

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 625)**

Case No. 24-00089-UT

**PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)**

Applicant)

_____)

DIRECT TESTIMONY

OF

STELLA CHAN

June 14, 2024

NMPRC CASE NO. 24-00089-UT
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WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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<u>ACRONYM / ABBREVIATION</u>	<u>DESCRIPTION</u>
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General Abbreviations

2022 Rate Case	Case No. 22-00270-UT
3S1W 4CP	3 Summer / 1 Winter 4 Coincident Peak allocation method
AMI	Advanced Metering Infrastructure
Commission or NMPRC	New Mexico Public Regulation Commission
ESA	Energy Storage Agreement
kWh	kilowatt hour
kW	kilowatt
NNAI	No Net Adverse Impact
PNM or Company	Public Service Company of New Mexico
PPA	Purchased Power Agreement
PRAC	Pricing Advisory Committee
SSC	Second Amended and Restated Special Service Contract (August 21, 2018), approved in Case No. 18-00269-UT
TARR	Total Aggregate Retail Rate
TOD	Time-of-Day pilot rate approved in Case No. 22-00270-UT
TOU	Time-of-Use

Abbreviations of Rate Schedules

Residential 1A	Rate Schedule 1A – Residential Service
Residential 1B	Rate Schedule 1B – Residential Service Time-of-Use

ACRONYM / ABBREVIATION	DESCRIPTION
Small Power	Rate Schedule 2A – Small Power Service, which is available for commercial, business, professional, small industrial loads, and shared residential wells.
Small Power TOU	Rate Scheduled 2B – Small Power Service Time-of-Use
General Power 3B	Rate Schedule 3B – General Power Service – Time-of-Use is available to all customers who use the Company’s standard service for general power, lighting, and/or water and sewage pumping services.
General Power 3C	Rate Schedule 3C – General Power Service (Low Load Factor) – Time-of-Use
General Power 3D	Rate Schedule 3D – General Power Service – Time-of-Use service is available to municipalities and counties who use the Company’s standard service for general power, lighting, and/or water and sewage pumping services.
General Power 3E	Rate Schedule 3E – General Power Service (Low Load Factor) is available to municipalities and counties who use the Company’s standard service for general power, lighting, and/or water and sewage pumping services.
General Power 3F	Rate Schedule 3F – Non-Residential Charging Station – Pilot is available to metered electric usage by non-residential electric vehicle charging stations.

ACRONYM / ABBREVIATION	DESCRIPTION
Large Power 4B	Rate Schedule 4B – Large Power Service – Time-of-Use is available to all customers who use the Company’s standard service for large power with a minimum demand of 500 kW.
Large Service 5B	Rate Schedule 5B – Large Service \geq 8,000 kW Minimum is available to retail customers who have minimum demand of 8,000 kW and take service directly from PNM’s transmission system at 115 kV or the Company’s primary distribution voltage of 69kV, 46kV or 34.5kV.
Private Lighting 6	Rate Schedule 6 – Private Area Lighting Service is provided to private area lighting under agreement for lights installed before February 23, 1991.
Irrigation 10A	Rate Schedule 10A – Irrigation Service is available only for irrigation pumping installations of not less than 5 HP and where service is used to irrigate three or more acres of land used principally for agricultural purposes.
Irrigation TOU 10B	Rate Schedule 10B – Irrigation Service Time-of-Use
Water and Sewage 11B	Rate Schedule 11B – Water and Sewage Pumping Service – Time-of-Use is available to all municipal and private corporations for municipal water and sewage pumping purposes where the combined load is greater than 2,500 kW.

ACRONYM / ABBREVIATION**DESCRIPTION**

Universities 15B

Rate Schedule 15B – Large Service for Public Universities $\geq 8,000$ kW is available to public university, with a minimum contract demand of 8,000 kW, operates customer-owned generation, requests full requirements service from the Company commensurate with the customer's normal electric service requirements, and takes service directly from PNM's transmission system at 115 kV.

Streetlighting 20

Rate Schedule 20 – Integrated System Streetlighting and Floodlighting Service is available to any municipal corporation or other political subdivisions within the State of New Mexico.

Manufacturing 30B

Rate Schedule 30B – Large Service for Manufacturing $\geq 30,000$ kW is available to any manufacturing customer who has minimum demand of 30,000 kW and load factor of at least 80% and takes service at PNM's primary distribution voltage.

