIMINATED BY USING THE CURRENT SALES FORECAST TO ESTABLISH NEW RATES?**

A. Although an adjusted sales forecast that reflects estimated energy efficiency savings is used to calculate PNM's proposed rates, the current sales forecast only accounts temporarily for the estimated reduced sales during the immediate term of the Test Period, because rates reflect only the Test Period forecasted billing determinants. As shown below, there is a significant ongoing and growing impact from energy efficiency programs each year that results in losses to PNM after the Test Period ends and before rates from a future rate case go into effect. These losses are not recovered even with frequent rate cases.

**Q. HOW IS PNM QUANTIFYING ITS DISINCENTIVE?**

**A.** Fixed costs account for the majority of PNM's, or any other utility's, cost structure, yet they are collected for the most part through PNM's volumetric rate. Reductions to sales that result from energy efficiency and load management programs reduce PNM's revenue by the full amount of the volumetric rate. However, PNM's only immediate cost savings associated with energy efficiency are avoided fuel costs. The lost fixed costs are not offset by reduced energy sales and are not otherwise recovered through any other mechanism. This under-recovery of fixed costs due to the implementation of energy efficiency is PNM's regulatory disincentive to offer and promote energy efficiency for its customers. This disincentive is consistently identified and described in energy efficiency literature.[8]

**Q. WHAT IS THE FINANCIAL IMPACT OF THE EUEA'S IMPLEMENTATION ON PNM?**

**A.** Table GTO-1 presents the costs PNM incurs and recovers for implementing its portfolio of energy efficiency and load management programs. This table also shows the

[8] *See, e.g.,* Annie Gilleo, Marty Kushler, Maggie Molina and Dan York, *Valuing Efficiency: A Review of Lost Revenue Adjustment Mechanisms*, AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY, at v ("The traditional utility business model is based on a throughput incentive, whereby utilities earn more profits by selling electricity. Investments in energy efficiency drive down energy use and therefore utility revenues. However, efficiency does not reduce the short-term, fixed costs of providing service.") (June 2015), *available at* http://kms.energyefficiencycentre.org/sites/default/files/u1503.pdf. Robert King, Doug Lewin, Dr. Steve Isser and Jess Totten, *Efficiency and Ratemaking: Aligning the Interest of Utilities and their Customers*, THE SOUTH-CENTRAL PARTNERSHIP FOR ENERGY EFFICIENCY AS A RESOURCE (SPEER), at 4 ("Absent some innovative rate approach, adopting an energy efficiency program results in increased costs and reductions in customers' demand and, accordingly, adverse financial consequences for a utility. There are three aspects of energy efficiency programs that have ratemaking implications: (1) the utility incurs costs to conduct the program; (2) the utility loses revenue as a result of reductions in sales due to improved energy efficiency; and, (3) in general, utilities have no financial incentive to develop the expertise to manage a program to encourage customers to improve their energy efficiency.") (Mar. 2016), *available at* https://eepartnership.org/wp-content/uploads/2016/03/SPEER-Efficiency-and-Ratemaking-report-2.pdf.

substantial regulatory disincentive of the fixed costs that PNM does not recover as a result of implementing energy efficiency programs.

As shown, PNM has cumulative lost fixed costs of $91 million that went unrecovered from 2011 through 2016. Even after rates were reset this year as the result of the implementation of rates from the 2015 Rate Case, by the time the Test Period starts, PNM will have incurred over $3 million in lost fixed costs from the residential and small power rate classes. This table also demonstrates why setting rates on a FTY does not satisfactorily address regulatory disincentives.

**Table GTO-1**

**Lost Fixed Costs Resulting from Energy Efficiency and Load Management**

| Year | Residential | Small Power | Other Non-Residential | Total |
|---|---|---|---|---|
| **2011** | $2,305,576 | $346,291 | $803,861 | $3,455,727 |
| **2012** | $5,720,457 | $906,011 | $1,780,126 | $8,406,594 |
| **2013** | $8,679,900 | $1,544,755 | $2,782,797 | $13,007,453 |
| **2014** | $11,907,878 | $1,962,639 | $3,752,635 | $17,623,152 |
| **2015** | $15,366,895 | $2,474,006 | $4,730,386 | $22,571,287 |
| **2016*** | $17,637,350 | $2,862,828 | $5,473,827 | $25,974,004 |
| **Sub-Total** | $61,618,056 | $10,096,530 | $19,323,631 | $91,038,217 |
| **2017*** | $2,839,425 | $697,079 | $544,790 | $4,081,295 |
| **Sub-Total** | $2,839,425 | $697,079 | $544,790 | $4,081,295 |
| **2018*** | $0 | $0 | $0 | $0 |
| **Sub-Total** | $0 | $0 | $0 | $0 |
| **2019*** | $2,869,222 | $755,793 | $461,697 | $4,086,712 |
| **2020*** | $5,574,898 | $1,468,505 | $897,078 | $7,940,481 |
| **Sub-Total** | $8,444,120 | $2,224,298 | $1,358,775 | $12,027,193 |
| **Total** | $72,901,601 | $13,017,907 | $21,227,196 | $107,146,705 |

*Notes:
2016 amounts are preliminary and reflect a pro-ration based on the effective date of new rates for Case No. 15-00261-UT.
2018 reflects full rate case adjusted billing determinants (lost fixed cost reset to zero).
2017, 2019 - 2020 amounts are estimates for each year.

**Q. HOW DOES TABLE GTO-1 DEMONSTRATE THAT SETTING RATES ON A FUTURE TEST YEAR DOES NOT SATISFACTORILY ADDRESS THE REGULATORY DISINCENTIVE?**

**A.** Generally speaking, a FTY does not address the regulatory disincentive because even if the projected energy efficiency savings in the Test Period are predicted perfectly, energy efficiency program participation begins to erode fixed cost recovery in the year following the Test Period and the harm grows until the implementation of new rates in a subsequent rate case. Table GTO-1 illustrates this by looking at the under-recovered fixed costs for 2019 and 2020. Assuming PNM does not file for new rates to be effective until January 1, 2021, PNM would still suffer an under-recovery of fixed costs of over $10 million.

**Q. DOES RECOVERING PROGRAM COSTS AND EARNING AN INCENTIVE ADEQUATELY ADDRESS THE DISINCENTIVES THAT OCCUR AS A RESULT OF ENERGY EFFICIENCY PROGRAMS?**

**A.** No. Disincentives are not addressed simply because PNM receives program cost recovery through PNM's Energy Efficiency Rider 16 and performance incentives. Rider 16 only recovers program costs that are incurred. It does not recover fixed costs of providing electricity service that are included in volumetric rates, but are not recovered by virtue of reduced sales caused by energy efficiency program participation. Program cost recovery is effectively a pass-through to customers of the specific costs that PNM incurs to provide programs, while lost fixed costs are costs that PNM would recover but for the implementation of these programs. PNM has expended and recovered over $123 million in program costs between 2011 and 2016. In comparison, PNM has foregone recovery of $91,038,217 in fixed costs due to proven energy efficiency savings.

Further, the amount of lost fixed costs that would be recovered but for these programs dwarfs the amount of the incentive that PNM receives. PNM has earned a cumulative total performance incentive of $8.7 million from 2011 through 2016, which is less than 10% of the lost fixed costs incurred but never recovered by the Company. Even so, it is important to remember that the incentive is not intended to correct for any disincentive associated with energy efficiency implementation, but is intended to provide a financial profit for the Company.

**Q. DOES THE EUEA PERMIT THE COMMISSION TO TREAT THE RECOVERY OF PROGRAM COSTS AND INCENTIVES AS A METHOD OF ADDRESSING DISINCENTIVES?**

**A.** No. The EUEA separately identifies the required regulatory treatment for each statutory mandate. For example, Section 62-17-6(A) clearly distinguishes the programs costs from the incentives associated with implementing demand-side resources and load management programs, when addressing forms of rate recovery. Section 62-17-5(F) of the EUEA specifically requires any identified disincentive associated with the deployment of energy efficiency programs be removed, and then additionally and separately addresses incentives: the Commission "shall ***also*** provide public utilities an opportunity to earn a profit on cost-effective energy efficiency and load management resource development…." (emphasis added).

There is no logical way to read the EUEA as a whole and conclude that the Legislature intended for either program cost recovery or the opportunity to earn incentives to substitute for the Commission's duty to identify and remove PNM's disincentives.

**Q. DOES PNM'S WILLING COMPLIANCE WITH THE EUEA NEGATE THE EXISTENCE OF A DISINCENTIVE?**

**A.** No. Although the Hearing Examiner (CRD at page 275) notes that the absence of a decoupling mechanism has not subverted PNM's successful efforts to promote the efficient use of energy, given that PNM is exceeding its energy efficiency goals, that does not mean PNM is unharmed by fulfilling its statutory obligations.

The EUEA requires savings targets while simultaneously recognizing that a disincentive is a consequence of achieving those targets, not a reason for avoiding them. The Legislature did not frame the EUEA to permit recovery for disincentives as a remedy for failing to meet the EUEA requirements. Instead, Section 62-17-5(H) provides that if a utility is unable to meet the savings targets, it shall so report to the Commission and propose alternative requirements so that the Commission can reduce those goals. This provision is entirely separate and independent of the provision that requires the Commission identify and remove disincentives.

It is important that the Commission's policies with regard to one provision of the EUEA do not inadvertently encourage non-compliance with other sections of the EUEA, by withholding recovery of disincentives upon evidence that a utility has met or exceeded the savings target required by law. PNM should not be required to risk penalties for non-compliance with other portions of the EUEA, or forego incentives for meeting or exceeding its goals, in order to demonstrate it has a disincentive to implement energy efficiency and load management programs.

**Q. DOES IMPLEMENTATION OF THE LCFC MECHANISM NEGATE THE COST-EFFECTIVENESS OF ENERGY EFFICIENCY PROGRAMS?**

**A.** No, it does not. The recovery of disincentives cannot be considered a cost of energy efficiency programs. While PNM's proposed disincentive removal mechanism will keep PNM whole for these incidental unrecovered fixed costs, it will not reduce the cost-effectiveness of PNM's energy efficiency programs. PNM annually must demonstrate the cost-effectiveness of its utility energy efficiency programs based upon a life-cycle analysis using the statutorily-defined Utility Cost Test. The majority of the benefits attributable to energy efficiency are avoided fuel costs. The savings participating customers achieve from avoiding a kWh purchase are considerably higher than their avoided fuel costs because they are also avoiding paying for the fixed costs embedded in the energy rate. The utility bears the burden of these unreimbursed costs. The EUEA ultimately addresses this outcome by requiring separate treatment of regulatory disincentives rather than by including them in a cost-benefit analysis of programs.

### *C. Implementation of PNM's Proposed LCFC Mechanism*

**Q. HOW DOES PNM PROPOSE TO ADDRESS DISINCENTIVE REMOVAL FOR ENERGY EFFICIENCY?**

**A.** In order for PNM to achieve the mandatory removal of its regulatory disincentive under the EUEA, the Company is proposing a Lost Contribution to Fixed Cost or "LCFC" mechanism which, as noted above, is a form of an LRAM. PNM Witness Aguirre supports the LCFC rider, called Rider 48 – Lost Contribution to Fixed Costs ("LCFC Rider"), as well as the components of the tariff that make up the LCFC Rider amount that will be charged to the applicable customer classes.

**Q. HOW WILL THE LCFC MECHANISM OPERATE?**

**A.** The proposed LCFC mechanism will allow PNM to recover the lost fixed costs associated with the energy sales reductions directly attributable to PNM's energy efficiency programs. In this case, the Commission will establish the amount of fixed costs per kWh embedded in the volumetric energy rate for each applicable rate class. For purposes of the LCFC Rider, this embedded amount is referred to as the Authorized Fixed Cost Recovery Factor. PNM Witness Aguirre calculates the Authorized Fixed Cost Recovery Factor.

The Authorized Fixed Cost Recovery Factor will be multiplied by the projected energy savings from PNM's energy efficiency and load management programs for the upcoming calendar year.[9] The resulting amount is the total lost fixed costs initially authorized for recovery from customers, referred to as the Lost Fixed Cost Amount. To calculate the rate charged to customers, called the LCFC Rider Rate, PNM will divide the Lost Fixed Cost Amount by the annual forecasted billing determinants for the applicable customer classes.

**Q. WILL PNM MAKE AN ANNUAL FILING TO SET THE LOST FIXED COST AMOUNT?**

**A.** Yes. PNM will include an advice notice in the annual energy efficiency plan filing that establishes the Lost Fixed Cost Amount using the projected energy efficiency savings filed each year in the annual energy efficiency plan. As noted above, the only other component to the Lost Fixed Cost Amount is the Authorized Fixed Cost Recovery Factor set in this rate case. The advice notice will be timed such that the LCFC Rider Rate will go into effect with the first billing cycle of the January billing month of the following year, to coincide with the implementation of that year's energy efficiency programs and with the effective date of the adjusted Rider 16 – Energy Efficiency Rider that will collect the associated program costs for the approved plan.

**Q. HOW WILL THE LOST FIXED COST AMOUNT BE COLLECTED FROM CUSTOMERS?**

**A.** Similar to PNM's Rider 36 – Renewable Energy and Rider 16 – Energy Efficiency, PNM will collect the Lost Fixed Cost Amount through its per-kWh LCFC Rider Rate as a

[9] PNM's most recently filed Energy Efficiency Program 2015 Annual Report was filed in Case No. 16-00096-UT.

separate line item on customers' bills, with a description of the charge as follows: "Lost Contribution to Fixed Cost." As noted above, the LCFC Rider Rate will be assessed over a 12-month period beginning in the January billing month of each year.

**Q. WILL PNM TRUE-UP THE AMOUNTS COLLECTED UNDER THE LCFC RIDER RATE?**

**A.** Yes. The Lost Fixed Cost Amount will be trued up in each subsequent year in a reconciliation filing, accounting for the difference between the amount of Lost Fixed Cost actually recovered and the Lost Fixed Cost Amount that should have been collected based upon the measured and verified energy efficiency savings.[10] In other words, once PNM has its measured and verified energy efficiency savings for the prior year, PNM will make another advice notice filing to reconcile the amount collected under the prior year's LCFC Rider Rate, which was based on projected energy efficiency savings, with the amount that should have been collected using measured and verified energy efficiency savings. PNM is likely to time this reconciliation filing to coincide with the reconciliation filing it makes each year for its energy efficiency incentive amount.

**Q. WILL PNM ISSUE CREDITS TO CUSTOMERS IF THE MEASURED AND VERIFIED ENERGY EFFICIENCY SAVINGS ARE LOWER THAN THE PROJECTED SAVINGS USED TO DETERMINE THE LCFC RIDER RATE?**

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[10] The measured and verified energy efficiency savings are determined by the Commission-appointed independent third party evaluator, pursuant to 17.7.2.15(B) NMAC.

**A.** Yes. If the value of the measured and verified energy efficiency savings is lower than the amount PNM collected through the LCFC Rider Rate, PNM will issue credits to customers through the rider mechanism. The provision for credits if projected savings are not achieved balances the interests of customers and PNM.

**Q. HOW WILL PNM COLLECT THE RECONCILIATION AMOUNT?**

**A.** PNM will also collect or credit the reconciliation amount in the LCFC Rider Rate. The LCFC Rider Rate will reflect this reconciliation amount in the first billing cycle of the month following the effective date of its advice notice filing. The reconciliation amount will be set to collect or credit the entire reconciliation amount through the LCFC Rider Rate by the end of the December billing month of the year in which it was filed.

**Q. WILL PNM APPLY A CARRYING CHARGE TO THE RECONCILIATION AMOUNT, WHETHER IT WAS AN OVER OR UNDER COLLECTION?**

**A.** Yes, a carrying charge will be applied to any differential between the amount collected and what should have been collected based upon the measured and verified energy efficiency savings. The carrying charge will be set at the Customer Deposit Interest Rate shown on the Commission website. This rate is currently 1.73%.

**Q. DOES THE LCFC MECHANISM BALANCE THE PUBLIC INTEREST, CONSUMERS' INTERESTS AND INVESTORS' INTEREST?**

**A.** Yes. Given the narrow focus of the mechanism on the direct effects of PNM's energy efficiency programs, as well as PNM's proposed self-imposed, four-year cap on energy efficiency savings used to determine the amount of lost fixed cost recovery (discussed below) and the use of an earnings test, PNM's disincentive will be addressed in a manner that fairly balances public and consumer interests. Collecting lost fixed costs associated with energy efficiency and load management implementation addresses the investors' interest, and limiting the amount of disincentives recovered to those directly quantified by measured and verified energy efficiency and load management savings addresses the consumer and public interest.

**Q. IS PNM SEEKING TO COLLECT THE PROJECTED ENERGY EFFICIENCY SAVINGS FOR 2018 THROUGH ITS LCFC RIDER RATE?**

**A.** No, this is unnecessary since the Test Period billing determinants include a projection of energy efficiency savings for 2018. PNM does plan to true-up the measured and verified savings for 2018 with projected energy efficiency program savings reflected in its 2018 energy forecast and billing determinants. This will address Commission concerns raised in the 2015 Rate Case that PNM's sales forecast for the Test Period already reflected a reduction in energy usage resulting from energy efficiency programs. PNM Witness Chan specifies the projected energy efficiency savings used in PNM's energy forecast for residential and small power customers.

**Q. HOW WILL SUBSEQUENT RATE CASES AFFECT THE LCFC MECHANISM?**

**A.** In subsequent rate cases, PNM will reset the Authorized Fixed Cost Recovery Factor. Also, in any year where new rates go into effect after a general rate case is undertaken, the LCFC mechanism will only true up measured and verified savings for the Test Period and will not collect the full amount of the energy efficiency and load management savings for the Test Period.

**Q. TO WHICH CUSTOMER GROUPS DOES PNM PROPOSE TO APPLY THE LCFC MECHANISM?**

A. The LCFC mechanism will apply to two customer groups: residential service (Rates 1A and 1B) and small power service (Rates 2A and 2B) because the majority of these classes' fixed costs are recovered through the volumetric rate.

**Q. WHAT PORTION OF LOST FIXED COSTS IS ATTRIBUTABLE TO RESIDENTIAL AND SMALL POWER CUSTOMERS AS COMPARED TO THE TOTAL FOR OTHER CLASSES?**

A. As Table GTO-1 above shows, a majority of lost fixed costs are attributable to the residential customer class. While the amount of lost fixed costs for small power customers is less than residential, the lost fixed costs attributable to small power remain significant when compared with all other non-residential rate classes.

**Q. HOW IS THE LCFC MECHANISM APPLIED TO EACH APPLICABLE CUSTOMER GROUP?**

A. PNM intends to apply separate LCFC Rider Rates to the residential and small power rate classes. PNM Witness Aguirre conducted an analysis that looks back to 2011 as if the

LCFC mechanism had been approved in 2010 and looks forward to 2017.[11] This analysis indicates that if the Company combined the LCFC Rider Rate for residential and small power, small power customers would be subsidizing residential customers. Given that PNM's banding proposal already has the residential class as the most subsidized rate class, PNM believes it is not appropriate for small power customers to subsidize residential customers in terms of lost fixed cost recovery related to energy efficiency.

**Q. WHY ARE GENERAL POWER SERVICE AND LARGE POWER SERVICE CUSTOMERS EXCLUDED FROM THE LCFC MECHANISM?**

**A.** General power services (Rates 3B and 3C) and large power service (Rate 4B) customers are excluded from the LCFC mechanism because a lower percentage of their fixed costs is recovered through volumetric rates in comparison to residential service and small power service customers. Figure GTO-1 compares the share of fixed costs recovered through volumetric rates for each of these customer classes under current and proposed rate designs.

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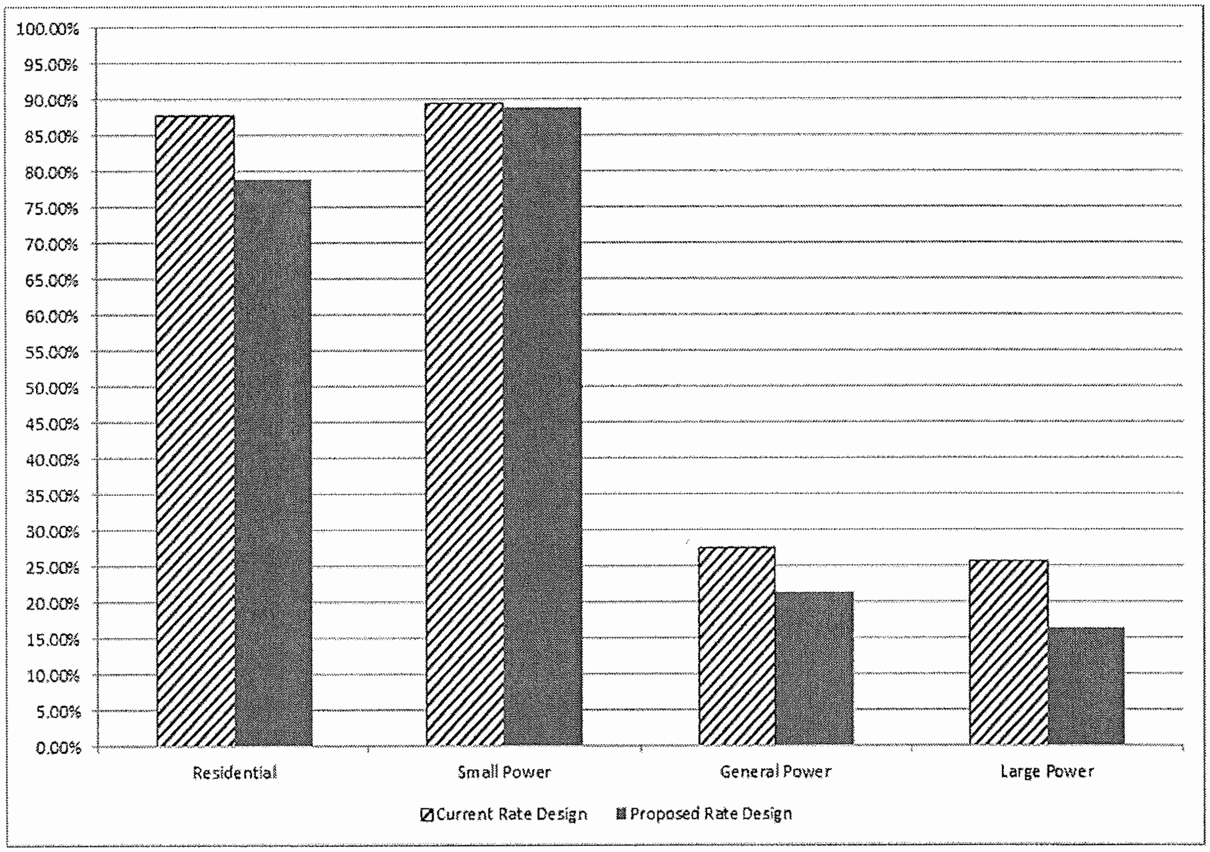
[11] For simplicity sake, the analysis included in Mr. Aguirre's testimony does not, however, "reset" the cumulative energy efficiency savings in 2016, which would have occurred as a result of the implementation of new rates in Case No. 15-00261-UT had the mechanism been in place since 2010.

