

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)**

Case No. 14-00332-UT

**PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)**

Applicant)

DIRECT TESTIMONY AND EXHIBITS

OF

GERARD T. ORTIZ

DECEMBER 11, 2014

NMPRC CASE NO. 14-00332-UT
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WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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PNM EXHIBIT GTO-1 Résumé of Gerard T. Ortiz

AFFIDAVIT

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1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

3 **A.** My name is Gerard T. Ortiz. I am the Vice President of Regulatory Affairs for
4 Public Service Company of New Mexico (“PNM”). My business address is
5 Public Service Company of New Mexico, Main Offices, MS-1105, Albuquerque,
6 New Mexico 87158.

7
8 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT,
9 REGULATORY AFFAIRS.**

10 **A.** As Vice President, Regulatory Affairs, I am responsible for PNM’s overall
11 regulatory strategy in New Mexico. I oversee Pricing and Regulatory Services,
12 Regulatory Policy and Case Management, Retail Renewable Energy and
13 Integrated Resource Planning.

14
15 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
16 PROFESSIONAL QUALIFICATIONS.**

17 **A.** I graduated from New Mexico State University in 1981 with a Bachelor of
18 Science degree in Electrical Engineering. I obtained a Master of Business
19 Administration degree, with a concentration in Finance, from the Robert O.
20 Anderson Graduate School of Management at the University of New Mexico in
21 1988. I am a Registered Professional Engineer in the State of New Mexico

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1 (Registration No. 9687). Since 1981, I have been employed by PNM, and have
2 held a variety of engineering, supervisory, and managerial positions in
3 Distribution Engineering, Electric Marketing, Business Planning, and Market
4 Services in addition to my current assignment. I was promoted to my current
5 position in August 2012. A statement of my experience and qualifications,
6 including a list of the New Mexico Public Regulation Commission (“NMPRC” or
7 “Commission”) proceedings in which I have either testified or filed testimony, is
8 attached as PNM Exhibit GTO-1.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

11 **A.** The purpose of my testimony is to: (1) provide a general overview of PNM’s
12 application in this case, including identifying the other witnesses who will testify
13 in support of PNM’s filing; (2) describe the circumstances that dictate the need
14 for the rate relief requested in this case, explaining why maintaining PNM’s
15 financial health is in the best interests of PNM’s customers and how the requested
16 rate relief is an important step in maintaining PNM’s financial health; (3) explain
17 why use of a future test period as allowed by the Public Utility Act (“PUA”)
18 benefits customers by reducing the harmful effects of regulatory lag and
19 providing more certainty in the regulatory process; and (4) provide the overall
20 policy support for key rate design proposals, including the promotion of
21 economic development initiatives to assist the State of New Mexico in recovering

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1 from the recession, continuation of the renewable energy rider and a Revenue
2 Balancing Account as a four-year pilot mechanism to remove the regulatory
3 disincentives for energy efficiency measures.

4
5 **Q. ARE YOU SPONSORING ANY RULE 530 SCHEDULES?**

6 **A.** Yes, I am sponsoring Schedules P-11 and Q-2.

7
8 **II. SUMMARY OF KEY CONCLUSIONS**

9 **Q. WHAT ARE YOUR KEY CONCLUSIONS?**

10 **A.** The testimony and exhibits presented in support of PNM's application
11 demonstrate that PNM's request for rates designed to recover an overall revenue
12 requirement of \$983,316,658, representing a revenue increase of \$107,441,397, is
13 just and reasonable and will provide a fair opportunity for PNM to earn a
14 reasonable rate of return. The requested base rate increase combined with other
15 rate changes scheduled to take effect by January 1, 2016, represent an average bill
16 increase of 7.69%. PNM's use of a forecasted calendar year 2016 as the test
17 period in this case is appropriate because that test period best reflects the
18 conditions that will be experienced during the period when the rates determined
19 by the Commission take effect. PNM's current rate design is outdated as it is
20 founded on a rate design adopted in NMPRC Case No. 07-00077-UT that used a
21 marginal cost allocation as a starting point and then applied a proportional

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1 adjustment by class to reflect an across-the-board reduction from PNM's
2 proposed revenue requirements. Subsequent rate cases primarily used an "across-
3 the-board" methodology, with some exceptions, to allocate revenue requirements.
4 The current rate design results in unfair subsidies flowing from some customer
5 classes to others, and is not suited to providing PNM a reasonable opportunity to
6 earn a fair rate of return under current circumstances and in the future when new
7 rates will be effective. The rate design proposals provide for rates that better
8 foster important rate design principles, promote economic development, are
9 beneficial and equitable to customers, and provide improved revenue stability for
10 PNM and better align cost recovery with cost causation.

11
12 **III. GENERAL OVERVIEW OF APPLICATION AND**
13 **IDENTIFICATION OF WITNESSES**

14 **Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR**
15 **DIRECT TESTIMONY?**

16 **A.** In this section of my direct testimony, I generally describe PNM's application in
17 this case and identify the other witnesses who will provide testimony in support of
18 PNM's application.

19
20 **Q. WHAT IS PNM REQUESTING IN THIS CASE?**

21 **A.** PNM is seeking: (1) a base revenue increase of approximately \$107.4 million effective
22 for bills rendered on and after January 1, 2016; (2) continued use of a renewable energy

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1 rider; (3) confirmation that PNM’s annuitization of the pension benefits of PNM’s
2 former gas utility operations will result in eliminating the need to allocate pension
3 expense between electric and gas in future rate cases because 100% of the remaining
4 pension expense will be attributable to PNM’s electric operations; (4) approval to
5 establish new regulatory assets related to PNM’s move from Alvarado Square,
6 costs incurred to implement a free recurring credit card payment program, costs to
7 be incurred to re-program PNM’s time of use meters, and two year recovery of
8 rate case expenses, and a regulatory liability to refund to customers nuclear spent
9 fuel refunds from the Department of Energy; (5) approval to establish a regulatory
10 asset and liability treatment regarding recovery of certain costs over a straight-line
11 basis compared to a present-value accretion basis as required by Generally
12 Accepted Accounting Principles (“GAAP”); (6) the inclusion of coal and nuclear
13 fuel handling expenses and the purchase of spinning reserves to be included in the
14 determination of base fuel expense; (7) approval of ratemaking treatment for the
15 revenues associated with chemical pretreatment of the coal for San Juan
16 Generating Station (“SJGS” or “San Juan”); (8) change the twelve-month period
17 used to set the annual fuel and purchased power cost adjustment clause
18 (“FPPCAC”) factor which is currently July to June to a calendar year, i.e., from
19 January to December; and (9) comprehensive rate design modifications that will more
20 appropriately allocate revenue among customer classes while maintaining competitive
21 rates for at-risk customers. These rate design modifications include a more equitable

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1 allocation of revenue requirements based upon an embedded cost class allocation
2 methodology, increased monthly demand and customer charges to better align cost
3 recovery with cost causation, a four-year pilot for a mechanism to remove regulatory
4 disincentives for energy efficiency programs as required by NMSA 1978, Section 62-
5 17-5F (2013), a new DG Interconnection Fee that is aimed at reducing subsidies
6 received by distributed generation (“DG”) customers from non-distributed generation
7 customers and elimination of the banking option for DG customers so that PNM will
8 pay all DG customers on a monthly basis for any excess energy production.

9
10 **Q. WHO ARE THE OTHER WITNESSES TESTIFYING ON BEHALF OF**
11 **PNM IN THIS PROCEEDING AND WHAT ARE THEY TESTIFYING**
12 **ABOUT?**

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

- 14 • Elisabeth Eden, Executive Director, Financial Planning and Business Analysis
15 for PNM, addresses why improving PNM’s financial health is in the best
16 interests of PNM’s customers and provides PNM’s proposed capital structure
17 and weighted-average cost of capital (“WACC”). She also discusses the
18 purchase of leases, representing 64 MW in Palo Verde Generating Station
19 (“PVNGS” or “Palo Verde”) Unit 2. Ms. Eden also discusses the
20 annuitization of the pension benefits of PNM’s former gas utility operations.

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- 1 • Henry Monroy, Director of Internal Audit and Cost of Service for PNM,
2 addresses PNM’s cost of service and the development of PNM’s revenue
3 requirements.
- 4 • Jason Peters, Manager, Cost of Service for PNM Resources, Inc., testifies
5 about certain items included in the calculation of PNM’s revenue requirement,
6 presents PNM’s proposal for recovery of rate case expenses, and explains
7 PNM’s request for Commission approval to establish certain new regulatory
8 assets and liabilities. He also provides cost/benefit analyses supporting the
9 inclusion in cost of service of prepaid pension asset, accelerated management
10 performance plan, post-employment benefits other than pension, and the
11 unamortized balance of loss on reacquired debt.
- 12 • Chris Olson, Vice President, Generation for PNM, describes PNM’s capital
13 investments in generation facilities and non-fuel operations and maintenance
14 expenses (“O&M”). He also addresses the budgeting process for O&M
15 associated with PNM’s generation fleet, including appropriate expense
16 adjustments related to the timing of plant outages and changes in the
17 composition of the fleet.
- 18 • Aubrey Johnson, Vice President of New Mexico Operations, describes PNM’s
19 total transmission and distribution capital investment plan and O&M
20 expenses.

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- 1 • Robert Hevert, Principal in Sussex Economic Advisors, addresses return on
2 equity (“ROE”) and related topics, including current economic conditions and
3 confirmation of the reasonableness of PNM’s proposed capital structure.
- 4 • Dane Watson, Principal in Alliance Consulting, presents PNM’s depreciation
5 study in support of new depreciation rates.
- 6 • Dr. Ahmad Faruqui, Principal in the Brattle Group, presents and supports
7 PNM’s future test year load forecast.
- 8 • Gail Vavruska-Marcum, Director of Compensation, presents PNM’s support
9 for the revenue requirements associated with certain employee incentive
10 compositions, base salary and employee benefits.
- 11 • Stella Chan, Director of Pricing and Load Research, discusses PNM’s rate
12 design proposals, including customer class cost allocations, modifications to
13 PNM’s time-of-use period underlying its time-of-use rates, customer and
14 demand charges, its pilot program to address regulatory disincentives for
15 energy efficiency measures, a new DG Interconnection Fee, a new economic
16 development tariff, the allocation of Renewable Energy Rider revenue
17 requirements and other rate design proposals.
- 18 • Julio Aguirre, Senior Pricing Analyst in PNM’s Pricing and Regulatory
19 Services Department, will compare functional allocation to a per kWh
20 allocation for the Renewable Energy Rider No. 36, and support various
21 changes to Schedule 16 – Special Charges and certain other rate schedules.

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- 1 • Daniel Hansen, Vice President at Christensen Associates Energy Consulting,
2 describes PNM's Revenue Balancing Account pilot mechanism and why it is
3 preferred to other potential alternatives to address regulatory disincentives for
4 energy efficiency measures.
- 5 • Matthew Harland, Director of Income Tax for PNM Resources, Inc.,
6 addresses income tax expenses and accumulated deferred income taxes
7 included in rate base.
- 8 • Leonard Sanchez, Associate General Counsel for PNM and its affiliates,
9 addresses litigation expenses.
- 10 • Roger Larsen, Manager of Marketing and Energy Efficiency Outreach for
11 PNM, addresses advertising expenses.

IV. NEED FOR RATE RELIEF

14 Q. WHY DOES PNM NEED RATE RELIEF?

15 **A.** PNM takes seriously its obligation to provide reliable electric service at
16 reasonable prices. PNM is committed to meeting this fundamental objective in a
17 manner that is consistent with New Mexico's other public policy goals of
18 increasing the use of renewable energy, promoting energy efficiency measures
19 and otherwise meeting customers' energy needs in cost-effective ways that
20 mitigate impacts on the environment. Achieving these goals requires significant
21 investment in adding to and maintaining the infrastructure that provides power to

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1 New Mexico citizens. As a result, PNM is required to access the capital markets
2 to attract large amounts of capital over the next several years to finance the
3 needed infrastructure investment. As testified to by PNM witness Eden, PNM
4 anticipates that it will be issuing approximately \$750 million in debt over the next
5 five years to fund new capital expenditures and refinance maturing long-term
6 debt. To accomplish this on favorable terms for customers, PNM must be
7 financially healthy, with rates sufficient to cover its costs of providing service so
8 that its credit rating will support its ability to access needed capital on favorable
9 terms. Current rates are simply inadequate to provide the revenues necessary for
10 PNM to accomplish all that needs to be done to properly and reliably serve our
11 customers and to achieve the public policy goals of New Mexico.

