To PNM Customers:
The enclosed document is required by the New Mexico Public Regulation Commission ("NMPRC"). The purpose of the document is to provide notice of PNM’s proposal to replace existing customer meters with advanced meters.

The notice:
- describes the Public Regulation Commission process to consider this request.
- describes how you can participate in this process if you choose to do so.

If you do wish to participate in the regulatory process, the attachment provides details on how to take part. If you do not wish to participate in the regulatory process, you are not required to do anything.

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR PRIOR APPROVAL OF THE ADVANCED METREROING INFRASTRUCTURE PROJECT**

**NOTICE OF PROCEEDING AND HEARING**

This notice is hereby given of the following matters pertaining to the above-captioned case pending before the New Mexico Public Regulation Commission ("NMPRC" or "Commission"). On February 26, 2016, Public Service Company of New Mexico ("PNM" or "Company") filed an Application in this docket number requesting the following approvals from the Commission by November 30, 2016:

1. Approving the Advanced Metering Infrastructure Project ("the AMI Project") under which, commencing upon approval of PNM’s Application in this matter and concluding by June 30, 2019, PNM will retire its existing electricity consumption and demand meters and replace them with AMI meters and equipment ("AMI") capable of communicating data to an advanced metering infrastructure center.

2. Determining that the cost of AMI, not to exceed $72.7 million, is reasonable and prudent and authorizing recovery of such cost in future ratemaking proceedings, with any over costs reviewed and recovered in rates only after a Commission determination in a future rate case that such excess costs were prudently incurred, using 7.350% WAC ("WAC") to the unamortized balance.

3. An accounting order authorizing recovery in future ratemaking proceedings of the unamortized investment in PNM’s existing meters and metering equipment as of the date of retirement, through a regulatory asset amortized over 50 years with a carrying charge equal to PNM’s pre-tax weighted average cost of capital ("WACC") to the unamortized balance.

4. An accounting order authorizing recovery in future ratemaking proceedings of costs PNM will necessarily incur for customer education about the AMI Project and how to utilize its benefits, not to exceed $1.5 million, through a regulatory asset amortized over 5 years with a carrying charge equal to PNM’s pre-tax WACC to the unamortized balance.

5. An accounting order authorizing recovery in future ratemaking proceedings of costs associated with employee severances resulting from the AMI Project, not to exceed $5.0 million, through a regulatory asset amortized over 5 years with a carrying charge equal to PNM’s pre-tax WACC to the unamortized balance.

6. Modification of PNM’s Rate No. 16, Special Charges, to include an Opt Out Fee to be charged to customers who elect not to install an AMI meter to cover meter reading, field services and related costs that PNM will continue to incur to serve these customers, and variances from the minimum data requirements and rate comparison data of Rules 17.9.530 and 17.1.2(I), respectively.

7. To the extent deemed necessary by the Commission, a variance from Rule 17.4(1) NMAC relating to PNM personnel that visit a customer’s premises for the purpose of disconnecting service for non-payment, since disconnection will be accomplished with AMI without sending a PNM representative to the customer’s premises.

Following is a summary of PNM’s assertions and testimony filed in support of the Application:

1. PNM has been considering the potential cost and service improvement benefits of installing AMI on its system since approximately 2006. In September 2006, in Case No. 06-00391-UT, the Commission directed PNM and other utilities to investigate the costs and benefits of AMI and to report the findings to the Commission by December 19, 2006. PNM identified potential advantages of AMI but concluded that the installation of AMI was not at that time cost-effective. PNM stated that it would continue to monitor developments in technology, cost and other factors affecting the cost-benefit analysis.

2. Subsequently, in Case No. 12-020328-UT, the Commission ordered PNM to file a report identifying the costs and benefits of transitioning to an automated meter reading solution for all of its customers. PNM’s Report on Costs and Benefits of Transitioning to Automated Meter Reading, filed October 12, 2012, concluded that a transition to automated metering not be undertaken at that time due to additional cost and the uncertainty as to whether the potential benefits could be fully realized at that time. However, the Report also recognized that deployment of AMI technology was becoming more prevalent and that the cost of AMI meters was declining.

3. On September 25, 2015, PNM filed in this docket a petition for variance from certain of the meter testing and replacement requirements of Rule 17.9.530. PNM asked the Commission to approve suspension of PNM’s routine meter testing and replacement program while PNM conducted a cost-benefit analysis of replacing existing meters with AMI. PNM stated that it would make a filing by February 28, 2016, to present the results of that analysis and inform the Commission of PNM’s recommendations whether or not to implement AMI. The Commission’s Order Granting Variance, issued January 20, 2016, granted PNM’s request for variance on five conditions, including that PNM make its AMI filing by no later than February 28, 2016.

4. With the Commission’s prior approval, PNM proposes to install AMI throughout its service area in New Mexico beginning in 2017 and continuing through June 2019. The first phase of the AMI project consists of deploying the back office MISWIR system and the integration of that system with PNM’s Customer Information System ("CIS"). This will be followed by the second phase of deploying AMI that includes field deployment planning completed and the customer education plan finalized. In the second phase, to be completed by the end of 2017, the communication equipment will be installed and PNM will conduct a field test of approximately 5,000 advanced meters to assess the integration of the meters with the MISWIR and the CIS. In the final phase, beginning in 2018 and continuing through 2019, PNM will deploy the remainder of the meters. Approximately 33,000 new meters will be installed. AMI has three main components: a) advanced meters that record electricity consumption and demand and have two-way communication capability, b) communications network that links these meters to a central location, and c) a back-office information technology system (Meter Data Management System ("MDMS") to manage the two-way communication and capture the information that the meters report. AMI implementation will also include a customer portal, which will enable customers to monitor their energy usage and allow for customized alerts related to a customer’s energy usage. Customers will be able to access the portal from their computer, tablet or smart phone.

