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

JASON A. PETERS

DECEMBER 11, 2014

NMPRC CASE NO. 14-00332-UT
INDEX TO THE DIRECT TESTIMONY OF JASON A. PETERS
WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

DIRECT TESTIMONY OF
JASON A. PETERS
NMPRC CASE NO. 14-00332-UT

I. INTRODUCTION AND PURPOSE

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

A. My name is Jason A. Peters. I am the Manager, Cost of Service for PNM Resources, Inc. ("PNM Resources" or "PNMR"). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS MANAGER OF COST OF SERVICE.

A. As Manager of Cost of Service, I am responsible for revenue requirement-related work for all regulated subsidiaries of PNM Resources, including Public Service Company of New Mexico ("PNM" or "Company") and Texas-New Mexico Power Company ("TNMP"). This responsibility includes preparation of revenue requirement analysis and required testimony for regulatory filings.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN UTILITY REGULATION PROCEEDINGS?

A. Yes. My educational background and professional experience is summarized in PNM Exhibit JAP-1, which includes a tabulation of cases before the New Mexico Public Regulation Commission ("NMPRC" or "Commission"), and Public Utility Commission of Texas, in which I have testified.

DIRECT TESTIMONY OF
JASON A. PETERS
NMPRC CASE NO. 14-00332-UT

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

A. The purpose of my testimony is to address certain items included in the calculation of the Company's revenue requirement. In the sections that follow, I will request Commission approval to establish certain new regulatory assets and liabilities. I will also provide cost-benefit analyses for certain rate base items.

Q. HOW DOES YOUR TESTIMONY RELATE TO THE TESTIMONY PRESENTED BY OTHER COMPANY WITNESSES?

A. I am presenting support for certain regulatory assets and liabilities and the cost-benefit analyses for certain items as support for their inclusion in the revenue requirement calculation which is being presented by PNM Witness Henry Monroy.

II. REQUEST FOR NEW REGULATORY ASSETS AND LIABILITIES

Q. PLEASE SUMMARIZE THE REGULATORY ASSETS AND LIABILITIES THAT YOU ARE DISCUSSING IN YOUR TESTIMONY.

A. PNM is requesting approval for the following regulatory assets and liabilities:

(1) Collect previously deferred expenses incurred with the exit of the Alvarado Square building in downtown Albuquerque and the consolidation of PNM employees into the PNM headquarters building ("Alvarado Square Lease Regulatory Asset");

(2) Establish a new regulatory asset to defer costs to implement a free recurring credit card payment program ("Credit Card Program");

(3) Establish a regulatory asset for recovery of rate case expenses for the current case ("Rate Case Expenses");

(4) Collect projected expenses to be incurred to re-program PNM's Time of Use ("TOU) meters to accommodate proposed changes in PNM's TOU rates ("TOU regulatory asset"); and

(5) Create a regulatory liability to refund back to customers certain DOE spent fuel refunds expected to be received after the base period ("PV DOE Settlement regulatory liability").

In addition, PNM is requesting the creation of a regulatory liability to recognize expense associated with Asset Retirement Obligations ("ARO") over a straight-line basis compared to an accretion method as required under generally accepted accounting principles ("GAAP"). Please refer to PNM witness Henry Monroy for further discussion of the ARO regulatory liability.

A. Alvarado Square Lease Regulatory Asset

Q. PLEASE DESCRIBE THE EXIT FROM ALVARADO SQUARE.

A. PNMR management made a decision to vacate the Alvarado Square building on December 27, 2011, and consolidate employees in the PNM Headquarters building across the street in order to reduce cost and increase employee efficiency. As of that date, PNMR had leasehold improvements of $4,557,557, an allocated portion of which was included in PNM's revenue requirements used to set rates as approved by the NMPRC in Case No. 10-00086-UT ("2010 Rate Case") (see PNM Exhibit JAP-2, WP RA-5). In order to properly vacate Alvarado Square, certain additional costs were incurred. These costs included demolition of the skywalk that connected the Alvarado Square and Headquarters buildings. In addition, work was required on the heating and cooling systems in order to have each building have stand-alone systems. Finally, improvements to the Headquarters building were necessary to accommodate the increased usage and capacity of the facility, including remodeling of each floor and the purchase of cubicles.

Q. HAS PNM PREPARED A COST-BENEFIT ANALYSIS TO DETERMINE IF REVENUE REQUIREMENTS ARE LOWER AS A RESULT OF VACATING ALVARADO SQUARE?

A. Yes. A cost-benefit analysis was performed to determine if there was an overall benefit to customers after incurring the incremental costs to improve the Headquarters building and vacate the Alvarado Square building as described previously. Based on the results of the analysis presented in PNM Exhibit JAP-2, WP RA-5, an overall benefit of $1.5 million, assuming an annualized revenue requirement, is clearly demonstrated. This benefit includes recovery from customers of the net book value of the Alvarado Square leasehold improvements as well as the costs incurred related to vacating Alvarado Square. In addition, the cost component of the analysis includes the additional capital investment that will be recovered from customers.

Q. BASED ON THIS ANALYSIS, WHAT AMOUNT OF ALVARADO SQUARE EXIT COSTS IS PNM PROPOSING TO INCLUDE IN RATE BASE?

A. PNM is seeking inclusion in rate base of improvements made to the Headquarters building in the amount of $11.3 million included in general plant, before corporate allocation, as well as a regulatory asset in the amount of $3.8 million, PNM Retail's share, for Alvarado Square exit costs. Please see PNM Exhibit JAP-2, WP RA-4 for a calculation of the Alvarado Square Lease Regulatory Asset. The total PNMR regulatory asset of $4.7 million includes the remaining balance of the Alvarado Square leasehold improvements in the amount of $3.3 million, and $1.4 million in costs associated with removal of the skyway between the Headquarters and Alvarado Square buildings as well as heating and cooling system modifications.

Q. WHAT HAS PNM INCLUDED IN THE TEST PERIOD RELATED TO RECOVERY OF THE ALVARADO SQUARE LEASE REGULATORY ASSET?

A. PNM is proposing to recover the Alvarado Square Lease Regulatory Asset over a five year period and has included the first year of amortization in the other allowable expenses in the test period cost of service. PNM has also included the unamortized balance in the other rate base section of the cost of service.

Q. IS THE PROPOSED RATE TREATMENT FOR THE ALVARADO SQUARE LEASE REGULATORY ASSET CONSISTENT WITH PRIOR PNM CASES BEFORE THE COMMISSION?

A. Yes. In Case No. 2262, PNM sought recovery for costs associated with PNM's efforts to reduce labor costs, termed Project Turnaround. PNM showed that customers received a net benefit as a result of these labor reductions, and was allowed to recover the costs incurred to achieve those reductions. The proposed treatment of the Alvarado Square exit costs is consistent with the Case No. 2262 precedent.

B. Credit Card Program

Q. PLEASE DESCRIBE PNM'S PROPOSAL TO IMPLEMENT FREE RECURRING CREDIT CARD PAYMENTS FOR CUSTOMERS.

A. PNM proposes that customers who sign up for automatic, recurring payments will no longer be charged a $2.95 transaction fee when using a credit card to pay their PNM bill. All customers will be eligible to sign up for free, automatic, recurring payments. PNM is requesting the Commission to establish a regulatory asset for fees incurred in this customer service program. PNM is not seeking recovery of any costs associated with this program in this proceeding.

