

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 533)

Case No. 16-00276-UT

PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)

Applicant)
_____)

DIRECT TESTIMONY

OF

ELISABETH A. EDEN

December 7, 2016

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

I.	INTRODUCTION AND PURPOSE	1
II.	IMPORTANCE OF FINANCIAL HEALTH AND CREDIT RATINGS	4
III.	PROPOSED CAPITAL STRUCTURE AND COST OF CAPITAL	8
IV.	PALO VERDE NUCLEAR DECOMMISSIONING TRUST	14
V.	PENSION PLAN ANNUITIZATION.....	18
VI.	CONCLUSION.....	20

PNM EXHIBIT EAE-1	Résumé of Elisabeth A. Eden
PNM EXHIBIT EAE-2	Moody’s Credit Opinion, June 23, 2016, “Public Service Company of New Mexico”
PNM EXHIBIT EAE-3	Standard & Poor’s Research, March 22, 2016, “Public Service Co. of New Mexico”

AFFIDAVIT

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

I. INTRODUCTION AND PURPOSE

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

A. My name is Elisabeth A. Eden. I am the Vice President and Treasurer for PNMR Services Company ("PNMR Services"). PNMR Services provides corporate services through shared services agreements to its parent company, PNM Resources, Inc. ("PNMR"), and all of PNMR's subsidiaries, including Public Service Company of New Mexico ("PNM" or "Company"). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS VICE PRESIDENT AND TREASURER.

A. I have responsibility for providing financial support for PNMR and its subsidiaries, including PNM. My treasury responsibilities include the formulation and implementation of specific financing strategies, direction and management of professional finance staff and external resources, interaction with credit rating agencies, management of financial institution relationships for PNMR and its subsidiaries, and management of corporate and trust investments. My educational background and experience are summarized in PNM Exhibit EAE-1.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED WRITTEN TESTIMONY IN UTILITY REGULATORY PROCEEDINGS?

A. Yes, I testified before the New Mexico Public Regulation Commission (“Commission” or “NMPRC”) in Case Nos. 10-00029-UT, 10-00269-UT, 12-00096-UT, 15-00261-UT and submitted pre-filed written testimony in Case No. 14-00332-UT. I have also filed written testimony with the Public Utility Commission of Texas.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to explain why maintaining PNM’s financial health is in the best interests of PNM’s customers and how the rate relief requested in this case is an important component in maintaining PNM’s financial health. In addition, I present the Company’s capital structure, support for the Company’s average cost of capital, and support for the Company’s request to include in rates \$1.3 million of annual contributions to the Palo Verde Nuclear Generating Station (“Palo Verde” or “PVNGS”) Unit 3 Nuclear Decommissioning Trust (“NDT”). Finally, I provide PNM’s position with respect to the possibility of annuitizing the electric portion of its pension plan in response to the requirement in the Final Order in Case No. 15-00261-UT (the “2015 Rate Case”) that PNM address this issue in its next rate case. My testimony is organized by sections that address:

- the importance of maintaining PNM’s credit ratings and sound financial health;

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

- 1 • PNM's current credit ratings;
- 2 • PNM's proposed capital structure and cost of capital;
- 3 • the requested cost recovery of the annual contributions to PNM's NDT
- 4 associated with PVNGS Unit 3; and
- 5 • PNM's position on the possible annuitization of the electric operations
- 6 portion of its pension plan.

7

8 **Q. PLEASE DESCRIBE THE RULE 530 SCHEDULES THAT YOU ARE**

9 **SPONSORING.**

10 **A.** I am sponsoring the following Rule 17.9.530 NMAC ("Rule 530") Schedules: G-1

11 through G-10. These Rule 530 schedules are being provided electronically on a

12 DVD, but are not fully functional and are not required to be provided as fully

13 functional under the Future Test Year Rule (17.1.3 NMAC). I am also sponsoring

14 Rule 530 Schedules: Q-3 and Q-4.

15

16 **Q. WHAT ARE THE KEY CONCLUSIONS OF YOUR TESTIMONY?**

17 **A.** First, maintaining PNM's sound financial health is important because it means

18 that customers can rely on PNM to deliver long-term, high quality, reliable

19 service while enabling PNM to raise necessary capital on favorable terms.

20

21 Second, PNM should maintain a properly balanced capital structure comprised of

22 debt and equity in order to minimize the long-term after-tax cost of capital for the

23 benefit of customers. The capital structure utilized by PNM in the determination

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 of the Test Period¹ revenue requirements consists of 50.0% long-term debt, 0.39%
2 preferred stock and 49.61% common equity which is consistent with PNM's past
3 regulatory capital structures.

4
5 Third, the Company should be allowed to recover in rates \$1.3 million to be
6 contributed annually to the NDT associated with PVNGS Unit 3 as approved by
7 the Final Order in Case No. 13-00390-UT ("BART Case").

8
9 Finally, PNM has analyzed the estimated costs to annuitize the electric portion of
10 its pension plan. PNM is not proposing that the electric portion of its pension
11 plan be annuitized at the present time for the reasons explained later in my
12 testimony.

13
14 **II. IMPORTANCE OF FINANCIAL HEALTH AND CREDIT RATINGS**

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

17 **A.** I address the benefits to customers of PNM maintaining sound financial health
18 and good credit ratings.

19

¹ The Test Period is defined as the twelve months ending December 31, 2018.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 Q. WHAT DO YOU MEAN BY SOUND FINANCIAL HEALTH?

2 A. Sound financial health for a utility means that it generates sufficient revenues
3 from its utility operations to meet its ongoing costs of doing business, so that it
4 may attract and maintain needed capital on favorable terms, including paying
5 reasonable dividends to its shareholders. The financial health of a regulated
6 utility is a function of many factors, such as its capital structure, return on equity
7 (“ROE”), cash flow, and regulatory environment. Sound financial health results
8 in strong credit ratings that allow the utility access to the capital markets, to issue
9 debt at a lower borrowing cost, and to refinance debt at opportune times, resulting
10 in savings for customers. Similarly, sound financial health allows the utility or its
11 parent company, as the case may be, to raise equity in capital markets on
12 favorable terms, thereby maximizing sales proceeds without undue dilution of
13 existing shareholders’ equity.

14
15 Q. PLEASE EXPLAIN WHY SOUND FINANCIAL HEALTH IS
16 IMPORTANT TO THE CUSTOMERS OF PNM.

