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May 5, 2017

Ms. Melanie Sandoval
Records Bureau Chief
New Mexico Public Regulation Commission
1120 Paseo De Peralta
Santa Fe, NM 87501

Subject: NMPRC Case No. 16-00276-UT

Dear Ms. Sandoval:

Public Service Company of New Mexico ("PNM") is separately filing the following pleadings in this case: Notice of Filing Comprehensive Settlement Stipulation and Comprehensive Settlement Stipulation ("Stipulation") in the above referenced docket today.

For your convenience, attached to this transmittal letter is PNM's Electric Rate Case Stipulation Summary, outlining what PNM believes to be the key features of the Stipulation. Please file this transmittal letter and attached Summary in the NMPRC correspondence file for this case.

Please date stamp the extra copy and return with our courier. If you have any questions, please call me at (505) 241-4733.

Sincerely,

A handwritten signature in black ink, appearing to read "Carey J. Salaz", written over a horizontal line.

Carey J. Salaz
Senior Project Manager
PNM Regulatory Policy & Planning

Enclosures

Cc: COS NMPRC Case No. 16-00276-UT
The Honorable Chairman Sandy Jones
Honorable Commissioner Cynthia Hall

Honorable Commissioner Valerie Espinoza
Honorable Commissioner Patrick Lyons
Honorable Commissioner Linda Lovejoy

GCG#523338

PNM's Electric Rate Case Stipulation Summary
NMPRC Case No. 16-00276-UT

On May 5, 2017, PNM and eight other parties reached a comprehensive stipulation in PNM's rate case. The Stipulation represents a compromise between the interests of customers in having affordable and reliable electric service, the interests of PNM in recovering its prudently-incurred costs, and the environmental values and interests of the citizens of New Mexico. Because of this compromise, the rate increase will be limited to \$62.3 million in two stages, as opposed to the originally requested \$99.2 million. During negotiations, each party gave something to reach this fair and responsible compromise. The compromise attempts to satisfy recent New Mexico Public Regulation Commission ("Commission") desires to streamline and reduce the costs, complexity and litigious nature of rate cases.

A broad coalition of the parties in this case joins this Stipulation: the Utility Division Staff of the Commission, the New Mexico Attorney General, Coalition of Clean Affordable Energy, Sierra Club, Western Resource Advocates, Renewable Energy Industries Association, Wal-Mart Stores East LP and Sam's East Inc., and Kroger Company. The City of Albuquerque, Bernalillo County, and the Albuquerque Bernalillo County Water Utility Authority participated in the settlement process, and will undertake the necessary processes to review and determine whether to join in the Stipulation. New Mexico Gas Company does not oppose the Stipulation, and Energy Freedom Coalition of America takes no position on the Stipulation. The remaining parties have not indicated a position on the Stipulation.

The Stipulation thus represents agreement across the broad range of interests in the case from public entities charged with protecting ratepayer, to industrial and commercial electric customers to environmental interests. The Signatories agree that the common interest of PNM customers and PNM involves keeping the bill impacts as low as possible, while allowing PNM adequate rates to keep investing to serve customers and earn a fair return on those investments.

Highlights of the Stipulation

- Phases-in a \$62.3 million rate increase through 2018 and 2019, mitigating immediate rate impacts to customers.
- Accelerates the return of the benefit of the reduction in the state income tax rate to customers and adjusts the 2019 rate increase in the event of significant federal corporate tax reforms.
- Balances customers' interests with New Mexico's environmental policy values.
- Works toward more effective rates reflective of how customers are using electricity, promoting conservation and efficiency.
- PNM's return on equity remains flat at 9.575%, at the rate approved by the Commission in PNM's 2015 rate case.

Base Revenue Increase

- A total non-fuel, base revenue increase of \$62.3 million that would be phased-in over two years. An average residential customer would see an estimated annual bill increase of about 3.9% January 1, 2018 and an additional increase from 2018 of approximately 3.4% on January 1, 2019.
- Rate classes will generally see similar percentage increases.

Energy Efficiency Disincentive

- Remains an active issue in need of the Commission's attention.
- In Phase II, a limited number of rate design issues will be addressed. All of the parties will have the opportunity to weigh in on the need for, and best method to implement, a mechanism that eliminates the disincentives PNM experiences as a result of its successful energy efficiency programs. Any such mechanism would be put in place over the next two years, and any collection of lost revenues would begin in 2020.

Plant Additions and Retirements

- PNM will recover the costs of reducing air emissions through the installation of pollution control equipment at the Four Corners Power Plant, and PNM compromises by foregoing the opportunity to earn a full-return on that investment.
- PNM will accelerate the recovery of its investments in the San Juan Generating Station.

Other Fuel Cost Recovery, Renewable and Energy Efficiency Costs

- The base rate increase does not affect fuel and purchased power costs, energy efficiency costs and renewable costs. These costs remain subject to periodic reviews by the Commission.

Rate Design Principles

- Only non-fuel base rates are changing, and rate elements were generally changed using a *pro rata* approach.
- PNM's Time of Use ("TOU") rates for residential and small power customers will be timely examined to include new approaches for TOU in 2019 rates.