Q. WHY IS PNM REQUESTING TO IMPLEMENT A FREE RECURRING CREDIT CARD PAYMENT OPTION FOR ITS CUSTOMERS?

A. Adding the free credit card payment option will provide all customers with an additional option to make automatic, recurring payments and is expected to increase customer satisfaction. Research shows that customers who have a free, automatic, recurring credit card payment as one of their payment choices have a higher satisfaction level with their utility's payment process than customers who do not.

Q. WHICH PNM CUSTOMERS CURRENTLY PAY BY CREDIT CARDS?

A. PNM customers of all income levels use credit cards to pay their electric bill. For the twelve months ended June 30, 2014, 6.7% of PNM customer payments were made using credit and debit cards. Industry wide, approximately 8% of utility customer payments were made using a credit card in 2012. Over the past 12 months, 14% of credit card payments have been made by PNM customers who have identified themselves as low income through the Low Income Heating Energy Assistance Program. Currently customers pay a per transaction fee of $2.95 for each payment made by credit card to PNM. PNM proposes that, beginning in 2016, customers who sign up for automatic and recurring payments will not have to pay a transaction fee for using a credit card. This will remove some of the financial burden to customers paying with a credit card.

Q. WHY ISN'T PNM MAKING NON-RECURRING CREDIT CARD PAYMENT FEES FREE TO CUSTOMERS?

A. PNM is able to obtain a lower transaction fee from credit card vendors for customers who participate in automatic, recurring payment programs than for customers who make one-time payments. Vendors are expected to offer PNM a transaction fee of $1.50 for recurring customer credit card payments versus the original transaction fee of $2.95 per payment. Vendors have offered a discounted price for recurring credit card payments because the volume of payments will be relatively consistent and predictable each month, leading to lower administrative and processing costs for the vendors. Therefore, absorbing only recurring credit card transactions will be considerably less expensive than absorbing all customer credit card payments.

PNM will continue to offer one-time credit card payments as an option for customers, but will continue to pass along the $2.95 vendor transaction fee directly to the customers who do not sign up for the automatic reoccurring payment program.

Q. WHAT PARTICIPATION LEVELS DOES PNM EXPECT FOR THIS PROGRAM AND WHAT ARE THE COSTS ASSOCIATED WITH THE PROGRAM?

A. PNM anticipates that offering free credit card payments to customers who sign up for automatic, recurring payments will cost between $360,000 and $630,000 each year, with an anticipated participation level between 4.0% and 7.0% of customers. This estimate is based on a similar program that PNM had in place prior to 2012 and on input from external payment processing services.

Q. HOW IS PNM PROPOSING TO ACCOUNT FOR THE CREDIT CARD FEE EXPENSE TO BE CHARGED BY THE CREDIT CARD COMPANIES?

A. As described above, PNM is proposing to implement this program in 2016. At this time, PNM is unable to predict the exact number of customers that may utilize this new program and so is unable to estimate the exact amount of fees it expects to incur for this program. Therefore, PNM is requesting the Commission to allow PNM to establish a regulatory asset for fees incurred in this customer service program. PNM would defer all expenses incurred related to the free recurring credit card fee program upon implementation of the program through the effective date of new rates set in PNM's next rate case after this case.

C. Rate Case Expenses Regulatory Asset

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

A. PNM is seeking recovery of $3,048,908 as is detailed in PNM Exhibit JAP-2, WP OA-2. At this time, I am providing a projection of rate case expenses and will update this projection in an exhibit, which I will file prior to the commencement of the hearing in this rate case. This exhibit will reflect expenses incurred up to that date and a projection of the costs to be incurred through the remainder of the case. PNM's goal is to provide the Commission with as timely and accurate a statement as we can of the rate case expenses incurred in connection with this case. PNM is requesting to establish a regulatory asset to recover these costs over a two year period. The two year period is based on the time period rates from this proceeding are expected to be in place. For comparison purposes, PNM incurred $3.5 million in rate case expenses for the 2010 Rate Case.

Q. HOW WERE THE RATE CASE EXPENSE ESTIMATES DERIVED?

A. This case involves numerous complex issues and, based on past experience, PNM believes that many of these issues will be highly contested and therefore the costs of preparing and litigating this rate case will be significant. PNM has taken action to control expenses to the extent possible consistent with the need for thorough and effective presentation of PNM's positions. These actions include the assignment of qualified in-house counsel to oversee and participate in proceedings, and qualified outside counsel with substantial experience with the Public Utility Act, and with regulatory law in general, to efficiently and effectively assist in this proceeding. PNM witness Leonard Sanchez discusses how legal costs are managed by the Company. In addition, it is both cost-effective and necessary to retain outside experts who have subject matter expertise not available in-house on specific issues inherent in a complex rate proceeding. In this case PNM sought the assistance of Robert Hevert to provide expert financial evaluation and testimony concerning the cost of capital and the appropriate capital structure for ratemaking purposes, which are the main components in a rate of return determination; Dane Watson to provide testimony in support of the new depreciation rates which PNM proposes to implement; Dr. Ahmad Faruqui to provide support for PNM's load forecast; Daniel Hansen to provide support for certain of PNM's proposed rate design requests; and ScottMadden who was retained to assist with the documentation required to support the filing of this case. PNM's utilization of these outside services is a cost-effective means to meet the requirements of a rate case filing. PNM hires outside service firms to prepare and support its filing versus hiring full time staff to provide these same services, as these services are cyclical in nature and are not cost-effective to fully staff personnel with this expertise.

Also, 17.9.530.13(Q)(6) NMAC requires that PNM submit an opinion of an independent certified public accountant stating that an independent examination of the book amounts and accounting adjustments of PNM's books and records has been made for the base period and that the results thereof are in all material respects in compliance with the Uniform System of Accounts prescribed by the Commission. The accounting firm of KPMG provided this opinion. Other costs included in the projected rate case expenses for this case are necessary and reasonable due to the number of expected parties and witnesses, the anticipated level of document discovery and interrogatories, the anticipated length of the hearing and the complexity of the issues.

Q. HASN'T THE COMMISSION GENERALLY USED A THREE YEAR PERIOD AS A RULE OF THUMB FOR HOW LONG RATES WILL BE IN EFFECT?

A. Yes. However, if the abandonment of San Juan Units 2 and 3 requested in NMPRC Case No. 13-00390-UT is approved, PNM will have a much different power supply resource portfolio in order to continue serving customers reliably while complying with the Revised State Implementation Plan ("Revised SIP") recently approved by the U. S. Environmental Protection Agency. As such, it is anticipated that PNM will be filing its next rate case with a calendar year 2018 test period to reflect the decisions reached by the Commission in Case No. 13-00390-UT.

D. TOU Regulatory Asset

Q. PLEASE DESCRIBE THE TOU REGULATORY ASSET.

A. PNM is proposing to modify its TOU pricing period for this rate case. Currently, PNM's TOU On-Peak hours are from 8 a.m. to 8 p.m. Monday through Friday. PNM proposes to adjust its TOU On-Peak hours from 10 a.m. to 10 p.m. Monday through Friday. Please refer to PNM witness Stella Chan for further discussion of the TOU pricing period.