**Figure GTO-1**
**Fixed Cost Recovered through Volumetric Rates for Select Classes**




**Q. BASED ON FIGURE GTO-1 IS IT REASONABLE TO NOT APPLY THE LCFC MECHANISM TO GENERAL POWER SERVICE AND LARGE POWER SERVICE CUSTOMERS?**

**A.** Given the sheer magnitude and percentage of fixed costs included in the variable rate charged to residential and small power customers that are not recovered as a result of energy efficiency programs, Figure GTO-1 shows that PNM faces a significantly larger disincentive to promote energy efficiency to its residential service and small power service customers than it does for general power and large power service customers. By focusing on the customer classes for which PNM faces the largest disincentive to promote conservation and energy efficiency, the proposed LCFC mechanism will address disincentives without adding rate complexity to some of PNM's larger rate classes.

**Q. ARE THERE OTHER REASONS TO NOT APPLY THE LCFC MECHANISM TO OTHER RATE CLASSES?**

**A.** Yes. Other rate classes are subject to different fixed cost recovery mechanisms as compared to residential and small power customers. For instance, several other rate classes pay a demand charge. The adoption by the Commission of demand charges for the non-residential rate classes helps to mitigate the disincentives arising from energy efficiency and load management programs in which non-residential customer classes participate. These demand charges reduce the probability of PNM not recovering its fixed costs from these customers.

**Q. HOW LONG WILL THE PROPOSED LCFC MECHANISM BE IN PLACE?**

**A.** The LCFC Rider is being proposed as a permanent rate mechanism. As noted above, the LCFC mechanism's component factors will reset in future general rate cases, and it will be trued-up on an annual basis.

**Q. IS PNM PROPOSING TO APPLY ITS EXISTING EARNINGS TEST SET FORTH IN RIDER 36 – RENEWABLE ENERGY TO THE REVENUES COLLECTED THROUGH THE LCFC MECHANISM?**

**A.** Yes. I explain below how the earnings test will operate to account for the revenue from the LCFC mechanism.

**Q. DOES THE LCFC MECHANISM CONTAIN ANY CUSTOMER PROTECTIONS AGAINST LARGE RATE INCREASES?**

A. Yes. One of the concerns that is often raised regarding LCFC or LRAM mechanisms is the "pancaking" effect of cumulative energy efficiency savings between rates cases. Because most energy efficiency measures achieve savings that last over multiple years, the aggregate amount of lost fixed costs associated with those savings can grow rapidly. To resolve this issue, PNM proposes to cap its lost fixed cost recovery associated with each energy efficiency or load management measures after four years, unless the LCFC mechanism is otherwise reset through a new rate case. In other words, if PNM does not file a rate case, measured recovery that began in 2019 for projected 2019 energy efficiency savings will cease in 2023, even though savings from the programs implemented in 2019 will persist beyond 2023. Alternatively, if PNM files a rate case in 2022, all program recovery pursuant to the LCFC mechanism will be reset and PNM will only collect the lost fixed costs associated with energy efficiency or load management measures that start in the rate case test period.[12]

**Q. WHY HAS PNM CHOSEN A FOUR-YEAR CAP FOR PROGRAM RECOVERY UNDER THE LCFC MECHANISM?**

A. The four-year cap proposal strikes a balance between the accumulation of PNM's under-recovered fixed cost with the potential bill impact to customers. The four-year period also represents a reasonable estimate of the typical period between rate cases barring

[12] As noted above, for the Test Period, PNM will only collect a trued-up amount that compares the energy efficiency projections used to determine Test Period sales with the measured and verified savings for the Test Period.

unusual circumstances. For example, since 2000, PNM has had its general rates adjusted five times. It should be noted that the four-year cut-off for lost fixed cost recovery for each program measure is conservative. For the last several years, the program life for PNM's approved energy efficiency programs have ranged between nine and ten years. Termination of lost fixed cost recovery associated with its energy efficiency and load management programs after four years (or with a rate case) acts as a self-imposed cap on the LCFC mechanism.

***D. How the LCFC Mechanism Satisfies Directives from the 2015 Rate Case***

**Q. DOES PNM'S PROPOSED LCFC DISINCENTIVE MECHANISM MEET THE EUEA'S REQUIREMENTS AND ADDRESS EACH OF THE COMMISSION'S IDENTIFIED CRITERIA FROM THE 2015 RATE CASE?**

**A.** Yes. I discuss each point separately below.

**Q. IS THE LCFC MECHANISM A MORE NARROWLY TAILORED MECHANISM THAN THE RBA?**

**A.** Yes. The LCFC mechanism is very narrowly tailored to respond solely to energy savings resulting directly from PNM's energy efficiency programs. This amount of saved kWh will be multiplied by the kWh value of fixed cost recovery included in the Company's energy charge for each applicable rate class. The kWh value of the fixed cost recovery in each rate class's energy charge was not disputed in the 2015 Rate Case. Thus, the LCFC mechanism incorporates these two sets of largely undisputed numbers, one being energy efficiency and load management savings as approved by the Commission and the other being the kWh value of the fixed cost recovery included in PNM's variable energy rates. Moreover, as discussed above, all projections of energy efficiency and load management measures used to derive the LCFC mechanism will be trued-up to actuals once the measurement and verification of such projections are completed.

**Q. DOES THE LCFC MECHANISM SHIFT THE RISK OF CHANGING ECONOMIC CYCLES OR WEATHER FLUCTUATIONS FROM UTILITIES TO CUSTOMERS?**

**A.** No. The LCFC mechanism does not shift those risks away from the utility to customers. The LCFC mechanism is limited to savings that directly result from energy efficiency and load management implementation and the kWh value of fixed cost recovery included in the Company's energy charge for each applicable rate class. The LCFC mechanism neither factors in nor adjusts for increasing or decreasing sales due to weather or changing economic cycles. PNM will continue to bear the risk from any such effects.

**Q. WILL PNM ACCOUNT FOR THE LCFC IN ITS EXISTING EARNINGS TEST?**

**A.** Yes, PNM proposes to include any LCFC revenues in the calculation of its current earnings test performed annually, in compliance with the language contained and approved in PNM's Renewable Energy Rider 36, for the year in which the LCFC revenues are earned. Lost fixed cost recovery through the LCFC mechanism associated with 2019 energy efficiency and load management savings, for example, will be accounted for in 2019. In other words, revenue adjustments that result from the collection of the LCFC Rate Rider will be booked in the same year that the adjustments are calculated. The amounts PNM collects or credits as part of the true-up process in subsequent years will be treated as cash that does not impact revenues.

**Q. DOES THE LCFC MECHANISM ADJUST BASED ON THE NUMBER OF CUSTOMERS SERVED BY THE COMPANY?**

A. No. The LCFC mechanism only recovers quantified fixed costs that would be lost due to verified energy efficiency and load management savings.

Even setting aside that the LCFC mechanism is narrowly tailored and is unrelated to customer growth, it is important that the Commission understand the impact that adding customers has on PNM's system. While the CRD implies that customer growth creates only a utility windfall, customer growth is not a one-sided equation. While there are additional revenues as a result of each additional customer, there is also typically additional capital investment, and a resulting increase in fixed costs, required to serve these new customers. If the Commission is going to require a narrowly tailored mechanism that is tied solely to recovery of fixed costs included in variable energy charges that are otherwise lost due to energy efficiency and load management savings, which PNM has proposed, it would be inconsistent for the Commission to also require that the mechanism somehow account for unrelated changes in customer growth and consumption. This is especially true when PNM's proposed LCFC mechanism has no offsetting means to account for any increased fixed costs PNM incurs with each additional customer.

**Q. IF THE LCFC MECHANISM IS IMPLEMENTED, IS PNM PROPOSING TO LOWER ITS ROE AS A RESULT OF A POTENTIAL REDUCTION IN INVESTMENT RISK TO SHAREHOLDERS?**

**A.** No. The LCFC mechanism helps to address an increase in investment risk that has already resulted from the EUEA, rather than reducing risk. Before the adoption of the EUEA, PNM experienced a level of risk that was standard for regulated utilities. For instance, between rate cases, PNM's shareholders were at risk for the detrimental effects of reduced customer usage or overall declines in the number of customers. On the other hand, if customer usage or overall customer growth occurred between rate cases, the Company and shareholders were permitted to benefit. The enactment of the EUEA created a new risk for New Mexico utilities – the risk that utilities would under-recover their fixed cost as a result of mandated utility energy efficiency programs that reduce sales. In addition to quantified lost fixed cost recovery, this increased risk to PNM also manifests itself in the form of a declining UPC and reduced growth between rate cases. The EUEA accounted for this risk by requiring that the Commission identify disincentives and ensure that they are removed. In other words, addressing the disincentive is intended to place the utility in the same risk position it would have been in, but for the EUEA. Given that adoption of the LCFC mechanism will make PNM's risk level commensurate with the traditional utility risk that applied prior to enactment of the EUEA, no adjustment to the ROE is required. PNM Witness Hevert also provides testimony addressing the increasing use of revenue stabilization and cost recovery structures by other utilities, and the expectations of investors who increasingly look for these mechanisms for utilities when evaluating relative risks among investment opportunities.

Further, the Hearing Examiner's discussion of ROE risk in the 2015 Rate Case was tied to the "overly broad" nature of decoupling as opposed to an LCFC mechanism. Because the LCFC mechanism adjusts only for energy efficiency and load management savings and does not adjust based on weather or economic conditions, the Hearing Examiner's stated reason for a potential ROE adjustment no longer applies.

**Q. HOW DOES PNM ADDRESS THE NOTION THAT IT MIGHT OTHERWISE RECOVER ITS LOST FIXED COSTS THAT RESULT FROM ENERGY EFFICIENCY AND LOAD MANAGEMENT PROGRAMS?**

**A.** Energy efficiency measures unquestionably reduce PNM's energy sales and therefore result in decreased fixed cost recovery, irrespective of other factors that may exist. It would be both inconsistent and unbalanced to require a mechanism that limits recovery solely to those identified lost fixed costs resulting from energy efficiency and load management programs (and which cannot adjust for other factors that affect sales directly) and also impose an expectation of proof by the utility that other revenues collected do not make up for these lost fixed costs. Moreover, this notion is not supported by the Legislature's decision in 2008 to add language to the EUEA that the Commission "shall … identify regulatory disincentives" and "ensure that they are removed". Requiring PNM to match all revenues with specific costs to prove its lost fixed costs are not otherwise recovered would require an unreasonable level of proof both for identifying the disincentive and ensuring it is removed and would serve to defeat the intent of the EUEA.

**Q. PLEASE ADDRESS THE CONCERN THAT MORE FREQUENT RATE CASES WOULD BETTER ADDRESS DISINCENTIVES THAN A RATE MECHANISM SUCH AS THE LCFC.**

**A.** The CRD in the 2015 Rate Case makes the point that frequent rate cases and the future test period modeling associated with such rate cases obviate the need for any mechanism to affirmatively address regulatory disincentives for energy efficiency. I address above that the disincentive is not in fact eliminated and there is a significant ongoing loss for the Company even when rates are reset. Regardless, frequent rate cases and reliance on a future test year period to ensure the disincentive is removed (rather than simply lessened) would require an annual reset of general rates. Given the effort and cost of rate cases to all parties, this is clearly not a practical solution. If more frequent rate cases were the solution to addressing the disincentive, there would be no reason for the Legislature to have amended the EUEA to explicitly require that the Commission identify regulatory disincentives and ensure that they were removed, because there is no statutory limit on the frequency of rate cases. The Legislature enacted the EUEA requirement to remove disincentives with knowledge of the Commission's ratemaking authority in general rate cases, and presumably did not insert unnecessary or meaningless language. Further, requiring frequent general rate cases to remove the Company's disincentives is inconsistent with the Commission's directive to design a narrowly tailored rate mechanism.

A rate case is broad by nature, addressing all kinds of costs and revenues, requiring a significant investment of resources by the utility, other parties and the Commission, and taking up to thirteen months to complete. To remove disincentives through constant general rate proceedings is unduly burdensome and inefficient. Given the language of the EUEA, and the number of states that utilize specific rate rider mechanisms to address disincentives, it would be unreasonable to limit the remedy for disincentives to an annual recalculation of general rates. While PNM's quantified disincentive for such programs is not insignificant, it is small in comparison to the revenue deficiency amounts that normally determine the timing of a general rate case given rate case costs and resource needs. It would make more sense to simply remove all fixed costs from volumetric charges, and recover those fixed costs through a rate that is unaffected by reductions in sales from energy efficiency programs.

**Q. GIVEN THE SPECIFICS OF PNM'S PROPOSED LCFC MECHANISM, WILL THE FREQUENCY OF RATE CASES AND/OR THE USE OF A FUTURE TEST YEAR RESULT IN AN OVER-RECOVERY OF DISINCENTIVES?**

**A.** No. PNM's proposed LCFC mechanism accounts for the filing of rate cases and the use a future test year period. Specifically, PNM is not seeking to recover the total projected energy efficiency savings for the Test Period through its proposed LCFC mechanism. As described above, PNM is only seeking to recover the difference between the measured and verified energy efficiency savings for 2018 and the savings projections used by the Company in its energy sales forecast for the Test Period. Moreover, PNM's LCFC mechanism is designed to reset disincentive recovery each time new rates are approved, and to limit the cumulative savings to a four-year period. The proposed disincentive mechanism will not result in any over-collection of the disincentive regardless of the frequency of rate cases or use of a future test period.

**Q. WILL THE LCFC MECHANISM SWEEP UP LOST FIXED COSTS ASSOCIATED WITH DISTRIBUTED GENERATION?**

**A.** No. As noted above, that LCFC mechanism is narrowly focused on Commission-approved savings that directly result from energy efficiency and load management implementation. These savings are multiplied by the kWh value of fixed cost recovery included in the Company's energy charge for each applicable rate class. There is no part of this formula that factors in other lost fixed costs, such as those that might be associated with distributed generation.

### *E. The Advantages of PNM's LCFC Mechanism*

**Q. WHY DOES PNM BELIEVE THAT AN LCFC MECHANISM IS AN APPROPRIATE SOLUTION TO ITS REGULATORY DISINCENTIVES?**

**A.** After nine years and a multitude of rulemaking and contested cases for PNM and the other New Mexico investor-owned utilities, the Commission has yet to address regulatory disincentives in accordance with the EUEA. In the 2015 Rate Case, the Commission provided specific direction about what is a permissible mechanism to remove regulatory disincentives. Accordingly, the Company is proposing an LCFC mechanism in adherence to those directives and to address the Commission's primary concern from the 2015 Rate Case, namely that PNM's decoupling mechanism was too broad.

**Q. HAVE OTHER STATES ADOPTED AN LCFC MECHANISM OR SOMETHING SIMILAR TO IT?**

**A.** Yes, as of 2015, there were seventeen states with some form of LCFC.[13]

**Q. HAS THE COMMISSION PROVIDED PAST DIRECTION ON AN LCFC MECHANISM?**

**A.** In Case No. 07-00411-UT, EPE proposed an LRAM, which is another name for an LCFC mechanism. Although the Commission rejected EPE's specific proposal, it found that EPE had identified a theoretical fixed cost recovery disincentive by showing that its required energy efficiency programs may reduce the amount of electricity that it could have otherwise sold, and that this reduction may influence its ability to recover its fixed costs. Case No. 07-00411-UT, Recommended Decision, at 32. The Commission noted that EPE did not "quantify the volume of kilowatt hours to be saved by different classes of customers as a result of EPE's implementation of its energy efficiency programs or the volume of kilowatt hours to be saved by the implementation of different components of EPE's energy efficiency programs." Final Order at 9. In a subsequent case, Case No. 11-00047-UT, the Commission found that EPE adequately justified a one-year recovery of a disincentive that was based on its lost fixed costs.

[13] Annie Gilleo, Marty Kushler, Maggie Molina and Dan York, *Valuing Efficiency: A Review of Lost Revenue Adjustment Mechanisms*, AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY (June 2015), *available at* http://kms.energyefficiencycentre.org/sites/default/files/u1503.pdf.

In this case, PNM has proposed a mechanism that relies on the quantified volume of kWh savings resulting from its energy efficiency programs, by the customer classes to which the mechanism will be applied.

### *F. The Historical Treatment of Disincentives by the Commission*

**Q. WHAT IS THE PURPOSE OF THIS SECTION?**

**A.** This historical discussion provides additional context in demonstrating that PNM's proposed LCFC mechanism satisfies past Commission concerns. It underscores the necessity of Commission action, given the years-long efforts to implement the EUEA's long-standing mandate to identify and ensure removal of PNM's disincentives.

**Q. HAS THE COMMISSION ESTABLISHED ANY PRECEDENTIAL METHOD TO REMOVE PUBLIC UTILITY DISINCENTIVES?**

**A.** No. Although the investor-owned utilities have regularly sought Commission approval for a mechanism that is intended to remove that public utility's energy efficiency disincentives, the Commission has either denied approval of the mechanism altogether or has granted only temporary and partial relief without approving a mechanism that addresses disincentives going forward.[14] The Commission's decisions denying public utility disincentive mechanisms associated with implementation of energy efficiency and load management programs have largely focused on two themes.

[14] *See* Case No. 06-00210-UT, Final Order Partially Adopting Recommended Decision, ¶ 119 (June 29, 2007); Case No. 10-00197-UT, Final Order Disapproving Certification of Stipulation and Denying Application Without Prejudice, ¶ 6 (Nov. 10, 2011); Case No. 11-00047-UT, Certification of Stipulation (Sept. 13, 2012); Case No. 11-00047-UT , Final Order (Dec. 11, 2012); Case No. 15-00261-UT, Recommended Decision (Aug. 15, 2016).

The first theme is that certain incentive mechanisms, particularly decoupling or similar mechanisms, are overly broad because they recover lost fixed costs that are not attributable solely to energy efficiency or load management programs. As an example, in 2006, the Commission found PNM's gas utility decoupling proposal to be overly broad because it would protect PNM from reduced consumption for a variety of reasons unrelated to PNM's energy efficiency programs, such as increased gas prices, general economic conditions, and customer actions like turning down the thermostat. Case No. 06-00210-UT, Recommended Decision, at 113.

The second theme is that a utility must be able to match lost fixed costs precisely with the amount it recovers. This is one reason the Commission concluded disincentives should be addressed in a general rate case rather than in energy efficiency dockets. For example, in a past energy efficiency docket, the Commission found that El Paso Electric Company could not show that its expenses are not reduced by an amount greater than the loss of revenue resulting from reduced consumption tied to energy efficiency programs, such that no disincentive would exist.[15] In 2011, the Commission found that Southwestern Public Service Company had to establish the amount of unrecovered lost fixed costs resulting from energy efficiency and load management programs and then show that recovery of these lost fixed costs would not exceed the unrecovered amount.[16]

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[15] Order Adopting Certification Recommending Modification of Stipulation, Case No. 11-00047-UT, at ¶ 5 (Dec. 11, 2012) (citing Feb. 21, 2012 Order).
[16] Case No. 10-00197-UT, Final Order Disapproving Certification of Stipulation and Denying Application Without Prejudice, ¶ 6 (Nov. 10, 2011).

**Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THIS HISTORICAL REVIEW?**

A. It appears that the Commission wants a very narrow mechanism where a utility can determine its lost fixed costs that result from energy efficiency and load management programs and closely or exactly match cost recovery with lost fixed costs that are included in volumetric rates.

**Q. DOES THE LCFC MECHANISM FIT THE COMMISSION'S CRITERIA?**

A. Yes. The LCFC mechanism is narrow and with the true-up, PNM will be able to match its lost fixed costs included in its volumetric charges that are associated with energy efficiency and load management savings with the amount it recovers from customers.

**Q. WHAT ABOUT THE REQUIREMENT THAT THE COMPANY MUST SHOW THAT REDUCED USAGE DOES NOT RESULT IN MATCHING REDUCED EXPENSES, THEREBY RESOLVING THE DISINCENTIVE?**

A. The idea that energy efficiency savings is matched by a reduction in PNM's fixed expenses is flawed. When energy sales are reduced due to energy efficiency programs, PNM's revenues are reduced by the entire volumetric rate. PNM is therefore unable to recover costs that have already been incurred. Yet, PNM is only seeking to recover the portion of the volumetric rate that collects the fixed costs, rather than the entire reduced volumetric rate. As described above and in the testimony of PNM Witness Aguirre, the LCFC mechanism recovers only lost fixed costs. These are costs that PNM has already incurred no matter the amount of energy it delivers or does not deliver to the customer.

Reduced usage per customer, whether as a result of energy efficiency or some other reason, does not reduce the amount of these fixed costs that have already been incurred to provide utility service. Furthermore, as discussed above, it seems incongruous for the Commission to mandate a very narrow mechanism specifically tied to just energy efficiency and load management savings, while also applying a separate test that requires the Company prove that expense reductions that occur for other reasons do not eliminate the disincentive.

**Q. DO DISINCENTIVES EXIST REGARDLESS OF WHETHER A UTILITY CAN MATCH LOST FIXED COST RECOVERY WITH CORRESPONDING EXPENSE REDUCTIONS?**

**A.** Yes. As PNM and other stakeholders made clear in the 2015 Rate Case, the Company, like all other public utilities, increases its revenue in part by increasing sales. The Company thus has an incentive to increase sales as well as a disincentive to engage in any effort that reduces sales. This is particularly true when a utility recovers significant amounts of its fixed costs through its volumetric rates, as PNM does. This disincentive exists even when the Company might be reducing expenses in another context. Having said this, as noted above, expense reduction is not an issue in terms of PNM's LCFC mechanism, given that it recovers only those lost fixed costs that PNM has already incurred that are unrecovered and a result of energy efficiency programs.

