

**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. 507 )  
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)  
**PUBLIC SERVICE COMPANY OF NEW )  
MEXICO, )  
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)  
Applicant )  
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**Case No. 14-00332-UT**

**APPLICATION FOR REVISION OF RETAIL ELECTRIC RATES**

Public Service Company of New Mexico (“PNM”), through its undersigned counsel, files its Application for Revision of Retail Electric Rates (“Application”). PNM is filing concurrently with this Application its supporting testimony and exhibits, and PNM’s Advice Notice No. 507. In support of its Application, PNM states:

1. PNM is a public utility that provides retail electric service in New Mexico subject to the jurisdiction of the New Mexico Public Regulation Commission (“NMPRC” or “Commission”).
2. PNM’s current rates for electric service were authorized by the Commission in its approval of the Amended Stipulation in PNM’s last rate case, Case No. 10-00086-UT (“2010 Rate Case”).
3. PNM has made significant capital investments since its last rate case in order to maintain continued reliability, and needs to make even more plant investment between now and year end 2016. That investment, along with the Company’s declining sales growth and other factors described in PNM’s testimony and exhibits, have materially altered PNM’s

operating and financial conditions from the conditions existing at the time PNM's current rates were set in the 2010 Rate Case.

4. PNM's currently authorized rates are no longer just and reasonable and do not allow for a reasonable return on its investment in public utility plant and property.

5. PNM's rates and authorized revenues as presently allocated do not adequately reflect the cost of service for the respective classes of electric customers.

6. PNM's filing is based on a twelve-month Base Period ending June 30, 2014, and a twelve-month Test Period of calendar year 2016. A variance was obtained on November 13, 2014, extending the 150-day time limit for use of this Base Period with a filing no later than December 12, 2014. The Test Period shows a revenue requirement for PNM of \$983,316,658, representing a revenue increase of \$107,441,397. The requested base rate increase combined with other rate changes scheduled to take effect with bills rendered on and after January 1, 2016, represent an average bill increase of 7.69%.

7. PNM has filed the Advice Notices with an effective date of January 10, 2015, in order to start the suspension period at that time. PNM understands that the Commission will suspend the effectiveness of the new rates pending hearing in accordance with NMSA 1978, § 62-8-7(C) (2011). PNM understands that new rates based on a Test Period beginning January 1, 2016, may not go into effect before January 1, 2016.

8. PNM is seeking approval of continued use of a renewable energy rider. Pursuant to the Amended Stipulation approved in PNM's last rate case, it was agreed that the Renewable Energy Rider would expire upon issuance of a final order in PNM's next rate case unless the final order specifically authorized continued use of the Rider. PNM is proposing to continue the Renewable Energy Rider because it is a beneficial mechanism for

both customers and PNM to timely recover costs incurred to comply with the Renewable Energy Act, NMSA 1978, §§ 62-16-1 to -10 (2004, as amended 2007) (“REA”).

9. The rates proposed herein are just and reasonable and should be approved.

10. Pursuant to 17.1.2.10(B)(1) NMAC, PNM is submitting the following documents as part of this Application:

a. PNM Advice Notice No. 507 (Appendix A);

b. Direct Testimony and Exhibits of Gerard Ortiz, Elisabeth Eden, Henry Monroy, Jason Peters, Chris Olson, Aubrey Johnson, Robert Hevert, Dane Watson, Dr. Ahmad Faruqui, Gail Vavruska-Marcum, Stella Chan, Julio Aguirre, Daniel Hansen, Matthew Harland, Leonard Sanchez, and Roger Larsen; and

c. Rule 530 Schedules A through Q.

11. Pursuant to 17.1.3.11 NMAC, base period, linkage data and future test year period data is being provided in fully functional electronic format.

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

13. In compliance with 17.1.210.11(C) NMAC, PNM states that anticipated changes in annual revenue resulting from the proposed changes to the rates as set forth in this Application, the number of customers in each rate class affected or likely to be affected and

the impact on customers at a class average of consumption within each class as nearly as may be calculated are concisely stated in the tables contained in the Executive Summary and Notice to Customers.

14. In compliance with 17.1.210.11(B) NMAC, PNM will serve a copy of this Application, including Advice Notice, on the Attorney General and all counsel of record and pro se parties in PNM's last electric rate case.

