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	)	

DIRECT TESTIMONY

OF

HENRY E. MONROY

December 7, 2016

NMPRC CASE NO. 16-00276-UT
INDEX TO THE DIRECT TESTIMONY OF HENRY E. MONROY
WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 16-00276-UT

I. INTRODUCTION AND PURPOSE

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

A. My name is Henry E. Monroy. I am the Director, Cost of Service and Audit Services for PNMR Services Company, on behalf of Public Service Company of New Mexico. ("PNM" or "Company"). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR, COST OF SERVICE AND AUDIT SERVICES.

A. I am responsible for revenue requirement-related work for the regulated subsidiaries of PNM Resources, Inc. ("PNMR"), PNM and Texas New Mexico Power Company ("TNMP"). This responsibility includes preparation of revenue requirement analyses and supporting testimony for regulatory filings. I am also responsible for the oversight of the Audit Services function at PNMR.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN UTILITY REGULATORY PROCEEDINGS?

A. Yes. My educational background and professional experience are summarized in PNM Exhibit HEM-1, which includes a list of cases in which I have testified before the New Mexico Public Regulation Commission ("NMPRC" or "Commission"), the Public Utility Commission of Texas, and the Federal Energy Regulatory Commission ("FERC").

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to:

(1) Present and support the reasonableness of the Base Period, Adjusted Base Period, and Test Period cost of service[1] studies, as well as certain related schedules required to be filed pursuant to 17.9.530 NMAC ("Rule 530"), as supplemented by 17.1.3 NMAC (Future Test Year Rule "FTY Rule");

(2) Provide a summary of how the total PNM cost of service is allocated among its various jurisdictions;

(3) Explain the methodologies used to allocate costs from PNMR Services Company ("Shared Services" or "Corporate") and PNM Resources to PNM;

(4) Describe and provide support for the adjustments that were made to the Base Period to develop an Adjusted Base Period;

(5) Explain the methodology used to develop the Test Period cost of service, and provide the adjustments made in the linkage data to develop the Test Period cost of service;

(6) Provide background and support for the Company's accounting books and records;

(7) Present the Company's Lead-Lag study;

[1] Throughout my testimony, the terms "cost of service" and "revenue requirements" are used interchangeably.

(8) Provide background and support for the accounting for asset retirement obligations, coal mine decommissioning, and treatment of post-retirement benefits other than pension ("PBOP");

(9) Describe and provide support for the cost benefit analysis to support inclusion of the Prepaid Pension Asset and Loss on Reacquired Debt;

(10) Present and support the capital budgeting process as it relates to the Capital Investment Period, and quarterly reforecast (project trade-off) processes;

(11) Support and explain the Hyperion® budgeting system ("Hyperion"), including a discussion of Hyperion system calculations and adjustments necessary to complete the capital budget, including allocation of budgeted capital clearings to the FERC electric plant accounts, estimated cost of removal, and estimated electric plant retirements.

(12) Provide background and support for the Company's capital loads, including Allowance for Funds Used During Construction ("AFUDC"), used to support projected capital budgets;

(13) Describe and explain the functionality of the electronic files for the cost of service models and supporting workpapers, as required by the FTY Rule 17.1.3.11 NMAC; and

(14) Request Commission approvals relating to the establishment and recovery of specific regulatory assets.

Q. PLEASE LIST THE SCHEDULES THAT YOU ARE SPONSORING.

A. I am sponsoring the following Rule 530 Schedules: A-1, A-3 through A-5, B-1 through B-7, C-1 through C-3, D-1, D-2, E-1 through E-4, F-1, H-1 through H-8, H-14 through H-16, I-1 through I-3, J-1, J-2, K-1, K-5, P-2 through P-4, P-7, P-12, Q-5, and Q-6. Rule 530 Schedules A-5, B-3, B-7, C-1, E-2, E-3, H-1, H-2, H-3 and H-7 are filed in executable electronic format and are included as part of the cost of service fully functional model, which I describe in more detail later in my testimony. Rule 530 Schedules C-2, C-3, D-1, D-2, H-6, H-16, Q-5, and Q-6 are not being filed in executable electronic format, but are being provided in PDF format. All other Rule 530 Schedules I sponsor are being provided in executable electronic format on a DVD-ROM, but are neither fully functional nor required to be filed as fully functional under the FTY Rule.

Q. ARE YOU ALSO SPONSORING ANY EXHIBITS AS PART OF YOUR DIRECT TESTIMONY?

A. Yes, I am sponsoring PNM Exhibits HEM-1 through HEM-17 as listed and more specifically described in the index to my testimony.

II. SUMMARY OF KEY CONCLUSIONS

Q. WHAT TEST PERIOD AND BASE PERIOD DID PNM USE TO DEVELOP THE REVENUE REQUIREMENTS SUPPORTING THE COMPANY'S RATE REQUEST IN THIS PROCEEDING?

A. The Test Period used to determine the revenue requirements for the rates requested by PNM in this proceeding is the twelve-month period ending December 31, 2018 ("Test Period"). The Base Period is the twelve months ending June 30, 2016 ("Base Period"), and consists of a full twelve months of actual Company books and records data from which the Test Period revenue requirement was developed.

Q. PLEASE SUMMARIZE THE RESULTS OF PNM'S RETAIL TEST PERIOD REVENUE REQUIREMENT STUDY.

A. The Test Period revenue requirement is $932,624,117, based on a Test Period rate base of $2,381,200,287, and a capital structure comprised of 50.00% long-term debt, 0.39% preferred stock, and 49.61% common equity, reflecting a return on equity ("ROE") of 10.125% and a cost of debt of 4.93%. The total Test Period revenue requirement consists of a non-fuel revenue requirement of $791,637,379 and a fuel revenue requirement of $140,986,737.

PNM is requesting a non-fuel revenue increase to cover a deficiency in Test Period non-fuel revenue of $99,249,874. PNM currently collects one hundred

percent of its fuel revenue requirement through the Company's Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC"). Actual changes to PNM's fuel revenue requirements are adjusted through the FPPCAC Factor. PNM is providing the projected Test Period fuel revenue requirements for informational purposes. The actual fuel revenues for the Test Period will be set and collected under the terms of PNM's FPPCAC Rider No. 23, as established in NMPRC Case No. 13-00187-UT and as modified in NMPRC Case No. 15-00261-UT ("2015 Rate Case").

Table HEM-1 below provides a summary of the proposed revenue requirements and provides a comparison to revenues at existing rates.

Table HEM-1 — Summary of Revenue Requirements

Line No.	Description	PNM Retail
1	Non-Fuel Revenue	$ 692,387,505
2	Fuel Revenue	140,986,737
3	**Total Revenues at existing rates**	$ 833,374,242
4		
5		
6	**Revenue Requirement Requested**	
7	Non-Fuel Revenue Requirement	$ 791,637,379
8	Fuel Revenue Requirement	140,986,737
9	**Total Test Period Revenues per Revenue Requirement**	$ 932,624,117
10		
11	**Deficiency**	
12	Non-Fuel Deficiency - As Requested	$ 99,249,874
13	Fuel Deficiency - As Requested	-
14	**Rate Deficiency - As Requested**	**$ 99,249,874**

Q. PLEASE SUMMARIZE THE DEVELOPMENT OF THE REVENUE REQUIREMENTS UNDERLYING THE REQUESTED RATES.

A. The revenue requirements were developed in accordance with the FTY Rule and the applicable provisions of Rule 530. The Test Period rate base is based on a thirteen-month average of projected balances, beginning December 2017, through December 2018. The operating expenses are based on the projected twelve months ending December 31, 2018.

To develop the Test Period revenue requirements, PNM began with unadjusted per-book data for the Base Period, which for this rate case is the twelve months ending June 30, 2016. PNM made certain adjustments to develop Adjusted Base Period data, and then made additional adjustments in the linkage data to develop the Future Test Year Period. The assumptions and methodology used to develop these revenue requirements are discussed in detail below.

Q. HOW ARE THE BASE PERIOD, ADJUSTED BASE PERIOD, AND TEST PERIOD REVENUE REQUIREMENTS STUDIES PRESENTED IN THE COMPANY'S RATE CASE FILING?

A. PNM Exhibits HEM-3 and HEM-4, which I am sponsoring as part of my direct testimony, together constitute the cost of service model supporting the revenue requirements and revenue increase requested by PNM in this case. These exhibits have been filed in both hard copy and in fully-functional electronic format. These

two exhibits comply with the fully functional executable file requirement in the Commission's FTY Rule.

- PNM Exhibit HEM-3 provides the unadjusted Base Period cost of service, adjustments made to derive an Adjusted Base Period cost of service, and the Test Period cost of service.

- PNM Exhibit HEM-4 provides the electronic workpapers used to develop the Adjusted Base Period and the Test Period cost of service that is provided in PNM Exhibit HEM-3.

PNM Exhibits HEM-3 and HEM-4 are being provided electronically on a DVD-ROM, so the amounts in the schedules and workpapers can be easily traced back to the source. The assumptions used to develop the Test Period revenue requirement are also included in the working electronic files.

Q. PLEASE EXPLAIN THE METHODOLOGY USED TO DEVELOP THE TEST PERIOD REVENUE REQUIREMENT.

A. The Test Period revenue requirement was developed beginning with the Adjusted Base Period. PNM developed the Test Period operating expenses and revenue credits by using escalation rates or by specifically estimating items based on discrete assumptions. In addition, capital additions and certain capital-related items were based on 2017 – 2018 budget information and PNM has provided the required documentation for these items under the Commission's FTY Rule. PNM's revenue requirement study, along with the cost comparisons and variance explanations required under the FTY Rule, are presented based on the accounts prescribed under the FERC Uniform System of Accounts ("USOA"), including cost elements, as applicable.

Q. WHEN WERE PNM'S CURRENT RATES ESTABLISHED?

A. PNM's current rates were established in the 2015 Rate Case and became effective on October 1, 2016.

Q. WHAT KEY DRIVERS CAUSE A REVENUE DEFICIENCY UNDER THE RATES SET IN THE 2015 RATE CASE?

A. The largest driver of the revenue deficiency is the resource changes that were reviewed and approved in NMPRC Case No. 13-00390-UT ("BART Case") including the abandonment of San Juan Generating Station ("SJGS") Units 2 and 3, inclusion of 134 MW of Palo Verde Unit 3, inclusion of 132 MW of SJGS Unit 4, and accelerated depreciation on Selective Non Catalytic Reduction ("SNCR") equipment installed at SJGS. PNM Exhibit HEM-5 provides the non-fuel revenue requirement impacts associated with the retirement of SJGS Units 2 and 3, including O&M savings and recovery of 50% of the undepreciated investment, and the inclusion of 132 MW of SJGS Unit 4 and 134 MW of Palo Verde Unit 3. Please refer to PNM Exhibit HEM-4 WP Plant-16 for impacts of the acceleration of depreciation on SNCR investments on SJGS Units 1 and 4.

In addition, on-going investments in transmission and distribution facilities, and the installation of Selective Catalytic Reduction ("SCR") equipment at the Four Corners Power Plant ("Four Corners"), have increased rate base and operating expenses. Another key driver is the reallocation of certain jurisdictional costs: the exit of PNM's FERC wholesale generation customer Navopache Electric

Cooperative ("NEC") at the end of 2017, coupled with the increase in third-party usage of PNM's transmission system, have caused changes in the allocation of jurisdictional generation and transmission costs to PNM Retail customers.

Q. HAVE CHANGES IN PNM'S BILLING DETERMINANTS ALSO CONTRIBUTED TO THE REVENUE DEFICIENCY IN THIS PROCEEDING?

A. Yes. Changes to PNM's billing determinants have contributed $11 million to the revenue deficiency in this proceeding. Please refer to the testimony of PNM Witness Chan for further discussion.

III. BASE PERIOD AND ADJUSTED BASE PERIOD COST OF SERVICE

Q. WHAT PERIOD WAS USED TO DEVELOP THE BASE PERIOD AND ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. The Base Period reflects PNM operations for the twelve-month period that ended June 30, 2016.

Q. HOW WERE PNM'S BOOKS AND RECORDS UTILIZED IN THE PREPARATION OF THIS RATE CASE?

A. All unadjusted Base Period data used in the filed schedules, workpapers and electronic models are from the Company's books and records. More information on the Company's books and records is discussed later in my testimony. PNM

Exhibit HEM-3 COS BASE ADJ presents the unadjusted Base Period and a summary of adjustments made to the Base Period to develop the Adjusted Base Period revenue requirements. The adjustments are developed in supporting workpapers included in PNM Exhibit HEM-4 and discussed later in my testimony.

Q. PLEASE DESCRIBE THE UNADJUSTED BASE PERIOD.

A. The unadjusted Base Period data includes PNM's production, transmission, distribution, and administrative and general operations. PNM also incurs costs from Shared Services that provides administrative and other support services to PNM. Similarly, as explained below, certain costs at the PNM Resources level are allocated to PNM and included in the cost of service.

A. Jurisdictional Allocations and Allocations from Shared Services

1. Cost Allocation Manual

Q. WHAT COSTS ARE ALLOCATED FROM SHARED SERVICES OR PNM RESOURCES TO PNM?

A. Costs incurred by Shared Services are allocated to PNM based on a Cost Allocation Manual ("CAM") and are reflected as Administrative and General ("A&G") expenses. In addition, certain utility plant assets that are reflected on the accounting records of either PNM Resources or Shared Services, including the headquarters building and computer software and hardware, are allocated to PNM

based on the parameters set forth in the CAM. Because these assets are not recorded on the financial books and records of PNM, the allocated investments in these assets, related Accumulated Deferred Income Taxes ("ADIT"), and associated operating expenses, are reflected through adjustments to the Base Period, as discussed later in my testimony. Consistent with past rate cases, the allocated costs related to these assets are included in the revenue requirements as they are necessary for PNM to provide electric service to its customers.

Q. PLEASE DESCRIBE THE CAM IN MORE DETAIL.

A. The CAM identifies the method of allocating Shared Services costs for charging affiliates. The cost assignment methods are based on selected cost drivers which meet the following five criteria: (1) cost causative; (2) measurable; (3) objective; (4) stable or predictable; and (5) consistently applicable. The CAM provides a complete description of the services provided by Shared Services.

Q. IS THE CAM, AS PERIODICALLY REVISED, FILED WITH THE NMPRC?

A. Yes. PNM periodically revises the CAM and files it with the NMPRC pursuant to certain compliance requirements established in NMPRC Case No. 03-00017-UT. The CAM allocators are updated, at a minimum, annually. The 2016 CAM was filed with the NMPRC on December 22, 2015, in NMPRC Case No. 03-00017-UT and became effective January 1, 2016.

Q. DID PNM USE THE 2016 CAM FOR THE TEST PERIOD IN THIS CASE?

A. No. Please refer to PNM Exhibit HEM-7 for PNM's 2017 CAM allocation rates. As was done in the 2015 Rate Case, PNM plans to file the 2017 CAM with the Commission in December 2016 pursuant to the filing requirement established in NMPRC Case No. 03-00017-UT.

2. Jurisdictional Allocators

Q. WHAT PNM JURISDICTIONS RECEIVE ALLOCATIONS OF THE ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. The total PNM revenue requirement is allocated to the following jurisdictions:

- PNM Retail- PNM Retail customers include: residential, commercial, industrial, and other public authority customers that receive retail electric service from PNM in New Mexico. PNM Retail jurisdiction comprises the revenue requirements associated with the base rates for which PNM is requesting Commission approval in this proceeding.
- Renewables- Renewables jurisdiction covers all cost components, including: rate base, purchased power, operating expenses, income tax credits, and return that PNM is entitled to collect under Rider 36 – Renewable Energy Rider ("Rider 36") and Rider 30 – Voluntary Renewable Energy Program.
- FERC Wholesale Generation- During portions of the Base Period, FERC Wholesale Generation customers included NEC, the City of Aztec and the Jicarilla Apache Nation ("JAN"). PNM's wholesale contract with the City of

Aztec expired in June 2016. PNM's wholesale contract with JAN terminated at the end of November 2016. The NEC wholesale contract is reduced to 10 MW beginning in January 2017, and terminates at the end of 2017. Beginning January 1, 2018 (the start of the Test Period), PNM's FERC Wholesale Generation jurisdiction will not include any customers or cost allocations.

- FERC Wholesale Transmission- FERC Wholesale Transmission customers include those who take network transmission service and long-term firm point-to-point service.
- Excluded- This jurisdiction includes costs not allocated to the other jurisdictions. In the Base Period, this primarily reflects PNM's interest in Palo Verde Unit 3 and other costs not allocated to the other jurisdictions described above. As discussed later in my testimony, Palo Verde Unit 3 in the Test Period is allocated to PNM Retail. Additionally, in the BART Case, PNM was authorized to acquire an additional 65 MW in SJGS Unit 4 as non-jurisdictional merchant plant, which is allocated to Excluded in the Test Period.

Q. HOW ARE COSTS ALLOCATED AMONG THE VARIOUS PNM JURISDICTIONS IN THE COST OF SERVICE?

A. Most allocations between the PNM Retail and FERC jurisdictions are based on customer demand, customer energy, and plant-related values. Costs allocated to excluded jurisdictions are typically directly assigned based on the costs associated with those generating resources. However, certain indirect costs -- *i.e.*, general

and intangible plant ("G&I") and A&G expenses -- are allocated based on specific allocators shown in PNM Exhibit HEM-3 COS BASE and PNM Exhibit HEM-3 COS TEST.

Q. HOW WERE THE ALLOCATORS FOR GENERATION DEMAND AND ENERGY AND TRANSMISSION DEMAND CALCULATED FOR PNM'S RETAIL AND FERC WHOLESALE CUSTOMERS?

A. PNM used the same allocation methodology previously accepted by the Commission in the 2015 Rate Case. The generation and transmission demand allocators were calculated as follows:

- Generation Demand: Based on a twelve-month average coincident peak ("12 CP") demand calculation on the generation system, reflecting loads from PNM Retail and FERC Wholesale Generation customers.
- Generation Energy: Based on twelve months of energy, reflecting loads from PNM Retail and FERC Wholesale Generation customers.
- Transmission Demand: Based on a 12 CP demand on the transmission system which, due to the heavy third-party use of PNM's transmission system, will often occur at a different hour or day from the generation demand peak. PNM Retail customers and FERC network integration transmission service customers are allocated costs on a 12 CP allocator based on their system peak. Long-term firm point-to-point customers under PNM's Open Access Transmission Tariff ("OATT") are allocated costs based on their contract

reservations, regardless of their use coincident with the transmission system peak hour.

A summary of the generation demand and energy, and transmission demand allocators for the Adjusted Base Period is included in PNM Exhibit HEM-4 WP AL-1.

B. Rate Base Adjustments to Base Period

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO RATE BASE ITEMS TO DEVELOP THE ADJUSTED BASE PERIOD RATE BASE.

A. PNM made Base Period adjustments to: Net Plant In Service, ADIT, Regulatory Assets and Liabilities, Other Rate Base, and Working Capital. Please see PNM Exhibit HEM-3 COS BASE ADJ for a summary of adjustments proposed to the unadjusted Base Period.

1. Plant In-Service

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO NET PLANT IN SERVICE.

A. PNM adjusted the Net Plant In Service balances on June 30, 2016, to reclassify investments made associated with increased ownership at SJGS, remove balances associated with Palo Verde Asset Retirement Costs, and reflect inclusion of assets held by Shared Services that are allocated to PNM. In addition, PNM removed

plant balances associated with the disallowed investments in the SJGS balanced draft conversion and the acquisition adjustment related to the Palo Verde Unit 2 64.1 MW repurchase and leasehold improvements allocated to the 64.1 MW based on the Final Order in the 2015 Rate Case. Please see PNM Exhibit HEM-4 WP Plant – 1 for a summary of Base Period adjustments.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO NET PLANT IN-SERVICE RELATED TO INCREASED OWNERSHIP AT SJGS.

A. PNM reclassified capital associated with PNM's increased ownership in SJGS related to Unit 4 and Common Plant pursuant to Section 4.3 of the San Juan Project Restructuring Agreement ("Restructuring Agreement"). PNM records the incremental capital investments associated with the 132 MW of SJGS Unit 4 and increased allocation of capital pursuant to the Restructuring Agreement in FERC Account 105 - Plant Held for Future Use. Certain SJGS capital investments related to the increased ownership percentages in capital were recorded to FERC Account 101 – Plant In Service at June 30, 2016. Therefore, PNM reclassified these amounts from FERC Account 101 to FERC Account 105 for ratemaking purposes. These capital investments are considered plant held for future use and are not included in the Adjusted Base Period revenue requirement. PNM includes the depreciated value of these investments as net plant in service at December 31, 2017, upon the abandonment of SJGS Units 2 and 3 and the inclusion of the 132 MW of SJGS Unit 4 in the Test Period revenue requirements, consistent with the BART Modified Stipulation approved by the Commission.

Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO REMOVAL OF PALO VERDE ASSET RETIREMENT COSTS.

A. PNM removed the balances associated with the Palo Verde Asset Retirement Costs. The Palo Verde Asset Retirement Obligations ("ARO") and the associated Asset Retirement Costs ("ARC Asset") included in plant in service are not included in rate base, as costs associated with final decommissioning of Palo Verde are ultimately funded through an external trust. PNM's current recovery of these amounts in rates is based upon the funding amounts, not on the ultimate decommissioning obligation. This exclusion of these balances from rate base is consistent with the treatment in PNM's previous rate cases. Please see Section VII of my testimony for further discussion of accounting for AROs.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO INCLUDE ASSETS HELD BY SHARED SERVICES THAT ARE ALLOCATED TO PNM.

A. PNM included the allocation of plant in service assets recorded on Shared Services and PNM Resources' books and records. As discussed earlier, investments in general and intangible assets made by Shared Services and PNM Resources are not recorded on PNM's books and records. Consistent with treatment in PNM's previous rate cases, PNM includes an allocated share of these investments in the Company's revenue requirements. See PNM Exhibit HEM-4 WP Plant-8 and WP Plant-9 for the allocation of these investments to PNM.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE THE SAN JUAN BALANCED DRAFT TECHNOLOGY INVESTMENT.

A. The Final Order in the 2015 Rate Case did not allow PNM to recover the SJGS balanced draft conversion investments. PNM removed $53,021,006 of net plant in service at June 30, 2016, to reflect this disallowance. This adjustment includes amounts associated with the 132 MW of SJGS Unit 4.

Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE THE ACQUISITION ADJUSTMENT AND LEASEHOLD IMPROVEMENTS RELATED TO THE PALO VERDE UNIT 2 64.1 MW REPURCHASE INVESTMENT.

A. The Final Order in the 2015 Rate Case disallowed recovery of the acquisition adjustment portion of the purchase price for Palo Verde Unit 2 64.1 MW. The Commission also disallowed continued recovery of previously made leasehold improvements that were made under the lease provisions and that were being recovered over the life of the asset. PNM removed $44,045,995 of net plant in service and $81,023,969 acquisition adjustment on June 30, 2016, to reflect these disallowances.

Q. PLEASE EXPLAIN THE RATEMAKING TREATMENT OF THE PALO VERDE UNIT 2 FIRST CHICAGO LEASE INTEREST.

A. PNMR Development and Management Corporation ("PNMR-D"), a wholly owned subsidiary of PNM Resources, acquired the First Chicago Unit 2 Interest

("First Chicago Interest") in June 2007. PNM sought approval from the Commission to acquire the beneficial interest in the First Chicago Interest from PNMR-D which was granted by the Commission in NMPRC Case No. 08-00305-UT. The Commission approved PNM's acquisition of the First Chicago Interest at a cost of $82,763,102, less accumulated depreciation and ADIT[2]. Pursuant to the Commission's orders, PNM has included the net plant in service and associated ADIT in each subsequent rate case.

Q. PLEASE SUMMARIZE THE ACCOUNTING FOR THE FIRST CHICAGO INTEREST AS REQUIRED BY FERC PRIOR TO THE TERMINATION OF THE LEASEHOLD INTEREST.

A. Prior to the termination of the lease as of January 15, 2016, PNM recorded the First Chicago Interest as an asset of a subsidiary company within PNM, in accordance with the FERC USOA requirements. Under FERC accounting, PNM continued to make the lease rental payments to the subsidiary company within PNM, and the owned assets were maintained on the balance sheet of the subsidiary company. For purposes of accounting with the Securities and Exchange Commission, the subsidiary company within PNM was consolidated into PNM. For NMPRC ratemaking purposes, PNM has previously reflected the First Chicago Interest as an owned rate base asset as discussed above.

[2] Certification of Stipulation Case No. 08-00305-UT, page 39

Q. PLEASE EXPLAIN THE ACCOUNTING FOR THE FIRST CHICAGO INTEREST UPON EXPIRATION OF THE LEASE.

A. Upon expiration of the lease on January 15, 2016, PNM consolidated the subsidiary company that held the underlying First Chicago assets and dissolved the subsidiary company. Pursuant to FERC accounting requirements, an acquisition adjustment was recorded at the time the lease was collapsed. Accordingly, PNM has reflected the ownership of the First Chicago Interest pursuant to the FERC accounting requirements, and has included the associated acquisition adjustment in the Company's books and records, along with the related depreciation and amortization treatment required under FERC accounting standards.

Q. DOES THE FERC ACCOUNTING TREATMENT FOLLOWING THE EXPIRATION AND COLLAPSE OF THE LEASE HAVE ANY EFFECT ON THE COST RECOVERY?

A. No. The Resource Stipulation approved in NMPRC Case No. 08-00305-UT established the recovery amount for the First Chicago Interest, at the net book value of $82.7 million discussed above. The FERC's required allocation of this amount between plant in service and acquisition adjustment does not change or impact the Commission's previous rate making approvals, which allowed for inclusion in rate base of the cost of acquiring the First Chicago Interest, instead of as a lease expense.

2. ADIT

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO ADIT.

A. PNM adjusted ADIT balances to reflect pro forma income tax calculations based on amounts that are included in the cost of service. Please refer to the testimony of PNM Witness Harland for further discussion of ADIT.

3. Regulatory Assets and Liabilities

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO REGULATORY ASSETS AND LIABILITIES.

A. PNM adjusted the surface coal mine decommissioning regulatory asset balance to only reflect the portion related to buyout costs, as ordered in NMPRC Case No. 07-00077-UT ("2007 Rate Case"). In addition, PNM reduced the balance of rate case expenses deferred on June 30, 2016, for the 2015 Rate Case to reflect the specified amount of rate case expenses approved in the 2015 Rate Case. Please see PNM Exhibit HEM-4 WP RA-1.

4. Other Rate Base

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO OTHER RATE BASE ITEMS.

A. Please see PNM Exhibit HEM-4 WP ORB-1 for a summary of Base Period adjustments made to other rate base items. These adjustments include the following:

- *Removed Palo Verde ARO balances:* As discussed above, Palo Verde AROs are removed from rate base, as ultimate decommissioning costs associated with Palo Verde are funded through an external trust. This is consistent with the treatment followed in PNM's prior rate cases.
- *Removed Palo Verde Dry Cask Storage balances:* The balances on June 30, 2016, reflect a non-cash liability on the books and records of PNM, and therefore are removed from the cost of service. This is consistent with the treatment followed in PNM's prior rate cases.
- *Eliminated balances recorded in Retirement Work In Progress ("RWIP") and Construction Work In Progress ("CWIP")*: Pursuant to the FTY Rule, PNM does not intend to seek recovery of CWIP balances in the Test Period; therefore, PNM has eliminated these balances.
- *Thirteen-month adjustment to Injuries and Damages and Customer Deposit balances:* PNM calculated a thirteen-month average for Injuries and Damages and Customer Deposits based on the Base Period data. PNM does not anticipate any changes to these balances; therefore, the thirteen-month average of the Base Period reflects the expected Test Period balance.
- *SJGS Coal Agreement Transaction Costs:* PNM removed internal labor costs that were incurred to facilitate and enter into the new coal agreement. Please

refer to Section IV of my testimony in the Regulatory Assets and Liabilities section.

5. Working Capital

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO WORKING CAPITAL.

A. PNM adjusted working capital balances to reflect a thirteen-month average. See PNM Exhibit HEM-4 WP WC-1, Column C. In addition, based on the results of the lead-lag study, discussed later in my testimony, PNM has included $2,677,159 as a cash working capital adjustment. See Rule 530, Schedule E-1 for the calculation of the cash working capital allowance.

C. Fuel (FPPCAC) and Fuel Related Adjustments to Base Period

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO BASE PERIOD FUEL (FPPCAC) EXPENSES TO DEVELOP THE ADJUSTED BASE PERIOD.

A. Please see PNM Exhibit HEM-4 WP Fuel – 1 for a summary of the Base Period adjustments made to fuel expense. These adjustments include the following and will be discussed in detail below:

- Elimination of a one-time gas tax refund;
- Elimination of one-time refunds associated with the Southwestern Public Service Company ("SPS") purchased power agreement;

- Normalization of coal mine decommissioning expense;
- PNM annualized the SJGS fuel handling costs incurred during 2016 for a full year to reflect expected on-going fuel handling expenses under the new SJGS Coal Agreement. In addition, PNM recorded a true-up of SJGS participant credits associated with fuel handling;
- Elimination of one-time DOE spent fuel refunds associated with FERC Wholesale and Excluded jurisdictions that are not expected to recur in the future in nuclear fuel handling expense;
- Allocation of the purchase power energy associated with the New Mexico Wind Energy Center ("NMWEC") to Renewables, pursuant to the Final Order in the 2015 Rate Case and remove kWh load served by renewables. These costs are no longer collected through PNM's FPPCAC but are collected through Rider 36;
- Reclassification of fuel handling and spinning reserves expenses from base rates into PNM's FPPCAC, as approved in the 2015 Rate Case;
- Reclassification of San Juan coal revenues associated with the pre-treatment of coal ("Refined Coal") into PNM's FPPCAC, as approved in the 2015 Rate Case;
- Reclassification of purchase power costs associated with an Economy Service customer; and
- Removal of the difference between the actual fuel expense and the revenues collected in the Base Period ("FPPCAC Deferral");

Q. WHY HAVE YOU REMOVED THE ONE-TIME GAS TAX REFUND?

A. During the Base Period, PNM received a refund of compensating tax associated with fuel burned at PNM's generating stations. This refund has been included in PNM's FPPCAC and passed onto customers. PNM does not expect this gas tax refund to reoccur, and therefore, has removed this item from the Adjusted Base Period.

Q. WHY HAVE YOU REMOVED THE ONE-TIME REFUND RELATED TO SPS?

A. During the Base Period, PNM received a refund from SPS related to an expired purchased power agreement. This was a one-time refund that will not occur in the linkage or Test Period and was removed from the Base Period to normalize the fuel expense. PNM returned the portion of the refund applicable to PNM Retail customers through the FPPCAC.

Q. PLEASE EXPLAIN THE NORMALIZATION OF COAL MINE DECOMMISSIONING EXPENSES.

A. PNM normalized the surface and underground coal mine reclamation expenses recorded in the Base Period, to remove the impact from adjustments recorded during the Base Period to true-up the liability balance at the end of the accounting calendar year in accordance with Generally Accepted Accounting Principles ("GAAP"). PNM has included the amortization of only $100 million of surface mine reclamation expenses in the allocation of costs to PNM Retail.

Q. PLEASE EXPLAIN THE ADJUSTMENT TO SAN JUAN FUEL HANDLING.

A. PNM has seen a reduction to SJGS fuel handling expenses under the new SJGS Coal Agreement. Therefore, PNM has annualized the expenses during the first six months of 2016 to develop the Adjusted Base Period. PNM recalculated the SJGS participant credit for the Base Period to remove prior period billing adjustments and normalize labor recorded to fuel handling in a manner similar to the adjustments made to San Juan O&M and labor costs described below.

Q. WHAT HAS BEEN DONE TO NORMALIZE NUCLEAR FUEL HANDLING?

A. PNM records the refunds received from the DOE for spent fuel associated with FERC wholesale generation and Excluded jurisdictions to nuclear fuel handling when received. These credits have been removed to reflect normalized nuclear fuel handling expenses. PNM's retail customers are receiving the DOE spent fuel refund as approved in the 2015 Rate Case.

Q. WHY HAVE YOU RECLASSIFIED THE FUEL HANDLING AND SPINNING RESERVE COSTS FROM BASE RATES INTO FUEL?

A. During the Base Period, the cost associated with coal and nuclear fuel handling was included as a component of non-fuel base rates and was not included in base fuel rates. In the 2015 Rate Case, these expenses were approved for recovery in PNM's FPPCAC and were removed from base rates. Therefore, PNM has

reclassified the Base Period expenses into fuel expense. This adjustment was made to normalize the fuel expense. The actual recovery of these costs in PNM's FPPCAC did not begin until the 2015 Rate Case rates were implemented in October 2016.

Q. WHY HAVE YOU RECLASSIFIED THE REFINED COAL REVENUES INTO FUEL?

A. During the Base Period, the revenues associated with refined coal were retained by the shareholders and not reflected in rates. In the 2015 Rate Case, these revenues were approved as a reduction to PNM's FPPCAC. Therefore, PNM has reclassified these Base Period revenues to show the reduction to fuel expense. This adjustment was made to normalize the base fuel expense; actual recovery of these revenues in PNM's FPPCAC did not begin until the 2015 Rate Case rates were implemented in October 2016.

Q. WHY HAVE YOU RECLASSIFIED THE PURCHASED POWER COST ASSOCIATED WITH PNM'S ECONOMY SERVICE CUSTOMER TO REVENUE CREDITS IN THE BASE PERIOD?

A. PNM acquires purchased power to serve the needs of an Economy Service customer. These purchased power costs are directly charged to the Economy Service customer at cost. The revenues associated with the Economy Service customer are shown as a revenue credit in the cost of service. These purchase power costs are reclassified to revenue credits and netted with the revenues

received from the customer to derive the appropriate revenue credit. Please see PNM Exhibit HEM-4 WP RC-1.

Q. WHY HAS THE FPPCAC DEFERRAL BEEN REMOVED FROM THE BASE PERIOD?

A. The FPPCAC Deferral is the difference between fuel revenue collected from customers and the actual cost of fuel to serve customers in the Base Period. The FPPCAC deferral is not a cost of fuel that occurred in the Base Period and is removed so the Base Period fuel expense reflects the actual cost to serve. In addition, PNM removed the valuation of imbalances that occur between balancing authorities that is recorded for accounting valuation purposes only.

Q. WHAT IS THE AMOUNT OF PNM RETAIL FUEL THAT IS INCLUDED IN THE ADJUSTED BASE PERIOD?

A. The PNM Retail fuel, net of off-system sales, included in the Adjusted Base Period is $177,752,491 as shown in PNM Exhibit HEM-4 WP Fuel-1. This is the non-renewable cost and is collected from the portion of PNM Retail load that is served by traditional resources (i.e. is not applicable to the portion of PNM Retail load estimated to be served by renewable resources under Rider 36).

D. O&M Adjustments to Base Period

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO BASE PERIOD O&M EXPENSES TO DEVELOP THE ADJUSTED BASE PERIOD.

A. Please see PNM Exhibit HEM-4 WP OM-3 for a summary of the Base Period adjustments made to O&M expense. These adjustments include the following:

- Normalized planned outage expenses associated with PNM generation facilities based on a six-year historical average. See PNM Exhibit HEM-4 WP OM-7. Please refer to the testimony of PNM Witness Olson for further discussion of planned outages for PNM's generation facilities.
- Adjusted the nuclear decommissioning credit in the Base Period to reflect the elimination of funding being collected in rates in the 2015 Rate Case.
- Normalized the retiree pension and medical expense based on the 2016 actuarial study by Willis Towers Watson. In addition, PNM removed the portion of retiree pension expense that is attributed to employees formerly employed by gas operations when PNM owned a gas company. The portion removed is based on a 42% allocation that was established in NMPRC Case No. 08-00078-UT. See PNM Exhibit HEM-4 WP OM-5. Please refer to the testimony of PNM Witness Gagne for further discussion of the portion of retiree pension obligations associated with PNM's prior gas operations.
- Normalized the active medical and dental expense based on activity experienced during the first six-months of 2016. PNM experienced a high

level of claims in the last six months of 2015 that are not expected to recur in the future. Therefore, PNM adjusted the Base Period to reflect a normal level of expense. Please refer to the testimony of PNM Witness Monfiletto for more discussion on active medical and dental expenses. See PNM Exhibit HEM-4 WP OM-6.

- Adjusted Palo Verde Unit 2 lease expenses to reflect the half price lease expense that began in January 2016 for 10.4 MW. In addition, PNM acquired 64.1 MW of Palo Verde Unit 2 in January 2016; therefore, PNM removed the lease expense associated with the Unit 2 64.1 MW in the Base Period. See PNM Exhibit HEM-4 WP OM-10.
- Annualized and normalized labor expenses to reflect the current active positions and current salaries as of June 17, 2016 (the last payroll period in the Base Period). See PNM Exhibit HEM–4 WP LA-1 and LA-4. Adjusted Base Period labor was based on the last pay period of June 17, 2016, capturing the impacts of a hiring freeze the Company implemented in June 2016 as discussed by PNM Witness Monfiletto.
- Removed Energy Efficiency expenses from the Base Period, as these costs are recovered under PNM's Energy Efficiency Rider No. 16. See PNM Exhibit HEM-4 WP OM-3, Column L.
- Adjusted transmission O&M expenses by the imputed value of a transmission service exchange with Western Area Power Administration ("WAPA") to reflect the 134 MW of transmission capacity provided to PNM by WAPA to deliver a portion of the Palo Verde output to New Mexico at Four Corners as

approved in the 2007 Rate Case. This is consistent with the treatment followed in prior PNM rate cases. See PNM Exhibit HEM-4 WP-OM-8. Please refer to the testimony of PNM Witness Mechenbier for further discussion of these agreements.

- Annualized and normalized O&M expenses associated with the 40 MW Solar Facilities and La Luz Gas Peaking Facility. The 40 MW Solar Facilities and the La Luz Gas Peaking Facility were placed in-service in December 2015. Therefore, the Base Period only reflects six months of O&M expense. PNM normalized the O&M by annualizing the O&M Base Period expense to reflect a full year of O&M expense, including additional maintenance expense necessary to operate the facilities, as discussed in the testimony of PNM Witness Olson. See PNM Exhibit HEM-4 WP OM-9 and WP OM-14.
- Annualized urea costs associated with operation of SNCR equipment at SJGS. The Base Period only reflects a partial year of operations of the SNCR equipment as the SNCR equipment was placed in-service throughout the Base Period. Please refer to the testimony of PNM Witness Olson for further discussion.
- PNM increased O&M expense to reflect the elimination of savings resulting from the construction and installation of Balanced Draft Technology as discussed in the 2015 Final Order. See PNM Exhibit HEM-4 WP OM-3 and refer to the testimony of PNM Witness Olson.
- Removed certain legal expenses from the Base Period not allowable under the Commission's ratemaking policies, or for which the Company otherwise has

elected to not seek recovery. Please refer to the testimony of PNM Witness Sanchez. See PNM Exhibit HEM-4 WP OM-3, Column P.

- Removed certain advertising expenses from the Base Period not allowable under the Commission's ratemaking policies, for which the Company otherwise has elected to not seek recovery. Please refer to the testimony of PNM Witness Cavanaugh for further discussion. See PNM Exhibit HEM-4 WP OM-3, Column Q.
- Removed one-time fuel costs that were expensed during the Base Period related to exploratory work to develop potential fuel supply arrangements at SJGS. PNM does not expect these expenses to recur in the future. In addition, PNM recalculated the SJGS participant credit for the Base Period to remove participant billings related to transactions recorded outside of the Base Period. See PNM Exhibit HEM-4 WP SJGS-5, Column AF and WP SJGS 5, Column I.
- Removed membership dues and subscriptions pursuant to Rule17.3.350.10.C. NMAC. See PNM Exhibit HEM-4 WP OM-18.
- Removed the union bonus incentive compensation recorded in the Base Period as the current union agreement does not include a bonus. In addition, PNM removed miscellaneous incentive compensation expenses recorded in the Base Period. Please refer to the testimony of PNM Witness Monfiletto.
- Removed one-time write-off expenses that are not expected to recur in the future.

- Adjusted the expenses allocated from Shared Services. The Shared Services adjustments are discussed below.

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO SHARED SERVICES O&M EXPENSES TO DEVELOP THE ADJUSTED BASE PERIOD O&M EXPENSES.

A. PNM made two types of adjustments to O&M expenses related to Shared Services. For a summary of these adjustments please refer to PNM Exhibit HEM-4 WP SS – 2.

First, PNM reclassified depreciation expense, payroll taxes, property taxes, and certain revenue credits recorded by Shared Services that are recorded as A&G expenses on PNM's books and records, to the applicable sections in the cost of service to ensure these costs are allocated appropriately to the jurisdictions.

Second, PNM made the following expense adjustments to the Base Period to develop the Adjusted Base Period for Shared Services O&M:

- Removed other income and deductions recorded by Shared Services that are allocable to PNM. PNM does not include these non-operating activities in its determination of revenue requirements.
- Removed gross receipts tax that was recorded to the income statement in the Base Period. These amounts reflected out-of-period adjustments that are not expected to recur in the future and are collected outside of base rates.

- Eliminated the billings recorded on Shared Services. This adjustment was made to eliminate the credit recorded to Shared Services reflecting the billing of these costs to PNM. This elimination does not impact the cost of service but was made for presentation purposes on PNM Exhibit HEM-4 WP SS – 2.
- Removed membership dues and subscriptions pursuant to Rule 17.3.350.10.C. NMAC. See PNM Exhibit HEM-4 WP SS-12.
- Removed non-recurring expenses that were recorded during the Base Period that reflect one-time costs associated with the final termination of the Alvarado Square facility lease.
- Removed the portion of incentive compensation not being requested in this proceeding, as discussed by PNM Witness Monfiletto. See PNM Exhibit HEM-4, WP SS-10, and WP SS-11 for additional information on incentive compensation.
- Removed miscellaneous expenses of Senior Executives that are not being requested for recovery in this proceeding.
- Similar to the treatment for general O&M identified above, removed non-allowable legal expenses recorded by Shared Services, as discussed by PNM Witness Sanchez.
- Removed non-allowable advertising expenses recorded by Shared Services, as discussed by PNM Witness Cavanaugh.
- Annualized labor expenses to reflect the current active positions and current salaries as of June 17, 2016 (the last payroll period in the Base Period). See PNM Exhibit HEM-4 WP LA-8.

- Similar to the treatment for general O&M expense identified above, Normalized the active medical and dental expense based on activity experienced during the first six months of 2016. Shared Services experienced a high level of claims in the last six months of 2015 that are not expected to recur in the future. Therefore, PNM adjusted the Base Period to reflect a normalized level of expense. Please refer to the testimony of PNM Witness Monfiletto for more discussion on active medical and dental expenses. See PNM Exhibit HEM-4 WP OM-6.

E. Depreciation Adjustments to Base Period

Q. DID PNM ANNUALIZE DEPRECIATION EXPENSES AT THE END OF THE ADJUSTED BASE PERIOD?

A. Yes. PNM annualized the depreciation expense to develop the Adjusted Base Period depreciation expense by multiplying the June 30, 2016 Base Period gross plant balances by the depreciation rates approved in the 2015 Rate Case. Although the depreciation rates did not go into effect until rates from the 2015 Rate Case were implemented in October 2016, PNM annualized the depreciation expense to provide a more meaningful linkage between the Adjusted Base Period depreciation expense and the Test Period depreciation expense. In addition, PNM adjusted depreciation expense to reflect the changes described earlier to net plant in service. See Rule 530 Schedule H-7 for a summary of Base Period Adjustments.

Q. DID PNM ANNUALIZE DEPRECIATION FOR ALL ASSETS AT THE END OF THE ADJUSTED BASE PERIOD?

A. No. PNM did not attempt to annualize depreciation on assets in FERC plant account 303 – Miscellaneous Intangible Plant, as these assets are depreciated on an individual asset level. PNM also did not annualize depreciation on ARC Assets because these assets are depreciated using the straight line method.

F. General Tax Adjustments to Base Period

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO GENERAL TAX EXPENSES TO DEVELOP THE ADJUSTED BASE PERIOD O&M EXPENSES.

A. Please see PNM Exhibit HEM-4 WP GT-1 for a summary of Base Period adjustments made to general tax expense. These adjustments include the following:

- *Elimination of Inspection and Supervision ("I&S") fees*;
- *Elimination of gross receipts and franchise taxes true-ups recorded in the Base Period-* PNM removed these amounts as these taxes are collected outside of base rates;
- *Elimination of compensating tax refund recorded in the Base Period-* PNM removed these amounts as these relate to a one-time refund that is not expected to recur;

- *Normalization of payroll tax expense-* PNM normalized the payroll tax expense based on the Base Period adjustments associated with labor and incentive compensation as discussed earlier in my testimony; and
- *Inclusion of property and payroll tax expense from Shared Services-* As discussed earlier in my testimony, PNM reflected the allocated share of property and payroll tax expense from Shared Services in general tax expense for cost of service allocations.

Q. WHY DID PNM REMOVE THE I&S FEES FROM THE BASE PERIOD?

A. PNM recalculated I&S Fees based on the Adjusted Base Period revenue requirements calculation included in this filing. The I&S Fees are derived by multiplying the requested revenue requirements by the I&S rate, grossed up for income taxes. Therefore, PNM removed the current I&S Fees that were recorded in the Base Period. See PNM Exhibit HEM-3 COS BASE for the calculation of I&S fees based on the Adjusted Base Period revenue requirement.

G. Income Tax Adjustments to Base Period

Q. WHAT ADJUSTMENTS WERE MADE RELATED TO INCOME TAX EXPENSE FOR PURPOSES OF THE ADJUSTED BASE PERIOD?

A. PNM made certain income tax expense adjustments to properly reflect an Adjusted Base Period. Please refer to the testimony of PNM Witness Harland for discussion of adjustments made to federal and state income tax expense.

H. Revenue Credit Adjustments to Base Period

Q. PLEASE DESCRIBE THE COMPONENTS OF THE REVENUE CREDITS INCLUDED IN PNM'S REVENUE REQUIREMENTS.

A. Revenue credits consist of the following, and are summarized in PNM Exhibit HEM-4 WP RC-1:

- *Rent for electric property* – represents revenues received by PNM from third parties who connect to PNM's existing transmission and distribution assets.
- *Late Payment Charges and Miscellaneous Charges revenues* – reflects revenues collected under Rate 16 – Special Services ("Rate 16").
- *Other retail revenues* – includes other distribution revenues received from FERC transmission wholesale customers for the use of certain distribution assets, fees collected for interconnecting customer sited photovoltaic systems and other transmission revenues that are received from participation in OATT West Connect programs.
- *Generation-related transmission revenues* – includes generation ancillary services charged under PNM's OATT provided to other utilities as well as reimbursement of financial power losses incurred on PNM's transmission system.
- *Transmission-related ancillary services* – includes revenues collected from short term firm and non-firm Point-To-Point ("PTP") customers, revenues under PNM's OATT Ancillary Service Schedule 1, revenues collected under bi-lateral agreements from participants in SJGS who utilize the SJGS

transmission switchyard, and revenues from a transmission re-dispatch contract that reimburses the Company for incremental O&M expenses when a generating unit is needed for transmission reliability.

- *Economy Service customer revenue credits* – net revenues from an Economy Service customer for PNM to provide certain transmission and sub-transmission services to deliver the power to the customer. As discussed earlier in my testimony, PNM has netted the purchase power expense to serve the Economy Service customer against the revenues collected, as the purchase power expense is a pass-through to this customer.

Q. PLEASE SUMMARIZE THE ADJUSTMENTS THAT WERE MADE TO BASE PERIOD REVENUE CREDITS TO DEVELOP THE ADJUSTED BASE PERIOD.

A. Please see PNM Exhibit HEM-4 WP RC – 1 for a summary of adjustments made to Base Period revenue credits. These adjustments include the following:

- *Normalization of Joint Use revenues*- This adjustment normalized revenues received from use of PNM's poles by third parties, as described below.
- *Reflection of the new Rate 16 rates approved in the 2015 Rate Case*- This adjustment reflects the approved changes to Rate 16 charges, as described below.
- *Elimination of account reconciliation true-up of transmission accounts receivable*- This adjustment removes the effects of a one-time credit to

revenues related to reconciliation of prior period balances. PNM does not expect this amount to recur in the future.

- *Elimination of transmission deferral payments in the Base Period-* This adjustment reflects one-time reservation deferral amounts, as described below.
- *Inclusion of revenue credits from Shared Services-* As discussed earlier in my testimony, PNM reflected the allocated share of revenue credits applicable to PNM from Shared Services for cost of service allocations.

Q. PLEASE EXPLAIN THE NORMALIZATION OF JOINT USE REVENUES.

A. The rates charged to customers who attach their equipment and cables to PNM's transmission and distribution assets are set by the Federal Communications Commission ("FCC"). The rates charged to customers, as set by a formula prescribed by the FCC, declined in 2016. PNM normalized the revenues expected to be received in 2016 for the Base Period. See PNM Exhibit HEM-4 WP RC-5.

Q. WHY DID PNM ADJUST THE REVENUE CREDITS ASSOCIATED WITH RATE 16?

A. PNM proposed an increase to certain Rate 16 items in the 2015 Rate Case which were approved in the Final Order. PNM reflected the higher revenue credit by calculating the expected revenue credits to be received by applying the new approved rates against the volume of transactions incurred in the Base Period. See PNM Exhibit HEM-4 WP RC-2.

Q. WHY DID PNM ELIMINATE THE TRANSMISSION DEFERRAL PAYMENTS THAT WERE RECEIVED IN THE BASE PERIOD?

A. Under PNM's OATT, a customer is allowed to reserve long-term transmission capacity through a long term PTP agreement. Under these provisions, the customer is allowed to defer the start of the long term PTP for one year. To defer the start of the agreement, the customer must pay an annual deferral payment that is equal to one month of its monthly long term PTP contract reservation. During the Base Period, PNM recorded two deferral payments from transmission customers. PNM expects one of these customers to begin taking transmission service under PNM's OATT and the second transmission customer has cancelled its service agreement. Therefore, PNM removed these deferral payments to develop the Adjusted Base Period and has included the customer expected to begin taking transmission service in the development of the Test Period transmission demand allocators discussed later in my testimony.

I. Other Miscellaneous Adjustments to Base Period

Q. WHAT ADJUSTMENTS TO GENERATION ENERGY AND DEMAND ALLOCATORS DID PNM MAKE REGARDING FERC WHOLESALE CUSTOMERS?

A. In developing the Adjusted Base Period revenue requirements, PNM removed the City of Aztec and JAN contract loads from the Base Period calculations associated with generation energy and generation demand allocators to reflect the

expiration of the Aztec contract in June 2016 and the termination of the JAN contract by the end of November 2016, respectively. Please see PNM Exhibit HEM-4 WP AL-1 for summary of Base Period generation energy and demand, transmission demand, and sales allocators.

Q. WHAT CAPITAL STRUCTURE WAS USED IN THE DETERMINATION OF THE ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. As discussed by PNM Witness Eden, the capital structure used in the determination of Adjusted Base Period revenue requirements is PNM's actual capital structure as of June 30, 2016. The resulting capital structure for the Adjusted Base Period consists of 52.11% long-term debt, 0.41% preferred stock, and 47.48% common equity, as shown in Rule 530 Schedule A-5.

Q. WHAT RETURN ON EQUITY ("ROE") DID PNM USE IN THE DEVELOPMENT OF ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. The ROE used in the Adjusted Base Period is 9.575%, as approved by the NMPRC in the 2015 Rate Case.

Q. WHAT COST OF DEBT DID PNM USE IN THE DEVELOPMENT OF ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. PNM used its actual embedded cost of debt of 5.88% for the debt component of the capital structure in the development of Adjusted Base Period revenue

requirements. The support for the calculation of the cost of debt is included in Rule 530 Schedule G-3.

Q. WHAT COST OF PREFERRED STOCK WAS USED IN THE DETERMINATION OF ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. PNM is using its actual embedded cost of 4.62% for the preferred stock component of the capital structure in the Adjusted Base Period. The support for the cost of preferred stock is included in Rule 530 Schedule G-5.

Q. WHAT ARE THE ADJUSTED BASE PERIOD REVENUE REQUIREMENTS?

A. The total PNM Retail Adjusted Base Period revenue requirements are $888,328,212 and are provided in PNM Exhibit HEM-3 COS BASE. These revenue requirements include $177,752,491 associated with fuel expenses and $710,575,721 associated with non-fuel revenue requirements.

IV. TEST PERIOD REVENUE REQUIREMENTS

Q. PLEASE DESCRIBE GENERALLY HOW PNM DEVELOPED THE TEST PERIOD REVENUE REQUIREMENTS.

A. The Test Period reflects PNM's projected operations for the twelve-month period ending December 31, 2018. The Test Period was developed through estimates

and certain information in the Company's Annual Operating Plan ("AOP"), related to capital investments and associated capital loads. A detailed discussion of the methodologies used to develop the amounts included in the Test Period revenue requirements is presented below. As required under the FTY Rule, 17.1.3.12(D) NMAC, PNM included the required linkage data from the Adjusted Base Period to the Test Period revenue requirements in the workpapers supporting the cost of service. The details of the capital investments are provided by PNM Witnesses Olson, Mechenbier, and Mendez.