17 A. PNM’s sound financial health means that its customers can rely on PNM to
18 deliver long-term, high quality, reliable service while ensuring that PNM can raise
19 capital on favorable terms. This ability to raise capital on favorable terms
20 ultimately translates into lower financing costs and thus lower rates for PNM’s
21 customers. It also provides PNM with the financial flexibility to withstand
22 market dislocation and other unanticipated events.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **Q. WHAT IS AN INVESTMENT GRADE RATING?**

2 **A.** A rating of at least Baa3 from Moody's Investors Services, Inc. ("Moody's") and
3 BBB- from Standard and Poor's Financial Services, LLC ("S&P") are both
4 considered to be an investment grade rating. Investment grade debt can be held
5 by a larger universe of investors and generally has a lower interest rate because it
6 is considered less risky than debt that is rated below investment grade.
7 Companies that are rated below investment grade may not be able to access
8 capital in capital-constrained market conditions, except possibly under onerous
9 terms and conditions. A common colloquialism for non-investment grade bonds
10 is "junk bonds." Currently, there is no regulated electric utility that is rated below
11 investment grade.

12
13 **Q. WHAT IS THE OPTIMAL CREDIT RATING FOR AN ELECTRIC**
14 **UTILITY?**

15 **A.** Market perceptions of the investment risk of a utility vary over time, so there is
16 not a single optimal credit rating for a utility under all economic conditions. A
17 rating of AAA would provide a utility with the best access to the capital markets
18 at the lowest debt financing cost. However, most utilities in the United States
19 have a credit rating of BBB+ or higher, which provides for adequate access to the
20 capital markets. For example, a utility with a credit rating of AAA would require
21 a much higher proportion of equity in the capital structure resulting in a higher
22 revenue requirement, which would be significantly more expensive for customers.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **Q. WHAT FACTORS DO THE RATING AGENCIES CONSIDER WHEN**
2 **THEY ASSIGN CREDIT RATINGS TO A UTILITY?**

3 **A.** Both Moody's and S&P take into account factors like the regulatory environment
4 in which the utility operates, the utility's ability to recover its costs and earn its
5 allowed return on a timely and consistent basis, and its financial strength.

6
7 **Q. WHAT ARE PNM'S CURRENT CREDIT RATINGS?**

8 **A.** Moody's and S&P rate PNM's senior unsecured debt at Baa2 and BBB+,
9 respectively, which are both investment grade ratings. In addition, the "outlook"
10 for PNM from both Moody's and S&P is "Stable". PNM's most recent published
11 credit rating reports from Moody's and S&P are contained in PNM Exhibits EAE-
12 2 and EAE-3, respectively.

13
14 **Q. HOW CRITICAL IS IT FOR PNM TO MAINTAIN ITS INVESTMENT**
15 **GRADE CREDIT RATINGS?**

16 **A.** Maintaining PNM's current investment grade credit ratings is critical because of
17 PNM's financing and re-financing requirements during the next five years, which
18 are anticipated to be approximately \$1.4 billion on a cumulative basis. Investors
19 use PNM's credit ratings to determine their willingness to invest in PNM, and at
20 what price. A lower credit rating directly results in a higher cost of debt for the
21 utility and less access to the financial markets.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **Q. WILL GRANTING PNM'S APPLICATION BE HELPFUL IN**
2 **MAINTAINING BOTH PNM'S CURRENT CREDIT RATINGS AND**
3 **REASONABLE FINANCING COSTS?**

4 **A.** Yes. Timely and positive regulatory outcomes are generally viewed by the rating
5 agencies and providers of debt and equity capital as evidence of lower risk and
6 uncertainty. In granting PNM's application, the Commission would provide
7 confirmation to the rating agencies that the regulatory framework is supportive
8 and provides for timely recovery of operating and capital costs - both are large
9 factors in assessing risk and assigning credit ratings. Also, the cost of capital is
10 directly related to the risk of repayment. If the perceived risk of repayment is
11 high (i.e. lower credit ratings), then the cost of the capital is higher than it would
12 be if the risk of repayment and corresponding uncertainty were lower. Strong
13 credit ratings help maintain a reasonable cost of capital, creating cost savings for
14 customers, and the necessary access to the capital markets.

15
16 **III. PROPOSED CAPITAL STRUCTURE AND COST OF CAPITAL**

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

19 **A.** In this section of my direct testimony, I address PNM's proposed capital structure
20 and average cost of capital.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **Q. WHAT IS A PROPERLY BALANCED CAPITAL STRUCTURE?**

2 **A.**A properly balanced utility capital structure is one that is comprised of debt and
3 equity in proportions that are balanced to minimize the long-term after-tax cost of
4 capital for the benefit of customers. Interest paid on debt is tax deductible,
5 contributing to a lower cost for debt than equity, so generally a corporation
6 benefits from the use of debt. However, if debt is too large a component of the
7 capital structure, the risk of default increases, credit ratings deteriorate, and the
8 cost of debt and consequently equity increases, offsetting any tax benefits, and the
9 availability of financing becomes less certain.

10
11 By contrast, the cost of equity is not tax deductible and is generally more
12 expensive than debt because it is a riskier investment. Greater amounts of equity
13 in a capital structure reduce default risk for debt holders, resulting in higher credit
14 ratings, a lower cost of debt and better access to debt financing when needed.
15 Therefore, an optimal balance of debt and equity is necessary in a company's
16 capital structure to minimize the long-term after-tax cost of capital.

17
18 **Q. WHAT IS THE OPTIMAL BALANCE OF DEBT AND EQUITY?**

19 **A.**An optimal balance of debt and equity differs by industry, and often by company
20 within an industry. Industries with more business risk, such as high-tech, have
21 less debt, whereas industries with less business risk, like regulated utilities, can
22 support more financial risk and, therefore, more debt. As discussed further by

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 PNM Witness Hevert, the Company's proposed capital structure is consistent with
2 regulated utility industry practice and, therefore, is reasonable and appropriate.
3

4 **Q. WHAT CAPITAL STRUCTURE WAS USED IN THE DETERMINATION**
5 **OF THE TEST PERIOD REVENUE REQUIREMENTS?**

6 **A.** The capital structure utilized in the determination of Test Period revenue
7 requirements is based on an average of PNM's projected capital structure at
8 December 31, 2018, and December 31, 2017, reflecting projected debt issuances
9 and refinancing expected to occur during the Test Period. The projected capital
10 structure utilized in the determination of Test Period revenue requirements
11 consists of 50.0% long-term debt, 0.39% preferred stock, and 49.61% common
12 equity. This is the same capital structure that was requested and approved in the
13 2015 Rate Case. PNM's actual capital structure as of June 30, 2016, was 52.1%
14 long-term debt, 0.4% preferred stock, and 47.5% common equity. PNM's
15 projected capital structure as of December 31, 2017, and as of December 31,
16 2018, is 50.0% long-term debt, 0.4% preferred stock, and 49.6% common equity.
17

18 **Q. HAS PNM HAD ITS PROPOSED TEST PERIOD CAPITAL STRUCTURE**
19 **INDEPENDENTLY ANALYZED?**

20 **A.** Yes. PNM Witness Hevert conducted an analysis of utility capital structures
21 utilizing a proxy group of utilities as shown in PNM Exhibit RBH-8. It is his
22 conclusion that PNM's proposed capital structure is consistent with the proxy
23 companies and reasonable for purposes of determining PNM's rate of return.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **Q. WHAT ROE DID PNM USE IN THE DEVELOPMENT OF TEST PERIOD**
2 **REVENUE REQUIREMENTS?**

3 **A.**PNM used an ROE of 10.125% in the Test Period, which is PNM's cost of equity
4 capital as determined by PNM Witness Hevert.

6 **Q. WHAT COST OF DEBT DID PNM USE IN THE DEVELOPMENT OF**
7 **TEST PERIOD REVENUE REQUIREMENTS?**

8 **A.**PNM used its projected cost of 4.93% for the debt component of the capital
9 structure in the development of Test Period revenue requirement.

11 **Q. HAS PNM INCLUDED ANY NEW DEBT ISSUANCES IN THE**
12 **CALCULATION OF THE TEST PERIOD COST OF DEBT COMPONENT**
13 **OF THE CAPITAL STRUCTURE?**

14 **A.**PNM has no new incremental debt issuances planned in the calculation of the Test
15 Period debt component. PNM does, however, have five refinancing transactions
16 planned, as detailed in the Rule 530 G Schedules. PNM has adjusted the linkage
17 period average cost of debt to account for the issuance of \$146 million of tax-
18 exempt Pollution Control Revenue Bonds ("PCRBs") on September 27, 2016,
19 which was approved in Case No. 16-00207-UT. PNM's interest rate on these
20 notes is 1.875%. PNM has also adjusted the Test Period average cost of debt to
21 account for the Commission-approved mandatory repricing of two additional
22 series of tax-exempt PCRBs on June 1, 2017, totaling \$57 million, in addition to
23 the anticipated refinancing of two series of Senior Unsecured Notes ("SUNs") on

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 May 15, 2018, and August 1, 2018, for \$350 million and \$100 million,
2 respectively. The Test Period weighted average cost of debt, including these
3 refinancings, is 4.93%.

4
5 **Q. HOW WERE THE REFINANCING ASSUMPTIONS IN THE TEST**
6 **PERIOD DERIVED?**

7 **A.** PNM used the published 10-year US Treasury forward rates to estimate interest
8 rates for future financing transactions. These rates are obtained using four prior
9 periods, generally in quarters, of published data in order to mitigate the effects of
10 short term swings in the Treasury rates. PNM then applies a credit spread that
11 adds additional basis points to the Treasury rate to account for the rate an investor
12 would expect to receive based on PNM's current ratings with S&P and Moody's.

13
14 **Q. WHAT CRITERIA DID THE COMPANY USE IN DEFINING THE**
15 **LONG-TERM DEBT INCLUDED IN THE REGULATORY CAPITAL**
16 **STRUCTURE?**

17 **A.** The Company used a maturity of longer than eighteen months for purposes of
18 defining long-term debt. This is consistent with NMSA (1978), Section 62-6-8 of
19 the Public Utility Act as well as recent Commission decisions in the 2015 Rate
20 Case.²

21

² See Case No. 15-00261-UT, Corrected Recommended Decision at 30-31.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **Q. WHAT CRITERIA DID THE COMPANY USE IN DEFINING SHORT-**
2 **TERM DEBT AS SHOWN IN RULE 530 SCHEDULE G-4?**

3 **A.** Short-term debt is defined as debt with a maturity of eighteen-months or less and
4 is included in PNM's annual filing with the NMPRC in its Statement with
5 Respect to Short-Term Securities (the "Statement") pursuant to 17.1.2.8(E)
6 NMAC. The Statement sets out PNM's financing plan relating to its issuance,
7 assumptions or guaranty of short-term securities.

8
9 **Q. WHAT COST OF PREFERRED STOCK DID PNM USE IN THE**
10 **DEVELOPMENT OF TEST PERIOD REVENUE REQUIREMENTS?**

11 **A.** PNM used its actual embedded cost of 4.62% for the preferred stock component
12 of the capital structure in both the Base Period and Test Period. The support for
13 the cost of preferred stock is included in Rule 530 Schedule G-5.

14
15 **Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL ("WACC")**
16 **FOR THE TEST PERIOD?**

17 **A.** The after-tax WACC for the Test Period, which is the return to be applied to rate
18 base, is 7.51% as shown in Table EAE-1 below:

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

Table EAE-1

PNM Capital Structure and After-Tax Weighted Average Cost of Capital			
Class of Capital	% of Total	% Cost	Weighted Average Cost
Long-Term Debt	50.00%	4.93%	2.47%
Preferred Stock	0.39%	4.62%	0.02%
Common Equity	49.61%	10.125%	5.02%
Total	100.00%		7.51%

IV. PALO VERDE NUCLEAR DECOMMISSIONING TRUST

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

A. In this section of my direct testimony, I address PNM's contributions to PNM's PVNGS NDT.

Q. WHAT IS THE PURPOSE OF THE PVNGS NDT?

A. The purpose of the PVNGS NDT is to provide funds for the decommissioning of the Palo Verde units at the end of their useful lives, as required by the Nuclear Regulatory Commission ("NRC") and the Arizona Nuclear Power Project Participation Agreement ("ANPP Agreement").

Q. HOW HAVE THE PVNGS OWNERS SATISFIED THEIR FINANCIAL ASSURANCE OBLIGATIONS FOR THE DECOMMISSIONING OF PVNGS?

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 **A.** Under requirements imposed by the NRC, owners and operators of nuclear
2 generating facilities, such as PVNGS, are required to provide financial assurance
3 for facility decommissioning. PNM and a number of other owners of PVNGS
4 decided to meet the financial assurance requirements of the NRC through an NDT
5 sinking fund pursuant to the NRC regulations.³ Under the ANPP Agreement,
6 each of the PVNGS owners is required to develop a funding plan that prescribes
7 the funding curves for each year for the life of the units. The funding curves are
8 developed using decommissioning studies, the most recent of which was prepared
9 in 2013 by TLG Services, Inc. (“TLG”).

10
11 **Q. IS PNM SEEKING RECOVERY IN RATES FOR ANY NDT**
12 **CONTRIBUTIONS RELATED TO PALO VERDE UNITS 1 AND 2?**

13 **A.** No. At this time, PNM is not seeking recovery in rates for any NDT contributions
14 related to the Palo Verde Units 1 and 2. In the 2015 Rate Case, the Commission
15 determined that PNM did not currently need to contribute to the NDT for Palo
16 Verde Units 1 and 2 and discontinued recovery in current rates, subject to PNM
17 seeking reinstatement of rate recovery in a future rate case. The Commission also
18 disallowed further rate recovery for decommissioning costs associated with
19 PNM’s repurchase of 64.1 MW in Palo Verde Unit 2 and the eight-year renewal
20 of five leases representing 114 MW of Palo Verde Units 1 and 2. PNM is
21 appealing the ruling relating to the disallowance associated with the repurchase

³ 10 CFR 50.75.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

1 and the lease renewals. PNM will seek rate recovery for contributions to the NDT
2 for its interests in Palo Verde Units 1 and 2 in future rate filings as appropriate.
3

4 **Q. HOW IS THE NDT FOR PALO VERDE UNIT 3 CURRENTLY FUNDED?**

5 **A.** NDT funding for Palo Verde Unit 3 has never been recovered in rates. Instead,
6 funding contributions to date have been made by PNM's shareholders. However,
7 in the BART Case, the Final Order provides that, starting in January 2018, "PNM
8 shall be authorized to include in rates additional decommissioning funding
9 amounts for Palo Verde Unit 3 in the amount of \$1.3 million annually."⁴
10

11 **Q. DID THE FINAL ORDER IN THE BART CASE REQUIRE PNM**
12 **SHAREHOLDERS TO CONTRIBUTE AN ADDITIONAL AMOUNT TO**
13 **PVNGS UNIT 3 NDT?**

14 **A.** Yes. The Final Order approved the Modified Stipulation that requires PNM to
15 contribute an additional \$11 million from shareholders into the Unit 3 NDT
16 before December 31, 2017.
17

18 **Q. HAS PNM SATISFIED ITS REQUIREMENT OF CONTRIBUTING \$11**
19 **MILLION INTO THE PVNGS UNIT 3 NDT?**

20 **A.** PNM expects to have contributed \$11 million by December 31, 2017. PNM has
21 made and is anticipating making the following contributions:

⁴ Case No. 13-00390-UT, Modified Stipulation at 10, approved in Certification of Stipulation (11-16-2015), as approved in Final Order (12-16-2015).

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

Table EAE-2

Date	Amounts
December 2013	\$2,250,000
December 2014	\$2,250,000
December 2015	\$2,250,000
December 2016	\$2,250,000
December 2017	\$2,000,000

Q. HOW WILL CUSTOMERS SATISFY THEIR PRO-RATA SHARE OF THE ULTIMATE DECOMMISSIONING LIABILITY?

A. To satisfy customers' current obligation for decommissioning costs, PNM has included in the proposed rates \$1.3 million per year per the Final Order in the BART Case. If annual decommissioning funding increases above \$1.3 million, PNM is allowed to recover in rates 50% of the additional amount above \$1.3 million.⁵

Q. WHAT ARE THE CURRENT DECOMMISSIONING FUNDING LEVELS FOR PVNGS UNIT 3?

A. As of September 30, 2016, Unit 3 had \$88.2 million in assets and the pre-tax liquidation funded status was at 85.6%.

⁵ Case No. 13-00390-UT, Modified Stipulation at 10.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

Q. HOW ARE THE FUNDS ACCOUNTED FOR?

A. The accumulated contributions and respective earnings on all funding amounts are segregated into separate trust accounts for each Palo Verde unit. For PVNGS Unit 3, shareholder and customer contributed funds, including any future gains and losses associated with those funds, will be segregated into separate accounts. Although the funds are separated legally and financially by units and by shareholder as opposed to customer contributed amounts for PVNGS Unit 3, all of the funds associated with the NDT are managed in a combined manner to optimize investment efficiencies.

V. PENSION PLAN ANNUITIZATION

Q. WHAT DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. I address the requirement in the Commission's Final Order in the 2015 Rate Case that PNM "address whether annuitization of the electric portion of the pension plan to mitigate future costs and risks is appropriate in its next rate case".⁶ PNM Witness Gagne has analyzed the estimated cost to terminate the portion of PNM's pension plan applicable to electric utility operations. He presents an estimated range of between \$264.9 million and \$303.5 million in required recovery to annuitize the pension plan based on the current status of pension funding, the prepaid pension asset and market conditions.

⁶ See Case No. 15-00261-UT, Final Order at ¶158, 55.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

**Q. IS PNM PROPOSING THAT IT BE ALLOWED TO ANNUITIZE THE
ELECTRIC PORTION OF ITS PENSION PLAN IN THIS RATE CASE?**

A. Not in this case. As described by PNM Witness Gagne, the upfront cost to annuitize and terminate the plan is only slightly higher in absolute dollars than the long-term costs currently estimated to provide for future pension plan benefits. Further, PNM Witness Gagne describes how terminating the plan eliminates all future risks of unexpected cost increases which could be caused by investment losses or changes in actuarial estimates. Based solely on the total cost to annuitize, and the mitigation of future plan expense increases, terminating the plan by annuitizing the electric portion of PNM's pension plan obligation is an appropriate alternative for the Commission to consider.

However, the amount of recovery needed to annuitize and terminate the plan in this case (including recovery for prepaid pension assets and execution costs) is quite significant (ranging from \$265 to \$305 million) and could result in a substantial burden on current ratepayers when compared with the rate treatment previously approved by the Commission and included in PNM's proposed cost of service. Although PNM believes the Commission may, upon consideration of various impacts and risks, reasonably approve the required cost recovery to terminate the plan, PNM is not proposing to do so at this time.

**DIRECT TESTIMONY
OF ELISABETH A. EDEN
NMPRC CASE NO. 16-00276-UT**

VI. CONCLUSION

**Q. PLEASE SUMMARIZE PNM'S REQUESTED APPROVALS SUPPORTED
BY YOUR TESTIMONY.**

A. PNM's requested capital structure for the Test Period is reasonable and is in accordance with the capital structures for PNM previously approved by the Commission. The inclusion of funding to the PVNGS Unit 3 NDT was previously approved by the Commission and PNM should now be authorized to recover the approved amounts in its proposed rates. Finally, although annuitization of the pension obligation is a reasonable alternative, PNM is not proposing to do so at this time since it would have a significant impact on current customers, rather than having the total costs recovered through intergenerational rates over time.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

GCG#522598

Résumé of Elisabeth A. Eden

PNM Exhibit EAE-1

Is contained in the following 2 pages

ELISABETH A. EDEN
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Elisabeth A. Eden

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

Position: Vice President and Treasurer

Education: Bachelor of Business Administration, University of New Mexico, 1989
Master of Business Administration, University of New Mexico, 1992
CFA charter holder, 2005

Employment: Employed by PNM Resources/Public Service Company of New Mexico since 2001

Positions held within the Company include:

- Executive Director, Financial Planning and Business Analysis
- Assistant Treasurer
- Director, Corporate Strategy
- Senior Manager, Corporate Strategy
- Project Manager, Investor Relations
- Senior Investment Analyst, Treasury
- Planner, Gas Supply

Testimony Filed:

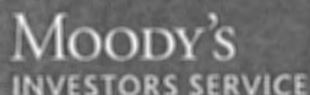
- In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice No. 513 – NMPRC – Case No. 15-00261-UT, filed August 27, 2015.
- In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice No. 507 – NMPRC – Case No. 14-00332-UT, filed December 11, 2014.
- In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to (a) a New Unsecured Revolving Credit Facility of up to \$400 Million, (b) an Increase in the Amount of the Intercompany Loan Agreement With PNM Resources, Inc. to \$100 Million, and (c) the Issuance of up to \$250 Million in Senior Unsecured Notes – NMPRC Case No. 10-00269-UT, filed September 1, 2010.

- In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to the Issuance of up to \$403,845,000 of Pollution Control Revenue Refunding Bonds – NMPRC – Case No. 10-00029-UT, filed February 10, 2010.
- Application of Texas-New Mexico Power Company for Authority to Change Rates – PUCT – Docket No. 38480, (SOAH Docket No. 473-10-6053) filed August 26, 2010.
- In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to the (1) Issuance of up to \$20,000,000 of Pollution Control Revenue Refunding Bonds, and (2) Exercise of Extension Options Under Its \$400 Million Credit Facility, NMPRC – Case No. 12-00096-UT, filed April 4, 2012.

Moody's Credit Opinion, June 23, 2016, "Public Service Company of New Mexico"

PNM Exhibit EAE-2

Is contained in the following 7 pages



CREDIT OPINION

23 June 2016

Update

Rate this Research



RATINGS

Public Service Company of New Mexico

Domicile Albuquerque, New Mexico, United States

Long Term Rating Baa2

Type LT Issuer Rating

Outlook Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Public Service Company of New Mexico

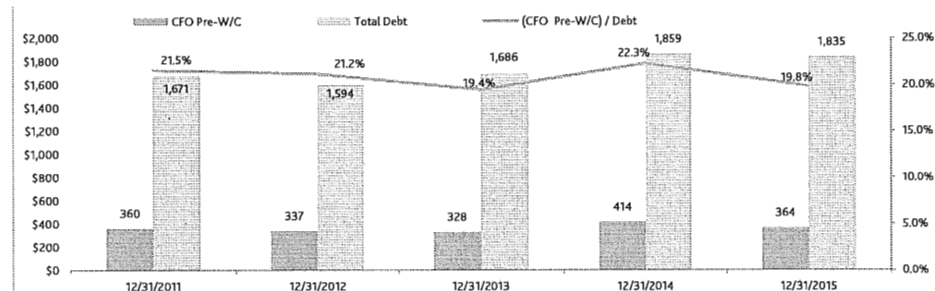
Regulated Vertically Integrated Utility Subsidiary of PNM Resources

Summary Rating Rationale

Public Service company of New Mexico's (PNM) Baa2 senior unsecured rating reflects its solid financial metrics including a ratio of cash flow from operations pre-working capital (CFO pre-W/C) to debt of about 20% and a view that capital expenditures will be funded in a balanced manner consistent with PNM's current financial position. The rating also incorporates a New Mexico regulatory environment regulated by the New Mexico Public Regulation Commission (NMPRC) that has demonstrated signs of inconsistency and unpredictability with recent events resulting in increased regulatory lag.

Exhibit 1

Public Service Company of New Mexico's Ratio of CFO pre-W/C to Debt Historical Trend



Source: Moody's Investors Service

Credit Strengths

- » Financial metrics currently support rating but expected to improve with implementation of new rates
- » San Juan Generating Station (SJGS) environment compliance implementation plan finalized and accepted by the NMPRC

Credit Challenges

- » Regulatory environment in New Mexico has demonstrated signs of inconsistency and unpredictability
- » Burden of filing multiple rate cases expected over next few years
- » Flat to declining load growth

Rating Outlook

PNM's stable rating outlook reflects our expectation that PNM's solid financial metrics will continue including CFO pre-W/C to debt of about 20% that helps mitigate the less constructive New Mexico regulatory framework, which has exhibited signs of inconsistency and less predictability given recent events related to PNM's current rate case that have caused an increase in regulatory lag. The stable outlook also incorporates our expectation that planned capital expenditures will be financed in a balanced manner that is consistent with PNM's current capital structure.

Factors that Could Lead to an Upgrade

PNM's rating could be upgraded if we observe a sustained improvement in the credit supportiveness of the New Mexico regulatory environment that includes greater predictability, timeliness and/or sufficiency of rates such that PNM's financial metrics would be expected to improve on a sustained basis including CFO pre-W/C to debt in the low 20% range.

Factors that Could Lead to a Downgrade

PNM's rating could be downgraded if we observe that the New Mexico regulatory framework has become less credit supportive or more unpredictable which results in unexpected adverse regulatory decisions or cost recovery disallowances; or if PNM's financial metrics deteriorated such that CFO pre-W/C to debt were to decline to the low-to-mid teens on a sustained basis.

Key Indicators

Exhibit 2

KEY INDICATORS [1]

Public Service Company of New Mexico

	3/31/2016(L)	12/31/2015	12/31/2014	12/31/2013	12/31/2012
CFO pre-WC + Interest / Interest	4.4x	4.6x	5.2x	4.2x	4.5x
CFO pre-WC / Debt	17.5%	19.8%	22.3%	19.4%	21.2%
CFO pre-WC – Dividends / Debt	12.7%	14.6%	20.6%	10.2%	19.0%
Debt / Capitalization	48.2%	46.8%	47.6%	46.1%	45.4%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics™
Source: Moody's Investors Service

Detailed Rating Considerations

NEW MEXICO REGULATORY ENVIRONMENT HAS DEMONSTRATED SIGNS OF INCONSISTENCY AND UNPREDICTABILITY

Due to various regulatory decisions in New Mexico, we view the regulatory framework as being less predictable and transparent compared to other US jurisdictions. The most recent example occurred in May 2016 when the NMPRC ordered a 30-day extension to the procedural schedule for PNM's rate case. This is the second extension regulators have ordered on PNM's rate case after the NMPRC rejected the utility's initial application in December 2014. The 2014 rate case application was rejected on the recommendation of an independent hearing examiner. As part of the rejection, the regulators redefined the future test year as beginning up to 45 days following a rate case application rather than a test period beginning more than a year in the future. In our view, the regulators future test year definition delayed the cost recovery of when a utility implements new rates compared with a typical future test period that begins more than a year out, which almost allows for simultaneous recovery of investments as they are made. PNM had to re-file its rate case application using the re-defined future test year, which it did on August 27, 2015. If new rates are implemented in September, the time between a final NMPRC order and PNM's initial application would be almost 21 months, much longer than the typical state rate case proceeding of about 12 months. This second delay will result in increased regulatory lag of prudently incurred costs and investments, which is credit negative.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

In its rate case filed August 27, 2015, PNM requested an electric rate increase of \$123.5 million based on a future test year period beginning October 1, 2015 and proposed ROE of 10.5%. The requested revenue increase related to new infrastructure and reliability investments made since its last rate case in 2011 and a decline in energy sales as a result of PNM's energy efficiency programs. In the filing PNM also requested several changes to rate design to establish fair cost allocation across customer rate classes including increased customer and demand charges, a revenue decoupling pilot program and a continuation of the renewable energy rider. Initial hearings were held in April 2016, however, due to the second 30 day extension and a supplemental hearing scheduled for late June related to PNM's Palo Verde leases, new customer rates will not be implemented until September 1, 2016, at the earliest.

The regulators' initial decision to reject PNM's application for the use of a future test year after Southwestern Public Service Company's (SPS: Baa1 stable) 2014 rate case already utilized a future test year demonstrates inconsistent and unpredictable treatment which we view as a sign of a less credit supportive regulatory environment. In November 2015, the NMPRC unanimously voted to re-define a future test year as the period beginning up to 13 months following a rate case application. The implementation and use of a true future test year in rate case proceedings is credit positive for PNM and other utilities operating in the state. Under the new future test year definition, PNM will be able to propose a 2018 test year in its next rate case application, likely to be filed by January 1, 2017.

PNM's last rate case was implemented in August 2011 resulting in a 10% allowed ROE and \$72.1 million single-step increase rather than a two-step increase of \$85 million that was originally agreed upon. The final rate order also included a renewable energy rider and continued the fuel and purchased power costs (FPPCAC) recovery mechanism, albeit with some limitations. Although a substantial rate increase was allowed, we believe that rejecting a settlement reached between opposing parties is another indication that there was not adequate communication on key priorities amongst the NMPRC, Staff, intervenors, and PNM. Additionally the 15 months it took the commission to complete PNM's rate case as well as SPS's 2014 rate case is longer than the roughly one year average across most US jurisdictions.

SAN JUAN ENVIRONMENTAL COMPLIANCE PLAN FINALIZED AND ACCEPTED BY THE NMPRC; YET ANOTHER EXAMPLE OF UNPREDICTABLE REGULATORY ENVIRONMENT

On December 16, 2015, the NMPRC issued a final order adopting a certification of stipulation issued by an independent hearing examiner in November 2015. The certification accepted the latest settlement agreement that was agreed upon by PNM and most interested parties in August 2015.

Under the settlement agreement PNM will retire Units 2 and 3 of the San Juan Generating Station (SJGS) on December 31, 2017 and will be allowed to recover 50% of the undepreciated net book value and earn a regulated return on those costs. PNM estimates the undepreciated net book value at December 31, 2017 will be approximately \$255.3 million of which, 50% will be recovered over a 20 year period. At December 31, 2015, PNM recorded a \$127.6 million regulatory disallowance to reflect the write-off of 50% of the uncollected book value. PNM will also be granted an unconditional Certificate of Convenience and Necessity (CCN) for 132 MW in SJGS Unit 4, with an initial book value of zero along with a CCN for 134 MW of PVNGS Unit 3 with an initial rate base value equal to the book values as of December 31, 2017 including transmission assets estimated at approximately \$150 million. PNM will be authorized to acquire an additional 65 MW of SJGS Unit 4. As a result PNM's ownership share of SJGS Unit 4 will be approximately 78% along with an aggregate ownership share in Units 1 and 4 of approximately 66% including the additional 65MW at SJGS Unit 4.

The agreement also states that before December 31, 2018, PNM will file its position and supporting testimony in an NMPRC case to determine the extent to which SJGS should continue serving PNM's retail customers needs after 2022. Cost recovery associated with the selective non-catalytic reduction (SNCR) technology on SJGS Units 1 and 4 will be accelerated so that all costs are fully recovered by July 1, 2022. Cost recovery for PNM's balanced draft technology on those units will be determined in PNM's next rate case. PNM will not recover approximately \$20 million of other costs incurred in connection with the Clean Air Act compliance.

The current agreement approved by the NMPRC ended several years of negotiating amongst PNM and other interest parties including the New Mexico Environment Department (NMED), the United States Environmental Protection Agency (EPA), the NMPRC and its staff and numerous intervenors. PNM had filed an earlier settlement agreement with the NMPRC in October 2014. However, the earlier settlement agreement was rejected by the NMPRC based on the recommendation of an independent hearing examiner in April 2015. The lengthy delay and disagreements exhibited by the NMPRC and other parties during the SJGS environmental compliance proceedings was yet another example of the inconsistency and unpredictability as well as inadequate communication amongst key parties within the New Mexico regulatory environment.

FINANCIAL METRICS CURRENTLY SUPPORT THE RATING BUT ARE EXPECTED TO IMPROVE WITH IMPLEMENTATION OF NEW RATES

PNM's financial metrics are expected to improve with the implementation of new rates expected September 1, 2016. Over the next two years, we expect PNM's financial metrics to improve including CFO pre-W/C to debt of about 20% and retained cash flow (RCF or CFO pre-W/C less dividends) to debt in the mid-to-high teens. Over the intermediate term, PNM may be able to further improve its financial metrics as the utility is expected to file another rate case by January 1, 2017 with new rates expected in January 2018.

For the twelve months ended March 31, 2016, PNM's CFO pre-W/C to debt was 17.5% and RCF to debt was 12.7%, which are both consistent with US regulated vertically integrated electric utilities in the mid-Baa rating category. However, PNM's recent financial performance is down slightly compared to historical averages as CFO pre-W/C to debt for the three-year average ending 2015 was 20.5% and RCF to debt was 15.3%. The recent decline can be primarily attributed to increased regulatory lag associated with the delays in its recent rate case filing as well as flat to negative load growth.

In addition, over the past few years PNM has not been able to earn its allowed ROE, partly attributed to regulatory lag. After adjusting for goodwill and other unusual items, PNM's earned GAAP ROE in 2015 was approximately 7.3%, which is in line with the three year average of about 7.4%. Again, due to delays in the filing of its current rate case and the associated regulatory lag, we expect PNM will continue to earn below its allowed ROE in 2016. With that said, going forward, we expect PNM's financial metrics will continue to support its current rating.

Liquidity Analysis

PNM's liquidity profile driven by stable cash flow generation and external availability appropriately supports its planned capital expenditures and dividends.

For the twelve months ended March 31, 2016, PNM's cash flow from operations was \$274 million, capital expenditures of \$562 million and dividends to its parent of \$95 million. The shortfall in funding its outflows through internally generated cash flows was financed through the use of long-term debt issuances and capital contributions from its parent. Going forward we anticipate PNM's cash flow from operations will increase with the implementation of its expected rate increase beginning September 2016. However, we expect PNM's 2016 cash flows will be lower than its planned capital expenditures, which is expected to peak at about \$400 million this year. This elevated level of spending is in line with the previous two years as PNM continues to incur additional investments associated with SJGS environmental compliance along with additional investments in generation capacity including the \$163 million purchase of certain Palo Verde Nuclear Generating Station Unit 2 leases as well as renewable energy resources. For the 2017 – 2020 period, we expect capex levels to return to historical averages at about \$250 million annually.

Over the last few years, PNM's dividends distributed to its parent have varied substantially each year. Over the last four years, PNM's dividend payout ratio (excluding non-recurring items) was approximately 54%, 175%, 35% and 146% for 2012, 2013, 2014 and 2015, respectively. The average payout over those four years was approximately 100%, which is significantly higher than the industry average between of about 70%. The volatility in dividend distributions to its parent seems to depend on several variables during the year including capital expenditures, debt issuances and other factors. Going forward we expect PNM's dividend payout ratio to be about 100%. Given the high capital expenditures and dividend payout ratio, we expect PNM to incur additional debt as well as receive capital contributions from its parent to fund these activities but also maintain its overall capital structure at a level of around a 50% debt to capitalization.

PNM has a \$400 million revolving credit facility that expires in October 2020 and a \$50 million revolving credit facility with local New Mexico banks, which expires in January 2018. As of April 22, 2016, PNM had \$142 million of short term debt outstanding including \$3.2 million of letters of credit, and minimal cash on hand. The credit facility's only financial covenant limits debt to total capitalization of 65%. As of March 31, 2016, PNM's debt to total capitalization was approximately 56%. PNM can also borrow up to \$100 million from its parent as part of an inter-company borrowing arrangement. PNM's nearest debt maturity is a \$175 million term loan due November 2017.

Profile

Public Service Company of New Mexico is a regulated vertically integrated electric utility with over 516,000 electricity customers in north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. PNM also provides electricity to wholesale customers in New Mexico and Arizona. PNM is the principal operating subsidiary of PNM Resources, Inc. (Baa3 stable), a utility holding company that also owns Texas-New Mexico Power Company (A3 stable). In 2015, PNM accounted for about 80% of PNMR's total revenues and about 70% of earnings, while TNMP accounts for the remainder. PNM is regulated by the New Mexico Public Regulation Commission.

Rating Methodology and Scorecard Factors

Exhibit 3

Rating Factors				
Public Service Company of New Mexico				
Regulated Electric and Gas Utilities Industry Grid [1][2]			Current LTM 3/31/2016	Moody's 12-18 Month Forward View As of Date Published [3]
Factor 1: Regulatory Framework (25%)	Measure	Score		
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A		
b) Consistency and Predictability of Regulation	Baa	Baa		
Factor 2: Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa		
b) Sufficiency of Rates and Returns	Ba	Ba		
Factor 3: Diversification (10%)				
a) Market Position	Baa	Baa		
b) Generation and Fuel Diversity	Baa	Baa		
Factor 4: Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	4.4x - 5x	A
b) CFO pre-WC / Debt (3 Year Avg)	19.7%	Baa	18% - 24%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	14.6%	Baa	15% - 21%	A
d) Debt / Capitalization (3 Year Avg)	47.3%	Baa	44% - 50%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa1
HoldCo Structural Subordination Notching	0	0	0	0
a) Indicated Rating from Grid		Baa2		Baa1
b) Actual Rating Assigned		Baa2		Baa2

[1]All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.

[2]As of 3/31/2016(L); Source: Moody's Financial Metrics™

[3]This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Investors Service

Ratings

Exhibit 4

Category	Moody's Rating
PUBLIC SERVICE COMPANY OF NEW MEXICO	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
PARENT: PNM RESOURCES, INC.	
Outlook	Stable
Issuer Rating	Baa3

Source: Moody's Investors Service

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REPORT NUMBER 1030333

Standard & Poor's Research, March 22, 2016, "Public Service Co. of New Mexico"

PNM Exhibit EAE-3

Is contained in the following 7 pages

Research

Summary:

Public Service Co. of New Mexico

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Table Of Contents

Rationale

Outlook

Standard & Poor's Base-Case Scenario

Business Risk

Financial Risk

Liquidity

Other Credit Considerations

Group Influence

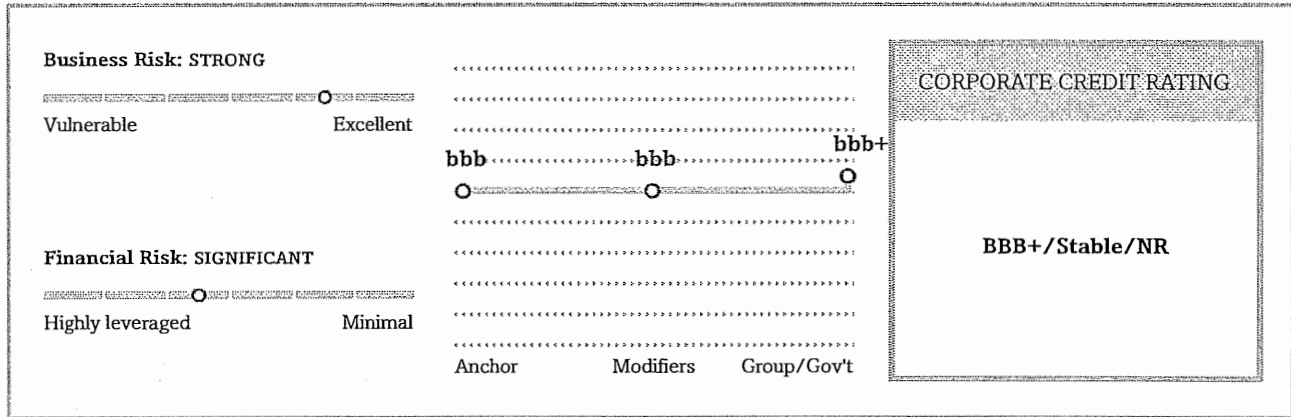
Issue Ratings

Ratings Score Snapshot

Related Criteria And Research

Summary:

Public Service Co. of New Mexico



Rationale

Business Risk: Strong	Financial Risk: Significant
<ul style="list-style-type: none"> Mostly rate-regulated, lower-risk electric utility. A relatively challenging regulatory jurisdiction in New Mexico. More recent gradual improvement of regulatory risk. Greater volatility of profitability compared with the regulated utility industry average. 	<ul style="list-style-type: none"> Use of the medial volatility table, reflecting the regulated utility business model that includes the higher operating risk of regulated generation that includes nuclear generation. Core financial measures that are consistent with the significant financial risk profile category. High capital spending necessary to meet environmental compliance and renewable standards.

Outlook: Stable

The stable outlook on Public Service Co. Of New Mexico (PSNM) reflects our expectations that its parent, PNM Resources Inc. (PNMR), will continue to effectively manage regulatory risk despite its more challenging regulatory environment and that the company's financial measures will consistently reflect the middle of the range (funds from operations [FFO] to debt of 15% to 20%) for the significant financial risk profile category.

Downside scenario

We could lower the rating if we lowered the rating on parent PNMR. This could occur if the company's ability to effectively manage regulatory risk weakened or financial measures consistently declined to the lower end of the range for the significant financial risk profile, reflecting FFO to debt of less than 15%.

Upside scenario

We could raise the rating if we raised the rating on PNMR. This could occur if financial measures consistently improved, reflecting the higher end of the range for the significant financial risk profile (FFO to debt greater than 20%) or the company further materially improves its management of regulatory risk that results in an overall less-challenging regulatory jurisdiction.

Standard & Poor's Base-Case Scenario

Assumptions	Key Metrics			
<ul style="list-style-type: none">• Gradual ongoing improvement of managing regulatory risk as reflected in recent New Mexico Public Regulation Commission orders related to meeting environmental regulations and the approval of a future test year.• A regulatory disallowance of about \$128 million in 2015.• Capital spending of about \$400 million for 2016.				
		2015A	2016E	2017E
	FFO/debt (%)	7.7	17.5-18.5	17.5-18.5
	Adj debt/EBITDA (x)	7.6	3.8-4.2	3.8-4.2
	Cash from oper./debt (%)	17.6	18.0-20.0	18.0-20.0
A-Actual. E-Estimate.				

Business Risk: Strong

PSNM's strong business risk profile reflects the company's lower-risk regulated utility operations, offset by its historically high profit volatility compared with the utility industry average. PSNM serves more than 500,000 customers in New Mexico and has about 2,700 megawatts of generating capacity. Despite the historically challenging difficulties of managing regulatory risk in New Mexico, the company has gradually improved its management of that risk. This has resulted in more timely recovery of relevant costs and a higher probability of earning its authorized return on equity. In early 2015, the company filed for a \$123.5 million rate increase in New Mexico and expects an

order by the fourth quarter of 2016.

Financial Risk: Significant

We view PSNM's financial measures as consistent with the significant financial risk profile using our medial volatility table. The use of our medial volatility table reflects PSNM's lower-risk, rate-regulated utilities, which include the higher operating risk of generation. Under our base case scenario of high capital spending and rate case increases over the next two years, we expect FFO to debt of about 18% and debt to EBITDA of about 4x. We expect that the company will be able to maintain financial measures despite its high capital spending partially by using regulatory riders and rate case increases.

Liquidity: Adequate

PSNM has adequate liquidity, in our view, and can more than cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed uses by more than 1.1x. Under our stress scenario, we don't expect PSNM to require capital markets access during that period to meet its liquidity needs. In addition, PSNM has sound relationships with its banks, satisfactory standing in the credit markets, and could absorb a high-impact, low-probability event with limited need for refinancing. PSNM also benefits from shared group treasury services from parent, PNMR.

Principal Liquidity Sources	Principal Liquidity Uses
<ul style="list-style-type: none"> • FFO of about \$300 million. • Credit facility availability of \$350 million. • Available cash of about \$43 million. 	<ul style="list-style-type: none"> • Capital spending of about \$400 million. • Debt maturities of more than \$125 million. • Dividend payments of about \$46 million.

Other Credit Considerations

All modifiers are neutral and don't affect the stand-alone credit profile.

Group Influence

PSNM is a wholly owned subsidiary of PNMR. We consider PSNM as core to its parent, reflecting our view that PSNM is highly unlikely to be sold, has a strong long-term commitment from PNMR's senior management, and is closely linked to PNMR's name and reputation. Therefore, PSNM's issuer credit rating reflects PNMR's 'BBB+' group credit profile.

Issue Ratings

PSNM's senior unsecured debt is rated the same as our issuer credit rating on the company according to our criteria.

Ratings Score Snapshot

Corporate Credit Rating

BBB+/Stable/NR

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb+
- **Entity status within group:** Core (+1 notch from SACP)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

Summary: Public Service Co. of New Mexico

Business And Financial Risk Matrix

Business Risk Profile	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	bbb	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 533)**

Case No. 16-00276-UT

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

Applicant)

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

ELISABETH A. EDEN, Vice-President and Treasurer for PNMR Services

Company, upon being duly sworn according to law, under oath, deposes and states: I
have read the foregoing **Direct Testimony of Elisabeth A. Eden** and it is true and
accurate based on my own personal knowledge and belief.

SIGNED this 10th day of November, 2016.


ELISABETH A. EDEN

SUBSCRIBED AND SWORN to before me this 10th day of November, 2016.


NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

12/3/19