Q. WHY IS PNM REQUESTING REGULATORY ASSET TREATMENT FOR THE TOU RELATED EXPENSES?

A. As discussed by PNM witness Stella Chan, PNM expects to incur approximately $300,000 to reprogram the TOU meters as the result of the requested rate design changes. These costs are expected to be incurred in early 2016, which is during the test period. However, the Company recognizes that these costs are not expected to recur in a future period and therefore, does not believe it is appropriate to include this expense as part of its forecasted O&M expenses in the test period. Therefore, PNM is requesting to establish a regulatory asset to recover these costs over a two year period. The two year period is based on PNM's expectation for the time period rates from this proceeding are expected to be in place. PNM is not requesting rate base treatment for this requested balance, as PNM expects to incur these costs at the beginning of the test period, during the same time when rates from this case are projected to be in place. PNM is only requesting the amortization expense recovery of these costs in this proceeding as discussed in more detail by PNM witness Henry Monroy.

E. PV DOE Settlement Regulatory Liability

Q. PLEASE EXPLAIN THE REQUEST TO ESTABLISH A REGULATORY LIABILITY FOR PALO VERDE DOE NUCLEAR SPENT FUEL SETTLEMENT.

A. PNM expects to receive refunds under a settlement agreement with the Department of Energy regarding nuclear spent fuel costs at the Palo Verde Nuclear Generating Station ("PVNGS"). Under the settlement agreement, PNM has received a settlement payment in October 2014 in the amount of $3,784,421, for costs incurred through June 2011. In addition, PNM is forecasting a second settlement payment to be received in 2015, for costs incurred from July 2011 through June 30, 2014, in the amount of $2,835,600. These settlement amounts reflect spent fuel on all three units of PVNGS. Currently, only PVNGS Units 1 and 2 are subject to Commission jurisdiction. PNM is proposing to record the amounts applicable to PNM retail as a regulatory liability and will provide these settlement refunds back to customers over a proposed two year period. Absent an order from the Commission to create a regulatory liability, PNM would record these received settlements as income in the period received. Please see PNM Exhibit JAP-2 WP RA-3 for the calculations of the PV DOE Settlement regulatory liability balances.

PNM is proposing this credit be refunded back to customers through base fuel. Please see the testimony of PNM witness Henry E. Monroy for further discussion.

III. COST-BENEFIT ANALYSES FOR CERTAIN RATE BASE ITEMS

Q. WHAT TOPICS WILL YOU ADDRESS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my testimony, I will address the cost-benefit analyses for the following rate base items included in PNM's revenue requirement:

(1) PNM's Pension, Accelerated Management Performance Plan ("AMPP"), and post-employment benefits other than pension ("PBOP"); and

(2) Loss on reacquired debt.

A. Pension, AMPP, and PBOP

Q. WHAT IS PNM INCLUDING IN RATE BASE ASSOCIATED WITH THE PENSION ASSETS AND LIABILITIES?

A. PNM is including a rate base reduction for the AMPP. Reducing rate base by the amount of the AMPP balance was approved in Case No. 07-00077-UT ("2007 Rate Case") to be consistent with the inclusion of Prepaid Pension Asset in rate base.[1] The AMPP balance was reduced in accordance with Case No. 08-00273-UT ("2008 Rate Case") and Case No. 08-00078-UT ("Gas Asset Sale") Stipulations approved in those cases by allocating 58% of the pension related balances to PNM Electric. Please refer to PNM Exhibit JAP-2, WP ORB-7 for the calculation. Consistent with this rate base reduction, PNM has included an

[1] NMPRC Case No. 07-00077-UT, Order on Rehearing of Final Order (May 1, 2008).

asset in rate base for PNM's share of the defined benefit pension plan (the "Prepaid Pension Asset"). PNM's share of 58% was determined in the same manner as it was in the illustrative cost of service supporting the Amended Stipulation approved in the 2010 Rate Case. This amount is the allocated share of the difference between the amounts contributed to the Pension Trust, including forecasted contributions through December 31, 2015, and the amount that will be expensed through the end of the Test Period. This adjustment is reflected in PNM Exhibit JAP-2, WP ORB-5.

Q. PLEASE DESCRIBE THE PREPAID PENSION ASSET.

A. The prepaid pension asset is a result of contributions by PNM to the Pension trust that were in excess of amounts that were expensed under Statement of Financial Accounting Standards ("SFAS") No. 87. More specifically, the Prepaid Pension Asset included in rate base takes into account the total pension expense through December 31, 2016, and contributions that have been or will be funded to the pension plan through that date. This amount was then reduced to remove an amount allocable to PNM's now divested gas business (42 percent of the total). By including the Prepaid Pension Asset in rate base, PNM is proposing to earn a reasonable return on the cash that it has contributed in excess of the amount expensed under SFAS No. 87.

Q. HAS PNM PREPARED A COST-BENEFIT ANALYSIS TO DETERMINE IF REVENUE REQUIREMENTS ARE LOWER AS A RESULT OF CONTRIBUTIONS BY PNM TO THE DEFINED BENEFIT PLAN?

A. Yes. As required by the Final Order in the 2007 Rate Case, PNM has prepared a cost-benefit analysis in PNM Exhibit JAP-2, WP ORB-6 that demonstrates that revenue requirements, including a full return on the Prepaid Pension Asset included in rate base, are slightly higher than the SFAS-87 expense that would have been included in PNM's revenue requirement calculation absent the additional shareholder funding. Therefore, PNM is proposing to only include the amount of Prepaid Pension Asset in rate base up to the break even in revenue requirements for the expense without the contributions compared to the revenue requirement associated with the inclusion of Prepaid Pension Asset in rate base. This results in a reduction of $10 million to the rate base amount for the Prepaid Pension Asset being requested in this proceeding. Including the amount up to the break even ensures that the Company earns a fair return on the investments in the trust made to reduce the pension expense while ensuring that customers do not pay more than they otherwise would have, had the Company not made the contributions.

Q. PLEASE DESCRIBE HOW YOU HAVE TREATED PBOP.

A. In Case No. 2529, the Commission addressed the funding requirements for the annual test period allowance for PBOP costs. In that Order the Commission determined that any company adopting full accrual accounting for PBOP costs in its cost of service must fund such amounts to an external trust. In addition, a company must report the status of its PBOP program and the cost saving initiatives for the program taken to reduce or control costs since its last rate case and provide the effects of these initiatives on the overall cost of the PBOP plan, the annual cost benefits, and the impacts on current revenue requirements. In compliance with that order, all amounts collected in rates since the Commission's Order in Case No. 2529 have been funded to an external trust. The specific amount of PBOP costs included in PNM's test period revenue requirement for PNM is an expense reduction of $259,889. See PNM Exhibit HEM-3, WP OM-5. Attached as PNM Exhibit JAP-3 is evidence that PNM's funding of its SFAS 106 liability has resulted in a net benefit to customers by lowering this expense by approximately $4.1 million. This is reflected on page 9 of the exhibit. In addition, as reflected on page 6 of PNM Exhibit JAP-3, PNM has contributed $11.8 million more to the PBOP Trust than required under Case 2529. Since the amount of PBOP costs included in this case is an expense reduction, PNM will stop making additional contributions to the trust upon completion of this case.