A. Rate Base

Q. IS PNM PROPOSING TO USE AN AVERAGE RATE BASE IN THE DEVELOPMENT OF ITS TEST PERIOD REVENUE REQUIREMENT IN THIS CASE?

A. Yes. Pursuant to 17.1.3.16(C)(1) NMAC, because the Future Test Year period begins at least twelve months after the end of the Base Period, an average rate base is required to be used, utilizing the projected thirteen-month average of the future Test Year period. PNM developed its Test Period rate base using a projected thirteen-month average of balances through December 31, 2018, which is the end of the Test Period.

Q. PLEASE DESCRIBE THE ADJUSTMENTS THAT WERE MADE TO RATE BASE IN THE TEST PERIOD COST OF SERVICE STUDY.

A. The rate base adjustments made in the Test Period cost of service study include adjustments to Net Plant In Service, ADIT, Regulatory Assets and Liabilities, Other Rate Base Items, and Working Capital. Please refer to PNM Witness Harland's testimony for a discussion of ADIT included in the Test Period revenue requirements. The other areas are discussed below.

1. Net Plant In Service

Q. PLEASE DESCRIBE HOW THE NET PLANT IN SERVICE WAS DEVELOPED FOR THE TEST PERIOD.

A. The net plant in service balance included in the Test Period is based on a thirteen-month average of the net plant in service balances. PNM's net plant in service balances for this period begin with the per book net plant in service balances as of June 30, 2016 (as described earlier in my testimony, these balances were adjusted for the disallowance of balanced draft technology at SJGS and partial disallowances associated with the 64.1 MW repurchase of Palo Verde Unit 2). PNM then added the projected plant clearings, retirements and accumulated depreciation for each month from July 2016 through December 2018, to develop the monthly net plant in service balances. PNM calculated a thirteen-month average of the monthly net plant in service balances, from December 2017 through December 2018 to develop the rate base amount included in the Test

Period. Please refer to Section XI Capital Investments for further discussion of the development of the capital budget for capital investments.

Q. PLEASE EXPLAIN HOW THE ESTIMATED NET PLANT IN SERVICE BALANCES USED IN THE TEST PERIOD WERE DETERMINED.

A. Projected monthly plant clearings for generation, transmission, distribution, and G&I and projected plant retirements during the linkage and Test Period were added to the gross plant balances at the end of the Base Period to derive the monthly gross plant in service balances. See PNM Exhibit HEM-4, WP Plant-2, and WP Plant-3 for PNM, and PNM Exhibit HEM-4, WP Plant-10, and WP Plant 11 for Shared Services. Please refer to PNM Witnesses Olson, Mechenbier, and Mendez for detailed discussion of the projected capital investment clearings included in the linkage data and Test Period revenue requirements.

The accumulated depreciation balances were developed by taking the actual accumulated depreciation balances as of June 30, 2016, and including calculated monthly depreciation expense based on the forecasted plant-in service balances as adjusted for forecasted retirements and cost of removal. See PNM Exhibit HEM-4 WP Plant-4, WP Plant-5, and WP Plant-6 for PNM and PNM Exhibit HEM-4 WP Plant-12, WP Plant-13, and WP Plant-14 for Shared Services. The monthly depreciation expense linkage for July 2016 through September 2016 was calculated using PNM's depreciation rates which were in effect at the time. PNM applied the Commission-approved depreciation rates from the 2015 Rate Case,

beginning in October 2016 through December 2018. PNM Exhibit HEM– 4 WP Plant-1 provides a schedule of monthly net plant in service balances from June 30, 2016, through December 31, 2018.

Q. PLEASE SUMMARIZE THE CAPITAL CLEARINGS TO GROSS PLANT THAT ARE INCLUDED IN THE LINKAGE DATA AND TEST PERIOD.

A. The Company is requesting capital additions related to 563 projects that are expected to be cleared to plant in service from July 2016 through December 2018 ("Capital Investment Period"), totaling $763 million.

Table HEM-2 – Capital Clearings July 2016 through December 2018

	NM OPS	GENERATION	SHARED SERVICES	TOTAL
TOTAL	$ 384,489,455	$ 300,700,797	$ 78,103,329	**$ 763,293,581**

Q. PLEASE IDENTIFY ADDITIONAL ADJUSTMENTS MADE TO GROSS PLANT ACTIVITY THROUGHOUT THE LINKAGE DATA AND TEST PERIOD.

A. Table HEM-3 provides a summary of changes to gross plant that are utilized in the Linkage Data and Test Period to build the gross plant in service balances. These include the capital additions, which I discussed above, and additional items that impact gross plant in service, including the retirement of SJGS Units 2 and 3, reclassification of capital associated with the 132 MW of SJGS Unit 4 from plant

held for future use, interim retirements of assets, and cost of removal activity. I describe each of these adjustments in more detail below.

Table HEM-3 –Changes to Gross Plant July 1, 2016 - December 31, 2018

PNM Witness	Gross Plant Activity During Capital Investment Period
Olson	$ 300,700,797
Mechenbier	$ 384,489,455
Mendez	$ 78,103,329
Monroy:	
- Cost of Removal	$ (19,014,235)
- Retire San Juan Units 2&3 *	$ (470,787,767)
- Retirements	$ (60,718,348)
- Remove Additional BDT Clearings	$ (1,385,006)
- 132MW Plant Held for Future Use	$ 5,995,102
- 65MW to PNM at 12/31/17 (Excluded)	$ 12,635,951
Total Gross Plant Activity	$ 230,019,278
* Excludes accumulated reserve of $214,339,369	

Q. HAS THE COMPANY REFLECTED THE ABANDONMENT OF SJGS UNITS 2 AND 3?

A. Yes. PNM has removed the estimated $256.4 million undepreciated investment balance on December 31, 2017, from net plant in service. As discussed later in my testimony, PNM will recover one-half of the undepreciated investment balance as a regulatory asset pursuant to the BART Case. See PNM Exhibit HEM-4 WP RA-10.

Q. HAS THE COMPANY INCLUDED THE ADDITIONAL CAPITAL INVESTMENT ASSOCIATED WITH THE 132 MW OF SJGS UNIT 4 IN THE TEST PERIOD?

A. Yes. Pursuant to the Restructuring Agreement, PNM was obligated to pay a higher portion of SJGS Unit 4 and SJGS Common capital investments. These amounts have been recorded as plant held for future use until PNM takes title to these capital investments. Although these investments were classified as plant held for future use, PNM depreciated these investments from the date of in service through December 31, 2017. PNM transferred the net book value of these investments into plant in service on December 31, 2017. The capital investment includes all capital dollars that PNM has incurred since the Restructuring Agreement went into effect, excluding the disallowed amounts for Balanced Draft Technology, as discussed earlier.

Q. HAS THE COMPANY REFLECTED THE CAPITAL ASSOCIATED WITH THE 65 MW OF SJGS UNIT 4 THAT WAS TO BE ACQUIRED BY PNMR-D AND WHICH PNMR-D IS EXPECTED TO TRANSFER TO PNM?

A. Yes. PNM has accounted for the capital associated with the 65 MW held by PNMR-D. PNM expects to take title to the 65 MW at the beginning of the Test Period. As stated earlier, PNM has allocated all capital investments associated with the 65 MW to the Excluded jurisdiction and has not allocated any of these investments to PNM Retail.

Q. HAS THE COMPANY INCLUDED AN ESTIMATE OF INTERIM PLANT RETIREMENTS?

A. Yes. Included in the activity to gross plant in service balance are adjustments to reflect the interim retirement of assets during the linkage data and Test Period. These adjustments are necessary to ensure that depreciation expense is not overstated, as depreciation rates are applied to gross plant in service balances. These adjustments do not impact the net plant in service balance, as plant retirements serve to reduce gross plant in service, with an equal offset to accumulated reserve balances. Please refer to Section XI Capital Investments for further discussion of the development of retirements to net plant in service and PNM Exhibit HEM-14.

Q. HAS THE COMPANY ACCOUNTED FOR COST OF REMOVAL DOLLARS INCLUDED IN THE CAPITAL ADDITIONS DURING THE LINKAGE DATA AND TEST PERIOD?

A. Yes. As discussed in more detail in Section XI Capital Investments of my testimony and PNM Exhibit HEM-13, PNM adjusted the gross plant in service capital additions to properly reflect the gross plant in service balances and accumulated reserve balances. Similar to interim plant retirements discussed earlier, these adjustments do not impact net plant in service.

Q. IS THE FINAL COST OF THE INITIAL PLANT IN SERVICE BALANCE OF THE 40 MW SOLAR FACILITIES CONSISTENT WITH THE CERTIFICATED ESTIMATED COST SET BY THE COMMISSION?

A. Yes. The investment associated with the 40 MW Solar facilities is $80.7 million, which is within the construction cost limits for certificated estimated costs allowed under the Cost Overrun Rule, 17.3.580.7 NMAC. The certificated estimated cost established by the Commission in NMPRC Case No. 14-00158-UT was $79.3 million.

Q. IS THE FINAL COST OF THE INITIAL PLANT IN SERVICE BALANCE FOR THE LA LUZ FACILITY BELOW THE CERTIFICATED COST OF $56 MILLION ESTABLISHED IN NMPRC CASE NO. 13-00175-UT?

A. Yes. The initial plant in service balance for the La Luz Generating Station is included in the Base Period rate base at a value of $55,964,317.

2. Regulatory Assets and Liabilities

Q. HAVE YOU PREPARED AN EXHIBIT THAT SUMMARIZES THE REGULATORY ASSETS AND LIABILITIES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. Yes. PNM Exhibit HEM–4 WP RA-1 provides a summary of all regulatory assets and liabilities in the Test Period. The Regulatory Assets and Liabilities include assets and liabilities that have been approved in prior Commission proceedings.

Q. HOW DID PNM PROJECT THE TEST PERIOD BALANCES ASSOCIATED WITH REGULATORY ASSETS AND LIABILITIES THAT HAVE BEEN PREVIOUSLY APPROVED AND ARE ALREADY BEING RECOVERED IN RATES?

A. For regulatory assets and liabilities that have been previously approved or included in PNM's prior rate cases, PNM projected the balances based on the existing amortization schedules for these assets and liabilities. Specifically:

- Surface Coal Mine Decommissioning – expected balance based on existing amortization schedule. PNM has only included the rate base portion attributable to the buyout costs, as approved in the 2007 Rate Case. The amortization expense included in the PNM Retail revenue requirements reflects the amortization of the $100 million cap on surface reclamation costs for SJGS and Four Corners.
- Palo Verde Units 1 and 2 Combustion Engineering – forecasted balance based on existing amortization schedule.
- Palo Verde Units 1 and 2 DOE Spent Fuel liability – forecasted balance based on existing amortization schedule. Recovery of these amounts is included in PNM's FPPCAC as approved in the 2015 Rate Case. PNM is proposing to remove the unamortized balance associated with this regulatory liability from the Test Period rate base, and include the unamortized balance against the FPPCAC balancing account, beginning January 1, 2018, the effective date of rates from this proceeding. Including the unamortized balance against the

FPPCAC balancing account will ensure that customers receive carrying charges associated with the unamortized balance of the refund.

- Las Vegas Decommissioning Regulatory Asset and Liability – expected balance based on existing two-year amortization schedule through the linkage data. PNM is proposing to extend recovery of these amounts over a three-year period, similar to treatment of the 2016 Rate Case expenses, beginning on January 1, 2018, the start of the Test Period. If PNM does not extend the amortization of these amounts, then PNM will over-collect these balances in rates, as PNM would reflect the remaining eight months of amortization of these balances in the Test Period revenue requirement.
- Pollution Control Bond Refinancing Hedge – reflects the loss associated with the reacquisition of debt. These amounts are included in the cost-benefit analysis performed on the loss on the reacquired debt, as discussed later in my testimony. Because PNM demonstrated a net benefit to customers, the estimated balance is included in rate base, consistent with the Commission's past treatment of similar costs.
- 2015 Rate Case Expenses – estimated the remaining balance based on existing two-year amortization schedule through the linkage data. PNM is proposing to extend recovery of the remainder of these amounts over a three-year period, similar to the proposed recovery period of the 2016 Rate Case expenses in this case beginning on January 1, 2018, the start of the Test Period. If PNM does not extend the amortization of the 2015 Rate Case expenses PNM will over-

collect these balances, as PNM would reflect the remaining eight months of amortization of these balances in the Test Period revenue requirement.

- Regulatory Liabilities associated with Renewables Federal and State Credits – forecasted balances are based on existing amortization schedule. These amounts are recovered under Rider 36 and are not subject to the revenue requirements in this proceeding.

Q. PLEASE IDENTIFY REGULATORY ASSETS AND LIABILITIES TO BE INCLUDED IN RATES AS A RESULT OF COMMISSION ORDERS IN RECENT CASES.

A. PNM has included in the Test Period revenue requirements the recovery of the Palo Verde Unit 3 DOE Spent Fuel Refund and 50% of the undepreciated investment of SJGS Units 2 and 3. Both of these items were approved in the BART Case. Recovery of these items was contemplated to begin January 1, 2018.

Q. PLEASE IDENTIFY THE REGULATORY ASSETS AND LIABILITIES FOR WHICH PNM IS REQUESTING COMMISSION APPROVAL 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 ("2016 Rate Case Expenses regulatory asset"); (2) establish a new regulatory asset to begin recovering costs incurred to enter into the SJGS Coal Agreement, 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, upon abandonment of those facilities pursuant to the Final Order in the BART Case; (4) begin amortizing the approved regulatory liability to refund the Palo Verde DOE Unit 3 spent fuel pursuant to the Final Order in the BART Case; and (5) continue recovery of the unamortized Las Vegas decommissioning regulatory asset and liability and the 2015 Rate Case expense regulatory asset over a three-year period, beginning January 1, 2018. PNM has reflected the balances associated with the 2016 Rate Case Expenses and the SJGS Coal Agreement transaction costs in Other Rate Base, pending approval of these regulatory assets in this filing.

Q. PLEASE EXPLAIN THE OVERALL RECOVERABILITY OF RATE CASE EXPENSES.

A. Most businesses have the flexibility to set their prices based on their assessment of the market and the demand for their products. Utilities that are subject to cost of service regulation do not have this flexibility, but rather must make rate filings and obtain public utility commission authorization to establish new rates. The longstanding practice of this Commission has been to treat reasonable rate case expenses as a necessary cost of doing business and, after review, has approved PNM's recovery of rate case expenses through amortizations approved in rate case proceedings.

Q. WHAT AMOUNT IS PNM SEEKING TO RECOVER IN RATE CASE EXPENSES FOR THE CURRENT CASE?

A. PNM is seeking recovery of $2,670,000 in rate case expenses, as is detailed in PNM Exhibit HEM-4 WP ORB-10. Rate case expenses include the out-of-pocket costs incurred by the Company for providing notice to customers, making photocopies of the filing, postage, and costs for outside consultants, accounting firms, and attorneys in preparing and litigating the case. PNM's engagement of outside services for this case is a cost-effective means to meet the requirements of a complex rate case filing. PNM hires outside service firms to prepare and support its filing versus hiring full-time staff to provide these same services, as these services are cyclical in nature. PNM is requesting to establish a regulatory asset to recover these costs over a three-year period. For comparison purposes, PNM received approval of $3.8 million in rate case expenses for the 2015 Rate Case, which was approved in the Final Order.

Q. WHAT IS THE BASIS FOR PNM USING A THREE-YEAR AMORTIZATION PERIOD FOR THESE RATE CASE EXPENSES?

A. PNM is proposing a three-year amortization period to recover these costs. The three-year period reflects an amortization period proposed by NMPRC Staff in the 2015 Rate Case and PNM believes in this proceeding that a three-year amortization period balances the timely recovery of these costs by PNM and the impacts to our customers.

Q. PLEASE LIST AND GENERALLY DESCRIBE PNM'S MAJOR RATE CASE EXPENSE CATEGORIES.

A. PNM anticipates that the rate case expenses in this case will be lower than previous cases as this filing relies on the fully functional electronic modeling work for a Future Test Year developed in previous proceedings and adopted by the Commission in the 2015 Rate Case. As a result, PNM does not expect to incur the same level of legal or consulting costs as the 2015 Rate Case. PNM believes that many of the issues in this case will be contested, and in light of the anticipated number of intervenors and the extensive discovery that parties engage in, the costs of preparing and litigating this rate case will therefore be significant. PNM controls these expenses to the extent possible, consistent with the need for thorough and effective presentation of PNM's positions. These cost-control actions include the assignment of qualified in-house counsel to oversee and participate in proceedings and the retention of qualified outside counsel with substantial utility law experience. In addition, it is both cost-effective and necessary to retain outside experts who have subject matter expertise not available in-house on specific issues inherent in a complex rate proceeding. The major categories of rate case expenses, and list of outside consultants are reflected in PNM Exhibit HEM-4, WP ORB-10, and include the following areas:

Consultants: Consultants are necessary for the preparation of a comprehensive electric rate case for a number of reasons. Consultants will often provide services to support a proposed ROE, undertake specific studies or analyses (including

lead-lag), review and develop testimony, respond to discovery, testify as a witness, or provide assistance in assembling a general rate case. Typically, the expertise sought from the consultant is not expertise that is hired on a permanent basis within the Company.

Outside Legal Counsel: The Company does not staff its legal department assuming there will be continuous ongoing rate cases and sufficient levels of staffing and expertise to file and litigate a comprehensive rate case is not always available through in-house counsel for all topics; thus, outside legal assistance is appropriate. Outside legal assistance in developing, processing, and litigating a case is a valid rate case expense. PNM Witness Sanchez discusses how legal costs are managed by the Company.

Other Costs: The "Other Costs" category covers mailing, postage, reproduction and similar costs. Pursuant to 17.1.2.10(C) (2) NMAC, the Company must provide notice to its customers when filing the rate request. This means sending out mailings to over 400,000 customers at a substantial printing and mailing cost. This also requires publications in multiple major newspapers to properly notify all customers affected by the rate case proceeding. Regulations also require PNM to mail case materials to interveners (e.g. PNM testimonies, pleadings, discovery responses, etc.). Duplication and office supply costs are necessary to reproduce pleadings, testimony, and other rate case materials for internal and external use.

Q. PLEASE DISCUSS THE CONSULTING SERVICES INCLUDED IN THE RATE CASE EXPENSES FOR THIS CASE.

A. PNM has retained the services of KPMG, LLP, Willis Towers Watson, PricewaterhouseCoopers, LLP ("PwC"), ScottMadden, Inc. ("ScottMadden"), and Christensen and Associates, for the preparation, development and litigation of this proceeding.

Q. PLEASE DISCUSS THE SERVICES PROVIDED BY KPMG, LLP IN CONNECTION WITH THIS PROCEEDING.

A. KPMG performs external auditing services for PNM and was engaged to perform the independent review in this rate case as required by Commission Rule 530 Schedule Q-6. Also, Rule 530 17.9.530.13(Q)(6) NMAC requires that PNM submit an opinion of an independent certified public accountant stating that an independent examination of the per book amounts and accounting adjustments in PNM's books and records has been made for the Base Period and that the results thereof are in all material respects in compliance with the Uniform System of Accounts prescribed by the Commission. The accounting firm of KPMG provided this opinion.

Q. PLEASE DESCRIBE THE CONSULTING SERVICES THAT WERE OR WILL BE PROVIDED BY WILLIS TOWERS WATSON.

A. Willis Towers Watson is PNM's outside consultant for evaluating the Company's pension and benefits programs and the accounting that goes along with those

programs. They are providing written testimony in this case through PNM Witness Gagne, and are expected to provide services in responding to discovery regarding pension questions and also to provide the actuarial studies on pension and benefits to support PNM's Test Year expenses. Willis Towers Watson conducted an actuarial study for the Test Period and also performed the analysis regarding the estimated cost of the annuitization of the electric portion of the pension obligation as ordered in the 2015 Rate Case.

Q. PLEASE DISCUSS THE SERVICES PROVIDED BY PWC IN CONNECTION WITH THIS PROCEEDING.

A. PwC was retained to develop the lead-lag study as required by the Commission's rules. The lead-lag study was utilized in the development of cash working capital.

Q. PLEASE DESCRIBE THE SERVICES THAT WERE PROVIDED BY SCOTTMADDEN.

A. ScottMadden assisted with the coordination and documentation of the required capital budget information necessary to support the projected capital additions that are reflected in the Company's request. Just as the legal department does not staff its legal team for continuous rate cases, neither do the budget and other departments that provide support for PNM's witnesses.

In addition to assisting in the documenting support for of capital investments, PNM is utilizing the services of PNM Witness Hevert, who is also with

ScottMadden. In any rate case, ROE and capital structure are central points of discussion; therefore, it is necessary to have a witness who supports the complex ROE calculation. PNM does not maintain the in-house expertise required of an ROE witness, and must hire a consultant to provide the analysis and testimony in this area of the business. Additionally, there are benefits from an external consultant providing these services, especially if the external consultant is actively engaged in various jurisdictions across the country; this allows PNM to present a broader view of the modeling, data and other information and circumstances central to ROE issues in regard to this area of expertise.

Q. PLEASE DISCUSS THE SERVICES PROVIDED BY CHRISTENSEN & ASSOCIATES IN CONNECTION WITH THIS PROCEEDING.

A. Christensen & Associates has provided expert assistance with the development of the rate design strategy and compliance with the Final Order in the 2015 Rate Case. The costs include support of the development of testimony and consultation on issues and questions resulting from the 2015 Rate Case that affect PNM's filing in this rate case. The Company anticipates these costs also will include assistance with responses to discovery requests during this proceeding.

Q. PLEASE DESCRIBE THE OTHER EXTERNAL WITNESS SUPPORT.

A. Historically, PNM has experienced the need to bring in additional consulting support during the proceeding. This additional support has included the

development of expert testimony used in rebuttal for additional studies or analysis that may be required to be performed during the course of the proceeding.

Q. PLEASE DISCUSS THE OUTSIDE LEGAL FEES THAT THE COMPANY ESTIMATES WILL BE INCURRED AS PART OF THIS RATE REQUEST.

A. Outside Legal costs are estimated to be $1,345,000. The three law firms assisting in the case are: Miller Stratvert PA, Wilkinson Barker Knauer LLP, and Cuddy & McCarthy LLP. These firms are retained to: assist in the development of testimony; assure compliance with regulatory law; assist in legal briefings, discovery responses, required notices, and to provide expertise and specific knowledge of New Mexico utility laws, and rate case procedures and requirements.

Q. PLEASE DESCRIBE THE OTHER COSTS REQUESTED IN THIS PROCEEDING.

A. Other costs requested in this filing include required postage to mail notices to customers, and newspaper publishing costs as required by 17.1.2.10(C) (2) NMAC. Based on previous Procedural Orders for rate cases, PNM is required, at its sole expense, to include a copy of the Notice of Proceeding and Hearing to be published once in newspapers of general circulation sufficient for availability in every county where PNM provides service. To comply with this standard requirement, PNM publishes the Notice in the *Albuquerque Journal, Las Cruces*

Sun News, Alamogordo Daily News, and *Union County Leader*. For a notice of the size required to inform customers of the scope of the proceedings and the proposed rates and their impacts, the amount of space required in the newspaper is quite large and costly. PNM also is required to mail to each of its customers a copy of the Notice of Proceeding and Hearing, which is also costly.

Reproduction costs for an electric rate case are extensive. The application, testimony, and required schedules are voluminous and will be mailed to all parties on the service list of the 2015 Rate Case. Electric rate cases are heavily litigated and also result in a significant number of regulatory filings that result in additional reproduction costs, postage, and related expenses. PNM has historically used the Collaboration website for the posting of discovery exhibits in an electronic format and proposes to continue this practice, but there is still a considerable amount of reproduction and postage associated with the normal level of service in the case. The amount of discovery in electric rate cases is extensive and also requires PNM to reproduce hard copies as requested by parties, consistent with the Commission's procedural orders. PNM is required to use a courier to make filings in compliance with Commission rules during the pendency of the case. Additionally, transcripts and court reporter costs are incurred during the hearings. These expenses are necessary to comply with the procedural orders in the case and Commission rules.

Q. PLEASE DESCRIBE THE REQUESTED REGULATORY ASSET FOR THE SJGS COAL AGREEMENT TRANSACTION COSTS.

A. PNM incurred $2,747,476 in transaction costs to negotiate, analyze, and facilitate the completion of the coal agreement with the San Juan Coal Company ("SJCC") which is now under ownership of Westmoreland Coal Company ("Westmoreland"). These costs included $1,330,506 paid to a financial advisor (Evercore) for: assistance in identifying potential buyers for the coal mine, soliciting and evaluating proposals regarding the coal supply agreement, due diligence in evaluating the proposed coal supply agreements, and assistance with negotiation of final contract terms. In addition, the Company incurred $986,717 in outside counsel fees for legal support, $220,487 in fees paid to mine engineers to develop mining plans and support during the bidding process, $115,563 for strategic consulting services and $94,204 in other costs necessary to negotiate and finalize a new coal sales agreement in the context of a change of ownership of SJCC from BHP Billiton Ltd. to Westmoreland. See PNM Exhibit HEM-4 WP ORB-9.

Q. HAVE CUSTOMERS BENEFITED FROM THE PRICING TERMS OF THE NEW SJGS COAL AGREEMENT?

A. Yes. Customers began receiving these benefits in 2016. Although PNM did not include the impacts of the new SJGS Coal Agreement in its initial filings in the 2015 Rate Case because they were still pending at that time, the benefits of the new agreement were identified in the 2015 Rate Case as saving customers over

$40 million annually when compared to the previous coal agreement. These annual savings vastly exceed the $2.7 million in expenses PNM is now requesting to recover.

Q. WHY IS PNM SEEKING RECOVERY OF THESE TRANSACTION COSTS AS A REGULATORY ASSET?

A. PNM believes it is appropriate to receive recovery of one-time costs incurred that provide significant benefits to its customers. These transaction costs are not recovered as a component of fuel expense through PNM's FPPCAC. Therefore, PNM is seeking recovery of these costs through the establishment and amortization of a regulatory asset.

Q. HAS THE COMMISSION APPROVED SIMILAR REQUESTS FOR REGULATORY ASSETS WHEN THE COMPANY INCURS COSTS TO ACHIEVE BENEFITS?

A. Yes. In NMPRC Case No. 2262, PNM sought recovery for costs associated with PNM's efforts to reduce labor costs, termed Project Turn Around. PNM demonstrated that customers received a net benefit as a result of these labor reductions, and was allowed to recover the costs incurred to achieve those reductions. The proposed treatment of the SJGS Coal Agreement costs is consistent with the NMPRC Case No. 2262 precedent, in that if a benefit is achieved by a reduction to revenue requirements, then the Company should be allowed recovery of costs incurred to achieve those benefits.

Q. DOES THE REQUEST FOR RECOVERY OF THESE COSTS AS A REGULATORY ASSET VIOLATE RETROACTIVE RATEMAKING PRINCIPLES?

A. No. The Company incurred these costs between late-2014 and mid-2016, which covers a portion of the Base Period in this filing. Customers began receiving immediate benefits, effective in January 2016, and these benefits could not have been realized without incurring these expenses. The on-going benefits that resulted from the new coal supply arrangement are continuing to flow through customers' rates, as the savings under the coal contract are being passed through to our customers today, and will continue to benefit our customers through June 2022. Therefore, it is appropriate to allow recovery of these costs that were necessary to achieve these significant benefits, through the amortization of the requested regulatory asset over a 4.5 year period. The 4.5 year period is the remaining term of the SJGS Coal Supply Agreement, from January 1, 2018.

Q. WHAT IS THE ESTIMATED AMOUNT OF THE REGULATORY ASSET ASSOCIATED WITH THE UNDEPRECIATED INVESTMENT IN SJGS UNITS 2 AND 3?

A. PNM has estimated the undepreciated investment in SJGS Units 2 and 3 on December 31, 2017, the date of abandonment, to be $256.4 million. Pursuant to Paragraph 23 of the Modified Stipulation approved in the BART Case, PNM is allowed recovery of 50% of this balance, or $128.2 million, and allowed to include the unamortized balance of the regulatory asset in rate base.

Q. HOW DOES THE AMOUNT REQUESTED IN THIS FILING COMPARE TO THE AMOUNT ESTIMATED IN THE BART CASE?

A. In the BART Case, the estimated undepreciated investment in SJGS in Units 2 and 3 was estimated to be slightly higher at $257.4 million. The new estimate is lower by approximately one million dollars. PNM recognizes that these amounts are still estimates of the undepreciated investment balance at December 31, 2017. PNM will true-up any differences between these projected amounts and the actual undepreciated investment on the Company's books and records at December 31, 2017, and reflect the difference in the regulatory asset and provide those true-ups in subsequent rate case filings.

Q. HAS PNM UTILIZED THE 20-YEAR RECOVERY PERIOD APPROVED IN THE BART CASE TO BEGIN RECOVERY IN THIS FILING?

A. Yes.

Q. IS THE COMPANY REQUESTING TO BEGIN AMORTIZATION OF THE PALO VERDE UNIT 3 DOE SPENT FUEL REGULATORY LIABILITY ESTABLISHED IN THE BART CASE?

A. Yes. Pursuant to Paragraph 35 of the Modified Stipulation approved in the BART Case, PNM is to refund $3,000,000 of Palo Verde Unit 3 DOE Spent Fuel refunds to customers over a two-year period. As these refunds are associated with nuclear fuel handling, PNM will provide the amortization of this regulatory liability as a credit in PNM's FPPCAC. In addition, PNM will reflect the unamortized balance

of this regulatory liability as a reduction to PNM's FPPCAC balancing account to provide customers with the carrying charges during the amortization of this regulatory liability balance.

3. Other Rate Base Items

Q. PLEASE IDENTIFY THE OTHER RATE BASE ITEMS IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. Please refer to PNM Exhibit HEM-4 WP ORB-1 for a summary of items in the Test Period revenue requirement. PNM has included balances associated with customer deposits, injuries and damages, AROs, the Non-Qualified Retirement Plan ("NQRP"), Palo Verde Units 1 and 2 excess gain amortization, High Lonesome Mesa, right of ways, Prepaid Pension Asset, unamortized Loss on Reacquired Debt, the 2016 Rate Case Expenses, and the SJGS Coal Agreement transaction costs. I discuss the treatment of each of these balances in the Test Period below. Please refer to the Regulatory Assets and Liabilities section for discussion on the 2016 Rate Case expenses and the SJGS Coal Agreement transaction costs.

Q. PLEASE DISCUSS THE CUSTOMER DEPOSITS AND INJURIES AND DAMAGES BALANCES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. The Test Period balances match the Adjusted Base Period balances as PNM does not expect any significant changes to these balances.

Q. PLEASE DISCUSS THE TREATMENT OF ARO BALANCES IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM has included the estimated ARO liability balances, based on current accretion expense estimates. The accounting for the current accretion expense estimates is discussed later in Section VII of my testimony. As discussed earlier, PNM has excluded the ARO liabilities associated with Palo Verde.

Q. PLEASE DISCUSS THE TREATMENT OF THE NQRP IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM has included a reduction in rate base associated with the NQRP. The inclusion of the NQRP balance in rate base was approved in the final order in the 2007 Rate Case, similar to treatment of the Prepaid Pension Asset, and has been continued in PNM's subsequent rate cases, including the 2015 Rate Case. Please refer to the testimony of PNM Witness Gagne for discussion of key assumptions, including contributions and anticipated expenses that impact the NQRP estimated balance. See PNM Exhibit HEM-4 WP ORB-6.

Q. PLEASE DISCUSS THE TREATMENT OF THE PALO VERDE 1 AND 2 EXCESS GAIN AMORTIZATION IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM has estimated the balance based on the existing amortization schedule. As discussed later in my testimony, PNM Retail customers have already received their portion of the excess gain amortization. The balance remaining on PNM's books and records reflects the amounts allocated to PNM's FERC Wholesale Generation customers and does not impact PNM Retail. See PNM Exhibit HEM-4 OM-13.

Q. PLEASE DISCUSS THE TREATMENT OF THE TRANSMISSION ASSETS ASSOCIATED WITH HIGH LONESOME MESA IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM has estimated the balance of this non-jurisdictional customer-funded interconnection transmission project based on existing amortization schedule. This rate base reduction is allocated to Excluded consistent with how plant in service for this project is allocated. See PNM Exhibit HEM-4 WP ORB-8.

Q. PLEASE DISCUSS THE TREATMENT OF COSTS FOR RIGHTS OF WAY IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM determined monthly right of way balances, beginning with actual balances as of June 30, 2016, less monthly amortization from July 2016 through December 2018, plus any right of way renewals projected during the same period. PNM included any expected amortization of right of way renewals from July 2016 through December 2018. Right of way amortization expense is included in operating expenses. Please refer to PNM Witness Mechenbier for a discussion of

rights-of-way renewals included in the linkage data and Test Period. See PNM Exhibit HEM–4 WP OM-15 and WP OM-16.

Q. PLEASE DISCUSS THE TREATMENT OF THE PREPAID PENSION ASSET IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM has determined the balance of the Prepaid Pension Asset associated with the electric share of the defined benefit pension plan (*i.e.*, excluding the portion allocated to the retained gas employee obligation). As discussed later in my testimony, PNM has included this item in rate base to the extent that customers receive a net benefit as a result of these transactions consistent with past rate cases approved by the Commission. See PNM Exhibit HEM-4 WP ORB-5. Please refer to the testimony of PNM Witness Gagne for a discussion of the estimated pension expense and contributions, which impact the Prepaid Pension Asset balance.

Q. PLEASE DISCUSS THE TREATMENT OF THE UNAMORTIZED LOSS ON REACQUIRED DEBT IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM has determined the Test Period balances based on current amortization periods based on the remaining life of the retired or refinanced debt. PNM included the estimated new loss on reacquired debt associated with the refinancing of long-term debt that occurred during the linkage period. Please refer to the testimony of PNM Witness Eden for discussion of the refinancing

transaction. As discussed later in my testimony, PNM has included these items in rate base to the extent that customers receive a net benefit as a result of these transactions. See PNM Exhibit HEM-4 WP RA-3.

4. Working Capital

Q. WHAT ARE THE COMPONENTS OF WORKING CAPITAL?

A. Working Capital consists of: nuclear fuel stock, production fuel stock, materials and supplies, and prepayments associated with production, transmission, distribution, and renewables.

Q. PLEASE DESCRIBE HOW THE TEST PERIOD BALANCES WERE DEVELOPED FOR NUCLEAR FUEL STOCK.

A. The nuclear fuel stock balances are based on projected nuclear fuel amortization at Palo Verde, plus any new nuclear fuel capital acquisitions. PNM receives this information from Arizona Public Service Company. Please refer to the testimony of PNM Witness Olson for discussion of projected nuclear fuel capital acquisitions. The amortization of the nuclear fuel is included in the estimate of nuclear fuel expense. See Rule 530 Schedule B-7, as filed in PNM Exhibit HEM-4 WP WC.

Q. PLEASE DESCRIBE THE DEVELOPMENT OF THE TEST PERIOD BALANCES FOR PRODUCTION FUEL STOCK.

A. PNM utilized the thirteen-month average balances for production fuel stock included in the Adjusted Base Period as the balances in the Test Period revenue requirements. PNM does not anticipate any significant changes in these balances. The Adjusted Base Period is a reasonable representation of balances expected during the Test Period. See Rule 530 Schedule E-2, as filed in PNM Exhibit HEM-4 WP WC.

Q. PLEASE DESCRIBE HOW THE TEST PERIOD BALANCES WERE DEVELOPED FOR MATERIALS AND SUPPLIES.

A. PNM utilized the thirteen-month average balances for materials and supplies included in the Adjusted Base Period as the balances in the Test Period revenue requirements. PNM does not anticipate any significant changes in these balances. The Adjusted Base Period is a reasonable representation of balances expected during the Test Period. See Rule 530 Schedule E-2, as filed in PNM Exhibit HEM-4 WP WC.

Q. PLEASE DESCRIBE HOW THE TEST PERIOD BALANCES WERE DEVELOPED FOR PREPAYMENTS.

A. PNM utilized the thirteen-month average balances for prepayments included in the Adjusted Base Period as the balances in the Test Period revenue requirements, except for prepayments at SJGS, transmission right of way prepayments, and

transmission deferral prepayments. I discuss the treatment of these items later in my testimony. For prepayments, excluding those mentioned above, PNM does not anticipate any significant changes in the thirteen-month average balances. The Adjusted Base Period is a reasonable representation of balances expected during the Test Period. See Rule 530 Schedule E-2, as filed in PNM Exhibit HEM-4 WP WC.

Q. HOW DID PNM DETERMINE THE PREPAYMENTS OF COAL AT SJGS INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. Pursuant to Section 5.3 of the Restructuring Agreement, on January 1, 2016, PNM acquired the rights to the exiting SJGS participants' ("Exiters") coal inventory balances. Under the SJGS Restructuring Agreement, PNM is responsible for the Exiters' fuel supply, but receives a payment from the Exiters for the fixed dollar amount of the fuel. The difference between the amounts paid by the Exiters compared to the actual cost of coal PNM pays SJCC flows through the FPPCAC and back to our customers. The amortization of the prepaid coal amounts is determined in the coal agreement with SJCC and occurs in the first two years and last two years of the contract. PNM reflected the reduction of the prepayment balance during the linkage data. Based on the agreement there will not be any significant changes to the prepayments balance during 2018.

Q. HOW DID PNM DETERMINE THE TRANSMISSION RIGHT OF WAY PREPAYMENTS INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. PNM makes an annual right-of-way payment to the Navajo Nation in April of each year for the following year. PNM estimated the expected annual payment to be made in April 2017 and April 2018 when it developed the prepayment balance included in the linkage data and through the Test Period. Please refer to the testimony of PNM Witness Mechenbier for discussion of the Navajo Nation annual payments. See PNM Exhibit HEM-4 WP OM-16 and OM-17.

Q. HOW DID PNM FORECAST THE TRANSMISSION DEFERRAL PREPAYMENTS INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. Through 2017, PNM is making an annual deferral payment to Arizona Public Service Company ("APS") to defer the long-term PTP transmission reservation to move power from the 134 MW of Palo Verde Unit 3 to PNM Retail load. Beginning in January 2018, PNM will begin to take transmission service under the five-year APS contract to move the power from Palo Verde Unit 3 to PNM's retail load. PNM is not expecting to make these deferral payments in the Test Period and has removed this prepayment balance.

Q. WHAT AMOUNT OF CASH WORKING CAPITAL HAS PNM INCLUDED IN RATE BASE FOR THE TEST PERIOD?

A. PNM included a cash working capital amount of $3,910,863 in the Test Period revenue requirements. The cash working capital allowance is based on the lead-lag study performed by PwC as discussed later in my testimony. The calculation of the cash working capital amount is included in Rule 530 Schedule E-1. This represents an increase in cash working capital of $1.2 million compared to the Adjusted Base Period. The increase is primarily driven by the increase in forecasted off-system sales in the Test Period

B. Fuel Expense

Q. PLEASE DESCRIBE THE PROCESS USED TO DEVELOP THE FUEL FORECAST FOR THE LINKAGE DATA AND TEST PERIOD.

A. PNM utilizes the program AURORAxmp® ("AURORA") to forecast fuel, purchased power energy, and off-system sales. AURORA has replaced PNM's previous fuel forecasting software PROMOD®. The output from AURORA is combined with additional data described below to develop the fuel forecast. Please refer to PNM Exhibit HEM-17 for listing of key inputs and assumptions utilized to develop the Test Period fuel forecast.

Q. WHAT IS THE PURPOSE OF USING A SIMULATION PROGRAM SUCH AS AURORA?

A. Due to changes that can occur from year-to-year that could impact fuel costs (*e.g.*, planned outages, forced outages, fuel prices, load and market prices etc.) the best way to estimate future fuel costs is to define the assumptions that drive future costs and simulate the dispatch of the generating system under those conditions. AURORA simulates the actual hourly dispatch used to operate the real-time system to meet the total system load including losses and reserve requirements. System load data, market pricing data, system constraints, and plants and transaction characteristics are inputs to the model. For each hour the model evaluates the resources that are on-line, the resources that are available to dispatch and the market price of purchases, and selects the most economic option to serve the load each hour. If in any hour the model determines there will be economic power available in excess of what will be needed to serve load and associated losses, the model will generate an estimate of market sales for that hour. In addition, AURORA uses a "pipeline" model to account for the impact of transmission constraints on the economic outcome.

Q. WAS THE AURORA MODEL USED TO PROJECT FUEL IN THE LAST RATE CASE?

A. No. In the 2015 Rate Case, PROMOD IV®, a proprietary third-party production costing model licensed with ABB Enterprise Software, was used to project the fuel cost.

Q. WHY HAS PNM STARTED USING A DIFFERENT PRODUCTION MODELING SOFTWARE?

A. ABB Enterprise Software is moving toward a different modeling solution and is no longer supporting updates to PROMOD IV®. PNM has replaced its unsupported PROMOD IV® model with new proprietary third-party software, AURORA, which provides similar capability for PNM's fuel simulation modeling requirements.

Q. HOW DID YOU ESTIMATE THE FUEL COST FOR THE TEST PERIOD?

A. The Test Period fuel cost reflects the expected fuel costs, market prices, and load for the period January 1, 2018, through December 31, 2018. PNM included changes in resources in the energy output in the Test Period, including Palo Verde Unit 3, the forecasted energy output for SJGS based on the closure of SJGS Units 2 and 3, and the additional SJGS Unit 4 MW.

Q. WHAT IS THE PNM RETAIL TEST PERIOD FUEL COST BASED ON THE AURORA SIMULATION?

A. The PNM Retail Test Period fuel cost based on the AURORA simulation is $140,986,737. PNM Exhibit HEM-4 WP Fuel-3: Test COS provides a summary of the results and the calculation of the fuel cost.

Q. HOW DOES THIS COST COMPARE TO THE PNM RETAIL ADJUSTED BASE PERIOD FUEL COST?

A. The Test Period PNM Retail fuel is approximately $37 million lower than the Adjusted Base Period. The main driver for the reduction is the change in the resource mix between the Base Period and Test Period that replaces higher cost coal with lower cost nuclear fuel. Additionally, PNM's load in 2018 is projected to be lower than the Base Period. This results in lower-cost fuel serving load, as well as higher margins from off-system sales. With the shutdown of SJGS Units 2 and 3, it is necessary to run either the Afton or Luna combined cycle gas plant around the clock in order to meet spinning and operating reserve requirements. These changes to off-system sales offset changes to the cost of fuel; in addition, the market price of sales is expected to increase to an average price of $28 /MWh in the Test Period, compared to $20 /MWh in the Base Period. The volume increase and higher $/MWh in off-system sales has a significant impact in the cost of fuel projected in the Test Period.

Q. IS PNM REQUESTING ANY CHANGES TO THE FPPCAC IN THIS PROCEEDING?

A. No. PNM is not proposing any changes to the FPPCAC, and pursuant to the Final Order in the 2015 Rate Case, PNM is collecting all fuel and purchased power expenses through the FPPCAC Factor. The changes to the FPPCAC expense in the Test Period are included in this proceeding to provide the Commission with a forecast of the fuel expense during the Test Period in compliance with the data

requirements of Rule 17.3.1 and Rule 530, and to demonstrate overall customer revenue impacts, as detailed by PNM Witness Aguirre. Actual fuel and purchased power expenses and revenues will continue to flow through the FPPCAC Rider No. 23, as ordered by the Commission in Case No. 13-00187-UT and the 2015 Rate Case.

Q. ARE THERE ANY FUEL-RELATED O&M COSTS INCLUDED IN THE REVENUE REQUIREMENTS THAT ARE NOT INCLUDED IN THE CALCULATION OF FUEL RECOVERED UNDER PNM'S FPPCAC?

A. Yes. There are four categories of fuel-related expenses that are not subject to the FPPCAC. These are costs associated with fixed gas transportation costs, demand costs associated with the Valencia Power Purchase Agreement ("PPA"), coal mine decommissioning, and broker fees.

Q. HOW DID PNM DETERMINE THE FIXED GAS TRANSPORTATION COSTS?

A. Gas transportation costs are projected based on current contracts for delivery of gas to PNM gas-fired generation plants and the renegotiation of the contract for delivery of gas to the Valencia that expires in 2018. The contract for delivery of gas to the northern gas plants includes scheduling penalties for gas peaking generation that have been estimated at $400,000 in the Test Period.

Q. HOW DID PNM DETERMINE THE DEMAND COSTS ASSOCIATED WITH THE VALENCIA PPA?

A. Valencia demand charges are based on contract rates and capacity. The prices are indexed to the U.S. Consumer Price Index and the State Area Employment Index for Albuquerque and are based on the current forecast. The capacity payment escalates at 1% per year and includes a heat rate adjustment payment. For the test period, no heat rate adjustment payment has been forecasted. Additionally, the Valencia contract requires PNM to pay the property tax on that facility; those costs are based on the Base Period cost and are included in the Valencia demand charges.

Q. HOW DID PNM DETERMINE COAL MINE DECOMMISSIONING COSTS FOR THE TEST PERIOD?

A. PNM continued the amortization of the surface mine reclamation costs, which are capped for recovery at $100 million. In addition, PNM continued the amortization of previously deferred underground mine reclamation costs in the annual amount of approximately $38,160. PNM forecasted the reclamation costs associated with the underground coal mine, including the period costs to keep the SJGS surface mine open to backfill with ash. Please refer to Section VIII for further discussion on the development of the coal mine decommissioning expense for the Test Period.

Q. HOW DID PNM DETERMINE THE BROKER FEES DURING THE TEST PERIOD?

A. PNM incurs broker fees expenses associated with entering into economy purchase and sales agreements in real-time, day ahead and month long power transactions. PNM estimated the Test Period expenses by estimating $15,000 in fees per month. This estimate is slightly lower than the actual expense incurred in the Base Period.

C. O&M Expense

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO O&M EXPENSES IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. The starting point for the Test Period O&M was the Adjusted Base Period O&M. Except for the specific items discussed below, non-labor O&M expenses in the Adjusted Base Period were held flat at 0.0% percent escalation for 2017 and then 2017 expense was escalated at the rate of 1.5% to project Test Period O&M expense. I discuss the rationale for the 0.0% escalation in 2017 and the 1.5% escalation in 2018 below. PNM Exhibit HEM-4 WP OM-2, Column H provides the calculation of the portion of Test Period non-labor O&M that is based on a 1.5% escalation factor. PNM Exhibit HEM-4 WP OM-4 provides a summary of the specific O&M items that were individually projected to develop the Test Period. In addition, PNM Exhibit HEM-4 WP OM-2 provides a reconciliation of

O&M expense from the Base Period, through the Adjusted Base Period and into the Test Period revenue requirements.

Q. WHY DID PNM KEEP O&M ESCALATION FLAT FOR 2017 AND APPLY A 1.5 PERCENT ESCALATION RATE FOR 2018 NON-LABOR O&M EXPENSES?

A. As a method of cost control, PNM has eliminated any escalation for non-labor O&M in 2017. In addition, PNM utilized a 1.5% escalation rate for 2018, which is well below the expected inflation rate under the consumer price index ("CPI"). These escalation rates of 0.0% and 1.5% are in line with the Company's AOP. PNM has historically applied the annual CPI to non-labor O&M in developing annual and long-range forecasts, and has effectively controlled non-labor O&M to stay within these projections. While no index will capture all of the specific business changes that PNM may experience in the Test Period, the CPI is a reasonable and conservative predictor of the increase in non-labor O&M costs that PNM will experience from the Base Period to the Test Period. The utilization of the CPI as a predictor of escalation of O&M for future test years was approved in the 2015 Rate Case. The economic projection for the CPI is 1.5% in 2017 and 2.4% in 2018. Please see PNM Exhibit HEM-6.

Q. WHY IS USE OF THE 0.0% AND 1.5% ESCALATION FOR DETERMINING TEST PERIOD NON-LABOR O&M EXPENSES REASONABLE IN THIS CASE?

A. PNM selected the 0.0% and 1.5% escalator because it reflects a conservative estimate of the trending increase of non-labor O&M expenses between the Base Period and Test Period. The compounded annual escalation rate by using the 0.0% and 1.5% results in an annual escalation of 0.75%. As shown in Table HEM-4, PNM's utilization of the 0.0% and 1.5% escalation rates controls O&M costs well below the expected level of inflation, which results in savings to customers of $5 million.

Table HEM-4 – O&M Escalation Savings

	A	B	C	D	E
	Remaining O&M, to be escalated	**2017 O&M @ 1.5%**	**Total 2018 O&M @2.4%**	**Total 2018 O&M at 0.0% in 2017 and 1.5% in 2018**	**O&M Escalation Savings Column D - Column C**
PNM Direct O&M	$138,500,669	$140,578,179	$143,952,055	$140,578,179	$(3,373,876)
San Juan O&M[(1)]	$22,474,673	$22,811,793	$23,359,276	$22,811,793	$(547,483)
Shared Services O&M	$44,028,479	$44,688,906	$45,761,440	$44,688,906	$(1,072,534)
					$(4,993,893)

[(1)] San Juan O&M in 2018 is before change in participant allocators.

Q. PLEASE SUMMARIZE THE O&M EXPENSES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS THAT ARE SPECIFICALLY ESTIMATED.

A. PNM Exhibit HEM–3 WP OM-4 provides a summary of the adjustments to O&M that have been specifically identified and estimated based on individual factors. Specifically, these adjustments include: amortization of the 2015 Rate Case expenses regulatory asset, Palo Verde Unit 3 third-party transmission expense,

purchase of additional third-party transmission to meet system needs, several Palo Verde amortizations, planned outage at Four Corners, active medical and dental; capital loads, retiree pension and medical, right of way amortizations and renewals, labor, including overtime expense, Palo Verde decommissioning credits to reflect recovery of funding in rates, O&M expenses associated with Four Corners SCR equipment, Wholesale Power Marketing ("WPM") incentive compensation, property insurance premiums, and SJGS O&M expense reflecting the reduction from a four-unit to a two-unit operation. Adjustments made to O&M expenses that are recorded on the books of Shared Services are identified and discussed separately below.

Q. PLEASE SUMMARIZE THE O&M EXPENSE CATEGORIES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS THAT ARE DETERMINED BASED ON ESTABLISHED AMORTIZATION SCHEDULES OR OTHER FIXED TERMS.

A. PNM Exhibit HEM-4 WP OM-4 provides a summary of all adjustments to O&M that have been specifically identified, including those based on established amortization schedules as follows:

- Right of way Amortizations – Amortizations of existing right of way balances have been included in the Test Period revenue requirements based on existing amortization schedules, which typically follow the expected term of the underlying right of way agreement. In addition, PNM included in the right of way amortization the right of way renewals expected to occur between July

2016 and December 2018, and also included the projected amortization of these right of way renewals in the Test Period. Refer to PNM Witness Mechenbier for a detailed discussion of proposed right of way renewals. See PNM Exhibit HEM–4 WP OM-15, WP OM-16, and WP OM-17.

- Palo Verde Combustion and Engineering, Prudency Audit and FERC portion of Excess Gain Amortizations – PNM reflected the expected credits included in the Test Period based on existing amortization schedules of these balances. Please see PNM Exhibit HEM-4 WP OM-13.
- 2015 Rate Case Expense – As discussed earlier in my testimony, PNM included the amortization of the 2015 Rate Case expense in the Test Period revenue requirements based on PNM's proposed amortization of these costs. Please see PNM Exhibit HEM-4 WP RA-6.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO LABOR EXPENSES FROM THE ADJUSTED BASE PERIOD TO THE TEST PERIOD REVENUE REQUIREMENTS.

A. Base labor and overtime expense was escalated from the Adjusted Base Period using a 2.5% annual labor escalator for non-union employees effective April of 2017, and 3.0% effective April of 2018. PNM applied a 2.0% labor escalator in 2017 and a 2.5% labor escalator in 2018, effective May of each year for union employees. Please refer to the testimony of PNM Witness Monfiletto for further discussion of these labor escalation rates. See PNM Exhibit HEM-4 WP LA-1 and WP LA-4.

Q. DID THE COMPANY REDUCE FULL TIME EQUIVALENT ("FTE") LABOR EXPENSES BASED ON EXPECTED REDUCTIONS DURING THE LINKAGE PERIOD?

A. Yes. As discussed by PNM Witness Monfiletto, the Company has reduced labor expenses and associated benefits expenses to reflect expected reduction in the labor workforce. Please see PNM Exhibit HEM-4 WP LA-2, LA-5 and LA-9 for reductions to labor expenses and PNM Exhibit HEM-4 WP OM-22 for reductions to associated labor benefits expenses.

Q. DID PNM ADJUST THE LABOR FTE HEADCOUNT FOR SJGS IN THE LINKAGE DATA AND TEST PERIOD TO ACCOUNT FOR THE ABANDONMENT OF SJGS UNITS 2 AND 3?