12
13 **Q. WHAT ARE THE PRIMARY DRIVERS FOR PNM'S IDENTIFIED**
14 **REVENUE DEFICIENCY?**

15 **A.** The primary driver of PNM's identified revenue deficiency is related to rate base
16 growth and recovery, including depreciation, accounting for approximately 92%
17 of the approximate \$107.4 million deficiency. PNM's last base rate increase took
18 effect in 2011, and included capital investments made through June 30, 2010. As
19 testified to by PNM witness Henry Monroy, PNM expects to place 677 capital
20 projects in service between July 1, 2014, and December 31, 2016, resulting in
21 total rate base additions of \$1,009,261,748. The new plant investment is

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1 necessary to maintain system reliability and comply with federal and state
2 regulatory requirements.

3
4 A secondary factor is related to declining sales. Declines in PNM's energy sales
5 account for approximately 20%¹ of the identified revenue deficiency, or nearly
6 \$22 million. PNM's success with energy efficiency programs is a primary factor
7 in the decline. Based on the independent evaluator's reports, PNM's 2011 through
8 2013 energy efficiency programs provided 212 GWh of cumulative savings in
9 2013. This number grows to 290 GWh when projected programs in 2014 are
10 taken into account and to 440 GWh by 2016. This amounts to an approximate
11 revenue impact of \$16 million per year in 2014, and \$25 million in 2016. The
12 effect on PNM's residential class is dramatic. PNM is projecting residential use
13 per customer ("UPC") in 2014 of 597 kWh per month and 584 kWh per month in
14 2016. Without PNM's energy efficiency programs, PNM's residential UPC
15 would be 629 kWh per customer in 2014. Test period billing determinants in this
16 case are about 4.12% lower than the billing determinants used in the illustrative
17 cost of service in the last rate case. New Mexico's energy efficiency policy goals
18 are being achieved and PNM's energy efficiency programs are successful in
19 reducing energy sales. However, no solution has been implemented to address the
20 regulatory disincentives for energy efficiency that the Efficient Use of Energy Act

¹ These drivers are partially offset by reductions in fuel and Palo Verde lease costs.

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1 (“EUEA”) requires to be removed.² Compounding the issue, New Mexico’s
2 economy continues to struggle. The average use for commercial customers has
3 decreased and there is a decrease in the number of Large Power (Rate 4B)
4 customers. As usage declines, fixed costs must be recovered from a smaller and
5 smaller base.

6
7 **Q. GIVEN THE SIGNIFICANT CAPITAL INVESTMENTS PNM HAS**
8 **MADE, HOW HAS PNM BEEN ABLE TO DELAY A NEW RATE**
9 **APPLICATION SINCE 2010?**

10 **A.** PNM’s last rate increase took effect in August of 2011. PNM’s identified revenue
11 deficiency represents a 12.27% increase in revenue requirements. If PNM had
12 increased rates annually since 2010, the annual increase would have been
13 approximately 2.0%. PNM has avoided seeking a rate increase in the last four
14 years through aggressive cost control. For example, PNM controlled costs
15 through effective case management and wellness initiatives to reduce medical
16 benefits costs; likewise, PNM controlled labor expenses through effective
17 management of vacancies and attrition. As demonstrated by PNM witness Jason
18 Peters, PNM has continued to actively pursue cost-effective refinancing of high
19 cost debt, lowering its cost of long-term debt from 6.84% to 6.12%. Several
20 initiatives have been undertaken to ensure the Company is operating efficiently

² NMSA 1978, Section 62-17-5(F) (2013)

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1 and to reduce costs that must be recovered in rates. In 2012, PNM identified
2 almost \$18 million in annual cost savings, not including additional cost savings
3 achieved through the partial closure of payment centers.

4
5 Because of PNM's cost control efforts, its O&M expenses have grown at a pace
6 below the consumer price index level of inflation. The O&M expenses included
7 in the 2010 test period illustrative cost of service supporting the Amended
8 Stipulation in NMPRC Case No. 10-00086-UT was \$310 million. Here, the
9 proposed O&M expenses in the test period only grew to \$314 million, both
10 excluding Palo Verde lease expense and fuel related charges. This is an increase
11 of less than 1.3% over the six-year period, or approximately 0.2% annually. Had
12 O&M increased at the average annual rate of inflation over that period of time,
13 i.e., 1.9%, O&M expenses would have increased by approximately \$37 million, or
14 to \$347 million.

15
16 **Q. PLEASE DESCRIBE PNM'S CURRENT FINANCIAL CONDITION.**

17 **A.** As PNM witness Eden explains, PNM currently has an investment grade credit
18 rating with Standard & Poor's ("S&P") and Moody's. These rating agencies
19 closely monitor regulatory decisions affecting PNM. As explained more fully by
20 Ms. Eden, a credit rating is intended to gauge the riskiness of an investment. The
21 lower the credit rating, the riskier the investment. The riskier the investment, the

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1 more costly it is to attract capital and the number of investors willing to risk their
2 capital decreases. And higher cost capital means higher costs to customers.

3
4 **Q. WHAT CAN THE COMMISSION DO TO PROVIDE PNM THE ABILITY**
5 **TO ACCESS THE CAPITAL MARKETS ON FAVORABLE TERMS FOR**
6 **THE CAPITAL NEEDED TO MAINTAIN AND IMPROVE SERVICE TO**
7 **CUSTOMERS?**

8 **A.** Essentially, rates must be set at a level that allows PNM a fair opportunity for the
9 timely recovery of its reasonable cost of providing service. Regulatory
10 mechanisms must be put in place to allow that to happen. Increased use of rate
11 adjustment mechanisms outside of general rate cases are viewed favorably by the
12 investment community. Recognizing that the use of automatic adjustment
13 mechanisms is limited to specific categories of costs in New Mexico, the
14 Commission has still been able to take some favorable actions in this regard. The
15 Commission took a significant positive step when it reinstated PNM's fuel and
16 purchased power cost adjustment clause ("FPPCAC") in 2008 and renewed it in
17 2010 and again in 2014 to provide for more timely recovery of actual fuel and
18 purchased power costs. The Commission's approval of a renewable energy rider,
19 properly structured so that it does not violate PUA limitations on the use of
20 automatic adjustment clauses, is another positive step. As noted by PNM witness

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1 Eden, investment analysts view the adoption of a future test year to also be a
2 positive development.

3
4 **Q. IS THE ASSESSMENT BY THE INVESTMENT COMMUNITY OF NEW**
5 **MEXICO'S REGULATORY ENVIRONMENT IMPORTANT?**

6 **A.** Yes. One of the criteria rating agencies use in assessing credit worthiness of
7 utilities is the regulatory environment in which the utility operates. Although
8 New Mexico has historically been considered one of the least credit supportive
9 regulatory environments from an investor perspective, it has been noted that
10 recent favorable decisions from the Commission, including those described
11 above, show a marked improvement in the regulatory environment, as discussed
12 in more detail by Ms. Eden. As PNM seeks to attract the large amounts of capital
13 necessary to properly serve customers, a favorable perspective of the New Mexico
14 regulatory environment by investors benefits our customers and New Mexico as a
15 whole, not just PNM.

16
17 **Q. WHY DOES PNM NEED MORE INVESTMENT WHEN ENERGY SALES**
18 **ARE DECLINING?**

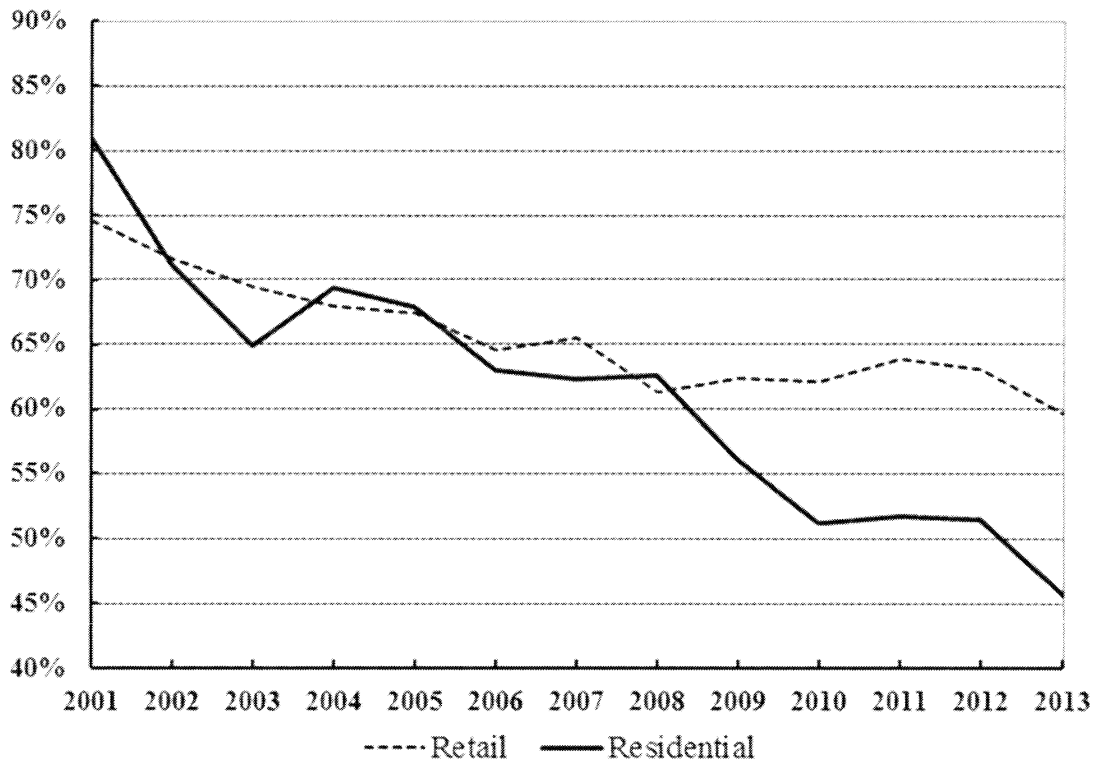
19 **A.** In the past, demand forecasts were developed by combining energy sales forecasts
20 with a historical load factor analysis, as peak demand is a function of load factor
21 and energy sales such that:

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$$Peak\ Demand = \frac{energy\ sales}{load\ factor} \times \frac{1}{8760}$$

1 The result was that changes in the demand forecast were attributable to changes
2 in forecasted energy sales. However, PNM has been observing a trend where
3 peak demand grows faster than energy sales. In 2013, this disparity in the growth
4 rates of demand and energy became more pronounced. An inverse relationship
5 between growth in energy sales and growth in peak demand implies instability in
6 the load factor, in this case a declining load factor. Table GTO-1 below is a chart
7 showing the trend in the retail load factor.

**Table GTO-1
Retail and Residential Load Factors**



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1 Our analysis shows that the residential class was the primary driver for this
2 situation. Energy efficiency programs, primarily those focused on lighting, were
3 a primary factor in slowing energy growth. However, this decline is occurring
4 primarily in the off-peak hours, without having much impact on midday summer
5 peak demand. In contrast, increased use of refrigerated air conditioning is a
6 primary driver for the growing peak demand.

7
8 Further, much of the investment is not due to a need to meet customer growth but
9 rather to maintain and improve service, as well as to meet various legal
10 requirements, including environmental regulations.