15. Pursuant to 17.1.2.10(B)(2)(c)(i) NMAC, PNM identifies the following proposed changes to the ratemaking treatment upon which the present rates are based, the reasons for the proposed changes, and the impact in dollars of the proposed change on the rates:

a. PNM's filing is based on a Test Period for the calendar year beginning January 1, 2016, consistent with the provisions of NMSA 1978, Sections 62-3-3(P) and 62-6-14(D) (2009) of the Public Utility Act ("PUA"). In accordance with the requirements of 17.1.3 NMAC ("FTY Rule") and 17.9.530 NMAC ("Rule 530"), PNM is providing information consisting of: (i) the Base Period, which is PNM's actual experience as reflected on its book balance of accounts for the twelve month period ended June 30, 2014; (ii) an Adjusted Base Period that includes fully explained annualizations, normalizations and adjustments for known and measurable changes and regulatory requirements that occur within the Base Period; (iii) linkage data providing specific and detailed description of all line items for the period between the end of the Base Period and the beginning of the Test Period; and (iv) the Test Period containing expected financial and operating conditions to be experienced by PNM for the calendar year 2016. The Test Period best reflects the conditions to be experienced during the period when the proposed new rates take effect, consistent with Sections

62-3-3(P) and 62-6-14(D). Support for this Test Period is provided in the testimony of PNM witnesses Ortiz, Monroy, Eden, Faruqui, Olson, and Johnson.

b. PNM is proposing to recover the costs for significant capital investments to be made through the end of the Test Period. PNM's last base rate increase included capital investments made through June 30, 2010. PNM expects to place 677 capital projects in service between July 1, 2014, and December 31, 2016, resulting in total rate base additions in the amount of \$1,009,261,748. Including rate base reductions, the net increase to rate base from June 30, 2010, through the end of the Test Period is approximately \$585 million. The reasons for the proposed capital investments are provided in the testimony of PNM witnesses Olson and Johnson.

c. PNM is seeking to recover an acquisition adjustment for the cost of purchasing the ownership interests represented by three Palo Verde Unit 2 leases (totaling 64 MW) at fair market value upon the expiration of the leases. Support for the acquisition is provided in the testimony of PNM witnesses Ortiz and Eden.

d. PNM is proposing to use an embedded cost allocation with a 17% cap on the amount of non-fuel increases allocated to any customer class. PNM agreed in the Amended Stipulation in its last rate case, Case No. 10-00086-UT, to file a rate design and class cost of service based on embedded cost principles. Fully allocated embedded cost-of-service studies can provide stable results over time when allocation methodologies are consistent. However, if PNM allocated costs across customer classes such that each customer class provided a class rate of return equal to PNM's Weighted Average Cost of Capital, then some classes' rates would decrease, with other classes absorbing a very substantial rate increase. In order to implement the cap

and still provide a rate design that recovers the revenue requirement, PNM proposes that no customer class will receive a non-fuel rate decrease. Nevertheless, it is desirable to limit the increases to large commercial and industrial classes to maintain competitive rates for economic development purposes. The proposed 17% cap is thus consistent with the Commission's policy of gradualism in rate design changes. The rationale behind this allocation is explained in the testimony of PNM witnesses Ortiz and Chan.

e. PNM is proposing a four-year pilot mechanism (the Revenue Balancing Account) to remove the regulatory disincentives for energy efficiency programs as required by the EUEA. PNM's proposal will establish a set total amount of fixed costs to be recovered through volumetric charges from residential and small power customers. At the end of each year, PNM will look at the energy sales from each of these two classes. If energy sales are higher in a given year than necessary to recover this total amount of fixed costs, PNM will have over-recovered its fixed costs and will refund the overage to customers in the following year. Conversely, if sales are lower than necessary to adequately recover fixed costs from these classes, PNM will have under-recovered its fixed costs and will collect the underage from each of these classes. PNM considered other alternatives to remove the regulatory disincentives for energy efficiency programs as required by the Amended Stipulation in PNM's 2010 Rate Case, but found the Revenue Balancing Account to be the most balanced, practical and effective method for residential and small power customers to remove disincentives. The rationale behind PNM's proposed Revenue Balancing Account is explained in the testimony of PNM witnesses Ortiz and Hansen.

f. PNM is proposing the implementation of a new DG Interconnection Fee to recover fixed costs associated with that service that would otherwise have been collected through volumetric energy charges avoided by the DG customers. These fixed costs that are avoided by DG customers are currently subject to recovery from other customers who do not have DG, some of whom cannot afford the upfront costs required to install the systems. PNM's proposed DG Interconnection Fee will be a monthly charge based upon the capacity of the DG system installed by a customer. It will only apply to new customers, defined as those customers who do not have a system installed or a completed application as of December 31, 2015. The rationale behind PNM's proposed DG Interconnection Fee is explained in the testimony of PNM witnesses Ortiz and Chan.

g. PNM is proposing the implementation of a new economic development tariff that will offer a declining percentage discount to encourage new industry to locate in the state. PNM believes declining percentage discounts are one of the best methods to incentivize industry to relocate to New Mexico, while also providing protection to the Company's existing customers. PNM's proposal caps the amount of capacity available under the economic development tariff at 20 MW. The rationale behind PNM's proposed new economic development tariff is explained in the testimony of PNM witnesses Ortiz and Chan.

