

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 METERING )  
INFRASTRUCTURE PROJECT, ) Case No. 15-00312-UT  
DETERMINATION OF RATEMAKING )  
PRINCIPLES AND TREATMENT, AND )  
ISSUANCE OF RELATED ACCOUNTING )  
ORDERS )  
PUBLIC SERVICE COMPANY OF NEW )  
MEXICO, )  
Applicant )

**NOTICE OF PROCEEDING AND HEARING**

**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 and from a central PNM data center;

(2) determining that the cost of AMI, not to exceed \$87.2 million, is reasonable and prudent and authorizing recovery of such cost in future ratemaking proceedings, with any cost overruns recovered in rates only after a Commission determination in a future rate case that such excess costs were prudently incurred, using 17.3.580 NMAC ("Rule 580") to guide the process;

(3) an accounting order authorizing recovery in future ratemaking proceedings of the undepreciated investment in PNM's existing meters and metering equipment as of the date of retirement, through a regulatory asset amortized over 20 years with a carrying charge equal to PNM's pre-tax weighted average cost of capital ("WACC") on 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 they can 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 on 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 on 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 accept installation of an AMI meter, to cover meter reading, field services and related costs that PNM will continue to incur to serve those customers, and variances from the minimum data requirements and rate comparison data of Rules 17.9.530 and 17.1.2.10, respectively; and

(7) to the extent deemed necessary by the Commission, a variance from Rule 17.5.410 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.

PNM is seeking these prior approvals because, while the conversion to AMI is cost-effective, it is not necessary in order to provide reliable service to customers or to comply with any Commission rules. Further, the conversion to AMI represents a very large capital investment, on the order of \$87.2 million. Given the magnitude of the project, and its discretionary nature, PNM will only implement this project with the Commission's review and approval.

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. The PNM report, filed December 19, 2006, 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. 12-00238-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 NMAC 17.5.560. 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 recommendation whether or not to implement AMI. The Commission's Order Granting Variance, issued January 20, 2016, granted PNM's request for variance subject to 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, consisting of the installation of the back office MDMS system and the integration of that system with PNM's Customer Information System ("CIS"), will be completed in the first through third quarters of 2017. During that phase, business processes will be redesigned, 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 MDMS and the CIS. In the final phase, beginning in 2018 and continuing through 2019, PNM will deploy the remainder of the meters. Approximately 531,000 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) a communications network that links these meters to a central location, and c) a back-office information technology system (Meter Data Management System or "MDMS") to manage the two-way communication and capture the information that the meters record. 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, and project management - \$75.5 million; communication equipment and installation, and back office technology, including Banner 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 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 respecting 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 20-year life of the AMI Project are approximately \$20.9 million on a net present value ("NPV") basis compared to continued operation with existing meters. Although the revenue requirement for the AMI Project in 2020, the first full 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 2020 will be approximately \$5.00.

(9) If the Commission approves the AMI Project, there will be undepreciated investment in existing meters that should be recovered in rates. PNM is requesting an accounting order that authorizes recovery of the undepreciated investment as recorded on PNM's books of account as of the dates of the retirements. PNM has projected the total amount to be approximately \$33.0 million. PNM will identify the final amount in a compliance filing after the AMI Project is complete. This specific identification is necessary for PNM to transfer the amount out of FERC Accounts 101 and 108 to FERC Account 182.3 (Regulatory Asset). It is reasonable to recover the undepreciated investment in existing meters over a twenty year period in order to properly balance impacts on customer rates and timely recovery of the undepreciated investment. The twenty year recovery period is consistent with the expected useful life of AMI. In order to assure full recovery of the undepreciated investment, a carrying charge equal to PNM's pre-tax WACC should be applied to the unamortized balance.

(10) PNM will incur certain extraordinary, non-recurring costs to implement the AMI Program which the Commission should approve for recovery through the creation of regulatory assets to be included in rate base, with carrying charges equal to PNM's pre-tax WACC, in PNM's next general rate case following the incurrence of these costs. Specifically, PNM seeks accounting orders authorizing a regulatory asset to recover the costs of its customer education program, up to \$1.5 million, and a regulatory asset to recover the cost of employee severances, up to \$5.0 million. Customer education will be used during an 18 month period to inform customers about the new AMI meters and how they can most effectively realize the benefits of AMI. Employee severance costs will be incurred in connection with workforce reductions in the areas of meter reading, field services and collections. Severance costs include placement assistance costs and severance payments. Customer education and employee severance costs are necessary and reasonable expenditures to implement AMI.

