

PNM 2014 Electric Rate Case Executive Summary

PNM's electric rate case filing requests a base rate increase of approximately \$107.4 million, effective January 1, 2016. The requested base rate increase combined with other rate changes scheduled to take effect on January 1, 2016, represent an average bill increase of 7.69%. PNM requests this increase to account for investments it has made since the last rate case and other necessary investments it plans to make in the next two years to provide reliable service to PNM's retail customers, and to reflect the declining sales growth in the Company's service territory. The primary driver of PNM's identified revenue deficiency is related to infrastructure investments and the recovery of those investment dollars, including depreciation, which account for approximately 92% of the revenue deficiency. A decline in PNM's energy sales since the last rate case accounts for the balance of the increase, after taking into account offsetting cost reductions. PNM's success with energy efficiency programs is a contributing factor to the decline.

PNM's last rate increase took effect in August of 2011. PNM has avoided seeking a rate increase in the last four years through aggressive cost control. Due to PNM's cost control efforts, its O&M expenses have grown at a pace below the consumer price index level of inflation. Even after implementation of the proposed rates, PNM will continue to offer low, competitive rates for New Mexico business and residential consumers. PNM residential customers pay less for electric service as a percentage of household income than in most other states, and will continue to do so even after the proposed increase is granted.

PNM is proposing several changes to rate design to establish fair and equitable pricing across rate classes, better align cost recovery with cost causation, improve price signals to provide for economic efficiency in energy usage, and remove disincentives for energy efficiency and renewable energy efforts by PNM.

Highlights of the Case

- A revenue requirement including base fuel revenues of \$983,316,658
 - Increased revenue requirement of \$107,441,397
 - ROE of 10.5%
- PNM's proposed rates are based on a Future Test Period (Test Period)
 - Test Period is calendar year 2016 with a Base Period of July 1, 2013, through June 30, 2014.
 - This is the Test Period that best reflects the conditions to be experienced when new rates are expected to go into effect
- Key Drivers for the rate request
 - Increase in rate base from June 30, 2010, through the Test Period ending December 31, 2016, of \$585 million
 - Depreciation Expense
 - Increased plant additions as well as the results of a new depreciation study.
 - PNM's recommended depreciation rates will result in an increase in the annual depreciation expense for PNM's electric utility assets of approximately \$23 million per year.
 - Declining Sales contributing to nearly \$22 million of the revenue deficiency

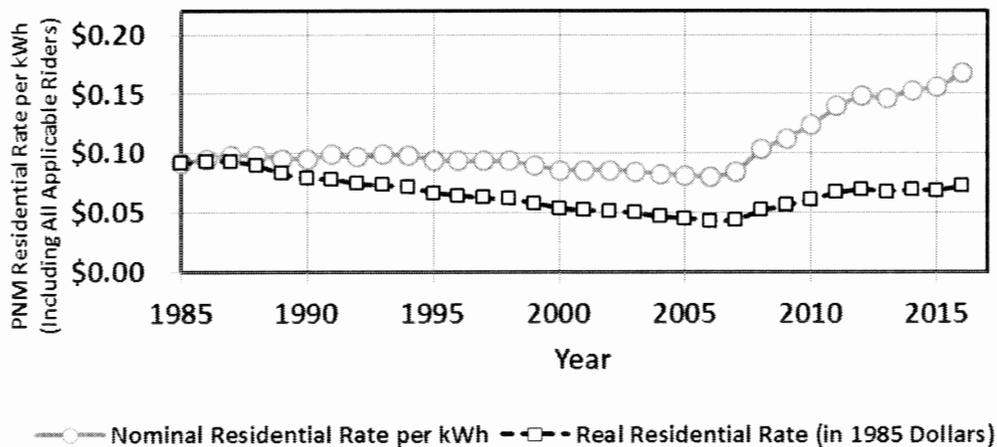
- Significant change due to low customer growth, declining usage per customer and energy efficiency.
 - The recovery of the U.S. economy since 2009 has failed to take hold in New Mexico.
 - PNM's total sales are expected to fall by approximately 3.1 percent from 2013 to 2016.
- Rate Design - PNM seeks to update its current rate design to better reflect customers' use of the system. PNM has proposed several rate design modifications consistent with its rate design principles:
 - The use of an embedded cost allocation as required by PNM's last rate case with a 17% cap on the amount of non-fuel increases allocated to any customer class. Fully allocated embedded cost-of-service studies can provide stable results over time and is consistent with the methodology used by most utilities. PNM limited increases to certain classes to maintain competitive rates for economic development purposes.
 - A four-year pilot mechanism (the Revenue Balancing Account) to remove the regulatory disincentives for energy efficiency programs as required by the EUEA. The Revenue Balancing Account solves the cost recovery problem inherent in traditional ratemaking, where the utility must recover a significant portion of its fixed costs through volumetric energy charges.
 - Implementation of a new Distributed Generation (DG) Interconnection fee to ensure that DG customers pay the fixed costs associated with existing utility infrastructure that is available to them to provide needed service rather than transferring the payment responsibility to non-DG customers. The proposed fee is a monthly charge based upon the capacity of the DG system that will apply only to new customers who do not have an installed system or a completed application by December 31, 2015.
 - Elimination of the banking option for excess energy produced by DG systems. If approved, PNM will make monthly payments to new DG customers for their excess energy produced each month.
 - Implementation of a new economic development tariff that will offer a declining percentage discount to encourage new industry to locate in the state and existing customers to expand their operations. The tariff will be applicable to large commercial and industrial customers.
 - Changes to PNM's customer charges and demand charges to recover a larger percentage of fixed costs, those costs that don't change with the amount of electricity used.
- Continuation of the Renewable Energy Rider, a beneficial mechanism for both customers and PNM to recover costs incurred to comply with the Renewable Energy Act.
 - PNM's proposed new rates do not include the costs that are recovered through PNM's Renewable Energy Rider, Rider 36.
 - Continue the Earnings Test process to assure that use of the Renewable Energy Rider does not result in excessive earnings by PNM.

The proposed rate increase and bill impact for major customer classes is provided below:

Proposed Rate Increase and Bill Impact for Major Classes		
Class	% Revenue Increase	Bill % Increase
Residential	16.34%	11.92%
Small Power	13.29%	9.31%
General Power	8.26%	3.73%
Large Power	11.39%	5.92%
Large Power >= 8,000	7.59%	2.03%
Universities	3.77%	-1.48%
Manufacturing	-1.46%	-7.33%
System Total	12.27%	7.69%

Even with the proposed rate increase, PNM rates will be lower in real dollars than in 1985.

PNM Residential Rate History - 1985 through 2016 (Est.)
(Rates Depicted Include all Applicable Riders)



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