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

YANNICK GAGNE

December 7, 2016

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

I. INTRODUCTION AND PURPOSE 1

II. BACKGROUND 2

III. QUALIFIED PENSION PLAN 7

IV. NON-QUALIFIED RETIREMENT PLAN 15

V. PBOP (RETIREE MEDICAL) PLAN 17

VI. ANNUITIZATION OF ELECTRIC PORTION OF THE PENSION PLAN 19

PNM EXHIBIT YG-1	Résumé of Yannick Gagne
PNM EXHIBIT YG-2	Estimated FY2017 and FY 2018 Pension and Retiree Medical Expense Memo
PNM EXHIBIT YG-3	Plan Termination Analysis – Electric Portion

AFFIDAVIT

DIRECT TESTIMONY OF
YANNICK GAGNE
NMPRC CASE NO. 16-00276-UT

I. INTRODUCTION AND PURPOSE

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

A. My name is Yannick Gagne. My business address is 2010 Main Street, Suite 1050, Irvine, California, 92614. I am employed by Willis Towers Watson as a Senior Consultant and Actuary. Willis Towers Watson is a leading provider of actuarial and retirement consulting services. We serve as the actuary for over half of the U.S. Fortune 1000 Utilities, and have provided rate case support and/or testimony in most jurisdictions. We have provided support and testified in several of Public Service Company of New Mexico's ("PNM" or "Company") rate cases, including direct testimony by my colleague Gene Wickes in PNM's last rate case proceeding (Case No. 15-0061-UT). Personally, I have provided actuarial and consulting services for more than 20 years, working for more than ten different regulated utilities over the years. During my career, I provided rate case support for filings in New Mexico, California, Oregon, Washington, and Hawaii. A copy of my qualifications is included in PNM Exhibit YG – 1.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony in this proceeding is to provide background and additional support related to PNM's cost of service requests related to pension benefits ("Pensions") and retiree medical benefits (also referred to as Post-Employment Benefits Other than Pensions, or "PBOP"). Specifically, I provide background on the calculations of the projected Pension and PBOP expenses for the Test Period, which are included in PNM's cost of service request. I also provide support for continued inclusion of the prepaid pension asset in rate base. In addition, in its Final Order in Case No. 15-00261-UT, the New Mexico Public Regulation Commission ("Commission") directed that "PNM should address whether annuitization of the electric portion of the pension plan to mitigate future costs and risks is appropriate in its next rate case". I will address this issue in my testimony.

II. BACKGROUND

Q. WHAT PENSION AND PBOP PLANS ARE COVERED IN YOUR TESTIMONY?

A. My testimony covers three plans sponsored by the Company. There are two defined benefit plans and one retiree medical plan. These are:

- The PNM Resources, Inc. Employee's Retirement Plan ("Qualified Pension Plan"), a qualified defined benefit plan as defined by the Employee Retirement Security Act ("ERISA");
- The PNM Resources, Inc. Non-Qualified Retirement Plan ("Non-qualified Retirement Plan"), a non-qualified defined benefit plan as defined by ERISA; and
- The PNM Resources, Inc. Post-Retirement Healthcare Plan ("PBOP" or "Retiree Medical"), which provides for medical and dental coverage for certain retirees.

Q. HAS THE COMPANY BEEN ALLOWED TO RECOVER COSTS ASSOCIATED WITH ITS PENSION AND PBOP PLANS IN PRIOR PROCEEDINGS?

A. Yes. The amounts in rates for the Company in prior proceedings have included the following:

1) An amount equal to the annual net periodic benefit cost ("expense") calculated under applicable accounting standards (Accounting Standards Codification ("ASC") 715-30 for pensions and ASC 715-60 for PBOP) associated with the Qualified Pension Plan, the Non-qualified Retirement Plan and the PBOP; and
2) For Pensions, a return on amounts contributed by shareholders to the pension plan in excess of cumulative annual pension expenses via inclusion of the prepaid pension asset in rate base.

Q. PLEASE DESCRIBE THE ACCOUNTING TREATMENT FOR PNM'S PENSION PLANS.

A. PNM accounts for its Pensions in accordance with ASC 715-30. ASC 715-30 requires the unfunded projected benefit obligation (i.e., the difference between the value of the pension plan assets and the projected benefit obligation) to be recognized as a liability on the balance sheet. Prior service costs and unrealized actuarial gains or losses are recorded to Accumulated Other Comprehensive Income and systematically recognized as an expense over subsequent periods, which PNM recovers through pension expense.

FERC Docket No. AI07-1-000 provides further guidance for accounting of defined benefit postretirement plans which allows entities to recognize regulatory assets for amounts otherwise chargeable to Accumulated Other Comprehensive Income under ASC 715-30 to the extent that they are recoverable in rates in future periods. Per the Final Order in NMPRC Case No. 08-00078-UT ("Gas Asset Sale"), 58% of these costs are attributable to the electric portion of the utility and are recorded as a regulatory asset in accordance with FERC Docket No. AI07-1-000 and ASC 980-25. The remaining 42% of these costs are considered related to the divested gas portion of the utility and thus are recorded in Accumulated Other Comprehensive Income.