Q. HAS PNM TAKEN ANY STEPS TO CONTROL PBOP COSTS?

A. Yes. The following actions have been implemented to reduce retiree medical expense: (1) eligibility for plan participation is frozen, i.e., retiree medical does not include new hires after December 31, 1997; (2) for retirees over age 65, the Company contributions toward the premiums under the plan have been capped at $100 per month for medical and $35 per month for prescription drugs; (3) the under age 65 plan options were changed to PPO (Preferred Provider Organizations) benefits with coinsurance requirements for many benefits, which means the retiree must pay a percentage of the total bill instead of paying a small co-payment; (4) for retirees over age 65, the retiree medical programs were modified to utilize prescription benefits provided under Medicare Part D for retirees not covered under the AARP options, which reduces Company costs; in addition PNM contracted the administration of these services to The Hartford which further reduced company administration costs; (5) the Wellness and Disease Management Programs, which focus on prevention and reduces the high dollar claims and long-term plan expense, have been expanded to cover retirees participating in the retiree medical plan; and (6) all Medicare-eligible retirees are enrolled in a Medicare supplement insured plan through The Hartford in 2014, which has limited the premium increase exposure long-term.

B. Loss on Reacquired Debt

Q. DID PNM MAKE A TEST PERIOD ADJUSTMENT TO INCLUDE PREMIUMS PAID TO REACQUIRE HIGH COST DEBT?

A. Yes. Consistent with the treatment of these costs in prior cases, PNM increased rate base for the premiums PNM paid in connection with the retirement of certain high cost debt. This amount is included in PNM Exhibit JAP-2, WP RA-6. As described below, PNM has calculated the benefits to customers as a result of PNM actions to retire high cost debt.

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

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

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

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

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

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

A. PNM is seeking a return on and return of the unamortized balance of $23,008,922 for costs incurred to retire high cost debt.

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

A. Yes, PNM Exhibit JAP-2, WP RA-6, page 2 demonstrates that the overall cost of capital would be 8.65% instead of 8.29% had PNM not retired long-term debt. The change in the overall cost of capital is driven by the debt retirements as shown on PNM Exhibit JAP-2, WP RA-6, page 4. Without the debt retirements, the Company's cost of debt would have been 6.84% versus the 6.12% included in the cost of capital in this proceeding.

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

A. Yes. The calculation demonstrates a net benefit to PNM customers in lower annual revenue requirements when comparing the revenue requirements with and without retirement debt after taking into account the costs of these retirements. The calculation of this net benefit to customers is shown in PNM Exhibit JAP-2, WP RA-6, page 1.

IV. CONCLUSIONS

Q. DO YOU HAVE ANY CONCLUDING OBSERVATIONS?

A. Yes. Based on the cost-benefit analyses performed, PNM believes inclusion of the prepaid pension asset, the AMPP rate base reduction, and the loss on reacquired debt balances should be included in rate base in the revenue requirements as presented by PNM witness Henry Monroy. In addition, PNM believes the Commission should grant approval to establish regulatory assets for the Alvarado Lease Regulatory Asset, TOU Expenses, Rate Case Expenses, and establish a Regulatory Liability for the PV DOE

Settlement Refunds. Finally, PNM believes the Commission should approve the credit card fee program, and allow PNM to defer all expenses incurred with the credit card fees until these amounts can be collected in the next general rate case proceeding following this proceeding.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

GCG#518974

Resume of Jason A. Peters

PNM Exhibit JAP-1

Is contained in the following page.

JASON A. PETERS
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Jason A. Peters

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

Position: Manager, Cost of Service

Education: Bachelor of Arts (Mathematics), Gustavus Adolphus College, 1995
Master of Accounting, University of New Mexico, 2004
Certified Public Accountant in the State of New Mexico, October 2006

Employment: Employed by PNM Resources, Inc. since 2007.
Positions held within the Company include:

Manager, Cost of Service
Senior Manager, SEC Reporting
Manager, Consolidations

Testimony Filed:

- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rate Pursuant to Subst. R. 25.192(h) – PUCT – Docket No. 41176, filed January 31, 2013.

- In the Matter of Public Service Company of New Mexico's Application for a Certificate of Public Convenience and Necessity and Related Approvals for the La Luz Energy Center – Case No. 13-00175-UT, filed May 17, 2013.

- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rate Pursuant to Subst. R. 25.192(h) – PUCT – Docket No. 41727, filed August 1, 2013.

- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rate Pursuant to Subst. R. 25.192(h) – PUCT – Docket No. 42181, filed January 21, 2014.

- In the Matter of the Application of Texas-New Mexico Power Company for Interim Update of Wholesale Transmission Rate Pursuant to Subst. R. 25.192(h) – PUCT – Docket No. 42691, filed July 18, 2014.

Supporting Revenue Requirements Workpapers

PNM Exhibit JAP-2

Is contained in the following 20 pages.

WP RA-3

PV DOE Settlement Regulatory Liability

PNM Exhibit JAP-2

WP RA - 3: PV DOE Settlement Regulatory Liability

Line No.		Estimated DOE Refunds 2007 - 2011	Estimated DOE Refunds 2012 - June 2014	Total	Reference
1	Palo Verde Units 1 and 2	$ 3,784,421	$ 2,835,600	$ 6,620,021	
2					
3	PNM Retail Share Allocation %			95.79%	WP COS TEST, Line 762
4	*(Based on Test Period Gen Demand Allocator)*				
5	PNM Retail Share of DOE Refunds			$ 6,341,318	WP RA-2, Column T, Line 4
6					
7	Annual amortization			$ 3,170,659	WP Fuel-6, Column B, Line 3
8	*Line 7 = Line 5 / 2*				
9					
10	PNM is proposing to provide the DOE refunds through the FPPCAC.				
11					

WP RA-4

Alvarado Square Lease Regulatory Asset

PNM Exhibit JAP-2

WP RA - 4: Alvarado Square Lease Regulatory Asset

Line No.	Description	A	B Reference
1	Alvarado Square Lease Regulatory Asset - Total	$ 4,731,120	
2			
3	PNM Share Allocation %	84.10%	
4	TNMP Share Allocation %	15.90%	
5			
6	PNM Share of Alvardo Square Lease RA	3,978,872	
7	PNM Retail Share of Alvarado Square Lease RA	3,834,837	WP RA-1, Column A, Line 13
8			
9	Annual amortization (5 year Recovery)	766,967	WP OA-1, Column F, Line 14
10			
11	Line 6 = Line 1 * Line 3		
12	*Line 7 = Line 6 * 96.38%*		
13	*line 9 = line 7 / 5*		
14			
15	The 96.38% allocator is based on PNM Retail's share of Wages and Salaries Allocators		
16	at the time the Alvarado Square Regulatory Asset was recorded.		