A. Yes. PNM adjusted the FTE headcount at SJGS to reflect the expected headcount reductions through attrition at SJGS. This FTE headcount reduction is in anticipation of the abandonment of SJGS Units 2 and 3. PNM reflected the reductions to FTE headcount, and associated overtime labor, based on the estimated attrition levels at SJGS. This includes a reduction of FTE headcount of 9 in 2017 and 21 in 2018, for a total of 30 reductions. See PNM Exhibit HEM-4 WP LA – 5. Please refer to the testimony of PNM Witness Olson for further discussion.

Q. DID PNM REFLECT A REDUCTION TO BENEFITS COSTS AS THE RESULT OF THESE FTE HEADCOUNT REDUCTIONS AT SJGS?

A. Yes. PNM reduced pension and benefits expenses associated with these FTE headcount reductions by applying PNM's Pension and Benefits ("P&B") and Injury and Damages ("I&D") load rates that are calculated annually for purposes of estimating these costs for purposes of capitalization. These load rates serve as a proxy for estimating benefits, and injuries and damages costs based on labor dollars. See PNM Exhibit HEM-4 WP OM-22.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO PENSIONS AND RETIREE MEDICAL EXPENSES FROM THE ADJUSTED BASE PERIOD TO THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM determined retiree pension and medical expenses in the Test Period based on information provided by PNM's actuary, Willis Towers Watson. The 2018 retiree pension and medical expense is based on updates to the 2016 assumptions provided by the actuaries. See PNM Exhibit YG-2 for the Willis Towers Watson update and PNM Exhibit HEM-4 WP OM-5 for the functionalization of these expenses. Consistent with the similar adjustment for the Base Period, PNM removed the portion of retiree pension expense associated with former gas business employees covered under the retiree pension plan in the Test Period revenue requirements.

Q. HOW DID PNM DETERMINE THE A&G, I&D, AND P&B CAPITAL LOADS FOR THE TEST PERIOD REVENUE REQUIREMENTS?

A. The amount of capital loads included in the Test Period revenue requirements is based on the projected capital spend that is included in the Test Period. The resulting capital loads are included as a reduction to O&M expense, reflected in the A&G expense accounts. I discuss the capital loads in more detail later in my testimony. See PNM Exhibit HEM-4 WP OM-4, Column K and Column Z. The impacts to the I&D and P&B capital loads are included in the impacts shown in PNM Exhibit HEM-4 WP OM-4, Column H and Column W.

Q. HOW DID PNM DEVELOP THE ACTIVE MEDICAL AND DENTAL EXPENSE FOR THE TEST PERIOD REVENUE REQUIREMENTS?

A. PNM applied a five percent escalation rate to the Adjusted Base Period expenses for active medical and dental expenses for 2017 and 2018 to develop the Test Period revenue requirements. See PNM Exhibit HEM-4 WP OM-6. The five percent escalation rate is discussed in more detail by PNM Witness Monfiletto.

Q. DID PNM SPECIFICALLY IDENTIFY THE LEASE EXPENSES ASSOCIATED WITH THE REMAINING PALO VERDE CAPACITY THAT REMAINS UNDER LEASE?

A. Yes. As these expenses are subject to the terms of the lease agreements, PNM specifically identified these items. The Test Period expense is the same expense as the Adjusted Base Period. However, these items were specifically identified,

so they did not receive the escalation factor that PNM applied to develop other Test Period O&M expenses. See PNM Exhibit HEM-4 WP OM-4, Columns O and AD.

Q. HAS PNM INCLUDED THE THIRD-PARTY TRANSMISSION EXPENSE TO DELIVER POWER FROM PALO VERDE UNIT 3 TO PNM RETAIL LOAD?

A. Yes. Pursuant to the Final Order in the BART Case, PNM was granted a CCN for Palo Verde Unit 3 as partial replacement capacity for the abandonment of SJGS Units 2 and 3. PNM will incur third-party transmission expense to deliver power from Palo Verde Unit 3 to PNM Retail load. PNM reflected this additional third-party transmission expense in the Test Period revenue requirements. These costs were reflected in PNM's estimate of Palo Verde Unit 3 revenue requirements in the BART Case. See PNM Exhibit HEM-4 WP OM-4, Column U. Please refer to the testimony of PNM Witness Mechenbier for further discussion of these expenses.

Q. HAS PNM INCLUDED THIRD-PARTY TRANSMISSION EXPENSE TO DELIVER POWER FROM SOUTHERN NEW MEXICO GENERATION ASSETS TO CENTRAL NEW MEXICO FOR PNM RETAIL LOAD?

A. Yes. PNM estimated additional third-party transmission expenses that will be incurred during the summer peak periods to ensure the reliable delivery of PNM generation resources from southern New Mexico to meet peak load in central

New Mexico. See PNM Exhibit HEM-4 WP OM-4, Column AI. Please refer to the testimony of PNM Witness Mechenbier for further discussion of these expenses.

Q. HAS PNM INCLUDED O&M EXPENSES AT FOUR CORNERS TO OPERATE THE SCR EQUIPMENT DURING THE TEST PERIOD?

A. Yes. PNM has included the estimated O&M expenses to operate the installed SCR equipment at Four Corners. Please refer to the testimony of PNM Witness Olson for discussion of these expenses.

Q. DOES PNM NORMALIZE THE PLANNED OUTAGE EXPENSES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. Yes. Planned outage expenses occur at various times depending on the type of generating plant and the operational and maintenance needs of the plant. PNM typically expends large amounts of O&M and capital dollars during planned outages. Given the variability in the occurrence of planned outages, the amount of O&M expense related to planned outages can vary significantly from year to year. Consequently, PNM normalized the amount of planned outage expenses included in its Test Period revenue requirements. Including a normalized level of planned outage expense is a reasonable approach in setting rates that has been authorized by the Commission in prior rate cases. If outages are not normalized, the result would be to embed in rates the volatility associated with the timing of

outages. PNM Witness Olson discusses further the nature of planned outages at the generation facilities.

Q. HOW DID PNM CALCULATE THE PLANNED OUTAGE EXPENSE FOR THE TEST PERIOD REVENUE REQUIREMENTS?

A. First, PNM escalated the historical outage costs for each generating unit for the six years prior to the Base Period, using a 1.5% annual non-labor escalation rate discussed earlier, to derive the planned outage expense for each unit in Base Period dollars. PNM then calculated the average planned outage expenses over a six-year period at each generating unit to develop the Adjusted Base Period planned outage expense. PNM then escalated the Adjusted Base Period planned outage expenses by the annual 1.5% escalation rate for one period to determine planned outage expense in the Test Period. As described below, PNM made a second adjustment to the planned outage expenses at Four Corners.

Q. PLEASE EXPLAIN THE TREATMENT OF PLANNED OUTAGE EXPENSES FOR FOUR CORNERS IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM adjusted the planned outage expenses for Four Corners to reflect the recent trend and expected continued trend of increased O&M expenses for planned maintenance activity at Four Corners. Utilizing the historical planned outage expense for Four Corners significantly understates the planned outage costs that are expected to occur during the linkage data, Test Period and beyond. The

current APS forecasts for planned outages at Four Corners shows continued increase spend on planned outages beyond the Test Period. To account for the increased planned outage expenses, PNM continued to utilize a six-year average of outages; however, PNM is utilizing four years of historical planned outages, and two years of estimated planned outage expenses. This captures the increased outage expenses expected to be incurred, while balancing the increased costs against the historical outage costs from the historical period. Please see PNM Exhibit HEM-4 WP OM-19. Please refer to the testimony of PNM Witness Olson for discussion of increased planned outage work expected at Four Corners.

Q. DID PNM EXCLUDE SJGS UNITS 2 AND 3 FROM THE PLANNED OUTAGE ADJUSTMENT?

A. Yes. PNM excluded the planned outage expense associated with SJGS Units 2 and 3, because PNM expects the abandonment of these units to occur as of December 31, 2017.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO SJGS NON-LABOR O&M EXPENSES THAT REFLECT THE ABANDONMENT OF UNITS 2 AND 3.

A. Please refer to the testimony of PNM Witness Olson for detail discussion on the development of assumptions for SJGS O&M reductions. PNM made reductions to the Adjusted Base Period for SJGS to reflect the changes to non-labor O&M resulting from the abandonment of SJGS Units 2 and 3 at December 31, 2017. To

perform this reduction, PNM made percentage reductions to costs recorded to specific SJGS locations that reflect the expenses by unit or expenses that are common to the entire facility. PNM eliminated all direct expenses recorded to SJGS Units 2 and 3, and made a percentage reduction to certain SJGS common locations. In addition, PNM normalized the Base Period expense at SJGS Unit 1 to remove non-recurring maintenance expenses that were incurred. Please see PNM Exhibit HEM-4 WP SJGS-2.

Q. HAS PNM REFLECTED THE SJGS PARTICIPATION ALLOCATIONS TO REFLECT THE NEW OWNERSHIP PERCENTAGES BEGINNING JANUARY 1, 2018?

A. Yes. PNM applied the new SJGS participation allocations, reflecting the abandonment of SJGS Units 2 and 3, and PNM's additional ownership interest in SJGS Unit 4. PNM has identified the 65 MW of Unit 4 that PNM will own as merchant plant in the SJGS participation allocators and any expenses associated with this resource is allocated to the Excluded jurisdiction. In addition, PNM reflected the additional ownership of 132 MW in SJGS Unit 4 in the SJGS Participant Allocations, to account for the increased ownership in SJGS Unit 4. PNM also updated the SJGS common participant allocators to reflect the new ownership percentages at SJGS. Please see PNM Exhibit HEM-4 WP AL – 6.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE INSURANCE PREMIUMS FROM THE ADJUSTED BASE PERIOD TO THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM engaged a new property insurance provider starting in October of 2016. The program rate to be applied to the insurable value of plant is $0.041 per $100 of insurable value, which is lower than the previous program rates. Insurable values are based on September 30 balances in a given year. PNM calculated an index that reconciles the estimated gross plant balances to the insurable value. PNM applies this index to the estimated gross plant balances shown in Rule 530 Schedule B-3 in the respective time periods to derive the insurable values. PNM then multiplied the insurable value by the program rate to estimate the property insurance expense for the Test Period. See PNM Exhibit HEM-4 WP OM-20.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE WPM INCENTIVE PLAN EXPENSES FROM THE ADJUSTED BASE PERIOD TO THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM Witness Monfiletto discusses the assumptions included to develop the expense associated with the WPM Incentive Plan. The estimated Test Period expense is $755,889 and is based on WPM headcount and salaries as of June 30, 2016, escalated at 2.5% in 2017, and 3.0% in 2018, then multiplied by the expected 2018 WPM Plan rates. These amounts are included in PNM Exhibit HEM-4 WP OM-4, Column AA.

Q. PLEASE DESCRIBE THE ADJUSTMENTS MADE TO THE PALO VERDE DECOMMISSIONING CREDIT FOR PALO VERDE UNITS 1 AND 2 IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. PNM is not requesting recovery for decommissioning funding for Palo Verde Units 1 and 2 for the Test Period. The decommissioning credit reduces the accretion expense to the amount of funding PNM intends to make to the Nuclear Decommissioning Trust ("NDT"), which is zero. Please refer to the testimony of PNM Witness Eden for further discussion on NDT funding requirements. See PNM Exhibit HEM-4 WP ORB-13 for the calculation of the decommissioning credit for the recovery of nuclear decommissioning funding requirements in the Test Period revenue requirements.

Q. PLEASE SUMMARIZE THE O&M EXPENSES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS THAT ARE ALLOCATED FROM SHARED SERVICES.

A. The starting point for the Test Period O&M was the Adjusted Base Period O&M; except for the specific items discussed below. Non-labor O&M expenses in the Adjusted Base Period were escalated at the rate of 0.0% for 2017 and 1.5% for 2018 to project the Test Period O&M expense. PNM Exhibit HEM–4 WP SS-3 provides a summary of the adjustments to O&M that have been specifically identified and forecasted based on individual factors. Specifically, these include labor (including overtime expense), incentive compensation, insurance premiums associated with investment in plant, and active medical and dental expense.

Except for incentive compensation, the adjustments made for Shared Services are the same as those discussed above for these types of expenses when incurred directly by PNM.

Q. WHAT OTHER INCENTIVE COMPENSATION HAS PNM INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. PNM is only seeking inclusion for incentive compensation related to the Business Unit Group Incentive Program. The development of incentive compensation amounts for specific employee groups for the Test Period revenue requirements is discussed in more detail by PNM Witness Monfiletto. PNM Exhibit HEM-4 WP SS-10 and SS-11 provide the detail of incentive compensation amounts included in the Test Period revenue requirements.

Q. HOW WERE SHARED SERVICES O&M EXPENSES ALLOCATED TO PNM IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. PNM used the 2017 CAM allocation rates to allocate O&M expenses from Shared Services to PNM for the Test Period. See PNM Exhibit HEM-4 WP SS-6 for 2017 CAM allocation rates. All adjustments referenced in my testimony related to Shared Services reflect total amounts, a portion of which are allocated to PNM. Please refer to PNM Exhibit HEM-4 WP-SS-11 for allocation of costs to PNM. PNM has not developed a 2018 CAM, and is not aware of any significant changes to the CAM in 2018 from the amounts estimated in the 2017 CAM.

D. Depreciation and Amortization Expense

Q. WHAT DEPRECIATION RATES HAS PNM USED TO ESTIMATE DEPRECIATION EXPENSE IN THE TEST PERIOD AND LINKAGE DATA?

A. PNM has utilized the depreciation rates that were recently approved in the 2015 Rate Case to develop the linkage data and Test Period depreciation and amortization expense. PNM reflected the implementation of the new depreciation rates beginning October 1, 2016. See PNM Exhibit HEM-4 WP Plant-7.

Q. IS PNM PROPOSING ANY CHANGES TO THE DEPRECIATION RATES THAT WERE APPROVED IN THE 2015 RATE CASE IN THIS FILING?

A. No. PNM is not proposing to change any depreciation rates in this proceeding. However, PNM is reflecting accelerated depreciation on the SNCR equipment at SJGS.

Q. EXPLAIN THE ACCELERATED DEPRECIATION ON SNCR EQUIPMENT.

A. Pursuant to Paragraph 9 of the Modified Stipulation approved in the BART Case, SNCR capital costs are to be depreciated at a rate that provides for full recovery by July 1, 2022. PNM developed the depreciation expense by identifying the net book value of the SNCR capital costs as of December 31, 2017, and setting the depreciation expense to recover the undepreciated investment by July 1, 2022.

This results in an increase to depreciation expense of $3.3 million as compared to existing depreciation expense at the approved SJGS depreciation rates. See PNM Exhibit HEM-4 WP Plant-16.

Q. HOW HAS PNM PROJECTED DEPRECIATION AND AMORTIZATION EXPENSES FOR THE TEST PERIOD?

A. Depreciation expense on plant additions and existing assets for the Test Period is based upon the recently approved depreciation rates from the 2015 Rate Case. PNM also adjusted the Test Period accumulated depreciation reserve to reflect the effect of depreciation expense accruals based on these depreciation rates.

For example, if a plant addition was expected to be in service in July 2018, then the additional depreciation expense and associated accumulated depreciation reserve were determined for the period August 2018 through December 2018. This was done instead of annualizing depreciation to reflect a full year of depreciation expense on the addition, as would be the case if a historical Test Period were being proposed. Please see PNM Exhibit HEM–4 WP Plant-4 and WP Plant – 12 for details of the calculation.

Q. DID PNM MANUALLY CALCULATE DEPRECIATION EXPENSE FOR ANY ASSETS IN THE LINKAGE DATA AND TEST PERIOD?

A. Yes. Assets recorded in FERC plant account 303, Miscellaneous Intangible Plant, are depreciated based on existing amortization schedules of the underlying assets

recorded in the Company's books and records. Given the volume and complexity of these amortizations, PNM has not added the functionality of these amortizations into the functional model. In addition, the depreciation expense associated with the ARC Asset associated with AROs are also manually input based on straight line amortizations per the Company's books and records. See PNM Exhibit HEM-4 WP Plant-4.

E. General Taxes

Q. PLEASE DESCRIBE HOW PROPERTY TAXES WERE DERIVED IN THE TEST PERIOD REVENUE REQUIREMENT.

A. Property taxes are derived in the Test Period by multiplying the taxable plant in service balance of the prior year balance times the expected property tax rates for the period. For example, the property tax expense for the Test Period was estimated based on the expected taxable plant in service balance as of December 2017 multiplied by the estimated property tax rates for 2018. See PNM Exhibit HEM-4 WP GT-2 for calculation of property tax expense reflected in the Test Period revenue requirements and PNM Exhibit HEM-4 WP GT-3 for calculation of property tax rates for 2017 and 2018.

Q. HOW HAS PNM CALCULATED PROPERTY TAX RATES IN THE TEST PERIOD REVENUE REQUIREMENT?

A. For New Mexico assets, actual 2015 property tax rates were identified for San Juan, Four Corners, Reeves, Afton, Luna, Lordsburg, Algodones, and La Luz. A composite rate for total New Mexico plant was also computed. These rates were then escalated to estimate the 2018 rates to be used in the Test Period calculation of property tax expense. The escalation rate was determined by calculating the average increase in New Mexico property tax rates over the years 2011-2015, expressed as a percentage of the rate. Each of the 2015 rates listed above was escalated by this percentage to determine the estimated 2016 rate, again to determine the estimated 2017 rate, and again to determine the estimated 2018 rate. The calculation of the New Mexico property tax rates is included in PNM Exhibit HEM-4 WP GT-3. For Arizona assets, an effective tax rate was computed based on taxes paid in the Base Period divided by December 2015 net plant balances. These Arizona rates were used for estimated 2016, 2017 and Test Period tax calculations, with no escalation.

Q. PLEASE DESCRIBE HOW PAYROLL TAXES WERE DERIVED IN THE TEST PERIOD REVENUE REQUIREMENTS.

A. As discussed earlier, PNM normalized the labor expenses included in the Test Period revenue requirements, including incentive compensation. In addition, PNM adjusted the labor expenses to reflect expected annual merit increases for wages paid to PNM employees and expected FTE reductions. Based on estimated

labor dollars, PNM calculated the expected payroll tax expense to be incurred in the Test Period. The percentage applied to labor dollars to calculate the cost of social security, Medicare, and federal and state unemployment taxes for PNM (other than San Juan), San Juan, and Shared Services were: 7.84%, 6.89%, and 7.1%, respectively. These percentages are based on effective rates, taking into consideration wage-based limits on certain payroll taxes, and are calculated in the determination of capital loads. Please refer to the discussion of payroll loads included in capital loads later in my testimony. PNM has not calculated a credit to the payroll tax expense for capitalized labor in the general taxes section based on the methodology used to determine the payroll tax expense in the linkage data and Test Period. PNM only included payroll tax expense expected to be incurred for labor that is recorded to the income statement, and not for labor that is capitalized. As a result, the amount of payroll taxes included in the Test Period revenue requirements is already reflected net of any payroll taxes that would be capitalized. See PNM Exhibit HEM-4 WP GT-4 for a summary of payroll taxes included in the Test Period.

Q. WHAT ARE THE OTHER COMPONENTS OF GENERAL TAXES AND HOW WERE THEY DERIVED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. The other components of general taxes include Native American taxes and other miscellaneous taxes paid on jointly owned facilities, including Four Corners and Palo Verde. PNM used the same escalation factor as applied to O&M of 1.5% for

one year to develop the Test Period revenue requirements. See PNM Exhibit HEM-4 WP GT-6.

F. Other Allowable Expenses

Q. PLEASE IDENTIFY THE COMPONENTS INCLUDED FOR RECOVERY IN OTHER ALLOWABLE EXPENSES BASED ON AMORTIZATION SCHEDULES.

A. PNM Exhibit HEM-4 WP OA-1 summarizes the requested other allowable expenses used to develop the Test Period revenue requirements. These other allowable expenses include the following:

- *Amortization of the renewable grants* – These amounts are collected under Rider 36 and are not subject to the revenue requirements in this proceeding.
- *Amortization of Las Vegas decommissioning regulatory asset and liability* These reflect the amortization of the previously approved Las Vegas decommissioning regulatory assets and liability. Please refer to discussion earlier in my testimony.
- *Amortization of regulatory assets and liabilities for costs requested in this proceeding* – These include the amortization for the regulatory assets related to the 2016 rate case expenses, the undepreciated value of SJGS Units 2 and 3, and costs associated with the SJGS Coal Agreement. There is no amortization expense associated with these regulatory assets in the Adjusted Base Period or

the linkage data. Amortization does not begin until rates from this proceeding are in effect.

- *Amortization of loss on reacquired debt* – Inclusion of loss on reacquired debt has been reflected in the linkage data and the Test Period revenue requirements based on existing amortization schedules. Loss on reacquired debt is amortized over the remaining life of the term of the bonds that were issued and reacquired. Please refer to Section X of my testimony for further discussion.
- *Accretion expense for AROs* – Inclusion of accretion expense incurred associated with the production AROs (excluding Palo Verde) and distribution AROs, based on the current accretion schedules. Please refer to Section VII of my testimony for further discussion.

Q. PLEASE DISCUSS THE TREATMENT OF INTEREST ON CUSTOMER DEPOSITS ALSO INCLUDED IN OTHER ALLOWABLE EXPENSES IN THE TEST PERIOD REVENUE REQUIREMENT.

A. Consistent with past rate case treatment, PNM included recovery of interest on customer deposits. PNM does not expect any significant changes to customer deposit balances or to the interest charged on customer deposits, so PNM used the amounts included in the Adjusted Base Period as the forecast for the Test Period revenue requirement.

G. Income Tax Calculation

Q. HOW HAS PNM CALCULATED THE INCOME TAX EXPENSES INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. The income tax expense included in the Test Period revenue requirements is based on the applicable 35% federal and 5.90% state income tax rates that are expected to be effective in the Test Period. The state income tax rate is lower than reflected in the Base Period and Adjusted Base Period as a result of tax law changes that phase in lower state corporate tax rates over five years. Please refer to PNM Witness Harland for further discussion of the income tax expense included in the Test Period revenue requirements.

H. Revenue Credits

Q. HOW WERE THE AMOUNTS FOR THE REVENUE CREDITS DEVELOPED FOR PURPOSES OF THE TEST PERIOD REVENUE REQUIREMENTS?

A. PNM forecasted an increase in revenues of 1.5% for one period consistent with the proposed escalation reflected in general O&M expenses as discussed earlier in my testimony. PNM forecasts additional deferral payment revenues for a future long-term PTP customer in the Test Period.

Q. WHY DID PNM FORECAST THE ADDITIONAL DEFERRAL PAYMENT REVENUES?

A. PNM is expecting an additional long-term PTP customer to reserve capacity on PNM's system. The customer is expected to begin taking the long-term PTP service in 2019 after certain system upgrades are complete. In order to ensure the capacity is available for the customer in 2019, the PTP customer must make a deferral payment to reserve capacity during the Test Period. See PNM Exhibit HEM-4 WP RC-6. Please refer to the testimony of PNM Witness Mechenbier for further discussion.

I. Other Miscellaneous Items

Q. HOW HAS PNM DETERMINED THE GENERATION ENERGY AND DEMAND ALLOCATORS INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. As discussed earlier in my testimony, the Company will no longer have any FERC wholesale generation customers during the Test Period. Therefore, rate base and operating expenses allocated based on generation energy and demand are to be allocated 100% to PNM Retail. The demand information for PNM Retail is calculated using 12 CP data as shown by PNM Witness Chan. Please see PNM Exhibit HEM-4 WP AL-4 for a summary of generation demand and energy, transmission demand and sales allocators in the Test Period.

Q. HOW HAS PNM DETERMINED THE TRANSMISSION DEMAND ALLOCATORS INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENTS?

A. The Test Period transmission demand allocators reflect the new long-term PTP contracts the Company is expected to execute prior to the start of the Test Period and additional PNM Retail demand expected with Rate 36B. These include reflecting transmission demand associated with two new long term point-to-point agreements, and the elimination of NEC and City of Aztec from the transmission allocators. The support for the transmission demand allocator for the Test Period is included in PNM Exhibit HEM-4 WP AL-9. See the testimony of PNM Witness Mechenbier for further discussion on transmission demands for new agreements.

Q. HOW HAS PNM ALLOCATED THE 65 MW OF SJGS UNIT 4 THAT ARE EXCLUDED FROM PNM RETAIL PURSUANT TO THE FINAL ORDER IN THE BART CASE?

A. PNM has directly assigned all costs associated with the 65 MW of SJGS Unit 4 to the Excluded jurisdiction. In addition, PNM has reflected the 65 MW of SJGS Unit 4 in the determination of indirect allocators (i.e. Net Plant Allocators and Wages and Salaries allocators) to ensure PNM appropriately allocates indirect costs to the 65 MW of SJGS Unit 4.

Q. HOW HAS PNM ALLOCATED PALO VERDE UNIT 3 PURSUANT TO THE FINAL ORDER IN THE BART CASE?

A. In the BART Case, PNM was granted a Certificate of Public Convenience & Necessity ("CCN") for Palo Verde Unit 3 to become a jurisdictional resource effective January 1, 2018 to replace retired capacity from SJGS Units 2 and 3. PNM allocated the capital investment, and all related operating expenses, including fuel, to PNM Retail, in the same manner that Palo Verde Units 1 and 2 are allocated to PNM Retail.

Q. WHAT ROE IS PNM PROPOSING TO USE IN THE DETERMINATION OF THE TEST PERIOD REVENUE REQUIREMENTS?

A. PNM is proposing to use an ROE of 10.125% in the Test Period, as recommended by PNM Witness Hevert. See Rule 530 Schedule A-5 Test for the capital structure utilized in the determination of the Test Period revenue requirements.

V. ACCOUNTING BOOKS AND RECORDS

Q. PLEASE EXPLAIN HOW PNM DEVELOPS AND MAINTAINS ITS ACCOUNTING BOOKS AND RECORDS.

A. The Company develops and maintains its accounting books and records in compliance with the USOA prescribed for public utilities by FERC and as prescribed by the Commission in 17.3.510.10.A NMAC and in accordance with

GAAP. The Company's financial statements are subject to quarterly reviews and annual audits by the Company's external auditor, KPMG.

Administratively, the Company maintains its accounting books and records in various integrated computer software programs including PeopleSoft (general ledger, accounts payable, payroll), PowerPlan (asset management), Banner (retail billing), work order management systems and various other applications.

Q. WHAT ARE THE KEY COMPONENTS OF THE COMPANY'S ACCOUNTING STRUCTURE?

A. The key components of the Company's accounting structure include FERC account, cost type, and location. The Company's FERC account is a six-digit numerical value based on the USOA. For example, FERC account 101000 is electric plant in-service and is based on USOA account 101.

Cost types identify specific types of costs incurred consistent with the term "elements of cost" as defined in FTY Rule. These include cost types such as: labor, materials and outside services. Please see PNM Exhibit HEM-8 for the list of cost types used by the Company. Location is used to identify costs by physical locations associated with PNM facilities, or by a general area of the Company to allow recording of expenses that are not identifiable as a specific location cost. As outlined in the CAM discussed earlier in my testimony, PNM utility common locations and Shared Services locations are used to record transactions to perform

certain allocations. Please see PNM Exhibit HEM-8 for the list of locations used by the Company.

VI. LEAD-LAG STUDY

Q. PLEASE EXPLAIN WHAT "LEAD-LAG" MEANS IN THE CONTEXT OF UTILITY REGULATION AND ACCOUNTING.

A. A lead-lag study is a method used to measure the amount of cash working capital required to finance a utility's day-to-day operations. The study seeks to measure and quantify the differences in timing between the receipt of revenues from customers and the time the service is rendered (lag) and the period the utility has from the time it incurs an expense until cash is actually disbursed in payment for the expense (lead). The differences between these periods are expressed in days. The areas covered in the study include:

- Meter reading lag
- Billing lag
- Collection lag
- Fuel expense lead
- Payroll lead
- Taxes other than income lead
- Allocated charges lead
- Income taxes lead
- Other O&M leads

Q. WHAT ROLE DOES THE LEAD-LAG STUDY PLAY WITH RESPECT TO PNM'S CASH WORKING CAPITAL?

A. The resulting revenue lag days and expense lead days are used to calculate the cash working capital allowance included in rate base. The calculation of the cash working capital amount is included in Rule 530 Schedule E-1. The resulting cash working capital balance developed through the lead-lag study discussed below is reasonable and is included in the Base Period and Test Period revenue requirements.

Q. WAS A LEAD-LAG STUDY CONDUCTED TO ESTABLISH THE LEAD-LAG DAYS FOR PNM'S CASH WORKING CAPITAL CALCULATION?

A. Yes. In 2016, the Company engaged PwC to conduct a lead-lag study based on data from the period of July 1, 2015 through June 30, 2016. The resulting lead-lag days were used to calculate the cash working capital allowance included in the revenue requirements. The study was performed consistent with the methodology employed in the Company's previous rate cases, including the 2015 Rate Case.

Q. HOW IS THE EXPENSE LEAD DETERMINED?

A. The expense lead is the average number of days from the time of service to the date the Company remits payment for the service to the vendor. The expense lead for each invoice is the difference between the number of days it takes for the Company's payment to the vendor to clear the bank and the mid-point date of each invoice's service period.

Q. HOW IS REVENUE LAG DETERMINED?

A. The revenue lag is the average time period (calculated in days) between the period in which service is rendered to the customer and the date on which payment is received from the customer. The revenue lag is determined by calculating the meter reading lag, billing lag, and collection lag.

Meter reading lag represents the time from when the customer receives service to the day that the meter is read. Actual meter reading lag is calculated as the midpoint of the service period.

Billing lag is the period from the meter reading date until the date the customer is billed. Because the Company has three different methods of billing its electric sales, billing lag was calculated separately for each method, and the weighted average was utilized in calculating the final revenue lag days.

Collection lag is the period from the date which the customer is billed until the date the payment is received. The collection lag was calculated using the turnover approach, which is calculated by dividing the daily revenue requirement by revenue category into the average monthly accounts receivable balance by revenue category.

VII. ASSET RETIREMENT OBLIGATIONS

Q. WHAT IS AN ASSET RETIREMENT OBLIGATION?

A. An ARO represents an entity's legal obligation associated with the retirement of a tangible long-lived asset.

Q. HOW ARE AROS DETERMINED?

A. The Company continuously evaluates its legal retirement obligations on long-lived assets, including commissioning independent decommissioning studies on its generation plants.

Q. IN RESPONSE TO THE DIRECTIVE IN ORDERING PARAGRAPH EE OF THE 2015 RATE CASE CORRECTED RECOMMENDED DECISION, IS PNM'S ACCOUNTING FOR THE AROS IN ACCORDANCE WITH ACCOUNTING STANDARDS?

A. Yes. PNM accounts for the AROs in accordance with GAAP, including the straight-line depreciation of the initial ARC Asset and the accretion expense associated with the ARO liabilities reflect the time value of money. I discuss these in more detail below.

Q. PLEASE DESCRIBE THE APPLICABLE ACCOUNTING GUIDANCE WITH REGARD TO AROS.

A. PNM accounts for its AROs in accordance with ASC Topic 410-20, which provides guidance on asset retirement obligations and environmental remediation liabilities resulting from normal operations of long-lived assets.

Q. HOW ARE AROS TREATED FROM AN ACCOUNTING STANDPOINT?

A. If the Company determines a legal obligation exists to retire a tangible long-lived asset in the future, the Company obtains cost estimates for the retirement of the asset and the settlement of the legal obligation. Typically, these cost estimates are provided as cash flows in current dollars, which are escalated to the settlement date of the retirement obligation using an appropriate inflation rate. The escalated cash flow estimates are then discounted using the current credit adjusted risk free rate to determine the present value of the ARO. An ARO liability is recorded at the present value of the legal obligation to retire the tangible long-lived asset. A corresponding ARC Asset is capitalized by increasing the carrying amount of the related tangible long-lived asset by the same amount as the ARO liability. The ARC Asset is depreciated on a straight-line basis over the life of the retirement obligation.

If the facts and circumstances of an existing ARO change or the Company receives a new cost estimate for its AROs, both the ARO liability and ARC Asset are adjusted by recording a new ARO layer in the same manner as described

above. Please refer to PNM Exhibit HEM-4 WP ORB-13 for a summary of PNM's AROs.

Q. WHAT IS ACCRETION EXPENSE AS IT RELATES TO AN ARO LIABILITY AND HOW IS IT CALCULATED?

A. Accretion expense is recorded to recognize the time value of money, with an offset recorded as an increase to the ARO liability. Accretion expense is calculated by multiplying the present value of the ARO liability by the credit adjusted risk free rate originally used to discount the escalated cash flow estimates to their present value. Please refer to PNM Exhibit HEM-4 WP ORB-11 and WP ORB-12, which include the scheduled accretion amounts as prescribed by GAAP. PNM utilized these scheduled accretion expenses to develop the linkage data and the amounts included in the Test Period. Due to the complexity of these calculations, the accretion amounts are not fully functional in the model.

VIII. COAL MINE RECLAMATION

Q. IS PNM'S COAL MINE RECLAMATION OBLIGATION CONSIDERED AN ARO?

A. No. PNM does not own the coal mines that supply coal to SJGS and Four Corners and, therefore, the coal mine reclamation obligation does not meet the definition of an ARO.

Q. PLEASE DESCRIBE THE APPLICABLE ACCOUNTING GUIDANCE WITH REGARD TO COAL MINE RECLAMATION.

A. PNM accounts for its coal mine reclamation obligation in accordance with Statement of Financial Accounting Concepts No. 7 ("CON7"), which applies the use of cash flow information and present value in accounting measurements.

Q. HAS PNM CALCULATED THE COAL MINE RECLAMATION EXPENSE IN ACCORDANCE WITH THE APPLICABLE ACCOUNTING GUIDANCE?

A. Yes. PNM calculated the coal mine accretion expense in accordance with CON7 by taking the present value of the reclamation liability multiplied by the credit-adjusted incremental borrowing rate.

To determine the reclamation liability on the balance sheet date, PNM begins with the cash flows from PNM Exhibit HEM-9, that assume the shutdown of SJGS Units 2 and 3 on December 31, 2017, and the operation of the plant's two remaining units through the assumed plant and coal mine closure date in 2053, based on PNM's existing share (46.297%) of the cash flows in 2015 dollars and escalates those dollars to reflect inflation, except for dollars identified as Post-2017. Post-2017 dollars are reclamation costs resulting from disturbances to the mine area, which occur after December 31, 2017. The Post-2017 dollars represent a fairly small portion of the total reclamation costs. For Post-2017 dollars, PNM's share of the obligation associated with the underground mine

reclamation increases to reflect PNM's new common ownership percentage, or 58.671% (excluding the portion attributable to 65 MW which is not being included in rates). The escalated cash flows are then discounted using PNM's credit-adjusted incremental borrowing rate to determine the present value of the reclamation liability.

PNM Exhibit HEM-10, provides the schedule of coal mine reclamation accretion expense for SJGS and Four Corners, including ash period costs (costs associated with keeping the surface mine pits open to backfill with coal ash; backfilling avoids the costs associated with disposal of the ash in landfills and backfilling the surface mine pits with more expensive fill material) for the Linkage data and Test Period. PNM Exhibit HEM-10 also provides the assumptions that were used to derive the monthly coal mine decommissioning expenses. These amounts are included in PNM Exhibit HEM-4 WP Fuel for the linkage data and Test Period.

IX. PENSION AND OTHER POST RETIREMENT BENEFITS

Q. DOES THE COMPANY HAVE PENSION PLANS?

A. Yes, the Company has two pension plans, a qualified plan and a non-qualified plan, as defined by the Employee Retirement Security Act. The qualified plan is the PNM Resources, Inc. Employee's Retirement Plan ("Qualified Plan"). The NQRP is the PNM Resources, Inc. Non-Qualified Retirement Plan which includes

the Accelerated Management Performance Plan, the Service Bonus Plan, and the Supplemental Executive Retirement Plan.

Q. IS PNM SEEKING TO INCLUDE ANY AMOUNTS IN ITS RATE BASE ASSOCIATED WITH PENSION ASSETS AND LIABILITIES?

A. Yes. PNM has included an asset in rate base for PNM's share of the Qualified Plan (the "Prepaid Pension Asset").

In addition, PNM is including a rate base reduction for PNM's share of the NQRP. Reducing rate base by the liability balance of the NQRP was approved in the 2007 Rate Case to be consistent with the inclusion of the Prepaid Pension Asset in rate base. Please refer to PNM Exhibit HEM-4, WP ORB-6 for the calculation.

Q. PLEASE DESCRIBE THE PREPAID PENSION ASSET.

A. The Prepaid Pension Asset is the result of contributions made by PNM to the Pension trust in excess of amounts that were expensed and recovered from customers in accordance with ASC 715-30. More specifically, the Prepaid Pension Asset included in rate base takes into account the total pension expense through December 31, 2018, and contributions that have been or will be funded to the pension plan through that date. This amount was then reduced to remove an amount allocable to PNM's now divested gas business (42% of the total). By including the Prepaid Pension Asset in rate base, PNM is proposing to earn a

return on the cash that shareholders have contributed in excess of the amount expensed and recovered from customers. This approach is consistent with past NMPRC cases, including the 2015 Rate Case, the 2010 Rate Case and the 2008 and 2007 Rate Cases. Please refer to PNM Exhibit HEM-4, WP ORB-3 for the calculation of the Prepaid Pension Asset.

Q. HAVE CUSTOMERS BENEFITED FROM THE EXISTENCE OF THE PREPAID PENSION ASSET?

A. Yes. The Prepaid Pension Asset is the result of excess contributions made by the Company over amounts expensed in accordance with accounting guidance and recovered in rates. The excess contributions were made using shareholder capital. These contributions have not yet been reflected as pension expense and have, therefore, not yet been recovered from customers. However, this shareholder capital is now included as assets in the pension plan and is generating a return which translates into lower pension expense charged to customers. Because the Prepaid Pension Asset has not been reflected in the rate process through pension expense and it serves to benefit customers via reduced pension expense, it is appropriate to include the Prepaid Pension Asset in rate base, consistent with past treatment approved by the Commission in previous cases, including the 2007 Rate Case, the 2008 Rate Case, the 2010 Rate Case and the 2015 Rate Case, as well as the treatment accorded in NMPRC Case No. 12-00250-UT (SPS's 2012 Rate Case, which was affirmed by the New Mexico Supreme Court).

Q. HOW WAS THE AMOUNT WHICH PNM IS SEEKING TO RECOVER FOR THE PREPAID PENSION ASSET DERIVED AND CALCULATED?

A. PNM prepared a cost-benefit analysis consistent with the methodology approved in the final order in the 2015 Rate Case, which is reflected in PNM Exhibit HEM-4, WP ORB-5. This analysis demonstrates that revenue requirements, including a full return on the Prepaid Pension Asset included in rate base, are slightly higher than the expense that would have been included in PNM's revenue requirement calculation absent the additional shareholder funding. Therefore, PNM is proposing to only include the amount of Prepaid Pension Asset in rate base up to the breakeven point in revenue requirements for the expense without the contributions compared to the revenue requirements associated with the inclusion of Prepaid Pension Asset in rate base. This results in a reduction of $12.0 million to the amount that would otherwise be requested for the Prepaid Pension Asset in this proceeding. Including the amount up to the breakeven point allows the Company to earn a fair return on the shareholder funded contributions to the trust, which reduce the pension expense, while ensuring that customers do not pay more than they otherwise would have, had the Company not made the contributions. Please refer to the testimony of PNM Witness Gagne for discussion of contributions to the Company's pension plans.

Q. HAVE THE COMPANY'S CONTRIBUTIONS UNDERLYING THE PREPAID PENSION ASSET BEEN FULLY RECOVERED FROM CUSTOMERS BY THE AMOUNT OF PENSION EXPENSE IN RATES?

A. No. Please see PNM Exhibit HEM-4 WP ORB-4 for an analysis demonstrating that the Company's contributions have exceeded expenses recovered from customers over the life of the Prepaid Pension Asset. This analysis clearly demonstrates that contributions far exceed the amounts recovered, and the Prepaid Pension Asset appropriately reflects contributions in excess of amounts recovered from customers.

Q. PLEASE DESCRIBE THE ANALYSIS PERFORMED IN PNM EXHIBIT HEM-4 WP ORB-4.

A. This analysis compares cash contributions made by the Company (Column D) to pension expense included in rates (Column E) since 1987, the year the Company began recognizing pension costs in the manner they are recognized today. The difference between these two amounts results in excess shareholder cash contributions made to the plan in each year (Column F). The accumulation of the excess shareholder cash contributions since 1987 represents the total amount of Prepaid Pension Asset that could be included in rate base.

Q. HOW IS PNM EXHIBIT HEM-4, WP ORB-4 DIFFERENT FROM PNM EXHIBIT HEM-4 WP ORB-5?

A. PNM Exhibit HEM-4 WP ORB-5 compares the Test Period revenue requirements including the Prepaid Pension Asset of $156.4 million to what the Test Period revenue requirements would have been if not for the excess contributions which would have resulted in higher pension expense. The Prepaid Pension Asset of

$156.4 million was calculated by comparing Company contributions to actual pension expense reflected on the financial statements of the Company. This exhibit demonstrates that customers benefit from the Prepaid Pension Asset through lower pension expense.

As described above, PNM Exhibit HEM-4 WP ORB 4 calculates the Prepaid Pension Asset by comparing Company contributions to amounts of pension expense included in rates and collected from customers. In preparing PNM Exhibit HEM-4 WP ORB 4, the Company started with the information included in the 2015 Rate Case through the end of the Test Period in this filing (December 31, 2018).

Q. WHAT IS THE RESULT OF THE ANALYSIS PERFORMED IN PNM EXHIBIT HEM-4, WP ORB-4?

A. PNM Exhibit HEM-4, WP ORB-4 shows that the amounts collected from customers have not exceeded the amounts funded to the pension plan. This analysis demonstrates that the amount included in the Test Period rate base, $156.4 million, is less than the cumulative amount of excess shareholder cash contributions over the life of the Prepaid Pension Asset, $179.1 million.

Q. IS PNM SEEKING RECOVERY OF EXPENSES ASSOCIATED WITH RETIREE MEDICAL AND PENSION EXPENSES?

A. Yes.

Q. WHAT IS THE BASIS FOR THESE EXPENSES?

A. As discussed by PNM Witness Gagne, PNM's pension, retiree medical, and Non-Qualified retirement plan expense is based on actuarial calculations prepared by PNM's actuary, Willis Towers Watson, in accordance with ASC 715-30 and ASC 715-60. ASC 715-60 is the applicable GAAP for PBOP, which includes PNM's retiree medical plan.

Q. ARE THERE SPECIAL REQUIREMENTS FOR HOW PBOP COSTS NEED TO BE TREATED IN THIS CASE?

A. Yes. In Case No. 2529, the Commission addressed the funding requirements for the annual Test Period allowance for PBOP costs. In that case, the Commission determined that for any utility adopting full accrual accounting for PBOP costs in accordance with GAAP accounting requirements for PBOP costs in its cost of service, must fund such amounts through an external trust. In addition, a utility must report the status of its PBOP program and the initiatives taken under the program to reduce or control costs since its last rate case and provide the effects of these cost saving initiatives on the overall cost of the PBOP plan, the annual cost benefits, and the impacts on current revenue requirements. Please see the testimony of PNM Witness Monfiletto for discussion of the cost saving initiatives. In compliance with the Final Order in Case No. 2529, all PBOP accrual amounts booked and deemed recovered in rates since the Commission's Order in Case No. 2529 have been funded through an external trust.

Q. IS THERE A NET BENEFIT TO CUSTOMERS FROM THE FUNDING MECHANISM FOR PBOP?

A. Yes. The specific amount of PBOP costs included in PNM's Test Period revenue requirements is an expense of $2.1 million. See PNM Exhibit HEM-4, WP OM-5. As shown in PNM Exhibit HEM-11, PNM's funding of its ASC 715-60 liability has resulted in a net benefit to customers by lowering this expense by approximately $4.2 million. This is reflected on page 11 of PNM Exhibit HEM-11. In addition, as reflected on page 8 of PNM Exhibit HEM-11, PNM has contributed $7.2 million more to the PBOP Trust than required under Case No. 2529. In the 2015 Rate Case, the amount of PBOP expense included in the cost of service is an expense reduction; therefore, PNM suspended its contributions to the trust upon the implementation of rates resulting from the 2015 Rate Case. Please see PNM Witness Gagne testimony for additional discussion regarding future funding contributions expected by the Company.

X. LOSS ON REACQUIRED DEBT

Q. DID PNM INCLUDE IN THE TEST PERIOD REVENUE REQUIREMENTS PREMIUMS PAID TO REACQUIRE HIGH COST DEBT?

A. Yes. Consistent with the treatment of these costs in prior Commission cases, PNM included in rate base the premiums paid in connection with the refinance of

certain high cost debt. As described below, PNM calculated the benefits to customers as a result of PNM's actions to refinance high cost debt.

Q. ARE THERE SPECIFIC PRIOR COMMISSION ORDERS ON THE RATE BASE TREATMENT OF THE GAIN/LOSS ON REACQUIRED DEBT?

A. Yes. In Case Nos. 1916 and 2262, PNM requested and was granted similar cost of service treatment for its allocated share of the loss on reacquired debt. The inclusion of loss on reacquired debt in the determination of revenue requirements proposed in this filing is consistent with past Commission decisions.

Q. WHAT CRITERIA MUST BE MET TO INCLUDE LOSS ON REACQUIRED DEBT IN THE DETERMINATION OF REVENUE REQUIREMENTS?

A. Specifically, regarding the recovery of loss on reacquired debt, the Recommended Decision of the Hearing Examiner in Case No. 1916, adopted by the Commission, provided as follows:

> The Commission ... will agree to symmetrical treatment for losses in the future; provided, however, that the Company should only incur such losses when it can establish that the benefit to current and future ratepayers (in terms of lower cost of debt) is greater than the cost of paying for those losses.

Q. WHAT IS THE AMOUNT PNM IS REQUESTING TO RECOVER IN THIS PROCEEDING FOR DEBT RETIREMENT COSTS?

A. PNM is seeking a return on and return of the unamortized balance of $21.9 million for costs incurred to refinance high cost debt as shown on PNM Exhibit HEM-4, WP RA-3, page 1.

Q. HAS PNM INCLUDED ANY NEW LOSS ON REACQUIRED DEBT SINCE THE 2015 RATE CASE?

A. Yes. PNM included the loss on reacquired debt of $2.1 million associated with the refinancing of $146 million of long term debt, as discussed in more detail by PNM Witness Eden. This transaction occurred during the linkage period. PNM reflected the lower cost of debt associated with this refinancing in its determination of the Test Period cost of debt. PNM included the new loss on reacquired debt in performing its cost benefit analysis discussed below.

Q. HAVE YOU PERFORMED A CALCULATION SHOWING THAT THE OVERALL COST OF CAPITAL IS LOWER WITH THESE ANTICIPATED LONG-TERM DEBT RETIREMENTS?

A. Yes. As shown in PNM Exhibit HEM-4, WP RA-3, page 2, the overall cost of capital would have been 7.85% instead of 7.51%, as shown in Rule 530 Schedule A-5 Test, had PNM not retired or refinanced its long-term debt. The change in the overall cost of debt is driven by the debt retirements, as shown on PNM Exhibit HEM-4, WP RA-3, page 3. Without the debt retirements, the Company's

cost of debt would have been 5.61% versus the 4.93% included in the cost of capital in this proceeding.

Q. DO THE SAVINGS IN TERMS OF REVENUE REQUIREMENTS OUTWEIGH THE COST OF INCLUDING THE LOSS ON REACQUIRED DEBT IN THE COST OF SERVICE?

A. Yes. The calculation in PNM Exhibit HEM-4, WP RA-3, page 1 demonstrates a net benefit to PNM customers of $3,606,279 in the form of lower annual revenue requirements, when comparing the revenue requirements with and without the refinancing of the high-cost debt after taking into account the costs of these actions. The calculation of this net benefit to customers is shown in PNM Exhibit HEM-4, WP RA-3, page 1.

XI. CAPITAL INVESTMENTS AND THE BUDGET PROCESSES

Q. PLEASE SUMMARIZE HOW THE CAPITAL PROJECTS INCLUDED IN THIS FILING WERE SELECTED.

A. The selection process is comprised of three steps: 1) identification of need for a project; 2) availability of funds for investment; and 3) approvals for total annual capital spending.

Q. PLEASE DESCRIBE THE FIRST STEP IN THE CAPITAL PROJECTS SELECTION PROCESS.

A. The need for any project is determined by the responsible business group based on identified needs. Alternatives to meeting the needs are evaluated and the preferred approach is identified. Each business group, New Mexico Operations for Transmission and Distribution ("NM OPS"), Generation, and Shared Services, which is primarily Business Technology Services ("BTS"), maintains a list of their desired capital projects based on need and priority. PNM Witnesses Mechenbier (NM OPS), Olson (Generation) and Mendez (Shared Services, including BTS) address the capital projects selection process for their given business group in their respective testimonies.

Q. HOW ARE CAPITAL PROJECTS PLANNED AND APPROVED?

A. As described above, the business areas are involved in a continual process of identifying and evaluating their investment needs. In addition to business area planning, there is a formal annual capital budgeting process. The formal process starts by determining the amounts that can be funded by the business. There are typically more capital needs than there is funding for these needs, which requires prioritization to ensure capital spending remains within these financial limitations. NM OPS, Generation, and Shared Services utilize these capital allowances to select among the needed capital projects to stay within the identified amount that can be funded. The portfolios of capital projects including their estimated capital spending and clearings are loaded into Hyperion. Capital spending and clearing

information is then reviewed and approved by the Resource Council (comprised of the Chief Operations Officer, Chief Financial Officer, Chief Information Officer and Vice President Controller, Vice President of New Mexico Operations, Vice President of Generation, and Director of Supply Chain). Final capital budget allowances for the AOP are reviewed and approved by the PNMR Board of Directors ("Board").

Q. PLEASE FURTHER EXPLAIN HOW CAPITAL ALLOWANCES ARE DEVELOPED AND UTILIZED IN THE CAPITAL BUDGETING PROCESS.

A. The capital planning cycle consists of four distinct, but related, planning efforts. The first is PNM's IRP which defines how the Company will address future power needs in New Mexico. PNM filed its last IRP Report with the Commission in July 2014 and will file a new IRP Report in July 2017. The second component of the planning cycle is the development of a Long Range Plan based on modeling and analysis of economic, operational, and financial scenarios, typically over a five-year planning horizon. The final two components entail business planning and budgeting. Business planning and budgeting activities are conducted on an annual basis and are the basis for PNM's AOP, which is finalized in the last quarter of each calendar year.

The AOP process provides individual business segments with five-year capital allowances. These allowances serve as a guide to the individual business groups

to enable them to more accurately plan future capital projects, as well as to manage ongoing projects.

Q. PLEASE EXPLAIN HOW THE CAPITAL BUDGET IS REVIEWED AND APPROVED FOR INCLUSION IN THE AOP.

A. The Resource Council reviews the capital requests of each business group and can request adjustments to the proposed portfolio of capital spending projects. For example, the Resource Council can request changes to the prioritization of projects or to the amount of capital allocated to each business group over the five-year period. If necessary, each business group updates its capital request based on Resource Council feedback and finalizes the list of project requests. Finalized capital budget information for the five-year period is then submitted to the Board, and approval is sought for the capital projects related to the one-year AOP. The Board also reviews all individual projects in excess of $25 million. Once approved by the Board, the first year of the five-year capital plan is formally included in the AOP.

Q. DO PROJECTS REQUIRE ADDITIONAL APPROVAL AFTER THE CAPITAL BUDGET IS FINALIZED IN THE AOP?

A. Yes. Prior to the commencement of a capital project, project managers must submit formal documentation using a Capital Approval Process ("CAP") form, before capital funds will be released. This form contains project-specific information including a description and justification of the project, background,

performance analysis, risk analysis, analysis of potential alternatives, and a final recommendation for the project. For facilities that are jointly owned by PNM and others, such as SJGS and the Luna Energy Facility, PNM utilizes a Capital Budget Item ("CBI") form in order to obtain any necessary participant-owner approval of projects. The CBI form also includes the requirements of the CAP. Upon approval by the plant participants of the CAP/CBI form, the capital spending is authorized and the funds are released for the project.

Q. ARE CAPITAL PROJECTS MONITORED AFTER CAPITAL HAS BEEN RELEASED TO FUND THE PROJECT?

A. Yes. Project managers monitor the status of each specific project, including adherence to the approved budget, scope, and schedule. Though the project manager is responsible for the successful delivery of a project, each business group also has a budget oversight and project monitoring team that continuously evaluates capital projects to ensure spending and clearings are within the project guidelines. Project managers are also required to report any capital projects that have a projected budget over-run of more than ten percent. If a project falls into this category, the project manager must submit a Request for Additional Funds document outlining the rationale for the cost overruns, the additional capital needed to complete the project, and any project tradeoffs, either within that project or among other projects, necessary to ensure approved capital allowances are not exceeded. Upon submission of this form, management reviews the

rationale for the cost overruns and determines if the project will be provided with additional capital.