11
12 **Q. WHAT ARE OTHER STATES DOING TO ADDRESS THE**
13 **CHALLENGES YOU HAVE IDENTIFIED?**

14 **A.** These challenges are not unique to New Mexico or PNM. A number of states are
15 exploring a variety of mechanisms to address the challenges and opportunities
16 associated with attracting large amounts of capital to meet changing infrastructure
17 needs in a time of economic uncertainty and declining load. Commissions across
18 the country have taken two primary approaches to matching of rates with
19 expected operating conditions. Increasingly, commissions have relied on rate
20 adjustment clauses for operating expenses, plant additions, environmental
21 requirements and changing economic conditions to recover costs as they are

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1 incurred. Commissions also increasingly rely on the use of partially or fully
2 forecasted future test periods to reflect the expected operating conditions when
3 new base rates will go into effect. Many states have implemented rate design
4 mechanisms that allow a utility to recover its fixed costs regardless of the amount
5 of energy consumed.

6
7 In structuring PNM's future test year and rate design proposals, we looked to
8 other states' efforts. I will now describe the primary mechanisms that PNM
9 proposes are necessary to achieve the State's public policy goals for the benefit of
10 customers.

11
12 **V. FUTURE TEST YEAR**

13 **Q. WHY WAS CALENDAR YEAR 2016 SELECTED AS THE TEST PERIOD?**

14 **A.** It is anticipated that new rates resulting from a decision in this case will take
15 effect no earlier than January 1, 2016, consistent with recent practice for major
16 general rate cases. After factoring in the thirty-day notice period before the
17 suspension period goes into effect, the initial nine-month suspension period
18 pursuant to the PUA would end October 10, 2015. The Commission is also
19 allowed to suspend the rates for an additional three months, which would take the
20 statutory suspension period out to January 10, 2016. PNM agrees that, regardless
21 of when the Commission actually issues its final order in this case, rates set using

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1 calendar year 2016 as the test period cannot go into effect earlier than January 1,
2 2016. Calendar year 2016 will therefore capture much, if not all, of the first
3 twelve months of operation under new rates for PNM. The expected operating
4 results for 2016, including forecasted plant investment, best reflects the conditions
5 to be experienced by PNM during the period of time when the rates determined by
6 the Commission will be in effect.

7
8 **Q. WHAT TYPE OF TEST PERIOD HAS BEEN USED IN RECENT PNM**
9 **RATE CASES?**

10 **A.** Traditionally the Commission has used a historical test year adjusted for known
11 and measurable changes occurring within a short period of time following the end
12 of the test year, usually five to six months. In PNM's last general rate case,
13 NMPRC Case No. 10-00086-UT, the illustrative cost of service supporting the
14 Amended Stipulation approved by the Commission used budgeted calendar year
15 2010 operating expenses and a June 30, 2010 rate base with actual base revenues
16 for the first ten months of 2010 and projected base revenues for the last two
17 months of 2010, for rates that went into effect August 21, 2011. That was the first
18 rate case in New Mexico that was filed using a future test period pursuant to the
19 2009 amendments to the PUA. Since that case, Commission rules specifying
20 filing requirements for rate applications based upon a future test period have been
21 adopted. Thus, while the last rate case shows progress in using a test year that is

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1 more current than traditional historical test periods, use of a fully forecasted
2 future test year provides the best projection of the actual period when new rates
3 will go into effect. In fact, the Commission recently approved new rates for
4 Southwestern Public Service Company based upon a future test period in Case
5 No. 12-00350-UT.

6
7 **Q. WHY IS A FUTURE TEST PERIOD MORE APPROPRIATE IN THIS**
8 **CASE THAN A HISTORICAL TEST PERIOD ADJUSTED FOR KNOWN**
9 **AND MEASURABLE CHANGES?**

10 **A.** A future test period best reflects conditions to be experienced during the period
11 when rates will take effect. New rates are prospective and should be designed to
12 recover a revenue requirement based on “expected” operating conditions. Both a
13 historical test period with “annualized” and “known and measurable” adjustments
14 and a future test period attempt to achieve the same objective, which is to reflect
15 the forecasted operating conditions when rates are expected to be in effect.
16 However, the historical test period represents “past” operating conditions that
17 likely do not reflect the future operating expense, sales and plant investment.

18

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1 **Q. HOW DOES THE HISTORICAL TEST PERIOD ATTEMPT TO**
2 **REFLECT FUTURE OPERATING CONDITIONS?**

3 **A.** The historical test period is derived by adjusting the Base Period using
4 annualization and known and measurable changes generally occurring within the
5 five to six month period following the end of the Base Period. Those adjustments
6 are intended to bring the company's historical operating experience closer in time
7 to the period when new rates would be in effect in an attempt to better predict the
8 operating conditions of the utility when new rates will be in effect.

9

10 **Q. WHY DO THESE ADJUSTMENTS NOT RESULT IN A HISTORICAL**
11 **TEST PERIOD BEING AS RELIABLE AS A FUTURE TEST PERIOD IN**
12 **PREDICTING THE FUTURE OPERATING CONDITIONS WHEN NEW**
13 **RATES WILL BE IN EFFECT?**

14 **A.** Unless conditions are stable such that the historical relationships among
15 investment, expenses and revenues remain constant to a great extent, the historical
16 test period fails as a reliable predictor of future operating conditions. History
17 does not typically repeat itself. Regulatory lag caused by a historical test period
18 cannot be managed adequately when PNM must make large investments to provide
19 reliable service and meet customers' energy needs and the State's public policy
20 goals in conjunction with expanding state and federal environmental regulations.

21

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1 Without adequate and timely rate relief, PNM has two options to deal with
2 regulatory lag: reduce costs between rate cases and increase sales between rate
3 cases. Reducing costs is simply not a reliable long-term strategy and, if taken too
4 far, puts reliability and customer service at risk. At the same time, it is unrealistic
5 to expect revenue growth to keep pace with increasing levels of investment and
6 operating costs for two main reasons. First, the level of general economic
7 activity, an important driver of sales, is weak and expected to remain so for
8 several years. Second, promoting increased sales is contrary to the State's public
9 policy objective to promote efficient energy use. Absent widespread use of
10 automatic adjustment clauses, a future test period is the best means available to
11 provide timely recovery of costs. This then provides utilities with a reasonable
12 opportunity to earn a fair return because it forecasts the conditions to be
13 experienced during the period when new rates go into effect using planning and
14 forecasting methods well-accepted for business planning purposes rather than
15 assuming that history will largely repeat itself.

16
17 **Q. WILL RATES SET BASED ON A FUTURE TEST YEAR AMOUNT TO A**
18 **GUARANTEE THAT PNM WILL EARN ITS AUTHORIZED RETURN?**

19 **A.** No. Rates set on a future test year make *possible* the opportunity for PNM to earn
20 its authorized rate of return, whereas the lag I described above *prevents* the
21 Company from having the opportunity to earn its authorized rate of return. PNM

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1 must still prudently and efficiently manage its business to earn its authorized
2 return.

3
4 **VI. ACQUISITION ADJUSTMENT**

5 **Q. IS PNM SEEKING TO RECOVER AN ACQUISITION ADJUSTMENT**
6 **FOR ANY ASSETS IN THIS CASE THAT HAS NOT BEEN**
7 **PREVIOUSLY APPROVED BY THE COMMISSION?**

8 **A.** Yes. PNM is seeking to recover the acquisition cost of three Palo Verde Unit 2
9 leases (totaling 64 MW) at fair market value upon expiration of the leases, as
10 more fully described by PNM witness Elisabeth Eden. PNM's purchase of the
11 40% leased capacity of the Eastern Interconnect Project ("EIP"), as more fully
12 described by PNM witness Aubrey Johnson, does not involve an acquisition
13 adjustment because the purchase will be at net book value at the time of lease
14 expiration.

15
16 **Q. ARE ACQUISITION ADJUSTMENTS RECOVERABLE IN RATES?**

17 **A.** Yes, they are. Acquisition premiums are recoverable in New Mexico if the
18 acquisition was at arm's-length and resulted in some benefit to customers. In
19 NMPRC Case No. 07-00077-UT, PNM's 2007 rate case, the Commission allowed
20 three acquisition premiums to be included in rates because PNM demonstrated
21 benefits to the customers from the acquisition. As demonstrated by PNM witness

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1 Elisabeth Eden, PNM has negotiated with the unaffiliated lessors to arrive at an
2 acquisition price consistent with recent sales of Palo Verde lease interests, a price
3 which is also consistent with a recent market analysis of the value of Palo Verde
4 ownership interest and consistent with the lease purchase valuation approved by
5 the Commission in Case No. 08-00305-UT. Acquisition of the Palo Verde Unit 2
6 interests at lease expiration guarantees PNM customers that this capacity will
7 continue to be available to serve them. Palo Verde Unit 2 has been part of PNM's
8 reliable base load capacity for almost thirty years and, as more fully discussed by
9 PNM witness Chris Olson, remains a needed carbon-free resource in PNM's
10 supply portfolio. PNM has demonstrated that the lease transactions provide
11 significant benefits to customers. Thus, the converted leasehold interests should
12 be included in rate base at the cost of acquisition.

VII. KEY RATE DESIGN PRINCIPLES

15 Q. WHAT OBJECTIVES SHOULD BE ACHIEVED BY RATE DESIGN?

16 **A.** PNM believes that there are four primary principles that should guide rate design. They
17 are to: (1) establish fair and equitable pricing across rate classes; (2) better align
18 cost recovery with cost causation; (3) improve price signals to provide for
19 economic efficiency in energy usage; and (4) remove regulatory disincentives for
20 energy efficiency and renewable energy efforts by PNM. In addition to achieving
21 these objectives, it is increasingly important to address the deterioration in PNM's

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1 load factor and to help in improving New Mexico's economy. PNM's specific
2 objectives in developing its rate design proposals are consistent with these
3 principles. PNM's proposals are also consistent with the Commission's policy of
4 gradualism. Ms. Chan discusses these objectives in more detail in her Direct
5 Testimony.

6
7 **Q. WHY ARE PRICE SIGNALS IMPORTANT?**

8 **A.** Price signals inform customers how to use energy efficiently, and tell utilities how
9 to invest efficiently. The goal of rate design, therefore, should be to convey
10 information to customers about the costs, personal and social, of using energy.
11 Thus, for example, a properly designed demand charge signals to customers that
12 they should improve their load factors and take steps to reduce their demand on
13 the system. It will give them information to accurately assess how changes in
14 their usage may impact their bills. Correspondingly, on the utility side, a properly
15 constructed price signal aligns efficient investment with customers' efficient use
16 of electricity

17
18 **Q. WHAT ARE PNM'S MAJOR RATE DESIGN PROPOSALS?**

19 **A.** PNM is proposing the following: (1) the use of an embedded cost class allocation
20 required by the Amended Stipulation approved in NMPRC Case No. 10-00086-
21 UT, moderated by a 17% cap on the amount of non-fuel increases allocated to any

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1 customer class; (2) a four-year pilot to remove the regulatory disincentives for energy
2 efficiency programs, as required by the EUEA; (3) implementation of a new DG
3 Interconnection Fee; (4) elimination of the banking option for new DG customers
4 so that PNM will make monthly payments to all new DG customers for their
5 excess energy produced; (5) revisions to the monthly customer charge to collect a
6 larger portion of customer-related costs; (6) changes to demand charges to recover
7 a larger portion of demand-related costs; (7) implementation of a new economic
8 development tariff; and (8) continuation of the Renewable Energy Rider. Ms.
9 Chan addresses the first seven of these and other rate design proposals in more
10 detail in her Direct Testimony. I provide the justification for continuation of the
11 Renewable Energy Rider, as well as overall policy support for all these key
12 proposals.