WP RA-5

Alvarado Square Cost Benefit Analysis

PNM Exhibit JAP-2
WP RA - 5: Alvarado Square Cost Benefit Analysis
Consolidation of Headquarters and Alvarado Square - Building Analysis

Line No.	Description	Headquarters	Alvarado Square	Total	Reference/Note
1	Rate Base				
2	Net Book Value at 12/31/11	-	4,557,557		
3					
4	WACC, pre-tax	11.63%	11.63%		
5					
6	Return on Rate Base	-	530,044		Line 2 * Line 4
7					
8	Depreciation Expense	-	-		
9	Leasehold Amortization	-	1,247,593		
10	Lease Expense	-	1,882,751		
11	Operating Expenses	-	1,431,809		
12					
13	Total Existing Revenue Requirements	-	5,092,197	5,092,197	Sum of lines 6 through 11
14					
15					

PNM Exhibit JAP-2
WP RA - 5: Alvarado Square Cost Benefit Analysis
Consolidation of Headquarters and Alvarado Square - Building Analysis

Line No.	Description	Headquarters	Alvarado Square	Total	Reference/Note
16	**Cost-Benefit Test**				
17	Rate Base				
18	Net Book Value at 12/31/11	11,260,397 {1}	-		
19					
20	WACC, pre-tax	11.63%	11.63%		
21					
22	Return on Rate Base	1,309,584	-		Line 18 * Line 20
23					
24	Depreciation Expense	324,299 {2}	-		
25	Leasehold Amortization	-	-		
26	Lease Expense	-	-		
27	Operating Expenses	546,658 {3}	-		
28					
29	Rev. Req, before Reg Asset recovery	2,180,541	-	2,180,541	Sum of lines 22 through 27
30					
31	Total Costs for Recovery	4,731,120			WP RA-4, Line 1
32	Recovery over 5 years	946,224			Line 31 / 5
33	Average Rate Base	4,258,008			Line 31 - (Line 32/2)
34					
35	Return on Reg Asset	495,206			Line 33 * Line 20
36	Amortization of Reg Asset	946,224			Line 32
37					
38	Rev. Req for Reg Asset	1,441,430	-	1,441,430	Line 35 + Line 36
39					
40	New Revenue Requirement			3,621,972	Line 29 + Line 38
41	*(Includes Recovery of Reg Assets)*				
42	Revenue Requirement, if no change to AS building			5,092,197	Line 13
43					
44	Cost / (Benefit)			(1,470,226)	Line 40 - Line 42
45					
46					
47					
48					
49					
50					
51	**Assumptions**				
52	1. Building improvements to HQ building as a result of consolidation.				
53	2. Depreciation rate for new improvements is 2.88%.				
54	3. Operating expenses reflect costs previously allocated to AS that are being retained after disposal of AS.				
55					
56					

WP RA-6

Loss on Reacquired Debt Economic Benefit Analysis

PNM Exhibit JAP-2
WP RA - 6: Loss on Reacquired Debt Economic Benefit Analysis

Line No.	Description	Amount	Reference
1	Test Period Revenue Requirement		
2	Loss on Reacquired Debt		
3	PCB Refinancing Hedge	$15,192,433	WP RA-2, Column AH, Line 8
4	Unamortized Loss on Reacquired Debt	$7,816,489	WP ORB-4, Column D, Line 31
5	Total	$23,008,922	Line 3 + Line 4
6			
7	ADIT on Loss on reacquired debt		
8	PCB Refinancing Hedge	($6,021,102)	PNM Exhibit HEM-2, WP COS TEST, Line 114
9	Unamortized Loss on Reacquired Debt	($3,097,871)	PNM Exhibit HEM-2, WP COS TEST, Line 109
10	Total	($9,118,974)	Line 8 + Line 9
11			
12	Total Rate Base Amount	$13,889,948	Line 5 + Line 10
13			
14	Cost of Capital	11.63%	
15			
16	Return on Rate Base	$1,615,401	Line 12 * Line 14
17			
18	Amortization of Loss on Reacquired Debt	$1,235,520	PNM Exhibit HEM-2, WP COS TEST, Line 551
19			
20	**Total Proposed Revenue Requirement**	**$2,850,921**	**line 16 + line 18**
21			
22			
23	Revenue Requirement Differential if Long Term Debt		
24	Had Not Been Retired		
25			
26	Test Period Rate Base as Filed	2,387,760,427	PNM Exhibit HEM-2, WP COS TEST, Line 204
27	Pre-Tax Cost of Capital as Filed	11.63%	
28	Return and Taxes on Rate Base	$277,696,538	Line 26 * Line 27
29			
30			
31	Rate Base without new Loss on Reacquired Debt	2,373,870,479	Line 26 - Line 12
32	Pre-Tax Cost of Capital w/o Retirements/Refinancings	12.00%	WP RA-6, Page 2, Column C, Line 16
33	Return and Taxes on Rate Base	$284,864,458	Line 31 * Line 32
34			
35	Increase in Revenue Requirements		
36	w/o Retirements / Refinancing	$7,167,920	Line 33 - Line 28
37			
38	**Net Savings to Ratepayer**	**$4,316,999**	**Line 36 - Line 20**

PNM Exhibit JAP-2

WP RA - 6: Loss on Reacquired Debt Economic Benefit Analysis

Test period WACC with Debt Refinance

Line No.	Class of Capital	A Amount	B Capital Ratio	C Effective Rate	D Composite Cost of Capital
1	Long Term Debt	1,440,870	50.00%	6.12%	3.06%
2	Preferred Stock	11,529	0.40%	4.62%	0.02%
3	Common Equity	1,429,341	49.60%	10.50%	5.21%
4	**Total**	2,881,740.00	100.00%		8.29%

Line No.	**PRE-TAX** Class of Capital (1)	Composite Cost of Capital	Composite Tax Rate	Pre-Tax Cost of Capital
5	Long Term Debt	3.06%	N/A	3.06%
6	Preferred Stock	0.02%	39.02%	0.03%
7	Common Equity	5.21%	39.02%	8.54%
8	**Total Capitalization**	**8.29%**		**11.63%**

Test period WACC without Debt Refinance

Line No.	Class of Capital	Amount	Capital Ratio	Effective Rate	Composite Cost of Capital
9	Long Term Debt	1,440,870	50.00%	6.84%	3.42%
10	Preferred Stock	11,529	0.40%	4.62%	0.02%
11	Common Equity	1,429,341	49.60%	10.50%	5.21%
12	**Total**	2,881,740.00	100.00%		8.65%

Line No.	**PRE-TAX** Class of Capital (1)	Composite Cost of Capital	Composite Tax Rate	Pre-Tax Cost of Capital
13	Long Term Debt	3.42%	N/A	3.42%
14	Preferred Stock	0.02%	39.02%	0.03%
15	Common Equity	5.21%	39.02%	8.54%
16	**Total Capitalization**	**8.65%**		**12.00%**