**Q. HAS THE COMMISSION ALSO EXPRESSED A MORE EXPANSIVE VIEW OF WHAT CONSTITUTES A DISINCENTIVE?**

**A.** Yes. In Case No. 08-00024-UT, which was a rulemaking where the Commission was considering different options to address disincentives in accordance with the EUEA, the Commission found that "the record in this case unequivocally shows that the loss of fixed cost recovery resulting from the implementation of energy efficiency and load management programs has acted as a disincentive to utilities developing and offering such programs." Case No. 08-00024-UT, Final Order Repealing and Replacing 17.7.2 NMAC, at 39-40, ¶ 98 (Apr. 8, 2010).

Moreover, the Commission specifically found that even when the exact amount of lost fixed costs that results from implementation of energy efficiency programs cannot be determined, a disincentive still exists when "any amount of fixed costs are recovered in variable energy and demand charges."[17] The Commission stated:

> [T]he record shows that [regulatory] disincentives exist in the form of reduced fixed cost recovery. Although the exact amount of losses that the utilities will incur as a result of the implementation of energy efficiency and load management programs can be disputed, particularly with respect to the projected losses, it is nonetheless clear that the utilities are recovering less of their fixed costs as the result of the reduction in energy sales due to their implementation of energy efficiency and load management programs. It is undisputed that the utilities recover a portion of their fixed costs through their energy charges, and that the quantity of energy sold by the utilities – and thus the amount [of] fixed cost revenues received by the utilities through their commodity charges – is less than it

[17] Case No. 08-00024-UT, Final Order Repealing and Replacing 17.7.2 NMAC, at 39, ¶ 98 (Apr. 8, 2010) ("The Commission agrees that as long as any amount of fixed costs are recovered in variable energy and demand charges, the utilities will still have an incentive to sell more energy.").

> would have been had the utilities not implemented their energy efficiency and load management programs.[18]

While the rulemaking order was ultimately vacated by the New Mexico Supreme Court on other grounds, the Court's decision did not reject or alter the Commission's definition of a disincentive. Clearly, the Commission has in the past found that a disincentive exists as a result of lost fixed cost recovery due to energy efficiency and load management programs, particularly when fixed costs are recovered through an energy charge.

**Q. DID THE NEW MEXICO SUPREME COURT REACH SIMILAR CONCLUSIONS WITH REGARD TO WHAT CONSTITUTES A DISINCENTIVE FOR UTILITIES?**

**A.** Yes, it did, largely agreeing with the Commission's 2008 finding that a disincentive exists primarily as a function of the public utility business model. The Supreme Court both acknowledged the EUEA's requirement to remove regulatory disincentives, and found that a disincentive results from the reduced capital investment and energy sales that accompany energy efficiency programs. Specifically, the Court said:

> The EUEA acknowledges that there are regulatory disincentives that prevent public utilities from including cost-effective energy efficiency and load management programs in their energy resource portfolios. For example, the traditional ratemaking formulas provide incentives for utilities to invest in supply-side resources such as generation plants or transmission lines because that is how utilities traditionally make money: the larger the rate base – or capital investment – the greater the energy supply and the larger the profit. The more energy utilities sell, the more money they make. On the other hand, when a utility implements the statutory energy efficiency program to *reduce* the amount of energy consumed by its customers, '[t]his necessarily results in a reduction in the

[18] *Id.* at 21-22, ¶ 53.

> utility's revenue.' The EUEA calls for the removal of such regulatory disincentives ...[19]

**Q. HAS THE SUPREME COURT SET ANY LIMITATIONS ON WHAT TYPE OF MECHANISMS MAY BE APPROVED TO ADDRESS THE DISINCENTIVE THAT IT ACKNOWLEDGES EXISTS?**

**A.** Yes, it has. The mechanism to address the utility disincentive resulting from the provision of cost-effective energy efficiency and load management programs must be evidence-based, cost-based and utility-specific.[20] The New Mexico Supreme Court's decision directs that a disincentive mechanism adopted by the Commission be based on "the utility's revenue requirements" and "the traditional elements of the ratemaking process."[21]

**Q. DOES PNM'S PROPOSED LCFC MECHANISM ADDRESS THE CONCERNS OUTLINED IN PAST CASES AND MEET THE COURT'S CRITERIA?**

**A.** Yes. PNM's proposed LCFC mechanism addresses the Commission's past concerns related to other disincentive mechanisms. The LCFC mechanism is narrowly tailored and recovers only those lost fixed costs directly attributable to energy efficiency and load management. Given that PNM is recovering only lost fixed costs that are incurred regardless of volumetric usage but nonetheless are recovered through volumetric charges, there is no corresponding reduction in expenses that might offset the energy savings. The

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[19] *AG and NMIEC v. New Mexico PRC,* 2013-NMSC-042, at ¶ 21 (2013) (emphasis in original) (internal citations omitted) (quoting *AG v. New Mexico PRC,* 2011-NMSC-034, at ¶ 11 (2011)).
[20] *AG v. New Mexico PRC,* 2011-NMSC-034, ¶ 18 (2011).
[21] *Id.*

specific components of the LCFC are derived from PNM-specific information and data, are cost-based and program-based, and are supported by evidence.

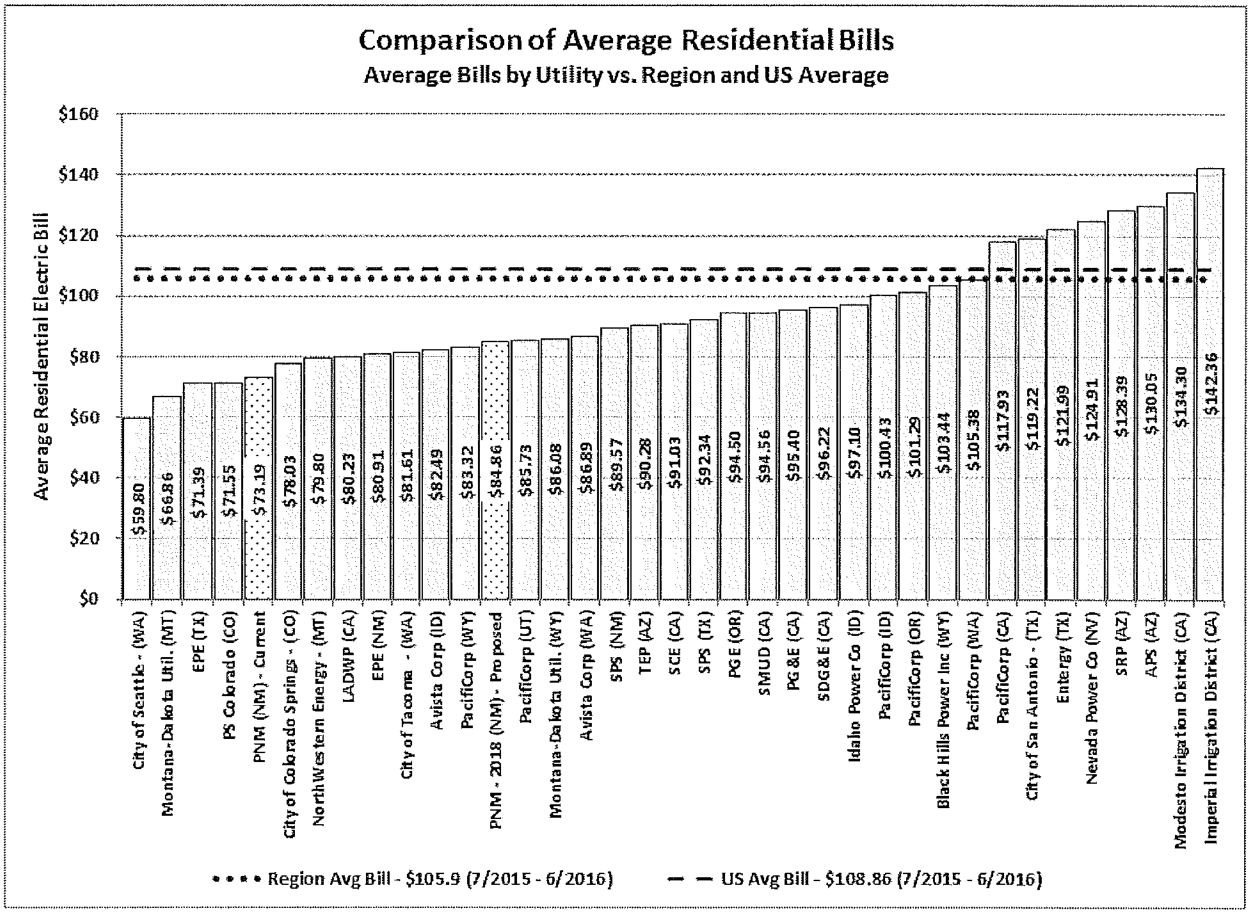
Based on clear statutory directives, Supreme Court precedent and past Commission declarations regarding the nature and mandate to identify and address disincentives, the LCFC mechanism is narrowly tailored, meets the established criteria and should be approved.

## X. BILL IMPACTS OF PROPOSED RATES

**Q. HOW DO PNM'S RESIDENTIAL CUSTOMER BILLS COMPARE WITH THOSE OF OTHER UTILITIES?**

**A.** PNM's average residential customer's bills are significantly lower than regional and national averages. Even after implementation of the proposed rates, PNM will offer low, competitive rates for New Mexico business and residential consumers. Figure GTO-2 illustrates how PNM's residential bills after implementation of the full amount of rate relief requested will compare with the bills of other utilities for the timeframe July 2015 through June 2016:

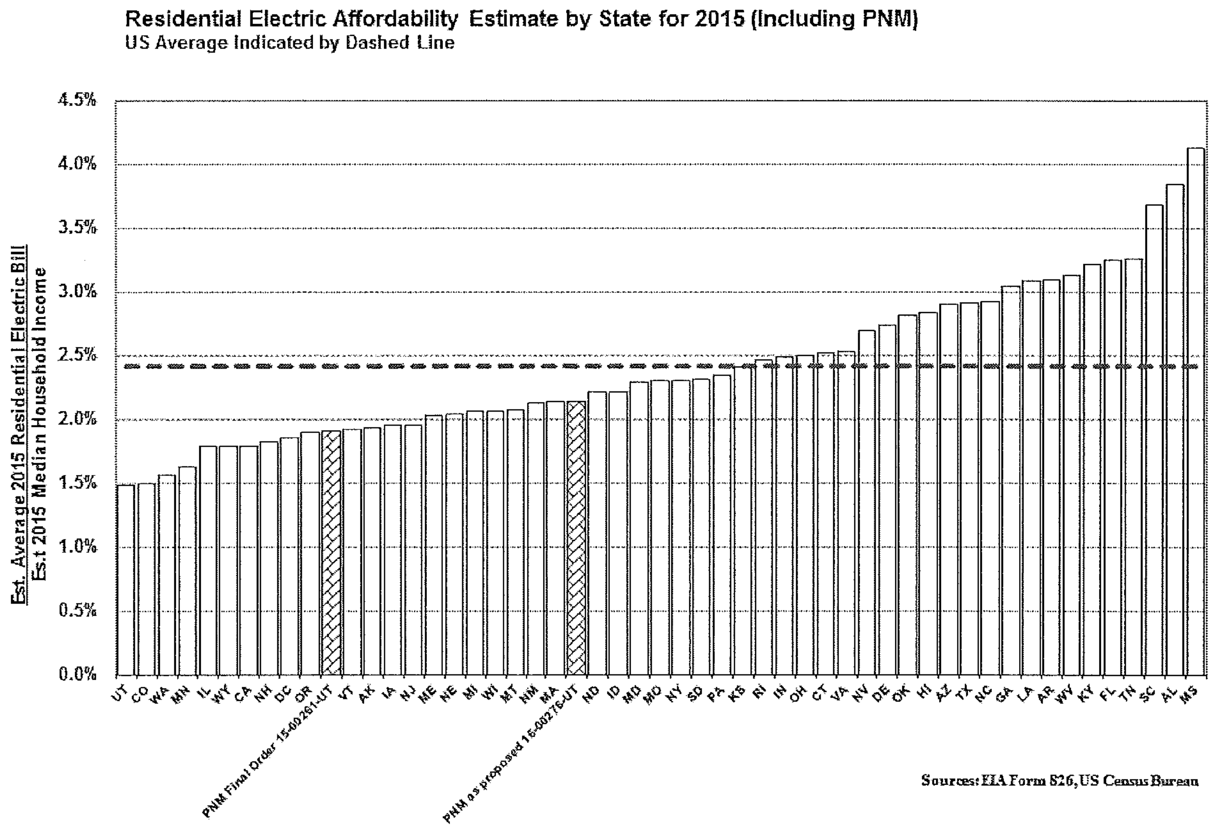
**Figure GTO-2**




**Q. HOW DO PNM'S RESIDENTIAL CUSTOMER BILLS COMPARE WITH THOSE OF OTHER UTILITIES BASED ON AFFORDABILITY?**

**A.** New Mexico is a relatively low-income state. However, even after implementation of the full amount of rate relief, PNM's customer bills compare favorably on the basis of affordability with the bills of other utilities. Figure GTO-3 below compares state average residential electric bills divided by each state's median family income to depict the "affordability" of residential electric service. Figure GTO-3 shows that PNM residential customers pay less for electric service as a percentage of household income than customers in most other states, and will continue to do so even if the full amount of the rate relief proposed by PNM is granted.

**Figure GTO-3**

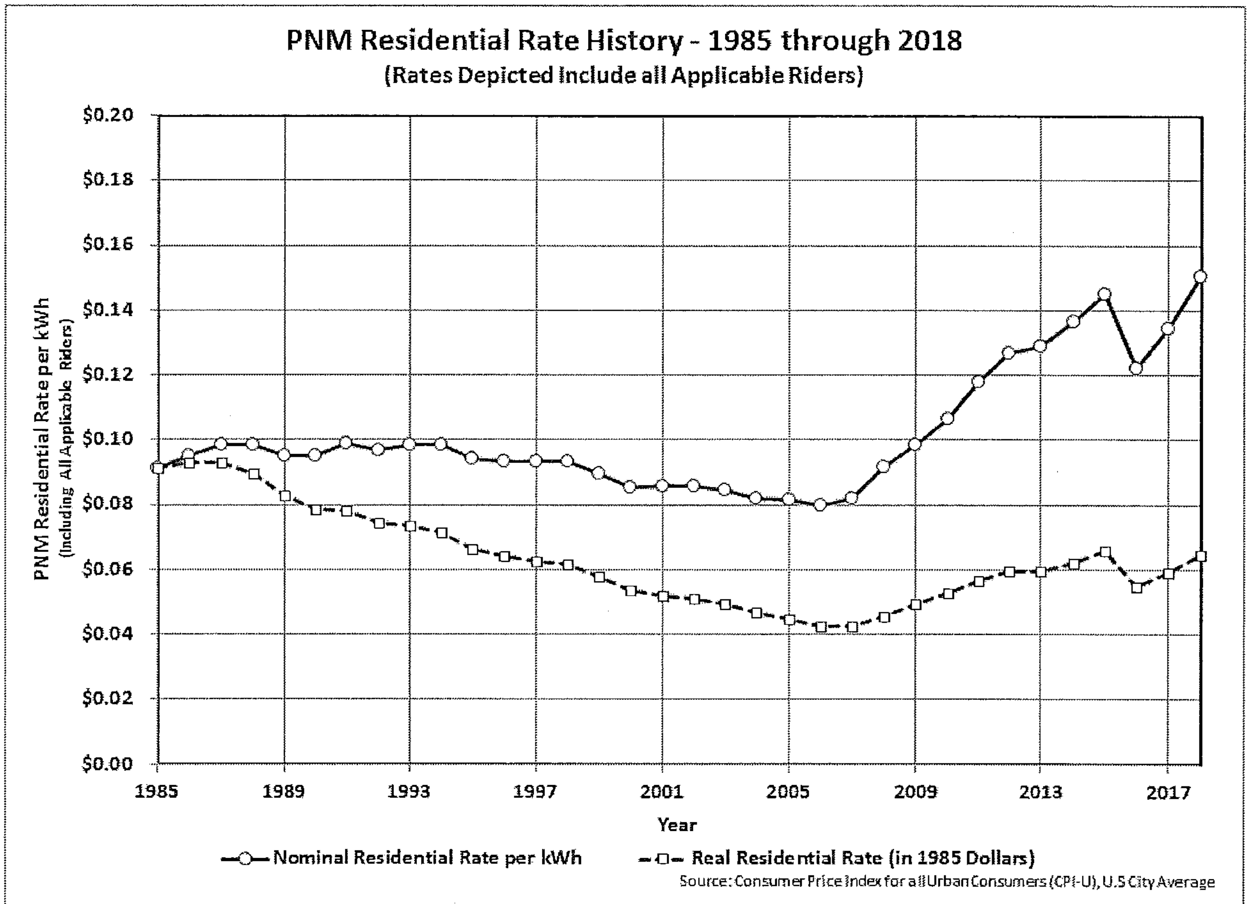



It should be noted that PNM's ranking on Table GTO-3 is conservative. The Table uses PNM's average bills after its rate request is fully implemented on January 1, 2018, but uses average bills of other utilities from 2015. As many utilities have aging infrastructure that requires investment, the average bills of other utilities are more likely to increase from 2015 levels by the beginning of 2018. The national average for electric bills as a percentage of median household income shown on Table GTO-3 is just below 2.5%. PNM's proposed rates for 2018 would have resulted in average electric bills that would represent just below 2.2% of New Mexico median household income had they been in place in 2015.

**Q. HAVE PNM'S RATES BEEN RELATIVELY STABLE OVER TIME?**

**A.** While PNM rates have been increasing since 2008, customers enjoyed a long period during which PNM rates either were stable or actually went down. Figure GTO-4 shows the history for PNM's residential rates beginning in 1985 and assuming PNM's proposed rate increase in this case is granted. As can be seen, the "real residential rate" in 1985 dollars shows that residential rates through 2018 will actually be lower even with the proposed rate increase than they were in 1985, when adjusted for inflation.

**Figure GTO-4**




**Q. WHAT IMPACTS WILL CUSTOMERS SEE IN THEIR AVERAGE RATES AS A RESULT OF THIS CASE AND OTHER RATE CHANGES THAT PNM WILL BE IMPLEMENTING?**

**A.** As a result of PNM's proposed base rate changes, customers will see bill increases that range between 7.56% to 12.79%. Note that this 7.56% to 12.79% range includes fuel charges, renewable energy charges and energy efficiency. PNM Witness Aguirre summarizes the bill impact for each of PNM's rate classes.

## XI. COMPLIANCE WITH COMMISSION ORDERS AND NMAC RULES

**Q. DOES PNM'S PROPOSED COST OF SERVICE REFLECT THE 2015 RATE CASE DETERMINATIONS ON THE PVNGS UNIT 1 AND 2 RENEWED LEASES, THE REPURCHASE OF PVNGS UNIT 2 INTERESTS, AND PNM'S INVESTMENT IN BALANCED DRAFT TECHNOLOGY FOR SJGS UNITS 1 AND 4?**

**A.** Yes. Although PNM has filed an appeal with the New Mexico Supreme Court to the Commission's 2015 Rate Case determinations related to these assets, PNM has included in this case only the asset amounts approved by the NMPRC for recovery in the 2015 Rate Case. If the Supreme Court vacates and remands the 2015 Rate Case decision based on PNM's appeal, any adjustments to PNM's rate base assets, as well as the appropriate ratemaking mechanism to implement any such adjustments, would be addressed upon remand in that docket. Examples of potential rate adjustment mechanisms that the Commission could consider on remand in the docket of Case No. 15-00261-UT would include a line item surcharge or rate rider, or establishment of a regulatory asset to be recovered in a future rate case.

**Q. HOW ELSE HAS PNM COMPLIED WITH THE REQUIREMENTS OF THE 2015 RATE CASE FINAL ORDER WHICH PERTAIN TO THIS CASE?**

**A.** PNM Witnesses Chan, Aguirre and Vogt describe the rate design matters required to be addressed in this case in accordance with the 2015 Rate Case Final Order, including: Time-of-Use rates; Streetlighting matters; separate cost of service studies for Rate 3B –

General Power Service Time-of-Use and Rate 3C – General Power Service (Low Load Factor) Time-of-Use; data collection for use of a minimum distribution system ("MDS") methodology for classifying distribution costs; and PNM's Interruptible Incremental Power Rider 8. PNM Witnesses Monroy and Harland address the 2015 Rate Case Final Order requirement related to providing detail and support for PNM's after-tax gains from its sale of its Palo Verde Unit 1 and 2 interests in 1985 and 1986. PNM Witnesses Eden and Gagne discuss the annuitization of the electric portion of the pension plan. PNM Witness Monroy's testimony discusses depreciation of decommissioning costs as required in Ordering Paragraph EE of the 2015 Rate Case CRD.

**Q. HAS PNM COMPLIED WITH OTHER COMMISSION ORDERS AND RULES RELATED TO THE FILING OF PNM RATE CASE APPLICATIONS?**

**A.** Yes. PNM has complied in this filing with all prior Commission orders and rules related to the filing of rate case applications. Rule 17.1.2.10(B)(2)(d) NMAC provides that such showing is not needed in a general rate case in the event a utility provides the required information in its annual informational filings. PNM Exhibit GTO-2 is a copy of PNM's most recent Final Order Report filed with the Commission as part of its annual reports filed on April 29, 2016. The report contains a list of requirements resulting from NMPRC Final Orders for the previous five years as well as the dates that PNM has made filings with the Commission as a result of the listed requirements. PNM files its annual informational financing filings and updates and files this list with its annual report filings submitted on or before April 30 each year pursuant to 17.1.2.8(A)(3) and 17.9.510.12 NMAC.

Pursuant to the Commission's Final Order in Case No. 16-00191-UT, PNM has provided data and information, in the Direct Testimony of PNM Witness Vogt, that will allow the Commission to determine whether any customer class will be subject to increased rates due to Rate 36B's fixed "Contribution to Production Charge for System Supplied Energy" of $0.0231074 per kWh. PNM Witness Vogt demonstrates that other customer classes will not be subject to increased rates as a result of the fixed production rate paid by the Rate 36B customer.

PNM has separately filed an Advice Notice in accordance with the Commission's rules. In addition, the FTY Rule (17.1.3.13 NMAC) requires PNM to provide certain historical financial information prepared in the normal course of business for a three-year period. PNM is providing its Rule 510 compliance filings for year-end 2015, 2014 and 2013 as PNM Exhibit GTO-3.