13
14 **Q. WHY IS PNM PROPOSING THESE RATE DESIGN CHANGES?**

15 **A.** PNM began using marginal costs for both revenue allocation and rate design in
16 NMPSC Case No. 1554, which was instituted in 1981. In NMPRC Case No. 07-
17 00077-UT, which was fully litigated, the Commission chose an “across-the-
18 board” method recommended by Staff. This started with PNM’s proposed
19 allocation based on marginal revenue requirements responsibility and then applied
20 a proportional adjustment by class to achieve an across the board reduction from
21 PNM’s proposed revenues. Subsequent rate cases generally applied an across-

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1 the-board methodology to implement base rate changes, with some exceptions.
2 As a result, PNM's current revenue requirement allocation is outdated for many
3 reasons including the fact that it traces its beginnings back to use of marginal
4 costs. But use of across-the-board changes in allocations means that the current
5 rate design is not truly reflective of either marginal costs or embedded costs.

6
7 In addition, PNM recovers approximately 74% of its non-fuel fixed costs through
8 volumetric charges. This percentage is as high as 90% in the Residential and
9 Small Power classes. This sends incorrect price signals to customers and puts
10 PNM's recovery of the costs for its existing system at risk. PNM projects that the
11 percentage of fixed cost recovery in volumetric charges that will result from
12 implementation of PNM's proposed increases to customer charges and demand
13 charges will decrease to 62%. While the gap will be narrowing if PNM's
14 proposals are adopted, there will remain a large proportion of fixed costs that are
15 built into the volumetric rate, especially for the residential and small power
16 classes.

17
18 **Q. WHY IS PNM PROPOSING TO USE EMBEDDED COSTS FOR**
19 **CUSTOMER CLASS ALLOCATIONS?**

20 **A.** First, PNM agreed in the Amended Stipulation approved in its last rate case, Case
21 No. 10-00086-UT, to file a rate design and class cost of service based on

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1 embedded cost principles. There are also good economic policy reasons for doing
2 so. In past cases, PNM has proposed a marginal cost study to assign revenue
3 responsibility by customer class. Because costs at the margin can be volatile, the
4 marginal costs of service applied to class billing determinants also can be quite
5 volatile over time. While this volatility reflects the incremental costs of providing
6 service, it does not necessarily reflect the underlying costs of service for a
7 company's non-fuel costs. Fully allocated embedded cost-of-service studies can
8 provide stable results over time when allocation methodologies are consistent;
9 such stability is a key reason why most utilities (including those in New Mexico)
10 employ such studies in the ratemaking process.

11
12 **Q. WHY IS PNM PROPOSING TO CAP AT 17% THE INCREASE TO ANY**
13 **CUSTOMER CLASS THAT WOULD OTHERWISE RESULT UNDER**
14 **THE EMBEDDED COST STUDY?**

15 **A.** If PNM allocated costs across customer classes such that each customer class
16 provided a class rate of return equal to PNM's WACC ("Unity ROR"), then some
17 classes' rates would decrease, with other classes absorbing a very substantial rate
18 increase. The proposed cap is consistent with the Commission's policy of rate
19 design gradualism. To implement the cap and still provide a rate design that
20 recovers the revenue requirement, PNM proposes that no customer class will
21 receive a rate decrease. Nevertheless, it is desirable to limit the increases to large

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1 commercial and industrial classes to maintain competitive rates for economic
2 development purposes. In particular, there should be no non-fuel base rate
3 increase to the Rate 30B Manufacturing class and customers 500 kW and above
4 should not be re-allocated additional revenue. Additionally, given the strong
5 weight that has traditionally been placed on affordability concerns and gradualism, the
6 residential customer class remains a highly subsidized class, as described by PNM
7 witness Chan. It would take a rate increase in excess of 17% to bring the
8 residential class to a Unity ROR.

9
10 **Q. DOES THE 17% CAP MEAN THAT CUSTOMERS WILL SEE A 17%**
11 **INCREASE IN THEIR BILLS?**

12 **A.** No. Although, as discussed by PNM witness Stella Chan, the residential class
13 will see a full 17% increase in base rates, the impact on customer bills will be
14 lower. Customer bills, for example, include charges related to incremental fuel
15 and purchased power costs above the amount of base fuel included in base rates.
16 Charges for the recovery of under-collected fuel and purchased power costs which
17 are currently being collected will expire by January 1, 2016, thus contributing to a
18 lower bill impact than the increase in base rates.

19

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1 **Q. WHY IS IT IMPORTANT TO MAINTAIN COMPETITIVE RATES FOR**
2 **ECONOMIC PURPOSES?**

3 **A.** As Dr. Faruqui explains, New Mexico's economy has continued to struggle.
4 PNM has seen a reduction in the number of Large Power customers in the recent
5 past. The proof of revenue in NMPRC Case No. 10-00086-UT showed that PNM
6 had 251 Large Power customers. By December of 2012, that number had
7 dropped to 231. It dropped further by November of 2013 to 223. It is important
8 for all customers that this trend be reversed. When these customers leave the
9 system, the fixed costs that were being recovered through the revenues they
10 contributed get spread to remaining customers. Therefore, it is in all of our
11 customers' interests for PNM to maintain competitive rates for these types of
12 customers so that existing Large Power customers remain economically viable
13 and to attract new Large Power customers as well.

14
15 New Mexico's economy has been particularly hard hit through decreased
16 economic activity from the Rate 30B Manufacturing customer class. To assist in
17 preventing further deterioration in this load, PNM believes that it is appropriate to
18 maintain current rates for this class. Doing so will benefit other customer classes
19 because continued deterioration in the load will require reallocation to all other
20 customers of the fixed costs that would otherwise be recovered from Rate 30B
21 customers. Thus, as the Commission exercises its discretion in the area of rate

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1 design, maintaining the current rates for Rate 30B customers makes good
2 economic sense for all customer classes.

3
4 **VIII. REVENUE BALANCING ACCOUNT**

5 **Q. DOES PNM AGREE WITH THE STATE'S PUBLIC POLICY TO**
6 **PROMOTE ENERGY EFFICIENCY?**

7 **A.** Absolutely. PNM was the first utility to propose energy efficiency programs in
8 compliance with the EUEA. From 2008 through 2014, PNM will have spent
9 approximately \$111 million implementing energy efficiency programs, and is on
10 track to achieve the EUEA targeted level of energy savings. It is important to
11 note that reliability and new compliance investments, which are key drivers of the
12 proposed rate increase, are only a part of the energy strategy PNM is pursuing.
13 Energy efficiency, which provides customers the opportunity to control their
14 energy usage and thus manage their bills, is another key focus of PNM. But this
15 strategy is best pursued by properly aligning incentives and giving utilities the
16 tools to remove the regulatory disincentives to implement comprehensive energy
17 efficiency programs, as required by the EUEA. Renewable energy, distributed
18 generation and energy efficiency offer great potential beneficial innovations. But
19 that innovation and the customer benefits will only come if they are matched by
20 regulatory structures that give customers and utilities the proper incentives and
21 remove improper disincentives. Incentives under current rate structures reward a

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1 utility for increasing its sales to recover costs and punish a utility for decreasing
2 sales through efficiency. This creates a regulatory disincentive for energy
3 efficiency programs. These disincentives to promote energy efficiency are
4 required to be removed by the EUEA.³

5
6 **Q. HAS PNM QUANTIFIED THE REGULATORY DISINCENTIVE**
7 **ASSOCIATED WITH ITS ENERGY EFFICIENCY PROGRAMS?**

8 **A.** Yes. PNM estimates that it recovers approximately 8.13 cents per kWh in the
9 volumetric charges from residential class members and 3.25 cents per kWh, on
10 average, from all other classes except the irrigation class. This per-kWh loss that
11 PNM incurs with each unit of saved energy represents PNM's disincentive to
12 promote energy efficiency programs. The measured and verified savings from
13 PNM's energy efficiency programs implemented since 2011 will reduce
14 consumption in 2014 by 145 GWh in the residential rate class and by 145 GWh in
15 all other classes except the irrigation class. This equates to an under-recovery of
16 \$16.5 million in 2014. PNM has estimated the total amount of lost fixed costs
17 from energy efficiency programs by applying the fixed costs recovered on a per
18 kWh basis (8.13 cents per kWh and 3.25 cents per kWh) to the measured and
19 verified savings determined by the Commission-approved independent evaluator
20 through 2013 and projected 2014 savings. Approximately 89% of this fixed cost

³ Section 62-17-5(F)

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1 under-recovery is attributable to the Residential and Small Power classes. The
2 amount grows each year due to the cumulative nature of energy efficiency
3 savings. Table GTO-2 below shows the annual energy savings for 2011 through
4 2013 and projected 2014 savings from PNM's programs, and also shows the
5 resulting fixed cost under-recovery.

Table GTO-2

Energy Efficiency Cumulative Annual Savings (kWh)			
Year	Residential	Non-Residential	Total
2011	28,348,073	29,249,958	57,598,031
2012	70,335,553	66,583,357	136,918,910
2013	106,723,220	105,757,541	212,480,761
2014	144,796,914	144,887,580	289,684,494

Est. Lost Fixed Costs resulting from Energy Efficiency (\$)			
	Residential	Non-Residential	Total
2011	\$ 2,305,576	\$ 950,190	\$ 3,255,765
2012	\$ 5,720,457	\$ 2,162,972	\$ 7,883,428
2013	\$ 8,679,900	\$ 3,435,551	\$ 12,115,452
2014	\$ 11,776,470	\$ 4,706,697	\$ 16,483,167

6 Because there is a reduction in revenues as well as in fixed cost recovery stemming from
7 energy efficiency programs due to current rate design, there is a regulatory disincentive
8 for energy efficiency measures. The EUEA requires removal of this disincentive.

9

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1 **Q. IS PNM PROPOSING A RATE DESIGN OR RATEMAKING METHOD**
2 **TO REMOVE THE REGULATORY DISINCENTIVES FOR PNM TO**
3 **ACHIEVE ENERGY EFFICIENCY SAVINGS?**

4 **A.** Yes. PNM is proposing to implement the Revenue Balancing Account as a four-
5 year pilot mechanism. Simply explained, PNM's proposal will establish a set total
6 amount of fixed costs to be recovered through volumetric charges from residential
7 and small power customers. At the end of each year, PNM will look at the energy
8 sales from each of these two classes. If energy sales are higher in a given year
9 than necessary to recover this total amount of fixed costs, PNM will have over-
10 recovered its fixed costs and will refund the overage to customers in the following
11 year. Conversely, if sales are lower than necessary to adequately recover fixed
12 costs from these classes, PNM will have under-recovered its fixed costs and will
13 collect the underage from each of these classes over the course of the following
14 year. PNM's proposal is more fully described in the Direct Testimony of Daniel
15 Hansen.

16
17 **Q. IS THE REVENUE BALANCING ACCOUNT SIMILAR TO RATE**
18 **DESIGN MECHANISMS USED IN OTHER STATES TO REMOVE**
19 **REGULATORY DISINCENTIVES AGAINST ENERGY EFFICIENCY?**

20 **A.** Yes. These types of mechanisms have generically been called decoupling
21 mechanisms because they are designed to make a utility largely indifferent to

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1 reduced energy usage by separating recovery of fixed costs from changes in
2 energy usage. Under these mechanisms, when customer average use decreases,
3 the utility still recovers the required revenue to cover its fixed costs. Conversely,
4 the customer is protected from over-recovery because, when customer average
5 use increases, the utility recovers only the required revenue to cover its fixed
6 costs. To do this, traditional rate design must allow the utility to recover its non-
7 variable or fixed costs, no more or less. Ideally, this means that: a) the customer
8 charge for residential and small power customers should reflect the fixed costs
9 incurred for each customer, and demand charges for larger commercial and
10 industrial customers should reflect the allocated fixed charges; and b) fixed
11 charge cost recovery should be set at necessary levels, regardless of the amount of
12 energy sales.