PNM Exhibit JAP-2
WP RA - 6: Loss on Reacquired Debt Economic Benefit Analysis

Line No.	New Issue	1 Principal Amount Retired	Retirement Date	Electric Balance 6/30/2014	Amortization 7/1/14 thru 12/31/2015	Amortization 1/1/16 thru 12/31/16	2 Electric Balance 12/31/2016	3 Remaining Months Outstanding	4 Monthly Amortization	5 Annual Amortization
1	Existing Loss on reacquired debt									
2	6.375% Farmington	46,000,000	4/1/2006	1,847,652	147,812	98,541	1,601,299	195	8,212	98,541
3	6.375% Farmington	100,000,000	4/1/2006	1,844,288	147,543	98,362	1,598,383	195	8,197	98,362
4	6.375% Maricopa	36,000,000	7/1/2009	979,454	57,499	38,333	883,621	277	3,194	38,333
5	5.75% Maricopa	37,300,000	6/9/2010	461,303	29,445	19,630	412,228	252	1,636	19,630
6	6.3% Maricopa	23,000,000	6/9/2010	124,422	6,449	4,299	113,675	317	358	4,299
7	6.3% Farmington	37,000,000	6/9/2010	131,475	7,602	5,068	118,804	281	422	5,068
8	6.3% Farmington	40,045,000	6/9/2010	141,460	8,179	5,453	127,827	281	454	5,453
9	5.8% Farmington	40,000,000	6/9/2010	345,914	20,001	13,334	312,578	281	1,111	13,334
10	5.8% Farmington	37,000,000	6/9/2010	346,943	20,061	13,374	313,508	281	1,114	13,374
11	5.8% Farmington	23,000,000	6/9/2010	197,612	11,426	7,618	178,568	281	635	7,618
12	6.375% Farmington	90,000,000	6/9/2010	393,429	22,749	15,166	355,514	281	1,264	15,166
13	5.7% Farmington	65,000,000	6/9/2010	697,121	40,309	26,873	629,939	281	2,239	26,873
14	6.6% Farmington	11,500,000	6/9/2010	473,953	27,405	18,270	428,278	281	1,522	18,270
15	6.375% Farmington/Maricopa	182,000,000	5/23/2003	16,881,325	1,266,669	844,446	14,770,210	259	70,370	844,446
16	5.15% 20M PCB	20,000,000	9/27/2012	613,664	40,167	26,778	546,718	245	2,232	26,778
17	**Total for year end**	**787,845,000**		**25,480,013**	**1,853,317**	**1,235,545**	**22,391,151**	**3,991**	**102,962**	**1,235,545**
18	**Average balance for K-1**						**23,008,922**			

PNM Exhibit JAP-2
WP RA - 6: Loss on Reacquired Debt Economic Benefit Analysis
Test Period Ending 12/31/2016

	1	2	3	4	5	6	7	8	9	10	11
Line No.	Issue Date	Maturity Date	Bond Term	Interest Rate	Principal Amount of Issue	Interest Expense	Issue Exp, Disc & Premium	Net Proceeds of Issue	Issue Exp Disc & Prem Amortization	Effective Cost	Effective Yield
1	**Test Period Cost of Debt**										
2	Existing Long Term Debt @ 12/31/16										
3	4/1/2006	4/1/2033	27	4.875%	46,000	2,242.500	355.360	45,644.640	13.161	2,255.661	4.94%
4	4/1/2006	4/1/2033	27	4.875%	100,000	4,875.000	772.522	99,227.478	29	4,903.612	4.94%
5	9/27/2012	9/1/2042	5	2.540%	20,000	508.000	629.418	19,370.582	133	640.509	3.31%
6	12/1/2009	1/1/2038	28	6.250%	36,000	2,250.000	318.829	35,681.171	11	2,261.387	6.34%
7	05/13/2008	05/15/2018	10	7.950%	350,000	27,825.000	7,233.403	342,766.597	723	28,548.340	8.33%
8	10/12/2011	10/1/2021	10	5.350%	160,000	8,560.000	1,627.915	158,372.085	163	8,722.792	5.51%
9	6/9/2010	6/1/2020	10	5.200%	21,000	1,092.000	217.043	20,782.957	22	1,113.704	5.36%
10	6/9/2010	6/1/2017	7	4.750%	37,000	1,757.500	395.763	36,604.237	57	1,814.038	4.96%
11	6/9/2010	6/1/2020	10	5.200%	40,045	2,082.340	428.333	39,616.667	43	2,125.173	5.36%
12	6/9/2010	6/1/2040	30	5.900%	65,000	3,835.000	695.260	64,304.740	23	3,858.175	6.00%
13	6/9/2010	6/1/2040	30	5.900%	130,000	7,670.000	1,390.519	128,609.481	46	7,716.351	6.00%
14	6/9/2010	6/1/2040	30	5.900%	60,000	3,540.000	641.778	59,358.222	21	3,561.393	6.00%
15	6/9/2010	6/1/2040	30	6.250%	11,500	718.750	123.007	11,376.993	4	722.850	6.35%
16											
17	New debt issuances @ 12/31/16										
18	10/1/2015	10/1/2025	10	4.730%	175,000	8,277.500	1,537.500	173,462.500	154	8,431.250	4.86%
19	5/1/2016	5/1/2026	10	5.056%	50,000	2,528.000	725.000	49,275.000	73	2,600.500	5.28%
20											
21	Refinanced PCB bonds @ 12/31/16										
22	6/9/2015	6/1/2043	28	4.170%	39,300	1,638.810	655.450	38,644.550	23	1,662.219	4.30%
23											
24	**Total Test Period Long Term Debt**				**1,340,845**	**79,400**	**17,747**	**1,323,098**	**1,538**	**80,938**	**6.12%**
25											
26	**Original cost of debt before retirement**										
27											
28	un-retired debt and new debt issuances										
29	10/1/2011	10/1/2021	10	5.350%	160,000	8,560	1,628	158,372	163	8,723	5.51%
30	05/13/2008	05/15/2018	10	7.950%	350,000	27,825	7,233	342,767	723	28,548	8.33%
31	10/1/2015	10/1/2025	10	4.730%	175,000	8,278	1,538	173,463	154	8,431	4.86%
32	5/1/2016	5/1/2026	10	5.056%	50,000	2,528	725	49,275	73	2,601	5.28%
33											
34	Prior Years Retirements										
35	06/12/07	06/01/37	30	5.150%	20,000	1,030	833	19,167	28	1,058	5.52%
36	10/1/1983	10/1/2013	30	10.250%	75,000	7,688	2,636	72,364	88	7,775	10.74%
37	12/1/1983	12/1/2013	30	10.750%	27,000	2,903	682	26,318	23	2,925	11.11%
38	12/15/1992	4/1/2022	30	6.375%	46,000	2,933	4,007	41,993	134	3,066	7.30%
39	9/2/1993	4/1/2023	30	6.375%	100,000	6,375	1,157	98,843	39	6,414	6.49%
40	9/2/1993	4/1/2023	30	6.375%	36,000	2,295	417	35,583	14	2,309	6.49%
41	11/01/92	11/01/22	30	5.750%	37,300	2,145	987	36,313	33	2,178	6.00%
42	12/05/96	12/01/26	30	6.300%	23,000	1,449	289	22,711	10	1,459	6.42%
43	12/05/96	12/01/16	20	6.300%	37,000	2,331	520	36,480	26	2,357	6.46%
44	12/05/96	12/01/16	20	6.300%	40,045	2,523	563	39,482	28	2,551	6.46%
45	12/05/96	12/01/16	20	5.700%	65,000	3,705	2,779	62,221	139	3,844	6.18%
46	02/31/97	04/01/22	25	5.800%	40,000	2,320	599	39,401	24	2,344	5.95%
47	02/21/97	04/01/22	25	5.800%	37,000	2,146	654	36,346	26	2,172	5.98%
48	02/21/97	04/01/22	25	5.800%	23,000	1,334	350	22,650	14	1,348	5.95%
49	02/21/97	04/01/22	25	6.375%	90,000	5,738	1,111	88,889	44	5,782	6.50%
50	10/28/99	10/01/29	30	6.600%	11,500	759	460	11,040	15	774	7.01%
51	6/9/2010	6/1/2015	5	4.000%	39,300	1,572	406	38,894	81	1,653	4.25%
52											
53											
54											
55											
56	**Total original cost of debt before retirement**				**1,442,845**	**94,862**	**29,167**	**1,413,678**	**1,797**	**96,659**	**6.84%**