Finally, PNM's most recent Securities and Exchange Commission ("SEC") Form 10-K and SEC Form 10-Q is being provided in this filing as Rule 530 Schedule Q-4 and is on file with Commission's records. Historical SEC Form 10-K's, SEC Form 10-Q's and other SEC filings, which are voluminous, are publicly available on the PNMR website (http://www.pnmresources.com) and are available for download at any time.

## XII. CONCLUSION

**Q. PLEASE SUMMARIZE PNM'S REQUESTED APPROVALS IN THIS CASE.**

**A.** PNM requests approval of its proposed revenue requirement, which includes a rate base that reflects changes in PNM's generation portfolio used to serve customers as of January 1, 2018, and investments in plant and facilities with in-service dates no later than the end of the Test Period, that are needed to provide cost-effective, safe and reliable service. PNM requests approval of a non-fuel revenue requirement of $791.6 million. If PNM's revenue requirement is approved by the Commission, PNM proposes to phase in the associated rate increase through graduated rates in 2018 and 2019.

PNM's forecasted fuel revenue requirement for 2018 is $141 million, which will be collected through PNM's FPPCAC in compliance with the Commission's final orders in NMPRC Case No. 13-00187-UT and PNM's 2015 Rate Case. PNM does not seek any changes to its approved FPPCAC and will make its continuation filing as required by Rule 17.9.550 NMAC on or before April 23, 2018. PNM's requested rate base, regulatory assets and liabilities and ongoing expenses, which I have outlined above, are fully supported by the direct testimonies and exhibits of PNM's other witnesses.

PNM also seeks approval of its proposed changes in rate design. PNM's rate design appropriately mitigates the impact of the rate increase on residential customers. The proposed rate design balances principles of cost causation with potential rate "shock."

The redesigned rates also provide improved revenue stability for PNM, and better align cost recovery with cost causation within rate classes.

PNM's request for approval of its non-fuel revenue requirement of $791.6 million, together with the new rates that are designed to recover those approved revenues, is fully supported by testimony and exhibits. PNM's proposed rates are just and reasonable, and will provide a fair opportunity for PNM to earn a reasonable rate of return.

Based on the testimony and supporting evidence in PNM's rate package filing, the Commission should grant the specific approvals requested in PNM's application and supporting testimonies.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

**A.** Yes.

*GCG#522685*

Resume of Gerard T. Ortiz

# PNM Exhibit GTO-1

Is contained in the following 8 pages

## GERARD T. ORTIZ EXPERIENCE AND QUALIFICATIONS

| | |
|---|---|
| Name: | Gerard T. Ortiz |
| Address: | Public Service Company of New Mexico<br>414 Silver Ave. SW<br>Albuquerque, NM 87102 |
| Position: | Vice President, Regulatory Affairs |

Professional Engineer Registration: State of New Mexico - #9687

| | |
|---|---|
| Education: | B.S., Electrical Engineering, New Mexico State University, 1981<br>M.B.A., Finance Concentration, University of New Mexico, 1988 |
| Employment: | Employed by Public Service Company of New Mexico since 1981<br>Positions held within the Company include: |

Executive Director, New Mexico Retail Regulatory Services
Director, Regulatory Policy and Case Management
Director, Market Services
Director, Business Resource Planning
Marketing Manager, Healthcare/Communications Segment
Engineering Supervisor
Distribution Engineer

Testimony Filed:

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the City of Albuquerque To Institute Retail Pilot Load Aggregation Program and Its Request for Related | NMPUC | 2782 |
| In the Matter of PNM's transition plan Pursuant to the Electric Utility Industry Restructuring Act of 1999 – Part II Testimony in Support of Merchant Plant | NMPRC | 3137 |
| In the Matter of the application of PNM For Approval of Voluntary Renewable Energy Rider | NMPRC | 03-00101-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the application of PNM For Approval of Rio Rancho 2003 Underground Projects Rider Pursuant to Advice Notice No. 299 | NMPRC | 03-00352-UT |
| In the Matter of the application of PNM For Approval of Gas Energy Efficiency Programs and Program Cost Rider Pursuant To the New Mexico Public Utility and Efficient Use of Energy Acts | NMPRC | 05-00261-UT |
| In the Matter of the application of PNM For a Certificate of Public Convenience And Necessity for the Afton Generation Station | NMPRC | 05-00275-UT |
| In the Matter of the application of PNM For Approval of Rio Rancho 2005 Underground Projects Rider Pursuant to Advice Notice No. 319 | NMPRC | 05-00418-UT |
| In the Matter of Staff's Petition for the Docketing of a Case to Address Issues Arising from PNM's Fiber Optic Network Pilot Program | NMPRC | 05-00443-UT |
| In the Matter of the application of PNM For Approval of Rio Rancho Unser Boulevard Road Widening Project Underground Rider Pursuant to Advice Notice No. 323 | NMPRC | 06-00095-UT |
| In the Matter of the application of PNM For Approval of Rio Rancho 2006 Underground Project Rider Pursuant to Advice Notice No. 326 | NMPRC | 06-00302-UT |
| In the Matter of the application of PNM For Approval of the ML Tap Underground Project Rider Pursuant to Advice Notice No. 328 | NMPRC | 06-00354-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the application of PNM For Approval of Electric Energy Efficiency Programs and Load Management Programs Program Cost Tariff Riders Pursuant to the New Mexico Public Utility and Efficient Use of Energy Acts | NMPRC | 07-00053-UT |
| In the Matter of the Investigation of the Continuation of PNM's Gas Energy Efficiency Programs and Program Cost Tariff Rider | NMPRC | 07-00151-UT |
| In the Matter of the application of PNM For Approval of the City of Santa Fe 2007 Underground Projects Rider Pursuant to Advice Notice No. 335 | NMPRC | 07-00170-UT |
| In the Matter of the application of PNM For Approval of the Santa Fe County 2007 Underground Projects Rider Pursuant to Advice Notice No. 339 | NMPRC | 07-00373-UT |
| In the Matter of the application of PNM For Approval of the City of Albuquerque Unser 12 2007 Underground Project Rider Pursuant to Advice Notice No. 344 | NMPRC | 07-00463-UT |
| In the Matter of the application of PNM For Approval of the City of Rio Rancho 2008 Underground Projects Rider Pursuant to Advice Notice No. 346 | NMPRC | 08-00100-UT |
| Inquiry into Charges to Customers Of Public Service Company of New Mexico's Voluntary Renewable Energy Program Under Rider 11 and the Emergency Fuel Adjustment Clause | NMPRC | 08-00229-UT |
| In the Matter of the application of PNM For Approval of the County of Santa Fe 2009 Underground Projects Rider Pursuant to Advice Notice No. 367 | NMPRC | 09-00056-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the application of PNM For Approval of the City of Rio Rancho 2009 Underground Projects Rider Pursuant to Advice Notice No. 369 | NMPRC | 09-00091-UT |
| In the Matter of the Application of Public Service Company of New Mexico For Approval of a Plan to Manage Fuel and Purchased Power Costs By Entering into Certain Forward Market Transactions | NMPRC | 09-00321-UT |
| In the Matter of the Application of Public Service Company of New Mexico For Approval of a New Voluntary Renewable Energy Program to Replace The Company's Existing Sky Blue Program and for Approval to Terminate The Sky Blue Program | NMPRC | 10-00018-UT |
| In the Matter of an Investigation by the Pipeline Safety Bureau of the New Mexico Public Regulation Commission Concerning A Complaint Filed by the International Brotherhood of Electrical Workers | NMPRC | 10-00042-PL |
| In the Matter of the Application of Public Service Company of New Mexico For Approval of the City of Rio Rancho 2010 Underground Projects Rider Pursuant to Advice Notice No. 388 | NMPRC | 10-00073-UT |
| In the Matter of the Application of Public Service Company of New Mexico For Approval of the City of Albuquerque 2010 Underground Projects Rider Pursuant to Advice Notice No. 391 | NMPRC | 10-00100-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the Application of Public Service Company of New Mexico For Approval of 2010 Electric Energy Efficiency And Load Management Programs and Revisions to Program Cost Tariff Riders Pursuant to the New Mexico Public Utility and Efficient Use of Energy Act | NMPRC | 10-00280-UT |
| In the Matter of the Application of Public Service Company of New Mexico for Approval of the County of Santa Fe Underground Project Rider Pursuant to Advice Notice No. 401 | NMPRC | 10-00286-UT |
| In the Matter of the Proposed Revisions to The State Implementation Plan for Regional Haze | EIB | EIB-01(R) |
| In the Matter of the Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2012 | NMPRC | 11-00265-UT |
| In the Matter of the Application Of Public Service Company of New Mexico For Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances From Certain Filing Requirements | NMPRC | 12-00007-UT |
| In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2013 | NMPRC | 12-00131-UT |
| In The Matter of The Application of Public Service Company of New Mexico for Approval of Electric Energy Efficiency Programs and Program Cost Tariff Rider Pursuant to The New Mexico Public Utility and Efficient Use of Energy Acts | NMPRC | 12-00317-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of Public Service Company of New Mexico's Application For a Certificate of Public Convenience And Necessity and Related Approvals For the La Luz Energy Center | NMPRC | 13-00175-UT |
| In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2014 and Proposed 2014 Rider Rate under Rate Rider No. 36 | NMPRC | 13-00183-UT |
| In the Matter of the Application of Public Service Company of New Mexico For Continued Use of Fuel and Purchased Power Cost Adjustment Clause | NMPRC | 13-00187-UT |
| In the Matter of the Application of Public Service Company of New Mexico for Approval To Abandon San Juan Generating Station Units 2 and 3, Issuance of Certificates of Public Convenience and Necessity for Replacement Power Resources, Issuance of Accounting Orders And Determination of Related Ratemaking Principles and Treatment | NMPRC | 13-00390-UT |
| In the Matter of Public Service Company of New Mexico's Petition for Declaratory Order Regarding the Applicability of Rate 3C To Service Provided to Valencia Power, LLC | NMPRC | 14-00102-UT |
| In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2015 and Proposed 2015 Rider Rate under Rate Rider No. 36 | NMPRC | 14-00158-UT |
| In The Matter of Public Service Company of New Mexico's Application for Continuation of A Plan To Manage Fuel and Purchased Power Costs by Entering Into Certain Forward Market Transactions | NMPRC | 14-00190-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the Application of Public Service Company of New Mexico for Approval of Electric Energy Efficiency Programs and Program Cost Tariff Rider Pursuant to the New Mexico Public Utility And Efficient Use of Energy Acts | NMPRC | 14-00310-UT |
| In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant To Advice Notice 507 | NMPRC | 14-00332-UT |
| 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. 513 | NMPRC | 15-00261-UT |
| In the Matter of the Application of Public Service Company of New Mexico for Prior Approval of the Advanced Metering Infrastructure Project, Determination of Ratemaking Principles and Treatment, and Issuance of Related Accounting Orders | NMPRC | 15-00312-UT |
| In the Matter of the Application of Public Service Company of New Mexico for Approval of Its 2017 Electric Energy Efficiency Program Plan, Profit Incentive And Revised Rider No. 16 Pursuant to The New Mexico Public Utility Act, Efficiency Use of Energy Act and Energy Efficiency Rule | NMPRC | 16-00096-UT |
| In the Matter of Public Service Company Of New Mexico's Renewable Energy Act Plan for 2017 and Proposed 2017 Rider Rate under Rate Rider No. 36 | NMPRC | 16-00148-UT |

| Proceeding | Regulatory Body | Docket Number |
|---|---|---|
| In the Matter of the Application of Public Service Company of New Mexico for Expedited Approval of Power Purchase Agreements, Special Service Rate and Special Service Contract, New Green Energy Rider, Exemption from Energy Efficiency Rider, Variances from 17.1.210.12(B) and PNM Rule No. 4, ¶ C and for Other Related Regulatory Approvals | NMPRC | 16-00191-UT |

PNM Rule 17.9.510 NMAC Final Order Report 2015

# PNM Exhibit GTO-2

Is contained in the following 28 pages

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
|---|---|---|---|---|---|
| 08-00330-UT | 12/1/2011 | In the Matter of the Audit and Prudence Review of Public Service Company of New Mexico's Fuel and | | | |
| | | | Case closed by email from NMPRC General Counsel | No filing requirements. | |
| 09-00163-UT | 3/24/2011 | In The Matter of An Investigation of Establishing A Policy of Linking Utility Earnings To Quality of | | | |
| | | | Final Order, Ordering Paragraph A: Beginning June 30, 2011, and thereafter on June 30, 2012 and June 30, 2013, EPE, NMGC, PNM and SPS shall file reports for the preceding calendar year containing the information identified in Paragraphs 7 and 9 in the Final Order. | 06/30/2011 | 06/24/2011<br>06/22/2012<br>06/21/2013 |
| 10-00086-UT | 7/28/2011 | In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice Notice Nos. 397 and 32 (Former TNMP Services) | | | |
| | | | Amended Stipulation, Paragraph 27: Within six months of the issuance of the final order, the signatories, after consultation with other utilities and parties, will jointly petition the Commission to initiate a rulemaking proceeding to amend Rule 17.9.530. | Date not specified | 2/8/2012 |
| | | | Amended Stipulation, Paragraph 34: PNM agrees to file a rate design and class cost of service based on embedded cost principles in its next general rate case. | Next electric rate case. | 12/11/2014<br>8/27/2015 |
| | | | Amended Stipulation, Paragraph 39–PNM and Rate Schedule 11B customers will determine the appropriate Rate Schedule 11B coincident peak demand for any month to be used for cost allocation purposes in PNM's next general rate case filing for those customers. | Next electric rate case. | 12/11/2014<br>8/27/2015 |
| | | | Amended Stipulation, Paragraph 41: Within six months of the issuance of the Final Order, PNM shall file tariffs revising its Line Extension Policy to require collection of contributions in aid of construction amounts grossed up for additional cost associated with the accelerated recognition of income for tax purposes. | Date not specified | 10/14/2011 |
| | | | Final Order Partially Adopting Certification of Stipulation, Ordering Paragraph E. PNM shall file advice notices and rate schedules to implement the Phase I and II approved rates at least ten days prior to their effective date. | 8/12/2011 | 8/11/2011 |
| | | | Final Order Partially Adopting Certification of Stipulation, Determination Paragraph 225: Although the Signatory Parties' proposal to phase PNM's rate increase made sense in light of the Stipulation $85 million increase, the Commission finds that the benefits of phasing do not outweigh reducing PNM's revenue requirements by the above adjustments, or to $72,061,005.00. Accordingly, the Commission will approve the Stipulation if the Signatory Parties agree to modify it by reducing PNM's revenue requirements to the foregoing amount and eliminating the phasing and thus allow PNM to recover the reduced revenue increase immediately. | Date not specified. | 8/11/2011 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
|---|---|---|---|---|---|
| | | | Final Order Partially Approving Certification of Stipulation, Ordering Paragraph D: If Signatories agree to amend, or indicate in writing that they do not object to or take no position on the amendment of the Stipulation consistent with this Final Order, they shall file the amended stipulation by no later than August 12, 2011. | 8/12/2011 | 8/11/2011 |
| | | | Amended Stipulation, Paragraph 23: Within 12 months of the issuance of the Final Order the Signatories will jointly petition the Commission to initiate a rulemaking proceeding to revise Rule 17.5.440 NMAC. | Date not specified | 6/20/2012 |
| | | | Amended Stipulation, Paragraph 28 d): PNM will cancel temporary tariffs after all necessary Time-Of-Use meters have been installed. | Date not specified. | 12/30/2011 |
| | | | Amended Stipulation, Paragraph 25: PNM agrees not to request Commission approval of any mechanism to address disincentives to utility energy efficiency programs pursuant to the Efficient Use of Energy Act until the next rate case. PNM and other parties shall engage in good faith consultations regarding alternative ratemaking solutions, including alternative mechanisms such as off-system sales credits, increased demand charges or reducing the recovery of fixed costs through volumetric charges for non-residential customers. PNM shall incorporate suggestions of other signatories into the filing. | Next electric rate case. | 12/11/2014<br>8/27/2015 |
| | | | Amended Stipulation, Paragraph 22g): The Renewable Energy Rider should be adjusted annually to account for new Commission-approved procurements and changes in revenue requirements related to amortization, depreciation, ADIT, property taxes, and other relevant factors. | Annually after implementation. | 02/28/2013<br>02/28/2014<br>02/27/2015 |
| | | | Amended Stipulation, Paragraph 22: Instead of recovering renewable procurement costs in base rates, PNM will apply to the Commission for authorization to implement a rate rider effective July 1, 2012. | Date not specified. | 1/10/2012 |
| | | | Amended Stipulation, Paragraphs 15,16, and 17-PNM shall file revised rate schedules to increase annualized test period base revenues for bills rendered on and after August 21, 2011, 10 days prior to effective date. Filing must include proof of revenue. | 8/11/2011 | 8/11/2011 |
| | | | Amended Stipulation, Paragraph 20(a) Fuel factor for 2011 shall not exceed \$30.5 million; 2012 FPPCAC shall not exceed \$38.8 million. 2013 FPPCAC factor shall not exceed \$36.2 million. | Date not specified. | 08/11/2011<br>06/01/2012<br>05/17/2013 |
| | | | Stipulation, Paragraph 19a): PNM will notify the signatories of the pendency of proposed rules and regulations that could lead to filing under their subparagraph. | As needed. | 11/29/2011 |

PNM EXHIBIT GTO-2
Page 2 of 28

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
|---|---|---|---|---|---|
| | | | Amended Stipulation, Paragraph 29: Within 12 months of the Final Order PNM shall file with the Commission and serve Signatories an internally-prepared report regarding PNM's generation plants that are used for load following and regarding system integration costs for renewables. | 8/8/2012 | 8/8/2012 |
| | | | Amended Stipulation, Paragraph 20d): Upon implementation of the revised rates the Signatories will file a joint motion requesting the Commission take no further action in Case No. 08-00092-UT and Case No. 08-00330-UT and close the docket in those cases. | Date not specified. | 3/6/2012 |
| 10-00264-UT | 2/22/2011 | In the Matter of the Application of Public Service Company of New Mexico for the Abandonment and Decertification of the Las Vegas Generation Station in Las Vegas, New Mexico | | | |
| | | | Final Order Granting Application, Ordering Paragraph E: PNM shall reduce its costs of service if applicable, in its next rate case of the net balance from the decommissioning and sale of the Las Vegas turbine. | Next rate case (if applicable) | 12/11/2014<br>8/27/2015 |
| | | | Recommended Decision, Decretal Paragraphs:<br>A. PNM's Application for the abandonment and decertification of the Las Vegas Turbine is approved.<br>B. PNM is authorized to abandon and decertify the Las Vegas Turbine.<br>C. PNM's Certificate of Public Convenience and Necessity to operate the Las Vegas Turbine, granted in Utility Case No. 1026, is revoked. | No filing requirements. | March 2011 |
| | | | RD, Decretal Paragraph D: After PNM sells the Turbine and removes it from its current site, PNM shall file a report with the Commission identifying the actual costs of decommissioning, the amount of any sale proceeds, and the net balance for the decommissioning and sale of the Turbine. | Next rate case (if applicable) | 10/29/2012 |
| | | | Final Order Granting Application. Ordering Paragraphs<br>* B. PNM shall create a regulatory liability for the proceeds from the sale of the Las Vegas Turbine. The regulatory liability shall accrue carrying costs at a rate equal to PNM's current approved pre-tax weighted average cost of capital. | Next rate case (if applicable) | 10/29/2012 |
| 10-00280-UT | 6/23/2011 | In the Matter of the Application of Public Service Company of New Mexico for Approval of 2010 Electric Energy Efficiency and Load Management Programs and Revisions to Program Cost Tariff Riders Pursuant to the New Mexico Public Utility and Efficient Use of Energy Acts | | | |
| | | | Final Order Partially Adopting Recommended Decision Pages 8-10 – PNM should modify its EnergyStar Program by allowing PNM to offer its program to those qualifying homes that are permitted and built prior to December 21, 2011. | 07/08/2011 | 07/08/2011 |

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| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| | | | Final Order Partially Adopting Recommended Decision, pp. 18-23 – PNM should be required in its future annual reports to show that the programs were used in a manner that reduced peak demand on its system or shifted demand from peak to off-peak periods. The independent evaluator should be required to verify that the programs were used for that purpose. | Annual Reports going forward | 03/27/2012<br>03/27/2013<br>03/26/2014<br>03/02/2015<br>04/15/2016 |
| | | | Recommended Decision, p. 34 – PNM shall include in its next energy efficiency program filings separate budgets, separate estimates of TRC ratios calculated by PNM and separate TRC ratios calculated by the independent M&V evaluator for each of the Power Saver and Peak Saver programs. | Program filings going forward. | 10/05/2012<br>10/06/2014 |
| | | | Final Order Partially Adopting Recommended Decision, Ordering Paragraph C: In the event that the Commission issues a Final Order in Case No. 10-00086-UT that increases PNM's revenue requirements, PNM shall file an Advice Notice and revised Energy Efficiency Rider no later than 10 days from that Final Order | Date not specified | 08/18/2011 |
| | | | Final Order Partially Adopting Recommended Decision Pages 4-6 – Student Living Wise Program was denied. PNM should remove those dollars. | 07/08/2011 | 07/08/2011 |
| | | | Final Order, pp. 10-14 – Commission did not approve projected budgets for 2012-2013. PNM should reallocate the fixed administrative costs that had been allocated to those two programs (Home Energy Reports and Student Living Wise) in its compliance filing. | 07/08/2011 | 07/08/2011 |
| | | | Final Order Partially Adopting Recommended Decision, pp. 14-15 – Correct budget for CFL Exchange Program. | 07/08/2011 | 07/08/2011 |
| | | | Final Order Partially Adopting Recommended Decision, pp. 33-34 – The Market Transformation program budget should be reduced 50%. | 07/08/2011 | 07/08/2011 |
| | | | Final Order Partially Adopting Recommended Decision Page 8 paragraph 14 – EnergySmart program should be reduced by 50% from $942,905 to $471,452. | 07/08/2011 | 07/08/2011 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| 10-00316-UT | 3/17/2011 | In the Matter of a Proposed Rulemaking to Repeal and Replace 17.5.410 NMAC | | | |
| | | | Order Partially Granting Variance and Granting Rehearing of Final Order (4/14/2011):<br>Findings and Conclusions, Paragraph 10. Upon review of the Request and the Motion, the Commission finds that, with one minor exception, granting both is warranted under the circumstances and would be in the public interest. The Commission agrees that the changes to the proposed rule made by the Final Order could not have reasonably been anticipated by the utilities. Thus, it is appropriate to give GCNM and other utilities additional time to review and revise their tariffs, rule and forms to comply with the rule revisions, and to translate into Spanish and print their various forms. The amount of additional time requested is reasonable and appropriate under the circumstances, and will not be unduly burdensome to any interested persons. | Date not specified | 06/01/2011 |
| | | | Final Order Repealing and Replacing 17.5.410 NMAC (3/17/2011), Findings and Conclusions, Paragraph 9b:<br>The Commission agrees that the utilities should be given a reasonable amount of time to prepare and file any revised forms and file any other proposed tariff changes in response to the Final Rule adopted by this Order, and to train their employees. Accordingly, the Commission will set the effective date of the Final Rule 60 days after the date of this Final Order.<br>To ensure the orderly implementation of the several changes being made by the Final Rule, all utilities should be required to file tariff changes to comply with the requirements of the Final Rule, including the reduction of any late fees that exceed the cap being established by the Final Rule, by no later than 30 days from the date this Final Order is issued. | Date amended by Variance | 06/01/2011 |
| 10-00373-UT | 6/2/2011 | In the Matter of Public Service Company of New Mexico's Revised Renewable Energy Portfolio Procurement Plan for 2011 | | | |
| | | | RD, Ordering Paragraph H. PNM shall meet its 2011 RPS solar requirement and 2011 "other" renewable energy technologies RPS requirement by April 5, 2013. | No filing requirement. | 07/01/2011 |
| | | | Final Order, Findings and Conclusions, Paragraph 15. The Commission adopts the Hearing Examiner's recommendation to deny PNM's request to recover up to $400,000 to modify its customer service billing system to accommodate the participation of third-party owned DG facilities in PNM's solar REC purchase program. The Commission will defer rendering its ultimate judgment on the matter at hand pending PNM's presumed presentation of a new case for cost recovery in its next procurement plan proceeding. | No new filing required. | 07/01/2011 |

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| | | | RD, Discussion at page 58. PNM has not carried its burden of showing the proposed recovery of a substantial sum of money in the vicinity of $400,000 for technical work is reasonable. PNM should be afforded the opportunity to come back in a future procurement plan proceeding and make a competent case for the reasonableness of the costs of adapting its customer billing system to third-party participation in the DG net metering programs. | Date not specified. | 07/01/2011 |
| | | | Final Order, Findings and Conclusions, Paragraph 10: PNM should address in its next renewable energy plan the issue of how PNM and the Commission should deal with any 2011 renewable energy shortfall. | Next renewable energy plan | 07/01/2011 |
| | | | Order Denying Clarification, Ordering Paragraphs.<br>B. PNM is Ordered to produce the contract and submit a revised projection of the total MWh it expects to purchase under the PPA, total cost, and net REC cost, and to provide discovery related to the NextEra PPA to Staff on an expedited basis.<br>C. PNM's proposed PPA with NextEra is approved, contingent upon the Commission not receiving a filing in specific opposition from Staff on or before October 20, 2011. | Date not specified. | 11/8/2011 |
| 11-00265-UT | 12/22/2011 | In the Matter of Public Service Company of New Mexico's Revised Renewable Energy Portfolio Procurement Plan for 2012 | | | |
| | | | Final Order Paragraph 5 - PNM should submit a plan to use the additional funds as outlined in the Final Order. | 02/02/2012 | 02/02/2012 |
| | | | Recommended Decision Ordering Paragraph H - Any exceptions to the Recommended Decision in this case shall be filed on or before noon, Monday December 12,2011 | 12/12/2011 | 12/12/2011 |
| | | | Recommended Decision page 29 - PNM should file its calculation, consistent with the Recommended Decision, of its full 2012 RPS requirement and the amount the RCT will permit PNM to instead achieve. | Date not specified. | 12/14/2011 |
| | | | Final Order Paragraph B - No later than 60 days from the date of this Order, PNM shall make a supplemental filing proposing specific procurements that, if approved, would enable PNM to meet the Renewable Portfolio Standard in 2014 or sooner, if possible. PNM's filing shall also set forth a specific plan for utilizing RCT funds that have not already been committed. In addition, PNM shall propose revisions to its distributed generation (DG) program tranches and associated Incentives that were previously approved by the Commission. The DG proposal shall specifically address the alternative of possibly eliminating the >I MW DG system size from its existing incentive program and using the to-be-freed-up funds for expansion of the other DG System sizes. | 04/30/12 (PNM obtained variance to file 07/01/12) | 07/01/2012 |

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| 11-00385-UT | 12/20/2012 | In the Matter of the Adoption of Amendments to Section 12 of Rule 17.9.560 NMAC, Service Standards for Electric Utilities | | | |
| | | | Order Granting Extension of Time for Billing Changes, Ordering Paragraph F: The amended rule's effective date for the utilities to be in compliance with the new rules is extended to March 16, 2013. | 03/16/2013 | 03/16/2013 |
| 11-00430-UT | 11/17/2011 | In the Matter of an Investigation into Public Service Company of New Mexico's Amendments to Its Line Extension Policy Made by Its Advice Notice Nos. 428, 429, 50 and 51 | | | |
| | | | Final Order Paragraph B - PNM shall file advice notices reinstating PNM's tariffs that were superseded by Advice Notices by no later than November 21, 2012. | 11/21/2011 | 11/21/2011 |
| 11-00435-UT | 6/28/2012 | In the Matter of an Investigation into Public Service Company of New Mexico's Closure of Remaining Payment Centers throughout the State of New Mexico | | | |
| | | | Final Order, Ordering Paragraph B. Beginning on the date of this Final Order and continuing at least through the effective date of the rates adopted pursuant to PNM's next general rate case, PNM shall arrange to have Western Union accept cash or check payments of PNM bills, at no fee to the customer, at designated Western Union facilities in each of the following cities: a) Alamogordo; b) Bayard; c) Deming; d) Las Vegas; e ) Lordsburg; f) Ruidoso; and g) Silver City. | No filing requirement | |
| | | | Final Order, Ordering Paragraph C. Regarding the 8 payment centers that PNM proposes to close, PNM shall keep each of them open at least two days per week and at least through the effective date of the rates adopted pursuant to PNM's next general rate case | No filing requirement | 12/11/2014<br>8/27/2015 |
| 11-00484-UT | 10/2/2013 | In the Matter of Protests to Public Service Company of New Mexico's Advice Notices 434 & 54 | | | |
| | | | Final Order, Finding and Conclusions, Paragraphs 8 and 9: On September 26, 2013, PNM filed its Report (based on feedback it received from customer regarding the implemented billing forms). The Report indicates that based upon the redesign of customer bills and the subsequent customer survey that PNM undertook, no additional changes to the customer bill format are necessary at this time.<br>11. Based upon the changes incorporated by PNM to its bill format and the levels of customer satisfaction as a result of such changes, PNM should not be required to make additional changes to its bill format. | No additional filing requirement | 09/26/2013 |

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| 12-00007-UT | 8/14/2012 | In the Matter of the Application of Public Service Company of New Mexico for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements | | | |
| | | | RD, Ordering Paragraphs:<br>* F. PNM shall calculate new Renewable Rider rates, based on the revenue requirements approved in this case, to be assessed on a per kWh basis.<br>* G. PNM shall add a line to the bill immediately below the Renewable Rider charge that notes that there are offsetting fuel benefits | No filing requirement | 08/15/2012 |
| | | | RD, Ordering Paragraph H. The following procedures relating to the true up process are adopted:<br>(i) PNM shall serve its Advice Notice on all parties to Case No. 10-00086-UT;<br>(ii) the Advice Notice shall be accompanied by work papers detailing the calculations supporting the proposed rate;<br>(iii) the Advice Notice shall be filed annually no later than February 28; | Annually by February 28 | 02/28/2013<br>02/28/2014<br>02/27/2015<br>02/26/2016 |
| | | | RD, Ordering Paragraph H(v): after the initial true up in February of the following year for the previous year of activity, PNM shall verify that year's revenue requirement for up to five years. If PNM is unaware of any change to that year's revenue requirement, the verification shall be in the form of an affidavit. If PNM is aware of any change to that year's revenue requirement, it shall explain the change and incorporate any changes into the current year's Rider rate. | No date specified. | 06/02/2014<br>02/27/2016<br>02/26/2016 |
| | | | RD, Ordering Paragraph I: PNM shall file new rates consistent with this Order within five calendar days after the final order in this case is issued. Staff shall review the rates as to form and compliance within three business days after they are filed with the Commission. Unless an objection has been made by Staff', the rates shall become effective for bills rendered on, and after, August 8, 2012. | Date not specified | 08/15/2014 |
| | | | RD, Ordering Paragraph H(iv): PNM shall annually file a pro forma cost of service, consistent with that required by 17.3.510.12 NMAC, by April 1 | April 1, 2014 and annually thereafter | 04/01/2014<br>04/01/2015<br>04/01/2016 |
| | | | RD, Decretal Paragraph E. In its next renewable energy procurement plan filing to be made in 2013, PNM shall file an advice notice proposing a Renewable Energy Rider No. 36 rate to become effective on January 1, 2014. | Next renewable plan filing | 07/01/2013 |
| | | | RD on First Revised Rider No. 36, Decretal Paragraphs:<br>C. PNM's proposed 1st Revised Renewable Energy Rider No. 36 is approved.<br>D. The effective date of 1st Revised Renewable Energy Rider No. 36 shall be for bills rendered beginning April 26, 2013. | No additional filing requirement | 02/28/2013 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| | | | RD, Ordering Paragraph J: If and when PNM proposes continuation of the Renewable Rider in its next rate case, it shall file testimony addressing (i) whether all of its costs of complying with the RPS should be recovered through the Renewable Rider; and (i) whether all of its costs of complying with the RPS should be recovered through the Renewable Rider; and (ii) whether cost recovery should occur pursuant to a functional allocation | Next general rate case | 12/11/2014<br>8/27/2015 |
| 12-00096-UT | 5/8/2012 | In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to the (1) Issuance of up to $20,000,000 of Pollution Control Revenue Refunding Bonds, and (2) Exercise of Extension Options under its $400 Million Credit Facility | | | |
| | | | RD, Decretal Paragraph I: PNM shall notify the Commission within (90) days after the issuance of the Proposed Refunding Bonds that the transaction has been completed. Such notice will include the amount, instrument and interest rate mode of the issuance. | Date not specified. | 12/19/2012 |
| | | | RD, Decretal Paragraph J: PNM shall notify the Commission within ninety (90) days after the exercise of each of the two one-year options for the Current Revolver has been completed. Such notice will include the transaction fees associated with the exercise of each option. | Date not specified. | 12/19/2012 |
| 12-00100-UT | 1/25/2013 | In the Matter of the Application of PNM for Approval of City of Santa Fe 2012 Underground Project Rider Pursuant to Advice Notice No. 447 | | | |
| | | | FO, Ordering Paragraphs:<br>E. In the first billing cycle the rider becomes effective PNM shall send a bill stuffer consistent with this Order to its electric customers in the City of Santa Fe to inform them about the implementation of the rate rider | No filing requirement | |
| 12-00131-UT | 12/11/2012 | In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2013 | | | |
| | | | Final Order, Ordering Paragraph B, (b):The effective date of the forthcoming Advice Notice to be filed pertinent to this case shall be January 1, 2013. | Date not specified | 12/13/2012 |
| | | | RD, Decretal Paragraph H. For future unbundled REC purchases, PNM shall investigate the possibility of delaying any such purchases to the end of calendar years, if there is not an associated price increase which exceeds the savings in carrying costs and shall report the results of such investigations in its report pursuant to 17.9.572.17 NMAC. | On-Going | 7/1/2013 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| | | | RD, Decretal Paragraphs<br>* E(2): For construction of any discrete solar project at a site not currently used for solar generation, not less than 30 days prior to acquiring the land for the solar project cause public notice to be issued in a newspaper of general circulation serving the area surrounding the solar project with language required in the order.<br>* E(3): PNM shall file an affidavit confirming the publication of the public notice no later than 3 days after receipt of the Affidavit of publication from the newspaper. | Date not specified. | 12/20/2012<br>01/31/2013 |
| 12-00238-UT | 10/30/2012 | In the Matter of an Investigation into Overbilling by Public Service Company of New Mexico due to Meter Reading Errors | | | |
| | | | Order Closing Docket,<br>Ordering Paragraph A: This docket is closed.<br>Discussion Paragraphs:<br>1. By Order of July 19, 2012, the Commission required PNM to provide certain information about billing errors that occurred due to the actions of an errant meter reader. The document request was supplemented by Bench Request Orders dated August 2 and 3, 2012.<br>2. PNM provided the requested information is a series of responses.<br>3. The Commission has reviewed the responses and has determined that no further action should be taken in this matter. | No filing requirement | |
| 12-00317-UT | 11/6/2013 | In the Matter of the Application of PNM for Approval of Electric Energy Efficiency Programs and Program Cost Tariff Rider Pursuant to the new Mexico Public Utility and Efficient use of Energy Acts | | | |
| | | | RD, pp. 25-26: PNM agreed to update the savings estimates from CFL bulbs to the values provided by ADM in its M&V report for PNM's 2012 calendar program. PNM agreed "that it will use the savings per bulb determined by ADM, as accepted by the Commission, to recalculate the TRC ratios for programs with CFLs and will adjust the savings, TRC calculations, incentive and Rider accordingly in the compliance filing made after receipt of the Commission's Final Order." | Date not specified | 11/21/2013 |
| | | | RD, Paragraph 20: "In addition, the Commission approves the Recommended Decision's requirement that PNM discuss a collaborative offering of programs with NMGC and file a report in one year." | 11/6/2014 | 11/06/2014 |
| | | | RD, p. 36: On page 36 PNM asserts that more research is required before inclusion of Quality Installation ("QI") incentives and training should be required in the Stay Cool program. The Hearing Examiner finds that PNM should conduct such research as part of the preparation of its next filed plan. | Next EE Filing | 10/06/2014 |

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| | | | RD, p .39: The Hearing Examiner recommends that the participation level should be evaluated for the next program filing based on the results of this initial program. | Next EE Filing | 10/06/2014 |
| | | | RD, p. 41: In discussion of providing on site combined heat and power ("CHP") systems as a custom measure in the Commercial Comprehensive Program, the Hearing Examiner recommends that "...PNM should include an analysis for the inclusion of this measure in in its next plan filing." | Next EE Filing | 10/06/2014 |
| | | | RD, Ordering Paragraph C: Within 15 days of filing this Order, PNM shall make a compliance filing consisting of the revised Program Rider, program budgets for calendar year 2013 and subsequent years and TRC calculations. The revisions shall reflect the profit margin approved herein as well as the exclusion of the avoided carbon costs from the TRC calculations. | 11/21/2013 | 11/21/2013 |
| | | | FO, Paragraph 39: Staff's Exception is granted and PNM should be directed to recalculate the program TRC ratios and the portfolio TRC ratio excluding avoided carbon costs and file this information with the Commission. | Date not specified | 11/21/2013 |
| 12-00319-UT | 11/26/2013 | Luna Consumer Relations Formal Utility Complaint | | | |
| | | | FO, Ordering Paragraph. A: PNM shall tender to the Lunas a credit in the amount of their Answer and Statement of Relief filed in this case within thirty (30) days of the entry of this Order | 12/26/2013 | 11/27/2013 |
| 12-00359-UT | 6/12/2013 | In the Matter of the Application of PNM for Approval of the City of Albuquerque 2012 Underground Project Rider Pursuant to Advice Notice No. 454 | | | |
| | | | Final Order (6/12/2013), Ordering Paragraph B: The Recommended Decision is adopted, approved and accepted in its entirety, except that the Commission approves excess costs of $77,690.52. | Date not specified | 06/24/2013<br>01/24/2014 |
| | | | Recommended Decision (4/30/2013), Finding & Conclusions, Paragraph 14: PNM should be granted a variance from the provision of Rate 22 that requires a three-month reconciliation period to allow for a one-month final reconciliation period for Rider 38. | Date not specified | 1/24/2014 |
| 13-00004-UT | 6/26/2013 | In the Matter of the Application of PNM for a CCN, for a Determination of Ratemaking Principles and Treatment, for Class II Transaction Approval, and for Related Approvals and Variances in Connection with the Company's Acquisition and Operation of the Delta Person Generating Station | | | |
| | | | RD, Decretal Paragraph G: PNM shall make a compliance filing in this case within thirty days of each of following events: (i) the date of closing. | Date not specified | 07/29/2014 |
| | | | RD, Decretal Paragraph D: PNM may include the Delta Plant in rate base in its next general rate case in an amount up to $37.7 million (subject to adjustment based on the actual closing date),less applicable depreciation and amortization, and subject to customary used and useful review to determine whether its inclusion in rate base in an amount up to $37.7 million results in just and reasonable rates. | Next General Rate Case | 12/11/2014<br>8/27/2015 |

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| | | | RD, Decretal Paragraph G: PNM shall make a compliance filing in this case within thirty days of each of following events: (ii) the date of dissolution of the Delta Partnership and transfer of the Partnership assets and liabilities to PNM. | Date not specified | 11/20/2014 |
| | | | RD, Decretal Paragraph G: PNM shall make a compliance filing in this case within thirty days of each of following events:( iii) the date of performance tests to establish the Delta Plant dependable capacity(ies) and heat rate(s). In connection with the latter, PNM shall file a summary of determinations resulting from the tests. | Date not specified | 12/10/2014 |
| | | | RD, Decretal Paragraph E: PNM shall (i) include the Delta Plant in its next depreciation study; | Date not specified | 12/11/2014 |
| | | | RD, Decretal Paragraph E: PNM shall (ii) establish a salvage value and decommissioning cost for the Delta Plant and decommissioning cost in its next general rate case. | Next General Rate Case | 12/11/2014<br>8/27/2015 |
| 13-00086-UT | 1/15/2013 | Formal Complaint of Albert Ortiz | | | |
| | | | Final Order, Ordering Paragraphs:<br>A. The Complaint is dismissed<br>D. This Docket shall be closed after PNM informs the Commission in writing under this Case Number that it has completed the upgrade that Mr. Ortiz requested. | Date not specified | 01/29/2014 |
| 13-00113-UT | 4/24/2013 | In the Matter of PNM's Advice Notice No. 471 and Request for Variance | | | |
| | | | Final Order, Paragraph 2 and Ordering Paragraph B: Advice Notice No. 472 is effective May 28, 2014 to implement a further reduction in the proposed total Rider No. 16 rate from 2.231% to 2.172% before taxes and franchise fees. | Date not specified | 05/23/2013 |