Station Power 33B

Rate Schedule 33B – Large Service for Station Power – Time-of-Use is available only to electric generation station customers who require a minimum demand for electric service of no less than 500 kW per month.

Large Power 35B

Rate Schedule 35B – Large Power Service $\geq 3,000$ kW Time-of-Use is available to customer who has a minimum demand of 3,000 kW but less than 30,000 kW, a load factor of at least 75%, and takes service directly from a Company-owned substation.

ACRONYM / ABBREVIATION**DESCRIPTION**

Rate Schedule 36B	Special Service Rate – Renewable Energy Resources is a special service rate that combined with the Green Energy Rider (Rider No. 47) and the Production Cost Allocation Rider (Rider No. 49) are available to eligible customers who wish to have the Company acquire renewable energy resources in an amount equal to some or all of the customer’s electric utility service requirements and who enter into a Special Service Contract approved by the Commission.
Rider No. 23 or FPPCAC	Rider No. 23 – Fuel and Purchased Power Cost Adjustment Clause
Rider No. 45	Economic Development Rider (“EDR”) is a discount available to customers receiving service under Rate Schedule 4B; Rate Schedule 5B; Rate Schedule 30B; and Rate Schedule 35B. The EDR discount is applied to reduce the effective demand charge otherwise applicable for the rate schedule under which the customer is receiving service.
Rider No. 47	Rider No. 47 – Green Energy Rider specifies that the Rate Schedule 36B customer will pay for the total costs of the acquired renewable resourced under this rider.
Rider No. 49	Rider No. 49 – Production Cost Allocation Rider provides for recovery of under-collected production costs from an applicable customer pursuant to the terms and conditions of the Special Service Contract. This rider shall apply to all customers taking service under Rate Schedule 36B and Rider 47.

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I. INTRODUCTION AND PURPOSE

Q. Please state your name, position, and business address.

A. My name is Stella Chan. I am the Director of Pricing for Public Service Company of New Mexico (“PNM” or “Company”). My business address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102. A description of my position and background is included in PNM Exhibit SC-1. The exhibit also includes a list of cases in which I have provided testimony at the New Mexico Public Regulation Commission (“Commission” or “NMPRC”).

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of PNM.

Q. What is the purpose of your direct testimony in this case?

- A.** The purpose of my testimony is to:
1. Provide an update on PNM’s transition to modern rate design.
 2. Explain PNM’s rate design objectives in this case. These include:
 - a. Maintaining cost allocations to allow a collaborative advisory process to continue;
 - b. Applying more aggressive “banding” to prevent movement away from rate parity while continuing to mitigate rate impacts on residential and other customers; and

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1 c. Establishing cost-based rates or near to cost-based rates for certain
2 commercial and industrial customer classes to help promote
3 economic development.

4 3. Discuss other proposals and changes, including:

5 a. Recovery of all Energy Storage Agreement (“ESA”) costs in the
6 Fuel and Purchased Power Cost Adjustment Clause (“FPPCAC”);

7 b. An update to PNM’s proposed Rider No. 56 – Community Solar
8 Rider, as well as the recalculation of the three percent subsidy cap
9 based on proposed rates; and

10 c. PNM’s service to the Rate Schedule 36B customer and the No Net
11 Adverse Impact (“NNAI”) standard.

12
13 **Q. Are you sponsoring any Rule 530 schedules?**

14 **A.** Yes. I sponsor Rule 530 Schedule Q-1.
15

16 **II. PROGRESS ON PNM’S TRANSITION TO MODERN RATE DESIGN**

17
18 **Q. When did PNM first introduce the modern rate design strategy?**

19 **A.** In Case No. 22-00270-UT (“2022 Rate Case”), I discussed the need for PNM to
20 adopt a new pricing structure to align with the increased renewable resources on
21 PNM’s system, including solar and energy storage. Modern rate design and pricing
22 structures need to reflect the intermittent nature of these resources, including proper
23 cost allocation that reflects how these resources are deployed to meet customers’

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1 demand. PNM calls this its “Modern Rate Design Strategy.” Furthermore, sending
2 the appropriate price signals is essential to incentivize customers to use energy
3 efficiently.