WP ORB-5

Summary of Prepaid Pension Asset

PNM Exhibit JAP-2

WP ORB - 5: Summary of Prepaid Pension Asset

Line No.	Description	A Cash Contributions	B Shareholder Excess Cash Balance
1	Prepaid Pension Benefit Costs at 12/31/13	282,031,901	
4	Adjust for Non-Cash Impacts		
5	Add: 88 retirement Window Impact	7,216,000	289,247,901
6	93 settlement/Curtailment	1,656,000	290,903,901
7	09 curtailment adjustment	9,636,829	300,540,730
8	Less: 1996 Curtailment Gain	(13,317,000)	287,223,730
9	Adjusted Prepaid Pension Benefit Costs 12/31/13		287,223,730
10	2014 Employer Contribution	0	287,223,730
11	2014 Net Periodic Benefit Cost	(4,174,089)	283,049,641
12	2015 Employer Contribution	4,886,064	287,935,705
13	2015 Net Periodic Benefit Cost	(3,369,835)	284,565,870
14	Adjusted Prepaid Benefit Cost 12/31/15		284,565,870
15	January 2016 Pension contribution	4,886,064	
16	January 2016 Pension Expense	(377,163)	289,074,771
17	February 2016 Pension Expense	(377,163)	288,697,607
18	March 2016 Pension Expense	(377,163)	288,320,444
19	April 2016 Pension Expense	(377,163)	287,943,281
20	May 2016 Pension Expense	(377,163)	287,566,117
21	June 2016 Pension Expense	(377,163)	287,188,954
22	July 2016 Pension Expense	(377,163)	286,811,791
23	August 2016 Pension Expense	(377,163)	286,434,627
24	September 2016 Pension Expense	(377,163)	286,057,464
25	October 2016 Pension Expense	(377,163)	285,680,301
26	November 2016 Pension Expense	(377,163)	285,303,137
27	December 2016 Pension Expense	(377,163)	284,925,974
28	Adjusted Prepaid Benefit Cost 12/31/16		284,925,974
29	Per Stipulation from NMPRC Case 08-00078-UT		58.00%
30	**Prepaid Pension Asset year ending December 31, 2016**		**165,257,065**
31	**13 month average Prepaid Pension Asset for test period**		**166,351,600**

WP ORB-6

Prepaid Pension Cost Analysis

PNM Exhibit JAP-2

WP ORB - 6: Prepaid Pension Asset Cost Benefit Analysis

Line No.	Pension - Total Revenue Requirements in illustrative cost of service	A Test Period As calculated	B Test Period Adjustment	C Test Period Proposed
1	Rate Base Addition	166,351,600	(10,000,000)	156,351,600
2	ADIT	(65,796,277)	3,902,000	(61,894,277)
3	Net Impact to Rate Base	100,555,323	(6,098,000)	94,457,323
4	Pre-Tax Cost of Capital	11.63%	11.63%	11.63%
5	Return and Taxes	11,694,584	(709,197)	10,985,387
6	2016 Budgeted SFAS 87 Expense w/Shareholder Contribution	(4,525,960)		(4,525,960)
7	Per Stipulation from NMPRC Case 08-00078-UT	58.00%		58.00%
8	Electric Share	(2,625,057)		(2,625,057)
9	**Total Pension Related Revenue Requirements in Schedule K1**	**9,069,527**	**(709,197)**	**8,360,330**
	Impact if SFAS 87 Expense calculated without Shareholder Contributions			
14	SFAS 87 Expense w/o Shareholder Contribution	14,977,331		14,977,331
15	Per Stipulation from NMPRC Case 08-00078-UT	58.00%		58.00%
16	Electric Pension Expense	8,686,852		8,686,852
17	**Total Pension Related Revenue Requirements - without Shareholder Contribution**	**8,686,852**		**8,686,852**
18	**Benefit to the ratepayer result of contributions to Pension trust**	**(382,675)**	**709,197**	**326,522**

WP ORB-7

Summary of Accelerated Management Performance Plan

WP ORB - 7: Summary of Accelerated Management Performance Plan

	A	B	D	E	F	G
Line No.	Description	Amount	Activity[1] 7/1/14 - 12/31/15	Balance 12/31/2015	Activity 1/1/16 - 12/31/16	Balance 12/31/2016
1						
2	**Accelerated Management Performance Plan**					
3						
4						
5	Net Expense over Amounts Funded at 06/30/2013	(11,998,458)	-	(11,998,458)	-	(11,998,458)
6	Employer Contributions	987,738	1,984,464	2,972,202	1,556,162	4,528,364
7	Net Periodic Benefit Costs	(515,757)	(1,547,271)	(2,063,028)	(1,100,000)	(3,163,028)
8		(11,526,477)	437,193	(11,089,284)	456,162	(10,633,122)
9						
10	Allocation per Stipulation in NMPRC Case 08-00078-UT	58.00%	0.00%	58.00%	0.00%	58.00%
11						
12						
13	**Rate Base**	(6,685,357)	-	(6,431,785)	-	(6,167,211)
14						
15	(1) - The linkage and test periods net periodic benefit costs are calculated based on 2014 net periodic benefit cost provided by the Towers Watson actuarial expense reports.					
16						

WP OA-2

Summary of 2014 Rate Case Expenses

PNM Exhibit JAP-2
WP OA-2 - Summary of 2014 Rate Case Expenses

Line No.	Outside Consultants	A As of June 30, 2014	B Estimated Costs to complete	C Final Estimate of Costs	Reference
1					
2	Cuddy & McCarthy LLP	7,018	402,482	409,500	
3	Alliance Consulting	78,309	61,396	139,705	
4	MCR Performance Solutions	204,449	-	204,449	
5	Price Waterhouse Coopers, LLP	-	165,000	165,000	
6	KPMG LLP	-	110,000	110,000	
7	Sussex Economic Advisors LLC	-	75,000	75,000	
8	Wilkinson Barker Knauer LLP	40,083	600,917	641,000	
9	Christensen & Associates	-	70,000	70,000	
10	Brattle Group	-	400,000	400,000	
11	Allied Energy Group	-	65,000	65,000	
12	Scott Madden	-	200,000	200,000	
13	Miller Stratvert	-	114,000	114,000	
14	Other External Witness Support	-	150,000	150,000	
15	Towers Watson	-	30,000	30,000	
16					
17	**Total Consultants**	**329,857**	**2,443,796**	**2,773,653**	
18					
19	Other Costs (Reproduction, Postage, Etc.)	254	275,000	275,254	
20					
21	**Total Estimated Rate Case Expenses**	**330,112**	**2,718,796**	**3,048,908**	WP ORB-3, Column U, Line 30
22					
23	Estimated 2014 Rate Case Amortization Expense			1,524,454	WP OA-1, Column F, Line 5
24	Two Year Amortization (line 14 / 2)				
25					
26	NOTE: In-house Legal Services are not included in the Rate Case Expenses				
27	for this case.				

Towers Watson Report on the Impact of the Pattern of PNM's ASC 715 Contributions

PNM Exhibit JAP-3

Is contained in the following 9 pages.

PNM Resources, Inc. Post-Retirement Healthcare Plan

Report on the Impact of the Pattern of PNM's ASC 715 Contributions

October 20, 2014

TOWERS WATSON

Purpose and actuarial statement

This report documents the results of a study on the impact of PNM's ASC 715 contributions, performed by Towers Watson Delaware Inc. for Public Service Company of New Mexico (PNM) as required in the Final Order under Case No. 07-00077-UT. This report should not be used for other purposes, distributed to others outside PNM or relied upon by any other person without prior written consent from Towers Watson Delaware Inc.