Q. HOW ARE THE NET PERIODIC BENEFIT COSTS CALCULATED?

A. Under ASC 715, periodic benefit costs are made up of several components including: (1) the value of benefits that employees will earn during the current year (Service Cost), (2) increases in the present value of the benefits that plan participants have earned in previous years due to interest (Interest Cost), (3) a reduction for investment earnings on plan assets that are expected to be earned during the year (Expected Return on Assets), (4) recognition of costs (or income) from experience that differs from the assumptions (e.g., investment earnings different than assumed) (amortization of Unrecognized Gains and Losses), and (5) recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed (amortization of Unrecognized Prior Service Cost).

Q. WHAT IS THE BASIS FOR DETERMINING THE AMOUNT OF NET PERIODIC BENEFIT COSTS TO BE INCLUDED IN THE REVENUE REQUIREMENTS RELATED TO THE PENSION AND PBOP PLANS IN THIS RATE CASE?

A. The amount included in revenue requirements for Pensions and PBOP is equal to the projected net periodic benefit costs for the Test Year. Willis Towers Watson has prepared those projections and the results are presented below. To calculate the projected Test Year net periodic benefit costs, we first projected assets, liabilities, benefit payments, and PNM contributions for each of the three plans. We then used this information to calculate the projected net periodic benefit cost for the Test Year. Two key economic assumptions are needed for this projection: discount rate and expected return on asset.

Projections were based on the following:

- Most recent completed actuarial valuations
- Asset values as of June 30, 2016 (the most recent data available at the time projections were performed)
- For PBOP, preliminary 2017 medical premiums
- Discount rate and expected return on asset assumptions based on current economic environment at June 30, 2016

Please see PNM Exhibit YG-2 for the results of this analysis. The results for each plan are presented in each plan's section below.

Q. WHAT IS THE BASIS FOR DETERMINING THE DISCOUNT RATE ASSUMPTION?

A. The discount rate is the rate used to discount projected benefit payments under the plan to today. Discount rates were selected using the same methodology used in prior rate cases, which is the same methodology used by the Company for its corporate financial statements. The discount rate assumption for each plan is selected by creating a hypothetical portfolio of high quality bonds in which cash flows (coupons and maturities) match the projected benefit payments from the plan. The effective interest rate of the resulting portfolio (interest rate at which discounted coupons and maturities equal the market price of the underlying bonds) is the discount rate. While several different methodologies may be acceptable (such as applying the plan's projected benefit payments to a yield curve), accounting standards require that the discount rate methodology be applied consistently year-after-year, unless the plan's circumstances have materially changed so that the methodology no longer represents management's best estimate.

Q. WHAT IS THE BASIS FOR DETERMINING THE EXPECTED RETURN ON ASSET ASSUMPTION?

A. The expected return on asset assumption is used in the net periodic benefit cost calculation. The net periodic cost is reduced by the investment returns expected to be generated by the plan assets, calculated based on this assumption. The expected return on asset assumption is based on the same methodology used in prior rate cases, which is the same methodology used by the Company for its corporate financial statements. It is made up of two components:

a) An expected return resulting from plan assets invested passively in the various asset classes (similar to index funds, for example a fund that matches returns of the S&P 500), based on the plan's target asset allocation, plus

b) An additional return resulting from active management of the assets (also known as manager alpha). This amount is determined based on historical performance for the various PNM plans.

III. QUALIFIED PENSION PLAN

Q. WERE ANY ADJUSTMENTS MADE TO REFLECT THAT IN CASE NO. 15-00261-UT, THE COMMISSION ALLOWED PNM TO PURSUE ANNUITIZATION OF 42% OF THE PENSION OBLIGATION RELATED TO DIVESTED GAS OPERATIONS ("GAS LIABILITY")?

A. Requests in this proceeding continue to be based on the 58% / 42% allocation approved by the Commission in Case 08-00078-UT. Due in part to the timing of the Final Oder in Case No. 15-00261-UT, PNM has not yet been able to fully implement the annuitization of the Gas Liability. The net periodic benefit cost for the PNM Pension Plan is calculated for the total plan, and 58% of the resulting amount is allocated to electric operations. Upon the eventual annuitization of the Gas Liability, the PNM Pension Plan's assets and liabilities will be reduced by 42%. The pro-rata allocation currently used is an appropriate estimate of what the remaining pension expense will be after the annuitization has taken place.

Q. HOW ARE CASH CONTRIBUTIONS TO THE PENSION PLAN DETERMINED?

A. The funding of a pension plan is determined based upon prudent business practices within the following legal constraints of ERISA, as modified by the Pension Protection Act ("PPA"), and the Internal Revenue Code ("IRC"):

- The minimum required annual contribution,
- The maximum contribution which can be deducted for tax purposes, and
- The fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

The minimum and maximum funding rules set forth under ERISA, the PPA, and the IRC use accrual methodologies, but they are different from the methodology used under ASC715-30 which is an accounting standard. Over the long run, the cumulative employer cash contributions made to a plan and the cumulative annual pension cost amounts should be equal. But in the short and intermediate term, there can be significant differences.

It is important to note that the minimum required contribution is the minimum standard by which plans must contribute to avoid violating the law. The minimum required contribution is not an amount that sufficiently funds the plan to the level needed to settle all plan obligations. In no way is such a minimum contribution to be interpreted as the appropriate or prudent funding policy. In fact, many plan sponsors contribute amounts in excess of the minimum required contribution.