13
14 The Revenue Balancing Account attempts to solve this cost recovery problem
15 inherent in traditional ratemaking, where the utility recovers a significant portion
16 of its fixed costs through volumetric energy charges. As energy usage decreases,
17 the utility's opportunity to recover its fixed costs also decreases and a resulting
18 disincentive for the utility to encourage reduced energy use is created. This
19 disincentive exists even if usage is sufficient to recover fixed costs because
20 increased energy sales allow a utility to over-recover fixed costs between rate
21 cases without having to refund the over-recovery to customers. The Revenue

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1 Balancing Account therefore creates a symmetrical regulatory structure where
2 PNM is not financially penalized by successfully encouraging energy efficiency
3 and customers are protected against the risk that PNM will over-recover its fixed
4 costs. This is done by providing for the recovery of fixed costs, no more or less,
5 even where, as on the PNM system, volumetric charges are used to recover some
6 fixed costs. From a utility perspective, then, the Revenue Balancing Account
7 does away with the incentive to continually increase sales to recover costs and,
8 consequently, with the disincentive to promote energy efficiency. From a
9 customer perspective, it allows energy efficiency to be realized, while also
10 providing certainty that the large fixed investments to maintain service and
11 reliability occur without the risk of over-paying for the fixed costs.

12
13 **Q. DOES IMPLEMENTATION OF THE REVENUE BALANCING**
14 **ACCOUNT NEGATE THE COST-EFFECTIVENESS OF ENERGY**
15 **EFFICIENCY PROGRAMS?**

16 **A.** No, it does not. Under the EUEA, the cost-effectiveness of utility energy
17 efficiency programs is based upon a life-cycle analysis using the utility cost test.
18 The majority of the benefits attributable to energy efficiency are avoided fuel
19 costs. Yet the short-term bill savings of participating customers are based upon
20 the volumetric charge and are considerably higher than avoided fuel costs. In the
21 near term, the utility bears the cost of these excess savings in the form of

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1 unrecovered fixed costs. While PNM's proposed disincentive removal mechanism
2 will keep PNM whole for these incidental unrecovered fixed costs, it will not
3 affect the cost-effectiveness of PNM's energy efficiency programs.

4
5 **Q. HOW DOES PNM'S REVENUE BALANCING ACCOUNT ADDRESS**
6 **THE ISSUE OF REDUCED FIXED COST RECOVERY AS MORE**
7 **ENERGY EFFICIENCY GAINS ARE MADE?**

8 **A.** The Revenue Balancing Account as proposed by PNM is similar to mechanisms
9 used by other utilities. Essentially, it is a system of periodic cost true-ups,
10 designed to correct for disparities between PNM's actual fixed cost recovery and
11 the fixed-cost distribution revenue requirement ultimately approved by the
12 Commission in this proceeding. The true-ups would either restore to PNM or
13 return to customers the dollars that were under- or over-recovered from
14 customers, respectively, as a result of fluctuations in retail electricity sales. I also
15 note that any revenues received by PNM due to the Revenue Balancing Account
16 will be included in the pro forma cost of service PNM will file for purposes of the
17 earnings test that PNM is proposing for continued use of the Renewable Energy
18 Rider, described later in my testimony. This helps to address any concerns that
19 the Revenue Balancing Account may contribute to excessive earnings for PNM.

20

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1 **Q. WHY DOES PNM BELIEVE THAT THE REVENUE BALANCING**
2 **ACCOUNT IS THE MOST APPROPRIATE METHOD TO ADDRESS**
3 **REGULATORY DISINCENTIVES AGAINST ENERGY EFFICIENCY**
4 **IMPLEMENTATION?**

5 **A.** PNM considered other alternatives for removal of regulatory disincentives to
6 energy efficiency, but found the Revenue Balancing Account to be the most
7 practical and balanced solution. The Revenue Balancing Account offers several
8 advantages compared to the other options PNM considered. The Revenue
9 Balancing Account effectively aligns PNM's incentives for fixed cost recovery
10 with the state's public policy goal to promote energy efficiency. It will also
11 account for compensating offsets to under-recovery of fixed costs from other
12 factors, such as weather or increased energy consumption due to new end-uses of
13 electricity. Adjustments under these types of mechanisms are typically relatively
14 small, assuming the underlying factors are properly set. Further, PNM is
15 proposing a limit on the amount of increase in any year due to the Revenue
16 Balancing Account adjustment. A utility must recover its fixed costs to serve its
17 customers and remain financially viable. PNM believes its proposed Revenue
18 Balancing Account is properly designed to give PNM the opportunity to recover
19 its fixed costs without increasing sales and hence removes the link between
20 increased electricity sales and cost recovery. This allows PNM to actively
21 encourage energy efficiency without undue financial harm.

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1 **Q. WHAT ALTERNATIVES TO THE REVENUE BALANCING ACCOUNT**
2 **DID PNM CONSIDER TO ADDRESS THE DISINCENTIVE FOR ITS**
3 **ENERGY EFFICIENCY EFFORTS?**

4 **A.** Consistent with the Amended Stipulation approved in Case No. 10-00086-UT,
5 PNM considered alternatives suggested by other parties, such as a sharing of off-
6 system sales, straight-fixed variable rate design, minimum bills and a Lost
7 Revenue Adjustment Mechanism (“LRAM”). However, PNM believes that the
8 Revenue Balancing Account provides the most practical, balanced and effective
9 solution to the problem. PNM witness Daniel Hansen undertakes a full evaluation
10 of why the Revenue Balancing Account is the most effective and reasonable
11 mechanism for PNM to remove the regulatory disincentive for energy efficiency
12 measures.

13
14 **Q. WHY IS PNM PROPOSING THE REVENUE BALANCING ACCOUNT**
15 **AS A PILOT PROGRAM?**

16 **A.** PNM recognizes that New Mexico has not yet settled on a method to address
17 removal of the regulatory disincentive, and that disincentive removal mechanisms
18 similar to the Revenue Balancing Account, though proposed in the past, have not
19 been used in New Mexico. Although the design PNM is proposing has been in
20 place for a number of years elsewhere, including in 26 states and the District of
21 Columbia, PNM understands that the Commission may want to try it out for a

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1 reasonable period of time to determine if it works for New Mexico and PNM's
2 customers. To that end, PNM is proposing that the Revenue Balancing Account be
3 implemented for a four-year pilot period. Prior to expiration of the pilot, PNM
4 would file with the Commission an application to continue, modify or terminate
5 the Revenue Balancing Account.

6
7 **IX. OTHER MAJOR RATE DESIGN PROPOSALS**

8 **Q. WHY IS THE COMPANY PROPOSING TARIFFS TO RECOVER THE**
9 **FIXED COSTS ASSOCIATED WITH PROVIDING SERVICE TO**
10 **DISTRIBUTED GENERATION ("DG") CUSTOMERS THROUGH A**
11 **SEPARATE FEE?**

12 **A.** PNM is proposing the DG Interconnection Fee because the current system of net
13 metering DG systems is not sustainable. Customers with DG systems receive a
14 bill credit far in excess of the costs avoided by the utility. Practically speaking, the
15 only avoided cost in the near term is fuel. At current rates, that amounts to
16 approximately 3 cents per kWh. On the other hand, a residential customer with a
17 DG system receives a bill credit of between 9 and 15 cents per kWh. While PNM
18 is proposing to recover customer-related costs in the monthly customer charge,
19 approximately 80% of the residential fixed costs are designed to be recovered through
20 the volumetric kWh charge. While net metering customers are being credited during the
21 month for the amount of kWh that is produced from their installed solar or wind system,

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1 for each kWh credited, there is an associated amount of fixed costs that are not being
2 recovered from that customer. This allows these customers to avoid paying for the
3 fixed costs of the existing utility systems that are available to them to provide
4 needed service.

5
6 Because solar and wind are intermittent resources, customers with an installed
7 system still rely on the generation, transmission and distribution systems to serve
8 their needs and those fixed costs cannot be avoided. However, due to the rate
9 design, net metering results in these customers paying a lower share of fixed costs
10 than a non-DG customer with the same level of electricity usage. As a result, the
11 current net metering pricing structure results in subsidies for these DG customers,
12 as customers without DG systems are paying for the lost fixed costs incurred to
13 serve customers who have solar or wind system installed. However, rather than
14 proposing to eliminate the net metering benefit in this case, PNM is trying to align
15 conservation incentives with system costs. Customers who reduce their electricity
16 bill by installing DG systems should nonetheless understand and pay for the true
17 cost to serve, rather than having other customers bear such costs. PNM, however,
18 is not proposing a DG Interconnection Fee that would recover all of the associated
19 fixed costs at this time. Instead, to balance the interests of DG customers with the
20 need to reduce cross subsidization between customers who have DG systems
21 installed and those who do not, PNM recommends to cap the monthly DG

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1 Interconnection Fee at \$6.00 per kW-AC installed capacity for residential
2 customers with DG systems. As Ms. Chan explains, the DG Interconnection Fee
3 will vary by rate class.

4
5 In summary, customers with DG systems still rely on the existing generation,
6 distribution and transmission assets to serve their needs and those fixed costs
7 cannot be avoided. Therefore, DG customers pay a lower share of fixed costs
8 than a non-DG customer with the same level of electricity usage because the net
9 metering scheme permits DG customers to essentially not pay for usage even
10 when they are using the system. Ultimately, customers without DG systems will
11 bear these under-recovered fixed costs. The development and provisions of the
12 DG Interconnection Fee, which will recover these fixed costs from the
13 interconnected DG customers, are explained in more detail by PNM witness Stella
14 Chan.

15
16 **Q. PLEASE DESCRIBE PNM'S PROPOSED DG INTERCONNECTION FEE.**

17 **A.** PNM's proposed DG Interconnection Fee will be a monthly charge that varies
18 according to the capacity of the DG system installed by a customer. It will only
19 apply to new customers, which are defined as those customers who do not have a
20 system installed or a completed application as of December 31, 2015. PNM's
21 proposed tariffs define "new interconnected customers" consistently with the

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1 Commission's order in Case No. 10-00086-UT to hold existing interconnected
2 customers harmless from a new charge. Thus, the fee would not be applicable to
3 interconnected DG customers that entered into an interconnection agreement
4 during the pendency of this case. The DG Interconnection Fee will reduce the
5 amount of utility rate savings of customer-owned DG systems by less than half in
6 recognition of the principle of gradualism. It is important, however, for the State
7 and the Commission to begin discussions to develop a better mechanism than net
8 metering as currently structured for integration of DG systems into the overall
9 PNM system that is sustainable over the long-term.

10
11 **Q. IS PNM PROPOSING ANY OTHER CHANGES THAT WILL HELP**
12 **IMPROVE THE EXISTING NET METERING STRUCTURE?**

13 **A.** Yes. As described in more detail by Ms. Chan, PNM is proposing to eliminate the
14 banking option for excess energy produced by DG systems. If approved, PNM
15 will make monthly payments to new DG customers for their excess energy
16 produced each month. As with the DG Interconnection Fee, new DG customers
17 are those who do not have installed systems or completed applications by
18 December 31, 2015. This proposal more closely aligns cost recovery with cost
19 causation by aligning payments in each month with the net amount of energy
20 produced by the DG system and procured by the DG customer from PNM.

21

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1 **Q. PLEASE SUMMARIZE THE KEY POINTS CONCERNING THE**
2 **COMPANY'S PROPOSED CHANGES IN DEMAND CHARGES AND**
3 **CUSTOMER CHARGES.**

4 **A.** PNM has proposed modest increases in demand charges and customer charges
5 that improve the recovery of fixed costs based on the fully allocated embedded
6 class cost of service study for each rate class. While the proposed increases
7 provide better fixed cost recovery through demand charges and customer charges
8 consistent with cost causation, they do not achieve full recovery of the allocated
9 fixed costs as shown in the embedded cost study. Consequently, some fixed costs
10 will continue to be collected in energy charges. To the extent this contributes to
11 the disincentive associated with energy efficiency programs from those rate
12 classes without a demand charge, the Revenue Balancing Account is intended to
13 address this issue.

14
15 Importantly, the increased demand charge sends the appropriate price signal to
16 customers to modify their behavior and consequently improve their load factors.
17 Further, they make rates more competitive for new high load factor customers,
18 helping to address New Mexico's existing economic conditions.

19
20 The increased monthly customer charge is designed to recover the customer-
21 related costs that include meters, billing, meter reading, bill processing and

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1 customer accounting. Providing for recovery of these customer-related costs
2 through the customer charge sends a more accurate price signal to customers of
3 what it costs to have service available to them regardless of how much energy
4 they use. Under the Company's proposal, other fixed costs would remain subject
5 to recovery through volumetric energy charges.

6
7 **Q. ARE PNM'S PROPOSALS TO INCREASE THE MONTHLY CUSTOMER**
8 **CHARGE, IMPLEMENT THE REVENUE BALANCING ACCOUNT AS A**
9 **PILOT, IMPLEMENT A NEW DG INTERCONNECTION FEE AND**
10 **IMPLEMENT DEMAND CHARGES INCONSISTENT OR**
11 **DUPLICATIVE?**

12 **A.** No, these proposals are neither inconsistent nor duplicative. Rather, these
13 proposals are complementary. As pointed out above, the customer and demand
14 charges and the new DG Interconnection Fee are designed to more accurately
15 match cost recovery with cost causation. Since there will remain a significant
16 amount of fixed costs to be recovered through volumetric energy charges in those
17 rate classes without a demand charge, the Revenue Balancing Account pilot will
18 address removal of the disincentive for energy efficiency represented by these
19 remaining fixed costs. In the case of the new DG Interconnection Fee, the
20 proposal also addresses significant cross subsidy issues between DG and non-DG
21 customers.

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1 **Q. WHY IS PNM PROPOSING AN ECONOMIC DEVELOPMENT TARIFF?**

2 **A.** New Mexico is lagging behind most of the rest of the nation in recovering from
3 the recession that began in 2008. Significant job growth has been hard to come
4 by, as reflected by New Mexico's inability to attract Tesla to locate its new
5 battery manufacturing plant to New Mexico. There was considerable interest in
6 the subject of electric economic development and load retention rates in the last
7 session of the Legislature. In fact, House Bill 296 containing provisions to relax
8 the provisions of the current PUA provision regarding economic development
9 rates passed the House on a 47-17 vote. A companion Senate bill, Senate Bill
10 283, passed three Senate committees and made it to the Senate Floor before time
11 ran out in the session. One of the issues that arose during the extensive debate on
12 these bills was whether the existing PUA provision was too restrictive or if it was
13 just not being used. Because properly developed economic development and load
14 retention rates are usually part of discussions to attract or retain large customers,
15 PNM believes that it is appropriate and beneficial to have tariffs implementing the
16 PUA provision in effect. As detailed in Ms. Chan's testimony, the Company is
17 proposing a new economic development tariff that will address some of these
18 policy concerns.

19

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1 **Q. WHAT OTHER PROPOSALS MAY HELP TO PROMOTE ECONOMIC**
2 **DEVELOPMENT AND LOAD RETENTION?**

3 **A.** As described in more detail by PNM witness Stella Chan, PNM is proposing to
4 add a new tariff to provide service to a “Very Large” customer class to bridge the
5 gap between tariffs that require a minimum demand of 500 kW and tariffs that
6 require a minimum demand of 8,000 kW. There are a handful of existing
7 customers who would greatly benefit from this new tariff schedule and hopefully
8 it will be an aid in attracting new businesses to New Mexico, such as additional
9 high load manufacturing customers and data centers.

10

11 **Q. DO YOU BELIEVE THAT PNM’S RATES ARE AN IMPEDIMENT TO**
12 **ECONOMIC DEVELOPMENT IN NEW MEXICO?**

13 **A.** No, I do not. In fact in a recent report released by the American Economic
14 Development Institute grading the factors used to determine the relative business
15 climate in a state, New Mexico received a grade of B for the cost of electricity on
16 the traditional grading scale of A, B, C, D and F.⁴ Of course, that doesn’t mean
17 that economic development and load retention rates would not be useful as an
18 additional tool in specific circumstances to attract or retain a large customer. In
19 some circumstances, the availability of an economic development or load

⁴ The study considers a number of factors in assessing the overall business climate such as education, labor, taxes and other factors. New Mexico received an overall grade of C and dropped from 25th place among the states in the 2013 survey to 35th place in the 2014 survey.

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1 retention rate may be what tips a customer’s decision to either locate or stay in
2 New Mexico, helping New Mexico with job growth. Attracting new customers
3 will help spread fixed costs to more customers, while the loss of a significant load
4 is detrimental to all other customers because they would have to pick up a greater
5 proportion of fixed costs.

6

7 **Q. WHY IS PNM ASKING THE COMMISSION TO CONTINUE THE**
8 **RENEWABLE ENERGY RIDER?**

9 **A.** In the Amended Stipulation approved in PNM’s last rate case, it was agreed that
10 the Renewable Energy Rider would expire upon issuance of a final order in
11 PNM’s next rate case unless the final order specifically authorized continued use
12 of the Rider. PNM is proposing to continue the Renewable Energy Rider because
13 it is a beneficial mechanism for both customers and PNM to recover costs
14 incurred to comply with the Renewable Energy Act (“REA”).

15

16 The benefits of use of a rider to recover renewable energy costs continue to be
17 applicable as found by the Commission in NMPRC Case No. 12-00007-UT. In
18 that case, the Commission found that avoiding carrying charges by itself justifies
19 immediate rate rider recovery. Because the REA requires full recovery of the
20 costs of compliance with the renewable portfolio standard (“RPS”), in the absence
21 of a rider, those costs are booked as a regulatory asset with carrying charges

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1 accumulating until recovery is authorized in a general rate case. The Commission
2 concluded that the carrying charges saved by the rider would allow for more
3 headroom under the Reasonable Cost Threshold (“RCT”) to purchase more
4 renewable energy.⁵ There are other benefits as well. Through the Rider, PNM
5 gets more timely cost recovery of the specific costs associated with compliance
6 with the RPS, something that is looked on favorably by the investment
7 community, as described in more detail above. More timely recovery of RPS
8 compliance costs provides for a better matching of costs and benefits because
9 PNM would recover RPS compliance costs within the year in which they are
10 incurred and within the timeframe that customers realize the fuel cost savings
11 resulting from renewable expenditures. Matching of costs and benefits of utility
12 investments is an important regulatory objective such that the customers who pay
13 the costs are the ones most likely to receive the benefits associated with the costs.
14 The continued use of the Renewable Energy Rider would prevent the pancaking
15 of multiple years of RPS compliance costs in customers’ rates. Instead, customers
16 would pay only the actual cost of RPS compliance in any year. In addition, the
17 Renewable Energy Rider provides transparency of compliance costs to customers.
18
19 I should also point out that a significant portion of the costs recovered under the
20 RPS is recovery of the revenue requirement on utility owned solar facilities.

⁵ NMPRC Case No. 12-00007-UT, Final Order, pp. 6-7 (Aug. 14, 2012)

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1 These facilities have a declining rate base balance, based on favorable tax
2 depreciation, which allows for accelerated tax depreciation, as well as on-going
3 book depreciation. PNM has made significant investments in solar facilities over
4 the past few years that are being recovered through the Renewable Energy Rider.
5 Based on current projections and the production of PNM's current facilities, PNM
6 is not projecting adding significant new solar resources for RPS compliance over
7 the next three to four years. That being the case, there is a high probability that
8 collections under the Renewable Energy Rider will be declining. Inclusion of
9 these balances in a rate rider ensures that customers receive the benefit of these
10 declining revenue requirements each year, as the Renewable Energy Rider
11 provides for a true-up to customers, to ensure that PNM only collects revenue that
12 match up with the cost of the programs. Recovery through the Rider will allow
13 customers to benefit from the declining revenue requirement. Recovery of these
14 costs through base rates would not afford this opportunity.

15
16 **Q. SHOULD THE COMMISSION BE CONCERNED WITH PIECEMEAL**
17 **RATEMAKING RESULTING FROM CONTINUED USE OF THE**
18 **RENEWABLE ENERGY RIDER?**

19 **A.** No. The design of the Renewable Energy Rider and the nature of the costs
20 proposed to be recovered through the Rider overcome the concerns typically
21 associated with piecemeal ratemaking. The primary concern associated with

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1 piecemeal ratemaking is the potential for over-earning if the total revenue
2 requirement is not examined in conjunction with separate recovery of a single set
3 of costs. PNM is proposing to continue use of the earnings test which mitigates
4 the potential for over-earning. Also, the benefits of continuation of the
5 Renewable Energy Rider, described above, clearly outweigh any concerns
6 associated with piecemeal ratemaking.

7
8 **Q. PLEASE DESCRIBE THE EARNINGS TEST.**

9 **A.** PNM proposes to continue the process that, if its actual ROE in a calendar year
10 exceeds fifty basis points above its authorized ROE, PNM would refund to
11 customers the earnings in excess of the fifty basis points above the authorized
12 ROE. In this case PNM is proposing an ROE of 10.5%. Thus, if actual earnings
13 exceed 11.0% in a calendar year beginning with 2016, PNM would refund to
14 customers the amount in excess of 11.0%. This differential is the same as the
15 current earnings test which also includes a fifty basis differential above the
16 allowed ROE.

17
18 The process for determining if any refunds are due would remain the same. PNM
19 would make a pro forma filing based on actual accounting records for the
20 previous calendar year. The cost of service would be consistent in form and
21 information required by 17.3.510.12 NMAC. PNM would file the pro forma cost
22 of service by April 1.

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1 **Q. WHY IS A FIFTY BASIS POINT DIFFERENTIAL ABOVE THE ROE**
2 **REASONABLE FOR PURPOSES OF THE EARNINGS TEST?**

3 **A.** First, as determined by the Commission in NMPRC Case No. 12-00007-UT,
4 absent PNM's agreement, none of the earnings would be subject to refund under
5 the retroactive ratemaking prohibition. Second, the ROE can be expected to
6 fluctuate from year to year for a variety of reasons. Third, the opportunity to earn
7 increased returns provides a strong incentive to control costs. Fourth, the
8 potential for a small level of earnings above the authorized ROE should be
9 tolerated given that the earnings test is applied asymmetrically, i.e., customers are
10 eligible for refunds should the ROE plus the fifty basis point differential be
11 exceeded in a given year, but customers will not be charged should PNM's actual
12 ROE fall below the authorized level.

13
14 **Q. HOW IS THE RIDER DESIGNED?**

15 **A.** PNM proposes that the renewable energy charge continue to be assessed on per
16 kWh basis on all retail sales. The charges will be adjusted to account for the
17 avoided fuel benefits associated with the Large Customer cap. As required by the
18 Final Order in NMPRC Case No. 12-00007-UT, PNM witness Julio Aguirre
19 discusses why PNM is not proposing to use a functional allocation for the Rider's
20 revenue requirements.

21

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1 **Q. DOES PNM PROPOSE TO INCLUDE ALL RPS COMPLIANCE COSTS**
2 **THROUGH THE RIDER?**

3 **A.** No. PNM proposes to continue to recover the costs associated with the New
4 Mexico Wind Energy Center purchased power agreement (“PPA”) through the
5 FPPCAC rather than through the Renewable Energy Rider, as allowed in NMPRC
6 Case No. 12-00007-UT. I should point out that the Stipulation approved in
7 NMPRC Case No. 14-00158-UT provides for a Certificate of Public Convenience
8 and Necessity (“CCN”) for the construction and operation of 40 MW of solar
9 photovoltaic facilities as a system resource rather than for RPS compliance.
10 Therefore, the costs of these facilities will not be recovered through the
11 Renewable Energy Rider, although Renewable Energy Credits (“RECs”) may be
12 used to meet RPS and diversity requirements.