h. PNM is proposing changes to its customer charges and demand charges that improve the recovery of fixed costs based on the fully allocated embedded cost of service study for each rate class. The increased monthly customer charge is designed to recover the customer fixed costs that include meters, billing,

meter reading, bill processing and customer accounting. Providing for recovery of these fixed costs sends a more accurate price signal to customers of what it costs to have service available to them regardless of how much energy they use. The increased demand charge sends improved price signals to customers to improve their load factors, and makes rates more competitive for new high load factor customers, helping to address New Mexico's poor economic conditions. The rationale behind PNM's proposed new customer charges and demand charges is explained in the testimony of PNM witnesses Ortiz and Chan.

i. PNM is proposing changes to its depreciation rates in accordance with the study supported by PNM witness Watson.

j. PNM is proposing to include coal and nuclear fuel handling expenses and purchases of spinning reserves in base fuel expenses as supported in the testimony of PNM witness Monroy.

k. PNM is proposing to eliminate the net metering banking option for new DG customers who do not have a system installed or a completed application as of December 31, 2015.

l. PNM is proposing to change the annual period for the fuel and purchased power cost adjustment clause ("FPCCAC") from July-June to January-December.

m. PNM is requesting approval to establish new regulatory assets related to PNM's move from Alvarado Square, costs incurred to implement a free recurring credit card payment program, costs to be incurred to re-program PNM's time of use



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meters, and two year recovery of rate case expenses, and a regulatory liability to refund to customers nuclear spent fuel refunds from the Department of Energy.

n. PNM is requesting approval to establish a regulatory asset and liability treatment regarding recovery of certain costs over a straight-line basis compared to a present-value accretion basis as required by Generally Accepted Accounting Principles (“GAAP”).

o. PNM is requesting approval of ratemaking treatment for the revenues associated with chemical pretreatment of the coal for San Juan Generating Station (“SJGS” or “San Juan”).

16. Pursuant to 17.1.2.10(B)(2)(c)(ii) NMAC, PNM identifies the following extraordinary events or circumstances, known or projected, which materially alter the utility’s operating or financial condition from the conditions existing during the utility’s test period in its last rate case: Large capital investments are necessary to adequately maintain the reliability of PNM’s facilities so that they continue to provide benefit to PNM’s customers, as well as to meet other legal obligations of the Company. These investments are discussed in greater detail in the testimony of PNM witnesses Olson and Johnson. In addition, PNM is facing a period of declining sales growth, driven by both weakening customer growth and declining usage per customer. PNM’s sales forecast is presented in the testimony of Dr. Ahmad Faruqui.

17. Pursuant to 17.1.2.10(B)(2)(d) NMAC, PNM has fully complied with all Commission final orders in each of PNM’s cases decided during the preceding five years as evidenced by PNM’s annual informational filing of April 30, 2014.

18. PNM is requesting all approvals and determinations necessary to implement the rates as set forth in this Application and the accompanying Advice Notice including

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approval of cost of service studies, cost allocations, depreciation rates and tariffs for electric service.

19. PNM is requesting approval of any variance from any rules, regulations or provisions of prior Commission orders necessary to obtain approval of and to implement the rates contained in Advice Notice No. 507.

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

Public Service Company of New Mexico  
414 Silver Avenue SW  
Albuquerque, New Mexico 87158  
(505) 241-2700

21. The exact name, address, and telephone number of PNM's attorneys are:

Patrick V. Apodaca, Esq.  
Benjamin Phillips, Esq.  
Associate General Counsel  
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22. PNM requests that all pleadings, correspondence and other documents that are served on PNM be mailed and delivered to Benjamin Phillips at the above address and to Mark Fenton at PNM's address provided above and electronically at [Mark.Fenton@pnmresources.com](mailto:Mark.Fenton@pnmresources.com).

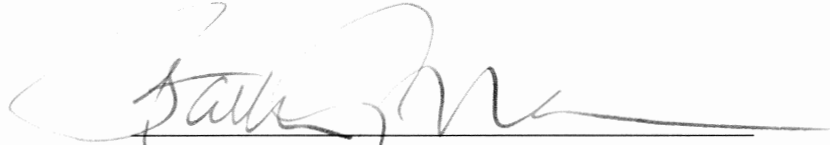
WHEREFORE, PNM requests that the Commission, after notice and hearing, issue a final order granting all approvals required for PNM to implement the revised rates, to continue use of the Renewable Energy Rider and implement or continue other proposals as set forth in PNM's Application, testimony and exhibits, and the accompanying Advice

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Notice effective with billings on and after January 1, 2016, and for such further relief as the Commission deems proper under the circumstances.

Respectfully submitted this 11<sup>th</sup> day of December, 2014,

**PUBLIC SERVICE COMPANY OF NEW MEXICO**



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