Q. ARE ANY COMPANY CASH CONTRIBUTIONS FORECASTED BETWEEN JANUARY 1, 2017, AND DECEMBER 31, 2018?

A. No. While at December 31, 2015 (the last formal measurement date for PNM's financial statements), the pension plan shows an unfunded Projected Benefit Obligation ("PBO") of about $40 million, no contributions are projected though the end of 2018 (the Test Year). This is the result of a number of changes to minimum funding rules enacted by Congress over the past few years, which resulted in a reduction in minimum required contributions for qualified pension plans. As a result, the current funding balances are projected to be sufficient to satisfy all minimum funding requirements through the Test Year and beyond.

Q. WHAT IS THE PROJECTED NET PERIODIC BENEFIT COST FOR THE QUALIFIED PENSION PLAN FOR THE TEST YEAR?

A. The net periodic benefit cost for the qualified pension plan is projected to be $8,267,138 in the Test Year (2018). PNM Exhibit YG-2 shows this amount, and for comparison purposes, the projected amount for 2017. These amounts are before the 58% adjustment described above.

Q. ARE THESE COSTS NECESSARY AND REASONABLE COSTS FOR PROVIDING PENSION BENEFITS TO EMPLOYEES?

A. Yes. In a defined benefit plan, the Company promises to make pension payments for the employees' lifetime. Therefore, the actual cost for providing those benefits will not be known until all promised payments have been made. The net periodic benefit cost provides an objective and systematic way to recognize those costs over time. These costs are therefore necessary to fulfill the benefits promised to employees and former employees.

Q. IS PNM ALSO SEEKING TO INCLUDE IN RATE BASE AN AMOUNT RELATED TO ITS PREPAID PENSION ASSET?

A. Yes. As addressed by PNM Witness Monroy, PNM seeks to include an amount in rate base to reflect the prepaid pension asset. The prepaid pension asset represents the amounts contributed to the pension plan in excess of the amounts recovered in rates (the expense). In its Final Order in Case No. 15-000261-UT, the Commission reaffirmed that PNM is allowed to receive a return on the prepaid pension asset.

It is important to point out that the full prepaid asset is used to satisfy the obligations of the plan; as such, technically PNM could ask to include the full prepaid pension asset in rate base. However, PNM limits the amount to be included in rate base to offset the reduction in pension expense resulting from those additional contributions.

Q. PLEASE EXPLAIN HOW ADDITIONAL CONTRIBUTIONS AFFECT PENSION EXPENSE.

A. As mentioned previously, one of the components of pension expense is the Expected Return on Asset ("EROA"). The pension expense is *reduced* by the investment returns expected to be earned on the plan assets. Therefore, each dollar of additional contribution will reduce the pension expense – and consequently the amount charged to ratepayers – by an amount equal to the expected return on such additional contributions. At December 31, 2017, projected assets used in calculating the projected Test Year expense include prepaid assets (or additional contributions) of $289.3 million. If the additional contributions were not made, the pension expense for the Test Year would be $17.4 million higher using the 6.0% expected return on assets assumption ($289.3 million x 6.0%). Including the adjusted prepaid asset in rate base simply neutralizes the impact of accelerated funding so that the total cost to ratepayers is the same (no more, no less) than it would have been absent the additional contributions.

Q. ARE THERE BENEFITS TO ACCELERATED FUNDING?

A. Yes. Once amounts are contributed to the pension trusts, they are invested and earn returns. Each dollar of return reduces future contributions that will be needed to satisfy plan obligations. In addition to the returns generated on invested assets, additional funding reduces the amount of variable premium the plan must pay to the Pension Benefits Guarantee Corporation ("PBGC"). Since 2008, the PNM pension plan has been subject to variable premiums every year.

Q. WHAT IS THE PBGC?

A. The PBGC is a federal agency established by Congress as part of ERISA to protect pension benefits under private sector defined benefit pension plans. If a pension plan is terminated without sufficient funds to pay all benefits, the PBGC will pay employees the benefits promised under the plan, up to certain limits set by law. The funding for the PBGC comes from premiums charged to pension plans as well as returns on assets held by the PBGC.

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

A. The PBGC charges two types of premiums: (1) a per capita premium charged to all single employer defined benefit plans, and (2) a variable premium charged to underfunded plans.

Q. HOW MUCH IS THE PBGC VARIABLE PREMIUM?

A. Through 2013, the PBGC variable premium was 0.9% of any unfunded liability. For this purpose, the liability is measured based on assumptions set by the PBGC. This liability measure is often different from the PBO used for pension cost purposes under ASC 715 and is much higher than the funding liability used for minimum required contribution purposes.

Q. WHAT IS THE IMPACT OF THE PREPAID PENSION ASSET ON THE PBGC VARIABLE PREMIUM FOR THE PNM PENSION PLAN?

A. The plan has been underfunded on a PBGC basis, and the prepaid asset reduced the PBGC deficit dollar for dollar. This means that the prepaid pension asset effectively generated an additional 0.9% return (via cost reduction) above any investment returns.

Q. WHAT HAPPENED TO THE AMOUNT OF VARIABLE PREMIUM RATES AFTER 2013?

A. Effective in 2014, Congress passed a law increasing the variable premium rate. The new law increased the 0.9% of unfunded liability premium to 1.4% in 2014, and 2.4% for 2015. As part of the 2015 Budget Act, Congress further increased variable premium rates to 3.0% for 2016 increasing annually to a projected 4.1% of unfunded liabilities by 2019 (subject to per participant maximums). These variable premium increases significantly add to the benefit of accelerated contributions.

Q. IS IT YOUR UNDERSTANDING THAT THE COMMISSION HAS ALLOWED UTILITIES TO RECOVER AND EARN A RETURN ON THEIR PREPAID PENSION ASSETS?