Q. DOES THE COMPANY MONITOR CAPITAL PROJECTS IN ANY OTHER WAY DURING THE YEAR?

A. Yes. Beyond the individual business groups, monthly and quarterly management reviews of spending and clearings on capital projects are also conducted. During these reviews, management analyzes any differences between budgeted and actual results, and, if necessary, has the authority to alter planned capital projects.

Q. HOW OFTEN DOES THE COMPANY UPDATE ITS CAPITAL BUDGET?

A. The capital budget is typically updated each calendar quarter. Factors outside of PNM's control, including but not limited to, equipment delivery delays, unforeseen scope changes, or emergent projects caused by any number of factors (e.g., storm damage, wild fires, regulatory compliance, and other factors) may require updates to the capital project list during the year. The Company must respond to these changes as necessary.

Due to the long-term nature of many capital projects, updates made during the quarterly reforecast often impact several years of budgeted spending and clearings. For example, an unexpected "must do" project may need to be funded, which may necessitate shifting an existing or planned project to a later year.

Similarly, funds allocated to a cancelled project can be utilized by shifting projects from subsequent years to the current year or by funding a project which had not previously been allocated funds. Trade-offs between projects are identified and reflected in a budget update to ensure annual capital spending is in line with approved capital allowances.

Q. PLEASE SUMMARIZE THE DOCUMENTATION PROVIDED BY OTHER WITNESSES TO SUPPORT CAPITAL ADDITIONS AND HOW IT IS ORGANIZED FOR THIS CASE.

A. For purposes of this case, the Company has categorized capital project additions into one of three tiers based on the size of project clearings during the Capital Investment Period, as outlined below:

- Tier 1 – includes projects with $750,000 or more in clearings for NM OPS & Generation and $500,000 or more in clearings for Shared Services projects in the Linkage and Test periods;
- Tier 2 – includes projects with more than $100,000 and less than $750,000 NM OPS & Generation projects and with more than $100,000 and less than $500,000 in clearings for Shared Services projects during the Linkage and Test periods;
- Tier 3 – includes projects with $100,000 or less in clearings for the Linkage and Test Periods.

While justifications for all capital projects are provided, Tier 1 projects are discussed in more detail because they represent the largest projects and the greatest percentage of capital additions.

Table HEM-5 - Percentage of Clearings in Each Tier

Tier	Dollar Amount	Percent of Total
Tier 1	$685,974,701	90%
Tier 2	$ 71,219,393	9%
Tier 3	$ 6,099,487	1%
Total	$763,293,581	100%

A Tier 1 project's documentation includes a *project estimate approach* section which provides an overview of how the estimated cost for the project was developed. Tier 2 projects provide the same level of documentation as Tier 1 projects but do not include the *project estimate approach* discussion. Tier 3 projects are projects with the lowest dollar amount of clearings during the Capital Investment Period and the documentation includes a general discussion of the projects.

Q. PLEASE DESCRIBE THE CAPITAL BUDGET DOCUMENTATION DEVELOPED TO SUPPORT THE CAPITAL PROJECTS ADDRESSED IN THIS CASE.

A. The capital budget documentation provides basic information on each project including: Project ID, Name, Business Segment (referred to as Company on the documentation), Location, Project Need Justification, Project Alternatives, and

Technical Aspects, and for Tier 1 projects Project Estimate Approach discussion. In addition, monthly spending and clearing data is provided by cost type for each capital project that was placed into service during the Capital Investment Period (July 1, 2016 through December 31, 2018). Projects for which documentation is not provided are those cleared to plant in-service after December 31, 2018, which is the end of the Test Period. PNM is not seeking recovery for any capital investment projects that are projected to be in-service after the end of the Test Period.

Q. PLEASE PROVIDE AN OVERVIEW OF HYPERION, THE COMPANY'S CAPITAL BUDGETING SYSTEM.

A. The Company utilizes Hyperion to compile its capital budgets. For capital projects, information is populated into Hyperion through the use of capital templates, or directly through 'ad hoc' updates. Information in Hyperion is aggregated into basic account strings which contain business segment, company, funding project, cost type, location, home center, and dollar amount data, as well as the month in which forecasted transactions will occur.

Q. DOES HYPERION CONTAIN CAPITAL INFORMATION OTHER THAN FORECASTED CAPITAL?

A. Yes. Actual information from other financial systems such as the general ledger is brought into the Hyperion system. Actual information reflects the Company's books and records and is used to provide ending balances or transactions to

support new budget cycles. The actual capital balances at the end of the Base Period were used as the starting point for the capital forecast in this proceeding.

Q. WHAT CALCULATIONS DOES HYPERION PERFORM TO COMPLETE THE CAPITAL BUDGET?

A. In addition to compiling budgeted data, the Hyperion system performs numerous calculations necessary to complete the budget. For capital, system calculations include items such as the allocation of capital clearings to the various electric plant accounts (e.g., to accounts 353, station equipment, or other electric plant accounts as defined by the FERC Uniform System of Accounts), calculation of capital loads, and the clearing of construction to plant in-service. In some cases, adjustments are needed to complete the capital budget.

Q. PLEASE DESCRIBE ADJUSTMENTS NECESSARY TO COMPLETE THE CAPITAL BUDGET.

A. Additional adjustments are made to reflect assumptions about future activity not otherwise captured during the capital budgeting process and which are necessary to complete the capital budget. For example, Hyperion has limited ability to allocate capital to the electric plant accounts using allocation rates. Such allocation rates are input by system locations which provide only a general functionalization of the type of construction (e.g., distribution, transmission, generation, or corporate/shared services). Hyperion does not have the ability to perform the allocation at a level of detail lower than the location. Therefore,

additional adjustments are made to more accurately allocate capital to the various electric plant accounts. In addition, Hyperion does not perform any system calculations to forecast retirements or cost of removal which are transactions typical of most capital projects.

Q. PLEASE EXPLAIN WHY IT IS NECESSARY TO ALLOCATE PLANT ADDITIONS TO THE ELECTRIC PLANT ACCOUNTS.

A. Capital budget information is loaded to Hyperion at the general ledger account level. Similarly, clearings to plant in service are performed by transferring construction to plant in-service at the general ledger account level (e.g., reduce FERC account 107 CWIP and increase FERC account 101 plant in service). It is necessary to allocate activity to the various electric plant accounts to determine how construction will actually be added to plant in service to calculate depreciation expense which requires a combination of both the location and the electric plant account.

Q. PLEASE DESCRIBE THE PROCESS TO ALLOCATE PLANT ADDITIONS TO THE ELECTRIC PLANT ACCOUNTS.

A. Based on historical clearings to plant in service, electric plant allocation rates are loaded to the system by general ledger location. As previously discussed, general ledger locations define at a summary level the kind of work being performed (e.g., distribution, transmission, generating facility, or corporate/shared services support functions such as IT hardware, telecom, etc.). Hyperion uses plant allocation

rates to perform a system calculation which allocates clearings at each location to the appropriate electric plant accounts. In many cases the location level allocation of clearings to the electric plant accounts reasonably reflects anticipated future capital additions and no additional adjustments are needed. In other cases, more refinement is necessary to better allocate expected additions to the appropriate electric plant accounts.

Q. HOW DID THE COMPANY DETERMINE THE LOCATION ALLOCATION RATES UTILIZED BY HYPERION TO ALLOCATE BUDGETED CLEARINGS TO THE ELECTRIC PLANT ACCOUNTS?

A. The Company reviewed historical additions to plant in service by major operating unit (i.e., distribution, transmission, generating facility, and Shared Services), and funding project type to determine rates used to allocate clearings to the electric plant accounts. PNM utilized a five-year period ending December 31, 2015, to determine average allocation rates to apply to forecasted capital additions for generation and corporate/shared services. Capital expenditures and clearings for the T&D segment have increased significantly in recent years. Therefore, the Company utilized a shorter, two-year, period ending December 31, 2015 to determine electric plant account allocation rates for T&D. The resulting allocation rates were entered into Hyperion by location to perform the systematic allocation of expected clearings to the electric plant accounts. The electric plant account allocation rates for each segment or generating facility are provided in PNM Exhibit HEM-12.

Q. WHAT REFINEMENT IS PROVIDED BY ADJUSTING LOCATION LEVEL ALLOCATION RATES?

A. In some cases, the allocation of clearings at the location level is too broad to reasonably reflect the type of work being performed. For example, certain clearings at a distribution location may be specific to distribution pole replacements. Clearings for this type of work should not be allocated to electric plant accounts not associated with pole replacements. In some cases, capital work specific to certain activities can be identified by the funding project type. An evaluation of capital clearings in such funding projects (such as pole replacements in the previous example) is performed and the results from the system calculation are adjusted to more accurately allocate expected capital additions to the appropriate electric plant account. See PNM Exhibit HEM-12.

Q. PLEASE DESCRIBE HOW THE COMPANY DETERMINES THE ALLOCATION OF CLEARINGS TO CERTAIN PROJECT TYPES.

A. The allocation of expected clearings for certain projects is performed in a manner similar to the location allocation rates. That is, certain allocation rates for project types utilized the same historical periods as were used for the allocation rates. See PNM Exhibit HEM-12.

Q. PLEASE DESCRIBE COST OF REMOVAL AND WHY IT IS NECESSARY TO ADJUST FOR COST OF REMOVAL IN THE CAPITAL BUDGET.

A. As defined in the FERC USOA, cost of removal means the demolition, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental materials. The majority of capital projects are performed to replace existing capital assets; therefore, it is not appropriate to abandon the retired assets in place. Instead, these assets are removed and disposed of, and the cost of these activities reflects the cost of removal. The Company does not separately budget removal costs. Instead, anticipated cost of removal is budgeted in Hyperion as a component of CWIP and, like CWIP, is cleared to plant in service at anticipated completion dates. Therefore, it is necessary to reduce gross plant in service to reflect anticipated removal costs.

Q. PLEASE DESCRIBE HOW GROSS PLANT IN SERVICE IS ADJUSTED IN THE BUDGET FOR FORECASTED COST OF REMOVAL.

A. Forecasted cost of removal is determined using an estimated cost of removal rate (percentage) associated with capital expenditures by operating unit (i.e., distribution, transmission, individual generating plants, and corporate/shared services) based on historical experience, adjusting for changes in capital spending patterns, if necessary. The historical periods used are the same as those used to calculate the allocation of clearings to the electric plant accounts discussed earlier. Cost of removal is applied using "contra" funding projects. "Contra" funding projects reflect activities and balances to offset, or reduce other budgeted activities. For cost of removal, the "contra" serves to reduce forecasted clearings

to plant in service and the provision for accumulated depreciation which reflects how forecasted cost of removal will actually be recorded (i.e., as a component of accumulated depreciation). Similar to other clearings to plant in service, the cost of removal "contra" must be allocated to the electric plant accounts, which is accomplished using the allocation to electric plant accounts process previously discussed. Corporate/shared services assets typically do not have cost of removal due to the nature of capital projects at the corporate/shared services entity. There are typically limited costs associated with removing a software system, or removing office equipment. Therefore, the budget does not include a forecast for cost of removal for the corporate segment. PNM Exhibit HEM-13 provides historical CWIP and cost of removal expenditures (reflected in the exhibit as "RWIP") used to calculate forecasted cost of removal rates.

Q. PLEASE DESCRIBE RETIREMENTS AND WHY IT IS NECESSARY TO ADJUST FOR RETIREMENTS IN THE CAPITAL BUDGET.

A. A retirement occurs when an item of plant in service which, when retired, with or without replacement, is accounted for by crediting the book cost to the electric plant account in which it is included. In other words, a retirement occurs when an asset is removed from plant in service regardless of replacement. The Company forecast the retirement of specific assets as part of its capital budgeting process based on historical retirement activity as a basis for forecasting future retirements. PNM Exhibit HEM-14 provides for the historical retirements and provides retirements for linkage data and the Test Period.

Q. PLEASE DESCRIBE HOW THE COMPANY HAS ADJUSTED PLANT IN SERVICE FOR RETIREMENTS.

A. PNM adjusted the plant in service for estimated retirements (dollar amounts) by major operating unit (i.e., distribution, transmission, individual generating plants and corporate/shared service) based on historical experience, adjusting as necessary for changes in retirement patterns. The historical periods used are the same as those used to calculate the allocation of clearings to the electric plant accounts and for cost of removal. However, for general plant assets (i.e., plant accounts 390 – 399) in distribution, transmission, generation and corporate/shared services, forecasted retirements are assumed to occur when assets are fully depreciated. Similar to cost of removal, retirements are applied using "contra" funding projects as reductions to electric plant in-service and accumulated depreciation.

XII. CAPITAL LOADS

Q. WHAT IS A CAPITAL LOAD?

A. A capital load, normally referred to as a "load" or a "load factor", is the percentage of additional costs to be applied to base construction costs to reflect indirect costs incurred in support of the construction project.

Q. WHAT IS THE REASON THAT LOADS ARE APPLIED TO CAPITAL PROJECTS?

A. Direct costs are charged to each project during the construction phase of a capital project. In addition to these direct costs, the Company incurs costs in support of these construction activities that are administratively burdensome to direct charge to individual projects. These support costs are applied to construction projects based on a load factor that is applied to direct costs. PNM utilizes capital load factors for payroll loads, material loads, engineering and supervision ("E&S") load, capitalized fleet load, and A&G load. It is not cost effective or practical to charge support costs to each individual capital project; therefore, PNM utilizes capital loads to properly assign these costs to construction projects. In addition, the Company applies AFUDC and capitalized interest loads to capital projects using calculated rates as discussed later in my testimony.

Q. PLEASE EXPLAIN THE CAPITAL LOAD FACTORS THAT HAVE BEEN APPLIED TO PNM'S CAPITAL SPENDING IN THIS CASE.

A. Generally, capital load factors are calculated using actual and budget data in the year before they are used (e.g., 2016 load factors are calculated in 2015). Please see PNM Exhibit HEM-15 for a list of these capital load factors for 2016 and projected for 2017. PNM utilized the 2017 capital load factors for 2018, because PNM doesn't anticipate significant changes to these load factors.

A description of these loads and how the amounts are determined is provided below.

- Payroll loads consist of payroll taxes ("PRT"), I&D, and P&B costs. Payroll loads are applied to all labor costs included in construction projects. The purpose of payroll loads is to recognize the additional overhead expense to capital labor for these expenses. PRT consists of FICA, FUTA and SUTA expenses. I&D consists of insurance premiums and claims expenses. P&B consists of premiums for benefit costs. The allocation of these costs to capital projects is based on labor dollars charged to the project.
- Material loads consist of minor material, stores, non-stores, and purchasing costs that are applied to material in company warehouses. These loads allocate the cost of inventoried and non-inventoried warehouse items including expenses incurred in warehouse operations and purchasing activities. The allocation of these costs to capital projects occurs through the application of these loads to warehouse issues and returns. Purchasing loads are applied to all purchase transactions, including purchases of outside services.
- E&S load includes the portion of the wages and expenses of engineers, supervisors and others applicable to construction work. E&S load is applied to all costs included in capital projects.
- Capitalized fleet load is the allocation of costs associated with the use of fleet vehicles on construction jobs. The allocation of these costs to capital projects is based on labor dollars charged to the project.

- A&G load is a predetermined overhead rate that is used to allocate the expenses of administrative and general costs that cannot be readily assigned to particular O&M, construction, or special accounts. The A&G load rate is determined through periodic studies that survey Shared Services functions to determine the amount of time used to support capital projects. The rate is applied to all costs included in capital projects.

Q. WHAT IS AFUDC AND CAPITALIZED INTEREST?

A. AFUDC, or capitalized interest at Shared Services, reflects the cost of borrowed funds used for construction purposes and a reasonable rate of return on other funds used for construction. In other words, it represents capitalized interest cost and a reasonable return on capital expenditures during the construction period, before plant is placed in service. PNM records AFUDC on its jurisdictional construction and nuclear fuel in process assets in accordance with FERC Order No. 561. Shared Services records capitalized interest on its construction projects and major computer software projects.

Q. PLEASE DESCRIBE HOW AFUDC AND CAPITALIZED INTEREST RATES WERE CALCULATED DURING THE LINKAGE AND TEST PERIODS.

A. AFUDC rates are calculated using the AFUDC rate formula provided under Order No. 561 which provides that rates be calculated using average balances of construction expenditures and short-term as well as long-term debt and equity

balances at the end of the prior year including rates associated with debt and equity balances. The capital forecast calculates AFUDC rates on a calendar year basis. The inputs and results of the Company's AFUDC rate calculation are provided in PNM Exhibit HEM-15. Capitalized interest rates at Shared Services are calculated using debt balances and exclude equity balances.

Q. HAS PNM ADJUSTED THE AFUDC AND CAPITALIZED INTEREST PROJECTED TO CAPITAL PROJECTS TO REFLECT THE INCLUSION OF CWIP IN RATE BASE IN THE 2015 RATE CASE?

A. Yes. In the 2015 Rate Case PNM received the authority to include specified CWIP balances in its Test Period cost of service. Therefore, PNM began earning a return on those CWIP balances effective on October 1, 2016, the effective date of rates from the 2015 Rate Case. The CWIP balances reflect PNM's estimate of projects forecasted to clear by February 2017, or five months after the end of the Test Period in the 2015 Rate Case. PNM has stopped accruing AFUDC and capitalized interest on CWIP balances as of September 30, 2016, for those projects that are forecasted to clear and be placed in service by February 2017. PNM has reflected this reduction in its projected capital projects included in the linkage data in this filing.

XIII. FULLY FUNCTIONAL EXECUTABLE MODELS

Q. HAS PNM COMPLIED WITH THE FTY RULE 17.1.3.11 NMAC REGARDING ELECTRONIC FILING REQUIREMENTS?

A. Yes. PNM is providing PNM Exhibit HEM-3 and HEM-4 in fully functional, electronic format. PNM Exhibit HEM-3 provides the unadjusted Base Period cost of service, adjustments made to derive both the Adjusted Base Period cost of service and the Test Period cost of service. PNM Exhibit HEM-4 provides the electronic workpapers used to develop the Adjusted Base Period and Test Period cost of service provided in PNM Exhibit HEM-3. These files are being provided electronically on a DVD-ROM, so the amounts in schedules and workpapers can be easily traced, and assumptions used to develop the Test Period are provided in working electronic files. The combination of these two exhibits represents the cost of service functional model.

Q. DOES THE ELECTRONIC MODEL BEING PROVIDED HAVE THE SAME FUNCTIONALITY AND FORMAT AS WAS FILED IN THE 2015 RATE CASE?

A. Yes. The fully functional model has the same functionality and format as was provided by PNM in the 2015 Rate Case. The Hearing Examiner and Commission used this model for the final cost of service that was ultimately approved in that case.

Q. CAN YOU DEFINE SOME GENERAL TERMS WHEN DESCRIBING THE WORKING MODELS?

A. Yes. The term "workbook" means an entire Microsoft® Excel file and "worksheet" refers to an individual tab within a Microsoft® Excel workbook. A linked workbook refers to an external Microsoft® Excel workbook outside of the existing Microsoft® Excel workbook. A linked worksheet refers to a worksheet within the existing Microsoft® Excel workbook.

Q. PLEASE IDENTIFY THE WORKBOOKS THAT COMPOSE THE COST OF SERVICE FUNCTIONAL MODEL.

A. The following workbooks compose the cost of service working model:

- Folder – HEM-3 – Cost of Service
  - PNM Exhibit HEM-3 - WP COS.xlsx
- Folder – HEM-4 - Workpapers
  - WP Plant – Net Plant workpaper.xlsx
  - WP Plant – Corporate Net Plant workpaper.xlsx
  - WP RA – Regulatory Asset and Liability workpaper.xlsx
  - WP ORB – Other Rate Base workpaper.xlsx
  - WP WC – Working Capital workpaper.xlsx
  - WP OM – O&M workpaper.xlsx
  - WP SJGS – O&M workpaper.xlsx
  - WP LA – Labor workpaper.xlsx
  - WP SS – Shared Services workpaper.xlsx

- WP GT – General Taxes workpaper.xlsx
- WP OA – Other Allowable Exp. workpaper.xlsx
- WP RC – Revenue Credits workpaper.xlsx
- WP AL – Allocators workpaper.xlsx
- WP Fuel – Fuel Expense.xlsx

Each workbook should be used concurrently and all workbooks should be open at the same time when attempting to modify or adjust any calculations in the cost of service models. This is further explained in PNM Exhibit HEM-2, as discussed below.

Q. HAVE YOU PROVIDED OPERATING INSTRUCTIONS ON HOW TO UTILIZE THE FUNCTIONAL MODEL FOR COST OF SERVICE?

A. Yes. PNM Exhibit HEM-2 provides operating instructions on how users need to utilize the electronic files for cost of service included with this filing. It is important that users read and understand these instructions before attempting to utilize the cost of service functional model.

Q. PLEASE DESCRIBE THE GENERAL FORMAT OF THE FULLY FUNCTIONAL WORKBOOKS.

A. The first worksheet within each workbook will be the workbook lead sheet. The lead sheet provides a table of contents listing each worksheet included in the workbook, a brief description of the worksheet, the purpose of the worksheet, and the purpose of each worksheet. In addition, the lead sheet summarizes where

information required on that worksheet is provided from another linked workbook or linked worksheet as well as provides where information on the worksheet is linked to another linked worksheet or linked workbook. Further, the printed copy of certain worksheets includes summations of groups of data for which the underlying detail is too voluminous to be printed in a meaningful format, but can be readily viewed on-line in the electronic spreadsheet format.

Q. HAVE YOU IDENTIFIED ANY SECTIONS WITHIN THE COST OF SERVICE MODEL THAT ARE NOT FULLY FUNCTIONAL AS DESCRIBED BY THE FTY RULE?

A. Yes. As provided for in the FTY Rule, PNM has identified the following cost of service sections as not fully functional:

- ADIT- Please refer to the testimony of PNM Witness Harland.
- Test Period Fuel- Fuel calculations as provided by AURORA.
- Income Taxes- Please refer to the testimony of PNM Witness Harland for further discussion.
- Cash Working Capital- This calculation is not fully functional and is not linked electronically to the Cost of Service Functional Model. However, PNM has provided Rule 530 Schedule E-1 in executable electronic format on a DVD-ROM. Users can manually change the inputs to recalculate cash working capital in this schedule.
- Capital Budget- The allocation of capital clearings to electric plant accounts, plant retirements and cost of removal and the application of capital loads to

determine final capital spending amounts are performed by Hyperion and cannot be replicated. Additionally, the cost of service model relies on hard inputs of retirements for G&I plant, based on existing accounting schedules for the linkage period and Test Period, as shown in PNM Exhibit HEM-14.

- ARO accretion expense and coal mine reclamation- These calculations are not fully functional as the underlying assumptions as discussed earlier in my testimony, are too complex to model in an executable format.
- Depreciation expense for certain FERC plant accounts that are based on existing amortization schedules as discussed earlier in my testimony.

Q. HAVE YOU IDENTIFIED SPECIFIC CALCULATIONS WITHIN THE COST OF SERVICE WORKING MODELS THAT ARE NOT FULLY FUNCTIONAL?

A. Yes. PNM identified on each worksheet what information is provided as a hard input, and has provided references to testimony identifying the reasons for not providing a fully functional calculation. These can include calculations that are supported by other PNM witnesses and are not contained in the linked workbooks within the cost of service functional model. In addition, accounting and other relevant data are extracted and formatted from PNM's existing software programs and used to populate the cost of service functional model. All Base Period information is reflected as hard inputs and referenced to the Company's books and records.

Q. WILL PNM RERUN INPUT CHANGES AS REASONABLY REQUESTED BY THE STAFF OR INTERVENORS IN ORDER TO CAPTURE THE IMPACT OF SUCH PROPOSED INPUT CHANGES ON THE TEST PERIOD REVENUE REQUIREMENTS?

A. Yes. In accordance with 17.1.3.11 NMAC, PNM will rerun calculations reasonably requested by Staff or Intervenors to capture the impacts on the proposed cost of service made through programs which PNM is unable to provide in fully functional format.

XIV. RESPONSE TO EXCEPTIONS FROM 2015 RATE CASE

Q. PLEASE ADDRESS THE FINAL ORDER REQUIREMENT THAT PNM PROVIDE DETAIL AND SUPPORT RELATING TO PNM'S TREATMENT OF THE GAIN ON PALO VERDE SALE LEASEBACK TRANSACTIONS, AS APPROVED BY THE COMMISSION IN PREVIOUS CASES.

A. In the 2015 Rate Case, PNM detailed its treatment in past cases of the gain on its Palo Verde Sale-Leaseback Transactions, as previously approved by the Commission. Although the Hearing Examiner did not recommend this information be subject to further review, the Commission determined, based on an exception filed by Albuquerque Bernalillo County Water Utility Authority to the Recommended Decision, that PNM file the following details in this case:

1. its calculations of actual after-tax proceeds;
2. taxes it paid on the sales;

3. amount of after-tax proceeds that have been returned to ratepayers;
4. when the returns were made;
5. the amount of after-tax sale proceeds that remain to be returned; and
6. when it intends to return the remaining sales proceeds to ratepayers.

Q. DID PNM CALCULATE THE TAXES PAID AND THE ACTUAL AFTER-TAX PROCEEDS ASSOCIATED WITH THE GAIN ON THE PALO VERDE SALE-LEASEBACK TRANSACTIONS (ITEMS 1 AND 2)?

A. Yes. See PNM Exhibit HEM-16. The calculation reflects the allocation of transaction costs and income taxes, based on identification of tax records regarding the calculation of the gain on the sale leaseback transactions. Please refer to the testimony of PNM Witness Harland for further discussion of the calculation of income taxes related to the determination of the after-tax gain.

Q. DID CUSTOMERS RECEIVE THE AFTER-TAX PROCEEDS, PURSUANT TO AND AS CONFIRMED BY, PAST COMMISSION ORDERS (ITEMS 3 AND 4)?

A. Yes. Customers received 100% of the benefits associated with the after-tax gains resulting from the sale-leaseback transactions. The gain recorded on the sale-leaseback transactions was recorded as a deferred credit on PNM's balance sheet and PNM's retail jurisdictional share was credited back to PNM Retail customers over a 15-year period as ordered in NMPSC Case No. 2019, Part I. This was confirmed in the Final Order in NMPSC Case No. 2262, Paragraph J, which also specified the amount of the gain to be returned.

J. Amortization Period for PVNGS Gain

When PNM entered into the sale/leasebacks on its investment in PVNGS Units 1 and 2, it recognized a gain of approximately $5.5 million on Unit 1 and $37 million on Unit 2. Tr. 11/14/89, p. 2. In NMPSC Case No. 2019 (which approved the sale/leaseback of PVNGS Unit 2 and the remaining portion of PVNGS Unit 1), that gain was amortized back to ratepayers over a 15-year period.

The FERC jurisdictional share of the gain was allocated to those customers, and those allocated shares are accounted for as discussed earlier in my testimony.

The total after-tax gain from the sale-leaseback transaction was $42.3 million. PNM began amortization of this deferred credit upon completion of the sale-leaseback transaction in 1987 in tandem with the recognition of the annual $84.5 million lease expense. PNM included the unamortized balance of the gain on the sale-leaseback transactions in the cost of service studies filed in Case No. 2262 and Case No. 2567. In addition to inclusion of the unamortized balance on the gain as a reduction to rate base, PNM also included a credit to FERC Account 525 in the cost of service studies in these two cases to reflect the reduction to operating expenses. Please refer to Table HEM-6 for rate base reductions and credit amortization expense.

Table HEM-6 - Amortization of Gain (Credit to FERC Account 525)

Case No.[3]	Test Period Ending	Date Rates Effective	Rate Base Reduction	WACC	Amortization of Gain (Credit to FERC Account 525)
2262	12/31/1988	05/15/1990	$ 35,791,129	9.74%	$ 2,822,262
2567	12/31/1992	11/29/1994	$ 22,407,878	8.70%	$ 2,822,262

Confirmation of the completion of the benefit of the gain to customers was presented in the 2007 Rate Case, in the Direct Testimony of Thomas G. Sategna[4], where he stated:

> PVNGS Units 1 and 2 Excess Gain Amortization – Eliminated the rate base reduction of $13,865,236, PNM Exhibit _ (TGS-2), line 1118. This amount represents the book balance for the PVNGS gain on the sale/leaseback transaction. For ratemaking purposes, consistent with the order in NMPRC Case 2262, the gain was amortized over a 15-year period but for accounting purposes, the gain is being amortized over the life of the leases. During the 15 years NMPRC jurisdictional customer received the benefit of lower O&M. Customers were credited through prior cost of service studies with the gain based on the accelerated amortization; therefore, no rate base reduction is warranted.

Q. WHAT AMOUNTS, IF ANY, REMAIN TO BE RETURNED TO CUSTOMERS (ITEMS 5 AND 6)?

A. There are no more after-tax sale proceeds that remain to be returned to PNM Retail customers.

[3] Case No. 2761 reflected a Stipulation that reduced rates by $34 million, with rates effective July 30, 1999. However the Company did not utilize a cost of service study to support the rate reduction. Therefore, PNM assumed no change in the unamortized gain or amortization of the gain in retail rates from that proceeding.
[4] Page 28, line 20 – Page 29, line 5, Direct Testimony of Thomas G. Sategna, Case No. 07-00077-UT.

XV. CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS WITH REGARD TO PNM'S COST OF SERVICE STUDY AND THE RESULTING REVENUE REQUIREMENT PROPOSED BY PNM.

A. PNM's cost of service study meets the requirements of Rule 530 and the FTY Rule and presents PNM's reasonable costs of providing retail service to its customers during the Base Period and the Test Period. In addition, PNM's cost of service study has been provided in a fully-functional model format, except as otherwise explained, pursuant to the FTY Rule. PNM's Base Period data is taken from its historical books and records. PNM provided linkage data and additional information through its testimony, exhibits and Rule 530 Schedules that fully explain how the Base Period historical data from PNM's books and records have been developed in the Test Period to fully justify the forecasted reasonable costs of providing service at the time when PNM's proposed rates are expected to be in effect. The resulting proposed Test Period non-fuel revenue requirement of $791,637,379 is reasonable and should be approved by the Commission.

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

A. PNM is requesting the following Commission approvals related to regulatory assets and liabilities as discussed in the testimony above: (1) to establish and to

begin recovery of the proposed 2016 Rate Case Expenses regulatory asset; (2) to establish and begin recovery of the proposed SJGS Coal Agreement transaction costs regulatory asset; (3) to begin recovery of the SJGS Units 2 and 3 undepreciated investment; (4) to begin recovery of the Palo Verde Unit 3 DOE Spent Fuel Refund through the FPPCAC; and (5) continue recovery of the unamortized Las Vegas decommissioning regulatory asset and liability and the 2015 Rate Case expense regulatory asset over a three-year period, beginning January 1, 2018.

Q. WHAT ARE YOUR GENERAL CONCLUSIONS?

A. PNM's request for a non-fuel revenue requirement increase of $99,249,874, based on an after-tax WACC of 7.51% and a rate base of $2,381,200,287 is reasonable, justifiable and should be approved. The details of the Base Period, Adjusted Base Period, linkage data and the Test Period are properly shown on the Rule 530 Schedules in accordance with Rule 530 as supplemented by the FTY Rule. PNM has provided fully functional executable models as required under the FTY Rule. The Test Period results demonstrate revenue requirements that are just and reasonable, as further supported by other PNM witnesses.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

GCG#522605

Résumé of Henry E. Monroy

PNM Exhibit HEM-1

Is contained in the following 3 pages

HENRY E. MONROY
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Henry E. Monroy

Address: PNM Resources Inc.
MS 0915
414 Silver SW
Albuquerque, NM 87102

Position: Director, Cost of Service and Audit Services

Education: Bachelor of Accountancy, New Mexico State University, 2001
Certified Public Accountant in the State of New Mexico, December 2012

Employment: Employed by PNMR Services Company since 2003.
Positions held within the Company include:

Director, Cost of Service and Corporate Budget
Director, Utility Accounting
Manager, Cost of Service
Senior Manager, Derivative Accounting
Manager, Energy Analysis and Accounting
Project Manager
Senior Accountant

Testimony Filed:

- 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. 352, NMPRC Case No. 08-00273-UT, filed September 22, 2008.

- In the Matter of Texas-New Mexico Power Company's Request for Approval of an Advance Metering System (AMS) Deployment and AMS Surcharge, PUCT Docket No. 38036, filed May, 2010.

- In the Matter of the Application of Public Service Company of New Mexico for the Abandonment and Decertification of the Generating Station in Las Vegas, New Mexico, NMPRC Case No. 10-00264-UT, filed August 30, 2010.

- Initial Filing of PNM to Revise Sheets in its OATT, Coordination Tariff, and GFAs Reflecting Implementation of Transmission Formula Rate, FERC Docket Nos. ER13-685-000, ER13-687-000 and ER13-690-000, filed December 2012.

- 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 Case No. 13-00183-UT, filed June 1, 2013.

- 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 Case No. 13-00187-UT, filed May 28, 2013.

- In the Matter of 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 Order and Determination of Ratemaking Principles and Treatment, NMPRC Case No. 13-00390-UT, filed December 20, 2013.

- In the Matter of the Application of PNM for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 28, 2014.

- 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 Case No. 13-00175-UT, filed March 21, 2014.

- 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 Case No. 14-00158-UT, filed June 2, 2014.

- 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. 507, NMPRC Case No. 14-00332-UT, filed December 11, 2014.

- In the Matter of the Application of PNM for Approval of Renewable Energy Rider No. 36 Pursuant to Advice Notice No. 439 and for Variances from Certain Filing Requirements, NMPRC Case No. 12-00007-UT, filed February 27, 2015.

- In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2016 and Proposed 2016 Rider Rate Under Rate Rider No. 36, NMPRC Case No. 15-00166-UT, filed June 1, 2015.

- 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 San Juan Gas Plant, NMPRC Case No. 15-00205-UT, filed June 30, 2015.

- 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 Case No. 15-00261-UT, filed August 27, 2015.

- 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, Case No. 15-00312-UT, filed February 26, 2016.

- In the Matter of Public Service Company of New Mexico's Application for a Certificate of Public Convenience and Necessity and Related Approvals for an 80MW Gas-Fired Generating Plant Located at the San Juan Generating Station, NMPRC Case No. 16-00105-UT, filed April 26, 2016.

Instructions for Cost of Service Functional Model

PNM Exhibit HEM-2

Is contained in the following 6 pages

INSTRUCTIONS FOR COST OF SERVICE FUNCTIONAL MODEL

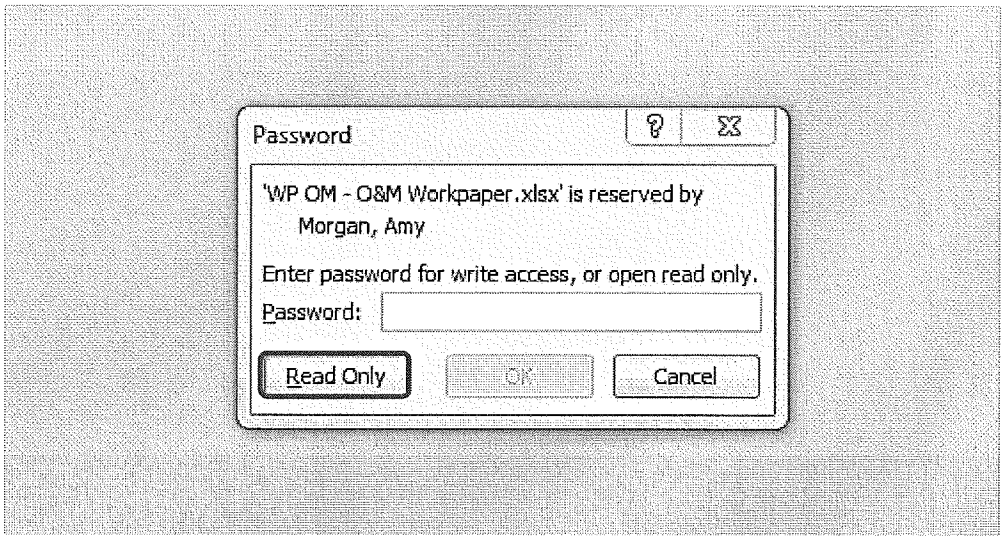
INTRODUCTION: The Cost of Service Functional Model ("Cost of Service Model") consists of the Microsoft Excel ("Excel") file PNM Exhibit HEM-3 – WP COS.xlsx located in the "PNM Exhibit HEM-3" folder and supporting workpaper Excel files located in the "PNM Exhibit HEM-4" folder within the "Cost of Service Model" folder.

PNM Exhibit HEM-3 – WP COS.xlsx contains the Company's Cost of Service studies in this proceeding, including Cost of Service studies for the Adjusted Base Period and the Test Period. The Cost of Service studies provide the jurisdictional allocations of the Company's revenue requirements to PNM Retail and other PNM jurisdictions.

The supporting workpapers contained in the folder "PNM Exhibit HEM-4" consists of 14 Microsoft Excel workbook files that support various sections of the Cost of Service Model. Please refer to "PNM Exhibit HEM-4 WP Index" for listing of Microsoft Excel workbooks and description of individual worksheets contained within each Microsoft Excel workbook.

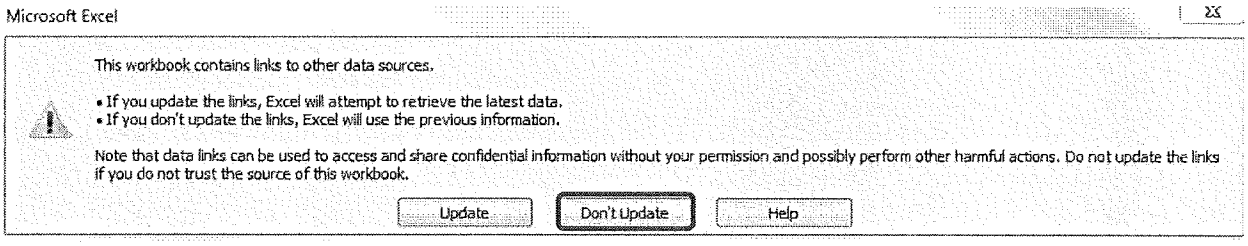
SECTION I: INSTRUCTIONS FOR SAVING THE COST OF SERVICE FUNCTIONAL MODEL TO LOCAL DRIVE

1. Locate DVD Labeled "2016 Electric Rate Case Filing Case No. 16-00276-UT Cost of Service Model, Embedded Class Cost of Service and Rate Design including Workpapers" provided with PNM's Application.
2. Insert Disc into computer DVD-ROM drive.
3. Open Windows Explorer and navigate to the inserted disc.
4. Open **all** of the Excel files on the disc. When each file opens, you will be prompted to enter a password.



It is suggested that you click on "Read Only" to ensure the data integrity of the file is retained. However, if you anticipate making changes, the password for all files is "1234".

5. Upon opening the Excel files, you may be prompted to update the Excel files (shown below).



Since **all** Excel files will be opened as part of this step, Click "Don't Update". The links will update automatically as the additional files are opened.

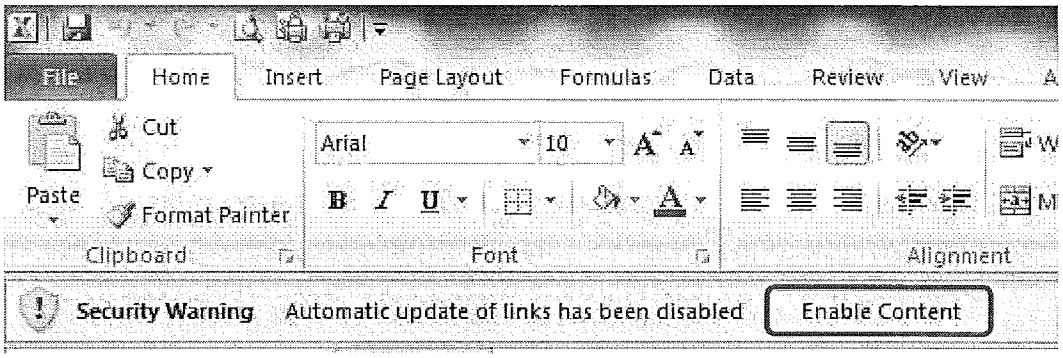
6. Designate a location (hard drive, system drive, etc.) to which you wish to save the provided files. Then for each of the individual opened Excel files, click on "File" then "Save As" and save to your desired location. *Note – If the files were opened as "Read Only" this will remove the password protection. If the Password was entered, then the password protection will stay intact.*

Please note, ALL files must remain open during the saving process to ensure that all the links are properly updated.

SECTION 2: NAVIGATING THE COST OF SERVICE MODEL

1. It is suggested that you start navigation with PNM Exhibit HEM-3 – WP COS.xlsx. Within this file, the worksheet titled "Lead Sheet COS" provides general notes for navigating the Cost of Service studies and references the applicable workpapers for the respective sections of the Cost of Service Model.
2. Following the links in PNM Exhibit HEM-3 – WP COS.xlsx will allow the user to trace the values back to the supporting workpapers.
3. A navigation shortcut may be used to open the relevant supporting workpaper in PNM Exhibit HEM-4 from within a cell in PNM Exhibit HEM-3 – WP COS.xlsx that is linked to it. For cell inputs that are linked to another worksheet or another Excel file, press "Ctrl" + "[". This will take you directly to the linked number in the applicable worksheet or Excel file. Note: if a cell input has links to multiple cells, the then "Ctrl" + "[" shortcut will only take you to the first referenced linked cell.

4. Depending on your settings in Microsoft Excel, you may also be prompted with a security warning indicating Automatic update of links has been disabled.



To ensure any changes made to the Cost of Service Model are successful, the user should select "Enable Content" when prompted.

SECTION 3: USING THE COST OF SERVICE FUNCTIONAL MODEL

1. To ensure that any modeling changes that you intend to make will properly flow through the Cost of Service, all Excel files should be open while any data manipulation is being performed. A total of fifteen (15) workbooks should be open when making any changes.
2. It is important to ensure that when the Excel files are opened you are not in "Read Only" mode. If you have saved the files in a manner that leaves the password intact (See Step 6 of Section 1 above), the password (i.e 1234) should be entered. If you are in "Read Only" mode, then any changes that are made will not be saved (see Section 1 Step 6 for instructions on saving a copy of the model).
3. Included on PNM Exhibit HEM-3 – WP COS.xlsx is a worksheet labeled "Test Change Log." The purpose of this worksheet is to provide users with a check figure to show the result of any modeling changes they have made or to help determine whether they have unintentionally made a change to the Cost of Service studies or supporting workpapers that has resulted in a change to the Test Period revenue requirements.
4. Input values or cells are identified with a grey highlight in the spreadsheet within the Excel files, indicating areas where any modeling change should be made. Making changes in these cells will help ensure formulas and the functional model stay intact.
5. **Certain formulas within the model contain complex "array formulas." These formulas can be broken if manipulation is attempted in these cells. Modeling changes should not be attempted in any cells that contain formulas. Changes should only be made to grey highlighted areas (hard input numbers) within the worksheets. If changes are made to a cell that contains a formula (white areas), the models may not function properly. Additionally, the insertion or deletion of a row or column within the functional model will cause references to be changed and break the functionality of the model (the only exception to this is in the "Change Log" as described in step 7 below).**
6. To make changes to the cost of service functional model:
    a. Column H in "PNM Exhibit HEM-3 COS Test" is titled "Other Manual Adjustment" and highlighted in grey. A user may input any adjustment they are recommending in these

fields and the impacts of this change will flow through the Test Period Cost of Service study. Changes made in these columns DO NOT flow back into the supporting workpapers but do appear in the Test Change Log. This is the suggested method for making changes to the Test Period revenue requirement.

b. A user can make specific changes on the individual workpapers. If this approach is preferred, it is suggested that users begin within the Cost of Service Excel file (PNM Exhibit HEM-3 WP –COS.xlsx) and trace back the specific line item they wish to adjust back to the supporting workpaper and ultimately back to the supporting input that derives the test period values.

7. Initially, the change log information should provide a check figure of "-", which indicates the files agree to Test Period revenue requirement that was originally filed. See below:

	A	B	C	D
1	**PNM Exhibit HEM-3 - Test Period Change Log**			
2				
3	**As Filed**		PNM Retail	
4			Jurisdiction	
5	NON-FUEL REVENUE REQUIREMENT		791,637,379	
6	FUEL REVENUE REQUIREMENT		140,986,737	
7	**TOTAL REVENUE REQUIREMENT**		**932,624,117**	
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				932,624,117
19			Test Period Check Figure	-

As indicated above, Row 19, Column D shows that the change log is zero, and therefore no changes have been made to the filed Test Period revenue requirements.

Upon making a modeling change, the impact to PNM Retail's revenue requirements will appear in Row 19, Column D quantifying the impact of each proposed adjustment. See below for illustrative example:

	A	B	C	D	E
1	**PNM Exhibit HEM-3 - Test Period Change Log**				
2					
3	**As Filed**		PNM Retail		
4			Jurisdiction		
5	NON-FUEL REVENUE REQUIREMENT		791,637,379		
6	FUEL REVENUE REQUIREMENT		140,986,737		
7	**TOTAL REVENUE REQUIREMENT**		**932,624,117**		
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18				932,624,117	
19			Test Period Check Figure	(2,468,813)	Example 1 of Change - Enter Description of Change

Once the user has confirmed that the proposed adjustment is correct, the user should use the "Paste Value" function in Microsoft Excel to paste the amount of the adjustment beginning in Row 8, Column D and enter a description of the basis of this change. Then use the subsequent rows in Column D for the next set of adjustment. If the user does not know how to use the paste value function, you can manually enter the adjustment as well. Once the change is pasted or typed into the cell, the change log will revert back to zero as the check figure, as shown below. This will allow additional modeling changes to be made for each subsequent adjustment by repeating the steps above.

	A	B	C	D	E
1	**PNM Exhibit HEM-3 - Test Period Change Log**				
2					
3	**As Filed**		PNM Retail		
4			Jurisdiction		
5	NON-FUEL REVENUE REQUIREMENT		791,637,379		
6	FUEL REVENUE REQUIREMENT		140,986,737		
7	**TOTAL REVENUE REQUIREMENT**		**932,624,117**		
8				(2,468,813)	Example 1 of Change - Enter Description of Change
9					
10					
11					
12					
13					
14					
15					
16					
17					
18				930,155,304	
19			Test Period Check Figure	-	

If necessary, additional rows may be inserted to capture additional changes made to the Cost of Service Model. As stated in step 5 above, this is the only worksheet for which rows can be added without damaging the integrity of the model.

Note: The Test Change Log is not required to be utilized, but is a tool to help users identify and track changes made to the cost of service model. The Test Change Log is only applicable to the Test Period revenue requirement.

SECTION 4: GENERAL NOTES

1. The Excel files have been password protected to maintain the integrity of the filed data. The Password for the files is "1234". It is suggested that users do not make changes on the filed DVD, but rather only make changes to the Cost of Service Functional Model after it has been saved by the user to their local drive as described in Section 1.
2. The Cost of Service Model has been built using Microsoft Excel 2010. PNM is not able to verify if the Cost of Service Model and its functionality will be impaired if a different version of Microsoft Excel is used.
3. Each Microsoft Excel file includes a "Lead Sheet". The Lead Sheet provides an index of all worksheets included in the Excel file, as well as a brief description and purpose of the worksheet. In addition, the Lead Sheet provides a listing of where information on that worksheet provides information to other worksheets or Microsoft Excel workbook files and the source location of the information on that worksheet.
4. Each worksheet's title on the Lead Sheet is a hyperlink within the Microsoft Excel workbook file. A user can click on the hyperlink and it will navigate them to that worksheet. Within each worksheet is a hyperlink that will take the user back to the Lead Sheet. This function was added to help in the user navigate between worksheets within an Excel file.
5. Certain worksheets utilize the outline function in Microsoft Excel. The purpose of using the outline function is to group certain information that is required to ensure functionality, but which results in a voluminous amount of information to be shown in a Microsoft Excel workbook file. An outline is identified in Microsoft Excel with a "+" sign in the row or column. If the outline is expanded, this is identified as a "-" sign in the row or column. A user can expand or collapse the group outline when using the electronically filed cost of service functional model.
6. Base Period information provided from the Company's books and records are hard input numbers in the Functional Cost of Service Model.
7. Although users can use the links provided in the cost of service functional model, the workpapers also include manual referencing to worksheets or Excel files to help aid the user in navigating the worksheets and Excel files.
8. Certain files are of a considerable size and will potentially cause a computer that is running them to perform more slowly than normal. Unless a user is making modeling changes, it is suggested that users turn the calculation option within the Microsoft Excel file to "manual", which will increase the speed of navigating through the file. If the calculations are turned to manual, the user must turn the calculations back to automatic once he/she is done navigating the workpaper. The options to change these settings in the Excel file are found under Formulas>Calculation Options. If the user is intending to make modeling changes, it is NOT suggested that the user perform this step.
9. Use of the "Ctrl" + "[" shortcut function when navigating in the Excel files is highly encouraged to quickly navigate through the worksheets and Excel files. (See Section 2, Step 3).

Revenue Requirement Studies, Base Period and Test Period

PNM Exhibit HEM-3

Is contained in the following 77 pages

	A	B	C	D
1	**PNM Exhibit HEM-3**			
2	**Lead Sheet Cost of Service**			
3				
4	**Tab - COS BASE ADJ**			
5	Purpose: Provides the unadjusted books and records of the Company and summarizes adjustments made to the Base Period to develop the Adjusted Base Period.			
6				
7	-	Unadjusted Base Period (Column F) is based on PNM's Books and Records. See table below for supporting work papers.		
8	-	Columns G through U provide the summary of adjustments made to the Base Period to develop the Adjusted Base Period. See Testimony of PNM Witness Monroy for discussion of Base Period Adjustments.		
9	-	Adjusted Base Period (Column V) provides the sum of the unadjusted Base Period and the Base Period adjustments to derive the Adjusted Base Period amounts.		
10				
11	**Tab - COS BASE**			
12	Purpose: Provides the allocation of the Adjusted Base Period to PNM Retail and other jurisdictions, based on the allocators beginning in Row 703.			
13	-	Adjusted Base Period (Column G) is the Adjusted Base Period values as calculated in COS Base Adj (Column V) explained above.		
14	-	PNM Retail Jurisdiction (Column H) reflects the Adjusted Base Period revenue requirement for PNM's proposed retail jurisdictional cost of service, subject to this rate case proceeding. Please refer to the testimony of PNM Witness Monroy for further discussion of jurisdictions.		
15	**Tab - COS Test**			
16	Purpose: Provides the allocation of the Test Period to PNM Retail and other jurisdictions, based on the allocators beginning in Row 703.			
17	-	Test Period (Column G) is the proposed Test Period amounts. See table below for supporting work papers for support of amounts included in the Test Period cost of service.		
18	-	Other Manual Adjustments (Column H) provide users an input to propose any adjustments to a cost of service line item. Please refer to PNM Exhibit HEM-2 for further details.		
19	-	Test Period (with Manual Adjustments) (Column I) is the total of the Test Period plus any Manual Adjustments included in Column H. Please note that the as filed Test Period Cost of Service, Column G and Column I will be the same and will only differ if the user adds a manual input in Column H. Column H is only provided as a tool for users to input adjustments if desired in one place.		
20	-	PNM Retail Jurisdiction (Column J) reflects the Test Period revenue requirement for PNM's Retail jurisdictional cost of service, subject to this rate case proceeding. Please refer to the testimony of PNM Witness Monroy for further discussion of jurisdictions.		
21	**Test Change Log**			
22	Purpose: Provides a check figure to the filed revenue requirement and allows users to track the impact of any individual changes made throughout the model. See PNM Exhibit HEM-2 for further explanation.			
23	**Tab - A-5 Base and Tab A-5 Test**			
24	Purpose: Rule 530 Schedule A-5 is included in the COS Model. This allows users to change components of the Weighted Average Cost of Capital in the fully functional model.			
25	**Tab - Table HEM-1**			
26	Purpose: Calculates the proposed rate deficiency, comparing Test Period revenue requirements to existing revenues.			
27				
28				
29	**Reference Table for Cost of Service:**			
30		**Cost of Service Section**		**PNM Exhibit HEM-4 Work paper or Other Source**
31		Net Plant (Lines 6 - 84)		WP Plant - Net Plant Work paper
32		Accumulated Deferred Income Taxes (Lines 86 - 132)		Refer to Direct Testimony of PNM Witness Harland and Rule 530 Schedule H-12
33		Regulatory Assets and Liabilities (Lines 134 - 149)		WP RA - Reg Asset & Liab Work paper
34		Other Rate Base Items (Lines 151 - 183)		WP ORB - Other Rate Base Work paper
35		Working Capital (Lines 185 - 210)		WP WC - Working Capital Work paper & Rule 530 Schedule E-1
36		Production Fuel related expenses (Lines 21B - 265)		WP Fuel - Fuel Work paper
37		O&M (Lines 267 - 420)		WP OM, WP SJGS, WP LA and WP SS Work papers
38		Depreciation and Amortization Expense (Lines 422 - 474)		WP Plant - Net Plant Work paper
39		General Taxes (Lines 476 - 548)		WP GT - General Taxes Work paper
40		Other Allowable Expenses (Lines 550 - 566)		WP OA - Other Allowable Exp Work paper
41		Federal Income Tax (Lines 576 - 629)		Refer to Direct Testimony of PNM Witness Harland and Rule 530 Schedule H-9
42		State Income Tax (Lines 631 - 647)		Refer to Direct Testimony of PNM Witness Harland and Rule 530 Schedule H-9
43		Revenue Credits (Lines 660 - 680)		WP RC - Revenue Credits Work paper
44		Weighted Cost of Capital (Lines 691 - 695)		Rule 530 Schedule A-5
45		Key Allocators (Lines 703 - 786)		WP AL - Allocators Work paper & Model Driven Calculations
46				
47	**General Notes**			
48	- The electronic version of this workbook uses the Microsoft Excel outline function. This function groups the elements of cost, and or columns for print formatting purposes.			
49	- Any proposed modeling changes should only be made in this workbook in the Other Manual Adjustments Column. Changes made to any other cell			
50	may result in breaking the model and its links.			
51	- Certain information is hard input in the model, specifically related to ADIT and Income Taxes (Please refer to the testimony of PNM Witness Harland), Cash Working Capital and Fuel is not fully functional within the Cost of Service Model.			

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

COS Base Adj

Is contained in the following 32 pages

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
4	Rate Base												
5													
6	Net Plant												
7													
8	Net Production Plant												
9													
10		Steam Production Net Plant			101/106	767,287,479	(57,037,547)						
11		San Juan Unit 4 65 MW			101/106	-	-						
12				Total Steam Production Net Plant		767,287,479	(57,037,547)	-	-	-	-	-	-
13													
14		Nuclear Production Net Plant - Palo Verde 1 & 2			101/106	314,546,183	(41,270,361)						
15		Nuclear Production Net Plant - Palo Verde 3			101/106	133,897,822	676,158						
16		PV 1&2 Acquisition Adjustment			114	3,028,128	-						
17		PV 2 Lease Acquisition Adjustment - First Chicago			114	24,684,242	-						
18		PV 2 64.1 MW Lease Acquisition Adjustment			114	81,023,969	(81,023,969)						
19				Total Nuclear Production Net Plant		557,180,345	(121,618,172)	-	-	-	-	-	-
20													
21		Other Production Plant - Gas & 40 MW Solar			101/106	417,591,859	-						
22		Other Production Plant - Renewable			101/106	160,691,377	-						
23				Total Other Production Net Plant		578,283,237	-	-	-	-	-	-	-
24													
25		Total Net Production Plant				1,902,751,060	(178,655,719)	-	-	-	-	-	-
26						-	-						
27	Net Transmission Plant												
28													
29		Step-Up Transformers - Excluding PV3			101/106	9,948,482	-						
30		Step-Up Transformers - PV3			101/106	215,246	-						
31				Total Transmission Station Equipment - Step-up Xfmr and Aux		10,163,728	-	-	-	-	-	-	-
32													
33		Transmission System Net Plant			101/106	448,007,946	-						
34		Transmission System Net Plant - PV 3			101/106	4,617,882	-						
35		Transmission System Net Plant - High Lonesome Mesa			101/106	21,275,841	-						
36		Transmission System Net Plant - Dedicated Retail			101/106	3,723,297	-						
37		Transmission System Net Plant - Dedicated FERC			101/106	179,837	(179,837)						
38		EIP Acquisition Adjustment			114	5,566,702	-						
39				Total Transmission System Net Plant		483,371,505	(179,837)	-	-	-	-	-	-
40													
41		Total Net Transmission Plant				493,535,233	(179,837)	-	-	-	-	-	-
42													
43													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
44	Net Distribution Plant												
45													
46		Distribution Substations Net Plant - Dedicated FERC			101/106	-	-						
47		Distribution Substations Net Plant - PNM			101/106	139,953,072	-						
48		Distribution Substations Net Plant - Renewables			101/106	1,529,790	-						
49			Total Distribution Substations Net Plant			141,482,863	-	-	-	-	-	-	-
50													
51		Primary Distribution System Net Plant - PNM			101/106	336,824,067	-						
52		Primary Distribution System Net Plant - Renewables			101/106	2,496,975	-						
53			Total Primary Distribution Net Plant			339,321,042	-	-	-	-	-	-	-
54													
55		Secondary Distribution System Net Plant - PNM			101/106	198,485,602	-						
56		Secondary Distribution System Net Plant - Renewables			101/106	815,362	-						
57			Total Secondary Distribution Net Plant			199,300,964	-	-	-	-	-	-	-
58													
59		Services Net Plant - PNM			101/106	49,838,339	-						
60													
61		Meters Net Plant - PNM			101/106	39,211,939	-						
62													
63		Private Lighting - 371			101/106	557,427	-						
64		Street Lighting - 373			101/106	11,517,791	-						
65			Total Lighting Net Plant			12,075,218	-	-	-	-	-	-	-
66													
67		Total Net Plant Distribution Plant				781,230,365	-						
68													
69													
70	Net Plant General & Intangible Plant												
71													
72		Production General & Intangible Net Plant			101/106	3,883,214	(316,651)						
73		PV Unit 3 General & Intangible Net Plant			101/106	665,976	-						
74		Renewables General & Intangible Net Plant			101/106	20,001	-						
75		Bulk Power Operations			101/106	3,598,291	-						
76		Energy Management System Facilities			101/106	6,458,760	-						
77		Other Division Offices/Customer Service			101/106	36,184,846	-						
78		Communications - Transmission			101/106	25,423,574	-						
79		Production Related (Shared Services)			101/106	-	24,739,176						
80		Transmission Related (Shared Services)			101/106	-	6,280,082						
81		Distribution/Customer Related (Shared Services)			101/106	-	44,877,487						
82			Total Net Plant General & Intangible Plant - PNM			76,234,663	75,580,094	-	-	-	-	-	-
83													
84			Total Net Plant			3,253,751,321	(103,255,462)	-	-	-	-	-	-

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
85													
86	Accumulated Deferred Income Taxes												
87		Injury & Damages			190	2,119,944			621,755				
88		Palo Verde Gain 1 & 2			190	159,756			-				
89		Renewable NOL Allocation			190	-			-				
90		Palo Verde Construction Credits 1 & 2			190	70,932			-				
91		Pension Prepaid Tax Qualified			190, 283	(70,246,241)			-				
92		Pension Prepaid Tax NQRP			190, 283	2,509,263			-				
93		Eastern Interconnect Project Gain			190	-			-				
94		Line Extension Policy			190	957,131			-				
95		Tax Capitalized Interest			190	22,947,461			-				
96		Palo Verde Dry Cask Storage 1 & 2			190	3,141,099			(3,141,099)				
97		Palo Verde Dry Cask Storage 3			190	1,554,041			(1,554,041)				
98		Contributions In Aid of Construction			190	34,915,974			-				
99		Coal Mine Decommissioning			190, 283	(9,738,656)			6,744,925				
100		Pollution Control Facilities 4 Corners			281	(485,697)			-				
101		FERC Customer Depreciation			282	1,256,410			-				
102		Liberalized Depreciation - Renewables			282	(47,885,107)			-				
103		Liberalized Depreciation - Other			282	(9,545,596)			(10,744,952)				
104		Liberalized Depreciation - Generation			282	(444,268,409)			21,837,435				
105		Liberalized Depreciation - Distribution			282	(221,581,560)			-				
106		Liberalized Depreciation - Transmission			282	(107,940,493)			4,919,699				
107		Liberalized Depreciation - PV 3			282	(78,907,153)			-				
108		Palo Verde Start-Up Amortization			282	250,026			-				
109		Nuclear Fuel Amortization PV 1&2			282	7,166,968			-				
110		Nuclear Fuel Amortization PV 3			282	3,180,091			-				
111		Debt AFUDC			282	(23,543,182)			-				
112		Pre-1981 Repair Allowance			282	(22,138,422)			-				
113		Palo Verde Licensing Amortization			282	(4,559,854)			-				
114		Asset Retirement Obligation			190, 282, 283	45,786,851			(39,202,925)				
115		Afton Writedown			282	3,884,264			-				
116		Loss on Reacquired Debt			283	(3,097,947)			-				
117		Book Capitalized Interest			283	(7,753,954)			-				
118		Prepaid Expenses			190	(3,756,987)			-				
119		Net Operating Loss (NOL)			190	165,619,554			1,026,942				
120		Deferred Federal Tax Credits			190	9,211,736			-				
121		PCB Refinancing			283	(6,021,904)			-				
122		LVGS Decommissioning			190	514,273			-				
123		Renewable NM AETC			190	1,485,765			-				
124		Rate Case Expense			283	(1,576,695)			93,310				
125		DOE Spent Fuel Settlement			190	2,638,641			-				
126		DOE Spent Fuel Settlement PV3			190	1,175,700			-				
127		50% SJGS 2&3			283	-			-				
128		Liberalized Depreciation - SJ4 132 MW			282	-			2,687,661				
129		Liberalized Depreciation - SJ4 65 MW			282	-			-				
130		SJGS Agreement Costs			283	(1,137,691)			65,626				
131		Liberalized Depreciation - HLM			282				(4,919,699)				
132				Total Accumulated Deferred Income Taxes		(753,639,669)	-	-	(21,565,363)	-	-	-	-

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
133													
134	Regulatory Assets & Liabilities												
135													
136		Coal Mine Decommissioning-Surface			182	24,509,815				(16,975,326)			
137		PV 1&2 Combustion Engineering			254	(177,632)				-			
138		PV 1&2 DOE Spent Fuel Refund			254	(6,713,838)				-			
139		PV 3 DOE Spent Fuel Refund			254	(3,000,000)				-			
140		Reg Asset LVGS Decommission			182	289,124				-			
141		Reg Liab LVGS Decommission			254	(1,591,082)				-			
142		PCB Refinancing Hedge			182	15,192,433				-			
143		Reg Liab Renewables Fed Grant			254	(19,369,738)				-			
144		Reg Liab Renewables St Credit			254	(3,748,688)				-			
145		2015 Rate Case Expenses			186	4,028,463				(238,440)			
146		San Juan Units 2 & 3 50% Undepreciated Investment				-				-			
147													
148													
149				Total Regulatory Assets & Liabilities		9,418,857	-	-	-	(17,213,766)	-	-	-
150													
151	Other Rate Base Items												
152													
153		Customer Deposits			235	(11,782,604)					(580,415)		
154		RWIP-Production			108	2,666,561					(2,666,561)		
155		RWIP-Transmission			108	1,034,398					(1,034,398)		
156		RWIP-Distribution			108	1,089,063					(1,089,063)		
157		RWIP-PV3			108	100,655					(100,655)		
158		ARO Liability - Production			230	(80,303,326)					64,792,820		
159		ARO Liability - Transmission			230	-					-		
160		ARO Liability - Distribution			230	(1,141,921)					-		
161		ARO Liability - PV3			230	(34,389,879)					34,389,879		
162		Injuries and Damages PNM			228	(5,308,656)					(1,556,967)		
163		NQRP - Expense in Excess of Funding				(6,332,225)					-		
164		PV 1&2 Dry Cask Storage			253	(7,930,713)					7,930,713		
165		PV 3 Dry Cask Storage			253	(3,924,221)					3,924,221		
166		PV 1&2 Excess Gain Amortization			253	(400,818)					-		
167		High Lonesome Mesa -			253	(12,788,967)					-		
168		CWIP - Production			107	77,642,523					(77,642,523)		
169		CWIP - Transmission			107	45,909,127					(45,909,127)		
170		CWIP - Distribution			107	21,464,185					(21,464,185)		
171		CWIP - PV3			107	11,581,494					(11,581,494)		
172		CWIP - Renewables			107	10,552					(10,552)		
173		CWIP - Production Related			107	193,576					(193,576)		
174		Pueblos Transmission Rights-of-Way			186	48,331,149					-		
175		Pueblos Distribution Rights-of-Way			186	988,708					-		
176		Prepaid Pension Asset				177,706,598					-		
177		Unamortized Loss on Reacquired Debt			189	7,816,490					-		
178		2016 Rate Case Expense			186	547					-		
179		SJGS Coal Agreement Transaction Costs				2,915,662					(168,185)		
180													
181													
182													
183				Total Other Rate Base Items		235,147,960	-	-	-	-	(52,960,070)	-	-

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
184													
185	Working Capital												
186													
187	Fuel Stock												
188		Production Fuel Stock			151	22,880,175						(541,762)	
189		PV 1&2 Nuclear Fuel (120.1 - .5)			120	59,535,745						(2,135,253)	
190		PV 3 Nuclear Fuel (120.1 - .5)			120	23,855,357						1,363,775	
191				Total Fuel Stock		106,271,277	-	-	-	-	-	(1,313,240)	-
192													
193	Materials & Supplies												
194		Production			154	29,138,513						(1,004,010)	
195		Transmission			154	880,439						58,833	
196		Distribution			154	5,715,106						218,851	
197		Palo Verde Unit 3			154	5,814,656						92,978	
198				Total Materials & Supplies		41,548,714	-	-	-	-	-	(633,347)	-
199													
200	Prepayments												
201		Production			165	85,297,741						(6,679,610)	
202		Transmission			165	9,900,766						(45,404)	
203		Distribution			165	4,269,133						(1,452,329)	
204		Renewables			165	51,912						(12,542)	
205		Palo Verde Unit 3			165	1,372,052						(123,395)	
206				Total Prepayments		80,891,604	-	-	-	-	-	(8,313,281)	-
207													
208				Total Cash Working Capital (see Rule 530 schedule E-1)									
209													
210				Total Working Capital		228,711,595	-	-	-	-	-	(10,259,868)	-
211													
212				Total Rate Base Adjustments & Working Capital		(280,361,256)	-	-	(21,565,363)	(17,213,766)	(52,960,070)	(10,259,868)	-
213													
214				Total Net Original Cost Rate Base		2,973,390,064	(103,255,462)	-	(21,565,363)	(17,213,766)	(52,960,070)	(10,259,868)	-
215													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
216	Operations and Maintenance Expense												
217													
218	Production Fuel related expenses												
219													
220	Production - FPPCAC Fuel Related												
221		Steam Generation			501	144,780,983							
222		Steam Fuel Handling and Disposal			501	-							
223		Nuclear			518	24,962,015							
224		Nuclear Disposal			518	-							
225		Gas Generation			547	24,087,555							
226		Renewables - Owned			547	-							
227		Wind (NMWEC)			555	12,115,697							
228		Renewables - PPA			555	7,479,190							
229		Purchased Power Energy			555	11,999,046							
230		Spinning reserves			555	-							
231		Tri State Hazard Sharing			555	1,611,872							
232				Total Fuel Costs (before OSS)		227,036,358	-	-	-	-	-	-	-
233													
234		Off-system Sales			447	(24,303,923)							
235		Off-system Sales - PV 3				(34,495,463)							
236		Off-system Sales - 65 MW				-							
237		Tri State Hazard Sharing				(1,570,284)							
238		Off-system Sales Credit				(669,587)							
239		Refined Coal Credit				-							
240		DOE Spent Fuel Credit				-							
241		Load Side from Transmission Customers			456.1	(789,972)							
242		Physical Sales of Gas (under FAC hedge plan)				(79,393)							
243				Total Other Fuel		(61,908,622)	-	-	-	-	-	-	-
244													
245				Total Fuel (net OSS)		165,127,737	-	-	-	-	-	-	-
246													
247		Production - Non Fuel Items											
248		Coal Fuel Handling			501	13,261,010							
249		Nuclear Fuel Handling			518	550,481							
250		Gas Plants Fuel Transportation			547	11,101,507							
251		Gas PPA - Valencia - Demand			555	21,110,525							
252		Purchase Power for Economy Service Customer			555	27,395,858							
253		Purchased power for Rate 36B				-							
254		Deferred Energy				14,281,443							
255		REC Purchases and Renewable Energy Amortization			555	10,282,954							
256		Gas Swaps - Non Fuel Clause Settlements and Excess Gas Physical Purchases				294,001							
257		Coal Mine Decommissioning - Allowed			501.15	7,074,007							
258		Coal Mine Decommissioning - Disallowed			501.15	1,396,372							
259		Coal Mine Decommissioning - FERC			501.15	182,231							
260		Hedge - FERC				1,293,750							
261		Spinning reserves				683,225							
262		Broker Fees				237,829							
263				Total Non Fuel Items		109,145,194	-	-	-	-	-	-	-
264													
265				Total Fuel Related Expense		274,272,931	-	-	-	-	-	-	-
266													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
267	O&M												
268	Steam Production												
269		Oper-Sup & Eng-Prod			500	4,772,071							
270		Oper-Steam Expense-Major			502	8,902,723							
271		Oper - Steam from Other Sources			503	(342)							
272		Oper-Electric Exp-Major			505	5,019,267							
273		Oper-Misc Steam Power Exp			506	3,308,488							
274		Oper-Rents-Steam Power			507	160,131							
275		Maint-Sup & Eng-Steam			510	3,603,870							
276		Maint-Structures-Steam			511	5,844,553							
277		Maint-Boiler Plant			512	27,180,293							
278		Maint-Electric Plant			513	7,890,673							
279		Maint-Gen & Elec Plant			514	4,542,151							
280		SJ Unit 4 65MW - Steam Production				-							
281	Nuclear Production												
282		Oper-Sup & Eng-Nuclear			517	6,355,789							
283		Oper-Coolants and Water			519	3,066,537							
284		Oper-Steam Expenses-Nuclear			520	2,762,859							
285		Oper-Electric Exp			523	1,912,396							
286		Oper-Misc Nuclear Power, excluding PV 1&2 Decom & CE Credit			524	10,335,977							
287		Oper-Misc Nuclear Power - PV 1&2 Decom & CE Credit			524	(2,347,333)							
288		Oper-Rents-Nuclear, excluding PV 1&2 CE Credit & Excess Gain Amort			525	32,072,972							
289		Oper-Rents-Nuclear - PV 1&2 CE Credit			525	(73,263)							
290		Oper-Rents-Nuclear - PV 1&2 Excess Gain Amort			525	(110,306)							
291		Maint-Sup & Eng-Nuclear			528	1,945,156							
292		Maint-Structures-Major			529	624,216							
293		Maint-Reactor Plant			530	4,362,016							
294		Maint-Elec Plant			531	4,470,937							
295		Maint-Misc Nuclear Plant			532	920,776							
296		Palo Verde 3 - Nuclear Production, FERC 517,519-532			517,519-532	14,448,508							
297	Other Production												
298		Oper-Sup & Eng-Other			546	3,447,999							
299		Oper-Oth Pwr Gen Exp-Other			549	205,944							
300		Oper-Oth Pwr Gen Exp-Other - Renewables			549	500,978							
301		Maint - Structures			552	597,015							
302		Maint-Gen & Elec Plant			553	6,771,773							
303		Maint-Gen & Elec Plant - Renewables			553	1,091,676							
304		Maint-Gen & Elec Plant			556	3,658,256							
305				Total Production O&M		168,244,751	-	-	-	-	-	-	-
306													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
307	Transmission O&M (560-574, excluding 565):												
308		Oper-Sup & Eng-ETrans			560	1,908,027							
309		Oper-Load Dispatch-ETrans			561	853,760							
310		Oper-Station Exp-ETrans			562	607,226							
311		Oper-Overhead Lines-ETrans			563	65,600							
312		Oper-Misc Transmission-E			566	3,312,474							
313		Oper-Rents-Transmission-E			567	10,375,813							
314		Maint Sup & Eng-ETrans			568	11,411							
315		Maint-Structures-ETrans			569	1,731							
316		Maint-Sta Equip-ETrans			570	3,135,589							
317		Maint-Overhead Lns-ETrans			571	245,012							
318		Maint-Misc Trans Plt-Maj-E			573	177							
319		Maint-Trans Plant-NonMaj-E			574	13,968							
320		HLM - Transmission O&M			560-564,566-574	20,000							
321				Total Transmission O&M, excluding FERC 565		20,550,787	-	-	-	-	-	-	-
322													
323	Transmission O&M by Others (565):												
324		Owned Generation Wheeling			565	8,438,076							
325		PV 3 Wheeling			565	394,448							
326		Retail Wheeling			565	1,475,074							
327		FERC Wholesale Customer Wheeling			565	1,595,546							
328		WAPA Exchange			565	-							
329		Transmission by Others			565	3,725,437							
330				Total Transmission by Others, FERC 565		15,628,581	-	-	-	-	-	-	-
331													
332				Total Transmission O&M		36,179,368	-	-	-	-	-	-	-
333													
334	Total Dist O&M (580-598)												
335													
336	PNM Street & Private Lighting												
337		Oper-Street Light/Signal-E			585	76,948							
338		Maint-Streetlight/Signal-E			596	1,158,371							
339				Total Street and Private Lighting		1,235,319	-	-	-	-	-	-	-
340													
341	PNM Meters												
342		Oper-Meter Expense-EDist			586	2,698,769							
343		Maint-Meters-EDist			597	278,840							
344				Total Meters		2,977,609	-	-	-	-	-	-	-
345													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
346	All Other Distribution O&M												
347		Oper-Sup & Eng-EDist			580	2,600,171							
348		Oper-Station Exp-EDist			582	151,618							
349		Oper-Overhead Lines-EDist			583	2,056,184							
350		Oper-Undergrd Line-EDist			584	550,345							
351		Oper-Misc Dist Exp-EDist			588	5,899,096							
352		Oper-Rents-Distribution-E			589	119,568							
353		Maint-Sup & Eng-EDist			590	832,245							
354		Maint-Structures-EDist			591	40,925							
355		Maint-Station Equip-EDist			592	1,064,709							
356		Maint-Overhead Lns-EDist			593	3,069,643							
357		Maint-Und Lines-EDist			594	1,549,068							
358		Maint-Misc Dist Plant-E			598	461,279							
359				Total Other Distribution O&M		18,394,852	-	-	-	-	-	-	-
360													
361				Total Distribution O&M		22,607,780	-	-	-	-	-	-	-
362													
363	Customer Related O&M												
364													
365	PNM Related Customer Accounts Exp												
366		Supervision-Customer Accts			901	(156,664)							
367		Meter Reading Expenses			902	4,716,769							
368		Customer Record and Coll			903	7,258,160							
369		Uncollectible Expenses			904	3,426,521							
370		Misc Customer Accts Exp			905	(4)							
371		Cust Service/Inf Expenses			906	285,478							
372		Customer Assistance Exps			908	731,274							
373		Inform/Instruc Advert Exps			909	348							
374		Demo & Selling Expenses - Excluding Production			912	39,931							
375		Demo & Selling Expenses - Production			912	4,212,732							
376													
377				Total Customer Related O&M		20,514,545	-	-	-	-	-	-	-
378													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
379	Administrative & General Expense												
380													
381				Production - Admin and General Salaries	920	(2,131,479)							
382				Transmission - Admin and General Salaries	920	490,049							
383				Distribution - Admin and General Salaries	920	2,743,046							
384				Production - AG Office Supplies Exp	921	(570,566)							
385				Transmission - AG Office Supplies Exp	921	228,588							
386				Distribution - AG Office Supplies Exp	921	1,275,047							
387				A&G Charged to CWIP - Production	922	(2,036,322)							
388				A&G Charged to CWIP - Transmission	922	(3,329,334)							
389				A&G Charged to CWIP - Distribution	922	(3,934,029)							
390				Production Related - Shared Services	9229	33,448,917							
391				Transmission Related - Shared Services	9229	8,727,938							
392				Distribution/Customer Related - Shared Services	9229	49,586,750							
393				Production - Outside Services	923	(394,420)							
394				Transmission - Outside Services	923	194,163							
395				Distribution - Outside Services	923	1,498,131							
396				Production - Property Insurance	924	1,665,651							
397				Transmission - Property Insurance	924	293,131							
398				Distribution - Property Insurance	924	422,211							
399				Production - Injuries or Damages-Safety	925	546,717							
400				Transmission - Injuries or Damages-Safety	925	(2,251)							
401				Distribution - Injuries or Damages-Safety	925	1,017,387							
402				Production - Empl Pension and Benefits	926	5,401,100							
403				Transmission - Empl Pension and Benefits	926	601,820							
404				Distribution - Empl Pension and Benefits	926	8,587,478							
405				Production - Regulatory Commission Exp	928	1,174,293							
406				Transmission - Regulatory Commission Exp	928	99,480							
407				Distribution - Regulatory Commission Exp	928	24,090,549							
408				Production - Misc AG Expenses	930	10,771,996							
409				Transmission - Misc AG Expenses	930	(36,403)							
410				Distribution - Misc AG Expenses	930	73,482							
411				Transmission - Rents-Cust	931	20,213							
412				Production - Maint of General Plant	935	(59,615)							
413				Transmission - Maint of General Plant	935	684,057							
414				Distribution - Maint of General Plant	935	262,220							
415				Renewables - A&G (920-935)	920-935	237,203							
416				PV3 - A&G (920 - 935)	920-935	3,862,624							
417				SJ Unit 4 65MW A&G (920 - 935)	920-935	-							
418				Total Administrative & General Expense		145,509,821	-	-	-	-	-	-	-
419													
420				Total Operations & Maintenance Expense		502,201,459	-	-	-	-	-	-	-
421													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
422	Depreciation and Amortization Expense												
423													
424	Production Depreciation and Amortization												
425		Steam Production Plant			403	20,769,613		6,184,646					
426		San Juan Unit 4 65 MW			403	-		-					
427		Nuclear Production Net Plant - Palo Verde 1 & 2			403	7,414,666		5,977,759					
428		Nuclear Production Net Plant - Palo Verde 3			403	4,432,143		380,836					
429		PV 1&2 Acquisition Adjustment Amortization			406	365,112		-					
430		PV 2 Lease Acquisition Adjustment - First Chicago Amortization			406	277,351		554,702					
431		PV 2 64.1 MW Lease Acquisition Adjustment Amortization			406	1,139,138		(1,139,138)					
432		Other Production Plant - Gas & 40 MW Solar			403	12,966,076		1,442,099					
433		Other Production Plant - Renewable			403	6,466,739		(540,264)					
434				Total Production Depreciation and Amortization Expense		53,830,838	-	12,860,639	-	-	-	-	-
435													
436	Transmission Depreciation and Amortization												
437		Step-Up Transformers - Excluding PV3			403	362,789		109,039					
438		Step-Up Transformers - PV3			403	9,634		3,400					
439		Transmission System Plant			403	13,938,426		4,788,745					
440		Transmission System Plant - PV 3			403	113,174		105,835					
441		Transmission System Plant - High Lonesome Mesa			403	559,436		85,136					
442		Transmission System Plant - Dedicated Retail			403	235,527		114,240					
443		Transmission System Plant - Dedicated FERC			403	16,142		(16,142)					
444		EIP Acquisition Adjustment Amortization			406	585,972		-					
445				Total Transmission Depreciation and Amortization		15,821,100	-	5,190,253	-	-	-	-	-
446													
447	Distribution Depreciation and Amortization												
448		Distribution Substations Net Plant - Dedicated FERC			403	-		-					
449		Distribution Substations Net Plant - PNM			403	4,598,442		982,176					
450		Distribution Substations Net Plant - Renewables			403	282,423		14,968					
451		Primary Distribution System Net Plant - PNM			403	12,498,360		2,657,188					
452		Primary Distribution System Net Plant - Renewables			403	48,815		21,754					
453		Secondary Distribution System Net Plant - PNM			403	7,332,415		1,883,809					
454		Secondary Distribution System Net Plant - Renewables			403	12,901		9,258					
455		Services Net Plant - PNM			403	5,829,989		(1,941,272)					
456		Meters Net Plant - PNM			403	1,734,756		647,871					
457		Private Lighting - 371			403	33,751		188,410					
458		Street Lighting - 373			403	317,729		374,630					
459				Total Distribution Depreciation and Amortization		32,689,581	-	4,838,792	-	-	-	-	-
460													
461	General Depreciation and Amortization												
462		Production General & Intangible Net Plant			403	1,339,542		554,663					
463		PV Unit 3 General & Intangible Net Plant			403	341,318		(441)					
464		Renewables General & Intangible Net Plant			403	1,719		(67)					
465		Bulk Power Operations			403	760,610		(372,390)					
466		Energy Management System Facilities			403	434,914		681,463					
467		Other Division Offices/Customer Service			403	3,703,953		144,460					
468		Communications - Transmission			403	2,307,951		780,906					
469		Production Related (Shared Services)			403	-		4,038,921				-	
470		Transmission Related (Shared Services)			403	-		1,138,215					
471		Distribution/Customer Related (Shared Services)			403	-		8,207,618					
472				Total General Depreciation and Amortization		8,890,007	-	15,173,348	-	-	-	-	-
473													
474				Total Depreciation and Amortization Expense		111,231,526	-	38,063,033	-	-	-	-	-

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
475													
476	General Taxes												
477													
478	Property Taxes												
479		Production Property Taxes											
480		Steam Production Plant			408	5,928,025							
481		San Juan Unit 4 65 MW			408	-							
482		Nuclear Production Net Plant - Palo Verde 1 & 2			408	1,730,272							
483		Nuclear Production Net Plant - Palo Verde 3			408	967,170							
484		Other Production Plant - Gas & 40 MW Solar			408	4,058,780							
485		Other Production Plant - Renewable			408	1,666,700							
486				Total Production Property Taxes		14,350,947	-	-	-	-	-	-	-
487													
488		Transmission Property Taxes											
489		Step-Up Transformers - Excluding PV3			408	64,848							
490		Step-Up Transformers - PV3			408	1,581							
491		Transmission System Plant			408	4,130,055							
492		Transmission System Plant - PV 3			408	33,557							
493		Transmission System Plant - High Lonesome Mesa			408	235,162							
494		Transmission System Plant - Dedicated Retail			408	38,823							
495		Transmission System Plant - Dedicated FERC			408	1,914							
496				Total Transmission Property Taxes		4,505,940	-	-	-	-	-	-	-
497													
498		Distribution Property Taxes											
499		Distribution Substations Net Plant - Dedicated FERC			408	-							
500		Distribution Substations Net Plant - PNM			408	1,401,493							
501		Distribution Substations Net Plant - Renewables			408	16,889							
502		Primary Distribution System Net Plant - PNM			408	3,365,598							
503		Primary Distribution System Net Plant - Renewables			408	25,629							
504		Secondary Distribution System Net Plant - PNM			408	1,998,448							
505		Secondary Distribution System Net Plant - Renewables			408	8,304							
506		Services Net Plant - PNM			408	516,510							
507		Meters Net Plant - PNM			408	398,990							
508		Private Lighting - 371			408	5,508							
509		Street Lighting - 373			408	116,750							
510				Total Distribution Property Taxes		7,854,119	-	-	-	-	-	-	-
511													
512		General Property Taxes											
513		Production General & Intangible Net Plant			408	39,839							
514		PV Unit 3 General & Intangible Net Plant			408	5,487							
515		Renewables General & Intangible Net Plant			408	192							
516		Bulk Power Operations			408	36,955							
517		Energy Management System Facilities			408	53,289							
518		Other Division Offices/Customer Service			408	381,932							
519		Communications - Transmission			408	184,228							
520		Production Related (Shared Services)			408	-							
521		Transmission Related (Shared Services)			408	-							
522		Distribution/Customer Related (Shared Services)			408	-							
523				Total General Property Taxes		701,922	-	-	-	-	-	-	-
524													
525													
526				Total Property Taxes		27,412,928	-	-	-	-	-	-	-
527													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
528	Payroll Taxes												
529		Production Related			408	1,576,697							
530		Transmission Related			408	133,427							
531		Distribution Related			408	2,513,888							
532				Total Payroll Taxes		4,224,012	-	-	-	-	-	-	-
533													
534	Other Taxes												
535		Misc Taxes - Production Related			408	(177,231)							
536		Misc Taxes - Renewable			408	163,082							
537		Misc Taxes - Transmission Related			408	142,561							
538		Misc Taxes - Distribution Related			408	26,045							
539		Regulatory Commission Fees (I&S) PNM			408	5,178,619							
540		Joint Projects Four Corners			408	405,007							
541		Joint Projects PVNGS			408	1,964,290							
542		Joint Projects Transmission			408	-							
543		Native American Taxes - Production			408	1,554,300							
544		Native American Taxes - Transmission			408	890,883							
545		Native American Taxes - Distribution			408	150,175							
546				Total Other Taxes		10,297,732	-	-	-	-	-	-	-
547													
548				Total General Taxes		41,934,672	-	-	-	-	-	-	-
549													
550	Other Allowable Expenses												
551													
552		Interest on Customer Deposits			431	241,075							
553		Amortization Loss on Reacquired Debt			407.3	1,235,545							
554		Amortization Retail Rate Case Expenses			408.2	-							
555		Renewable Grant Amortization			407	(1,307,450)							
556		Accretion ARO - Production Related			411	6,017,044							
557		Accretion ARO - PV 3			411	2,677,308							
558		Accretion ARO - Distribution Related			411	110,355							
559		Amortization of LVGS Regulatory Liability			407	-							
560		Amortization of LVGS Regulatory Asset			407	-							
561													
562													
563													
564													
565													
566				Total Other Allowable Expenses		8,973,878	-	-	-	-	-	-	-
567													
568													
569				Total Operating Expenses		829,469,271	-	38,063,033	-	-	-	-	-
570				(Excl Income & Revenue Related Taxes)									
571													
572	Total Net Original Cost Rate Base					2,973,390,064	(103,255,462)	-	(21,565,363)	(17,213,766)	(52,960,070)	(10,259,868)	-
573	Weighted Cost of Capital					7.63%	7.63%	7.63%	7.63%	7.63%	7.63%	7.63%	7.63%
574	Return on Rate Base					226,809,679	(7,876,309)	-	(1,645,002)	(1,313,063)	(4,039,785)	(782,621)	-
575													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
576	Federal Income Tax												
577		Return Adjustments											
578		Interest on Long Term Debt				(91,073,702)	3,162,672	-	660,538	527,251	1,622,145	314,256	-
579													
580		Tax/Book Adjustments											
581													
582		Non-deductible Meals				602,464							
583		Eastern Interconnect Project				(58,569)							
584		Palo Verde 1 & 2 Gain Amort Flow Through				(148,911)							
585		Palo Verde 1 & 2 Prudence Audit Flow Through				(63,145)							
586		AFUDC Equity Flow Through				(12,155,426)							
587		AFUDC Equity Flow Through - Renewables				24,492							
588		Federal Grant Amortization - Renewables				(1,156,926)							
589		Federal Grant Basis Adj - Renewables				578,463							
590		Gain/Loss Flow Through				228,357							
591		ACRS Flow Through				2,733,661							
592		San Juan ACRS Flow Through				355,719							
593		Four Corners SO2 Reversal Flow Through				639,588							
594		SL/GL Depreciation				(103,624)							
595		Amortization of EIP Prepaid Tax Reversal				48,817							
596				Total Tax/Book Adjustments		(8,475,040)	-	-	-	-	-	-	-
597													
598				Total Return Adjustments		(99,548,743)	3,162,672	-	660,538	527,251	1,622,145	314,256	-
599													
600				Net Taxable Equity Return		127,260,936	(4,713,637)	-	(984,464)	(785,813)	(2,417,640)	(468,355)	-
601													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
602	Federal Tax Adjustments												
603													
604	Net Provision For Deferred Income Tax												
605		Excess Payroll Tax Reversal			410	(26,173)							
606													
607		ARAM Deferred Tax Reversal			410	(754,603)							
608				Total Provision For Deferred Income Tax		(780,776)	-	-	-	-	-	-	-
609													
610	Investment Tax Credits												
611		Palo Verde 1&2 Production ITC Amortization			411.4	(444,104)							
612		Generation ITC Amortization			411.4	(619,132)							
613		Renewables ITC Amortization			411.4	(10,638)							
614		PV Valley Transmission ITC Amortization			411.4								
615		Research and Development & Other Credits			410	(513,143)							
616		All Other ITC Amortization			411.4	(341,921)							
617				Total Investment Tax Credit Amortization & Other Credits		(1,928,938)	-	-	-	-	-	-	-
618													
619				Total Federal Tax Adjustments		(2,709,714)	-	-	-	-	-	-	-
620													
621				Adjusted Equity Return		124,551,222	(4,713,637)	-	(984,464)	(785,813)	(2,417,640)	(468,365)	-
622				Federal Tax Factor (0.35/(1-0.35))		53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%
623				Federal Income Tax		67,066,043	(2,538,112)	-	(530,096)	(423,130)	(1,301,806)	(252,197)	-
624				Add:									
625				Total Provision For Deferred Income Tax		(780,776)	-	-	-	-	-	-	-
626				EIP Amortization		48,817	-	-	-	-	-	-	-
627				Total Investment Tax Credit Amortization & Other Credits		(1,928,938)	-	-	-	-	-	-	-
628													
629				Net Allowable Federal Income Tax		64,405,146	(2,538,112)	-	(530,096)	(423,130)	(1,301,806)	(252,197)	-
630													
631	State Income Tax												
632													
633		Return on Rate Base				226,809,679	(7,876,309)	-	(1,645,002)	(1,313,063)	(4,039,785)	(782,621)	-
634		Less: Return Adjustments											
635		Interest on Long Term Debt				(91,073,702)	3,162,672	-	660,538	527,251	1,622,145	314,256	-
636		Tax/Book Adjustments				(8,523,858)	-	-	-	-	-	-	-
637		Add: Net Allowable F I T				64,405,146	(2,538,112)	-	(530,096)	(423,130)	(1,301,806)	(252,197)	-
638													
639				New Mexico NOL Valuation Allowance	410	2,639,407	-	-	-	-	-	-	-
640				Amortization of Excess Deferred Taxes		-	-	-	-	-	-	-	-
641		State Taxable Income				194,256,671	(7,251,749)	-	(1,514,560)	(1,208,942)	(3,719,446)	(720,562)	-
642		State Tax Factor				6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
643				State Income Tax		13,112,325	(489,493)	-	(102,233)	(81,604)	(251,063)	(48,638)	-
644		Add:		22 MW, Battery project and PV Farm PTC	409	(1,158,900)	-	-	-	-	-	-	-
645		Add:		New Mexico NOL Valuation Allowance	410	2,639,407							
646				Amortization of Excess Deferred Taxes									
647				Net Allowable State Income Tax		14,592,832	(489,493)	-	(102,233)	(81,604)	(251,063)	(48,638)	-
648													
649													
650				Return on Rate Base		226,809,679	(7,876,309)	-	(1,645,002)	(1,313,063)	(4,039,785)	(782,621)	-
651													
652				Total Operating Expenses		829,469,271	-	38,063,033	-	-	-	-	-
653				(Excluding Income & Rev Related Taxes)									
654													
655				Net Allowable Federal Income Tax		64,405,146	(2,538,112)	-	(530,096)	(423,130)	(1,301,806)	(252,197)	-
656													
657				Net Allowable State Income Tax		14,592,832	(489,493)	-	(102,233)	(81,604)	(251,063)	(48,638)	-
658													
659													

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				FERC	Unadjusted Base Period	PNM Exhibit HEM-4	PNM Exhibit HEM-4	ADIT	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	Not Used
3					Account	PNM	WP Plant-1a	WP Plant-1b	Adjustment	WP RA-1	WP ORB-1	WP WC-1	
660	Revenue Credits:												
661		Sale of SO2 Credits			411	38							
662		Rent For Electric Property Transmission			454	(457,999)							
663		Rent for Electric Property - Distribution			454	(4,014,341)							
664		Late Payment Charges			451	(957,188)							
665		Misc Service Charge Revenue			451	(1,032,031)							
666		Other Retail Revenue - Transmission			456	(69,072)							
667		Other Retail Revenue - Distribution			456	(299,227)							
668		Generation Ancillary Services Credit Sch 2-5			456100	(1,607,407)							
669		Real Power Losses (Financial)			456100	(300,413)							
670		Transmission redispatch contract revenues			456100	(189,001)							
671		Ancillary Services-Sch 1 and Non-Firm			456100	(2,064,899)							
672		Short Term Firm Transmission			456100	(423,724)							
673		Ancillary Services-Sch 1 ST PTP and Other			456100	(266,551)							
674		Economy Service Customer Revenue Credits				(4,558,971)							
675		Co 7 Revenue											
676													
677													
678													
679													
680				Total Revenue Credits		(16,240,786)	-	-	-	-	-	-	-
681													
682				Total Revenue Requirements Before Revenue Tax		1,119,036,141	(10,903,914)	38,063,033	(2,277,331)	(1,817,797)	(5,592,654)	(1,083,456)	-
683													
684				Revenue Tax Factor ([&S Fee) '(Revenue Tax Rate/(1-Revenue Tax Rate))									
685				Revenue Tax									
686													
687	NON-FUEL REVENUE REQUIREMENT					953,908,404	(10,903,914)	38,063,033	(2,277,331)	(1,817,797)	(5,592,654)	(1,083,456)	-
688	FUEL REVENUE REQUIREMENT					165,127,737	-	-	-	-	-	-	-
689	TOTAL REVENUE REQUIREMENT					1,119,036,141	(10,903,914)	38,063,033	(2,277,331)	(1,817,797)	(5,592,654)	(1,083,456)	-
690													
691													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
4	Rate Base												
5													
6	Net Plant												
7													
8	Net Production Plant												
9													
10		Steam Production Net Plant											710,249,932
11		San Juan Unit 4 65 MW											-
12				Total Steam Production Net Plant	-	-	-	-	-	-	-	-	710,249,932
13													
14		Nuclear Production Net Plant - Palo Verde 1 & 2											273,275,823
15		Nuclear Production Net Plant - Palo Verde 3											134,573,979
16		PV 1&2 Acquisition Adjustment											3,028,128
17		PV 2 Lease Acquisition Adjustment - First Chicago											24,684,242
18		PV 2 64.1 MW Lease Acquisition Adjustment											-
19				Total Nuclear Production Net Plant	-	-	-	-	-	-	-	-	435,562,172
20													
21		Other Production Plant - Gas & 40 MW Solar											417,591,859
22		Other Production Plant - Renewable											160,691,377
23				Total Other Production Net Plant	-	-	-	-	-	-	-	-	578,283,237
24													
25		Total Net Production Plant			-	-	-	-	-	-	-	-	1,724,095,341
26													
27	Net Transmission Plant												
28													
29		Step-Up Transformers - Excluding PV3											9,948,482
30		Step-Up Transformers - PV3											215,246
31				Total Transmission Station Equipment - Step-up Xfmr and Aux	-	-	-	-	-	-	-	-	10,163,728
32													
33		Transmission System Net Plant											448,007,946
34		Transmission System Net Plant - PV 3											4,617,882
35		Transmission System Net Plant - High Lonesome Mesa											21,275,841
36		Transmission System Net Plant - Dedicated Retail											3,723,297
37		Transmission System Net Plant - Dedicated FERC											-
38		EIP Acquisition Adjustment											5,566,702
39				Total Transmission System Net Plant	-	-	-	-	-	-	-	-	483,191,668
40													
41		Total Net Transmission Plant			-	-	-	-	-	-	-	-	493,355,396
42													
43													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
44	Net Distribution Plant												
45													
46		Distribution Substations Net Plant - Dedicated FERC											-
47		Distribution Substations Net Plant - PNM											139,953,072
48		Distribution Substations Net Plant - Renewables											1,529,790
49			Total Distribution Substations Net Plant		-	-	-	-	-	-	-	-	141,482,863
50													
51		Primary Distribution System Net Plant - PNM											336,824,067
52		Primary Distribution System Net Plant - Renewables											2,496,975
53			Total Primary Distribution Net Plant		-	-	-	-	-	-	-	-	339,321,042
54													
55		Secondary Distribution System Net Plant - PNM											198,485,602
56		Secondary Distribution System Net Plant - Renewables											815,362
57			Total Secondary Distribution Net Plant		-	-	-	-	-	-	-	-	199,300,964
58													
59		Services Net Plant - PNM											49,838,339
60													
61		Meters Net Plant - PNM											39,211,939
62													
63		Private Lighting - 371											557,427
64		Street Lighting - 373											11,517,791
65			Total Lighting Net Plant		-	-	-	-	-	-	-	-	12,075,218
66													
67		Total Net Plant Distribution Plant				-	-	-	-	-	-	-	781,230,365
68													
69													
70	Net Plant General & Intangible Plant												
71													
72		Production General & Intangible Net Plant											3,566,563
73		PV Unit 3 General & Intangible Net Plant											665,976
74		Renewables General & Intangible Net Plant											20,001
75		Bulk Power Operations											3,598,291
76		Energy Management System Facilities											6,458,760
77		Other Division Offices/Customer Service											36,184,846
78		Communications - Transmission											25,423,574
79		Production Related (Shared Services)											24,739,176
80		Transmission Related (Shared Services)											6,280,082
81		Distribution/Customer Related (Shared Services)											44,877,487
82			Total Net Plant General & Intangible Plant - PNM		-	-	-	-	-	-	-	-	151,814,758
83													
84			Total Net Plant		-	-	-	-	-	-	-	-	3,150,495,859

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
85													
86	Accumulated Deferred Income Taxes												
87		Injury & Damages											2,741,699
88		Palo Verde Gain 1 & 2											159,756
89		Renewable NOL Allocation											-
90		Palo Verde Construction Credits 1 & 2											70,932
91		Pension Prepaid Tax Qualified											(70,246,241)
92		Pension Prepaid Tax NQRP											2,509,263
93		Eastern Interconnect Project Gain											-
94		Line Extension Policy											957,131
95		Tax Capitalized Interest											22,947,461
96		Palo Verde Dry Cask Storage 1 & 2											-
97		Palo Verde Dry Cask Storage 3											-
98		Contributions In Aid of Construction											34,915,974
99		Coal Mine Decommissioning											(2,993,731)
100		Pollution Control Facilities 4 Corners											(485,697)
101		FERC Customer Depreciation											1,256,410
102		Liberalized Depreciation - Renewables											(47,885,107)
103		Liberalized Depreciation - Other											(20,290,548)
104		Liberalized Depreciation - Generation											(422,430,974)
105		Liberalized Depreciation - Distribution											(221,581,560)
106		Liberalized Depreciation - Transmission											(103,020,794)
107		Liberalized Depreciation - PV 3											(78,907,153)
108		Palo Verde Start-Up Amortization											250,026
109		Nuclear Fuel Amortization PV 1&2											7,166,968
110		Nuclear Fuel Amortization PV 3											3,180,091
111		Debt AFUDC											(23,543,182)
112		Pre-1981 Repair Allowance											(22,138,422)
113		Palo Verde Licensing Amortization											(4,559,854)
114		Asset Retirement Obligation											6,583,926
115		Afton Writedown											3,884,264
116		Loss on Reacquired Debt											(3,097,947)
117		Book Capitalized Interest											(7,753,954)
118		Prepaid Expenses											(3,756,987)
119		Net Operating Loss (NOL)											166,646,496
120		Deferred Federal Tax Credits											9,211,736
121		PCB Refinancing											(6,021,904)
122		LVGS Decommissioning											514,273
123		Renewable NM AETC											1,485,765
124		Rate Case Expense											(1,483,385)
125		DOE Spent Fuel Settlement											2,638,641
126		DOE Spent Fuel Settlement PV3											1,175,700
127		50% SJGS 2&3											-
128		Liberalized Depreciation - SJ4 132 MW											2,687,661
129		Liberalized Depreciation - SJ4 65 MW											-
130		SJGS Agreement Costs											(1,072,065)
131		Liberalized Depreciation - HLM											(4,919,699)
132				Total Accumulated Deferred Income Taxes	-	-	-	-	-	-	-	-	(775,205,032)

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
133													
134	Regulatory Assets & Liabilities												
135													
136		Coal Mine Decommissioning-Surface											7,534,489
137		PV 1&2 Combustion Engineering											(177,632)
138		PV 1&2 DOE Spent Fuel Refund											(6,713,838)
139		PV 3 DOE Spent Fuel Refund											(3,000,000)
140		Reg Asset LVGS Decommission											289,124
141		Reg Liab LVGS Decommission											(1,591,082)
142		PCB Refinancing Hedge											15,192,433
143		Reg Liab Renewables Fed Grant											(19,369,738)
144		Reg Liab Renewables St Credit											(3,748,688)
145		2015 Rate Case Expenses											3,790,023
146		San Juan Units 2 & 3 50% Undepreciated Investment											-
147													
148													
149				Total Regulatory Assets & Liabilities	-	-	-	-	-	-	-	-	(7,794,909)
150													
151	Other Rate Base Items												
152													
153		Customer Deposits											(12,363,018)
154		RWIP-Production											-
155		RWIP-Transmission											-
156		RWIP-Distribution											-
157		RWIP-PV3											-
158		ARO Liability - Production											(15,510,506)
159		ARO Liability - Transmission											-
160		ARO Liability - Distribution											(1,141,921)
161		ARO Liability - PV3											-
162		Injuries and Damages PNM											(6,865,623)
163		NQRP - Expense in Excess of Funding											(6,332,225)
164		PV 1&2 Dry Cask Storage											-
165		PV 3 Dry Cask Storage											-
166		PV 1&2 Excess Gain Amortization											(400,818)
167		High Lonesome Mesa -											(12,788,967)
168		CWIP - Production											-
169		CWIP - Transmission											-
170		CWIP - Distribution											-
171		CWIP - PV3											-
172		CWIP - Renewables											-
173		CWIP - Production Related											-
174		Pueblos Transmission Rights-of-Way											48,331,149
175		Pueblos Distribution Rights-of-Way											988,708
176		Prepaid Pension Asset											177,706,598
177		Unamortized Loss on Reacquired Debt											7,816,490
178		2016 Rate Case Expense											547
179		SJGS Coal Agreement Transaction Costs											2,747,476
180													
181													
182													
183				Total Other Rate Base Items	-	-	-	-	-	-	-	-	182,187,891

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
184													
185	Working Capital												
186													
187	Fuel Stock												
188		Production Fuel Stock											22,338,413
189		PV 1&2 Nuclear Fuel (120.1 - .5)											57,400,492
190		PV 3 Nuclear Fuel (120.1 - .5)											25,219,132
191			Total Fuel Stock		-	-	-	-	-	-	-	-	104,958,037
192													
193	Materials & Supplies												
194		Production											28,134,503
195		Transmission											939,272
196		Distribution											5,933,957
197		Palo Verde Unit 3											5,907,634
198			Total Materials & Supplies		-	-	-	-	-	-	-	-	40,915,366
199													
200	Prepayments												
201		Production											58,618,131
202		Transmission											9,855,362
203		Distribution											2,816,804
204		Renewables											39,370
205		Palo Verde Unit 3											1,248,657
206			Total Prepayments		-	-	-	-	-	-	-	-	72,578,323
207													
208				Total Cash Working Capital (see Rule 530 schedule E-1)							2,677,159		2,677,159
209													
210			Total Working Capital		-	-	-	-	-	-	2,677,159	-	221,128,886
211													
212			Total Rate Base Adjustments & Working Capital		-	-	-	-	-	-	2,677,159	-	(379,683,164)
213													
214			Total Net Original Cost Rate Base		-	-	-	-	-	-	2,677,159	-	2,770,812,695
215													

	A B C D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ									
2	Base Period Ending June 30, 2016	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3		WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
216	Operations and Maintenance Expense									
217										
218	Production Fuel related expenses									
219										
220	Production - FPPCAC Fuel Related									
221	Steam Generation		-							144,780,983
222	Steam Fuel Handling and Disposal		11,667,648							11,667,648
223	Nuclear		-							24,962,015
224	Nuclear Disposal		1,055,899							1,055,899
225	Gas Generation		245,334							24,332,889
226	Renewables - Owned		-							-
227	Wind (NMWEC)		(12,115,697)							-
228	Renewables - PPA		12,115,697							19,594,887
229	Purchased Power Energy		3,924,361							15,923,407
230	Spinning reserves		683,225							683,225
231	Tri State Hazard Sharing		-							1,611,872
232	Total Fuel Costs (before OSS)	-	17,576,466	-	-	-	-	-	-	244,612,825
233										
234	Off-system Sales		-							(24,303,923)
235	Off-system Sales - PV 3		-							(34,495,463)
236	Off-system Sales - 65 MW		-							-
237	Tri State Hazard Sharing		-							(1,570,284)
238	Off-system Sales Credit		-							(669,587)
239	Refined Coal Credit		(4,938,502)							(4,938,502)
240	DOE Spent Fuel Credit		-							-
241	Load Side from Transmission Customers		-							(789,972)
242	Physical Sales of Gas (under FAC hedge plan)		-							(79,393)
243	Total Other Fuel	-	(4,938,502)	-	-	-	-	-	-	(66,847,124)
244										
245	Total Fuel (net OSS)	-	12,637,965	-	-	-	-	-	-	177,765,701
246										
247	Production - Non Fuel Items									
248	Coal Fuel Handling		(13,261,010)							-
249	Nuclear Fuel Handling		(550,481)							-
250	Gas Plants Fuel Transportation		-							11,101,507
251	Gas PPA - Valencia - Demand		-							21,110,525
252	Purchase Power for Economy Service Customer		(27,395,858)							-
253	Purchased power for Rate 36B		-							-
254	Deferred Energy		(14,281,443)							-
255	REC Purchases and Renewable Energy Amortization		-							10,282,954
256	Gas Swaps - Non Fuel Clause Settlements and Excess Gas Physical Purchases		-							294,001
257	Coal Mine Decommissioning - Allowed		181,807							7,255,813
258	Coal Mine Decommissioning - Disallowed		218,847							1,615,219
259	Coal Mine Decommissioning - FERC		28,633							210,864
260	Hedge - FERC		-							1,293,750
261	Spinning reserves		(683,225)							-
262	Broker Fees		-							237,829
263	Total Non Fuel Items	-	(55,742,731)	-	-	-	-	-	-	53,402,463
264										
265	Total Fuel Related Expense	-	(43,104,766)	-	-	-	-	-	-	231,168,164
266										