This report is provided subject to the terms set out herein and in our engagement letter dated November 19, 2002 and the accompanying General Terms and Conditions of Business. This report is provided solely for PNM Resources, Inc.'s use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

Except where we expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

The Company may make a copy of this report available to its auditors, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the Company's auditors in this regard. The Company should draw the provisions of this paragraph to the attention of its auditors when passing this report to them.

In preparing these results, we have relied upon information and data provided to us orally and in writing by PNM Resources, Inc. and other persons or organizations designated by PNM Resources, Inc. We have relied on all the data and information provided, including plan provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency.

The results summarized in this report involve actuarial calculations that require assumptions about future events. PNM Resources, Inc. is responsible for the selection of the assumptions. We believe that the assumptions used in this report are reasonable for the purposes for which they have been used.

In our opinion, all calculations are in accordance with requirements of applicable financial accounting standards, including SFAS 106, 130, 132(R) and 158 (or the standards that supersede these statements under the FASB Accounting Standards Codification), and the procedures followed and the results presented are in conformity with applicable actuarial standards of practice. References in this report to specific financial accounting standards such as those named in this paragraph are intended to encompass standards that supersede the referenced statements under the FASB Accounting Standards Codification.

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to other postretirement benefit plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Towers Watson Delaware Inc.

Philip M. Allen, ASA
Senior Consulting Actuary
October 20, 2014

Towers Watson Delaware Inc.

Cindy Somer-Larsen, ASA
Senior Consultant
October 20, 2014

Towers Watson Delaware Inc.

Towers Watson Delaware Inc.

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Report on the Impact of the Pattern of PNM's SFAS 106 Contributions

Under Case Nos. 2567 and 2662, PNM was required to make quarterly contributions to build trust assets to cover its liabilities under SFAS 106 according to the following annual pattern:

Table 1 ($ thousands)	
Year	Annual Amount
1995	$4,122
1996	4,122
1997	5,645
1998	6,152
1999	6,152
2000	6,152
2001	6,152
2002	5,487
2003	5,265
2004	5,265
2005	5,265
2006	5,265
2007	5,581
2008	4,748
2009	2,547
2010	2,547
2011	2,547
2012	2,547
2013	2,547
2014	2,547

The Orders also required that PNM make the contributions on a tax effective basis. To maximize the tax effective funding of its SFAS 106 liabilities PNM took two critical steps:

- It began funding earlier than 1995 (funding began in 1993), and
  - In some years it paid part of its contributions directly to participants as benefits payments instead of making the contributions to a trust and immediately taking them back out of the trusts to make the benefit payments.

Report on the Impact of the Pattern of PNM's SFAS 106 Contributions

Using these steps, PNM's actual funding has been as follows:

Table 2			
($ thousands)			
Year	Funding Pattern under Case Nos. 2567 and 2662	Actual PNM SFAS 106 Funding	Cumulative Excess Funding
1993	$0	$2,096	$2,096
1994	0	6,516	8,612
1995	4,122	5,533	10,023
1996	4,122	5,527	11,428
1997	5,645	8,706	14,489
1998	6,152	2,698	11,035
1999	6,152	597	5,480
2000	6,152	1,635	963
2001	6,152	6,260	1,071
2002	5,487	6,321	1,905
2003	5,265	6,353	2,993
2004	5,265	6,402	4,130
2005	5,265	6,410	5,275
2006	5,265	6,945	6,955
2007	5,581	6,444	7,818
2008	4,748	5,203	8,273
2009	2,547	2,947	8,673
2010	2,547	2,451	8,577
2011	2,547	2,873	8,903
2012	2,547	3,529	9,885
2013	2,547	3,575	10,913
2014	2,547	3,450	11,816

Report on the Impact of the Pattern of PNM's SFAS 106 Contributions

Under PNM's actual funding pattern, the trust assets have grown as follows:

Table 3 ($ thousands)	
Year	**Trust Assets at End of Year**
1993	$2,118
1994	8,559
1995	15,600
1996	20,930
1997	33,159
1998	37,602
1999	41,825
2000	44,693
2001	42,132
2002	38,925
2003	50,957
2004	56,689
2005	58,484
2006	66,790
2007	71,567
2008	49,480
2009	57,126
2010	61,749
2011	58,776
2012	64,464
2013	73,565

Report on the Impact of the Pattern of PNM's SFAS 106 Contributions

If PNM had followed the exact pattern of contributions shown in Table 1, the trust assets at the end of each year would have been as follows:

Table 4 ($ thousands)	
Year	Trust Assets at End of Year
1993	$0
1994	0
1995	3,274
1996	6,307
1997	11,386
1998	16,597
1999	23,005
2000	28,926
2001	28,032
2002	26,140
2003	33,345
2004	36,099
2005	35,978
2006	39,570
2007	41,819
2008	28,070
2009	29,883
2010	29,671
2011	25,294
2012	24,458
2013	24,095

As can be seen in Table 2, PNM has contributed significantly more than has been required and by comparing the amounts in Tables 3 and 4, the actual assets in the PNM trusts at the end of each year were significantly greater than they would have been if PNM had followed the exact pattern of contributions in Table 1. These greater assets have resulted in much lower SFAS 106 expenses as seen in the following Table 5.

Report on the Impact of the Pattern of PNM's SFAS 106 Contributions

Using these steps, PNM's actual funding has been as follows:

Table 5 ($ thousands)			
Year	PNM Actual SFAS 106 Expense	SFAS 106 Expense Assuming Contribution Pattern in Table 1	Savings
1994	$6,261	$6,446	$185
1995	8,420	9,169	749
1996	6,377	7,659	1,282
1997	5,685	6,978	1,293
1998	4,667	6,676	2,009
1999	4,866	7,361	2,495
2000	4,726	6,745	2,019
2001	9,754	11,587	1,833
2002	9,408	11,792	2,384
2003	9,682	11,804	2,122
2004	2,854	5,757	2,903
2005	4,044	6,575	2,531
2006	5,655	8,129	2,474
2007	4,541	7,404	2,863
2008	2,058	5,047	2,989
2009	1,001	3,622	2,621
2010	3,843	6,458	2,615
2011	806	3,468	2,662
2012	3,155	5,490	2,335
2013	2,229	5,034	2,805
2014	55	4,129	4,074

Assumptions and Methods

The assumptions and methods used in the calculations for this study were the same as those used in the calculation of the SFAS 106 expense in each year. The actual return on the trust assets in each year was used to develop the estimated numbers in Tables 4 and 5.

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.	)	

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

JASON A. PETERS, Manager, Cost of Service, PNM Resources, Inc., upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony and Exhibits of Jason A. Peters** and it is true and accurate based on my own personal knowledge and belief.

GCG # 518948

SIGNED this 5th day of December, 2014.

Jason A. Peters

JASON A. PETERS

SUBSCRIBED AND SWORN to before me this 5th day of December, 2014.

Ronda Morehead

NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

OFFICIAL SEAL
Ronda Morehead
NOTARY PUBLIC
STATE OF NEW MEXICO
My Commission Expires: 7/5/15

My Commission Expires: