

**PUBLIC SERVICE COMPANY OF NEW MEXICO
ELECTRIC SERVICES**

**1ST REVISED RATE NO. 22
CANCELING ORIGINAL RATE NO. 22**

**EFFECTIVE FOR SERVICE ON
FEBRUARY 10, 2004**

UNDERGROUND SYSTEM SPECIAL SERVICES

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APPLICABILITY: This Schedule shall be applicable to any Local Government, acting through its governing body in accordance with lawful procedures, that requires the installation of an Underground System instead of a new Overhead System or conversion of an existing Overhead System to an Underground System and to the Local Customers of Public Service Company of New Mexico ("the Company") located within the jurisdiction of such a Local Government. This Schedule describes the cost responsibilities for any Underground System required by a Local Government and provides a mechanism for the Company to collect Excess Costs as defined herein from such a Local Government under a special agreement and/or from the Local Customers.

Any services hereunder will be furnished subject to the Company's Rules and Regulations and any subsequent revisions. These Rules and Regulations are available at the Company's office and are on file with the New Mexico Public Regulation Commission ("NMPRC"). These Rules and Regulations are a part of this Schedule as if fully written herein.

LIMITATION OF RATE: This Schedule is not applicable to line extensions governed by the Company's Rule 15: Electric Line Extension Policy. This Schedule is also not applicable to lines where voltage level is greater than or equal to 115 kV; PNM may petition the NMPRC for exceptions to this standard. Any Underground System constructed by the Company shall be technically and operationally equivalent to the Overhead System that the Company otherwise would construct.

In the event that recovery of Excess Costs is to take place under an NMPRC-approved rate rider the company's current billing system must be able to include this charge on the local customers' bills.

TERRITORY: All territory in New Mexico in which the Company owns and operates power line facilities.

DEFINITIONS: The following definitions apply to the terms discussed within this Schedule:

Actual Total Costs mean the installed costs of an Underground System, including but not limited to costs related to a) feasibility studies; b) engineering design; c) acquisition of any necessary rights-of-way and easements; d) removal of existing facilities net of salvage value; e) any incremental costs of administrative, regulatory, clerical and legal services and any tax impacts; and f) construction costs including inspections and supervision. The above costs include costs for labor, materials and supplies, transportation, and taxes.

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Baseline Costs mean the estimated costs of an Overhead System, including but not limited to costs related to a) feasibility studies, b) engineering design, and c) acquisition of any necessary rights-of-way and easements, d) removal of existing facilities net of salvage value, e) any incremental costs of administrative, regulatory, clerical and legal services and any tax impacts, and f) construction costs including inspections and supervision, constructed in accordance with the Company's normal practices and zoning, subdivision, and building code regulations of a Local Government, including siting, setbacks, screening, and landscaping requirements of general application that:

1. are imposed on land uses other than those related to utility facility uses; and
2. do not impair the ability of the Company to provide service to its customers in a safe, reliable, adequate, and efficient manner.

The above costs include costs for labor, materials and supplies, transportation, and taxes.

Excess Costs mean the difference between Actual Total Costs and Baseline Costs for new facilities. Excess Costs for conversion of existing facilities mean the difference between Baseline Costs and (Actual Total Costs + Net Book Value + Net Removal).

Local Customer means any customer of the Company that receives electric service from the Company at a location within the jurisdictional boundaries of a Local Government that has required the installation of an Underground System instead of a new Overhead System or the conversion of an existing Overhead System to an Underground System. For purposes of this Schedule, Local Customers within counties shall not include customers located within the jurisdictional boundaries of municipalities or other political subdivisions.

Local Government means any county, municipality or other political subdivision of the State of New Mexico. If a facility is proposed to be located in more than one Local Government jurisdiction, "Local Government" may refer to one or more of the Local Governments in whose jurisdiction the facility is located.

Net Book Value represents the amount remaining on the Company's books at the time an existing facility which is being replaced by an underground system is terminated from service.

Net Removal means the difference between the removal costs and salvage value of an existing facility.

Overhead System means a system of overhead primary and/or secondary distribution and/or transmission conductors, transformers, and other facilities, or any portion thereof.

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Preliminary Costs mean any incremental costs, including but not limited to, detailed engineering, design and feasibility studies relating to a specific Underground System project.

Project Report means a report that will be filed with the NMPRC and which will provide a description of the Underground System project pursuant to this Schedule, including a summary of any agreement entered into by a Local Government and the Company. The Project Report shall be substantially in the form attached to this Schedule and will include a copy of the NMPRC-approved rate rider, if applicable.

Underground System means a system of underground primary and/or secondary distribution and/or transmission cables which may have transformers, terminal boxes, switching devices and other facilities necessarily appurtenant to such a system mounted on the surface, or any portion thereof.

TERMS OF SERVICE: Service will be provided under this Schedule following execution of a written agreement between the Local Government and the Company for installation or conversion of an Overhead System and/or NMPRC approval of a rate rider for recovery of Excess Costs pursuant to the terms of this Schedule and if the following are provided for:

1. Payment of the estimated Excess Costs in advance or upon mutually agreeable terms, which may include the collection of some or all of the Excess Costs by the Company from Local Customers through a rate rider approved in accordance with the provisions of this Schedule;
2. Design of the Underground System by the Company in accordance with the Company's standards and specifications;
3. Easements and rights-of-way, if applicable, from property owners or the Local Government in a Company-approved format to reflect the appropriate record drawings showing the configuration and location of the Underground System;
4. A. Written agreements with all individual customers or property owners served or whose property is encumbered by an Overhead System to be converted wherein the individual customers and/or property owners agree to have any necessary changes to their property or made to the property beyond the point of delivery of electric service at no cost to PNM so that service may be furnished from the Underground System; or
B. Suitable Local Government legislation requiring that any necessary changes be made by individual customers and/or property owners; and

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5. Furnishment and installation by the Local Government of any required pads and vaults for transformers and associated equipment, conduits, ducts, boxes, any types of pole bases, and the performance of other work related to structures and substructures including breaking of pavement, trenching, backfilling, and repaving required in connection with the installation of the Underground System, all in accordance with the Company's specifications or, in lieu thereof, payment by the Local Government to the Company for furnishing and installation of such facilities and/or NMPRC approval of a rate rider for recovery of the actual costs of such facilities as Excess Costs. Transfer of ownership of such facilities, exclusive of transformer pads, in good condition, shall be made to the Company.

DESIGN AND CONSTRUCTION: Company will design and construct the Underground System in accordance with Company's standards and specifications. The Local Government will be given up to sixty (60) days to review and comment on Company's route selection, cost estimates and construction schedule.

ACCESSIBILITY: Equipment used to provide electric service must be physically accessible as agreed to by the Company. The meter socket must be installed in accordance with the Company's Rules and Regulations.

COST RESPONSIBILITY: Under this Schedule, the Excess Costs of the Underground System project will be the responsibility of the Local Government pursuant to the terms of the agreement between the Company and the Local Government or will be the responsibility of the Local Customers pursuant to the terms of a rate rider approved by the NMPRC as described in this Schedule. The Local Government may agree to bear responsibility for some portion of the Excess Costs, provided that the remainder of the Excess Costs are the responsibility of the Local Customers pursuant to the terms of a rate rider approved by the NMPRC as described in this Schedule.

The Excess Costs for new facilities under this Schedule will be calculated as follows:

$$\text{Actual Total Costs} - \text{Baseline Costs} = \text{Excess Costs}$$

The Excess Costs for a conversion of existing facilities under this Schedule will be calculated as follows:

$$(\text{Actual Total Costs} + \text{Net Book Value} + \text{Net Removal}) - \text{Baseline Costs} = \text{Excess Costs}$$

NET RATE PER MONTH: In the case of any Underground System project under this Schedule for which all or any portion of the Excess Costs are to be collected through a rate rider, the billings

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of the Local Customers shall include a fixed charge for the Excess Costs in accordance with the terms of the rate rider approved by the NMPRC.

SPECIAL TAX AND ASSESSMENT ADJUSTMENT: Billings under this Schedule may be increased by an amount equal to the sum of the taxes payable under the Gross Receipts and Compensating Tax Act and of all other taxes, fees, or charges (exclusive of ad valorem, state and federal income taxes) payable by the utility and levied or assessed by any governmental authority on the public utility service rendered, or on the right or privilege of rendering the service, or on any object or event incidental to the rendition of the service.

TERMS OF PAYMENT: PNM will not perform work that results in the incurrence of Preliminary Costs relating to any specific Underground System project unless there is agreement in writing regarding recovery of the costs of such work. An agreement between the Local Government and the Company may provide for Preliminary Costs to be recovered in the same manner as other Excess Costs after a final agreement for construction of the Underground System is reached and/or after the NMPRC approves a rate rider providing for recovery of the Excess Costs including such Preliminary Costs.

The Company will not procure materials or commence construction of an Underground System unless the Local Government agrees in writing to pay the Excess Costs of such project or the NMPRC approves a rate rider providing for the recovery of the Excess Costs from the Local Customers. Payment for Excess Costs shall be received by the Company in one of the following ways: 1) payment from the Local Government to the Company, either in advance or under payment terms mutually agreed to by the Local Government and the Company, including applicable carrying costs; 2) collection from the Local Customers through a rate rider as described below, including applicable carrying costs; or 3) a combination of 1) and 2).

In the event that the Company receives partial or full payment of the Excess Costs through a rate rider, a separate rate rider will be filed with the NMPRC for each project and will include but is not limited to the following provisions: the fixed rate to be charged for each class of customers and the methodology used for these allocations, the proposed reporting requirements with the NMPRC, and the method to be used for reconciliations on a project by project basis, including applicable carrying costs based on the Company's capital structure, cost of debt, and cost of preferred stock at the end of each year and the return on equity approved in the Company's last litigated rate case. The recovery period for each project will be up to seven years and will be set in accordance with the magnitude of the project relative to the number of Local Customers.

RECONCILIATIONS: Two separate reconciliations will take place under this Schedule. (1) The original filing of a rate rider with the NMPRC will include an estimated total of the Excess

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Costs, including applicable carrying costs, for a project. Collection of the Excess Costs will begin upon approval of the rate rider. At the time the actual total of the Excess Costs, including applicable carrying costs, becomes available upon completion of the project, the Company will provide an informational filing to the NMPRC which will include the revised rate rider charge for this project based upon the actual total of the Excess Costs less the amount previously collected under the rider. No approval will be required for the informational filings unless there is a twenty percent (20%) or more differential between total actual Excess Costs of the project and estimated total Excess Costs. If the actual total Excess Costs of the project vary by more than twenty percent (20%) of the estimated total Excess Costs, the Company will file a new rate rider for this project for approval by the NMPRC. (2) At the end of the recovery period, the amount of the actual total of the Excess Costs will be reconciled against the total amount collected under the rate rider. A final rate rider charge for the project will be calculated at this time and collected during the subsequent three-month period.

EXEMPTIONS AND VARIANCES: The NMPRC may grant an application of a Local Government for an exemption or variance from the requirements of this Schedule for a particular Underground System project if the Commission determines that:

1. The particular Underground System project is necessitated and required by the public health and safety and any aesthetic benefits are only incidental to the public health and safety.
2. The public interest would be better served if the Excess Costs of a particular Underground System project were considered a cost of service item for the Company.

Any application for an exemption or variance shall fully set out the facts and circumstances that would allow the NMPRC to determine whether it will docket a case to determine if an exemption or variance request should be considered.

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PROJECT REPORT FOR PAYMENT OF EXCESS COSTS

DATED: _____

Local Government Requiring Underground System:

Date of Agreement between Company and Local Government:

Customer Data:

Project Description:

For new facilities:

Estimated Total Costs – Baseline Costs = Estimated Excess Costs Due Under Agreement

Actual Total Costs – Baseline Costs = Actual Excess Costs Due Under Agreement

For conversion of existing facilities:

(Estimated Total Costs + Net Book Value + Net Removal) – Baseline Costs = Estimated Excess Costs Due Under Agreement

(Actual Total Costs + Net Book Value + Net Removal) – Baseline Costs = Actual Excess Costs Due Under Agreement

For both new facilities and conversion of existing facilities:

Methodology for Calculating Applicable Carrying Costs

True-up Mechanism between Estimated Total Costs and Actual Total Costs

Terms of Payment (length of agreement, etc.)

Non-payment penalties