A. Yes. Including the prepaid pension asset in rate base is consistent with past treatment approved by the Commission in previous cases, including the 2007, 2008, 2010, and 2015 PNM Rate Cases. In addition, this issue has been litigated before the New Mexico Supreme Court (SPS's 2012 Rate Case No. 12-00250-UT), and the Court upheld the decision to include prepaid pension asset in rate base. Given the strong precedents and the validation from the New Mexico Supreme Court, there should be no question about the appropriateness of including the prepaid pension asset in rate base.

Q. IF RECOVERY OF THE COSTS OF THE PREPAID PENSION ASSET WERE DISALLOWED, WHAT OFFSETTING ADJUSTMENTS WOULD HAVE TO BE MADE TO PNM'S COST OF SERVICE?

A. Any amount disallowed from rate base signifies that the Commission considers that amount as being one to be borne by and to belong to shareholders. As a shareholder asset, this amount therefore will be available to satisfy shareholders' obligations. As a result, the net periodic benefit cost included in the cost of service must be increased by the expected return on the amount being disallowed. In addition, the Accumulated Deferred Income Taxes balance associated with the prepaid pension asset (rate base reduction) must also be adjusted.

IV. NON-QUALIFIED RETIREMENT PLAN

Q. WHAT IS THE NON-QUALIFIED RETIREMENT PLAN?

A. The Non-qualified Retirement Plan is an unfunded arrangement that provides benefits to certain executives. It provides for benefits that cannot otherwise be provided under the qualified pension plan because of IRS limitations on both the amount of compensation that can be taken into account and the overall benefit that can be provided.

Q. HOW ARE CONTRIBUTIONS TO THE NON-QUALIFIED RETIREMENT PLAN DETERMINED?

A. The Non-qualified Retirement Plan is unfunded; PNM contributes an amount equal to the benefits as these benefits are paid from the plan.

Q. WHAT ARE PROJECTED CONTRIBUTIONS FOR THE 2016 – 2018 PERIOD?

A. Projected contributions to the Non-qualified Retirement Plan (equal to projected benefit payments) are as follows:

2016: $1,517,383

2017: $1,498,607

2018: $1,477,222

Q. WHAT IS THE PROJECTED NET PERIODIC BENEFIT COST FOR THE NON-QUALIFIED RETIREMENT PLAN FOR THE TEST YEAR?

A. The net periodic benefit cost for the Non-qualified Retirement Plan is projected to be $1,031,783 in the Test Year (2018). PNM Exhibit YG-2 shows this amount, and for comparison purposes, the projected amount for 2017.

Q. ARE THESE COSTS NECESSARY AND REASONABLE COSTS FOR PROVIDING NON-QUALIFIED PENSION BENEFITS?

A. Yes. Like for the qualified pension plan, the Company promises to make pension payments for the employees' lifetime. The actual cost for providing those benefits will not be known until all promised payments have been made. The net periodic benefit cost provides an objective and systematic way to recognize those costs over time. These costs are therefore necessary to fulfill the benefits promised to employees and former employees.

Q. PNM IS PROPOSING A RATE BASE ADJUSTMENT FOR THE NON-QUALIFIED RETIREMENT PLAN. PLEASE EXPLAIN.

A. Because the Non-qualified Retirement Plan is unfunded, PNM cannot contribute amounts in excess of the benefit payments directly made to plan participants. As a result, it is not always possible for PNM to contribute the entire amount recovered. Because of this, contributions (benefit payments) made to the Non-qualified Retirement Plan have been less than the amounts recovered. This is the opposite of the prepaid pension asset for the Qualified Pension Plan. In order to apply a consistent treatment, because the excess contribution balance adds to the rate base, under-contributions are subtracted from rate base.

V. PBOP (RETIREE MEDICAL) PLAN

Q. WHAT IS THE PROJECTED NET PERIODIC BENEFIT COST FOR THE PBOP PLAN FOR THE TEST YEAR?

A. The net periodic benefit cost for the PBOP plan is projected to be $2,093,472 in the Test Year (2018). PNM Exhibit YG-2 shows this amount, and for comparison purposes, the projected amount for 2017.

Q. WHAT CONTRIBUTED TO THE SIGNIFICANT INCREASE FROM THE PRIOR RATE CASE?

A. Because of adverse claims experience in the past few years, 2017 costs for pre-age 65 retiree medical coverage have increased by nearly 50% over 2016. The significant increase in the cost of providing health care coverage to that segment of the retiree population is the main driver for the increase in cost. As discussed by PNM Witness Monfiletto, PNM has taken many steps to control PBOP cost escalation. Absent the recent change to cap future subsidy increases for pre-65 medical benefit to 5%, the projected net periodic benefit cost for the Test Year would have been $4.9 million instead of the $2.1 million requested.

Q. ARE THESE COSTS NECESSARY AND REASONABLE COSTS FOR PROVIDING PBOP BENEFITS?

A. Yes. As with the Pensions, the Company promises to provide those benefits over the employees' lifetimes. The actual cost for providing those benefits will not be known until all promised payments have been made. The net periodic benefit cost provides an objective and systematic way to recognize those costs over time. These costs are therefore necessary to fulfill the benefits promised to employees and former employees.

Q. HOW WILL PNM RESUME CONTRIBUTIONS TO THE PBOP PLAN UPON EFFECTIVE DATE OF THE NEW RATES RESULTING FROM THIS PROCEEDING?

A. PNM is required to contribute to the PBOP trust any amounts recovered for PBOP and not used to directly pay benefits. As discussed by PNM Witness Monroy, over the years, PNM has contributed $9.3 million more to the PBOP trust than it has recovered in rates. Therefore, upon the effective date of the new rates, PNM will first offset the $9.3 million excess contributions, and then resume its contributions to the PBOP Trust.

VI. ANNUITIZATION OF ELECTRIC PORTION OF THE PENSION PLAN

Q. HOW CAN A PLAN SPONSOR FULLY SATISFY A PENSION OBLIGATION?

A. The only way to effectively fully satisfy the pension obligation is to terminate the plan. A termination can be accomplished by first offering lump sum payments on a voluntary basis. Lump sum payments are generally offered to participants who have not yet begun receiving their monthly benefit in exchange for their right to receive pension benefits. Then, annuities are purchased from a highly rated insurance company for any retirees receiving monthly pension payments and any other participant who has not elected to receive a lump sum distribution.

Q. WOULD THERE BE AN ASSET SHORTFALL IF PNM TERMINATED THE PENSION PLAN?

A. Yes. Please refer to PNM Exhibit YG-3 for the analysis estimating the shortfall liability settlement range. We estimate that at June 30, 2016, the shortfall for the electric portion of the PNM pension plan is between $89 million and $127 million. That is the estimated amount by which the cost of paying lump sums and purchasing annuities exceeds existing plan assets allocated to electric operations (the electric portion of plan assets was $328 million at June 30, 2016). The actual amount needed will vary based on many factors, such as the number of participants who elect to receive a lump sum distribution and the actual insurance company pricing at the time annuities are purchased. Because annuity pricing is subject to the economic environment (for example, changes in interest rates will change the annuity purchase price) as well as market forces such as competition between insurers, there can be significant differences in the ultimate cost of terminating the plan.

Q. HOW MUCH WOULD PNM NEED TO RECOVER TO COMPLETELY ELIMINATE THE PENSION OBLIGATION?

A. The unfunded termination shortfall discussed above includes the prepaid pension asset, i.e., contributions made by PNM shareholders in excess of amounts recovered in rates. In other words, those contribution amounts are included in plan assets and reduce the unfunded termination shortfall. Thus, in addition to the unfunded termination shortfall, PNM would require reimbursement for the prepaid pension asset. At June 30, 2016, the portion of the prepaid pension asset related to the electric operations (58% of total) was $174.7 million.

Furthermore, there will be execution costs that would have to be taken into account. Plan termination is a lengthy and complex process requiring among other things, extensive government filings, detailed communications to participants about their accrued benefit and any options available to them and benefit administration. The entire process can take 18 to 24 months to complete. The additional execution costs, which will exceed $1 million for a plan of the size of PNM's, would also have to be included.

The following table summarizes the amount of recovery needed in order to proceed:

Table YG-1

As of June 30, 2016 (in millions)	Aggressive Estimate	Conservative Estimate
Plan termination shortfall	$89.0	$127.0
Prepaid pension asset	$174.7	$174.7
Execution cost	$1.2	$1.8
Total recovery needed	**$264.9**	**$303.5**

Because of the uncertainty around the ultimate cost associated with this process, there should also be a mechanism in place to adjust up or down ("true up") to reflect the actual termination costs.

Q. IS PLAN TERMINATION AN APPROPRIATE ALTERNATIVE?

A. As shown on page 3 of PNM Exhibit YG-3, the plan termination cost is only slightly higher (between 1% and 10%) than the total estimated amount needed to provide for future benefits, future administration costs and future PBGC expenses (referred to as the "Economic Liability"). While the cost is higher, terminating the plan does eliminate future risks which might result in unexpected cost increases such as, for example, an investment loss on plan assets, or participants living much longer than anticipated requiring the plan to keep paying benefits longer than planned. Therefore, plan termination is an appropriate alternative for the Commission to consider.

Please see PNM Witness Eden's testimony for PNM's recommendation on this issue.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

GCG#522619

Résumé of Yannick Gagne

PNM Exhibit YG-1

Is contained in the following 1 page

DIRECT TESTIMONY OF
YANNICK GAGNE
NMPRC CASE NO. 16-00276-UT

PNM Exhibit YG-1
Statement of Qualifications for
Yannick Gagne

Current Responsibilities and Experience:

I have over 20 years of experience consulting with organizations on the design and financial considerations of their pension programs. I am currently employed by Willis Towers Watson as a Senior Consultant and Actuary.

Education:

Bachelor of Science – Actuarial Science
Laval University, Canada

Employment:

Willis Towers Watson (formerly Towers Watson & Company)
Senior Consultant and Actuary
Southwest Retirement Practice Leader

Aon Hewitt
Principal
San Francisco, Pacific Northwest and Hawaii Retirement Practice Leader

Professional Organization:

Fellow of the Society of Actuaries
Enrolled Actuary under the Employee Retirement Income Security Act of 1974 ("ERISA")

Retirement Consulting and Utility Experience:

During my more than 20 years of retirement consulting experience, I have helped senior human resources and finance executives determine how to manage and configure retirement programs that best support organizational objectives.

In addition to working with many large corporate organizations, I have worked with more than ten regulated utilities providing actuarial and retirement consulting services. In that role, I provided testimony support in rate case proceedings, as well as retirement program design and union negotiation support.

Specifically regarding rate case support, I provided support for various rate case filings in New Mexico, California, Oregon, Washington, and Hawaii.

Estimated FY 2017 and FY 2018 Pension and Retiree Medical Expense Memo

PNM Exhibit YG-2

Is contained in the following 2 pages

Willis Towers Watson

Memo

Date: September 8, 2016

To: Ed Jeung, *PNM Resources, Inc.*

From: Yannick Gagne & Brian Arnell, *Willis Towers Watson*

Subject: **Estimated FY2017 and FY2018 Pension and Retiree Medical Expense**

PNM Resources, Inc. (PNM) has requested that Willis Towers Watson provide estimated pension and retiree medical expense for the PNM Resources, Inc. Employees' Retirement Plan (PNM Pension), PNM Resources, Inc. Post-Retirement Healthcare Plan (PNM Retiree Medical), and PNM Resources, Inc. Non-Qualified Retirement Plan (PNM Non-Qualified) for FY 2018, the "Test Year". The results of our analysis are below. For comparison, we are also showing projected FY 2017 expenses.

Plan	Estimated FY2017 Expense	Estimated FY2018 Expense "Test Year"
PNM Pension	$7,977,849	$8,267,138
PNM Retiree Medical	$2,184,036	$2,093,472
PNM Non-Qualified	$1,074,741	$1,031,783

These estimates reflecting the following data and assumptions:

- Discount rates were developed as of June 30, 2016 using the WTW Rate:Link 40-90 yield curve with an adjustment for the estimated impact of using of the current bond portfolio selection methodology. This same methodology was applied in future years assuming no change in the interest rate environment (i.e., the same yield curve is applied in future years). The estimated discount rates as of 12/31/2016 and 12/31/2017 are:

Plan	Estimated Discount Rate as of 12/31/2016	Estimated Discount Rate as of 12/31/2017
PNM Pension	4.05%	4.03%
PNM Retiree Medical	3.99%	3.97%
PNM Non-Qualified	3.82%	3.79%

- The EROA assumption was re-calculated as of June 30, 2016 using the same methodology used at 12/31/2015 for both pension and retiree medical. This assumption has been applied in all future years for the pension plans. For the retiree medical plan it is assumed that the asset allocation for the plan will be adjusted to 50% equity / 50% fixed income effective in 2018. The resulting EROA assumptions for are as follows:

Plan	Estimated FY2017 EROA	Estimated FY2018 EROA
PNM Pension	6.00%	6.00%
PNM Retiree Medical	7.00%	6.50%
PNM Non-Qualified	N/A	N/A

- Assets were projected from the following 6/30/2016 asset values assuming future asset returns equal to the EROA assumption for each year.

Plan	6/30/2016 Market Value of Assets
PNM Pension	$565,832,915
PNM Retiree Medical	$74,636,785
PNM Non-Qualified	$0

- No contributions are assumed to be made to the Pension or Retiree Medical plans in 2017 or 2018.

- Retiree medical claim costs for 2017 are based on preliminary 2017 pricing for retiree medical coverage, which is as follows:

Coverage	Preliminary 2017 Total Funding Rate (monthly)
Retiree	$866
Retiree + 1	$1,949

- Retiree medical projections also reflect the cost management actions expected to be taken by the Company:
  - Beneficiaries over age 65 in the PNM retiree medical plan are assumed to be moved to a post-65 benefit as of age 65 regardless of their spouse's age.
  - PNM Retiree medical is assumed to be amended to only offer the Standard Plan and to implement a 5% cap on future annual increases in employer subsidy. Any cost increase over 5% would be passed on to the retirees via a higher contribution.

- PNM pension reflect census information as of 1/1/2016.

Except as otherwise provided herein, the results presented above are based on the data, assumptions, methods, plan provisions and other information, outlined in the actuarial valuation reports to determine benefit cost for the plans for the fiscal year beginning January 1, 2016 to dated March 2, 2016. Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this exhibit. The consulting actuaries above are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension and postretirement welfare plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Willis Towers Watson.