5. PNM has approximately 508,670 single phase meters and 22,670 three phase meters, for a total of approximately 531,340 meters currently installed on its system. The AMI project is intended to replace all of the meters currently installed, unless the type of meter necessary to provide service to customers with unique industrial loads is not compatible with the AMI technology. Therefore all customer classes will be affected by the AMI Project.

6. The capital cost of the AMI Project, up to a total of $87.2 million, consists of the following components: meters and meter installation, project management costs, installation and back office technology, including Barmer integration - $11.7 million. Customer education and employee severance costs are not included in these estimates.

7. The immediate operational benefits upon full deployment of the AMI Project will include billing accuracy, reduced use of estimated bills, reduction in theft and other losses, immediate service connection and disconnection, improved outage management, the ability of customers to access usage information promptly and to receive notifications regarding their usage, and the ability of customers to select their payment due-date.

8. The AMI Project is cost-effective and will result in a net reduction of revenue requirements to be recovered from customers over time. The cost savings over the life of the project and the reduction in the annual cost of AMI are approximately $4.8 million on a pre-tax basis compared to continued operation with existing meters. Although the revenue requirement for the AMI Project in 2026, the first year after project completion, is slightly higher than the revenue requirement without AMI, beginning in 2024 and each year thereafter the revenue requirements with AMI are lower. The estimated annual bill impact of the AMI Project on a typical residential customer using 600 kWh per month in 2026 will be approximately $5.60.

**PUBLIC SERVICE COMPANY OF NEW MEXICO, Applicant**
The Commission's Rule 410 and PNM Service Rule 20 assume that disconnection of service for nonpayment will be accomplished at the customer's service location by a utility representative. Based on that assumption, the rules state that "the utility employee sent to disconnect service shall note any information from the residential customer that a person living … in the residence is seriously or chronically ill and [report that information] to a utility employee authorized to prevent disconnection."

AMI service connections and disconnections will occur through electronic communication with the AMI meter and there will be no "utility employee sent to disconnect service." Therefore, to the extent necessary, PNM is seeking a permanent variance from Rule 410.33.B.2 to apply to service disconnections at locations served by AMI meters. PNM has provided separate disconnect notices to the customer's premises pursuant to Rule 410 and Rule 500 and the customer making delivery will report information regarding serious or chronic illness.

On March 23, 2016, the Commission issued its Initial Order in this docket, which among other things refused Advice Notice No. 521 because it did not plainly state the time when the charges would take effect, notwithstanding PNM's provision that it would not go into effect until the Application is approved. On or before April 4, 2016, PNM filed its replacement Advice Notice No. 522 in response to the Commission's Initial Order, which specifies a May 4, 2016 effective date and is otherwise unchanged, and further provides that the advice notice will not be suspended and PNM may not delay to implement the tariffs contained therein until and unless it is approved in this proceeding. PNM requests that the proposed new charges for Rate 16 set forth in Advice Notice No. 522 be considered in this proceeding. PNM will provide further notice if the Commission requires that its new charges be considered.

Further information regarding this case can be obtained by contacting PNM or the Commission at the addresses and telephone numbers provided below.

The Commission has assigned Case No. 15-00312-U for this proceeding and all inquiries or written comments concerning this matter should refer to that case number.

Any interested person who has been served shall attend the hearing and submit to examination under oath.

New Mexico Public Regulation Commission
P.R.A. Building
1120 Paseo de Peralta
Santa Fe, NM 87504-1269
Telephone: (505) 472-5772

Interested persons should contact the Commission for confirmation of the hearing date, time and place since hearings are occasionally rescheduled. Any interested person may examine PNM's Application and all other pleadings, testimony, exhibits and other documents filed in the public record for this case at the Commission's address set out above or at the offices of PNM at the following address:

New Mexico Public Regulation Commission
P.R.A. Building
1120 Paseo de Peralta
P.O. Box 616
Santa Fe, NM 87504-1269
Telephone: (505) 472-5772

New Mexico Public Service Company of New Mexico
414 Silver Ave. NW
Albuquerque, NM 87102
Telephone: (505) 241-2700

Anyone filing pleadings, testimony and other documents in this case may file them in person at the Commission's docketing office in the P.R.A. Building in Santa Fe, New Mexico, or by mail to the Commission's address at P.O. Box 1269, Santa Fe, New Mexico 87504-1269, and must serve copies on all parties of record and any other form of auxiliary aid or service to attend or participate in the hearing, may contact the Commission's docketing office at least 24 hours prior to the hearing. The Commission's docketing office may be reached at (505) 827-4520. Public documents associated with the hearing can be provided in various accessible forms for disabled individuals. Requests for summaries or other types of accessible forms also should be addressed to the Utility Division at (505) 827-6810.

Issued at Santa Fe, New Mexico, on April 13, 2016.

NEW MEXICO PUBLIC REGULATION COMMISSION

Ashley C. Schannauer
Hearing Examiner

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