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| 13-00175-UT | 6/18/2014 | In the Matter of PNM's Application for a Certificate of Public Convenience and Necessity and Related Approvals for the La Luz Center | | | |
| | | | Order Approving Certification of Stipulation - DECRETAL PARAGRAPHS<br>C. The Commission GRANTS a CCN to PNM to construct, own and operate the La Luz Plant as public utility plant.<br>D. PNM is authorized to include the actual cost to construct the La Luz Plant, which will not exceed $56 Million, including AFUDC, in total Company rate base (prior to jurisdictional allocations) in future New Mexico rate proceedings as the capital cost of the facility.<br>E. The Cost Overrun Rule, 17.3.580 NMAC does not apply, and a grant of variance to the Rule is APPROVED.<br>F. PNM is authorized to recover through future ratemaking proceedings revenue requirements associated with the La Luz Plant, including but not limited to, return on capital, non-fuel O&M costs, property taxes and depreciation expense, with all such revenue requirements recovery rates and amounts to be determined in such future ratemakings.<br>G. PNM is authorized to recover the cost of fuel consumed at the La Luz Plant. | Future Rate Case | 12/11/2014<br>8/27/2015 |
| 13-00183-UT | 12/18/2013 | In the Matter of PNM's Renewable Energy Portfolio Procurement Plan for 2014 | | | |
| | | | RD, Decretal Paragraph E(2): A CCN for the construction and operation of the 23 MW of solar PV facilities is GRANTED subject to the following conditions: (2) For construction of any discrete solar project at a site not currently used for solar generation, not less than 30 days prior to acquiring the land for the solar project, or, if such land has already been acquired as of the date of this Final Order, not less than 30 days before commencing the construction of the solar project to be located on the acquired land, PNM shall cause public notice to be issued in a newspaper of general circulation serving the area surrounding the solar project, with such notice to contain the exact location and description of the solar project, and the following statement: Within 15 days from the publication date of this Public Notice, any person objecting to the construction or operation of this proposed solar facility may file a protest to the Commission setting forth the person's objections. All such protests should reference Case No. 13-00183-UT and be addressed to Records Bureau Chief, Records Division, New Mexico Public Regulation Commission, P. O. Box 1269, Santa Fe, NM 87504-1269. | Date not specified | 01/21/2014<br>02/19/2014<br>02/27/2014<br>03/25/2014 |
| | | | RD, Decretal Paragraph H4: PNM shall file a verification or the appropriate schedules to implement for 2012 the requirement of Decretal paragraph H(v) from the June 19, 2012 Recommended Decision Case No. 12-00007-UT. | No date specified | 02/28/2014 |
| | | | RD, Decretal Paragraph J: PNM shall calculate an alternative plan year revenue requirement that recognizes avoided fuel costs from interconnected DG. | Next renewable plan filing | 06/02/2014 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| | | | Final Order, Paragraph 14: PNM shall investigate the issue of whether disproportional avoided fuel benefits are received by customers protected by the cap on cost recovery in NMSA 1978, 62-16-4.A(2) and propose a mechanism in its 2015 Renewable Energy Act Plan as may be necessary and legal to eliminate any such benefits. PNM shall seek input on the issue from the parties in this case during the development of the Plan filing. However, the Commission finds that PNM should propose a comprehensive mechanism that attempts to identify whether or not there are "disproportional fuel benefits" and address rate and ratemaking issues and the associated and interrelated impacts on customer class related base rates, base fuel costs, the fuel clause and adjustments, as well as the renewable rate rider | Next renewable plan filing | 06/02/2014 |
| | | | RD, Decretal Paragraph E: A CCN for the construction and operation of the 23 MW of solar PV facilities is GRANTED subject to the following conditions: | See subparts for filing requirements | |
| | | | RD, Decretal Paragraphs:<br>E(1): Prior to the commencement of construction of any solar project at a location at which no PV facilities are already installed, PNM shall obtain all necessary permits and shall comply with all environmental requirements to such project.<br>E(5): PNM shall make compliance filings in this case docket that it has obtained all appropriate permits, including air quality and other permits, before operation of a self-owned generation project can commence. | Date not specified | 12/05/2014 |
| | | | RD, Decretal Paragraph H1: In the true-up process, every element of this case shall be subject to true-up/adjustment, including the accounting and tax treatments used in the model, inputs into the model and the model itself. | On-Going | 2/28/2014 |
| | | | RD, Decretal Paragraph J: If PNM continues to account for avoided fuel costs from its renewable resources in its RCT calculations in its 2014 Renewable Energy Act Plan, PNM shall, in prefiled testimony, justify its recognition or nonrecognition of avoided fuel costs from interconnected DG in its calculation of the 2015 plan year revenue requirement. | Next renewable plan filing | 06/02/2014 |
| | | | RD, Decretal Paragraph J: If PNM does not recognize avoided fuel costs from interconnected DG in its 2015 plan year revenue requirement, its prefiled testimony shall address, among other matters, whether (1) DG customers' use of DG results in avoided fuel costs that PNM would otherwise incur from selling energy to these customers; (2) excess energy purchased by PNM from some DG customers results in avoided fuel costs; and (3) load from DG customers should be included in the customer load projection used in PROMOD if avoided fuel costs from interconnected DG are recognized. Also, PNM shall calculate an alternative plan year revenue requirement that recognizes avoided fuel costs from interconnected DG. | Next renewable plan filing | 06/02/2014 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| | | | RD, Decretal Paragraph E(6): PNM shall, in future RPS applications requesting approval to construct and operate PNM-owned facilities, identify the permits required to construct and operate the facilities and shall file copies of such permits when they are received. | Next Plan proposing new solar plants | 6/2/2014 |
| | | | RD, Decretal Paragraph K: PNM shall make an advice notice compliance filing within ten days after issuance of the Final Order in this case that contains the amended rates and tariffs as approved. | 12/28/2013 | 12/27/2013 |
| | | | RD, Decretal Paragraph E(3): PNM shall file an Affidavit confirming the publication of the public notice no later than 3 days after receipt of the Affidavit of publication from the newspaper. In the event the protest is not resolved informally by PNM or by an Order of the Commission within 30 days after the public notice is issued, PNM shall not commence construction of the protested solar project until further order of the Commission. | Date not specified | 01/21/2014<br>02/19/2014<br>02/27/2014<br>03/25/2014 |
| 13-00187-UT | 4/23/2014 | In the Matter of the Application of PNM for Continued Use of Fuel and Purchased Power Cost Adjustment Clause | | | |
| | | | Stipulation Paragraph 1b. Collection of Under-Collected Balance. The balance remaining in the FPPCAC balancing account as of April 30, 2014, shall be collected over an 18-month period beginning July 1, 2014. PNM shall identify in its annual reset filing the amount of the balance to be collected.<br>Stipulation Paragraph 1c. Carrying Charge. The annual carrying charge on over and undercollections shall be 2.4%. | 7/1/2014 | 05/20/2014<br>05/28/2015 |
| | | | Stipulation<br>1. PNM's Application for the continuation of its fuel and purchased power cost adjustment clause ("FPPCAC") pursuant to Rule 550.17 should be approved with the following modifications and conditions:<br>a. Limitation on Factor Increase. No increase in the quarterly FPPCAC factor shall result in an increase of more than 5% of the average residential customer's overall bill, unless all Stipulating Parties agree in writing to a larger increase in a particular quarter. Amounts in excess of this limitation shall be deferred for collection until the next quarterly adjustment, subject to this limitation. | Quarterly | 05/30/2014<br>08/29/2014<br>12/01/2014<br>03/06/2015<br>05/28/2015<br>09/01/2015<br>12/23/2015<br>02/01/2016<br>03/24/2016 |

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| | | | Stipulation Paragraph 2. PNM is anticipating the receipt of revenues related to the chemical pre-treatment of coal at the San Juan Generating Station. PNM shall be entitled to retain 100% of such revenues, and shall not be required to account for any such revenues in the application of the FPPCAC or in PNM's cost of service for ratemaking purposes through the effective date of the rates approved in PNM's next general rate case. PNM will propose the ratemaking treatment and allocation of these revenues in PNM's next general rate case. The ratemaking treatment of these revenues on a going-forward basis shall be determined in PNM's next general rate case. | Next Rate Case | 12/11/2014<br>8/27/2015 |
| | | | Stipulation Paragraph 4: Upon Commission approval of this Stipulation, PNM will permanently forego recovery of (and will write-off) $10,500,000 of under-collected and purchased power costs currently reflected in the FPPCAC Balancing Account. | No filing requirement | 05/27/2014 |
| | | | Certification of Stipulation, Decretal Paragraph C. PNM shall file an Advice Notice, within 10 days after the Commission's Final Order, that incorporates the terms of PNM Exhibit GTO-2 (Stipulation), which Advice Notice shall be effective upon filing. | 5/5/2014 | 05/05/2014 |
| | | | Stipulation Paragraph 1d. Off-System Sales Margins.<br>i. Effective July 1, 2013 and continuing through December 31, 2016, PNM is entitled to retain 10% of its off-system sales margins, with the remainder credited to New Mexico retail customers.<br>ii. The balancing account shall be adjusted to allow PNM to retain its 10% share of off system sales made since July 1, 2013 upon receipt of a final order approving this Stipulation.<br>iii. Beginning January 1, 2017, and continuing thereafter, subject to further order of the Commission in accordance with paragraph (d)(iv), 100% of all off-system sales margins shall be credited to New Mexico retail customers.<br>iv. PNM will not seek Commission authorization to implement any off-system sales margin sharing after January 1, 2017, that would become effective before January 1, 2020. | No filing requirement | 05/27/2014 |
| 13-00295-UT | 10/2/2013 | In the Matter of the Application of PNM for Authorization Pertaining to an Unsecured Revolving Credit Facility of up to $50 Million | | | |
| | | | Recommended Decision, Decretal Paragraph J: PNM shall, within ninety (90) days following entry into a revolving credit agreement related to the Proposed Revolver, file with this Commission a report verified by an officer of PNM before a notary public stating the consummation of the securities transactions, the amount of the proceeds, the expenses actually incurred by PNM, and the final terms and conditions of the securities transactions and include in this report copies of all documents executed in connection with the securities transactions. | Within ninety (90) days following agreement | 04/01/2014 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
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| | | | Recommended Decision, Decretal Paragraph L: PNM is not required to file a short-term financing plan for the borrowings under the Proposed Revolver under 17 NMAC 1.2.51 E. PNM shall include a cross-reference to this Order for informational purposes in the short-term financing plan. | Date not specified | 04/11/2014<br>04/10/2015<br>04/11/2016 |
| 13-00390-UT | 12/16/2015 | In the Matter of the Application of PNM for Approval to Abandon San Juan Generating Station Units 2 and 3, Issuance of CCNs for Replacement Power Resources, Issuance of Accounting Orders and Determination of Ratemaking Principles and Treatment | | | |
| | | | Modified Stipulation, Paragraph 36: In 2015 PNM shall issue an RFP for up to 50 MW of additional renewable energy resources. PNM shall apply to the Commission for approval to acquire any such resources identified through the RFP that are cost-effective as system resources. If PNM determines that no additional renewable energy resources are cost-effective for inclusion as system additions by 2017, it shall file a report with the Commission supporting its conclusion. Signatories may take such positions regarding the application or report as they deem appropriate. | Date not specified | 1/13/2016 |
| | | | Modified Stipulation, Paragraph 29: If the [PVNGS] capacity factor benchmark does not apply pursuant to Paragraph 28 above, PNM and the other Signatories will confer to negotiate an equitable resolution of the cost impact, which will be submitted to the Commission for approval. If they are unable to reach agreement, PNM will ask the Commission to resolve the issue by declaratory order. | Filing contingent upon future events | |
| | | | Modified Stipulation, Paragraph 27: In any year in which the capacity factor for PVNGS Units 1, 2 and 3, as calculated pursuant to Paragraph 25, is below 75%, PNM shall bear the incremental cost of the amount of replacement power necessary to bring the performance up to the 75% benchmark as described below. At the end of each calendar year, if the minimum capacity factor target at Palo Verde on a plant-wide basis is not achieved, an annual replacement power cost will be calculated based on the megawatt hours ("MWh") below the target multiplied by the average cost of short-term replacement power for the year. The impact of the replacement power credit will be credited to customers in the next quarterly fuel and purchased power cost adjustment clause ("FPPCAC") reset filing, or otherwise credited in rates if a FPPCAC is not in effect. | Filing contingent upon future events | |
| | | | Modified Stipulation, Paragraph 35: PNM shall include as a reduction in its FPPCAC (or otherwise as a credit in rates if a FPPCAC is not in effect) the amount of $3.0 million in payments received from the Department of Energy ("DOE") related to storage of spent fuel for PVNGS Unit 3. The $3.0 million in payments shall be credited over a two-year period beginmng January 1, 2018. | Beginning January 1, 2018 | |

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| | | | Modified Stipulation, Paragraph 19: After July 1, 2018, but no later than December 31, 2018, PNM shall make a filing with the Commission, and serve all parties to this case, to determine the extent to which SJGS should continue serving PNM's retail customers' needs after June 30, 2022. The filing shall be made before PNM has made a binding commitment to a post-2022 coal supply agreement, but after PNM has received firm pricing and other terms for the supply of coal at SJGS, unless PNM proposes not to pursue a coal supply post-2022. The filing shall include PNM's recommendation and supporting testimony and exhibits. ... PNM's 2018 filing pursuant to this paragraph will incorporate, to the extent applicable, the results of the non-SJGS alternative resource RFP into the resource modeling. | 12/31/2018 | |
| | | | Final Order (12/16/2015), Ordering Paragraphs:<br>Paragraph A. The corrections to pages 39 and 59 of the November Certification requested by WRA and CCAE (Exceptions at p.2) and agreed to by PNM (Responses to Exceptions at p.47) are approved.<br>Paragraph B. The Original Stipulation, as modified by the Supplemental Stipulation, is not approved as the proponents propose.<br>Paragraph C. If the Proponents of the Modified Stipulation file an executed version of the Modified Stipulation in the form of Attachment B to the November Certification of Stiplulation within seven days after the issuance of this Final Order, the Modified Stipulation is approved.<br>Paragraph D. If the Modified Stipulation is not approved in accordance with Paragraph C, this matter will be deemed to be reassigned to the Hearing Examiner for further proceedings on PNM's Application. | Within 7 days of Final Order | 12/22/2015 |
| | | | Final Order (12/16/2015), Ordering Paragraphs:<br>Paragraph E. Copies of the Final Order in this case shall be filed in the 2014 IRP docket (Case No. 14-00228-UT) and shall be served upon the parties to the case. The Commission will issue a Notice of Proposed Dismissal in Case No. 14-00228-UT in the same format as the Notice of Proposed Dismissal the Commission issued in the 2011 IRP case (Case No. 11-00317-UT) and may take further action in that docket based upon any responses that are received. | Date not specified. | |
| | | | Modified Stipulation, Paragraph 39: PNM agrees to propose an extension of its current solar DG REC procurement program to implement this agreement that is consistent with PNM's renewable portfolio standard, resource diversity requirements and reasonable cost threshold. | Date not specified | |
| | | | Modified Stipulation, Paragraph 33: The Signatories agree that the installation of SNCR on SJGS Units 1 and 4 is prudent and that PNM should be authorized to recover the reasonable costs of SNCR in rates. | Future general rate case | 8/27/2015 |

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| | | | Modified Stipulation, Paragraph 33: ...SNCR capital costs shall be depreciated at a rate that provides for full depreciation by July 1, 2022. The higher depreciation rates will go into effect after the first rate case that approves new base rates effective after December 31, 2017, but in no event later than December 31, 2018. | Future general rate case | |
| | | | Modified Stipulation, Paragraph 33: ...The prudence and reasonableness of the costs of the balanced draft will be determined in a PNM general rate case. PNM shall make an affirmative demonstration that incurrence of the costs of balanced draft was prudent and reasonable. | Future general rate case | 8/27/2015 |
| | | | Modified Stipulation, Paragraph 40 d): If EPA's CPP or CEIP is not in effect in New Mexico in 2020 or any subsequent year, or if after 2021 PNM demonstrates that it can comply with the emission reduction requirements of EPA's CPP with its own resources on a stand-alone basis through 2030, then in those years PNM shall be excused from the acquisition of ERCs or allowances but shall nevertheless acquire and retire additional wind or solar RECs as defined by the REA, either in the matching MWh amounts required by this paragraph, or in amounts that allow bundled RECs plus energy (owned or purchased) to be acquired up to the $7 million per year limit described in sub-Paragraph 40(E). In the event PNM can demonstrate the compliance set forth above, the Signatories shall convene to determine whether bundled or unbundled RECs provide the best environmental and customer outcome. | Date not specified but not before 2020 | |
| | | | Modified Stipulation, Paragraph 19: PNM's 2017 IRP shall incorporate information from any recent RFPs that PNM has concluded. | 7/1/2017 | |
| 14-00102-UT | 4/29/2015 | In the Matter of Public Service Company of New Mexico's Petition for Declaratory Order Regarding the Applicability of Rate 3C to Service Provided to Valencia Power, LLC | | | |
| | | | Final Order Partially Adopting Certification of Stipulation (4/29/2015), Ordering Paragraph C: Upon the filing as set forth in Paragraph B, the Certification shall be deemed to certify the Amended Stipulation in lieu of the Stipulation, and the Certification as so modified shall be deemed adopted, approved and accepted. If the Signatories agree to amend, or indicate in writing that they do not object to or take no position on the amendment of the Stipulation, they shall file the Amended Stipulation no later than May 11, 2015. If the parties fail to file an executed Amended Stipulation with the Commission by 5:00 pm, on May 11, 2015, the Certification and underlying Stipulation shall authomatically be denied in their entirety. | 5/11/2015 | 5/11/2015 |

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| | | | Final Order Partially Adopting Certification of Stipulation (4/29/2015), Findings and Conclusions:<br>Paragraph 5: The Cerification of Stipulation is adopted, approved and accepted except as modified below:<br>5a. The proposal to share the back-billed Net Revenue with ratepayers on a 50/50 basis is disapproved and instead the parties should modify the Stipulation so that PNM will refund to the ratepayers 100% of the windfall Net Back-Bill Revenue received by PNM from Valencia during the back-bill period as a one-time credit to PNM's other ratepayers to the fuel clause.<br>5b. The Certifications' proposal to assess a penalty against PNM in the amount of $10,000 is dispproved and instead the parties should modify the Stipulation so that PNM will pay a penalty in the amount of $5,000. | Date not specified. | 5/11/2015 |
| | | | Final Order Partially Adopting Certification of Stipulation (4/29/2015), Ordering Paragraph B: If the parties file by 5:00 pm on May 11, 2015 an executed Amended and Restated Stipulation modified as set forth in Paragraph 5 re-calculating the Net Back-Bill Revenue using a new Back-Bill period from November 2012 to the date of this Order, said re-calculated amount of Net Revenue to be verified by Staff, 100% of the Net Back-Bill Revenue is to be allocated back to PNM's other ratepayers as a one-time credit to the FPPCAC.<br>(NOTE: This language modifies Ordering Paragraphs E, F and G of the Certification of Stipulation.) | Date not specified | 6/19/2015<br>8/20/2015 |
| | | | Stipulation (9/30/2014):<br>Paragraphs 1, 2, 3, and 6: New PNM Station Service Tariff No. 33B<br>Paragraphs 4 & 5: Metering<br>Paragraphs 7 to 9: Backbilling Valencia<br>Paragraph 10: PNM acknowledgement of failure to bill | Date not specified. | 9/30/2014 |

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| 14-00150-UT | 10/29/2014 | In the Matter of the Application of Public Service Company of New Mexico for Approval of the City of Rio Rancho Underground Project Rider Pursuant to Advice Notice 495 | | | |
| | | | Recommended Decision, Decretal Paragraphs:<br>D. In the first billing cycle that the Rider becomes effective, PNM shall send a bill stuffer consistent with this Order to its electric customers in the City of Rio Rancho to inform them about the implementation of the Rider. | No filing requirement | |
| | | | Recommended Decision, Ordering Paragraphs:<br>A. The Excess Costs for the Project involved in this case, as well as the allocation methodology proposed by PNM and addressed herein, are consistent with Rate 22 and should be approved and adopted as described above.<br>B. Rider 39 is approved, as provided for herein.<br>C. The variances requested by PNM are granted, as described herein.<br>D. The first billing cycle that the Rider becomes effective, PNM shall send a bill stuffer consistent with this Order to its electric customers in the City of Rio Rancho to inform them about the implementation of the Rider.<br>E. Any outstanding matter not specifically ruled on is disposed of consistent with the Order. | Date not specified | 11/20/2014 |
| 14-00158-UT | 11/26/2014 | In the Matter of PNM's Renewable Energy Portfolio Procurement Plan for 2015 and Proposed 2015 Rider Rate Under Rate Rider No. 36 | | | |
| | | | Certification of Stipulation:<br>* Decretal Paragraph D: PNM is authorized to include the actual cost to construct the 40 MW Facility, which will not exceed a Certificated Cost of $79.3 Million, including AFUDC, in total Company rate base (prior to jurisdictional allocations) in future New Mexico rate proceedings as the capital cost of the 40 MW Facility, with any cost overruns recovered in rates only after a Commission determination in a future rate case that they were prudently incurred in accordance with 17.3.580 NMAC. (See Stipulation, Paragraph 1.)<br>* Decretal Paragraph E: PNM is authorized to recover through future ratemaking proceedings its reasonable operation and maintenance costs associated with the 40 MW Facility, estimated to be $843,000 per year before jurisdictional allocations.<br>* Stipulation Paragraph 2: The capital and O&M costs of the Facilities shall not be recovered through PNM's Rate Rider No. 36, but shall be included in base rates in PNM' s next general rate case.<br>* Stipulation Paragraph 3:The capital and O&M costs of the Facilities shall be allocated between the NMPRC retail jurisdiction and the FERC wholesale jurisdiction using appropriate cost allocators. | Next general rate case | 8/27/2015 |

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| | | | Certification of Stipulation:<br>* Decretal Paragraph B: The Stipulation, as admitted into the record in this case, is APPROVED.<br>* Decretal Paragraph F: PNM is authorized to use RECs from the 40 MW Facility to meet its RPS and diversity requirements pursuant to the REA and Rule 572.<br>* Decretal Paragraph H:The proposed modification to the procurement of energy and RECs from the Lightning Dock geothermal facility is approved. (See Stipulation Paragraph 6.)<br>* Decretal Paragraph I: Consistent with paragraph 7 of the Stipulation, PNM is authorized to acquire as soon as possible an additional 44,000 MWh of RECs at a cost not to exceed $3.00 per MWh/REC. (Amended by Final Order) | No filing requirement | 12/3/2014 |
| | | | Certification of Stipulation, Decretal Paragraph C:<br>* Further, PNM is required to file with the Commission: (i) copies of applicable permits for construction and operating received for the facilities following receipt of the final permit required; (ii) the actual costs of the Facilities once they become available; and (iii) notice of the dates that the facilities are placed into service. | Date not specified | 08/24/2015<br>02/19/2016 |
| | | | Stipulation Paragraph 7 (as amended by Final Order):<br>This not to exceed price shall be specified in PNM's plan application beginning with the application filed in 2015 for the 2016 plan year. PNM shall not be required to acquire additional RECs if and to the extent that they are not available at a price at or below the not-to-exceed price. | Annually | 6/1/2015 |

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| | | | Stipulation Paragraph 7 (as amended by Final Order):<br>* Beginning in 2014 and continuing each year thereafter until further Commission order, PNM shall calculate the RPS and RCT for the prior plan year (e.g. 2013), basing that calculation on actual energy sales and actual renewable energy generation in the prior plan year and consistent with Staffs proposed method for the calculations of the RCT and RPS, including the treatment in that calculation of the Large Customer Adjustment and any Exemption applicable in the prior plan year to political subdivisions and certain educational institutions.<br>* For the 2014 Annual Renewable Energy Portfolio Report filed in 2015, the calculation shall be consistent with the methodology described in the testimony of Staff witnesses Bruno Carrara and John Reynolds. In subsequent years the calculation shall be consistent with the methodology approved by the Commission in PNM' s most recent procurement plan proceeding preceding the calculation.<br>* As soon as practicable after each annual calculation, PNM shall acquire and retire additional stand-alone RECs if needed for overall RPS quantity compliance, not diversity compliance, in the prior plan year. PNM is authorized to procure these additional RECs at the lowest price available to PNM through the solicitation of offers, without the need for an RFP, at a price not to exceed the cost of stand-alone RECs of the same type most recently approved by the Commission for RPS compliance, provided this procurement does not cause PNM to exceed the RCT during the period for which the REC procurement would apply. | 6/1/2015 | 6/1/2015 |
| | | | Stipulation Paragraph 7 (as amended by Final Order):<br>The Stipulating Parties agree that, based on the application of this requirement to the 2013 plan year, PNM should be authorized to acquire as soon as practicable an additional 44,000 MWh of RECs at a cost not to exceed $3.00 per MWh/REC. The not to exceed price of $3.00 per MWh/REC shall also apply to the 2014 and 2015 plan years. (Amended by Final Order) | No filing requirement. | 12/3/2014 |
| | | | Stipulation Paragraph 5: In the absence of any agreement reached during the discussions spelled out in Paragraph 9 of this Stipulation, in its next Renewable Energy Procurement Plan application PNM shall calculate the RPS and RCT consistent with both the Staffs proposed method for the calculations of the RCT and RPS, including the treatment in that calculation of the Large Customer Adjustment and the Exemption applicable to political subdivisions and certain educational institutions, as described in the testimony of Staff witnesses Bruno Carrara and John Reynolds in Case No. 14-00158-UT and consistent with the methodology PNM employed in its own filing, testimony and exhibits in Case No. 14 00158-UT, with applicable Large Customer and Exempt Customer adjustments. | 6/1/2015 | 6/1/2015 |