Plan Termination Analysis – Electric Portion

PNM Exhibit YG-3

Is contained in the following 6 pages

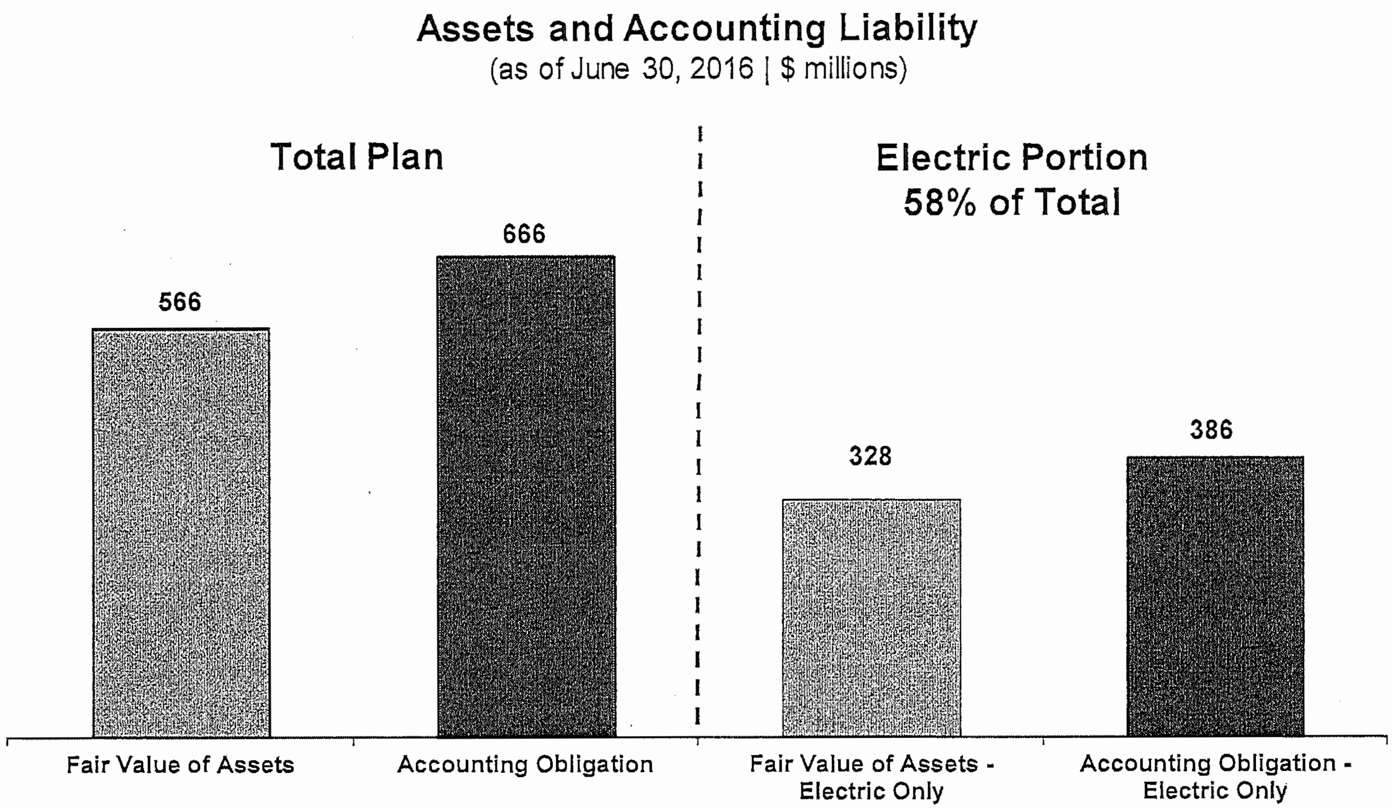
PNM Resources, Inc.

Pension Plan Termination Estimate

October 2016

Willis Towers Watson

Electric Portion of the Pension Plan

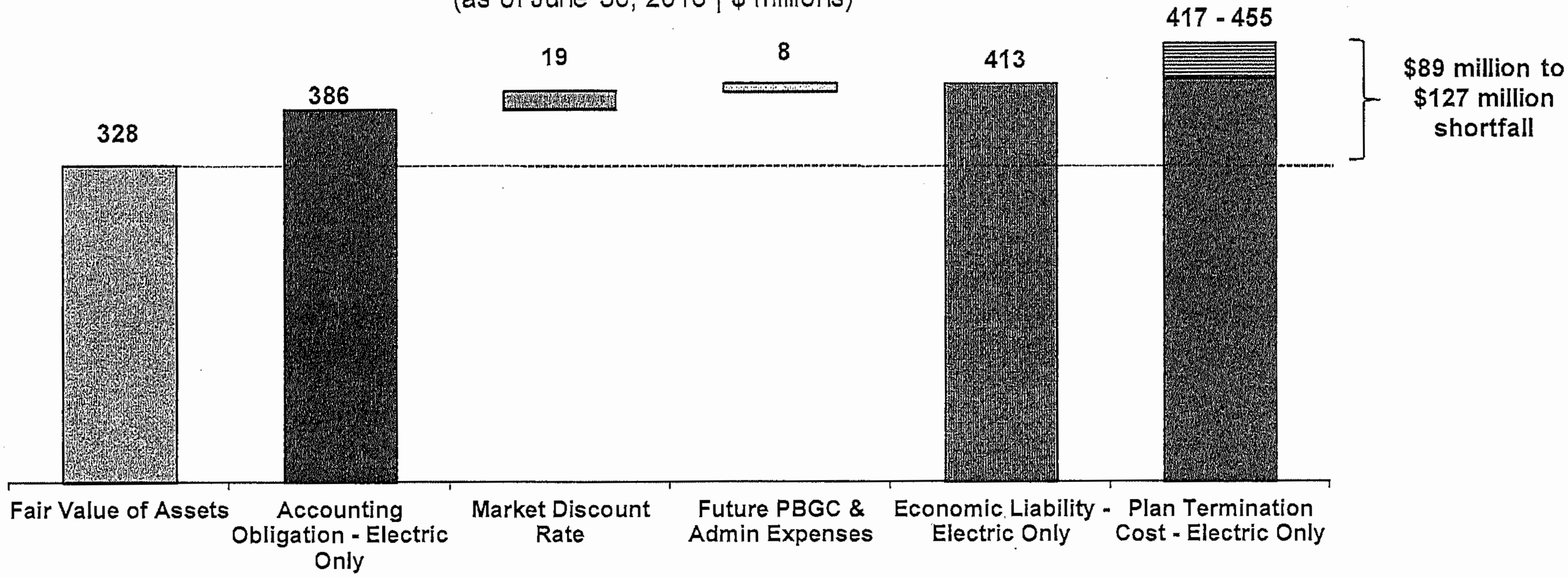


Allocation of assets and liabilities

- 58% of total plan assets and liabilities allocated to Electric Operations
- 58% / 42% allocation in accordance with Amended Stipulation in Case 08-00078-UT