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
267	O&M												
268	Steam Production												
269		Oper-Sup & Eng-Prod			(44,522)								4,727,549
270		Oper-Steam Expense-Major			911,507								9,814,230
271		Oper - Steam from Other Sources			342								-
272		Oper-Electric Exp-Major			17,223								5,036,489
273		Oper-Misc Steam Power Exp			(222,087)								3,086,401
274		Oper-Rents-Steam Power			-								160,131
275		Maint-Sup & Eng-Steam			(27,549)								3,576,321
276		Maint-Structures-Steam			240,376								6,084,929
277		Maint-Boiler Plant			(7,933,831)								19,246,462
278		Maint-Electric Plant			(1,855,478)								6,035,194
279		Maint-Gen & Elec Plant			233,522								4,775,673
280		SJ Unit 4 65MW - Steam Production			-								
281	Nuclear Production												
282		Oper-Sup & Eng-Nuclear			(5,035)								6,350,754
283		Oper-Coolants and Water			-								3,066,537
284		Oper-Steam Expenses-Nuclear			(242,933)								2,519,926
285		Oper-Electric Exp			-								1,912,396
286		Oper-Misc Nuclear Power, excluding PV 1&2 Decom & CE Credit			-								10,335,977
287		Oper-Misc Nuclear Power - PV 1&2 Decom & CE Credit			(2,799,676)								(5,147,011)
288		Oper-Rents-Nuclear, excluding PV 1&2 CE Credit & Excess Gain Amort			(12,507,347)								19,565,625
289		Oper-Rents-Nuclear - PV 1&2 CE Credit			-								(73,263)
290		Oper-Rents-Nuclear - PV 1&2 Excess Gain Amort			-								(110,308)
291		Maint-Sup & Eng-Nuclear			(639,120)								1,306,036
292		Maint-Structures-Major			(97,839)								526,377
293		Maint-Reactor Plant			(813,433)								3,548,583
294		Maint-Elec Plant			(690,331)								3,780,605
295		Maint-Misc Nuclear Plant			(153,980)								766,796
296		Palo Verde 3 - Nuclear Production, FERC 517,519-532			2,200,403								16,648,911
297	Other Production												
298		Oper-Sup & Eng-Other			670,447								4,118,446
299		Oper-Oth Pwr Gen Exp-Other			135,741								341,686
300		Oper-Oth Pwr Gen Exp-Other - Renewables			70,244								571,222
301		Maint - Structures			327,070								924,085
302		Maint-Gen & Elec Plant			1,391,016								8,162,789
303		Maint-Gen & Elec Plant - Renewables			-								1,091,676
304		Maint-Gen & Elec Plant			18,090								3,676,346
305				Total Production O&M	(21,817,181)	-	-	-	-	-	-	-	146,427,570
306													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
307	Transmission O&M (560-574, excluding 565):												
308		Oper-Sup & Eng-ETrans			(65,483)								1,842,544
309		Oper-Load Dispatch-ETrans			22,419								876,179
310		Oper-Station Exp-ETrans			(95,313)								511,913
311		Oper-Overhead Lines-ETrans			34,551								100,151
312		Oper-Misc Transmission-E			(124,190)								3,188,283
313		Oper-Rents-Transmission-E			-								10,375,813
314		Maint Sup & Eng-ETrans			(6,224)								5,187
315		Maint-Structures-ETrans			(1,531)								200
316		Maint-Sta Equip-ETrans			(7,809)								3,127,780
317		Maint-Overhead Lns-ETrans			40,889								285,900
318		Maint-Misc Trans Plt-Maj-E			(1)								176
319		Maint-Trans Plant-NonMaj-E			(4,670)								9,298
320		HLM - Transmission O&M			-								20,000
321				Total Transmission O&M, excluding FERC 565	(207,363)	-	-	-	-	-	-	-	20,343,424
322													
323	Transmission O&M by Others (565):												
324		Owned Generation Wheeling			-								8,438,076
325		PV 3 Wheeling			-								394,448
326		Retail Wheeling			-								1,475,074
327		FERC Wholesale Customer Wheeling			-								1,595,545
328		WAPA Exchange			3,138,480								3,138,480
329		Transmission by Others			-								3,725,437
330				Total Transmission by Others, FERC 565	3,138,480	-	-	-	-	-	-	-	18,767,061
331													
332				Total Transmission O&M	2,931,117	-	-	-	-	-	-	-	39,110,485
333													
334	Total Dist O&M (580-598)												
335													
336	PNM Street & Private Lighting												
337		Oper-Street Light/Signal-E			3,330								80,278
338		Maint-Streetlight/Signal-E			(160,368)								998,002
339				Total Street and Private Lighting	(157,038)	-	-	-	-	-	-	-	1,078,281
340													
341	PNM Meters												
342		Oper-Meter Expense-EDist			500,964								3,199,733
343		Maint-Meters-EDist			(18,896)								259,945
344				Total Meters	482,068	-	-	-	-	-	-	-	3,459,677
345													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
346	All Other Distribution O&M												
347		Oper-Sup & Eng-EDist			13,604								2,613,775
348		Oper-Station Exp-EDist			3,030								154,647
349		Oper-Overhead Lines-EDist			(132,447)								1,923,737
350		Oper-Undergrd Line-EDist			(40,628)								509,717
351		Oper-Misc Dist Exp-EDist			98,844								5,997,940
352		Oper-Rents-Distribution-E			-								119,568
353		Maint-Sup & Eng-EDist			(45,791)								786,455
354		Maint-Structures-EDist			-								40,925
355		Maint-Station Equip-EDist			32,593								1,097,302
356		Maint-Overhead Lns-EDist			(142,416)								2,927,227
357		Maint-Und Lines-EDist			(255,543)								1,293,526
358		Maint-Misc Dist Plant-E			-								461,279
359				Total Other Distribution O&M	(468,754)	-	-	-	-	-	-	-	17,926,098
360													
361				Total Distribution O&M	(143,724)	-	-	-	-	-	-	-	22,464,056
362													
363	Customer Related O&M												
364													
365	PNM Related Customer Accounts Exp												
366		Supervision-Customer Accts			(13,348)								(170,012)
367		Meter Reading Expenses			(52,295)								4,664,474
368		Customer Record and Coll			141,972								7,400,132
369		Uncollectible Expenses			-								3,426,521
370		Misc Customer Accts Exp			-								(4)
371		Cust Service/Inf Expenses			(8,745)								276,733
372		Customer Assistance Exps			(125,031)								606,243
373		Inform/Instruc Advert Exps			-								348
374		Demo & Selling Expenses - Excluding Production			-								39,931
375		Demo & Selling Expenses - Production			54,322								4,267,054
376													
377				Total Customer Related O&M	(3,126)	-	-	-	-	-	-	-	20,511,419
378													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
379	Administrative & General Expense												
380													
381				Production - Admin and General Salaries	(232,249)								(2,363,729)
382				Transmission - Admin and General Salaries	(59,770)								430,278
383				Distribution - Admin and General Salaries	(256,238)								2,486,808
384				Production - AG Office Supplies Exp	(1,125)								(571,692)
385				Transmission - AG Office Supplies Exp	(24)								228,564
386				Distribution - AG Office Supplies Exp	(96)								1,274,951
387				A&G Charged to CWIP - Production	-								(2,036,322)
388				A&G Charged to CWIP - Transmission	-								(3,329,334)
389				A&G Charged to CWIP - Distribution	-								(3,934,029)
390				Production Related - Shared Services	(11,321,804)								22,127,113
391				Transmission Related - Shared Services	(2,582,190)								6,145,748
392				Distribution/Customer Related - Shared Services	(14,543,514)								35,043,236
393				Production - Outside Services	40,005								(354,416)
394				Transmission - Outside Services	(63,516)								130,647
395				Distribution - Outside Services	-								1,498,131
396				Production - Property Insurance	34,735								1,700,386
397				Transmission - Property Insurance	-								293,131
398				Distribution - Property Insurance	-								422,211
399				Production - Injuries or Damages-Safety	2,455								549,172
400				Transmission - Injuries or Damages-Safety	(1,631)								(3,882)
401				Distribution - Injuries or Damages-Safety	(3,648)								1,013,738
402				Production - Empl Pension and Benefits	(1,516,811)								3,884,290
403				Transmission - Empl Pension and Benefits	(243,041)								358,779
404				Distribution - Empl Pension and Benefits	(58,714)								8,528,764
405				Production - Regulatory Commission Exp	-								1,174,293
406				Transmission - Regulatory Commission Exp	(6,448)								93,032
407				Distribution - Regulatory Commission Exp	(23,529,889)								560,660
408				Production - Misc AG Expenses	(3,141,771)								7,630,225
409				Transmission - Misc AG Expenses	6,521								(29,882)
410				Distribution - Misc AG Expenses	(979)								72,503
411				Transmission - Rents-Cust	-								20,213
412				Production - Maint of General Plant	194								(59,421)
413				Transmission - Maint of General Plant	(188,078)								495,979
414				Distribution - Maint of General Plant	(48,033)								214,187
415				Renewables - A&G (920-935)	(542)								236,661
416				PV3 - A&G (920 - 935)	81,712								3,944,336
417				SJ Unit 4 65MW A&G (920 - 935)	-								-
418				Total Administrative & General Expense	(57,634,491)	-	-	-	-	-	-	-	87,875,330
419													
420				Total Operations & Maintenance Expense	(76,667,405)	(55,742,731)	-	-	-	-	-	-	369,791,323
421													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
422	Depreciation and Amortization Expense												
423													
424	Production Depreciation and Amortization												
425		Steam Production Plant											26,954,259
426		San Juan Unit 4 65 MW											-
427		Nuclear Production Net Plant - Palo Verde 1 & 2											13,392,425
428		Nuclear Production Net Plant - Palo Verde 3											4,812,979
429		PV 1&2 Acquisition Adjustment Amortization											365,112
430		PV 2 Lease Acquisition Adjustment - First Chicago Amortization											832,053
431		PV 2 64.1 MW Lease Acquisition Adjustment Amortization											-
432		Other Production Plant - Gas & 40 MW Solar											14,408,175
433		Other Production Plant - Renewable											5,926,475
434				Total Production Depreciation and Amortization Expense	-	-	-	-	-	-	-	-	66,691,477
435													
436	Transmission Depreciation and Amortization												
437		Step-Up Transformers - Excluding PV3											471,828
438		Step-Up Transformers - PV3											13,034
439		Transmission System Plant											18,727,171
440		Transmission System Plant - PV 3											219,009
441		Transmission System Plant - High Lonesome Mesa											644,572
442		Transmission System Plant - Dedicated Retail											349,768
443		Transmission System Plant - Dedicated FERC											-
444		EIP Acquisition Adjustment Amortization											585,972
445				Total Transmission Depreciation and Amortization	-	-	-	-	-	-	-	-	21,011,353
446													
447	Distribution Depreciation and Amortization												
448		Distribution Substations Net Plant - Dedicated FERC											-
449		Distribution Substations Net Plant - PNM											5,580,619
450		Distribution Substations Net Plant - Renewables											297,391
451		Primary Distribution System Net Plant - PNM											15,155,548
452		Primary Distribution System Net Plant - Renewables											70,569
453		Secondary Distribution System Net Plant - PNM											9,216,224
454		Secondary Distribution System Net Plant - Renewables											22,159
455		Services Net Plant - PNM											3,888,717
456		Meters Net Plant - PNM											2,382,627
457		Private Lighting - 371											222,161
458		Street Lighting - 373											692,359
459				Total Distribution Depreciation and Amortization	-	-	-	-	-	-	-	-	37,528,374
460													
461	General Depreciation and Amortization												
462		Production General & Intangible Net Plant											1,894,205
463		PV Unit 3 General & Intangible Net Plant											340,877
464		Renewables General & Intangible Net Plant											1,652
465		Bulk Power Operations											388,220
466		Energy Management System Facilities											1,116,378
467		Other Division Offices/Customer Service											3,848,413
468		Communications - Transmission											3,088,857
469		Production Related (Shared Services)											4,038,921
470		Transmission Related (Shared Services)											1,138,215
471		Distribution/Customer Related (Shared Services)											8,207,618
472				Total General Depreciation and Amortization	-	-	-	-	-	-	-	-	24,063,355
473													
474				Total Depreciation and Amortization Expense	-	-	-	-	-	-	-	-	149,294,559

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
475													
476	General Taxes												
477													
478	Property Taxes												
479		Production Property Taxes											
480		Steam Production Plant					-						5,928,025
481		San Juan Unit 4 65 MW					-						-
482		Nuclear Production Net Plant - Palo Verde 1 & 2					518,292						2,248,564
483		Nuclear Production Net Plant - Palo Verde 3					-						967,170
484		Other Production Plant - Gas & 40 MW Solar					-						4,058,780
485		Other Production Plant - Renewable					-						1,666,700
486				Total Production Property Taxes	-	-	518,292	-	-	-	-	-	14,869,239
487													
488		Transmission Property Taxes											
489		Step-Up Transformers - Excluding PV3					-						64,848
490		Step-Up Transformers - PV3					-						1,581
491		Transmission System Plant					-						4,130,055
492		Transmission System Plant - PV 3					-						33,557
493		Transmission System Plant - High Lonesome Mesa					-						235,162
494		Transmission System Plant - Dedicated Retail					-						38,823
495		Transmission System Plant - Dedicated FERC					-						1,914
496				Total Transmission Property Taxes	-	-	-	-	-	-	-	-	4,505,940
497													
498		Distribution Property Taxes											
499		Distribution Substations Net Plant - Dedicated FERC					-						-
500		Distribution Substations Net Plant - PNM					-						1,401,493
501		Distribution Substations Net Plant - Renewables					-						16,889
502		Primary Distribution System Net Plant - PNM					-						3,365,598
503		Primary Distribution System Net Plant - Renewables					-						25,629
504		Secondary Distribution System Net Plant - PNM					-						1,998,448
505		Secondary Distribution System Net Plant - Renewables					-						8,304
506		Services Net Plant - PNM					-						516,510
507		Meters Net Plant - PNM					-						398,990
508		Private Lighting - 371					-						5,508
509		Street Lighting - 373					-						116,750
510				Total Distribution Property Taxes	-	-	-	-	-	-	-	-	7,854,119
511													
512		General Property Taxes											
513		Production General & Intangible Net Plant					-						39,839
514		PV Unit 3 General & Intangible Net Plant					-						5,487
515		Renewables General & Intangible Net Plant					-						192
516		Bulk Power Operations					-						36,955
517		Energy Management System Facilities					-						53,289
518		Other Division Offices/Customer Service					-						381,932
519		Communications - Transmission					-						184,228
520		Production Related (Shared Services)					218,489						218,489
521		Transmission Related (Shared Services)					50,814						50,814
522		Distribution/Customer Related (Shared Services)					214,694						214,694
523				Total General Property Taxes	-	-	483,997	-	-	-	-	-	1,185,919
524													
525													
526				Total Property Taxes	-	-	1,002,289	-	-	-	-	-	28,415,217
527													

PNM EXHIBIT HEM-3 COS BASE ADJ
Page 28 of 32

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
528	Payroll Taxes												
529		Production Related					1,319,182						2,895,879
530		Transmission Related					563,797						697,224
531		Distribution Related					932,393						3,446,281
532			Total Payroll Taxes		-	-	2,815,373	-	-	-	-	-	7,039,385
533													
534	Other Taxes												
535		Misc Taxes - Production Related					181,282						4,052
536		Misc Taxes - Renewable					-						163,082
537		Misc Taxes - Transmission Related					(141,670)						891
538		Misc Taxes - Distribution Related					(16,950)						9,095
539		Regulatory Commission Fees (I&S) PNM					(5,178,619)						-
540		Joint Projects Four Corners					-						405,007
541		Joint Projects PVNGS					-						1,964,290
542		Joint Projects Transmission					-						-
543		Native American Taxes - Production					-						1,554,300
544		Native American Taxes - Transmission					-						890,883
545		Native American Taxes - Distribution					-						150,175
546			Total Other Taxes		-	-	(5,155,957)	-	-	-	-	-	5,141,775
547													
548			Total General Taxes		-	-	(1,338,296)	-	-	-	-	-	40,596,376
549													
550	Other Allowable Expenses												
551													
552		Interest on Customer Deposits							-				241,075
553		Amortization Loss on Reacquired Debt							-				1,235,545
554		Amortization Retail Rate Case Expenses							-				-
555		Renewable Grant Amortization							-				(1,307,450)
556		Accretion ARO - Production Related							-				6,017,044
557		Accretion ARO - PV 3							-				2,677,308
558		Accretion ARO - Distribution Related							-				110,355
559		Amortization of LVGS Regulatory Liability							-				-
560		Amortization of LVGS Regulatory Asset							-				-
561													-
562													
563													
564													
565													
566			Total Other Allowable Expenses		-	-	-	-	-	-	-	-	8,973,878
567													
568													
569			Total Operating Expenses		(76,667,405)	(43,104,766)	(1,338,296)	-	-	-	-	-	746,421,838
570			(Excl Income & Revenue Related Taxes)										
571													
572		Total Net Original Cost Rate Base			-	-	-	-	-	-	2,677,159	-	2,770,812,695
573		Weighted Cost of Capital			7.63%	7.63%	7.63%	7.63%	7.63%	7.63%	7.63%	7.63%	7.63%
574		Return on Rate Base			-	-	-	-	-	-	204,213	-	211,357,112
575													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
576	Federal Income Tax												
577		Return Adjustments											
578		Interest on Long Term Debt			-	-	-	-	-	-	(82,000)	-	(84,868,842)
579													
580		Tax/Book Adjustments											
581													
582		Non-deductible Meals								6,140			608,603
583		Eastern Interconnect Project								58,569			-
584		Palo Verde 1 & 2 Gain Amort Flow Through								38,603			(110,308)
585		Palo Verde 1 & 2 Prudence Audit Flow Through								30,725			(32,421)
586		AFUDC Equity Flow Through								3,516,558			(8,638,868)
587		AFUDC Equity Flow Through - Renewables								-			24,492
588		Federal Grant Amortization - Renewables								43,494			(1,113,432)
589		Federal Grant Basis Adj - Renewables								(21,747)			556,716
590		Gain/Loss Flow Through								(84,193)			144,165
591		ACRS Flow Through								(202,083)			2,531,578
592		San Juan ACRS Flow Through								(13,373)			342,346
593		Four Corners SO2 Reversal Flow Through								(44,684)			594,904
594		SL/GL Depreciation								19,206			(84,418)
595		Amortization of EIP Prepaid Tax Reversal								(48,817)			-
596				Total Tax/Book Adjustments	-	-	-	-	-	3,298,398	-	-	(5,176,643)
597													
598				Total Return Adjustments	-	-	-	-	-	3,298,398	(82,000)	-	(90,045,484)
599													
600				Net Taxable Equity Return	-	-	-	-	-	3,298,398	122,213	-	121,311,628
601													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
602	Federal Tax Adjustments												
603													
604	Net Provision For Deferred Income Tax												
605		Excess Payroll Tax Reversal								1,727			(24,446)
606													
607		ARAM Deferred Tax Reversal								272,296			(482,307)
608				Total Provision For Deferred Income Tax	-	-	-	-	-	274,023	-	-	(506,753)
609													
610	Investment Tax Credits												
611		Palo Verde 1&2 Production ITC Amortization											(444,104)
612		Generation ITC Amortization											(619,132)
613		Renewables ITC Amortization											(10,638)
614		PV Valley Transmission ITC Amortization											-
615		Research and Development & Other Credits								61,379			(451,764)
616		All Other ITC Amortization								150,550			(191,371)
617				Total Investment Tax Credit Amortization & Other Credits	-	-	-	-	-	211,929	-	-	(1,717,009)
618													
619				Total Federal Tax Adjustments	-	-	-	-	-	485,952	-	-	(2,223,762)
620													
621				Adjusted Equity Return	-	-	-	-	-	3,784,350	122,213	-	119,087,866
622				Federal Tax Factor (0.35/(1-0.35))	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%
623				Federal Income Tax	-	-	-	-	-	2,037,727	65,807	-	64,124,235
624				Add:									
625				Total Provision For Deferred Income Tax	-	-	-	-	-	274,023	-	-	(506,753)
626				EIP Amortization	-	-	-	-	-	(48,817)	-	-	-
627				Total Investment Tax Credit Amortization & Other Credits	-	-	-	-	-	211,929	-	-	(1,717,009)
628													
629				Net Allowable Federal Income Tax	-	-	-	-	-	2,474,862	65,807	-	61,900,473
630													
631	State Income Tax												
632													
633		Return on Rate Base			-	-	-	-	-	-	204,213	-	211,357,112
634		Less: Return Adjustments											
635		Interest on Long Term Debt			-	-	-	-	-	-	(82,000)	-	(84,868,842)
636		Tax/Book Adjustments			-	-	-	-	-	3,347,215	-	-	(5,176,643)
637		Add: Net Allowable F I T			-	-	-	-	-	2,474,862	65,807	-	61,900,473
638													
639				New Mexico NOL Valuation Allowance	-	-	-	-	-	-	-	-	2,639,407
640				Amortization of Excess Deferred Taxes	-	-	-	-	-	-	-	-	-
641		State Taxable Income			-	-	-	-	-	5,822,076	188,020	-	185,851,508
642		State Tax Factor			6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%	6.75%
643				State Income Tax	-	-	-	-	-	392,990	12,691	-	12,544,977
644		Add:		22 MW, Battery project and PV Farm PTC	-	-	-	-	-	(49,350)	-		(1,208,250)
645		Add:		New Mexico NOL Valuation Allowance									2,639,407
646				Amortization of Excess Deferred Taxes									
647				Net Allowable State Income Tax	-	-	-	-	-	343,640	12,691	-	13,976,134
648													
649													
650				Return on Rate Base	-	-	-	-	-	-	204,213	-	211,357,112
651													
652				Total Operating Expenses	(76,667,405)	(43,104,766)	(1,338,296)	-	-	-	-	-	746,421,838
653				(Excluding Income & Rev Related Taxes)									
654													
655				Net Allowable Federal Income Tax	-	-	-	-	-	2,474,862	65,807	-	61,900,473
656													
657				Net Allowable State Income Tax	-	-	-	-	-	343,640	12,691	-	13,976,134
658													
659													

	A	B	C	D	N	O	P	Q	R	S	T	U	V
1	PNM Exhibit HEM - 3 COS BASE ADJ												
2	Base Period Ending June 30, 2016				PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-4	PNM Exhibit HEM-5	Tax	Cash Working Capital & NM S&I		Adjusted Base Period
3					WP OM-1	WP Fuel-1	WP GT-1	WP RC-1	WP OA-1	Adjustment	Adjustment	Not Used	PNM
660	Revenue Credits:												
661		Sale of SO2 Credits						-					38
662		Rent For Electric Property Transmission						13,390					(444,609)
663		Rent for Electric Property - Distribution						301,462					(3,712,879)
664		Late Payment Charges						-					(957,188)
665		Misc Service Charge Revenue						(517,417)					(1,549,448)
666		Other Retail Revenue - Transmission						-					(69,072)
667		Other Retail Revenue - Distribution						-					(299,227)
668		Generation Ancillary Services Credit Sch 2-5						-					(1,607,407)
669		Real Power Losses (Financial)						-					(300,413)
670		Transmission redispatch contract revenues						-					(189,001)
671		Ancillary Services-Sch 1 and Non-Firm						1,324,430					(740,469)
672		Short Term Firm Transmission						-					(423,724)
673		Ancillary Services-Sch 1 ST PTP and Other						-					(266,551)
674		Economy Service Customer Revenue Credits						-					(4,558,971)
675		Co 7 Revenue						(118,399)					(118,399)
676													-
677													-
678													-
679													-
680		Total Revenue Credits			-	-	-	1,003,466	-	-	-	-	(15,237,320)
681													
682		Total Revenue Requirements Before Revenue Tax			(76,667,405)	(43,104,766)	(1,338,296)	1,003,466	-	2,818,502	282,712	-	1,018,418,237
683													
684		Revenue Tax Factor (I&S Fee) '(Revenue Tax Rate/(1-Revenue Tax Rate											0.5086%
685		Revenue Tax									5,179,400		5,179,400
686													
687	NON-FUEL REVENUE REQUIREMENT				(76,667,405)	(55,742,731)	(1,338,296)	1,003,466	-	2,818,502	5,462,112	-	845,631,936
688	FUEL REVENUE REQUIREMENT				-	12,637,965	-	-	-	-	-	-	177,765,701
689	TOTAL REVENUE REQUIREMENT				(76,667,405)	(43,104,766)	(1,338,296)	1,003,466	-	2,818,502	5,462,112	-	1,023,597,637
690													
691													

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

COS Base

Is contained in the following 20 pages

	A	B	C	D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**										
2	**Base Period Ending June 30, 2016**				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
4	**Rate Base**										
5											
6	Net Plant										
7											
8	Net Production Plant										
9											
10		Steam Production Net Plant			101/106	Gen Dmd	710,249,932	681,834,445	-	28,415,486	-
11		San Juan Unit 4 65 MW			101/106	Excluded	-	-	-	-	-
12			Total Steam Production Net Plant				710,249,932	681,834,445	-	28,415,486	-
13											
14		Nuclear Production Net Plant - Palo Verde 1 & 2			101/106	Gen Dmd	273,275,823	262,342,678	-	10,933,145	-
15		Nuclear Production Net Plant - Palo Verde 3			101/106	Excluded	134,573,979	-	-	-	134,573,979
16		PV 1&2 Acquisition Adjustment			114	Gen Dmd	3,028,128	2,906,980	-	121,149	-
17		PV 2 Lease Acquisition Adjustment - First Chicago			114	Gen Dmd	24,684,242	23,696,682	-	987,560	-
18		PV 2 64.1 MW Lease Acquisition Adjustment			114	Gen Dmd	-	-	-	-	-
19			Total Nuclear Production Net Plant				435,562,172	288,946,339	-	12,041,854	134,573,979
20											
21		Other Production Plant - Gas & 40 MW Solar			101/106	Gen Dmd	417,591,859	400,884,957	-	16,706,902	-
22		Other Production Plant - Renewable			101/106	Renewables	160,691,377	-	160,691,377	-	-
23			Total Other Production Net Plant				578,283,237	400,884,957	160,691,377	16,706,902	-
24											
25		Total Net Production Plant					1,724,095,341	1,371,665,742	160,691,377	57,164,242	134,573,979
26											
27	Net Transmission Plant										
28											
29		Step-Up Transformers - Excluding PV3			101/106	Gen Dmd	9,948,482	9,550,466	-	398,016	-
30		Step-Up Transformers - PV3			101/106	Excluded	215,246	-	-	-	215,246
31			Total Transmission Station Equipment - Step-up Xfmr and Aux				10,163,728	9,550,466	-	398,016	215,246
32											
33		Transmission System Net Plant			101/106	Trans Dmd	448,007,946	274,280,380	-	173,727,566	-
34		Transmission System Net Plant - PV 3			101/106	Excluded	4,617,882	-	-	-	4,617,882
35		Transmission System Net Plant - High Lonesome Mesa			101/106	Excluded	21,275,841	-	-	-	21,275,841
36		Transmission System Net Plant - Dedicated Retail			101/106	Retail	3,723,297	3,723,297	-	-	-
37		Transmission System Net Plant - Dedicated FERC			101/106	FERC	-	-	-	-	-
38		EIP Acquisition Adjustment			114	Trans Dmd	5,566,702	3,408,058	-	2,158,644	-
39			Total Transmission System Net Plant				483,191,668	281,411,736	-	175,886,209	25,893,723
40											
41		Total Net Transmission Plant					493,355,396	290,962,201	-	176,284,226	26,108,969
42											
43											

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
44	Net Distribution Plant										
45											
46				Distribution Substations Net Plant - Dedicated FERC	101/106	FERC	-	-	-	-	-
47				Distribution Substations Net Plant - PNM	101/106	Retail	139,953,072	139,953,072	-	-	-
48				Distribution Substations Net Plant - Renewables	101/106	Renewables	1,529,790	-	1,529,790	-	-
49				Total Distribution Substations Net Plant			141,482,863	139,953,072	1,529,790	-	-
50											
51				Primary Distribution System Net Plant - PNM	101/106	Retail	336,824,067	336,824,067	-	-	-
52				Primary Distribution System Net Plant - Renewables	101/106	Renewables	2,496,975	-	2,496,975	-	-
53				Total Primary Distribution Net Plant			339,321,042	336,824,067	2,496,975	-	-
54											
55				Secondary Distribution System Net Plant - PNM	101/106	Retail	198,485,602	198,485,602	-	-	-
56				Secondary Distribution System Net Plant - Renewables	101/106	Renewables	815,362	-	815,362	-	-
57				Total Secondary Distribution Net Plant			199,300,964	198,485,602	815,362	-	-
58											
59				Services Net Plant - PNM	101/106	Retail	49,838,339	49,838,339	-	-	-
60											
61				Meters Net Plant - PNM	101/106	Retail	39,211,939	39,211,939	-	-	-
62											
63				Private Lighting - 371	101/106	Retail	557,427	557,427	-	-	-
64				Street Lighting - 373	101/106	Retail	11,517,791	11,517,791	-	-	-
65				Total Lighting Net Plant			12,075,218	12,075,218	-	-	-
66											
67				Total Net Plant Distribution Plant			781,230,365	776,388,238	4,842,127	-	-
68											
69											
70	Net Plant General & Intangible Plant										
71											
72				Production General & Intangible Net Plant	101/106	Gen Dmd	3,566,563	3,423,873	-	142,690	-
73				PV Unit 3 General & Intangible Net Plant	101/106	Excluded	665,976	-	-	-	665,976
74				Renewables General & Intangible Net Plant	101/106	Renewables	20,001	-	20,001	-	-
75				Bulk Power Operations	101/106	Prod Plt	3,598,291	3,156,991	-	131,568	309,732
76				Energy Management System Facilities	101/106	Gen/Trans Dmd	6,458,760	4,695,430	-	1,763,330	-
77				Other Division Offices/Customer Service	101/106	Retail	36,184,846	36,184,846	-	-	-
78				Communications - Transmission	101/106	Trans Dmd	25,423,574	15,564,875	-	9,858,699	-
79				Production Related (Shared Services)	101/106	Prod W&S	24,739,176	23,475,830	209,262	1,054,084	-
80				Transmission Related (Shared Services)	101/106	Trans W&S	6,280,082	3,844,805	-	2,435,277	-
81				Distribution/Customer Related (Shared Services)	101/106	Retail	44,877,487	44,877,487	-	-	-
82				Total Net Plant General & Intangible Plant - PNM			151,814,758	135,224,138	229,263	15,385,648	975,708
83											
84				Total Net Plant			3,150,495,859	2,574,240,319	165,762,767	248,834,116	161,658,657
85											

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
86	Accumulated Deferred Income Taxes										
87		Injury & Damages			190	Total W&S	2,741,699	2,543,374	9,267	171,286	17,773
88		Palo Verde Gain 1 & 2			190	FERC	159,756	-	-	159,756	-
89		Renewable NOL Allocation			190	Renewables	-	-	-	-	-
90		Palo Verde Construction Credits 1 & 2			190	Retail	70,932	70,932	-	-	-
91		Pension Prepaid Tax Qualified			190, 283	Total W&S	(70,246,241)	(65,164,860)	(237,422)	(4,388,581)	(455,379)
92		Pension Prepaid Tax NQRP			190, 283	Total W&S	2,509,263	2,327,751	8,481	156,764	16,267
93		Eastern Interconnect Project Gain			190	Trans Dmd	-	-	-	-	-
94		Line Extension Policy			190	Retail	957,131	957,131	-	-	-
95		Tax Capitalized Interest			190	Total Net Plt	22,947,461	19,791,478	-	1,913,106	1,242,877
96		Palo Verde Dry Cask Storage 1 & 2			190	Gen Dmd	-	-	-	-	-
97		Palo Verde Dry Cask Storage 3			190	Excluded	-	-	-	-	-
98		Contributions In Aid of Construction			190	Retail	34,915,974	34,915,974	-	-	-
99		Coal Mine Decommissioning			190, 283	Retail	(2,993,731)	(2,993,731)	-	-	-
100		Pollution Control Facilities 4 Corners			281	FERC	(485,697)	-	-	(485,697)	-
101		FERC Customer Depreciation			282	FERC Transmission	1,256,410	-	-	1,256,410	-
102		Liberalized Depreciation - Renewables			282	Renewables	(47,885,107)	-	(47,885,107)	-	-
103		Liberalized Depreciation - Other			282	G&I Plt	(20,290,548)	(18,100,491)	-	(2,059,453)	(130,604)
104		Liberalized Depreciation - Generation			282	Gen Dmd	(422,430,974)	(405,530,471)	-	(16,900,504)	-
105		Liberalized Depreciation - Distribution			282	Retail	(221,581,560)	(221,581,560)	-	-	-
106		Liberalized Depreciation - Transmission			282	Trans Dmd	(103,020,794)	(63,071,610)	-	(39,949,184)	-
107		Liberalized Depreciation - PV 3			282	Excluded	(78,907,153)	-	-	-	(78,907,153)
108		Palo Verde Start-Up Amortization			282	FERC	250,026	-	-	250,026	-
109		Nuclear Fuel Amortization PV 1&2			282	Energy	7,166,968	6,832,894	-	334,074	-
110		Nuclear Fuel Amortization PV 3			282	Excluded	3,180,091	-	-	-	3,180,091
111		Debt AFUDC			282	Total Net Plt	(23,543,182)	(20,305,269)	-	(1,962,771)	(1,275,142)
112		Pre-1981 Repair Allowance			282	Gen Dmd	(22,138,422)	(21,252,714)	-	(885,708)	-
113		Palo Verde Licensing Amortization			282	PV	(4,559,854)	(2,898,203)	-	(141,699)	(1,519,951)
114		Asset Retirement Obligation			190, 282, 283	Gen Dmd	6,583,926	6,320,518	-	263,408	-
115		Afton Writedown			282	Gen Dmd	3,884,264	3,728,863	-	155,401	-
116		Loss on Reacquired Debt			283	Retail	(3,097,947)	(3,097,947)	-	-	-
117		Book Capitalized Interest			283	Total Net Plt	(7,753,954)	(6,687,546)	-	(646,439)	(419,968)
118		Prepaid Expenses			190	Gen Dmd	(3,756,987)	(3,606,678)	-	(150,309)	-
119		Net Operating Loss (NOL)			190	Total Net Plt	166,646,496	143,727,468	-	13,893,146	9,025,882
120		Deferred Federal Tax Credits			190	Energy	9,211,736	8,782,349	-	429,387	-
121		PCB Refinancing			283	Retail	(6,021,904)	(6,021,904)	-	-	-
122		LVGS Decommissioning			190	Retail	514,273	514,273	-	-	-
123		Renewable NM AETC			190	Renewables	1,485,765	-	1,485,765	-	-
124		Rate Case Expense			283	Retail	(1,483,385)	(1,483,385)	-	-	-
125		DOE Spent Fuel Settlement			190	Retail	2,638,641	2,638,641	-	-	-
126		DOE Spent Fuel Settlement PV3			190	Excluded	1,175,700	-	-	-	1,175,700
127		50% SJGS 2&3			283	Gen Dmd	-	-	-	-	-
128		Liberalized Depreciation - SJ4 132 MW			282	Gen Dmd	2,687,661	2,580,134	-	107,527	-
129		Liberalized Depreciation - SJ4 65 MW			282	Excluded	-	-	-	-	-
130		SJGS Agreement Costs			283	Gen Dmd	(1,072,065)	(1,029,174)	-	(42,891)	-
131		Liberalized Depreciation - HLM			282	Excluded	(4,919,699)	-	-	-	(4,919,699)
132				Total Accumulated Deferred Income Taxes			(775,205,032)	(607,093,765)	(46,619,018)	(48,522,943)	(72,969,307)
133											

PNM EXHIBIT HEM-3 COS BASE
Page 3 of 20

	A B C D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**							
2	**Base Period Ending June 30, 2016**	FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3		Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
134	**Regulatory Assets & Liabilities**							
135								
136	Coal Mine Decommissioning-Surface	182	Retail	7,534,489	7,534,489	-	-	-
137	PV 1&2 Combustion Engineering	254	Retail	(177,632)	(177,632)	-	-	-
138	PV 1&2 DOE Spent Fuel Refund	254	Retail	(6,713,838)	(6,713,838)	-	-	-
139	PV 3 DOE Spent Fuel Refund	254	Excluded	(3,000,000)	-	-	-	(3,000,000)
140	Reg Asset LVGS Decommission	182	Retail	289,124	289,124	-	-	-
141	Reg Liab LVGS Decommission	254	Retail	(1,591,082)	(1,591,082)	-	-	-
142	PCB Refinancing Hedge	182	Retail	15,192,433	15,192,433	-	-	-
143	Reg Liab Renewables Fed Grant	254	Renewables	(19,369,738)	-	(19,369,738)	-	-
144	Reg Liab Renewables St Credit	254	Renewables	(3,748,688)	-	(3,748,688)	-	-
145	2015 Rate Case Expenses	186	Retail	3,790,023	3,790,023	-	-	-
146	San Juan Units 2 & 3 50% Undepreciated Investment		Gen Dmd					
147								
148								
149	Total Regulatory Assets & Liabilities			(7,794,909)	18,323,517	(23,118,426)	-	(3,000,000)
150								
151	**Other Rate Base Items**							
152								
153	Customer Deposits	235	Retail	(12,363,018)	(12,363,018)	-	-	-
154	RWIP-Production	108	Gen Dmd	-	-	-	-	-
155	RWIP-Transmission	108	Trans Dmd	-	-	-	-	-
156	RWIP-Distribution	108	Retail	-	-	-	-	-
157	RWIP-PV3	108	Excluded	-	-	-	-	-
158	ARO Liability - Production	230	Gen Dmd	(15,510,506)	(14,889,966)	-	(620,540)	-
159	ARO Liability - Transmission	230	Trans Dmd	-	-	-	-	-
160	ARO Liability - Distribution	230	Retail	(1,141,921)	(1,141,921)	-	-	-
161	ARO Liability - PV3	230	Excluded	-	-	-	-	-
162	Injuries and Damages PNM	228	Total W&S	(6,865,623)	(6,368,986)	(23,205)	(428,925)	(44,507)
163	NQRP - Expense in Excess of Funding		Total W&S	(6,332,225)	(5,874,173)	(21,402)	(395,601)	(41,049)
164	PV 1&2 Dry Cask Storage	253	Gen Dmd	-	-	-	-	-
165	PV 3 Dry Cask Storage	253	Excluded	-	-	-	-	-
166	PV 1&2 Excess Gain Amortization	253	FERC	(400,818)	-	-	(400,818)	-
167	High Lonesome Mesa -	253	Excluded	(12,788,967)	-	-	-	(12,788,967)
168	CWIP - Production	107	Gen Dmd	-	-	-	-	-
169	CWIP - Transmission	107	Trans Dmd	-	-	-	-	-
170	CWIP - Distribution	107	Retail	-	-	-	-	-
171	CWIP - PV3	107	Excluded	-	-	-	-	-
172	CWIP - Renewables	107	Renewables	-	-	-	-	-
173	CWIP - Production Related	107	Gen Dmd	-	-	-	-	-
174	Pueblos Transmission Rights-of-Way	186	Trans Dmd	48,331,149	29,589,399	-	18,741,750	-
175	Pueblos Distribution Rights-of-Way	186	Retail	988,708	988,708	-	-	-

	A	B	C	D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**										
2	**Base Period Ending June 30, 2016**				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
176		Prepaid Pension Asset				Total W&S	177,706,598	164,851,889	600,623	11,102,085	1,152,002
177		Unamortized Loss on Reacquired Debt			189	Retail	7,816,490	7,816,490	-	-	-
178		2016 Rate Case Expense			186	Retail	547	547	-	-	-
179		SJGS Coal Agreement Transaction Costs				Gen Dmd	2,747,476	2,637,556	-	109,920	-
180											
181											
182											
183				Total Other Rate Base Items			182,187,891	165,246,525	556,016	28,107,872	(11,722,522)
184											
185	**Working Capital**										
186											
187	Fuel Stock										
188		Production Fuel Stock			151	Energy	22,338,413	21,297,151	-	1,041,262	-
189		PV 1&2 Nuclear Fuel (120.1 - .5)			120	Energy	57,400,492	54,724,880	-	2,675,613	-
190		PV 3 Nuclear Fuel (120.1 - .5)			120	Excluded	25,219,132	-	-	-	25,219,132
191				Total Fuel Stock			104,958,037	76,022,031	-	3,716,875	25,219,132
192											
193	Materials & Supplies										
194		Production			154	Gen Dmd	28,134,503	27,008,906	-	1,125,598	-
195		Transmission			154	Trans Plt	939,272	553,947	-	335,618	49,707
196		Distribution			154	Retail	5,933,957	5,933,957	-	-	-
197		Palo Verde Unit 3			154	Excluded	5,907,634	-	-	-	5,907,634
198				Total Materials & Supplies			40,915,366	33,496,809	-	1,461,215	5,957,342
199											
200	Prepayments										
201		Production			165	Gen Dmd	58,618,131	56,272,952	-	2,345,178	-
202		Transmission			165	Trans Plt	9,855,362	5,812,317	-	3,521,487	521,558
203		Distribution			165	Retail	2,816,804	2,816,804	-	-	-
204		Renewables			165	Renewables	39,370	-	39,370	-	-
205		Palo Verde Unit 3			165	Excluded	1,248,657	-	-	-	1,248,657
206				Total Prepayments			72,578,323	64,902,073	39,370	5,866,666	1,770,215
207											
208				Total Cash Working Capital (see Rule 530 schedule E-1)			2,677,159	2,677,159		-	-
209											
210				Total Working Capital			221,128,886	177,098,073	39,370	11,044,755	32,946,688
211											
212				Total Rate Base Adjustments & Working Capital			(379,683,164)	(246,425,650)	(69,142,057)	(9,370,316)	(54,745,141)
213											
214				Total Net Original Cost Rate Base			2,770,812,695	2,327,814,669	96,620,710	239,463,800	106,913,516

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
215											
216	Operations and Maintenance Expense										
217											
218	Production Fuel related expenses										
219											
220	Production - FPPCAC Fuel Related										
221		Steam Generation			501	Direct Assignment	144,780,983	134,544,967	-	10,236,015	-
222		Steam Fuel Handling and Disposal			501	Direct Assignment	11,667,648	10,842,745	-	824,903	-
223		Nuclear			518	Direct Assignment	24,962,015	15,463,968	-	1,177,375	8,320,672
224		Nuclear Disposal			518	Direct Assignment	1,055,899	654,129	-	49,803	351,966
225		Gas Generation			547	Direct Assignment	24,332,889	22,612,554	-	1,720,335	-
226		Renewables - Owned			547	Direct Assignment	-	-	-	-	-
227		Wind (NMWEC)			555	Direct Assignment	-	-	-	-	-
228		Renewables - PPA			555	Direct Assignment	19,594,887	-	19,594,887	-	-
229		Purchased Power Energy			555	Direct Assignment	15,923,407	14,128,524	-	299,889	1,494,994
230		Spinning reserves			555	Direct Assignment	683,225	634,921	-	48,304	-
231		Tri State Hazard Sharing			555	Direct Assignment	1,611,872	1,497,913	-	113,959	-
232				Total Fuel Costs (before OSS)			244,612,825	200,379,722	19,594,887	14,470,584	10,167,632
233											
234		Off-system Sales			447	Direct Assignment	(24,303,923)	(15,760,587)	-	(8,543,337)	-
235		Off-system Sales - PV 3			447	Direct Assignment	(34,495,463)	-	-	-	(34,495,463)
236		Off-system Sales - 65 MW					-	-	-	-	-
237		Tri State Hazard Sharing			447	Direct Assignment	(1,570,284)	(1,459,265)	-	(111,019)	-
238		Off-system Sales Credit			447	Direct Assignment	(669,587)	-	-	-	(669,587)
239		Refined Coal Credit					(4,938,502)	(4,589,350)	-	(349,152)	-
240		DOE Spent Fuel Credit				Direct Assignment	-	-	-	-	-
241		Load Side from Transmission Customers			456.1	Direct Assignment	(789,972)	(738,636)	-	(51,336)	-
242		Physical Sales of Gas (under FAC hedge plan)				Direct Assignment	(79,393)	(79,393)	-	-	-
243				Total Other Fuel			(66,847,124)	(22,627,231)	-	(9,054,844)	(35,165,049)
244											
245				Total Fuel (net OSS)			177,765,701	177,752,491	19,594,887	5,415,740	(24,997,418)
246											
247		Production - Non Fuel Items									
248		Coal Fuel Handling			501	Energy	-	-	-	-	-
249		Nuclear Fuel Handling			518	Energy	-	-	-	-	-
250		Gas Plants Fuel Transportation			547	Energy	11,101,507	10,584,032	-	517,475	-
251		Gas PPA - Valencia - Demand			555	Gen Dmd	21,110,525	20,265,941	-	844,584	-
252		Purchase Power for Economy Service Customer			555	Retail	-	-	-	-	-
253		Purchased power for Rate 36B					-				
254		Deferred Energy				Excluded	-	-	-	-	-
255		REC Purchases and Renewable Energy Amortization			555	Renewables	10,282,954	-	10,282,954	-	-
256		Gas Swaps - Non Fuel Clause Settlements and Excess Gas Physical Purchases				FERC	294,001	-	-	294,001	-
257		Coal Mine Decommissioning - Allowed			501.15	Retail	7,255,813	7,255,813	-	-	-
258		Coal Mine Decommissioning - Disallowed			501.15	Excluded	1,615,219	-	-	-	1,615,219
259		Coal Mine Decommissioning - FERC			501.15	FERC	210,864	-	-	210,864	-

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
260		Hedge - FERC				FERC	1,293,750	-	-	1,293,750	-
261		Spinning reserves				Gen Dmd	-	-	-	-	-
262		Broker Fees				Gen Dmd	237,829	228,314	-	9,515	-
263				Total Non Fuel Items			53,402,463	38,334,100	10,282,954	3,170,190	1,615,219
264											
265				Total Fuel Related Expense			231,168,164	216,086,591	29,877,842	8,585,930	(23,382,199)
266											
267	O&M										
268	Steam Production										
269		Oper-Sup & Eng-Prod			500	Gen Dmd	4,727,549	4,538,411	-	189,139	-
270		Oper-Steam Expense-Major			502	Gen Dmd	9,814,230	9,421,585	-	392,645	-
271		Oper - Steam from Other Sources			503	Gen Dmd	-	-	-	-	-
272		Oper-Electric Exp-Major			505	Gen Dmd	5,036,489	4,834,991	-	201,499	-
273		Oper-Misc Steam Power Exp			506	Gen Dmd	3,086,401	2,962,921	-	123,480	-
274		Oper-Rents-Steam Power			507	Gen Dmd	160,131	153,725	-	6,406	-
275		Maint-Sup & Eng-Steam			510	Energy	3,576,321	3,409,618	-	166,703	-
276		Maint-Structures-Steam			511	Gen Dmd	6,084,929	5,841,484	-	243,444	-
277		Maint-Boiler Plant			512	Energy	19,246,462	18,349,326	-	897,137	-
278		Maint-Electric Plant			513	Energy	6,035,194	5,753,875	-	281,319	-
279		Maint-Gen & Elec Plant			514	Gen Dmd	4,775,673	4,584,609	-	191,064	-
280		SJ Unit 4 65MW - Steam Production				Excluded	-	-	-	-	-
281	Nuclear Production										
282		Oper-Sup & Eng-Nuclear			517	Gen Dmd	6,350,754	6,096,675	-	254,079	-
283		Oper-Coolants and Water			519	Gen Dmd	3,066,537	2,943,852	-	122,685	-
284		Oper-Steam Expenses-Nuclear			520	Gen Dmd	2,519,926	2,419,110	-	100,817	-
285		Oper-Electric Exp			523	Gen Dmd	1,912,396	1,835,885	-	76,511	-
286		Oper-Misc Nuclear Power, excluding PV 1&2 Decom & CE Credit			524	Gen Dmd	10,335,977	9,922,458	-	413,519	-
287		Oper-Misc Nuclear Power - PV 1&2 Decom & CE Credit			524	Retail	(5,147,011)	(5,147,011)	-	-	-
288		Oper-Rents-Nuclear, excluding PV 1&2 CE Credit & Excess Gain Amort			525	Gen Dmd	19,565,625	18,782,849	-	782,776	-
289		Oper-Rents-Nuclear - PV 1&2 CE Credit			525	Retail	(73,263)	(73,263)	-	-	-
290		Oper-Rents-Nuclear - PV 1&2 Excess Gain Amort			525	FERC	(110,308)	-	-	(110,308)	-
291		Maint-Sup & Eng-Nuclear			528	Energy	1,306,036	1,245,158	-	60,878	-
292		Maint-Structures-Major			529	Gen Dmd	526,377	505,318	-	21,059	-
293		Maint-Reactor Plant			530	Energy	3,548,583	3,383,172	-	165,410	-
294		Maint-Elec Plant			531	Energy	3,780,605	3,604,379	-	176,226	-
295		Maint-Misc Nuclear Plant			532	Gen Dmd	766,796	736,118	-	30,678	-
296		Palo Verde 3 - Nuclear Production, FERC 517,519-532				Excluded	16,648,911	-	-	-	16,648,911
297	Other Production										
298		Oper-Sup & Eng-Other			546	Energy	4,118,446	3,926,473	-	191,973	-
299		Oper-Oth Pwr Gen Exp-Other			549	Energy	341,686	325,759	-	15,927	-

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
300				Oper-Oth Pwr Gen Exp-Other - Renewables	549	Renewables	571,222	-	571,222	-	-
301				Maint - Structures	552	Gen Dmd	924,085	887,114	-	36,971	-
302				Maint-Gen & Elec Plant	553	Energy	8,162,789	7,782,296	-	380,493	-
303				Maint-Gen & Elec Plant - Renewables	553	Renewables	1,091,676	-	1,091,676	-	-
304				Maint-Gen & Elec Plant	556	Gen Dmd	3,676,346	3,529,264	-	147,082	-
305				Total Production O&M			146,427,570	122,556,150	1,662,898	5,559,611	16,648,911
306											
307	Transmission O&M (560-574, excluding 565):										
308				Oper-Sup & Eng-ETrans	560	Trans Dmd	1,842,544	1,128,046	-	714,498	-
309				Oper-Load Dispatch-ETrans	561	Trans Dmd	876,179	536,416	-	339,763	-
310				Oper-Station Exp-ETrans	562	Trans Dmd	511,913	313,404	-	198,508	-
311				Oper-Overhead Lines-ETrans	563	Trans Dmd	100,151	61,315	-	38,836	-
312				Oper-Misc Transmission-E	566	Trans Dmd	3,188,283	1,951,938	-	1,236,346	-
313				Oper-Rents-Transmission-E	567	Trans Dmd	10,375,813	6,352,302	-	4,023,511	-
314				Maint Sup & Eng-ETrans	568	Trans Dmd	5,187	3,175	-	2,011	-
315				Maint-Structures-ETrans	569	Trans Dmd	200	122	-	78	-
316				Maint-Sta Equip-ETrans	570	Trans Dmd	3,127,780	1,914,896	-	1,212,884	-
317				Maint-Overhead Lns-ETrans	571	Trans Dmd	285,900	175,034	-	110,866	-
318				Maint-Misc Trans Plt-Maj-E	573	Trans Dmd	176	108	-	68	-
319				Maint-Trans Plant-NonMaj-E	574	Trans Dmd	9,298	5,692	-	3,605	-
320				HLM - Transmission O&M	560-564,566-574	Excluded	20,000	-	-	-	20,000
321				Total Transmission O&M, excluding FERC 565			20,343,424	12,442,450	-	7,880,974	20,000
322											
323	Transmission O&M by Others (565):										
324				Owned Generation Wheeling	565	Gen Dmd	8,438,076	8,100,488	-	337,588	-
325				PV 3 Wheeling	565	Excluded	394,448	-	-	-	394,448
326				Retail Wheeling	565	Retail	1,475,074	1,475,074	-	-	-
327				FERC Wholesale Customer Wheeling	565	FERC	1,595,546	-	-	1,595,546	-
328				WAPA Exchange	565	Gen Dmd	3,138,480	3,012,917	-	125,563	-
329				Transmission by Others	565	Gen Dmd	3,725,437	3,576,391	-	149,046	-
330				Total Transmission by Others, FERC 565			18,767,061	16,164,869	-	2,207,744	394,448
331											
332				Total Transmission O&M			39,110,485	28,607,319	-	10,088,718	414,448
333											
334	Total Dist O&M (580-598)										
335											
336	PNM Street & Private Lighting										
337				Oper-Street Light/Signal-E	585	Retail	80,278	80,278	-	-	-