(11) PNM intends to offer all customers the option not to have an AMI meter installed at their service location. However, for these customers PNM will continue to incur meter reading and other costs that it will not incur in serving the vast majority of its customers. Accordingly, on April 4, 2016 PNM filed Advice Notice No. 522 to request Commission approval of new miscellaneous service fees under Rate 16 that will apply to "opt-out" customers as a surcharge above their regular service rates. Advice Notice No. 522 is intended to replace the initial Advice Notice No. 521 that was filed concurrently with PNM's Application and Testimonies in this docket, which was rejected by the Commission because it did not state a date certain for the effective date of the proposed new special charges. The proposed special charges contained in Advice Notice No. 522 are the same as those contained in Advice Notice No. 521. The Rate 16 AMI Opt-Out charges will apply to all customers who choose to not have an AMI meter installed, regardless of the rate schedule under which they take service. The AMI Opt-Out Charges for customers will consist of a one-time charge (which is dependent on whether a customer opts out when PNM initially deploys the AMI meters, or opts out at a later date) and a recurring monthly meter reading charge. The specific charges are:

- AMI One-Time Opt-Out Fee (Initial Deployment) of \$35.00 that applies one time if a customer chooses to opt-out of receiving an AMI meter during PNM's initial deployment of AMI;
- AMI One-Time Opt-Out Fee (After Initial Deployment) of \$60.00 that applies one time if a customer requests replacement of an AMI meter with a conventional meter after initial deployment of AMI.
- Recurring AMI Monthly Opt-Out Fee of \$46.96 to be charged each month to customers who opt-out of receiving an AMI meter;

Because the minimum data required by Rule 17.9.530 and the rate comparison required by Rule 17.1.2.10 are not necessary or appropriate for a review of the proposed opt-out fees, PNM requests a variance from Rule 17.9.530 and a variance from Rule 17.1.2.10.

(12) 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 discontinue 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 discontinuance." NMAC 17.5.410.33.B.2. With AMI, service connections and disconnections will occur through electronic communication with the AMI meter and there will be no "utility employee sent to discontinue service". Therefore, to the extent necessary, PNM is seeking a permanent variance from Rule 410.33.B.2 as applied to service disconnections at locations served by AMI meters. PNM will continue to deliver disconnect notices to the customer's premises pursuant to Rule 410 and Rule 560 and the person 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 rejected Advice Notice No. 521 because it did not "plainly state the . . . time when the changed rates will go into effect", notwithstanding PNM's provision that it would not go into effect until the Application is approved. Thereafter, on 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 may be suspended and that PNM does not intend to implement the tariffs contained therein unless and until it is approved in this docket. 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 includes Advice Notice No. 522 within the scope of this proceeding by promptly posting the Commission's Order including the Advice Notice on its website at [www.pnm.com/regulatory](http://www.pnm.com/regulatory).

On March 25, 2016, the Commission entered an Order designating the undersigned to preside over this proceeding and to issue a Recommended Decision, among other matters.

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-UT to this proceeding and all inquiries or written comments concerning this matter should refer to that case number.

The present procedural schedule for this case is as follows:

- a. On or before June 24, 2016, any person desiring to intervene to become a party ("intervenor") in this case must file a motion for leave to intervene in conformity with NMPRC Rules of Procedure 1.2.2.23(A) and (B) NMAC. Persons who wish to provide comments on this case without becoming a party may do so without filing a motion to intervene.
- b. On or before July 15, 2016, Staff shall, and Intervenors may, file Direct Testimony.
- c. Rebuttal testimony may be filed on or before August 5, 2016.
- d. A public hearing on this matter shall be held beginning on August 22, 2016, commencing at 9:30 a.m. MT at the offices of the Commission, P.E.R.A. Building, 1120 Paseo de Peralta, Santa Fe, New Mexico, and continuing thereafter until concluded.

The procedural dates and requirements of this case are subject to further order of the Commission or Hearing Examiner.

The Commission's Rules of Procedure, 1.2.2.1 through 1.2.2.40 NMAC shall apply to this case except as modified by order of the Commission or Hearing Examiner. A copy of such Rules may be obtained from the offices of the Commission and such Rules are available at the official NMAC website, <http://164.64.110.239/nmac/index.htm>.

Any person whose testimony has been filed shall attend the hearing and submit to examination under oath.

Any interested person may appear at the time and place of hearing and make written or oral comment pursuant to 1.2.2.23(F) NMAC without becoming an intervenor. All such comments shall not be considered as evidence in this case. Written comments, which shall reference Case No. 15-00312-UT, also may be sent to the Commission at the following address:

New Mexico Public Regulation Commission  
P.E.R.A. Building  
1120 Paseo de Peralta  
P.O. Box 1269  
Santa Fe, NM 87504-1269  
Telephone: (888) 427-5772

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:

Public Service Company of New Mexico  
414 Silver Ave. SW  
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.E.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 the Commission's Utility Division Staff ("Staff") in the manner indicated on the Certificate of Service for this case. All filings shall be e-mailed to Staff and the parties on the date they are filed with the Commission. All filings shall be e-mailed to the Hearing Examiner at [ashley.schannauer@state.nm.us](mailto:ashley.schannauer@state.nm.us).

Additional details regarding this proceeding and its procedural requirements are set forth in the Hearing Examiner's April 13, 2016, Procedural Order.

Individuals with a disability who are in need of a reader, amplifier, qualified sign language interpreter, or 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) 827-4526. 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) 827-6960.

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

**NEW MEXICO PUBLIC REGULATION COMMISSION**

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Ashley C. Schannauer  
Hearing Examiner