Economic Liability vs. Plan Termination

Illustrative Economic Liability
(as of June 30, 2016 | $ millions)



Comparing plan termination cost to economic liability in order to evaluate the transaction

- Long-term economic liability includes costs expected to materialize through ongoing management of the plan
- Ultimate cost of both ongoing management and terminating will depend on many factors
- Difference is the premium to be paid to eliminate future risk and uncertainty

Terminating the plan eliminates pension risk associated with changes due to many factors

- Liability – interest rate risk and longevity
- Plan assets – market and investment risks
- Economic costs – demographic, regulatory, and transactional risks

Estimating Plan Termination Costs

Costs will vary by participant group

Estimated June 30, 2016 ($ millions)		Lump Sum Election		Lump Sum Cost		Insurer Pricing		Termination Cost	
Liability Segment	Liability*	Aggressive	Conservative	Aggressive	Conservative	Aggressive	Conservative	Aggressive	Conservative
Electric Operations									
Active	$76M	80%	50%	95% of Liability	105% of Liability	125% of Liability	150% of Liability	$77M	$97M
TV	$14M	60%	30%	85% of Liability	95% of Liability	125% of Liability	145% of Liability	$14M	$18M
Retiree	$296M	0%	0%	N/A	N/A	110% of Liability	115% of Liability	$326M	$340M
Total Electric	**$386M**					**Total (initial range)**		**$417M 8%**	**$455M 18%**

* Premiums are developed from cohort-specific discount rates.

Assumptions

- Except as otherwise noted, all data, assumptions and methods are consistent with those used for PNM Resources, Inc. Employees' Retirement Plan's Actuarial Valuation Report for Year-End December 31, 2015 Disclosure and 2016 Benefit Cost dated March 2016
  - Liability rolled forward assuming actual benefit payments paid through June 30, 2016
  - Assets provided as of June 30, 2016
  - Cohort discount rates based on June 30, 2016 BOND:Link
- Annuity premiums developed from observed market pricing for comparable transactions; actual pricing is subject to change
- Lump sum pricing based on assumed future mortality basis, RP-2015 mortality with Scale MP-2015 generational projection and November 2016 IRC Section 417(e) interest rates
  - Actual lump sum cost will depend on ultimate lump sum basis at time of settlement
- Lump sum election percentages are illustrative; actual results will vary based on timing, communications and other factors
- Actual economic impacts of settlement tactics will differ based on the actual acceptance rates and the capital market environment, plan demographics and population at the time of the settlement
- Economic Liability development assumptions
  - Market neutral discount rate developed using June 30, 2016 RATE:Link 10-90 bond universe
  - Administrative expenses assumptions as follows:
    - PBGC flat rate premium levels per participant of $69 in 2017, $74 in 2018 and $80 in 2019 as announced, with 2.5% wage base inflation indexing thereafter
    - PBGC flat rate variable rate premium levels per participant of $515 in 2017, with 2.5% wage base inflation indexing thereafter. Assumed to be in effect for 4 years.
    - Administrative expenses per participant assumed to be $50 per year, with 2.5% annual CPI inflation thereafter

Actuarial Certification

- The results summarized in this presentation involve actuarial calculations that require assumptions about future events. We believe the assumptions and methods used in this presentation are reasonable and appropriate for the purposes for which they have been used.
- Except where noted, The results within are based on the data, assumptions, methods and plan provisions outlined in the year-end disclosure valuation report sent in March other than the specific assumptions noted on the previous pages. Therefore, the descriptions of the data, assumptions, methods, plan provisions in those reports should be considered part of this presentation.
- The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension plans. Our objectivity is not impaired by any relationship between PNM Resources and Towers Watson Delaware Inc.

Yannick Gagne, FSA, EA
Senior Retirement Consultant

Christy Trang, FSA, EA, CFA
Consulting Actuary

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

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

AFFIDAVIT

STATE OF CALIFORNIA)
) ss
COUNTY OF ORANGE)

YANNICK GAGNE, Senior Consultant and Actuary with Willis Towers Watson & Co., upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony of Yannick Gagne** and it is true and accurate based on my own personal knowledge and belief.

GCG # 522513

SIGNED this 8th day of November, 2016.

Yannick G

YANNICK GAGNE

~~**SUBSCRIBED AND SWORN** to before me this _____ day of November, 2016.~~

~~NOTARY PUBLIC IN AND FOR~~
~~THE STATE OF NEW MEXICO~~

My Commission Expires:

November 21, 2018

SEE CALIFORNIA
JURAT ATTACHED
DATE 11/8/16 INTL PH

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California
County of Orange)

On November 8, 2016 before me, Philip Andrew Horn, Notary Public
(insert name and title of the officer)

personally appeared Yannick Gagne,
who proved to me on the basis of satisfactory evidence to be the person~~(s)~~ whose name~~(s)~~ is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity~~(ies)~~, and that by his/her/their signature~~(s)~~ on the instrument the person~~(s)~~, or the entity upon behalf of which the person~~(s)~~ acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

PHILIP ANDREW HORN
COMM. # 2090766
NOTARY PUBLIC - CALIFORNIA
ORANGE COUNTY
MY COMM. EXP. NOV. 21, 2018

Signature Phil Horn **(Seal)**