	A	B	C	D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**										
2	**Base Period Ending June 30, 2016**				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
338		Maint-Streetlight/Signal-E			596	Retail	998,002	998,002	-	-	-
339			Total Street and Private Lighting				1,078,281	1,078,281	-	-	-
340											
341	PNM Meters										
342		Oper-Meter Expense-EDist			586	Retail	3,199,733	3,199,733	-	-	-
343		Maint-Meters-EDist			597	Retail	259,945	259,945	-	-	-
344			Total Meters				3,459,677	3,459,677	-	-	-
345											
346	All Other Distribution O&M										
347		Oper-Sup & Eng-EDist			580	Retail	2,613,775	2,613,775	-	-	-
348		Oper-Station Exp-EDist			582	Retail	154,647	154,647	-	-	-
349		Oper-Overhead Lines-EDist			583	Retail	1,923,737	1,923,737	-	-	-
350		Oper-Undergrd Line-EDist			584	Retail	509,717	509,717	-	-	-
351		Oper-Misc Dist Exp-EDist			588	Retail	5,997,940	5,997,940	-	-	-
352		Oper-Rents-Distribution-E			589	Retail	119,568	119,568	-	-	-
353		Maint-Sup & Eng-EDist			590	Retail	786,455	786,455	-	-	-
354		Maint-Structures-EDist			591	Retail	40,925	40,925	-	-	-
355		Maint-Station Equip-EDist			592	Retail	1,097,302	1,097,302	-	-	-
356		Maint-Overhead Lns-EDist			593	Retail	2,927,227	2,927,227	-	-	-
357		Maint-Und Lines-EDist			594	Retail	1,293,526	1,293,526	-	-	-
358		Maint-Misc Dist Plant-E			598	Retail	461,279	461,279	-	-	-
359			Total Other Distribution O&M				17,926,098	17,926,098	-	-	-
360											
361			Total Distribution O&M				22,464,056	22,464,056	-	-	-
362											
363	Customer Related O&M										
364											
365	PNM Related Customer Accounts Exp										
366		Supervision-Customer Accts			901	Retail	(170,012)	(170,012)	-	-	-
367		Meter Reading Expenses			902	Retail	4,664,474	4,664,474	-	-	-
368		Customer Record and Coll			903	Retail	7,400,132	7,400,132	-	-	-
369		Uncollectible Expenses			904	Retail	3,426,521	3,426,521	-	-	-
370		Misc Customer Accts Exp			905	Retail	(4)	(4)	-	-	-
371		Cust Service/Inf Expenses			906	Retail	276,733	276,733	-	-	-
372		Customer Assistance Exps			908	Retail	606,243	606,243	-	-	-
373		Inform/Instruc Advert Exps			909	Retail	348	348	-	-	-
374		Demo & Selling Expenses - Excluding Production			912	Retail	39,931	39,931	-	-	-

	A B C D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**							
2	**Base Period Ending June 30, 2016**	FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3		Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
375	Demo & Selling Expenses - Production	912	Sales	4,267,054	3,581,727	-	248,806	436,521
376								
377	Total Customer Related O&M			20,511,419	19,826,093	-	248,806	436,521
378								
379	Administrative & General Expense							
380								
381	Production - Admin and General Salaries	920	Gen Dmd	(2,363,729)	(2,269,161)	-	(94,567)	-
382	Transmission - Admin and General Salaries	920	Trans W&S	430,278	263,426	-	166,852	-
383	Distribution - Admin and General Salaries	920	Retail	2,486,808	2,486,808	-	-	-
384	Production - AG Office Supplies Exp	921	Gen Dmd	(571,692)	(548,820)	-	(22,872)	-
385	Transmission - AG Office Supplies Exp	921	Trans W&S	228,564	139,932	-	88,632	-
386	Distribution - AG Office Supplies Exp	921	Retail	1,274,951	1,274,951	-	-	-
387	A&G Charged to CWIP - Production	922	Gen Dmd	(2,036,322)	(1,954,854)	-	(81,469)	-
388	A&G Charged to CWIP - Transmission	922	Trans W&S	(3,329,334)	(2,038,292)	-	(1,291,042)	-
389	A&G Charged to CWIP - Distribution	922	Retail	(3,934,029)	(3,934,029)	-	-	-
390	Production Related - Shared Services	9229	Gen Dmd	22,127,113	21,241,857	-	885,256	-
391	Transmission Related - Shared Services	9229	Trans W&S	6,145,748	3,762,563	-	2,383,185	-
392	Distribution/Customer Related - Shared Services	9229	Retail	35,043,236	35,043,236	-	-	-
393	Production - Outside Services	923	Gen Dmd	(354,416)	(340,236)	-	(14,179)	-
394	Transmission - Outside Services	923	Trans W&S	130,647	79,985	-	50,662	-
395	Distribution - Outside Services	923	Retail	1,498,131	1,498,131	-	-	-
396	Production - Property Insurance	924	Prod Plt	1,700,386	1,491,848	-	62,173	146,365
397	Transmission - Property Insurance	924	Trans Plt	293,131	172,877	-	104,741	15,513
398	Distribution - Property Insurance	924	Retail	422,211	422,211	-	-	-
399	Production - Injuries or Damages-Safety	925	Gen Dmd	549,172	527,201	-	21,971	-
400	Transmission - Injuries or Damages-Safety	925	Trans W&S	(3,882)	(2,377)	-	(1,505)	-
401	Distribution - Injuries or Damages-Safety	925	Retail	1,013,738	1,013,738	-	-	-
402	Production - Empl Pension and Benefits	926	Gen Dmd	3,884,290	3,728,888	-	155,402	-
403	Transmission - Empl Pension and Benefits	926	Trans W&S	358,779	219,653	-	139,127	-
404	Distribution - Empl Pension and Benefits	926	Retail	8,528,764	8,528,764	-	-	-
405	Production - Regulatory Commission Exp	928	Gen Dmd	1,174,293	1,127,312	-	46,981	-
406	Transmission - Regulatory Commission Exp	928	Trans W&S	93,032	56,957	-	36,076	-
407	Distribution - Regulatory Commission Exp	928	Retail	560,660	560,660	-	-	-
408	Production - Misc AG Expenses	930	Gen Dmd	7,630,225	7,324,957	-	305,268	-
409	Transmission - Misc AG Expenses	930	Trans W&S	(29,882)	(18,295)	-	(11,588)	-
410	Distribution - Misc AG Expenses	930	Retail	72,503	72,503	-	-	-
411	Transmission - Rents-Cust	931	Trans W&S	20,213	12,375	-	7,838	-
412	Production - Maint of General Plant	935	Gen Dmd	(59,421)	(57,044)	-	(2,377)	-
413	Transmission - Maint of General Plant	935	Trans W&S	495,979	303,649	-	192,330	-
414	Distribution - Maint of General Plant	935	Retail	214,187	214,187	-	-	-
415	Renewables - A&G (920-935)	920-935	Renewables	236,661	-	236,661	-	-
416	PV3 - A&G (920 - 935)	920-935	Excluded	3,944,336	-	-	-	3,944,336
417	SJ Unit 4 65MW A&G (920 - 935)	920-935	Excluded	-	-	-	-	-
418	Total Administrative & General Expense			87,875,330	80,405,562	236,661	3,126,892	4,106,214
419								
420	Total Operations & Maintenance Expense			369,791,323	312,193,280	12,182,513	22,194,217	23,221,312
421								
422	**Depreciation and Amortization Expense**							

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
423											
424	Production Depreciation and Amortization										
425		Steam Production Plant			403	Gen Dmd	26,954,259	25,875,880	-	1,078,379	-
426		San Juan Unit 4 65 MW			403	Excluded	-	-	-	-	-
427		Nuclear Production Net Plant - Palo Verde 1 & 2			403	Gen Dmd	13,392,425	12,856,625	-	535,801	-
428		Nuclear Production Net Plant - Palo Verde 3			403	Excluded	4,812,979	-	-	-	4,812,979
429		PV 1&2 Acquisition Adjustment Amortization			406	Gen Dmd	365,112	350,505	-	14,607	-
430		PV 2 Lease Acquisition Adjustment - First Chicago Amortization			406	Gen Dmd	832,053	798,764	-	33,289	-
431		PV 2 64.1 MW Lease Acquisition Adjustment Amortization			406	Gen Dmd	-	-	-	-	-
432		Other Production Plant - Gas & 40 MW Solar			403	Gen Dmd	14,408,175	13,831,737	-	576,438	-
433		Other Production Plant - Renewable			403	Renewables	5,926,475	-	5,926,475	-	-
434				Total Production Depreciation and Amortization Expense			66,691,477	53,713,510	5,926,475	2,238,513	4,812,979
435											
436	Transmission Depreciation and Amortization										
437		Step-Up Transformers - Excluding PV3			403	Gen Dmd	471,828	452,951	-	18,877	-
438		Step-Up Transformers - PV3			403	Excluded	13,034	-	-	-	13,034
439		Transmission System Plant			403	Trans Dmd	18,727,171	11,465,189	-	7,261,983	-
440		Transmission System Plant - PV 3			403	Excluded	219,009	-	-	-	219,009
441		Transmission System Plant - High Lonesome Mesa			403	Excluded	644,572	-	-	-	644,572
442		Transmission System Plant - Dedicated Retail			403	Retail	349,768	349,768	-	-	-
443		Transmission System Plant - Dedicated FERC			403	FERC	-	-	-	-	-
444		EIP Acquisition Adjustment Amortization			406	Trans Dmd	585,972	358,745	-	227,227	-
445				Total Transmission Depreciation and Amortization			21,011,353	12,626,652	-	7,508,086	876,615
446											
447	Distribution Depreciation and Amortization										
448		Distribution Substations Net Plant - Dedicated FERC			403	FERC	-	-	-	-	-
449		Distribution Substations Net Plant - PNM			403	Retail	5,580,619	5,580,619	-	-	-

	A	B	C	D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**										
2	**Base Period Ending June 30, 2016**				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
450		Distribution Substations Net Plant - Renewables			403	Renewables	297,391	-	297,391	-	-
451		Primary Distribution System Net Plant - PNM			403	Retail	15,155,548	15,155,548	-	-	-
452		Primary Distribution System Net Plant - Renewables			403	Renewables	70,569	-	70,569	-	-
453		Secondary Distribution System Net Plant - PNM			403	Retail	9,216,224	9,216,224	-	-	-
454		Secondary Distribution System Net Plant - Renewables			403	Renewables	22,159	-	22,159	-	-
455		Services Net Plant - PNM			403	Retail	3,888,717	3,888,717	-	-	-
456		Meters Net Plant - PNM			403	Retail	2,382,627	2,382,627	-	-	-
457		Private Lighting - 371			403	Retail	222,161	222,161	-	-	-
458		Street Lighting - 373			403	Retail	692,359	692,359	-	-	-
459				Total Distribution Depreciation and Amortization			37,528,374	37,138,254	390,120	-	-
460											
461		General Depreciation and Amortization									
462		Production General & Intangible Net Plant			403	Gen Dmd	1,894,205	1,818,422	-	75,783	-
463		PV Unit 3 General & Intangible Net Plant			403	Excluded	340,877	-	-	-	340,877
464		Renewables General & Intangible Net Plant			403	Renewables	1,652	-	1,652	-	-
465		Bulk Power Operations			403	Prod Plt	388,220	340,608	-	14,195	33,417
466		Energy Management System Facilities			403	Gen/Trans Dmd	1,116,378	811,591	-	304,786	-
467		Other Division Offices/Customer Service			403	Retail	3,848,413	3,848,413	-	-	-
468		Communications - Transmission			403	Trans Dmd	3,088,857	1,891,066	-	1,197,790	-
469		Production Related (Shared Services)			403	Prod W&S	4,038,921	3,832,667	34,164	172,090	-
470		Transmission Related (Shared Services)			403	Trans W&S	1,138,215	696,840	-	441,375	-
471		Distribution/Customer Related (Shared Services)			403	Retail	8,207,618	8,207,618	-	-	-
472				Total General Depreciation and Amortization			24,063,355	21,447,226	35,816	2,206,019	374,294
473											
474				Total Depreciation Expense			149,294,559	124,925,643	6,352,410	11,952,618	6,063,887
475											
476	**General Taxes**										
477											
478		Property Taxes									
479		Production Property Taxes									
480		Steam Production Plant			408	Gen Dmd	5,928,025	5,690,858	-	237,167	-
481		San Juan Unit 4 65 MW			408	Excluded	-	-	-	-	-
482		Nuclear Production Net Plant - Palo Verde 1 & 2			408	Gen Dmd	2,248,564	2,158,604	-	89,960	-
483		Nuclear Production Net Plant - Palo Verde 3			408	Excluded	967,170	-	-	-	967,170
484		Other Production Plant - Gas & 40 MW Solar			408	Gen Dmd	4,058,780	3,896,398	-	162,383	-
485		Other Production Plant - Renewable			408	Renewables	1,666,700	-	1,666,700	-	-
486				Total Production Property Taxes			14,869,239	11,745,860	1,666,700	489,509	967,170
487											
488		Transmission Property Taxes									
489		Step-Up Transformers - Excluding PV3			408	Gen Dmd	64,848	62,254	-	2,594	-
490		Step-Up Transformers - PV3			408	Excluded	1,581	-	-	-	1,581
491		Transmission System Plant			408	Trans Dmd	4,130,055	2,528,511	-	1,601,544	-
492		Transmission System Plant - PV 3			408	Excluded	33,557	-	-	-	33,557
493		Transmission System Plant - High Lonesome Mesa			408	Excluded	235,162	-	-	-	235,162
494		Transmission System Plant - Dedicated Retail			408	Retail	38,823	38,823	-	-	-
495		Transmission System Plant - Dedicated FERC			408	FERC	1,914	-	-	1,914	-
496				Total Transmission Property Taxes			4,505,940	2,629,588	-	1,606,052	270,299
497											

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
498		Distribution Property Taxes									
499		Distribution Substations Net Plant - Dedicated FERC			408	FERC	-	-	-	-	-
500		Distribution Substations Net Plant - PNM			408	Retail	1,401,493	1,401,493	-	-	-
501		Distribution Substations Net Plant - Renewables			408	Renewables	16,889	-	16,889	-	-
502		Primary Distribution System Net Plant - PNM			408	Retail	3,365,598	3,365,598	-	-	-
503		Primary Distribution System Net Plant - Renewables			408	Renewables	25,629	-	25,629	-	-
504		Secondary Distribution System Net Plant - PNM			408	Retail	1,998,448	1,998,448	-	-	-
505		Secondary Distribution System Net Plant - Renewables			408	Renewables	8,304	-	8,304	-	-
506		Services Net Plant - PNM			408	Retail	516,510	516,510	-	-	-
507		Meters Net Plant - PNM			408	Retail	398,990	398,990	-	-	-
508		Private Lighting - 371			408	Retail	5,508	5,508	-	-	-
509		Street Lighting - 373			408	Retail	116,750	116,750	-	-	-
510				Total Distribution Property Taxes			7,854,119	7,803,297	50,823	-	-
511											
512		General Property Taxes									
513		Production General & Intangible Net Plant			408	Gen Dmd	39,839	38,245	-	1,594	-
514		PV Unit 3 General & Intangible Net Plant			408	Excluded	5,487	-	-	-	5,487
515		Renewables General & Intangible Net Plant			408	Renewables	192	-	192	-	-
516		Bulk Power Operations			408	Prod Plt	36,955	32,423	-	1,351	3,181
517		Energy Management System Facilities			408	Gen/Trans Dmd	53,289	38,740	-	14,549	-
518		Other Division Offices/Customer Service			408	Retail	381,932	381,932	-	-	-
519		Communications - Transmission			408	Trans Dmd	184,228	112,788	-	71,439	-
520		Production Related (Shared Services)			408	Prod W&S	218,489	207,332	1,848	9,309	-
521		Transmission Related (Shared Services)			408	Trans W&S	50,814	31,109	-	19,705	-
522		Distribution/Customer Related (Shared Services)			408	Retail	214,694	214,694	-	-	-
523				Total General Property Taxes			1,185,919	1,057,263	2,040	117,947	8,668
524											
525											
526				Total Property Taxes			28,415,217	23,236,008	1,719,563	2,213,509	1,246,138
527											
528	Payroll Taxes										
529		Production Related			408	Prod W&S	2,895,879	2,747,996	24,495	123,387	-
530		Transmission Related			408	Trans W&S	697,224	426,856	-	270,368	-
531		Distribution Related			408	Dist W&S	3,446,281	3,446,281	-	-	-
532				Total Payroll Taxes			7,039,385	6,621,134	24,495	393,756	-
533											
534	Other Taxes										
535		Misc Taxes - Production Related			408	Gen Dmd	4,052	3,890	-	162	-
536		Misc Taxes - Renewable			408	Renewables	163,082	-	163,082	-	-
537		Misc Taxes - Transmission Related			408	Trans Dmd	891	546	-	346	-
538		Misc Taxes - Distribution Related			408	Retail	9,095	9,095	-	-	-
539		Regulatory Commission Fees (I&S) PNM			408	Retail	-	-	-	-	-
540		Joint Projects Four Corners			408	Gen Dmd	405,007	388,804	-	16,203	-
541		Joint Projects PVNGS			408	PV	1,964,290	1,248,485	-	61,041	654,763
542		Joint Projects Transmission			408	Trans Dmd	-	-	-	-	-
543		Native American Taxes - Production			408	Gen Dmd	1,554,300	1,492,116	-	62,184	-
544		Native American Taxes - Transmission			408	Trans Plt	890,883	525,409	-	318,328	47,147
545		Native American Taxes - Distribution			408	Dist Plt	150,175	150,175	-	-	-

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
546				Total Other Taxes			5,141,775	3,818,519	163,082	458,264	701,910
547											
548				Total General Taxes			40,596,376	33,675,661	1,907,140	3,065,528	1,948,048
549											
550	Other Allowable Expenses										
551											
552				Interest on Customer Deposits	431	Retail	241,075	241,075	-	-	-
553				Amortization Loss on Reacquired Debt	407	Retail	1,235,545	1,235,545	-	-	-
554				Amortization Retail Rate Case Expenses	408	Retail	-	-	-	-	-
555				Renewable Grant Amortization	407	Renewables	(1,307,450)	-	(1,307,450)	-	-
556				Accretion ARO - Production Related	411	Gen Dmd	6,017,044	5,776,316	-	240,728	-
557				Accretion ARO - PV 3	411	Excluded	2,677,308	-	-	-	2,677,308
558				Accretion ARO - Distribution Related	411	Retail	110,355	110,355	-	-	-
559				Amortization of LVGS Regulatory Liability	407	Retail	-	-	-	-	-
560				Amortization of LVGS Regulatory Asset	407	Retail	-	-	-	-	-
561											
562											
563											
564											
565											
566				Total Other Allowable Expenses			8,973,878	7,363,291	(1,307,450)	240,728	2,677,308
567											
568											
569				Total Operating Expenses			746,421,838	655,910,366	38,729,501	42,868,832	8,913,138
570				(Excl Income & Revenue Related Taxes)							
571											
572				Total Net Original Cost Rate Base			2,770,812,695	2,327,814,669	96,620,710	239,463,800	106,913,516
573				Weighted Cost of Capital			7.63%	7.63%	7.63%	7.63%	7.63%
574				Return on Rate Base			211,357,112	177,565,299	7,370,211	18,266,257	8,155,345
575											

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
576	Federal Income Tax										
577		Return Adjustments									
578		Interest on Long Term Debt				MDC	(84,868,842)	(71,299,996)	(2,959,452)	(7,334,677)	(3,274,717)
579											
580		Tax/Book Adjustments									
581											
582		Non-deductible Meals				Total Net Plt	608,603	524,902	-	50,739	32,963
583		Eastern Interconnect Project				Trans Dmd	-	-	-	-	-
584		Palo Verde 1 & 2 Gain Amort Flow Through				FERC	(110,308)	-	-	(110,308)	-
585		Palo Verde 1 & 2 Prudence Audit Flow Through				Retail	(32,421)	(32,421)	-	-	-
586		AFUDC Equity Flow Through				Gen Dmd	(8,638,868)	(8,293,247)	-	(345,621)	-
587		AFUDC Equity Flow Through - Renewables				Renewables	24,492	-	24,492	-	-
588		Federal Grant Amortization - Renewables				Renewables	(1,113,432)	-	(1,113,432)	-	-
589		Federal Grant Basis Adj - Renewables				Renewables	556,716	-	556,716	-	-
590		Gain/Loss Flow Through				Retail	144,165	144,165	-	-	-
591		ACRS Flow Through				Retail	2,531,578	2,531,578	-	-	-
592		San Juan ACRS Flow Through				Retail	342,346	342,346	-	-	-
593		Four Corners SO2 Reversal Flow Through				Retail	594,904	594,904	-	-	-
594		SL/GL Depreciation				Retail	(84,418)	(84,418)	-	-	-
595		Amortization of EIP Prepaid Tax Reversal				Trans Dmd	-	-	-	-	-
596				Total Tax/Book Adjustments			(5,176,643)	(4,272,191)	(532,224)	(405,191)	32,963
597											
598				Total Return Adjustments			(90,045,484)	(75,572,187)	(3,491,676)	(7,739,868)	(3,241,753)
599											
600				Net Taxable Equity Return			121,311,628	101,993,112	3,878,535	10,526,390	4,913,591
601											
602	Federal Tax Adjustments										
603											
604	Net Provision For Deferred Income Tax										
605		Excess Payroll Tax Reversal			410	Total W&S	(24,446)	(22,678)	(83)	(1,527)	(158)
606											
607		ARAM Deferred Tax Reversal			410	Total Net Plt	(482,307)	(415,975)	-	(40,209)	(26,123)
608				Total Provision For Deferred Income Tax			(506,753)	(438,653)	(83)	(41,737)	(26,281)
609											
610	Investment Tax Credits										
611		Palo Verde 1&2 Production ITC Amortization			411.4	Gen Dmd	(444,104)	(426,336)	-	(17,768)	-
612		Generation ITC Amortization			411.4	Gen Dmd	(619,132)	(594,362)	-	(24,770)	-
613		Renewables ITC Amortization			411.4	Renewables	(10,638)	-	(10,638)	-	-
614		PV Valley Transmission ITC Amortization			411.4	Trans Dmd	-	-	-	-	-
615		Research and Development & Other Credits			410	PV	(451,764)	(287,137)	-	(14,039)	(150,588)
616		All Other ITC Amortization			411.4	Total Net Plt	(191,371)	(165,052)	-	(15,954)	(10,365)
617				Total Investment Tax Credit Amortization & Other Credits			(1,717,009)	(1,472,887)	(10,638)	(72,531)	(160,953)

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
618											
619				Total Federal Tax Adjustments			(2,223,762)	(1,911,540)	(10,721)	(114,267)	(187,234)
620											
621				Adjusted Equity Return			119,087,866	100,081,572	3,867,814	10,412,122	4,726,357
622				Federal Tax Factor (0.35/(1-0.35))			53.8462%	53.8462%	53.8462%	53.8462%	53.8462%
623				Federal Income Tax			64,124,235	53,890,077	2,082,669	5,606,527	2,544,961
624				Add:							
625				Total Provision For Deferred Income Tax			(506,753)	(438,653)	(83)	(41,737)	(26,281)
626				EIP Amortization			-	-	-	-	-
627				Total Investment Tax Credit Amortization & Other Credits			(1,717,009)	(1,472,887)	(10,638)	(72,531)	(160,953)
628											
629				Net Allowable Federal Income Tax			61,900,473	51,978,538	2,071,949	5,492,260	2,357,727
630											
631	State Income Tax										
632											
633		Return on Rate Base					211,357,112	177,565,299	7,370,211	18,266,257	8,155,345
634		Less: Return Adjustments									
635		Interest on Long Term Debt					(84,868,842)	(71,299,996)	(2,959,452)	(7,334,677)	(3,274,717)
636		Tax/Book Adjustments					(5,176,643)	(4,272,191)	(532,224)	(405,191)	32,963
637		Add: Net Allowable F I T					61,900,473	51,978,538	2,071,949	5,492,260	2,357,727
638											
639				New Mexico NOL Valuation Allowance	410	Total Net Plt	2,639,407	2,276,407	-	220,045	142,955
640				Amortization of Excess Deferred Taxes		Total Net Plt	-	-	-	-	-
641		State Taxable Income					185,851,508	156,248,057	5,950,484	16,238,694	7,414,273
642		State Tax Factor					6.75%	6.75%	6.75%	6.75%	6.75%
643				State Income Tax			12,544,977	10,546,744	401,658	1,096,112	500,463
644		Add:		22 MW, Battery project and PV Farm PTC	409	Renewables	(1,208,250)	-	(1,208,250)	-	-
645		Add:		New Mexico NOL Valuation Allowance	410	Total Net Plt	2,639,407	2,276,407	-	220,045	142,955
646				Amortization of Excess Deferred Taxes		Total Net Plt	-	-	-	-	-
647				Net Allowable State Income Tax			13,976,134	12,823,151	(806,592)	1,316,156	643,419
648											
649											
650				Return on Rate Base			211,357,112	177,565,299	7,370,211	18,266,257	8,155,345
651											
652				Total Operating Expenses			746,421,838	655,910,366	38,729,501	42,868,832	8,913,138
653				(Excluding Income & Rev Related Taxes)							
654											
655				Net Allowable Federal Income Tax			61,900,473	51,978,538	2,071,949	5,492,260	2,357,727
656											
657				Net Allowable State Income Tax			13,976,134	12,823,151	(806,592)	1,316,156	643,419
658											
659											

	A	B	C	D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**										
2	**Base Period Ending June 30, 2016**				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
660	**Revenue Credits:**										
661		Sale of SO2 Credits			411	FERC	38	-	-	38	-
662		Rent For Electric Property Transmission			454	Trans Plt	(444,609)	(262,213)	-	(158,866)	(23,529)
663		Rent for Electric Property - Distribution			454	Retail	(3,712,879)	(3,712,879)	-	-	-
664		Late Payment Charges			451	Retail	(957,188)	(957,188)	-	-	-
665		Misc Service Charge Revenue			451	Retail	(1,549,448)	(1,549,448)	-	-	-
666		Other Retail Revenue - Transmission			456	Trans Dmd	(69,072)	(42,287)	-	(26,784)	-
667		Other Retail Revenue - Distribution			456	Retail	(299,227)	(299,227)	-	-	-
668		Generation Ancillary Services Credit Sch 2-5			456100	Gen Dmd	(1,607,407)	(1,543,098)	-	(64,309)	-
669		Real Power Losses (Financial)			456100	Gen Dmd	(300,413)	(288,394)	-	(12,019)	-
670		Transmission redispatch contract revenues			456100	Gen Dmd	(189,001)	(181,440)	-	(7,562)	-
671		Ancillary Services-Sch 1 and Non-Firm			456100	Trans Dmd	(740,469)	(453,332)	-	(287,138)	-
672		Short Term Firm Transmission			456100	Trans Dmd wo NITS	(423,724)	(326,794)	-	(96,930)	-
673		Ancillary Services-Sch 1 ST PTP and Other			456100	Trans Dmd	(266,551)	(163,189)	-	(103,363)	-
674		Economy Service Customer Revenue Credits				Retail	(4,558,971)	(4,558,971)	-	-	-
675		Co 7 Revenue				G&I Plt	(118,399)	(105,620)	-	(12,017)	(762)
676											
677											
678											
679											
680				Total Revenue Credits			(15,237,320)	(14,444,080)	-	(768,949)	(24,291)
681											
682				Total Revenue Requirements Before Revenue Tax			1,018,418,237	883,833,275	47,365,068	67,174,557	20,045,337
683											
684				Revenue Tax Factor (I&S Fee) '(.00506/1-.00506)			0.508573%	0.508573%	0.508573%	0.508573%	0.508573%
685				Revenue Tax			5,179,400	4,494,937	240,886	341,632	101,945
686											
687	NON-FUEL REVENUE REQUIREMENT						845,831,936	710,575,721	28,011,067	62,100,448	45,144,700
688	FUEL REVENUE REQUIREMENT						177,765,701	177,752,491	19,594,887	5,415,740	(24,997,418)
689	**TOTAL REVENUE REQUIREMENT**						**1,023,597,637**	**888,328,212**	**47,605,954**	**67,516,189**	**20,147,282**

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
690											
691	Weighted Cost of Capital										
692		Long Term Debt					3.06%	3.06%	3.06%	3.06%	3.06%
693		Preferred Stock					0.02%	0.02%	0.02%	0.02%	0.02%
694		Common Stock					4.55%	4.55%	4.55%	4.55%	4.55%
695				Total Weighted Cost of Capital			7.63%	7.63%	7.63%	7.63%	7.63%
696											
697				Federal Income Tax Rate			35.00%	35.00%	35.00%	35.00%	35.00%
698											
699				Effective State Income Tax Rate			6.54%	6.54%	6.54%	6.54%	6.54%
700											
701				I&S Fee Rate			0.506%	0.506%	0.506%	0.506%	0.506%
702											
703	Key Allocators										
704											
705				Sales (MWh)			10,772,572	9,042,401	-	628,134	1,102,037
706				Allocator		Sales	100.00%	83.94%	0.00%	5.83%	10.23%
707											
708	Wage and Salary Ratios					Ratios					
709				Production Other Prod O&M		43.09%	23,308,727	22,118,429	197,162	993,136	0
710						Prod W&S	100.00%	94.89%	0.85%	4.26%	0.00%
711				Transmission Trans O&M		10.05%	5,434,709	3,327,249	0	2,107,460	0
712						Trans W&S	100.00%	61.22%	0.00%	38.78%	0.00%
713				Distribution Dist O&M		24.51%	13,255,064	13,255,064	0	0	0
714						Dist W&S	100.00%	100.00%	0.00%	0.00%	0.00%
715											
716				Total PTD		77.65%	41,998,500	38,700,742	197,162	3,100,596	0
717				Allocator			100.00%	92.15%	0.47%	7.38%	0.00%
718											
719				Customer Accounting CA O&M		14.39%	7,782,920	7,782,920	-	0	-
720				Cust Service & Information CS&I O&M		1.13%	611,285	611,285	-	0	-
721				Sales Sales O&M		6.83%	3,696,565	3,102,864	-	215,542	378,160
722				Total PTDCAS		100.00%	54,089,270	50,197,811	197,162	3,316,137	378,160
723				Allocator		PTDCAS	100.00%	92.81%	0.36%	6.13%	0.70%
724											
725				Administrative and General			4,245,227	3,916,960	-	328,266	-
726											
727				Total Wages and Salaries			58,334,497	54,114,771	197,162	3,644,403	378,160
728				Allocator		Total W&S	100.00%	92.77%	0.34%	6.25%	0.65%
729											

	A	B	C	D	E	F	G	H	I	P	Q
1	**PNM Exhibit HEM - 3 COS BASE**										
2	**Base Period Ending June 30, 2016**				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
730	Net Plant In Service Ratios										
731											
732				Total Production Plant			1,563,403,963	1,371,665,742	-	57,164,242	134,573,979
733				Allocator		Prod Plt	100.00%	87.74%	0.00%	3.66%	8.61%
734											
735				Total Transmission Plant			493,355,396	290,962,201	-	176,284,226	26,108,969
736				Allocator		Trans Plt	100.00%	58.98%	0.00%	35.73%	5.29%
737											
738				Total Distribution Plant			776,388,238	776,388,238	-	-	-
739				Allocator		Dist Plt	100.00%	100.00%	0.00%	0.00%	0.00%
740											
741				Total General & Intangible Plant			151,585,494	135,224,138	-	15,385,648	975,708
742				Allocator		G&I Plt	100.00%	89.21%	0.00%	10.15%	0.64%
743											
744				Total Net Plant			2,984,733,092	2,574,240,319	-	248,834,116	161,658,657
745				Allocator		Total Net Plt	100.00%	86.25%	0.00%	8.34%	5.42%
746											
747	Net Plant In Service Ratios										
748	Without Production Stations & PV Valley Transmission										
749											
750											
751											
752											
753											
754											
755											
756											
757				Generation Demand allocator			1,445	1,387	-	58	-
758						Gen Dmd	100.00%	96.00%	0.00%	4.00%	0.00%
759											
760				Energy allocator			9,504,304	9,061,279	-	443,025	-
761						Energy	100.00%	95.34%	0.00%	4.66%	0.00%
762											
763				Generation and Transmission Demand		Gen/Trans Dmd	100.00%	72.70%	0.00%	27.30%	0.00%
764											
765							2,451	1,501	-	950	-
766				Transmission Demand		Trans Dmd	100.00%	61.22%	0.00%	38.78%	0.00%
767											
768							1,946	1,501	-	445	-
769				Transmission Demand without Network		Trans Dmd wo NITS	100.00%	77.12%	0.00%	22.88%	0.00%
770											
771											

	A	B	C	D	E	F	G	H	I	P	Q
1	PNM Exhibit HEM - 3 COS BASE										
2	Base Period Ending June 30, 2016				FERC		Adjusted Base Period	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Jurisdiction	Renewables	Jurisdiction	
772	Other Allocators										
773											
774				Excluded Costs		Excluded	100.00%	0.00%	0.00%	0.00%	100.00%
775											
776				Direct Assignment to NEC		NEC	100.00%	0.00%	0.00%	100.00%	0.00%
777											
778				Allocation to FERC Wholesale Customers		FERC	100.00%	0.00%	0.00%	100.00%	0.00%
779											
780				Direct Assignment to FERC Transmission		FERC Transmission	100.00%	0.00%	0.00%	100.00%	0.00%
781											
782				Direct Assignment to Retail		Retail	100.00%	100.00%	0.00%	0.00%	0.00%
783											
784				Allocation to Palo Verde		PV	100.00%	63.56%	0.00%	3.11%	33.33%
785											
786				Direct Assignment to Renewables		Renewables	100.00%	0.00%	100.00%	0.00%	0.00%
787											
788											
789											

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

COS Test

Is contained in the following 20 pages

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
4	Rate Base												
5													
6	Net Plant												
7													
8	Net Production Plant												
9													
10		Steam Production Net Plant			101/106	Gen Dmd	547,511,764		547,511,764	547,511,764	-	-	-
11		San Juan Unit 4 65 MW			101/106	Excluded	12,945,833		12,945,833	-	-	-	12,945,833
12				Total Steam Production Net Plant			560,457,597	-	560,457,597	547,511,764	-	-	12,945,833
13													
14		Nuclear Production Net Plant - Palo Verde 1 & 2			101/106	Gen Dmd	295,362,496		295,362,496	295,362,496	-	-	-
15		Nuclear Production Net Plant - Palo Verde 3			101/106	Gen Dmd	142,245,915		142,245,915	142,245,915	-	-	-
16		PV 1&2 Acquisition Adjustment			114	Gen Dmd	2,297,904		2,297,904	2,297,904	-	-	-
17		PV 2 Lease Acquisition Adjustment - First Chicago			114	Gen Dmd	23,020,136		23,020,136	23,020,136	-	-	-
18		PV 2 64.1 MW Lease Acquisition Adjustment			114	Gen Dmd	-		-	-	-	-	-
19				Total Nuclear Production Net Plant			462,926,451	-	462,926,451	462,926,451	-	-	-
20													
21		Other Production Plant - Gas & 40 MW Solar			101/106	Gen Dmd	404,119,271		404,119,271	404,119,271	-	-	-
22		Other Production Plant - Renewable			101/106	Renewables	148,974,509		148,974,509	-	148,974,509	-	-
23				Total Other Production Net Plant			553,093,780	-	553,093,780	404,119,271	148,974,509	-	-
24													
25		Total Net Production Plant					1,576,477,828	-	1,576,477,828	1,414,557,486	148,974,509	-	12,945,833
26													
27	Net Transmission Plant												
28													
29		Step-Up Transformers - Excluding PV3			101/106	Gen Dmd	9,029,847		9,029,847	9,029,847	-	-	-
30		Step-Up Transformers - PV3			101/106	Gen Dmd	189,869		189,869	189,869	-	-	-
31				Total Transmission Station Equipment - Step-up Xfmr and Aux			9,219,716	-	9,219,716	9,219,716	-	-	-
32													
33		Transmission System Net Plant			101/106	Trans Dmd	588,385,009		588,385,009	304,884,409	-	283,500,600	-
34		Transmission System Net Plant - PV 3			101/106	Trans Dmd	4,319,206		4,319,206	2,238,090	-	2,081,116	-
35		Transmission System Net Plant - High Lonesome Mesa			101/106	Excluded	20,023,753		20,023,753	-	-	-	20,023,753
36		Transmission System Net Plant - Dedicated Retail			101/106	Retail	3,049,614		3,049,614	3,049,614	-	-	-
37		Transmission System Net Plant - Dedicated FERC			101/106	FERC	-		-	-	-	-	-
38		EIP Acquisition Adjustment			114	Trans Dmd	4,394,758		4,394,758	2,277,239	-	2,117,519	-
39				Total Transmission System Net Plant			620,172,339	-	620,172,339	312,449,352	-	287,699,235	20,023,753
40													
41		Total Net Transmission Plant					629,392,056	-	629,392,056	321,669,068	-	287,699,235	20,023,753
42													
43													

PNM EXHIBIT HEM-3 COS TEST
Page 1 of 20

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
44	Net Distribution Plant												
45													
46				Distribution Substations Net Plant - Dedicated FERC	101/106	FERC	-		-	-	-	-	-
47				Distribution Substations Net Plant - PNM	101/106	Retail	150,145,189		150,145,189	150,145,189	-	-	-
48				Distribution Substations Net Plant - Renewables	101/106	Renewables	938,750		938,750	-	938,750	-	-
49				Total Distribution Substations Net Plant			151,083,938	-	151,083,938	150,145,189	938,750	-	-
50													
51				Primary Distribution System Net Plant - PNM	101/106	Retail	368,478,348		368,478,348	368,478,348	-	-	-
52				Primary Distribution System Net Plant - Renewables	101/106	Renewables	2,358,596		2,358,596	-	2,358,596	-	-
53				Total Primary Distribution Net Plant			370,836,944	-	370,836,944	368,478,348	2,358,596	-	-
54													
55				Secondary Distribution System Net Plant - PNM	101/106	Retail	207,740,458		207,740,458	207,740,458	-	-	-
56				Secondary Distribution System Net Plant - Renewables	101/106	Renewables	771,823		771,823	-	771,823	-	-
57				Total Secondary Distribution Net Plant			208,512,282	-	208,512,282	207,740,458	771,823	-	-
58													
59				Services Net Plant - PNM	101/106	Retail	52,806,644		52,806,644	52,806,644	-	-	-
60													
61				Meters Net Plant - PNM	101/106	Retail	37,116,821		37,116,821	37,116,821	-	-	-
62													
63				Private Lighting - 371	101/106	Retail	12,278		12,278	12,278	-	-	-
64				Street Lighting - 373	101/106	Retail	10,735,759		10,735,759	10,735,759	-	-	-
65				Total Lighting Net Plant			10,748,037	-	10,748,037	10,748,037	-	-	-
66													
67				Total Net Plant Distribution Plant			831,104,666	-	831,104,666	827,035,497	4,069,169	-	-
68													
69													
70	Net Plant General & Intangible Plant												
71													
72				Production General & Intangible Net Plant	101/106	Gen Dmd	4,917,581		4,917,581	4,917,581	-	-	-
73				PV Unit 3 General & Intangible Net Plant	101/106	Gen Dmd	524,404		524,404	524,404	-	-	-
74				Renewables General & Intangible Net Plant	101/106	Renewables	29,978		29,978	-	29,978	-	-
75				Bulk Power Operations	101/106	Prod Plt	2,840,861		2,840,861	2,815,098	-	-	25,763
76				Energy Management System Facilities	101/106	Gen/Trans Dmd	4,534,181		4,534,181	3,070,434	-	1,463,747	-
77				Other Division Offices/Customer Service	101/106	Retail	44,248,660		44,248,660	44,248,660	-	-	-
78				Communications - Transmission	101/106	Trans Dmd	23,549,968		23,549,968	12,202,925	-	11,347,043	-
79				Production Related (Shared Services)	101/106	Prod W&S	34,542,383		34,542,383	31,580,446	204,913	-	2,757,024
80				Transmission Related (Shared Services)	101/106	Trans W&S	6,993,597		6,993,597	3,623,883	-	3,369,714	-
81				Distribution/Customer Related (Shared Services)	101/106	Retail	53,776,457		53,776,457	53,776,457	-	-	-
82				Total Net Plant General & Intangible Plant - PNM			175,958,072	-	175,958,072	156,759,889	234,891	16,180,504	2,782,787
83													
84				Total Net Plant			3,212,932,622	-	3,212,932,622	2,720,021,940	153,278,570	303,879,739	35,752,373
85													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
86	Accumulated Deferred Income Taxes												
87				Injury & Damages	190	Total W&S	2,741,699		2,741,699	2,495,588	7,499	130,172	108,439
88				Palo Verde Gain 1 & 2	190	FERC	128,851		128,851	-	-	128,851	-
89				Renewable NOL Allocation	190	Renewables	-		-	-	-	-	-
90				Palo Verde Construction Credits 1 & 2	190	Retail	15,746		15,746	15,746	-	-	-
91				Pension Prepaid Tax Qualified	190, 283	Total W&S	(61,898,957)		(61,898,957)	(56,342,550)	(169,298)	(2,938,886)	(2,448,223)
92				Pension Prepaid Tax NQRP	190, 283	Total W&S	2,313,160		2,313,160	2,105,517	6,327	109,826	91,490
93				Eastern Interconnect Project Gain	190	Trans Dmd	-		-	-	-	-	-
94				Line Extension Policy	190	Retail	957,131		957,131	957,131	-	-	-
95				Tax Capitalized Interest	190	Total Net Plt	22,947,461		22,947,461	20,400,214	-	2,279,104	268,143
96				Palo Verde Dry Cask Storage 1 & 2	190	Gen Dmd	-		-	-	-	-	-
97				Palo Verde Dry Cask Storage 3	190	Gen Dmd	-		-	-	-	-	-
98				Contributions In Aid of Construction	190	Retail	34,915,974		34,915,974	34,915,974	-	-	-
99				Coal Mine Decommissioning	190, 283	Retail	(1,589,677)		(1,589,677)	(1,589,677)	-	-	-
100				Pollution Control Facilities 4 Corners	281	FERC	(767,451)		(767,451)	-	-	(767,451)	-
101				FERC Customer Depreciation	282	FERC Transmission	1,280,363		1,280,363	-	-	1,280,363	-
102				Liberalized Depreciation - Renewables	282	Renewables	(45,476,449)		(45,476,449)	-	(45,476,449)	-	-
103				Liberalized Depreciation - Other	282	G&I Plt	(38,385,879)		(38,385,879)	(34,243,440)	-	(3,534,553)	(607,886)
104				Liberalized Depreciation - Generation	282	Gen Dmd	(375,078,475)		(375,078,475)	(375,078,475)	-	-	-
105				Liberalized Depreciation - Distribution	282	Retail	(240,592,716)		(240,592,716)	(240,592,716)	-	-	-
106				Liberalized Depreciation - Transmission	282	Trans Dmd	(137,721,045)		(137,721,045)	(71,363,136)	-	(66,357,909)	-
107				Liberalized Depreciation - PV 3	282	Gen Dmd	(80,341,357)		(80,341,357)	(80,341,357)	-	-	-
108				Palo Verde Start-Up Amortization	282	FERC	250,026		250,026	-	-	250,026	-
109				Nuclear Fuel Amortization PV 1&2	282	Energy	5,892,474		5,892,474	5,892,474	-	-	-
110				Nuclear Fuel Amortization PV 3	282	Energy	3,246,582		3,246,582	3,246,582	-	-	-
111				Debt AFUDC	282	Total Net Plt	(27,957,340)		(27,957,340)	(24,853,979)	-	(2,776,676)	(326,684)
112				Pre-1981 Repair Allowance	282	Gen Dmd	(22,138,422)		(22,138,422)	(22,138,422)	-	-	-
113				Palo Verde Licensing Amortization	282	Gen Dmd	(4,611,465)		(4,611,465)	(4,611,465)	-	-	-
114				Asset Retirement Obligation	190, 282, 283	Gen Dmd	6,622,514		6,622,514	6,622,514	-	-	-
115				Afton Writedown	282	Gen Dmd	3,884,264		3,884,264	3,884,264	-	-	-
116				Loss on Reacquired Debt	283	Retail	(3,327,405)		(3,327,405)	(3,327,405)	-	-	-
117				Book Capitalized Interest	283	Total Net Plt	(8,290,492)		(8,290,492)	(7,370,219)	-	(823,398)	(96,875)
118				Prepaid Expenses	190	Gen Dmd	(3,756,987)		(3,756,987)	(3,756,987)	-	-	-
119				Net Operating Loss (NOL)	190	Total Net Plt	69,528,340		69,528,340	61,810,455	-	6,905,439	812,446
120				Deferred Federal Tax Credits	190	Energy	9,211,736		9,211,736	9,211,736	-	-	-
121				PCB Refinancing	283	Retail	(5,366,226)		(5,366,226)	(5,366,226)	-	-	-
122				LVGS Decommissioning	190	Retail	171,549		171,549	171,549	-	-	-
123				Renewable NM AETC	190	Renewables	1,335,100		1,335,100	-	1,335,100	-	-
124				Rate Case Expense	283	Retail	(1,335,421)		(1,335,421)	(1,335,421)	-	-	-
125				DOE Spent Fuel Settlement	190	Retail	-		-	-	-	-	-
126				DOE Spent Fuel Settlement PV3	190	Retail	-		-	-	-	-	-
127				50% SJGS 2&3	283	Gen Dmd	(48,497,857)		(48,497,857)	(48,497,857)	-	-	-
128				Liberalized Depreciation - SJ4 132 MW	282	Gen Dmd	1,522,962		1,522,962	1,522,962	-	-	-
129				Liberalized Depreciation - SJ4 65 MW	282	Excluded	(2,589,418)		(2,589,418)	-	-	-	(2,589,418)
130				SJGS Agreement Costs	283	Gen Dmd	(954,168)		(954,168)	(954,168)	-	-	-
131				Liberalized Depreciation - HLM	282	Excluded	(4,942,558)		(4,942,558)	-	-	-	(4,942,558)
132				Total Accumulated Deferred Income Taxes			(948,653,833)	-	(948,653,833)	(828,510,793)	(44,296,822)	(66,115,092)	(9,731,126)
133													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
134	Regulatory Assets & Liabilities												
135													
136		Coal Mine Decommissioning-Surface			182	Retail	3,917,934		3,917,934	3,917,934	-	-	-
137		PV 1&2 Combustion Engineering			254	Retail	(35,484)		(35,484)	(35,484)	-	-	-
138		PV 1&2 DOE Spent Fuel Refund			254	Retail	-		-	-	-	-	-
139		PV 3 DOE Spent Fuel Refund			254	Retail	-		-	-	-	-	-
140		Reg Asset LVGS Decommission			182	Retail	93,041		93,041	93,041	-	-	-
141		Reg Liab LVGS Decommission			254	Retail	(512,013)		(512,013)	(512,013)	-	-	-
142		PCB Refinancing Hedge			182	Retail	13,503,542		13,503,542	13,503,542	-	-	-
143		Reg Liab Renewables Fed Grant			254	Renewables	(17,443,954)		(17,443,954)	-	(17,443,954)	-	-
144		Reg Liab Renewables St Credit			254	Renewables	(3,360,608)		(3,360,608)	-	(3,360,608)	-	-
145		2015 Rate Case Expenses			186	Retail	1,184,382		1,184,382	1,184,382	-	-	-
146		San Juan Units 2 & 3 50% Undepreciated Investment				Gen Dmd	125,018,594		125,018,594	125,018,594	-	-	-
147													
148													
149				Total Regulatory Assets & Liabilities			122,365,434	-	122,365,434	143,169,995	(20,804,562)	-	-
150													
151	Other Rate Base Items												
152													
153		Customer Deposits			235	Retail	(12,363,018)		(12,363,018)	(12,363,018)	-	-	-
154		RWIP-Production			108	Gen Dmd	-		-	-	-	-	-
155		RWIP-Transmission			108	Trans Dmd	-		-	-	-	-	-
156		RWIP-Distribution			108	Retail	-		-	-	-	-	-
157		RWIP-PV3			108	Gen Dmd	-		-	-	-	-	-
158		ARO Liability - Production			230	Gen Dmd	(15,421,036)		(15,421,036)	(15,421,036)	-	-	-
159		ARO Liability - Transmission			230	Trans Dmd	-		-	-	-	-	-
160		ARO Liability - Distribution			230	Retail	(1,337,402)		(1,337,402)	(1,337,402)	-	-	-
161		ARO Liability - PV3			230	Gen Dmd	-		-	-	-	-	-
162		Injuries and Damages PNM			228	Total W&S	(6,865,623)		(6,865,623)	(6,249,325)	(18,778)	(325,971)	(271,549)
163		NQRP - Expense in Excess of Funding				Total W&S	(5,826,882)		(5,826,882)	(5,303,827)	(15,937)	(276,653)	(230,464)
164		PV 1&2 Dry Cask Storage			253	Gen Dmd	-		-	-	-	-	-
165		PV 3 Dry Cask Storage			253	Gen Dmd	-		-	-	-	-	-
166		PV 1&2 Excess Gain Amortization			253	FERC	(321,177)		(321,177)	-	-	(321,177)	-
167		High Lonesome Mesa -			253	Excluded	(8,113,311)		(8,113,311)	-	-	-	(8,113,311)

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
168				CWIP - Production	107	Gen Dmd	-		-	-	-	-	-
169				CWIP - Transmission	107	Trans Dmd	-		-	-	-	-	-
170				CWIP - Distribution	107	Retail	-		-	-	-	-	-
171				CWIP - PV3	107	Gen Dmd	-		-	-	-	-	-
172				CWIP - Renewables	107	Renewables	-		-	-	-	-	-
173				CWIP - Production Related	107	Gen Dmd	-		-	-	-	-	-
174				Pueblos Transmission Rights-of-Way	186	Trans Dmd	66,246,335		66,246,335	34,326,970	-	31,919,365	-
175				Pueblos Distribution Rights-of-Way	186	Retail	6,403,676		6,403,676	6,403,676	-	-	-
176				Prepaid Pension Asset		Total W&S	156,435,595		156,435,595	142,393,036	427,863	7,427,368	6,187,328
177				Unamortized Loss on Reacquired Debt	189	Retail	8,395,494		8,395,494	8,395,494	-	-	-
178				2016 Rate Case Expense	186	Retail	2,225,000		2,225,000	2,225,000	-	-	-
179				SJGS Coal Agreement Transaction Costs		Gen Dmd	2,442,201		2,442,201	2,442,201	-	-	-
180													
181													
182													
183				Total Other Rate Base Items			191,899,852	-	191,899,852	155,511,769	393,148	38,422,931	(2,427,996)
184													
185	Working Capital												
186													
187	Fuel Stock												
188				Production Fuel Stock	151	Energy	22,338,413		22,338,413	22,338,413	-	-	-
189				PV 1&2 Nuclear Fuel (120.1 - .5)	120	Energy	62,991,657		62,991,657	62,991,657	-	-	-
190				PV 3 Nuclear Fuel (120.1 - .5)	120	Energy	21,222,225		21,222,225	21,222,225	-	-	-
191				Total Fuel Stock			106,552,294	-	106,552,294	106,552,294	-	-	-
192													
193	Materials & Supplies												
194				Production	154	Gen Dmd	28,134,503		28,134,503	28,134,503	-	-	-
195				Transmission	154	Trans Plt	939,272		939,272	480,042	-	429,347	29,882
196				Distribution	154	Retail	5,933,957		5,933,957	5,933,957	-	-	-
197				Palo Verde Unit 3	154	Gen Dmd	5,907,634		5,907,634	5,907,634	-	-	-
198				Total Materials & Supplies			40,915,366	-	40,915,366	40,456,137	-	429,347	29,882
199													
200	Prepayments												
201				Production	165	Gen Dmd	32,340,656		32,340,656	32,340,656	-	-	-
202				Transmission	165	Trans Plt	7,204,296		7,204,296	3,681,965	-	3,293,131	229,201
203				Distribution	165	Retail	2,816,804		2,816,804	2,816,804	-	-	-
204				Renewables	165	Renewables	39,370		39,370	-	39,370	-	-
205				Palo Verde Unit 3	165	Gen Dmd	1,248,657		1,248,657	1,248,657	-	-	-
206				Total Prepayments			43,649,783	-	43,649,783	40,088,081	39,370	3,293,131	229,201
207													
208				Total Cash Working Capital (see Rule 530 schedule E-1)			3,910,863		3,910,863	3,910,863		-	-
209													
210				Total Working Capital			195,028,307	-	195,028,307	191,007,376	39,370	3,722,478	259,083
211													
212				Total Rate Base Adjustments & Working Capital			(439,360,240)	-	(439,360,240)	(338,821,653)	(64,668,866)	(23,969,683)	(11,900,039)
213													
214				Total Net Original Cost Rate Base			2,773,572,382	-	2,773,572,382	2,381,200,287	88,609,704	279,910,057	23,852,334