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| | | | * Certification of Stipulation, Decretal Paragraph J: Consistent with paragraphs 8 and 9 of the Stipulation, the Commission will defer consideration of whether: (i) there are any disproportionate fuel benefits to customers subject to the Large Customer/Exempt Customer Adjustments and whether there is a rate mechanism to address this issue that should be implemented; and (ii) to use "compliance" cost, "procurement" cost or some other measure of REC acquisition costs for purposes of calculating the RPS Large Customer adjustment.<br>* Stipulation Paragraph 8: The Stipulating Parties agree the Commission should defer consideration of whether there are any disproportionate fuel benefits for customers subject to the Large Customer/Exempt Customer Adjustments and whether there is an appropriate rate mechanism to address this issue that should be proposed for implementation.<br>* Stipulation Paragraph 9: Within six months from date of acceptance of the Stipulation by the Commission the Stipulating Parties will file a report on their progress to resolve the issues of (1) whether to use "compliance" cost, "procurement" cost or some other measure of REC acquisition costs for purposes of calculating the RPS Large Customer adjustment; and (2) the issue addressed in paragraph 8 above. | Date not specified | 5/26/2015 |
| | | | Certification of Stipulation, Decretal Paragraph G: PNM shall file an Advice Notice, within 10 days after the Commission's Final Order, that incorporates the terms of PNM's proposed Rate Rider 36, as revised, which Advice Notice shall be effective upon filing. | Date not specified | 12/2/2014 |
| | | | Certification of Stipulation, Decretal Paragraph C:<br>The Commission grants PNM a CCN to construct, own and operate the 40 MW Facility as public utility plant. This CCN is granted subject to the condition that:<br>(1) prior to construction at any of the sites on which the solar facilities are to be constructed, PNM must obtain all necessary permits and comply with all applicable environmental requirements; and<br>(2) PNM must publish, not less than 30 days before commencement of construction at a new site, a notice in a newspaper of general circulation serving the area surrounding the solar project providing the location of the site and a description of the project. | Date not specified | 12/30/2014<br>03/13/2015<br>03/24/2015<br>04/28/2015 |

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| 14-00190-UT | 12/23/2014 | Application of PNM for Continuation of a Plan to Manage Fuel and Purchased Power Costs by Entering into Certain Forward Market Transactions | | | |
| | | | Recommended Decision, Findings of Fact and Conclusions of Law, Paragraph 11: PNM should continue to implement the Reporting Requirements as discussed above.<br>* See Discussion at pages 20-21: PNM hedging transactions are documented through its monthly FPPCAC Report because the cost and revenues from these transactions flow through the FPPCAC and affect the cost of the power and fuel to the FPPCAC during the month. | Monthly | 01/20/2015<br>02/19/2015<br>03/19/2015<br>04/16/2015<br>05/20/2015<br>06/19/2015<br>07/17/2015<br>08/20/2015<br>09/18/2015<br>10/22/2015<br>11/20/2015<br>12/21/2015<br>01/19/2016<br>02/26/2016<br>03/25/2016<br>04/20/2016 |
| | | | Recommended Decision, Findings of Fact and Conclusions of Law, Paragraphs 11-14: PNM should continue to implement the Reporting Requirements as discussed above. The Commission agrees that it continues to be appropriate for portions of each April 30 report identifying open positions to be filed under seal.<br>*See Discussion at page 21: "The purpose of the annual report is to compare the results of a hedging transaction that closed on a certain date with the results that PNM would have otherwise realized in a purchase or sell transaction on that date in the daily market, i.e., in the absence of PNM's authorization to conduct a hedging transaction. | Annually on April 30 | 4/30/2015 |
| | | | Recommended Decision, Findings of Fact and Conclusions of Law, Paragraph 14: PNM should convene, within 45 days following the filing of the April 30 report, an annual meeting with Staff and the other parties in this case, as well as other interested persons, to review the previous year's results as reported in the annual April 30 report. | No filing requirement | 6/1/2015 |
| | | | Recommended Decision, Decretal Paragraph B: PNM shall adhere to the reporting requirements set out previously in this order and shall make a filing with the Commission no later than June 30, 2019 in regard to the continuation of the Plan. | June 30, 2019 | |
| | | | Recommended Decision, Findings of Fact and Conclusions of Law, Paragraph 12: PNM should continue to promote budget billing at least four times per year in either its bill insert or in the bill message filed on its bills. | No filing requirement. | 4/30/2015 |

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| 14-00310-UT | 4/29/2015 | In the Matter of the Application of Public Service Company of New Mexico for Approval of Electric Energy Efficiency Programs and Program Cost Tariff Rider Pursuant to the New Mexico Public Utility and Efficient Use of Energy Acts | | | |
| | | | Certification of Stipulation (4/10/2015), Ordering Paragraph E: Within 10 days of Commission approval of the Stipulation, PNM shall file subject to a compliance review by Staff, its compliance advice notice to commence collection of program costs under the approved EE Rider, to become effective with PNM's June 2015 billing month. | Date not specified. | 5/11/2015 |
| | | | Stipulation (1/30/2015):<br>Paragraphs 7-10: Stipulated Programs, Budgets and Savings<br>Paragraphs 11-13: EE Rule (adopts 17.7.2 NMAC effective 1/1/2015)<br>Paragraphs 14-19: Stipulated Incentive<br>Paragraphs 20-22: Stipulated Rate Recovery<br>Paragraph 23: Variance from next filing deadline to April 15, 2016 | 4/15/2016 | 4/15/2016 |
| 14-00332-UT | 5/13/2015 | In the Matter of the Application of Public Service Company of New Mexico for Revisions of its Retail Electric Rates Pursuant to Advice Notice 507 | | | |
| | | | Final Order Adopting Recommended Decision on Completemenss of PNM's Filed Application (5/13/2015):<br>Findings and Conclusions: Paragraph 1. The Findings and Conclusions contained in the Initial Recommended Decision are adopted, approved and accepted as follows: i) The RD's rejection of PNM's Application filed December 11, 2014 (the "original application") is not complete on the grounds that it fails to meet the requirements of 17.1.3 NMAC Future Test Period Filing Requirements in Support of Rate Schedules for Investor-Owned Utilities; and ii) The RD's recommendation to dismiss the original application, for PNM to submit a complete new application in a new docket, and close the is docket. | No filing requirements. | 8/27/2015 |
| 14-00370-UT | 1/21/2015 | In the Matter of the Application of Public Service Company of New Mexico for Authorization to Extend the Existing Unsecured $400 Million Revolver Credit Facility | | | |
| | | | Recommended Decision, Decretal Paragraph D: PNM shall, within 90 days following the effectiveness of the Proposed Extension, file with the Commission a report verified by an officer of PNM before a Notary Public, stating that the Proposed Extension has become effective and the expenses actually incurred by PNM, and include in this report copies of any additional documents executed in connections with the Proposed Extension. | Date not specified | 3/23/2015 |

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| | | | Recommended Decision, Decretal Paragraph E: PNM is not required to file a short-term financing plan for the borrowings under the Current Revolver, as amended by the Proposed Extension, pursuant to 17.1.2.8.E NMAC. PNM shall include a cross-reference to this Order and any other orders approving the Current Revolver, in the short-term financing plan. | Annual Short-Term Financing Plan | 04/15/2015<br>04/11/2016 |
| 15-00106-UT | 1/20/2015 | In the Matter of the Protest of PNM to New Mexico Gas Company's Advice Notice No. 46 | | | |
| | | | Final Order (1/20/2016), Ordering Paragraph A. The Certification of Stipulation is adopted, approved and accepted except that NMGC's required Advice Notice filing shall be No. 54 rather than 47. | No filing requirement for PNM. | |
| 15-00166-UT | 2/3/2016 | In the Matter of PNM's Renewable Energy Portfolio Procurement Plan for 2016 and Proposed 2016 Rider Rate Under Rate Rider No. 36 | | | |
| | | | Final Order (11/18/2015), Ordering Paragraph B: In addition to the Recommended Decision's Decretal Paragraphs, on or before November 30, 2015, ABCWUA and UNM (through NMIEC) shall each (a) submit a revised certification of exemption to the State Auditor for PNM's Plan Year 2016; (b) file the revised certification in this case; and (c ) serve the revised certification as required by the Official Service List in this case. On or before December 7, 2015, PNM shall file an Affidavit in this case stating whether ABCWUA and UNM have each met the requirements for exemption in PNM's Plan Year 2016. If PNM's Affidavit states that either ABCWUA or UNM has not met the requirements for exemption in PNM's Plan Year 2016, this case shall be reopened. (NOTE: Original filing dates subsequently changed to Dec. 14 and Dec. 21, respectively.) | 12/21/2015 | 12/21/2015 |
| | | | Recommended Decision (10/20/2015), Decretal Paragraphs (as revised by Superseding Final Order):<br>Decretal Paragraph F. (Revised) PNM shall file a revised advice notice within ten days after filing of this Order. The revised advice notice shall be substantially identical to Advice Notice No. 511, except that it shall include a revised Rider No. 36 rate of $0.0059442 per kWH.<br>The advice notice shall be effective upon filing.<br>Decretal Paragraph G. Removed by Superseding Final Order | Within 10 days of Final Order | 2/12/2016 |

| Case | Final Order Date | Case Title | Requirement | Frequency | Compliance Dates |
|---|---|---|---|---|---|
| | | | Order Granting NMIEC's and ABCWUA's Joint Motion for Extension of Time (12/2/2015), Ordering Paragraph A: The Joint Motion for Extension of Deadline for the filing of revised certifications for exempt status with the Commission is extended to December 14, 2015.<br>The deadline for PNM to respond to the revised certifications is extended to December 21, 2015. | 12/21/2015 | 12/21/2015 |
| | | | Final Order Superseding Order of November 18, 2015 (2/3/2016), Ordering Paragraphs:<br>Paragraph E. Decretal Paragraph F of the Recommended Decision is removed and replaced herein with the following: PNM shall file a revised advice notice within ten days after filing of this Order. The revised advice notice shall be substantially identical to Advice Notice No. 511, except that it shall include a revised Rider No. 36 rate of $0.0059442 per kWh. The advice notice shall be effective upon filing.<br>Paragraph J. Paragraph 6 of the Findings of Fact and Conclusions of Law is removed and replaced herein with the following: PNM's proposed revised Rider No. 36 rate of $0.0059442 per kWh is just and reasonable and should be approved. | Within 10 days of Final Order | 2/12/2016 |
| 15-00203-UT | 8/5/2015 | In the Matter of the Application of PNM for Authorization Pertaining to the Issuance of Up to $300 Million in Senior Unsecured Notes | | | |
| | | | Recommended Decision (7/22/2015), Ordering Paragraph K. PNM shall be required to file with this Commission, within ninety (90) days following the consummation of each securities transaction, the final transactional documents, together with a report verified by an officer of PNM before a notary public, stating the consummation of the securities transactions, the amount of the proceeds, the expenses actually incurred by PNM, and the final terms and conditions of the securities transactions. | Date not specified | 10/1/2015 |
| | | | Recommended Decision (7/22/2015), Ordering Paragraph J: PNM shall report each credit agreement that it enters into under the approval granted in this Order in its annual informational financing report filed in accordance with 17.1.2.8 NMAC, and in that filing PNM shall include a cross-reference to this Order. | Date not specified | 4/11/2016 |
| | | | Order Adopting Recommended Decision (8/5/2015), Ordering Paragraphs:<br>Paragraphs A & B. The Recommended Decision is adopted, approved and accepted.<br>Paragraph E. This docket shall remain open to allow for compliance filings by Public Service Company of New Mexico, pursuant to 17.1.2.8(B)(7) NMAC, after which this docket shall automatically close. | Dates not specified | 10/1/2015 |

PNM EXHIBIT GTO-2
Page 28 of 28

PNM Rule 17.9.510 NMAC Compliance Filings 2013, 2014, 2015

# PNM Exhibit GTO-3

Is contained in the following 14 pages

# Comparison of PNM's Case No. 10-00086-UT to Base Year 2013
# (NMPRC Rule 17.3.510.12)

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2013

STATEMENT OF EARNINGS & EXPENSES
(In Thousands)

| NMPRC Rule 17.3.510.12 No. | Description | Total Company Yr. Ended 12/31/2013 | Adjustments Yr. Ended 12/31/2013 | Adjusted Total Company Yr. Ended 12/31/2013 | New Mexico Jurisdiction Yr. Ended 12/31/2013 | New Mexico Jurisdication NMPRC Case No. 10-00086-UT |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| B. (1)(a) | Total Electric Revenues | 1,116,312 | (5,166) [A] | 1,111,147 | 968,469 | 969,799 |
| B. (1)(b) | Net Earnings | 87,627 | | 90,629 | 91,656 | 92,087 |
| B. (1)(c) | Equity | | | 1,143,363 | 975,017 | 920,504 |
| | Return on Equity | | | 7.93% | 9.40% | 10.00% |
| Plant-In-Service: | | | | | | |
| B. (1)(f) | Generation Plant-in-Service | 2,174,651 | | 2,174,651 | 1,863,053 | 1,577,533 |
| B. (1)(g) | Transmission Plant-in-Service | 641,456 | | 641,456 | 362,675 | 286,411 |
| B. (1)(h) | Distribution Plant-in-Service | 1,232,061 | | 1,232,061 | 2,457,076 | 1,074,492 |
| Operation & Mainteneance Expense: | | | | | | |
| B. (1)(i) | | | | | | |
| | Fuel | 264,244 | - | 264,244 | 231,657 | 284,923 |
| | Nuclear Production O&M | 101,809 | - | 101,809 | 80,158 | 83,331 |
| | Non-Nuclear Production O&M | 72,819 | - | 72,819 | 68,042 | 70,797 |
| | Purchased Power Expense | 114,177 | 1,573 [C] | 115,750 | 101,854 | 45,759 |
| | Other O&M Expenses | 219,091 | (1,991) | 217,100 | 148,804 | 160,271 |
| | Transmission O&M Expenses | 38,104 | (1,991) [B] | 36,114 | 24,798 | 26,295 |
| | Distribution O&M Expenses | 24,289 | - | 24,289 | 24,289 | 25,928 |
| | Customer Service, Accounts & Informational Expense | 15,722 | - | 15,722 | 15,720 | 14,270 |
| | Sales Expense | 5,145 | - | 5,145 | 4,778 | 4,928 |
| | Admin. and General O&M Expenses | 135,830 | - | 135,830 | 79,220 | 88,850 |
| | Total Operation & Maintenance Expense | | | | | |
| Deferred Tax Reserves: | | | | | | |
| B. (1)(j) | Total Accumulated Deferred Income Tax | 606,700 | 78,468 [D] | 685,167 | 565,889 | 345,228 |
| Peak Demand: | | | | | | |
| B. (1)(k) | Peak Demand Data (excluding economy service customers) | 2,008 | | 2,008 | 1,764 | |

| Net Energy Sales (kWh): | | | | | | |
|---|---|---|---|---|---|---|
| B. (1)(I) | Total kWh Sales | 12,001,979,818 | | 12,001,979,818 | 10,279,188,064 | |

B. (1)(f) Please refer to the FERC Form I pgs 402-403.1 for the following

Installed Cost

In-service Date

Plant Type

Fuel Source

B. (2) See attached schedule for jurisdictional allocation details.

B. (3) [A] Revenue Adjustments

($293) Remove mark to market, as it does not impact cost of service calculation.

($4,873) PNM adjusted retail revenues to remove the impact associated with non-normal weather.

[B] Agreement with WAPA to exchange transmission services.

[C] Remove mark to market, as it does not impact cost of service calculation.

[D] Removal of ADIT balances that are associated with amounts not included in cost of service.

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2013

AMOUNT OF DEBT, AVERAGE COST OF DEBT & CAPITAL STRUCTURE
(In Thousands)

| No. | Description | New Mexico Jurisdiction NMPRC Case 10-00086-UT | | Total Electric Yr. Ended 12/31/2013 | | | |
|---|---|---|---|---|---|---|---|
| Outstanding Debt: | | | | | | | |
| B. (1)(d) | | Amount Outstanding Yr. Ended 12/31/2010 | Average Cost of Debt | Amount Outstanding Yr. Ended 12/31/2013 | Average Cost of Debt | | |
| | Short Term Debt | 190,000 | 1,353 | 49,200 | 1,034 | | |
| | Long Term Debt | 1,055,740 | 34,417 | 1,215,870 | 77,522 | | |
| | Weighted Average Cost of Long Term Debt Capital | | 3.26% | | 6.35% | | |
| Capital Structure: | | | | | | | |
| B. (1)(e) | | Effective Rate | Composite Cost of Capital | Amount | Capital Ratio | Effective Rate | Composite Cost of Capital |
| | Long Term Debt | 6.78% | 3.26% | 1,215,870 | 49.88% | 6.35% | 3.17% |
| | Preferred Stock | 4.62% | 0.02% | 11,529 | 0.47% | 4.62% | 0.02% |
| | Common Equity | 10.00% | 5.13% | 1,210,199 | 49.65% | 10.00% | 4.97% |
| | Total Capitalization | | 8.41% | 2,437,598 | 100.00% | | 8.16% |

B. (2) For current year, PNM used unadjusted data from the 2013 FERC Form 1 and 10-K.
For NMPRC Case No. 10-00086-UT, PNM used unadjusted data as filed.

B.(3) No adjustments were made to the current year data

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2013

JURISDICTIONAL ALLOCATORS

| No. | Description | Year Ended 12/31/2013 | | | | | Case No. 10-00086-UT | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Allocators: | | | | | | | | | | | |
| B. (2) | | Total | New Mexico Jurisdiction | Renewables | FERC | Other | Total | PNM North | PNM South | FERC | Other |
| | Total Wages and Salaries | 113,271,482 | 98,756,159 | 0 | 7,495,907 | 7,097,805 | 121,297,968 | 99,065,961 | 6,610,410 | 8,094,107 | 7,527,490 |
| | | 100.00% | 87.19% | 0.00% | 6.62% | 6.27% | 100.00% | 81.67% | 5.45% | 6.67% | 6.21% |
| | Production Plant | 1,294,882,013 | 1,095,730,209 | 0 | 75,046,807 | 124,104,997 | 1,160,229,283 | 889,116,008 | 96,165,196 | 61,549,133 | 113,398,946 |
| | | 100.00% | 84.62% | 0.00% | 5.80% | 9.58% | 99.99% | 76.63% | 8.29% | 5.30% | 9.77% |
| | Transmission Plant | 365,562,239 | 206,744,370 | 0 | 154,929,972 | 3,887,897 | 271,404,976 | 133,578,738 | 17,671,080 | 116,244,909 | 3,910,249 |
| | | 100.00% | 56.56% | 0.00% | 42.38% | 1.06% | 100.00% | 49.22% | 6.51% | 42.83% | 1.44% |
| | Distribution Plant | 706,163,574 | 700,790,573 | 3,627,361 | 1,745,641 | 0 | 624,973,113 | 572,760,728 | 51,980,919 | 231,466 | - |
| | | 100.00% | 99.24% | 0.51% | 0.25% | 0.00% | 100.00% | 91.64% | 8.32% | 0.04% | 0.00% |
| | General & Intangible Plant | 131,250,152 | 111,697,539 | 262,505 | 15,636,139 | 3,653,969 | 103,009,473 | 82,835,287 | 8,886,336 | 8,972,030 | 2,315,820 |
| | | 100.00% | 85.10% | 0.20% | 11.91% | 2.78% | 100.00% | 80.42% | 8.63% | 8.71% | 2.24% |
| | Total Net Plant | 2,493,968,113 | 2,114,962,692 | 0 | 247,358,558 | 131,646,863 | 2,159,616,846 | 1,678,290,761 | 174,703,531 | 186,997,539 | 119,625,015 |
| | | 100.00% | 84.80% | 0.00% | 9.92% | 5.28% | 100.00% | 77.71% | 8.09% | 8.66% | 5.54% |
| | Net Plant without Excluded Plant | 2,366,607,827 | 2,003,265,153 | 3,627,361 | 231,722,420 | 127,992,894 | | | | | |
| | | 100.00% | 84.65% | 0.15% | 9.79% | 5.41% | | | | | |
| | Generation Demand | 18,812,093 | 17,606,794 | 0 | 1,205,299 | 0 | 17,332,172 | 16,092,339 | - | 1,239,833 | - |
| | | 100.00% | 93.59% | 0.00% | 6.41% | 0.00% | 100.00% | 92.85% | 0.00% | 7.15% | 0.00% |
| | Energy | 9,830,849 | 9,158,014 | 0 | 672,835 | 0 | 9,499,790 | 8,785,782 | - | 714,008 | - |
| | | 100.00% | 93.16% | 0.00% | 6.84% | 0.00% | 100.00% | 92.48% | 0.00% | 7.52% | 0.00% |
| | Generation and Transmission Demand | 100.00% | 68.53% | 0.00% | 31.47% | 0.00% | 100.00% | 63.65% | 4.26% | 32.09% | 0.00% |
| | Transmission Demand | 2,719,357 | 1,533,757 | 0 | 1,185,600 | 0 | 2,448,966 | 1,293,166 | - | 1,155,800 | - |
| | | 100.00% | 56.40% | 0.00% | 43.60% | 0.00% | 100.00% | 52.80% | 0.00% | 47.20% | 0.00% |
| | Transmission Demand without Network | 2,162,971 | 1,533,757 | 0 | 629,214 | 0 | 2,074,227 | 1,293,166 | 166,259 | 614,802 | - |
| | | 100.00% | 70.91% | 0.00% | 29.09% | 0.00% | 100.00% | 62.34% | 8.02% | 29.64% | 0.00% |
| | Demand including PNM South | | | | | | 18,578,680 | 16,092,339 | 1,246,508 | 1,239,833 | - |
| | | | | | | | 100.00% | 86.62% | 6.71% | 6.67% | 0.00% |
| | Energy including PNM South | | | | | | 10,104,295 | 8,785,782 | 604,505 | 714,008 | - |
| | | | | | | | 100.00% | 86.95% | 5.98% | 7.07% | 0.00% |
| | Transmission Demand with TNMP | | | | | | 2,615,225 | 1,293,166 | 166,259 | 1,155,800 | - |
| | | | | | | | 100.00% | 49.45% | 6.36% | 44.19% | 0.00% |

