PRAC related Questions to discuss from September PRAC meeting:

**Rocky Bacchus:**

D) Please send the projections of how much the critical hours - I think you said July & August 20:00,21:00,19:00 are expected to be short. Is there any analysis of how much rates will change behavior to counter the need?

E) With the stated expectation that critical hours will shift to winter mornings, will the same resources be expected to cover both critical hours. In other words will the resources do "double duty". If not, how much additional resources will be needed as critical changes to winter?

F) What are the expected Transmission and Distribution resources needed? I tend to think of rates in four buckets. Production, Transmission, Distribution, & Overhead. Are these the buckets we will be analyzing? If the NM Energy Transition Law is forcing Production change, are the existing other groups adequate, or to what general extent will they also rise? For example: for a constant demand with an 80% production change (gas & coal to renewable), will transmission only rise by 10%? Etc?

**Daren K. Zigich:**

1. Why is this re-functionalization/reallocation effort including all production resources instead of just new non-traditional resources like energy storage systems?
2. Does this proposed allocation method apply to resources not owned by the utility (i.e. PPAs and possibly ESAs) that are funded through the fuel clause or renewable rider?
3. Regarding wind and solar generation that is considered Dispatchable, if those resources are under a PPA is that energy still allocated to energy and fully collected under the fuel clause or is the effective load carrying capacity of that generation resource allocated to the 86-hours of peak load? In other words, is a PPA wind or solar resource an energy resource, a capacity resource or both? Same question for company owned wind and solar that is considered Dispatchable.
4. Why is energy storage only functionalized/allocated as a capacity resource? Given energy storage on the PNM system is and will be used for energy arbitrage, is it not appropriate to allocate some portion of an energy storage system (theoretically any storage capacity over 2-hours), to energy rather than capacity?
5. How is the energy loss imposed by energy storage usage allocated? Since arbitraged energy imposes a significant cost adder to energy production cost, is the company planning to track that separately for future collection from contemporaneous users of that energy (i.e. thru TOU rates)?

**Peter Gould:**

**Preliminary Comments**

At this stage, NM AREA is still in the process of conducting analysis to fully understand the implications of PNM’s proposal to separate the allocation of its production assets into dispatchable and non-dispatchable assets.

As a point of clarification, NM AREA’s comments from the email provided on 2/23/2024 (Attached) remain true.  NM AREA does not believe that legacy generation costs (those asset costs committed to prior to the ETA, including, but not limited to, costs recovered through the ETC), should have a change in allocation and they should instead remain allocated using the 3S1W allocator.  To be clear, we do not consider capital expenditures committed to by PNM after the ETA in order to continue to operation of legacy generation facilities to be legacy generation costs.  Only asset costs committed to by PNM prior to the ETA would be considered to be legacy generation costs.

NM AREA offers these preliminary comments on the dispatchable/non-dispatchable paradigm proposed by PNM.

·         There is a misalignment in the symmetry between the allocation of costs for the non-dispatchable resources and the capacity benefits received from those resources.  The allocation of costs for the non-dispatchable resources is based on annual energy.  The allocation of the capacity from those non-dispatchable resources in each of the EUE hours is based on load share (an energy allocation in each EUE hour).  This results in significant disparity between how much each class pays for the non-dispatchable resources and how much capacity benefit each class receives from them.  For example, the residential class would have an allocation of 31.3% (ACE (load net of non-ACE cell I104) of the costs of the non-dispatchable resources, yet when it comes time to determine the net load, which is then used to allocate the dispatchable resources, residential class receives an average of 44.5% (8760\_Load\_at\_Gen average of AI5:AI91) of the output of the non-dispatchable resources.  In opposite fashion, the Rate Schedule 4B class would receive an allocation of 9.2% of the cost of non-dispatchable resources, yet only receive the benefit of 6.92% of the output of those resources when determining the allocation of dispatchable resource costs to it.   If this dispatchable/non-dispatchable paradigm is to be used, then the calculation of the net loads need to be based on the non-dispatchable allocation, rather than the hourly load share during the EUE hours.

·         There is also potentially a misalignment in the symmetry between the allocation of costs for the non-dispatchable resources and the fuel cost avoidance benefits received from those resources.  This is because PNM has not yet identified how it intends to allocate dispatchable resource fuel and purchased energy costs to customer classes.

·         We do not believe that dispatchable/non-dispatchable or even ACE and non-ACE is necessarily the correct differentiator for production cost allocation.  In particular, we believe dependability during loss of load risk hours (regardless of when those loss of load hours occur) and not dispatchability may be the correct differentiator to the extent one is used with respect to production cost allocation.  Nuclear, while currently generally not dispatchable, is extremely dependable with respect to it producing energy at rated capability during loss of load risk hours regardless of when those hours occur.  The nature of Four Corners is somewhat similar in that, while it has limitations on dispatchability, it can generally be depended upon with respect to producing energy at rated capability during loss of load hours regardless of when those hours occur.  Given this, we do not necessarily agree nuclear and Four Corners costs should be classified any differently than the costs for natural gas fired resources.   This said, as we have noted above, all of the costs that PNM committed to with respect to its legacy nuclear, coal, oil and natural gas-fired generation facilities prior to the passage of the ETA should be deemed legacy generation costs that continue to be allocated using the 3S1W allocator as these costs were incurred to serve peak system demand and, once committed to, are not impacted by customer demand during the new loss of load risk hours that are now developing.

**Data Requests from NM AREA (Mike’s responses are in black, NM AREA’s requests are the blue bullet points).**

Each of these models is rather large. If you have questions or want a walk through, please call and we will discuss.

·         A fully public version of the production cost allocator model.

Please see attached **8760 Class Load Allocators V2.3 General.xlsx** This model groups the schedules with few customers together in a class called Group.

* A version of the COST model with PNM’s proposed revenue requirement from the rate case, with the production costs split between dispatchable and non-dispatchable assets as assumed with the allocator proposal.  Please provide this model with the nuclear costs split out as well.

Please see attached **COST production Allocators.xlsm**.  On the “Cost of Service” worksheet, Column F provides the allocators used for the cost of service categories. In this model, the allocator called DISP is used for ACE following resources and the allocator called NON\_DISP is used for non-ACE following resources. You can select the allocator to allocate each type of for each type of generation production cost.

The results of the allocation are show on the “Cost\_of\_Service” worksheet in the TOTAL REVENUE REQUIREMENTS section. Row 12831, labeled Production-Demand, has the non-ACE total and row 12834, labeled Storage-Production-Demand, has the ACE following revenue requirements.

·         The hourly nuclear generation that matches the test year used in the production cost allocator.

Please see attached **2025RateCase\_HourlyGen\_TestPeriod 2.3.xlsx**. This spreadsheet has all the resources available in the test period including nuclear.

·         The test year production capacity revenue requirement associated with nuclear generation.

We don’t have a summation of the nuclear costs. Costs related to nuclear generation can be found throughout the COST model. Costs items with text including “nuclear” or “PVNGS” in its name are related to nuclear. These items can be found with the “Functionalization” tab and in the “Cost\_of\_Service” worksheet. There may be cost items within ADIT that are rolled up with other production costs including nuclear. These ADIT nuclear are not currently broken out for nuclear generation.