	A B C D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST									
2	Test Period Ending December 31,2018	FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3		Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
215										
216	Operations and Maintenance Expense									
217										
218	Production Fuel related expenses									
219										
220	Production - FPPCAC Fuel Related									
221	Steam Generation	501	Direct Assignment	123,673,365		123,673,365	112,917,097	-	-	10,756,267
222	Steam Fuel Handling and Disposal	501	Direct Assignment	10,206,775		10,206,775	9,905,506	-	-	301,269
223	Nuclear	518	Direct Assignment	25,020,716		25,020,716	25,020,716	-	-	-
224	Nuclear Disposal	518	Direct Assignment	1,071,737		1,071,737	1,071,737	-	-	-
225	Gas Generation	547	Direct Assignment	47,152,773		47,152,773	47,152,773	-	-	-
226	Renewables - Owned	547	Direct Assignment	-		-	-	-	-	-
227	Wind (NMWEC)	555	Direct Assignment	-		-	-	-	-	-
228	Renewables - PPA	555	Direct Assignment	27,750,811		27,750,811	-	27,750,811	-	-
229	Purchased Power Energy	555	Direct Assignment	7,042,966		7,042,966	7,042,966	-	-	-
230	Spinning reserves	555	Direct Assignment	730,000		730,000	730,000	-	-	-
231	Tri State Hazard Sharing	555	Direct Assignment	20,077,990		20,077,990	20,077,990	-	-	-
232	Total Fuel Costs (before OSS)			262,727,133	-	262,727,133	223,918,786	27,750,811	-	11,057,536
233										
234	Off-system Sales	447	Direct Assignment	(55,093,534)		(55,093,534)	(55,093,534)	-	-	-
235	Off-system Sales - PV 3	447	Direct Assignment	-		-	-	-	-	-
236	Off-system Sales - 65 MW	447	Direct Assignment	(10,935,849)		(10,935,849)	-	-	-	(10,935,849)
237	Tri State Hazard Sharing	447	Direct Assignment	(20,077,990)		(20,077,990)	(20,077,990)	-	-	-
238	Off-system Sales Credit	447	Direct Assignment	-		-	-	-	-	-
239	Refined Coal Credit	501	Direct Assignment	(4,232,341)		(4,232,341)	(3,742,835)	-	-	(489,506)
240	DOE Spent Fuel Credit	447	Direct Assignment	(4,017,689)		(4,017,689)	(4,017,689)	-	-	-
241	Load Side from Transmission Customers	456.1	Direct Assignment	-		-	-	-	-	-
242	Physical Sales of Gas (under FAC hedge plan)		Direct Assignment	-		-	-	-	-	-
243	Total Other Fuel			(94,357,403)	-	(94,357,403)	(82,932,048)	-	-	(11,425,355)
244										
245	Total Fuel (net OSS)			168,369,730	-	168,369,730	140,986,737	27,750,811	-	(367,818)
246										
247	Production - Non Fuel Items									
248	Coal Fuel Handling	501	Energy	-		-	-	-	-	-
249	Nuclear Fuel Handling	518	Energy	-		-	-	-	-	-
250	Gas Plants Fuel Transportation	547	Energy	12,195,123		12,195,123	12,195,123	-	-	-
251	Gas PPA - Valencia - Demand	555	Gen Dmd	19,905,970		19,905,970	19,905,970	-	-	-
252	Purchase Power for Economy Service Customer	555	Retail	-		-	-	-	-	-
253	Purchased power for Rate 36B			-		-				
254	Deferred Energy		Excluded	-		-	-	-	-	-
255	REC Purchases and Renewable Energy Amortization	555	Renewables	8,276,981		8,276,981	-	8,276,981	-	-
256	Gas Swaps - Non Fuel Clause Settlements and Excess Gas Physical Purchases		FERC	-		-	-	-	-	-
257	Coal Mine Decommissioning - Allowed	501.15	Retail	7,657,459		7,657,459	7,657,459	-	-	-
258	Coal Mine Decommissioning - Disallowed	501.15	Excluded	1,773,461		1,773,461	-	-	-	1,773,461
259	Coal Mine Decommissioning - FERC	501.15	FERC	-		-	-	-	-	-
260	Hedge - FERC		FERC	-		-	-	-	-	-
261	Spinning reserves		Gen Dmd	-		-	-	-	-	-
262	Broker Fees		Gen Dmd	180,000		180,000	180,000	-	-	-
263	Total Non Fuel Items			49,988,995	-	49,988,995	39,938,553	8,276,981	-	1,773,461
264										
265	Total Fuel Related Expense			218,358,725	-	218,358,725	180,925,290	36,027,792	-	1,405,642

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
266													
267	O&M												
268	Steam Production												
269		Oper-Sup & Eng-Prod			500	Gen Dmd	5,244,530		5,244,530	5,244,530	-	-	-
270		Oper-Steam Expense-Major			502	Gen Dmd	10,501,717		10,501,717	10,501,717	-	-	-
271		Oper - Steam from Other Sources			503	Gen Dmd	-		-	-	-	-	-
272		Oper-Electric Exp-Major			505	Gen Dmd	5,017,163		5,017,163	5,017,163	-	-	-
273		Oper-Misc Steam Power Exp			506	Gen Dmd	3,294,855		3,294,855	3,294,855	-	-	-
274		Oper-Rents-Steam Power			507	Gen Dmd	162,533		162,533	162,533	-	-	-
275		Maint-Sup & Eng-Steam			510	Energy	4,097,873		4,097,873	4,097,873	-	-	-
276		Maint-Structures-Steam			511	Gen Dmd	5,962,123		5,962,123	5,962,123	-	-	-
277		Maint-Boiler Plant			512	Energy	20,071,661		20,071,661	20,071,661	-	-	-
278		Maint-Electric Plant			513	Energy	5,767,918		5,767,918	5,767,918	-	-	-
279		Maint-Gen & Elec Plant			514	Gen Dmd	4,561,217		4,561,217	4,561,217	-	-	-
280		SJ Unit 4 65MW - Steam Production				Excluded	5,145,685		5,145,685	-	-	-	5,145,685
281	Nuclear Production												
282		Oper-Sup & Eng-Nuclear			517	Gen Dmd	9,636,519		9,636,519	9,636,519	-	-	-
283		Oper-Coolants and Water			519	Gen Dmd	4,668,802		4,668,802	4,668,802	-	-	-
284		Oper-Steam Expenses-Nuclear			520	Gen Dmd	3,904,655		3,904,655	3,904,655	-	-	-
285		Oper-Electric Exp			523	Gen Dmd	2,959,032		2,959,032	2,959,032	-	-	-
286		Oper-Misc Nuclear Power, excluding PV 1&2 Decom & CE Credit			524	Gen Dmd	15,657,003		15,657,003	15,657,003	-	-	-
287		Oper-Misc Nuclear Power - PV 1&2 Decom & CE Credit			524	Retail	(6,295,317)		(6,295,317)	(6,295,317)	-	-	-
288		Oper-Rents-Nuclear, excluding PV 1&2 CE Credit & Excess Gain Amort			525	Gen Dmd	19,566,091		19,566,091	19,566,091	-	-	-
289		Oper-Rents-Nuclear - PV 1&2 CE Credit			525	Retail	0		0	0	-	-	-
290		Oper-Rents-Nuclear - PV 1&2 Excess Gain Amort			525	FERC	(39,820)		(39,820)	-	-	(39,820)	-
291		Maint-Sup & Eng-Nuclear			528	Energy	2,003,878		2,003,878	2,003,878	-	-	-
292		Maint-Structures-Major			529	Gen Dmd	789,263		789,263	789,263	-	-	-
293		Maint-Reactor Plant			530	Energy	5,187,454		5,187,454	5,187,454	-	-	-
294		Maint-Elec Plant			531	Energy	5,334,491		5,334,491	5,334,491	-	-	-
295		Maint-Misc Nuclear Plant			532	Gen Dmd	1,133,899		1,133,899	1,133,899	-	-	-
296		Palo Verde 3 - Nuclear Production, FERC 517,519-532				Gen Dmd	-		-	-	-	-	-

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
297	Other Production												
298		Oper-Sup & Eng-Other			546	Energy	4,144,974		4,144,974	4,144,974	-	-	-
299		Oper-Oth Pwr Gen Exp-Other			549	Energy	346,811		346,811	346,811	-	-	-
300		Oper-Oth Pwr Gen Exp-Other - Renewables			549	Renewables	548,500		548,500	-	548,500	-	-
301		Maint - Structures			552	Gen Dmd	931,245		931,245	931,245	-	-	-
302		Maint-Gen & Elec Plant			553	Energy	8,325,309		8,325,309	8,325,309	-	-	-
303		Maint-Gen & Elec Plant - Renewables			553	Renewables	1,108,051		1,108,051	-	1,108,051	-	-
304		Maint-Gen & Elec Plant			556	Gen Dmd	4,129,076		4,129,076	4,129,076	-	-	-
305				Total Production O&M			153,867,190	-	153,867,190	147,104,774	1,656,551	(39,820)	5,145,685
306													
307	Transmission O&M (560-574, excluding 565):												
308		Oper-Sup & Eng-ETrans			560	Trans Dmd	1,753,310		1,753,310	908,516	-	844,795	-
309		Oper-Load Dispatch-ETrans			561	Trans Dmd	920,235		920,235	476,840	-	443,395	-
310		Oper-Station Exp-ETrans			562	Trans Dmd	521,416		521,416	270,183	-	251,233	-
311		Oper-Overhead Lines-ETrans			563	Trans Dmd	103,785		103,785	53,778	-	50,007	-
312		Oper-Misc Transmission-E			566	Trans Dmd	3,201,073		3,201,073	1,658,705	-	1,542,368	-
313		Oper-Rents-Transmission-E			567	Trans Dmd	11,285,684		11,285,684	5,847,921	-	5,437,763	-
314		Maint Sup & Eng-ETrans			568	Trans Dmd	5,264		5,264	2,728	-	2,537	-
315		Maint-Structures-ETrans			569	Trans Dmd	207		207	108	-	100	-
316		Maint-Sta Equip-ETrans			570	Trans Dmd	3,175,047		3,175,047	1,645,219	-	1,529,828	-
317		Maint-Overhead Lns-ETrans			571	Trans Dmd	294,006		294,006	152,345	-	141,660	-
318		Maint-Misc Trans Plt-Maj-E			573	Trans Dmd	182		182	94	-	88	-
319		Maint-Trans Plant-NonMaj-E			574	Trans Dmd	9,641		9,641	4,996	-	4,645	-
320		HLM - Transmission O&M			560-564,566-574	Excluded	20,300		20,300	-	-	-	20,300
321				Total Transmission O&M, excluding FERC 565			21,290,150	-	21,290,150	11,021,433	-	10,248,418	20,300
322													
323	Transmission O&M by Others (565):												
324		Owned Generation Wheeling			565	Gen Dmd	10,064,647		10,064,647	10,064,647	-	-	-
325		PV 3 Wheeling			565	Gen Dmd	6,373,238		6,373,238	6,373,238	-	-	-
326		Retail Wheeling			565	Retail	1,497,200		1,497,200	1,497,200	-	-	-
327		FERC Wholesale Customer Wheeling			565	FERC	1,619,479		1,619,479	-	-	1,619,479	-
328		WAPA Exchange			565	Gen Dmd	3,185,557		3,185,557	3,185,557	-	-	-
329		Transmission by Others			565	Gen Dmd	3,781,319		3,781,319	3,781,319	-	-	-
330				Total Transmission by Others, FERC 565			26,521,440	-	26,521,440	24,901,961	-	1,619,479	-
331													
332				Total Transmission O&M			47,811,590	-	47,811,590	35,923,394	-	11,867,897	20,300
333													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
334	Total Dist O&M (580-598)												
335													
336	PNM Street & Private Lighting												
337		Oper-Street Light/Signal-E			585	Retail	84,117		84,117	84,117	-	-	-
338		Maint-Streetlight/Signal-E			596	Retail	978,291		978,291	978,291	-	-	-
339			Total Street and Private Lighting				1,062,407	-	1,062,407	1,062,407	-	-	-
340													
341	PNM Meters												
342		Oper-Meter Expense-EDist			586	Retail	3,054,955		3,054,955	3,054,955	-	-	-
343		Maint-Meters-EDist			597	Retail	229,901		229,901	229,901	-	-	-
344			Total Meters				3,284,856	-	3,284,856	3,284,856	-	-	-
345													
346	All Other Distribution O&M												
347		Oper-Sup & Eng-EDist			580	Retail	2,115,894		2,115,894	2,115,894	-	-	-
348		Oper-Station Exp-EDist			582	Retail	152,685		152,685	152,685	-	-	-
349		Oper-Overhead Lines-EDist			583	Retail	1,886,382		1,886,382	1,886,382	-	-	-
350		Oper-Undergrd Line-EDist			584	Retail	498,832		498,832	498,832	-	-	-
351		Oper-Misc Dist Exp-EDist			588	Retail	5,405,376		5,405,376	5,405,376	-	-	-
352		Oper-Rents-Distribution-E			589	Retail	335,728		335,728	335,728	-	-	-
353		Maint-Sup & Eng-EDist			590	Retail	777,207		777,207	777,207	-	-	-
354		Maint-Structures-EDist			591	Retail	41,539		41,539	41,539	-	-	-
355		Maint-Station Equip-EDist			592	Retail	1,002,889		1,002,889	1,002,889	-	-	-
356		Maint-Overhead Lns-EDist			593	Retail	2,918,805		2,918,805	2,918,805	-	-	-
357		Maint-Und Lines-EDist			594	Retail	1,293,634		1,293,634	1,293,634	-	-	-
358		Maint-Misc Dist Plant-E			598	Retail	468,198		468,198	468,198	-	-	-
359			Total Other Distribution O&M				16,897,170	-	16,897,170	16,897,170	-	-	-
360													
361			Total Distribution O&M				21,244,433	-	21,244,433	21,244,433	-	-	-
362													
363	Customer Related O&M												
364													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
365	PNM Related Customer Accounts Exp												
366		Supervision-Customer Accts			901	Retail	(169,104)		(169,104)	(169,104)	-	-	-
367		Meter Reading Expenses			902	Retail	4,845,471		4,845,471	4,845,471	-	-	-
368		Customer Record and Coll			903	Retail	7,653,775		7,653,775	7,653,775	-	-	-
369		Uncollectible Expenses			904	Retail	3,477,919		3,477,919	3,477,919	-	-	-
370		Misc Customer Accts Exp			905	Retail	(4)		(4)	(4)	-	-	-
371		Cust Service/Inf Expenses			906	Retail	289,679		289,679	289,679	-	-	-
372		Customer Assistance Exps			908	Retail	626,752		626,752	626,752	-	-	-
373		Inform/Instruc Advert Exps			909	Retail	354		354	354	-	-	-
374		Demo & Selling Expenses - Excluding Production			912	Retail	40,530		40,530	40,530	-	-	-
375		Demo & Selling Expenses - Production			912	Sales	4,522,839		4,522,839	4,333,931	-	-	188,907
376													
377				Total Customer Related O&M			21,288,211	-	21,288,211	21,099,304	-	-	188,907
378													
379	Administrative & General Expense												
380													
381		Production - Admin and General Salaries			920	Gen Dmd	(1,352,740)		(1,352,740)	(1,352,740)	-	-	-
382		Transmission - Admin and General Salaries			920	Trans W&S	452,226		452,226	234,331	-	217,895	-
383		Distribution - Admin and General Salaries			920	Retail	2,432,894		2,432,894	2,432,894	-	-	-
384		Production - AG Office Supplies Exp			921	Gen Dmd	(320,700)		(320,700)	(320,700)	-	-	-
385		Transmission - AG Office Supplies Exp			921	Trans W&S	231,993		231,993	120,212	-	111,781	-
386		Distribution - AG Office Supplies Exp			921	Retail	1,294,075		1,294,075	1,294,075	-	-	-
387		A&G Charged to CWIP - Production			922	Gen Dmd	(1,283,684)		(1,283,684)	(1,283,684)	-	-	-
388		A&G Charged to CWIP - Transmission			922	Trans W&S	(2,354,236)		(2,354,236)	(1,219,898)	-	(1,134,338)	-
389		A&G Charged to CWIP - Distribution			922	Retail	(3,847,679)		(3,847,679)	(3,847,679)	-	-	-
390		Production Related - Shared Services			9229	Gen Dmd	24,347,771		24,347,771	24,347,771	-	-	-
391		Transmission Related - Shared Services			9229	Trans W&S	6,378,886		6,378,886	3,305,358	-	3,073,528	-
392		Distribution/Customer Related - Shared Services			9229	Retail	35,947,485		35,947,485	35,947,485	-	-	-
393		Production - Outside Services			923	Gen Dmd	31,144		31,144	31,144	-	-	-
394		Transmission - Outside Services			923	Trans W&S	132,606		132,606	68,713	-	63,893	-
395		Distribution - Outside Services			923	Retail	1,520,603		1,520,603	1,520,603	-	-	-
396		Production - Property Insurance			924	Prod Plt	1,657,432		1,657,432	1,642,401	-	-	15,031
397		Transmission - Property Insurance			924	Trans Plt	340,114		340,114	173,825	-	155,468	10,821
398		Distribution - Property Insurance			924	Retail	231,271		231,271	231,271	-	-	-
399		Production - Injuries or Damages-Safety			925	Gen Dmd	1,159,972		1,159,972	1,159,972	-	-	-
400		Transmission - Injuries or Damages-Safety			925	Trans W&S	193,685		193,685	100,362	-	93,323	-

	A B C D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST									
2	Test Period Ending December 31,2018	FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3		Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
401	Distribution - Injuries or Damages-Safety	925	Retail	1,040,213		1,040,213	1,040,213	-	-	-
402	Production - Empl Pension and Benefits	926	Gen Dmd	7,722,593		7,722,593	7,722,593	-	-	-
403	Transmission - Empl Pension and Benefits	926	Trans W&S	1,187,970		1,187,970	615,572	-	572,397	-
404	Distribution - Empl Pension and Benefits	926	Retail	9,143,978		9,143,978	9,143,978	-	-	-
405	Production - Regulatory Commission Exp	928	Gen Dmd	1,773,740		1,773,740	1,773,740	-	-	-
406	Transmission - Regulatory Commission Exp	928	Trans W&S	97,457		97,457	50,500	-	46,958	-
407	Distribution - Regulatory Commission Exp	928	Retail	1,028,374		1,028,374	1,028,374	-	-	-
408	Production - Misc AG Expenses	930	Gen Dmd	10,113,748		10,113,748	10,113,748	-	-	-
409	Transmission - Misc AG Expenses	930	Trans W&S	(30,331)		(30,331)	(15,716)	-	(14,614)	-
410	Distribution - Misc AG Expenses	930	Retail	73,591		73,591	73,591	-	-	-
411	Transmission - Rents-Cust	931	Trans W&S	20,516		20,516	10,631	-	9,885	-
412	Production - Maint of General Plant	935	Gen Dmd	(36,205)		(36,205)	(36,205)	-	-	-
413	Transmission - Maint of General Plant	935	Trans W&S	508,338		508,338	263,406	-	244,932	-
414	Distribution - Maint of General Plant	935	Retail	212,477		212,477	212,477	-	-	-
415	Renewables - A&G (920-935)	920-935	Renewables	229,479		229,479	-	229,479	-	-
416	PV3 - A&G (920 - 935)	920-935	Gen Dmd	0		0	0	-	-	-
417	SJ Unit 4 65MW A&G (920 - 935)	920-935	Excluded	2,039,538		2,039,538	-	-	-	2,039,538
418	Total Administrative & General Expense			102,318,594	-	102,318,594	96,582,616	229,479	3,441,109	2,065,389
419										
420	Total Operations & Maintenance Expense			396,519,014	-	396,519,014	361,893,074	10,163,011	15,269,185	9,193,743
421										
422	Depreciation and Amortization Expense									
423										
424	Production Depreciation and Amortization									
425	Steam Production Plant	403	Gen Dmd	21,040,435		21,040,435	21,040,435	-	-	-
426	San Juan Unit 4 65 MW	403	Excluded	336,847		336,847	-	-	-	336,847
427	Nuclear Production Net Plant - Palo Verde 1 & 2	403	Gen Dmd	11,079,717		11,079,717	11,079,717	-	-	-
428	Nuclear Production Net Plant - Palo Verde 3	403	Gen Dmd	5,176,958		5,176,958	5,176,958	-	-	-
429	PV 1&2 Acquisition Adjustment Amortization	406	Gen Dmd	365,112		365,112	365,112	-	-	-
430	PV 2 Lease Acquisition Adjustment - First Chicago Amortization	406	Gen Dmd	832,053		832,053	832,053	-	-	-
431	PV 2 64.1 MW Lease Acquisition Adjustment Amortization	406	Gen Dmd	-		-	-	-	-	-
432	Other Production Plant - Gas & 40 MW Solar	403	Gen Dmd	14,822,668		14,822,668	14,822,668	-	-	-
433	Other Production Plant - Renewable	403	Renewables	5,790,259		5,790,259	-	5,790,259	-	-
434	Total Production Depreciation and Amortization Expense			59,444,049	-	59,444,049	53,316,943	5,790,259	-	336,847
435										
436	Transmission Depreciation and Amortization									
437	Step-Up Transformers - Excluding PV3	403	Gen Dmd	471,828		471,828	471,828	-	-	-
438	Step-Up Transformers - PV3	403	Gen Dmd	13,034		13,034	13,034	-	-	-
439	Transmission System Plant	403	Trans Dmd	23,178,541		23,178,541	12,010,462	-	11,168,079	-
440	Transmission System Plant - PV 3	403	Trans Dmd	222,492		222,492	115,289	-	107,203	-
441	Transmission System Plant - High Lonesome Mesa	403	Excluded	644,572		644,572	-	-	-	644,572
442	Transmission System Plant - Dedicated Retail	403	Retail	349,768		349,768	349,768	-	-	-
443	Transmission System Plant - Dedicated FERC	403	FERC	-		-	-	-	-	-
444	EIP Acquisition Adjustment Amortization	406	Trans Dmd	585,972		585,972	303,634	-	282,338	-
445	Total Transmission Depreciation and Amortization			25,466,206	-	25,466,206	13,264,014	-	11,557,620	644,572
446										

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
447	Distribution Depreciation and Amortization												
448		Distribution Substations Net Plant - Dedicated FERC			403	FERC	-		-	-	-	-	-
449		Distribution Substations Net Plant - PNM			403	Retail	6,076,367		6,076,367	6,076,367	-	-	-
450		Distribution Substations Net Plant - Renewables			403	Renewables	297,391		297,391	-	297,391	-	-
451		Primary Distribution System Net Plant - PNM			403	Retail	16,674,598		16,674,598	16,674,598	-	-	-
452		Primary Distribution System Net Plant - Renewables			403	Renewables	70,569		70,569	-	70,569	-	-
453		Secondary Distribution System Net Plant - PNM			403	Retail	9,867,554		9,867,554	9,867,554	-	-	-
454		Secondary Distribution System Net Plant - Renewables			403	Renewables	22,159		22,159	-	22,159	-	-
455		Services Net Plant - PNM			403	Retail	4,263,256		4,263,256	4,263,256	-	-	-
456		Meters Net Plant - PNM			403	Retail	2,369,745		2,369,745	2,369,745	-	-	-
457		Private Lighting - 371			403	Retail	221,860		221,860	221,860	-	-	-
458		Street Lighting - 373			403	Retail	702,322		702,322	702,322	-	-	-
459				Total Distribution Depreciation and Amortization			40,565,823	-	40,565,823	40,175,704	390,120	-	-
460													
461	General Depreciation and Amortization												
462		Production General & Intangible Net Plant			403	Gen Dmd	224,951		224,951	224,951	-	-	-
463		PV Unit 3 General & Intangible Net Plant			403	Gen Dmd	70,868		70,868	70,868	-	-	-
464		Renewables General & Intangible Net Plant			403	Renewables	2,377		2,377	-	2,377	-	-
465		Bulk Power Operations			403	Prod Plt	310,402		310,402	307,587	-	-	2,815
466		Energy Management System Facilities			403	Gen/Trans Dmd	1,005,094		1,005,094	680,625	-	324,470	-
467		Other Division Offices/Customer Service			403	Retail	4,213,777		4,213,777	4,213,777	-	-	-
468		Communications - Transmission			403	Trans Dmd	3,078,860		3,078,860	1,595,378	-	1,483,482	-
469		Production Related (Shared Services)			403	Prod W&S	6,451,464		6,451,464	5,898,264	38,272	-	514,928
470		Transmission Related (Shared Services)			403	Trans W&S	1,360,588		1,360,588	705,018	-	655,570	-
471		Distribution/Customer Related (Shared Services)			403	Retail	10,858,676		10,858,676	10,858,676	-	-	-
472				Total General Depreciation and Amortization			27,577,056	-	27,577,056	24,555,144	40,648	2,463,521	517,743
473													
474				Total Depreciation Expense			153,053,135	-	153,053,135	131,311,805	6,221,027	14,021,141	1,499,162
475													
476	General Taxes												
477													
478	Property Taxes												
479		Production Property Taxes											
480		Steam Production Plant			408	Gen Dmd	4,541,627		4,541,627	4,541,627	-	-	-
481		San Juan Unit 4 65 MW			408	Excluded	2,336		2,336	-	-	-	2,336
482		Nuclear Production Net Plant - Palo Verde 1 & 2			408	Gen Dmd	2,696,758		2,696,758	2,696,758	-	-	-
483		Nuclear Production Net Plant - Palo Verde 3			408	Gen Dmd	1,022,367		1,022,367	1,022,367	-	-	-
484		Other Production Plant - Gas & 40 MW Solar			408	Gen Dmd	4,207,044		4,207,044	4,207,044	-	-	-
485		Other Production Plant - Renewable			408	Renewables	1,668,778		1,668,778	-	1,668,778	-	-
486				Total Production Property Taxes			14,138,911	-	14,138,911	12,467,796	1,668,778	-	2,336
487													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
488		Transmission Property Taxes											
489		Step-Up Transformers - Excluding PV3			408	Gen Dmd	66,370		66,370	66,370	-	-	-
490		Step-Up Transformers - PV3			408	Gen Dmd	1,410		1,410	1,410	-	-	-
491		Transmission System Plant			408	Trans Dmd	6,052,543		6,052,543	3,136,256	-	2,916,287	-
492		Transmission System Plant - PV 3			408	Trans Dmd	31,537		31,537	16,341	-	15,195	-
493		Transmission System Plant - High Lonesome Mesa			408	Excluded	223,567		223,567	-	-	-	223,567
494		Transmission System Plant - Dedicated Retail			408	Retail	35,432		35,432	35,432	-	-	-
495		Transmission System Plant - Dedicated FERC			408	FERC	-		-	-	-	-	-
496				Total Transmission Property Taxes			6,410,858	-	6,410,858	3,255,809	-	2,931,482	223,567
497													
498		Distribution Property Taxes											
499		Distribution Substations Net Plant - Dedicated FERC			408	FERC	-		-	-	-	-	-
500		Distribution Substations Net Plant - PNM			408	Retail	1,655,772		1,655,772	1,655,772	-	-	-
501		Distribution Substations Net Plant - Renewables			408	Renewables	11,949		11,949	-	11,949	-	-
502		Primary Distribution System Net Plant - PNM			408	Retail	4,022,110		4,022,110	4,022,110	-	-	-
503		Primary Distribution System Net Plant - Renewables			408	Renewables	26,305		26,305	-	26,305	-	-
504		Secondary Distribution System Net Plant - PNM			408	Retail	2,279,899		2,279,899	2,279,899	-	-	-
505		Secondary Distribution System Net Plant - Renewables			408	Renewables	8,603		8,603	-	8,603	-	-
506		Services Net Plant - PNM			408	Retail	577,370		577,370	577,370	-	-	-
507		Meters Net Plant - PNM			408	Retail	413,917		413,917	413,917	-	-	-
508		Private Lighting - 371			408	Retail	1,354		1,354	1,354	-	-	-
509		Street Lighting - 373			408	Retail	120,610		120,610	120,610	-	-	-
510				Total Distribution Property Taxes			9,117,888	-	9,117,888	9,071,031	46,856	-	-
511													
512		General Property Taxes											
513		Production General & Intangible Net Plant			408	Gen Dmd	52,518		52,518	52,518	-	-	-
514		PV Unit 3 General & Intangible Net Plant			408	Gen Dmd	1,340		1,340	1,340	-	-	-
515		Renewables General & Intangible Net Plant			408	Renewables	342		342	-	342	-	-
516		Bulk Power Operations			408	Prod Plt	32,921		32,921	32,623	-	-	299
517		Energy Management System Facilities			408	Gen/Trans Dmd	55,345		55,345	37,478	-	17,867	-
518		Other Division Offices/Customer Service			408	Retail	486,405		486,405	486,405	-	-	-
519		Communications - Transmission			408	Trans Dmd	261,751		261,751	135,632	-	126,119	-
520		Production Related (Shared Services)			408	Prod W&S	377,511		377,511	345,140	2,239	-	30,131
521		Transmission Related (Shared Services)			408	Trans W&S	79,567		79,567	41,229	-	38,338	-
522		Distribution/Customer Related (Shared Services)			408	Retail	634,153		634,153	634,153	-	-	-
523				Total General Property Taxes			1,981,854	-	1,981,854	1,766,519	2,582	182,324	30,430
524													
525													
526				Total Property Taxes			31,649,511	-	31,649,511	26,561,156	1,718,216	3,113,806	256,333
527													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
528	Payroll Taxes												
529		Production Related			408	Prod W&S	3,340,357		3,340,357	3,053,929	19,816	-	266,613
530		Transmission Related			408	Trans W&S	705,030		705,030	365,326	-	339,703	-
531		Distribution Related			408	Dist W&S	3,353,497		3,353,497	3,353,497	-	-	-
532				Total Payroll Taxes			7,398,884	-	7,398,884	6,772,752	19,816	339,703	266,613
533													
534	Other Taxes												
535		Misc Taxes - Production Related			408	Gen Dmd	4,112		4,112	4,112	-	-	-
536		Misc Taxes - Renewable			408	Renewables	165,528		165,528	-	165,528	-	-
537		Misc Taxes - Transmission Related			408	Trans Dmd	904		904	469	-	436	-
538		Misc Taxes - Distribution Related			408	Retail	9,231		9,231	9,231	-	-	-
539		Regulatory Commission Fees (I&S) PNM			408	Retail	-		-	-	-	-	-
540		Joint Projects Four Corners			408	Gen Dmd	411,082		411,082	411,082	-	-	-
541		Joint Projects PVNGS			408	Gen Dmd	1,993,754		1,993,754	1,993,754	-	-	-
542		Joint Projects Transmission			408	Trans Dmd	-		-	-	-	-	-
543		Native American Taxes - Production			408	Gen Dmd	1,577,615		1,577,615	1,577,615	-	-	-
544		Native American Taxes - Transmission			408	Trans Plt	904,247		904,247	462,141	-	413,337	28,768
545		Native American Taxes - Distribution			408	Dist Plt	152,427		152,427	152,427	-	-	-
546				Total Other Taxes			5,218,901	-	5,218,901	4,610,832	165,528	413,773	28,768
547													
548				Total General Taxes			44,267,297	-	44,267,297	37,944,740	1,903,560	3,867,282	551,714
549													
550	Other Allowable Expenses												
551													
552		Interest on Customer Deposits			431	Retail	241,075		241,075	241,075	-	-	-
553		Amortization Loss on Reacquired Debt			407	Retail	1,665,395		1,665,395	1,665,395	-	-	-
554		Amortization Retail Rate Case Expenses			408	Retail	890,000		890,000	890,000	-	-	-
555		Renewable Grant Amortization			407	Renewables	(1,156,932)		(1,156,932)	-	(1,156,932)	-	-
556		Accretion ARO - Production Related			411	Gen Dmd	7,104,695		7,104,695	7,104,695	-	-	-
557		Accretion ARO - PV 3			411	Gen Dmd	1,300,000		1,300,000	1,300,000	-	-	-
558		Accretion ARO - Distribution Related			411	Retail	105,213		105,213	105,213	-	-	-
559		Amortization of LVGS Regulatory Liability			407	Retail	(204,805)		(204,805)	(204,805)	-	-	-
560		Amortization of LVGS Regulatory Asset			407	Retail	37,216		37,216	37,216	-	-	-
561		Amortization of SJGS Coal Agreement Transaction Costs			407	Gen Dmd	610,550		610,550	610,550	-	-	-
562		Amortization of SJ Units 2 & 3 50% Undepreciated Investment			407	Gen Dmd	6,411,210		6,411,210	6,411,210	-	-	-
563													
564													
565													
566				Total Other Allowable Expenses			17,003,617	-	17,003,617	18,160,549	(1,156,932)	-	-
567													
568													
569				Total Operating Expenses			779,212,793	-	779,212,793	690,296,906	44,881,478	33,157,609	10,876,801
570				(Excl Income & Revenue Related Taxes)									
571													
572		Total Net Original Cost Rate Base					2,773,572,382	-	2,773,572,382	2,381,200,287	88,609,704	279,910,057	23,852,334
573		Weighted Cost of Capital					7.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.51%
574		Return on Rate Base					208,201,016	-	208,201,016	178,747,208	6,651,577	21,011,732	1,790,500
575													

	A B C D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST									
2	Test Period Ending December 31,2018	FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3		Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
576	Federal Income Tax									
577	Return Adjustments									
578	Interest on Long Term Debt		MDC	(68,389,345)	-	(68,389,345)	(58,714,432)	(2,184,893)	(6,901,881)	(588,139)
579										
580	Tax/Book Adjustments									
581										
582	Non-deductible Meals		Total Net Plt	316,465		316,465	281,336	-	31,431	3,698
583	Eastern Interconnect Project		Trans Dmd	-		-	-	-	-	-
584	Palo Verde 1 & 2 Gain Amort Flow Through		FERC	(36,502)		(36,502)	-	-	(36,502)	-
585	Palo Verde 1 & 2 Prudence Audit Flow Through		Retail	-		-	-	-	-	-
586	AFUDC Equity Flow Through		Gen Dmd	(5,367,827)		(5,367,827)	(5,367,827)	-	-	-
587	AFUDC Equity Flow Through - Renewables		Renewables	24,492		24,492	-	24,492	-	-
588	Federal Grant Amortization - Renewables		Renewables	(1,113,432)		(1,113,432)	-	(1,113,432)	-	-
589	Federal Grant Basis Adj - Renewables		Renewables	556,716		556,716	-	556,716	-	-
590	Gain/Loss Flow Through		Retail	69,708		69,708	69,708	-	-	-
591	ACRS Flow Through		Retail	2,212,348		2,212,348	2,212,348	-	-	-
592	San Juan ACRS Flow Through		Retail	342,346		342,346	342,346	-	-	-
593	Four Corners SO2 Reversal Flow Through		Retail	335,533		335,533	335,533	-	-	-
594	SL/GL Depreciation		Retail	(22,053)		(22,053)	(22,053)	-	-	-
595	Amortization of EIP Prepaid Tax Reversal		Trans Dmd	-		-	-	-	-	-
596	Total Tax/Book Adjustments			(2,682,206)	-	(2,682,206)	(2,148,609)	(532,224)	(5,071)	3,698
597										
598	Total Return Adjustments			(71,071,551)	-	(71,071,551)	(60,863,041)	(2,717,117)	(6,906,952)	(584,441)
599										
600	Net Taxable Equity Return			137,129,465	-	137,129,465	117,884,167	3,934,460	14,104,780	1,206,059
601										
602	Federal Tax Adjustments									
603										
604	Net Provision For Deferred Income Tax									
605	Excess Payroll Tax Reversal	410	Total W&S	(24,446)		(24,446)	(22,252)	(67)	(1,161)	(967)
606										
607	ARAM Deferred Tax Reversal	410	Total Net Plt	(127,966)		(127,966)	(113,762)	-	(12,709)	(1,495)
608	Total Provision For Deferred Income Tax			(152,412)	-	(152,412)	(136,013)	(67)	(13,870)	(2,462)
609										
610	Investment Tax Credits									
611	Palo Verde 1&2 Production ITC Amortization	411.4	Gen Dmd	(106,438)		(106,438)	(106,438)	-	-	-
612	Generation ITC Amortization	411.4	Gen Dmd	(69,794)		(69,794)	(69,794)	-	-	-
613	Renewables ITC Amortization	411.4	Renewables	(10,638)		(10,638)	-	(10,638)	-	-
614	PV Valley Transmission ITC Amortization	411.4	Trans Dmd	-		-	-	-	-	-
615	Research and Development & Other Credits	410	PV	(443,750)		(443,750)	(443,750)	-	-	-
616	All Other ITC Amortization	411.4	Total Net Plt	-		-	-	-	-	-
617	Total Investment Tax Credit Amortization & Other Credits			(630,620)	-	(630,620)	(619,982)	(10,638)	-	-

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
618													
619				Total Federal Tax Adjustments			(783,032)	-	(783,032)	(755,995)	(10,705)	(13,870)	(2,462)
620													
621				Adjusted Equity Return			136,346,432	-	136,346,432	117,128,171	3,923,755	14,090,910	1,203,597
622				Federal Tax Factor (0.35/(1-0.35))			53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%	53.8462%
623				Federal Income Tax			73,417,310	-	73,417,310	63,069,015	2,112,791	7,587,413	648,090
624				Add:									
625				Total Provision For Deferred Income Tax			(152,412)	-	(152,412)	(136,013)	(67)	(13,870)	(2,462)
626				EIP Amortization					-	-	-	-	-
627				Total Investment Tax Credit Amortization & Other Credits			(630,620)	-	(630,620)	(619,982)	(10,638)	0	0
628													
629				Net Allowable Federal Income Tax			72,634,277	-	72,634,277	62,313,020	2,102,086	7,573,543	645,628
630													
631	State Income Tax												
632													
633		Return on Rate Base					208,201,016	-	208,201,016	178,747,208	6,651,577	21,011,732	1,790,500
634		Less: Return Adjustments											
635		Interest on Long Term Debt					(68,389,345)	-	(68,389,345)	(58,714,432)	(2,184,893)	(6,901,881)	(588,139)
636		Tax/Book Adjustments					(2,682,206)	-	(2,682,206)	(2,148,609)	(532,224)	(5,071)	3,698
637		Add: Net Allowable F I T					72,634,277	-	72,634,277	62,313,020	2,102,086	7,573,543	645,628
638													
639				New Mexico NOL Valuation Allowance	410	Total Net Plt	1,959,132	-	1,959,132	1,741,662	-	194,578	22,893
640				Amortization of Excess Deferred Taxes		Total Net Plt	(1,291,158)	-	(1,291,158)	(1,147,835)	-	(128,236)	(15,087)
641		State Taxable Income					210,431,716	-	210,431,716	180,791,013	6,036,546	21,744,664	1,859,492
642		State Tax Factor					5.90%	5.90%	5.90%	5.90%	5.90%	5.90%	5.90%
643				State Income Tax			12,415,471	-	12,415,471	10,666,670	356,156	1,282,935	109,710
644		Add:		22 MW, Battery project and PV Farm PTC	409	Renewables	(966,600)		(966,600)	-	(966,600)	-	-
645		Add:		New Mexico NOL Valuation Allowance	410	Total Net Plt	1,959,132		1,959,132	1,741,662	-	194,578	22,893
646		Add:		Amortization of Excess Deferred Taxes		Total Net Plt	(1,291,158)		(1,291,158)	(1,147,835)	-	(128,236)	(15,087)
647				Net Allowable State Income Tax			12,116,845	-	12,116,845	11,260,496	(610,444)	1,349,277	117,515
648													
649													
650				Return on Rate Base			208,201,016	-	208,201,016	178,747,208	6,651,577	21,011,732	1,790,500
651													
652				Total Operating Expenses			779,212,793	-	779,212,793	690,296,906	44,881,478	33,157,609	10,876,801
653				(Excluding Income & Rev Related Taxes)									
654													
655				Net Allowable Federal Income Tax			72,634,277	-	72,634,277	62,313,020	2,102,086	7,573,543	645,628
656													
657				Net Allowable State Income Tax			12,116,845	-	12,116,845	11,260,496	(610,444)	1,349,277	117,515
658													
659													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
660	Revenue Credits:												
661		Sale of SO2 Credits			411	FERC	39		39	-	-	39	-
662		Rent For Electric Property Transmission			454	Trans Plt	(451,278)		(451,278)	(230,639)	-	(206,282)	(14,357)
663		Rent for Electric Property - Distribution			454	Retail	(3,768,572)		(3,768,572)	(3,768,572)	-	-	-
664		Late Payment Charges			451	Retail	(971,546)		(971,546)	(971,546)	-	-	-
665		Misc Service Charge Revenue			451	Retail	(1,572,690)		(1,572,690)	(1,572,690)	-	-	-
666		Other Retail Revenue - Transmission			456	Trans Dmd	(70,108)		(70,108)	(36,328)	-	(33,780)	-
667		Other Retail Revenue - Distribution			456	Retail	(303,716)		(303,716)	(303,716)	-	-	-
668		Generation Ancillary Services Credit Sch 2-5			456100	Gen Dmd	(1,631,518)		(1,631,518)	(1,631,518)	-	-	-
669		Real Power Losses (Financial)			456100	Gen Dmd	(304,920)		(304,920)	(304,920)	-	-	-
670		Transmission redispatch contract revenues			456100	Gen Dmd	(191,836)		(191,836)	(191,836)	-	-	-
671		Ancillary Services-Sch 1 and Non-Firm			456100	Trans Dmd	(954,076)		(954,076)	(494,375)	-	(459,701)	-
672		Short Term Firm Transmission			456100	Trans Dmd wo NITS	(430,080)		(430,080)	(331,696)	-	(98,384)	-
673		Ancillary Services-Sch 1 ST PTP and Other			456100	Trans Dmd	(270,550)		(270,550)	(140,191)	-	(130,358)	-
674		Economy Service Customer Revenue Credits				Retail	(4,627,355)		(4,627,355)	(4,627,355)	-	-	-
675		Co 7 Revenue				G&I Plt	(120,175)		(120,175)	(107,206)	-	(11,066)	(1,903)
676													
677													
678													
679													
680				Total Revenue Credits			(15,668,379)	-	(15,668,379)	(14,712,587)	-	(939,532)	(16,260)
681													
682				Total Revenue Requirements Before Revenue Tax			1,056,496,552	-	1,056,496,552	927,905,042	53,024,697	62,152,628	13,414,184
683													
684				Revenue Tax Factor (I&S Fee) '(.00506/(1-.00506))			0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%	0.508573%
685				Revenue Tax			5,373,056	-	5,373,056	4,719,075	269,669	316,091	68,221
686													
687	NON-FUEL REVENUE REQUIREMENT						893,499,878	-	893,499,878	791,637,379	25,543,555	62,468,720	13,850,223
688	FUEL REVENUE REQUIREMENT						168,369,730	-	168,369,730	140,986,737	27,750,811	-	(367,818)
689	**TOTAL REVENUE REQUIREMENT**						**1,061,869,608**	**-**	**1,061,869,608**	**932,624,117**	**53,294,366**	**62,468,720**	**13,482,405**

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
690													
691	Weighted Cost of Capital												
692		Long Term Debt					2.47%	2.47%	2.47%	2.47%	2.47%	2.47%	2.47%
693		Preferred Stock					0.02%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
694		Common Stock					5.02%	5.02%	5.02%	5.02%	5.02%	5.02%	5.02%
695				Total Weighted Cost of Capital			7.51%	7.51%	7.51%	7.51%	7.51%	7.51%	7.51%
696													
697				Federal Income Tax Rate			35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%
698													
699				Effective State Income Tax Rate			5.57%	5.57%	5.57%	5.57%	5.57%	5.57%	5.57%
700													
701				I&S Fee Rate			0.506%	0.506%	0.506%	0.506%	0.506%	0.506%	0.506%
702													
703	Key Allocators												
704													
705				Sales (MWh)					10,509,660	10,070,698	-	-	438,961
706				Allocator		Sales			100.00%	95.82%	0.00%	0.00%	4.18%
707													
708	Wage and Salary Ratios					Ratios							
709				Production Other Prod O&M		49.45%			29,112,963	26,616,587	172,705	0	2,323,671
710						Prod W&S			100.00%	91.43%	0.59%	0.00%	7.98%
711				Transmission Trans O&M		9.18%			5,403,664	2,800,025	0	2,603,639	0
712						Trans W&S			100.00%	51.82%	0.00%	48.18%	0.00%
713				Distribution Dist O&M		19.85%			11,683,427	11,683,427	0	0	0
714						Dist W&S			100.00%	100.00%	0.00%	0.00%	0.00%
715													
716				Total PTD		78.48%			46,200,053	41,100,039	172,705	2,603,639	2,323,671
717				Allocator					100.00%	88.96%	0.37%	5.64%	5.03%
718													
719				Customer Accounting CA O&M		13.86%			8,156,795	8,156,795	-	-	-
720				Cust Service & Information CS&I O&M		1.09%			640,664	640,664	-	-	-
721				Sales Sales O&M		6.58%			3,874,232	3,712,415	-	-	161,817
722				Total PTDCAS		100.00%			58,871,744	53,609,913	172,705	2,603,639	2,485,488
723				Allocator		PTDCAS			100.00%	91.06%	0.29%	4.42%	4.22%
724													
725				Administrative and General					4,272,648	3,866,275	-	394,379	11,994
726													
727				Total Wages and Salaries					63,144,393	57,476,188	172,705	2,998,018	2,497,482
728				Allocator		Total W&S			100.00%	91.02%	0.27%	4.75%	3.96%
729													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
730	Net Plant In Service Ratios												
731													
732				Total Production Plant					1,427,503,319	1,414,557,486	-	-	12,945,833
733				Allocator		Prod Plt			100.00%	99.09%	0.00%	0.00%	0.91%
734													
735				Total Transmission Plant					629,392,056	321,669,068	-	287,699,235	20,023,753
736				Allocator		Trans Plt			100.00%	51.11%	0.00%	45.71%	3.18%
737													
738				Total Distribution Plant					827,035,497	827,035,497	-	-	-
739				Allocator		Dist Plt			100.00%	100.00%	0.00%	0.00%	0.00%
740													
741				Total General & Intangible Plant					175,723,181	156,759,889	-	16,180,504	2,782,787
742				Allocator		G&I Plt			100.00%	89.21%	0.00%	9.21%	1.58%
743													
744				Total Net Plant					3,059,654,053	2,720,021,940	-	303,879,739	35,752,373
745				Allocator		Total Net Plt			100.00%	88.90%	0.00%	9.93%	1.17%
746													
747													
748													
749													
750													
751													
752													
753													
754													
755													
756													
757				Generation Demand allocator					1,451	1,451	-	-	-
758						Gen Dmd			100.00%	100.00%	0.00%	0.00%	0.00%
759													
760				Energy allocator					8,827,904	8,827,904	-	-	-
761						Energy			100.00%	100.00%	0.00%	0.00%	0.00%
762													
763				Generation and Transmission Demand		Gen/Trans Dmd			100.00%	67.72%	0.00%	32.28%	0.00%
764													
765									2,903	1,504	-	1,399	-
766				Transmission Demand		Trans Dmd			100.00%	51.82%	0.00%	48.18%	0.00%
767													
768									1,946	1,501	-	445	-
769				Transmission Demand without Network		Trans Dmd wo NITS			100.00%	77.12%	0.00%	22.88%	0.00%
770													
771													

	A	B	C	D	E	F	G	H	I	J	K	R	S
1	PNM Exhibit HEM - 3 COS TEST												
2	Test Period Ending December 31,2018				FERC		Test Period	Other Manual	Test Period (with manual adjustments)	PNM Retail		Total FERC	Excluded
3					Account	Allocator	PNM	Adjustments	PNM	Jurisdiction	Renewables	Jurisdiction	
772	Other Allocators												
773													
774				Excluded Costs		Excluded			100.00%	0.00%	0.00%	0.00%	100.00%
775													
776				Direct Assignment to NEC		NEC			100.00%	0.00%	0.00%	100.00%	0.00%
777													
778				Allocation to FERC Wholesale Customers		FERC			100.00%	0.00%	0.00%	100.00%	0.00%
779													
780				Direct Assignment to FERC Transmission		FERC Transmission			100.00%	0.00%	0.00%	100.00%	0.00%
781													
782				Direct Assignment to Retail		Retail			100.00%	100.00%	0.00%	0.00%	0.00%
783													
784				Allocation to Palo Verde		PV			100.00%	100.00%	0.00%	0.00%	0.00%
785													
786				Direct Assignment to Renewables		Renewables			100.00%	0.00%	100.00%	0.00%	0.00%
787													
788													
789													

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

WP COS Change Log

Is contained in the following 1 page

	A	B	C	D
1	**PNM Exhibit HEM-3 - Test Period Change Log**			
2				
3	**As Filed**		PNM Retail	
4			Jurisdiction	
5	NON-FUEL REVENUE REQUIREMENT		791,637,379	
6	FUEL REVENUE REQUIREMENT		140,986,737	
7	**TOTAL REVENUE REQUIREMENT**		**932,624,117**	
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				932,624,117
19		Test Period Check Figure		-

PNM EXHIBIT HEM-3 COS CHANGE LOG
Page 1 of 1

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

Schedule A-5 Base

Is contained in the following 1 page

	A	B	C	D	E	F
1	**Public Service Company of New Mexico**					
2	**Schedule A-5**					
3	**Summary of Total Capitalization and the Weighted Average Cost of Capital**					
4	**Base Period Ending 6/30/2016**					
5						
6	**Line No.**	**Capital Component**	**Total Capitalization Base Period**	**Percentage of Total Capitalization**	**Capital Component Cost**	**Weighted Average Cost**
7						
8						
9	1	Long Term Debt	1,465,870	52.11%	5.88%	3.06%
10						
11	2	Preferred Stock	11,529	0.41%	4.62%	0.02%
12						
13	3	Common Equity	1,335,555	47.48%	9.575%	4.55%
14						
15	4	Total	2,812,954	100.00%		7.63%
16						
17					Tax Rate	39.11%
18						
19						Tax gross up
20					Debt	3.06%
21					Preferred	0.03%
22					Common	7.47%
23					Total	10.56%
24						
25						
26	Note: Please refer to Rule 530, G-Series Schedules for supporting calculations and inputs into the					
27	Weighted Average Cost of Capital calculations.					
28	This schedule is sponsored by PNM Witness Monroy					

PNM EXHIBIT HEM-3 SCHEDULE A-5 BASE
Page 1 of 1

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

Schedule A-5 Test

Is contained in the following 1 page

	A	B	C	D	E	F
1	**Public Service Company of New Mexico**					
2	**Schedule A-5**					
3	**Summary of Total Capitalization and the Weighted Average Cost of Capital**					
4	**Test Period Ending 12/31/2018**					
5						
6	**Line No.**	**Capital Component**	**Total Capitalization Test Period**	**Percentage of Total Capitalization**	**Capital Component Cost**	**Weighted Average Cost**
7						
8						
9	1	Long Term Debt	1,465,870	50.00%	4.93%	2.47%
10						
11	2	Preferred Stock	11,529	0.39%	4.62%	0.02%
12						
13	3	Common Equity	1,454,341	49.61%	10.125%	5.02%
14						
15	4	Total	2,931,739	100.00%		7.51%
16						
17					Tax Rate	38.62%
18						
19						Tax gross up
20					Debt	2.47%
21					Preferred	0.03%
22					Common	8.18%
23					Total	10.68%
24						
25						
26	Note: Please refer to Rule 530, G-Series Schedules for supporting calculations and inputs into the					
27	Weighted Average Cost of Capital calculations.					
28	This schedule is sponsored by PNM Witness Monroy					

PNM EXHIBIT HEM-3 SCHEDULE A-5 TEST
Page 1 of 1

PNM Exhibit HEM-3: Revenue Requirement Studies, Base Period and Test Period

Table HEM-1

Is contained in the following 1 page

	A	B	C	D	E	F	G	H
1	**Table HEM-1**							
2								
3								
4	Line No.	Description		**PNM Retail**				
5	1	Non-Fuel Revenue		$ 692,387,505				
6	2	Fuel Revenue		140,986,737				
7	3	**Total Revenues at existing rates**		$ 833,374,242				
8	4							
9	5							
10	6	**Revenue Requirement Requested**						
11	7	Non-Fuel Revenue Requirement		$ 791,637,379				
12	8	Fuel Revenue Requirement		140,986,737				
13	9	**Total Test Period Revenues per Revenue Requirement**		$ 932,624,117				
14	10							
15	11	**Deficiency**						
16	12	Non-Fuel Deficiency - As Requested		$ 99,249,874				
17	13	Fuel Deficiency - As Requested		-				
18	14	**Rate Deficiency - As Requested**		**$ 99,249,874**				
19								
20	Note:	Please refer to the testimony of PNM Witness Chan for total revenues at existing rates.						
21								
22								
23								
24								