# Comparison of PNM's NMPRC Case No. 10-00086-UT to Base Year 2014
# (NMPRC Rule 17.3.510.12)

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2014

STATEMENT OF EARNINGS & EXPENSES
(In Thousands)

| NMPRC Rule 17.3.510.12 No. | Description | Total Company Yr. Ended 12/31/2014 | Adjustments Yr. Ended 12/31/2014 | Adjusted Total Company Yr. Ended 12/31/2014 | New Mexico Jurisdiction Yr. Ended 12/31/2014 | New Mexico Jurisdication NMPRC Case No. 10-00086-UT |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| B. (1)(a) | Total Electric Revenues | 1,147,915 | 468 [A] | 1,148,383 | 997,127 | 969,799 |
| B. (1)(b) | Net Earnings | 86,038 | | 87,102 | 78,994 | 92,087 |
| B. (1)(c) | Equity | | | 1,268,964 | 1,090,379 | 920,504 |
| | Return on Equity | | | 6.86% | 7.24% | 10.00% |
| Plant-in-Service: | | | | | | |
| B. (1)(f) | Generation Plant-in-Service | 2,321,874 | | 2,321,874 | 2,011,228 | 1,577,533 |
| B. (1)(g) | Transmission Plant-in-Service | 691,850 | | 691,850 | 380,764 | 286,411 |
| B. (1)(h) | Distribution Plant-in-Service | 1,292,587 | | 1,292,587 | 1,290,318 | 1,074,492 |
| Operation & Mainteneance Expense: | | | | | | |
| B. (1)(i) | | | | | | |
| | Fuel | 278,542 | - | 278,542 | 249,797 | 284,923 |
| | Nuclear Production O&M | 104,943 | - | 104,943 | 86,597 | 83,331 |
| | Non-Nuclear Production O&M | 79,163 | - | 79,163 | 74,660 | 70,797 |
| | Purchased Power Expense | 128,647 | (507) [C] | 128,139 | 111,427 | 45,759 |
| | Other O&M Expenses | 212,627 | 2,419 | 215,046 | 141,729 | 160,271 |
| | Transmission O&M Expenses | 38,627 | 2,419 [B] | 41,046 | 28,264 | 26,295 |
| | Distribution O&M Expenses | 21,773 | - | 21,773 | 21,773 | 25,928 |
| | Customer Service, Accounts & Informational Expense | 15,798 | - | 15,798 | 15,798 | 14,270 |
| | Sales Expense | 4,590 | - | 4,590 | 3,819 | 4,928 |
| | Admin. and General O&M Expenses | 131,839 | (1,911) [D] | 129,927 | 72,076 | 88,850 |
| | Total Operation & Maintenance Expense | 803,922 | 1,911 | 805,833 | 664,211 | 645,081 |
| Deferred Tax Reserves: | | | | | | |
| B. (1)(j) | Total Accumulated Deferred Income Tax | 661,533 | 18,448 [E] | 679,981 | 563,357 | 345,228 |
| Peak Demand: | | | | | | |
| B. (1)(k) | Peak Demand Data (excluding economy service customers) | 1,878 | | 1,878 | 1,664 | |
| Net Energy Sales (kWh): | | | | | | |
| B. (1)(l) | Total kWh Sales | 11,838,342,077 | | 11,838,342,077 | 10,204,991,649 | |

B. (1)(f) Please refer to the FERC Form I pgs 402-403.1 for the following
Installed Cost
In-service Date
Plant Type
Fuel Source

B. (2) See attached schedule for jurisdictional allocation details.

B. (3) [A] Revenue Adjustments
($5,996) Remove mark to market, as it does not impact cost of service calculation.
$6,464 PNM adjusted retail revenues to remove the impact associated with non-normal weather.
[B] Agreement with WAPA to exchange transmission services.
[C] Remove mark to market, as it does not impact cost of service calculation.
[D] Removal of non-recurring costs not included in cost of service.
[E] Removal of ADIT balances that are associated with amounts not included in cost of service.

PNM EXHIBIT GTO-3

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2014

AMOUNT OF DEBT, AVERAGE COST OF DEBT & CAPITAL STRUCTURE
(In Thousands)

| No. | Description | New Mexico Jurisdiction NMPRC Case 10-00086-UT | | Total Electric Yr. Ended 12/31/2014 | | | |
|---|---|---|---|---|---|---|---|
| Outstanding Debt: | | | | | | | |
| B. (1)(d) | | Amount Outstanding Yr. Ended 12/31/2010 | Average Cost of Debt | Amount Outstanding Yr. Ended 12/31/2014 | Average Cost of Debt | | |
| | Short Term Debt | 190,000 | 1,353 | 49,200 | 1,034 | | |
| | Long Term Debt | 1,055,740 | 34,417 | 1,215,870 | 77,522 | | |
| | Weighted Average Cost of Long Term Debt Capital | | 3.26% | | 6.35% | | |
| Capital Structure: | | | | | | | |
| B. (1)(e) | | Effective Rate | Composite Cost of Capital | Amount | Capital Ratio | Effective Rate | Composite Cost of Capital |
| | Long Term Debt | 6.78% | 3.26% | 1,215,870 | 48.83% | 6.35% | 3.10% |
| | Preferred Stock | 4.62% | 0.02% | 11,529 | 0.46% | 4.62% | 0.02% |
| | Common Equity | 10.00% | 5.13% | 1,262,856 | 50.71% | 10.00% | 5.07% |
| | Total Capitalization | | 8.41% | 2,490,255 | 100.00% | | 8.19% |

B. (2) For current year, PNM used unadjusted data from the 2014 FERC Form 1 and 10-K.
For NMPRC Case No. 10-00086-UT, PNM used unadjusted data as filed.

B.(3) No adjustments were made to the current year data

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2014

JURISDICTIONAL ALLOCATORS

| No. | Description | Year Ended 12/31/2014 | | | | | Case No. 10-00086-UT | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Allocators: | | | | | | | | | | | |
| B. (2) | | Total | New Mexico Jurisdiction | Renewables | FERC | Other | Total | PNM North | PNM South | FERC | Other |
| | Total Wages and Salaries | 115,767,245 | 102,329,914 | 0 | 6,260,118 | 7,177,213 | 121,297,968 | 99,065,961 | 6,610,410 | 8,094,107 | 7,527,490 |
| | | 100.00% | 88.39% | 0.00% | 5.41% | 6.20% | 100.00% | 81.67% | 5.45% | 6.67% | 6.21% |
| | Production Plant | 1,346,378,535 | 1,148,679,741 | 0 | 66,983,018 | 130,715,776 | 1,160,229,283 | 889,116,008 | 96,165,196 | 61,549,133 | 113,398,946 |
| | | 100.00% | 85.32% | 0.00% | 4.98% | 9.71% | 99.99% | 76.63% | 8.29% | 5.30% | 9.77% |
| | Transmission Plant | 404,167,346 | 217,875,741 | 0 | 157,888,833 | 28,402,771 | 271,404,976 | 133,578,738 | 17,671,080 | 116,244,909 | 3,910,249 |
| | | 100.00% | 53.91% | 0.00% | 39.07% | 7.03% | 100.00% | 49.22% | 6.51% | 42.83% | 1.44% |
| | Distribution Plant | 741,894,873 | 735,835,828 | 4,589,452 | 1,469,593 | 0 | 624,973,113 | 572,760,728 | 51,980,919 | 231,466 | - |
| | | 100.00% | 99.18% | 0.62% | 0.20% | 0.00% | 100.00% | 91.64% | 8.32% | 0.04% | 0.00% |
| | General & Intangible Plant | 147,902,817 | 130,868,161 | 20,683 | 13,780,692 | 3,233,281 | 103,009,473 | 82,835,287 | 8,886,336 | 8,972,030 | 2,315,820 |
| | | 100.00% | 88.48% | 0.01% | 9.32% | 2.19% | 100.00% | 80.42% | 8.63% | 8.71% | 2.24% |
| | Total Net Plant | 2,635,733,436 | 2,233,259,472 | 0 | 240,122,136 | 162,351,828 | 2,159,616,846 | 1,678,290,761 | 174,703,531 | 186,997,539 | 119,625,015 |
| | | 100.00% | 84.73% | 0.00% | 9.11% | 6.16% | 100.00% | 77.71% | 8.09% | 8.66% | 5.54% |
| | Net Plant without Excluded Plant | 2,492,440,754 | 2,102,391,311 | 4,589,452 | 226,341,444 | 159,118,547 | | | | | |
| | | 100.00% | 84.35% | 0.18% | 9.08% | 6.38% | | | | | |
| | Generation Demand | 16,278,160 | 15,381,100 | 0 | 897,060 | 0 | 17,332,172 | 16,092,339 | - | 1,239,833 | - |
| | | 100.00% | 94.49% | 0.00% | 5.51% | 0.00% | 100.00% | 92.85% | 0.00% | 7.15% | 0.00% |
| | Energy | 9,989,607 | 9,433,734 | 0 | 555,874 | 0 | 9,499,790 | 8,785,782 | - | 714,008 | - |
| | | 100.00% | 94.44% | 0.00% | 5.56% | 0.00% | 100.00% | 92.48% | 0.00% | 7.52% | 0.00% |
| | Generation and Transmission Demand | 100.00% | 69.59% | 0.00% | 30.41% | 0.00% | 100.00% | 63.65% | 4.26% | 32.09% | 0.00% |
| | Transmission Demand | 2,578,597 | 1,478,067 | 0 | 1,100,530 | 0 | 2,448,966 | 1,293,166 | - | 1,155,800 | - |
| | | 100.00% | 57.32% | 0.00% | 42.68% | 0.00% | 100.00% | 52.80% | 0.00% | 47.20% | 0.00% |
| | Transmission Demand without Network | 2,043,442 | 1,478,067 | 0 | 565,375 | 0 | 2,074,227 | 1,293,166 | 166,259 | 614,802 | - |
| | | 100.00% | 72.33% | 0.00% | 27.67% | 0.00% | 100.00% | 62.34% | 8.02% | 29.64% | 0.00% |
| | Demand Including PNM South | | | | | | 18,578,680 | 16,092,339 | 1,246,508 | 1,239,833 | - |
| | | | | | | | 100.00% | 86.62% | 6.71% | 6.67% | 0.00% |
| | Energy Including PNM South | | | | | | 10,104,295 | 8,785,782 | 604,505 | 714,008 | - |
| | | | | | | | 100.00% | 86.95% | 5.98% | 7.07% | 0.00% |
| | Transmission Demand with TNMP | | | | | | 2,615,225 | 1,293,166 | 166,259 | 1,155,800 | - |
| | | | | | | | 100.00% | 49.45% | 6.36% | 44.19% | 0.00% |

# Comparison of PNM's NMPRC Case No. 10-00086-UT to Base Year 2015
# (NMPRC Rule 17.3.510.12)

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2015

STATEMENT OF EARNINGS & EXPENSES
(In Thousands)

| NMPRC Rule 17.3.510.12<br>No. | Description | Total Company<br>Yr. Ended 12/31/2015 | Adjustments<br>Yr. Ended 12/31/2015 | Adjusted<br>Total Company<br>Yr. Ended 12/31/2015 | New Mexico Jurisdiction<br>Yr. Ended 12/31/2015 | New Mexico Jurisdication<br>NMPRC Case No.<br>10-00086-UT |
|---|---|---|---|---|---|---|
| Revenue: | | | | | | |
| B. (1)(a) | Total Electric Revenues | 1,131,195 | 9,603 [A] | 1,140,797 | 1,004,093 | 969,799 |
| B. (1)(b) | Net Earnings (Loss) | (15,762) | 113,202 | 97,439 | 77,182 | 92,087 |
| B. (1)(c) | Equity | | | 1,280,456 | 1,116,020 | 920,504 |
| | Return on Equity | | | 7.61% | 6.92% | 10.00% |
| Plant-In-Service: | | | | | | |
| B. (1)(f) | Generation Plant-in-Service | 2,332,195 | 233,679 [F] | 2,565,874 | 2,258,713 | 1,577,533 |
| B. (1)(g) | Transmission Plant-in-Service | 765,695 | | 765,695 | 456,245 | 286,411 |
| B. (1)(h) | Distribution Plant-in-Service | 1,346,814 | | 1,346,814 | 1,346,814 | 1,074,492 |
| Operation & Mainteneance Expense: | | | | | | |
| B. (1)(i) | | | | | | |
| | Fuel | 242,730 | - | 242,730 | 217,483 | 284,923 |
| | Nuclear Production O&M | 90,274 | 888 [B] | 91,161 | 70,306 | 83,331 |
| | Non-Nuclear Production O&M | 85,077 | (3,540) [B] | 81,537 | 77,837 | 70,797 |
| | Purchased Power Expense | 152,176 | 1,421 [C] | 153,598 | 147,468 | 45,759 |
| | Other O&M Expenses | 221,997 | 2,767 | 224,764 | 153,686 | 160,271 |
| | Transmission O&M Expenses | 37,691 | 2,386 [D] | 40,076 | 28,655 | 26,295 |
| | Distribution O&M Expenses | 22,882 | - | 22,882 | 22,882 | 25,928 |
| | Customer Service, Accounts & Informational Expense | 16,177 | - | 16,177 | 16,177 | 14,270 |
| | Sales Expense | 4,187 | - | 4,187 | 3,532 | 4,928 |
| | Admin. and General O&M Expenses | 141,060 | 382 [E] | 141,442 | 82,440 | 88,850 |
| | Total Operation & Maintenance Expense | 803,922 | 1,536 | 793,791 | 666,780 | 645,081 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Deferred Tax Reserves: | | | | | | |
| B. (1)(j) | Total Accumulated Deferred Income Tax | 636,669 | 135,761 [G] | 772,430 | 648,617 | 345,228 |
| Peak Demand: | | | | | | |
| B. (1)(k) | Peak Demand Data (excluding economy service) | 1,889 | | 1,889 | 1,809 | |
| Net Energy Sales (kWh): | | | | | | |
| B. (1)(l) | Total kWh Sales | 11,541,512,088 | 53,866,643 [A] | 11,595,378,731 | 9,672,556,481 | |

B. (1)(f) Please refer to the FERC Form I pgs 402-403.1 for the following
Installed Cost
In-service Date
Plant Type
Fuel Source

B. (2) See attached schedule for jurisdictional allocation details.

B. (3) [A.] Revenue Adjustments:
$4,333 PNM adjusted retail revenues to remove the impact associated with non-normal weather.
$5,270 PNM adjusted revenues to remove the impact associated with Mark-to-Market valuations.

[B.] Normalized non-labor planned outage expenses, based on historic 6 year average.

[C.] Removal of mark to market valuations of ($83) and non-recurring reductions to cost of energy of ($1,339) associated with the settlement of regulatory proceeding.

[D.] Agreement with WAPA to exchange transmission services.

[E.] Admin & General O&M Adjustments:
$297 Removal of non-recurring reduction to A&G expenses
$84 Normalized Planned Outage expenses (see footnote B)

[F.] Generation Gross Plant Adjustments
($442) Removal of balances associated with the Palo Verde Asset Retirement Costs
$234,121 Eliminate write off of San Juan Generating Station Units 2&3. Pursuant to paragraph 41 of the Stipulation in NMPRC Case 13-00390-UT, these assets are included for rate making purposes but written off for GAAP reporting.

[G.] Removal of ADIT balances that are associated with amounts not included in cost of service.

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2015

AMOUNT OF DEBT, AVERAGE COST OF DEBT & CAPITAL STRUCTURE
(In Thousands)

| No. | Description | New Mexico Jurisdiction NMPRC Case 10-00086-UT | | Total Electric Yr. Ended 12/31/2015 | | | |
|---|---|---|---|---|---|---|---|
| Outstanding Debt: | | | | | | | |
| B. (1)(d) | | Amount Outstanding Yr. Ended 12/31/2010 | Average Cost of Debt | Amount Outstanding Yr. Ended 12/31/2015 | Average Cost of Debt | | |
| | Short Term Debt | 190,000 | 1,353 | - | - | | |
| | Long Term Debt | 1,055,740 | 34,417 | 1,465,870 | 87,443 | | |
| | Weighted Average Cost of Long Term Debt Capital | | 3.26% | | 5.92% | | |
| Capital Structure: | | | | | | | |
| B. (1)(e) | | Effective Rate | Composite Cost of Capital | Amount | Capital Ratio | Effective Rate | Composite Cost of Capital |
| | Long Term Debt | 6.78% | 3.26% | 1,465,870 | 52.44% | 5.92% | 3.10% |
| | Preferred Stock | 4.62% | 0.02% | 11,529 | 0.41% | 4.62% | 0.02% |
| | Common Equity | 10.00% | 5.13% | 1,317,933 | 47.15% | 10.00% | 4.72% |
| | Total Capitalization | | 8.41% | 2,795,332 | 100.00% | | 7.84% |

B. (2) For current year, PNM used unadjusted data from the 2015 FERC Form 1 and 10-K.
For NMPRC Case No. 10-00086-UT, PNM used unadjusted data as filed.

B.(3) No adjustments were made to the current year data

PUBLIC SERVICE COMPANY OF NEW MEXICO
RULE 510 ANNUAL REPORTING
COMPARISON OF PNM'S CASE 10-00086-UT to Base Year 2015

## JURISDICTIONAL ALLOCATORS

| No. | Description | Year Ended 12/31/2015 | | | | | Case No. 10-00086-UT | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Allocators: | | | | | | | | | | | |
| B. (2) | | Total | New Mexico Jurisdiction | Renewables | FERC | Other | Total | PNM North | PNM South | FERC | Other |
| | Total Wages and Salaries | 115,767,245 | 102,933,052 | 0 | 5,227,545 | 7,606,648 | 121,297,968 | 99,065,961 | 6,610,410 | 8,094,107 | 7,527,490 |
| | | 100.00% | 88.91% | 0.00% | 4.52% | 6.57% | 100.00% | 81.67% | 5.45% | 6.67% | 6.21% |
| | Production Plant | 1,566,990,023 | 1,367,737,947 | 0 | 61,604,667 | 137,647,410 | 1,160,229,283 | 889,116,008 | 96,165,196 | 61,549,133 | 113,398,946 |
| | | 100.00% | 87.28% | 0.00% | 3.93% | 8.78% | 99.99% | 76.63% | 8.29% | 5.30% | 9.77% |
| | Transmission Plant | 449,752,826 | 261,913,451 | 0 | 159,680,576 | 28,158,799 | 271,404,976 | 133,578,738 | 17,671,080 | 116,244,909 | 3,910,249 |
| | | 100.00% | 58.23% | 0.00% | 35.50% | 6.26% | 100.00% | 49.22% | 6.51% | 42.83% | 1.44% |
| | Distribution Plant | 776,599,821 | 770,145,370 | 6,454,451 | 0 | 0 | 624,973,113 | 572,760,728 | 51,980,919 | 231,466 | - |
| | | 100.00% | 99.17% | 0.83% | 0.00% | 0.00% | 100.00% | 91.64% | 8.32% | 0.04% | 0.00% |
| | General & Intangible Plant | 151,728,903 | 132,510,855 | 19,017 | 15,250,118 | 3,948,914 | 103,009,473 | 82,835,287 | 8,886,336 | 8,972,030 | 2,315,820 |
| | | 100.00% | 87.33% | 0.01% | 10.05% | 2.60% | 100.00% | 80.42% | 8.63% | 8.71% | 2.24% |
| | Total Net Plant | 2,938,598,106 | 2,532,307,623 | 0 | 236,535,361 | 169,755,122 | 2,159,616,846 | 1,678,290,761 | 174,703,531 | 186,997,539 | 119,625,015 |
| | | 100.00% | 86.17% | 0.00% | 8.05% | 5.78% | 100.00% | 77.71% | 8.09% | 8.66% | 5.54% |
| | Net Plant without Excluded Plant | 2,793,342,671 | 2,399,796,768 | 6,454,451 | 221,285,243 | 165,806,208 | | | | | |
| | | 100.00% | 85.91% | 0.23% | 7.92% | 5.94% | | | | | |
| | Generation Demand | 16,270,007 | 15,568,134 | 0 | 701,873 | 0 | 17,332,172 | 16,092,339 | - | 1,239,833 | - |
| | | 100.00% | 95.69% | 0.00% | 4.31% | 0.00% | 100.00% | 92.85% | 0.00% | 7.15% | 0.00% |
| | Energy | 9,302,458 | 8,859,595 | 0 | 442,863 | 0 | 9,499,790 | 8,785,782 | - | 714,008 | - |
| | | 100.00% | 95.24% | 0.00% | 4.76% | 0.00% | 100.00% | 92.48% | 0.00% | 7.52% | 0.00% |
| | Generation and Transmission Demand | 100.00% | 72.62% | 0.00% | 27.38% | 0.00% | 100.00% | 63.65% | 4.26% | 32.09% | 0.00% |
| | Transmission Demand | 2,462,307 | 1,508,270 | 0 | 954,037 | 0 | 2,448,966 | 1,293,166 | - | 1,155,800 | - |
| | | 100.00% | 61.25% | 0.00% | 38.75% | 0.00% | 100.00% | 52.80% | 0.00% | 47.20% | 0.00% |
| | Transmission Demand without Network | 1,937,835 | 1,508,270 | 0 | 429,565 | 0 | 2,074,227 | 1,293,166 | 166,259 | 614,802 | - |
| | | 100.00% | 77.83% | 0.00% | 22.17% | 0.00% | 100.00% | 62.34% | 8.02% | 29.64% | 0.00% |
| | Demand including PNM South | | | | | | 18,578,680 | 16,092,339 | 1,246,508 | 1,239,833 | - |
| | | | | | | | 100.00% | 86.62% | 6.71% | 6.67% | 0.00% |
| | Energy including PNM South | | | | | | 10,104,295 | 8,785,782 | 604,505 | 714,008 | - |
| | | | | | | | 100.00% | 86.95% | 5.98% | 7.07% | 0.00% |
| | Transmission Demand with TNMP | | | | | | 2,615,225 | 1,293,166 | 166,259 | 1,155,800 | - |
| | | | | | | | 100.00% | 49.45% | 6.36% | 44.19% | 0.00% |

**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** | ) | |

## AFFIDAVIT

STATE OF NEW MEXICO )
) ss
COUNTY OF BERNALILLO )

**GERARD T. ORTIZ, Vice President of Regulatory Affairs for Public Service Company of New Mexico,** upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony of Gerard T. Ortiz** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 5TH day of December, 2016.

Gerard Ortiz

**GERARD T. ORTIZ**

**SUBSCRIBED AND SWORN** to before me this 5th day of December, 2016.

Donna S. Holliday

NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

1·21·2020



*GCG # 522506*