X. RATE IMPACTS

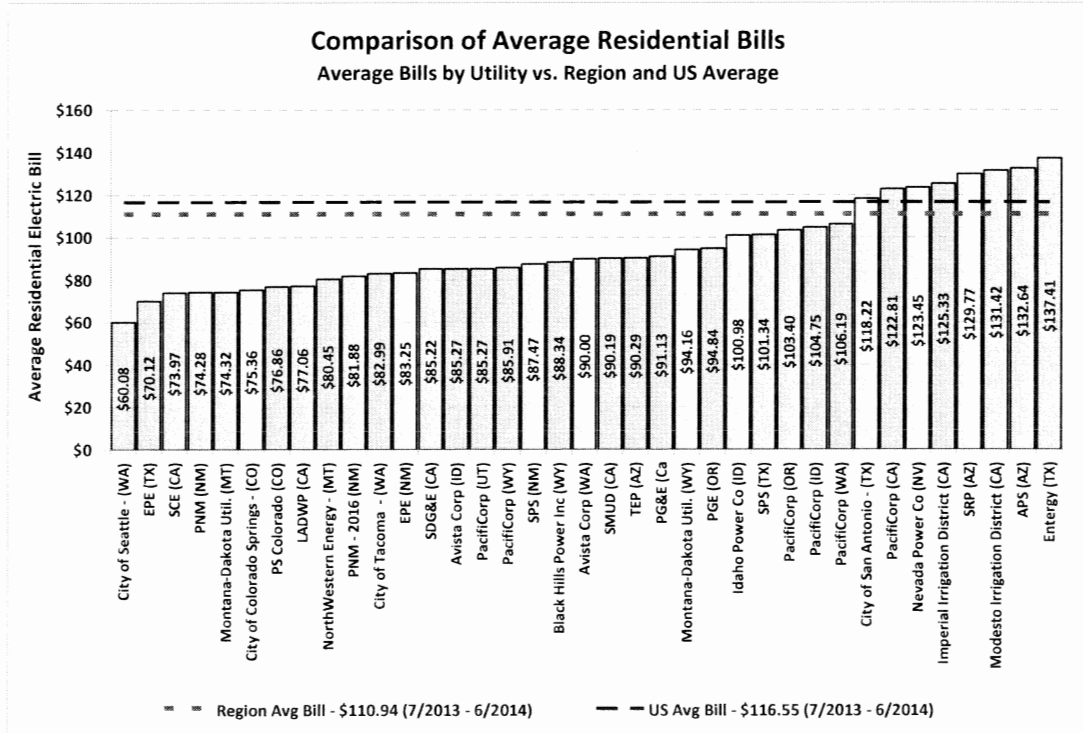
15 **Q. HOW DO PNM’S RESIDENTIAL CUSTOMER BILLS COMPARE WITH**
16 **THOSE OF OTHER UTILITIES?**

17 **A.** The average bill that our residential customers pay is significantly lower than
18 regional and national averages. Even after implementation of the proposed rates,
19 PNM will offer low, competitive rates for New Mexico business and residential
20 consumers. Table GTO-3 below illustrates how PNM’s residential bills after

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1 implementation of the full amount of rate relief requested will compare with the
2 bills of other utilities for the timeframe July 2013-June 2014:

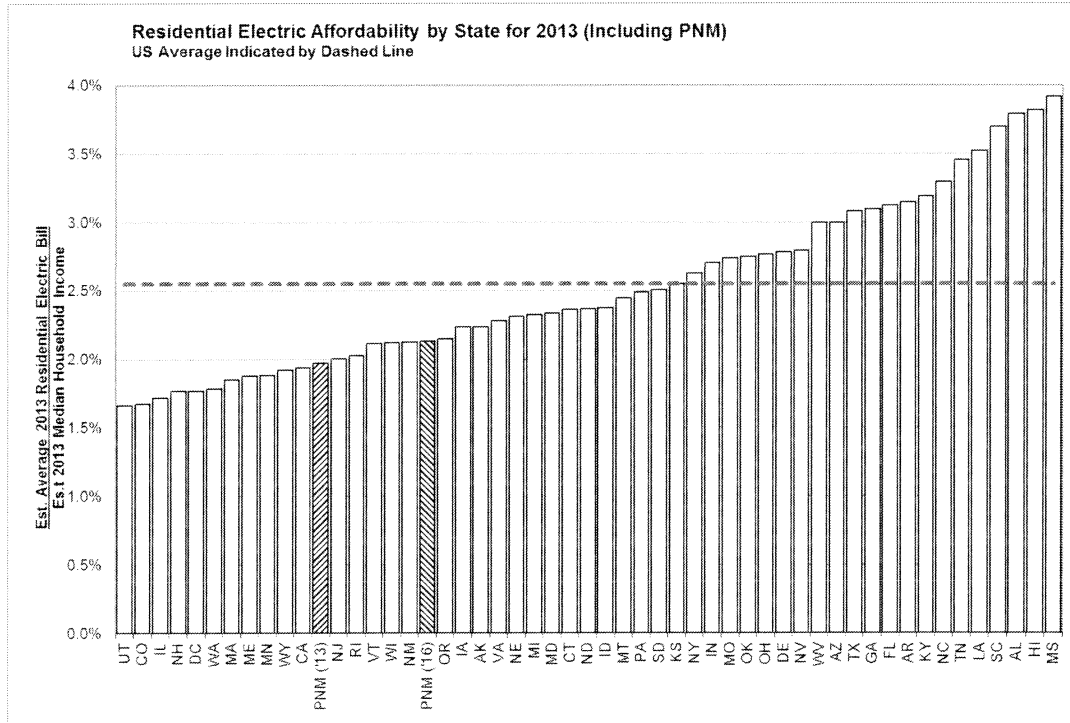
Table GTO-3



3 PNM recognizes that New Mexico is a low-income state. Even with a low
4 median income, PNM’s bills after implementation of the full amount of rate relief
5 requested still compare favorably with the 2013 bills of utilities. Table GTO-4
6 compares state average residential electric bills divided by each state’s median
7 family income to depict the “affordability” of residential electric service.

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Table GTO-4

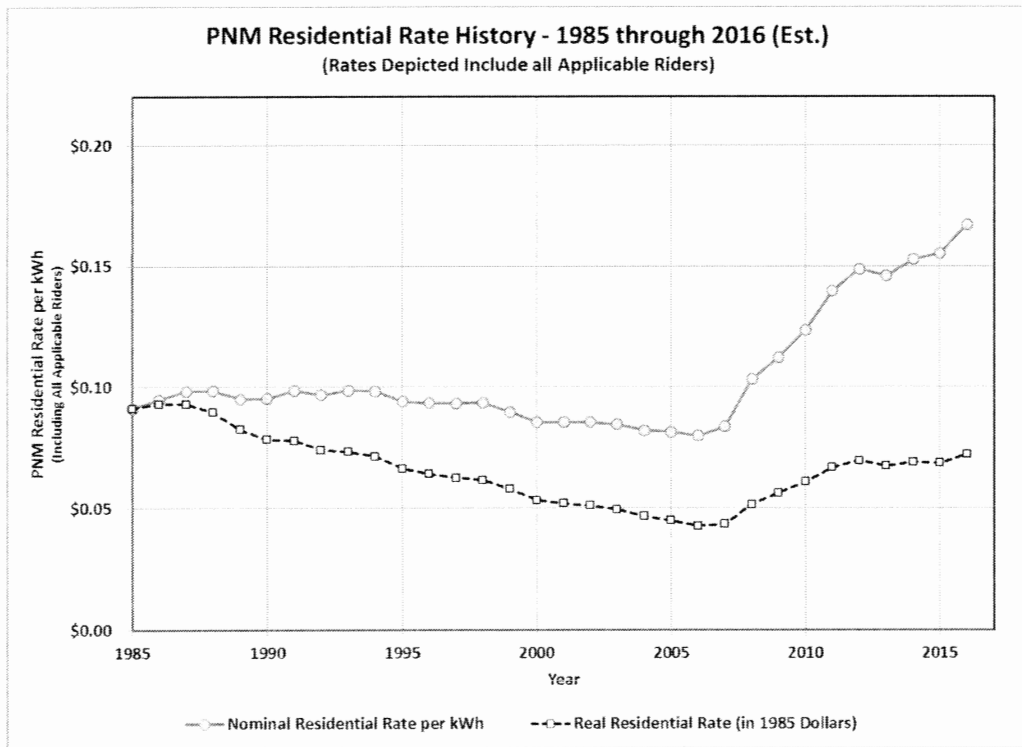


1 Table GTO-4 shows that PNM residential customers pay less for electric service
 2 as a percentage of household income than in most other states, and will continue
 3 to do so even if the full amount of the rate relief proposed by PNM is granted.
 4 PNM's ranking on this Table is conservative. The Table uses PNM's average
 5 bills after its rate request is fully implemented January 1, 2016, but uses average
 6 bills from 2013 of other utilities. As many utilities have aging infrastructure that
 7 requires investment, the average bills of other utilities are more likely to increase
 8 from 2013 levels by the beginning of 2016. The national average for electric bills
 9 as a percentage of median household income shown on Table GTO-4 is above
 10 2.5%. PNM's proposed rates for 2016 would have resulted in average electric

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1 bills that would represent about 2.1% of New Mexico median household income
2 had they been in place in 2013. In addition, I think it is important to note that,
3 while PNM rates have been increasing since 2008, customers enjoyed a long
4 period during which PNM rates either were stable or decreased. Table GTO-5
5 below shows the history for PNM’s residential rates beginning in 1985 and
6 assuming PNM’s proposed rate increase in this case is granted. As can be seen,
7 the “real residential rate” in 1985 dollars shows that residential rates in 2016 will
8 actually be lower even with the proposed rate increase than they were in 1985,
9 when adjusted for inflation.

Table GTO-5



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**XI. COMPLIANCE WITH STIPULATIONS AND
COMMISSION ORDERS**

1
2
3 **Q. ASIDE FROM TRADITIONAL RATEMAKING ISSUES, ARE THERE**
4 **SPECIFIC ISSUES PNM IS REQUIRED TO ADDRESS IN THIS CASE BY**
5 **PREVIOUS COMMISSION ORDERS AND STIPULATIONS?**

6 **A.** Yes. PNM witness Stella Chan describes the rate design related matters required
7 to be addressed in this case by the Amended Stipulation approved by the
8 Commission in NMPRC Case No. 10-00086-UT. I have addressed the
9 requirement for PNM to seek approval for continued use of the Renewable
10 Energy Rider in this case. In addition, in NMPRC Case No. 12-00007-UT, the
11 Commission required PNM to address whether all RPS compliance costs should
12 be recovered through the Rider and whether a functional allocation of costs
13 should be used for the Rider. I have addressed the issue of whether all RPS
14 compliance costs should be recovered through the Rider earlier in my testimony
15 and Mr. Aguirre addresses use of a functional allocation. Also, the Commission's
16 Final Order in NMPRC Case No. 11-00435-UT ("Payment Center Order")
17 requires PNM to address the use of payment centers in this case. PNM is also
18 required to propose the ratemaking treatment and allocation of revenues from the
19 anticipated receipt of revenues related to the chemical pre-treatment of coal at
20 SJGS, pursuant to the Final Order Adopting Certification of Stipulation in
21 NMPRC Case No. 13-00187-UT.

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1 **Q. PLEASE DESCRIBE THE MANNER IN WHICH PNM WAS REQUIRED**
2 **TO OPERATE THE PAYMENT CENTERS PURSUANT TO THE**
3 **PAYMENT CENTER ORDER.**

4 **A.** The Payment Center Order required PNM to keep the payment centers open and
5 to operate each of the payment centers at least two (2) days per week.

6

7 **Q. DOES PNM HAVE A RECOMMENDATION FOR THE FUTURE**
8 **OPERATION OF THE PAYMENT CENTERS?**

9 **A.** Yes. After considering a variety of options and factors, PNM recommends that it
10 should continue to operate each of the payment centers on the current operating
11 schedule, which is consistent with the Payment Center Order.

12

13 **Q. WHY IS PNM RECOMMENDING NO CHANGE TO THE CURRENT**
14 **OPERATING SCHEDULE?**

15 **A.** Although the payment center statistics show that many customers have made the
16 transition to alternative payment methods to pay their electric bills, the number of
17 customers using the payment centers stabilized after the initial decline in use in
18 response to the two (2) day schedule. PNM has seen an over 60% decrease in the
19 number of payments processed in its payment centers statewide since 2011. In
20 2011 an average of 43,432 payments were processed each month. In late 2011
21 PNM announced its intention to close the payment centers. In 2012 the average

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1 monthly payments processed in payment centers decreased to 29,113. In
2 accordance with the Payment Center Order, PNM changed its operating schedule
3 to two (2) days per week in each of the payment centers in September 2012. An
4 average of 17,696 payments were processed each month in 2013. Through
5 September 2014, the average number of payments processed monthly has
6 remained relatively constant, at 17,096.

7
8 **Q. PLEASE PROVIDE DATA RELATED TO THE METHOD OF PAYMENT**
9 **THAT PNM CUSTOMERS ARE USING AS A RESULT OF**
10 **IMPLEMENTATION OF THE 2 DAY OPERATING SCHEDULE.**

11 **A.** As a result of implementing a two (2) day operating schedule, many customers
12 have migrated to alternate payment methods as shown in Table GTO-6:

Table GTO-6

	# Payments 2011	# Payments 2013	Increase %
Electronic Payments			
Automatic Payment	572,743	751,638	31%
Online	808,026	1,035,400	28%
Other (i.e., bank bill pay service)	1,028,204	1,102,249	7%
Walk-in Payments			
Western Union	219,855	274,982	25%

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1 **Q. PLEASE PROVIDE AN OVERVIEW OF THE PAYMENT OPTIONS**
2 **THAT PNM CURRENTLY OFFERS ITS CUSTOMERS.**

3 **A.** PNM offers the following payment options to its customers:

- 4 • Electronic
 - 5 ○ On-line (Electronic check, Credit, Debit or ATM card)
 - 6 ○ Bank Bill Pay Service
 - 7 ○ Phone (Electronic check, Credit, Debit, or ATM card)
 - 8 ○ Automatic Payment (Bank Draft)
- 9 • Mail
- 10 • Walk-in
 - 11 ○ 61 Western Union locations
 - 12 ○ Eight (8) PNM payment centers
- 13 • Drop off at Wells Fargo
 - 14 ○ Over 50 Wells Fargo branches

15
16 **Q. PLEASE DESCRIBE OTHER OPTIONS PNM CONSIDERED FOR THE**
17 **PAYMENT CENTERS.**

18 **A.** In addition to the option of maintaining the existing two (2) day payment center
19 operations for the foreseeable future, PNM also considered a wide range of other
20 options. These options included: (1) full closure of all payment centers; (2)
21 closure of certain payment centers where overall volume is very low; and (3)

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1 expanding the days of operation for some or all of the payment centers. Given the
2 trend toward electronic payments among customers, especially with the wide
3 adoption of the internet and increased popularity of mobile devices, PNM believes
4 that it should continue to maintain the current two (2) day operations at each of its
5 eight (8) payment centers for the foreseeable future. However, PNM will
6 continue to assess future customer payment trends.

7
8 **Q. PLEASE EXPLAIN THE ISSUE REGARDING CHEMICAL PRE-**
9 **TREATMENT OF SAN JUAN COAL.**

10 **A.** The federal government provides tax incentives to entities that are able to reduce
11 NOx emissions by chemically treating coal prior to combustion. In response to
12 these incentives, several entities have developed proprietary processes for coal
13 pre-treatment that meet IRS requirements. The entities seek opportunities at coal
14 burning facilities to deploy their equipment and processes to take advantage of the
15 tax incentives. On behalf of the San Juan owners, PNM entered into a License
16 and Access Agreement with San Juan Fuels, LLC (“SJF”) under which SJF was
17 permitted to install a coal pre-treatment facility at San Juan. In return SJF will
18 pay a licensing and access fee based on the tonnage of coal treated, of which
19 PNM’s retail share would be about \$5.6 million per year. The pre-treatment is
20 expected to reduce NOx emissions by approximately 21%, mercury by more than
21 50%, and SO₂ by at least 5.1%. In the Stipulation approved in NMPRC Case No.

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1 13-00178-UT (“FPPCAC Stipulation”), PNM was allowed to retain 100% of the
2 revenues from the SJF contract through the effective date of the rates approved in
3 this case. PNM also agreed to include in this case a proposal for the ratemaking
4 treatment of the revenues going forward.

5
6 **Q. WHAT IS PNM PROPOSING AS THE RATEMAKING TREATMENT**
7 **GOING FORWARD?**

8 **A.** First, I must emphasize that PNM did not begin receiving revenues under the
9 contract as soon as expected. PNM’s ability to retain revenues from the contract
10 was an important consideration in its agreement to write off \$10.5 million in fuel
11 costs as part of the FPPCAC Stipulation. Therefore, PNM proposes that it be
12 allowed to continue to retain 100% of the revenues from the contract through
13 December 31, 2016. Beginning January 1, 2017, PNM will credit 50% of the
14 revenues received from the contract against fuel handling costs through the
15 FPPCAC.

16
17 **Q. DOES THE COST OF SERVICE REFLECT THE TERMS OF OTHER**
18 **STIPULATIONS APPROVED BY THE COMMISSION?**

19 **A.** Yes.

20

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- 1 **Q.** **DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**
- 2 **A.** Yes.

GCG#519010

Résumé of Gerard T. Ortiz

PNM Exhibit GTO-1

Is contained in the following 6 pages.

GERARD T. ORTIZ EXPERIENCE AND QUALIFICATIONS

1
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Name: Gerard T. Ortiz
Address: PNM Resources Inc.
414 Silver Ave. SW
Albuquerque, NM 87102

Position:
Professional Engineer Registration: State of New Mexico - #9687

Education: B.S., Electrical Engineering, New Mexico State University, 1981
M.B.A., Finance Concentration, University of New Mexico, 1988

Employment: Employed by Public Service Company of New Mexico since 1981.
Positions held within the Company include:

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

Testimony Filed:

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

1	Proceeding	Regulatory Body	Docket Number
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4	In the Matter of the application of PNM For Approval of Rio Rancho 2003 Underground Projects Rider Pursuant to Advice Notice No. 299	NMPRC	03-00352-UT
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9	In the Matter of the application of PNM For Approval of Gas Energy Efficiency Programs and Program Cost Rider Pursuant To the New Mexico Public Utility and Efficient Use of Energy Acts	NMPRC	05-00261-UT
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15	In the Matter of the application of PNM For a Certificate of Public Convenience And Necessity for the Afton Generation Station	NMPRC	05-00275-UT
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20	In the Matter of the application of PNM For Approval of Rio Rancho 2005 Underground Projects Rider Pursuant to Advice Notice No. 319	NMPRC	05-00418-UT
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25	In the Matter of Staff's Petition for the Docketing of a Case to Address Issues Arising from PNM's Fiber Optic Network Pilot Program	NMPRC	05-00443-UT
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30	In the Matter of the application of PNM For Approval of Rio Rancho Unser Boulevard Road Widening Project Underground Rider Pursuant to Advice Notice No. 323	NMPRC	06-00095-UT
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36	In the Matter of the application of PNM For Approval of Rio Rancho 2006 Underground Project Rider Pursuant to Advice Notice No. 326	NMPRC	06-00302-UT
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41	In the Matter of the application of PNM For Approval of the ML Tap Underground Project Rider Pursuant to Advice Notice No. 328	NMPRC	06-00354-UT
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1	Proceeding	Regulatory Body	Docket Number
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4	In the Matter of the application of PNM For Approval of Electric Energy Efficiency Programs and Load Management Programs Program Cost Tariff Riders Pursuant to the New Mexico Public Utility and Efficient Use of Energy Acts	NMPRC	07-00053-UT
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11	In the Matter of the Investigation of the Continuation of PNM's Gas Energy Efficiency Programs and Program Cost Tariff Rider	NMPRC	07-00151-UT
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16	In the Matter of the application of PNM For Approval of the City of Santa Fe 2007 Underground Projects Rider Pursuant to Advice Notice No. 335	NMPRC	07-00170-UT
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21	In the Matter of the application of PNM For Approval of the Santa Fe County 2007 Underground Projects Rider Pursuant to Advice Notice No. 339	NMPRC	07-00373-UT
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26	In the Matter of the application of PNM For Approval of the City of Albuquerque Unser 12 2007 Underground Project Rider Pursuant to Advice Notice No. 344	NMPRC	07-00463-UT
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31	In the Matter of the application of PNM For Approval of the City of Rio Rancho 2008 Underground Projects Rider Pursuant to Advice Notice No. 346	NMPRC	08-00100-UT
35			
36	Inquiry into Charges to Customers Of Public Service Company of New Mexico's Voluntary Renewable Energy Program Under Rider 11 and the Emergency Fuel Adjustment Clause	NMPRC	08-00229-UT
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42	In the Matter of the application of PNM For Approval of the County of Santa Fe 2009 Underground Projects Rider Pursuant to Advice Notice No. 367	NMPRC	09-00056-UT
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1	Proceeding	Regulatory Body	Docket Number
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4	In the Matter of the application of PNM For Approval of the City of Rio Rancho 2009 Underground Projects Rider Pursuant to Advice Notice No. 369	NMPRC	09-00091-UT
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9	In the Matter of the Application of Public Service Company of New Mexico For Approval of a Plan to Manage Fuel and Purchased Power Costs By Entering into Certain Forward Market Transactions	NMPRC	09-00321-UT
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16	In the Matter of the Application of Public Service Company of New Mexico For Approval of a New Voluntary Renewable Energy Program to Replace The Company's Existing Sky Blue Program and for Approval to Terminate The Sky Blue Program	NMPRC	10-00018-UT
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24	In the Matter of an Investigation by the Pipeline Safety Bureau of the New Mexico Public Regulation Commission Concerning A Complaint Filed by the International Brotherhood of Electrical Workers	NMPRC	10-00042-PL
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30	In the Matter of the Application of Public Service Company of New Mexico For Approval of the City of Rio Rancho 2010 Underground Projects Rider Pursuant to Advice Notice No. 388	NMPRC	10-00073-UT
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36	In the Matter of the Application of Public Service Company of New Mexico For Approval of the City of Albuquerque 2010 Underground Projects Rider Pursuant to Advice Notice No. 391	NMPRC	10-00100-UT
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4	In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2014 And Proposed 2014 Rider Rate under Rate Rider No. 36	NMPRC	13-00183-UT
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11	In the Matter of the Application Of Public Service Company of New Mexico For Continued Use of Fuel and Purchased Power Cost Adjustment Clause	NMPRC	13-00187-UT
15			
16	In the Matter of the Application of Public Service Company of New Mexico for Approval To Abandon San Juan Generating Station Units 2 and 3, Issuance of Certificates of Public Convenience and Necessity for Replacement Power Resources, Issuance of Accounting Orders And Determination of Related Ratemaking Principles and Treatment	NMPRC	13-00390-UT
24			
25	In the Matter of Public Service Company of New Mexico's Renewable Energy Portfolio Procurement Plan for 2015 And Proposed 2015 Rider Rate under Rate Rider No. 36	NMPRC	14-00158-UT
31			
32	In the Matter of Public Service Company of New Mexico's Application for Continuation Of a Plan to Manage Fuel and Purchased Power Costs by Entering into Certain Forward Market Transactions,	NMPRC	14-00190-UT
39			
40	In the Matter of the Application for Approval of 2014 Electric Energy Efficiency Programs and Program Cost Tariff Rider Pursuant to the New Mexico Public Utility and Efficient Use of Energy Acts	NMPRC	14-00310-UT
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GCG # 518678

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) **Case No. 14-00332-UT**
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 507)
)
PUBLIC SERVICE COMPANY OF NEW MEXICO,)
Applicant.)
_____)

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

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

SIGNED this 4th day of December, 2014.


GERARD T. ORTIZ

SUBSCRIBED AND SWORN to before me this 4th day of December, 2014.


NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

1.21.16