4

5 **Q. What are the goals of PNM’s Modern Rate Design Strategy?**

6 **A.** Consistent with the 2022 Rate Case, PNM’s Modern Rate Design Strategy is to
7 have an evolving pricing focus tailored towards transparency and stakeholder
8 engagement, as well as better alignment of rates with the evolving costs for the grid
9 of the future. To achieve this better alignment of cost causation as the grid evolves
10 to carbon-free, PNM acknowledged in the 2022 Rate Case that it must move to
11 default time-varying rates for all its customers. PNM’s Modern Rate Design
12 Strategy also aims to provide customers with not only pricing options for electric
13 service delivery, but also pricing options for emerging technology as PNM moves
14 towards a carbon-free future.¹

15

16 **Q. Please discuss one of the critical tools PNM has implemented in its Modern**
17 **Rate Design Strategy.**

18 **A.** A fundamental component of PNM’s Modern Rate Design Strategy is stakeholder
19 engagement. To that end, in 2022, PNM initiated a Pricing Advisory Committee
20 (“PRAC”). The purpose and role of the PRAC is for interested stakeholders to

¹ Case No. 22-00270-UT, Direct Testimony of Stella Chan, at 4:2-5.

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1 work with PNM to develop pricing options that are important to them and aid PNM
2 in implementing its Modern Rate Design Strategy.

3

4 **A. Pricing Options**

5 **Q. What progress has PNM made on pricing options for its Modern Rate Design**
6 **Strategy?**

7 **A.** As a first step to develop evolving pricing options that better reflect the cost of
8 energy as PNM increases renewable resources in its portfolio, PNM proposed, and
9 the Commission approved, an opt-in Time-of-Day (“TOD”) pilot rate in the 2022
10 Rate Case.² The TOD pilot will provide PNM with sufficient data and information
11 to study customer behavior to determine how it can develop an effective time-
12 varying rate that successfully shifts usage to off-peak periods. PNM intends that
13 upon full implementation of advanced metering infrastructure, or “AMI,”³ the data
14 from the TOD pilot will be used to develop default TOD rates for its customers.

15

16 **Q. Please provide an update on the TOD pilot.**

17 **A.** As of June 7, 2024, PNM has 587 residential customers and 122 commercial
18 customers signed up for the TOD pilot. PNM witness Dr. Pitts provides a more
19 detailed update on the TOD pilot in her testimony, including the schedule and
20 format of reporting progress to the Commission.

² Case No. 22-00270-UT, Final Order, at ¶ 139.

³ PNM has requested approval to implement advanced metering infrastructure in its Grid Modernization Application, Case No. 22-00058-UT.

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1 **B. *Ongoing Stakeholder Engagement with the PRAC***

2 **Q. Did the PRAC process end after the conclusion of 2022 Rate Case?**

3 **A.** No, the PRAC process is ongoing, and should continue as there is still significant
4 work to do. The PRAC is beneficial both to PNM and stakeholders, providing a
5 forum for PNM and stakeholders to come to an understating, and ideally an
6 agreement, on rate design issues before a rate case filing. PNM maintains its
7 support for the PRAC for the same reasons the Hearing Examiners did in the 2022
8 Rate Case:

9 *The fact that PNM dedicated minimal writing to this controversial issue in*
10 *briefing is in no way a criticism of the company. In fact, PNM rightly states*
11 *in briefing there that ‘[u]ltimately, . . . the Commission will have to make a*
12 *determination that fosters its intended policy outcome.’ PNM adds that,*
13 *from the company’s perspective, the ideal course of action is for the*
14 *Commission to allow the stakeholders to meaningfully engage with one*
15 *another on the issue. PNM writes that ‘the PRAC is the appropriate forum*
16 *for intervenor parties and other stakeholders to work collaboratively with*
17 *PNM to revise its rate design and banding processes on a forward-looking*
18 *basis.’*

19 *The HEs agree with PNM. The intervenors who offered argument on*
20 *banding made statements suggesting that they too agree that resolution of*
21 *the banding issue is best reached through a collaborative, intervenor-*
22 *centric process.⁴*

23
24
25 **Q. Was the PRAC involved in developing any proposals in this rate case?**

26 **A.** Yes. PNM and stakeholders continued to exchange information and views on rate
27 design through PRAC meetings both during and after the 2022 Rate Case. In the
28 May 9, 2023 PRAC meeting, PNM provided several examples to stakeholders for
29 alternate allocation methodologies that would better reflect the changing PNM

⁴ Case No. 22-00270-UT, Recommended Decision, at 332 (internal citations omitted).

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1 resource portfolio. In the December 6, 2023 meeting, PNM narrowed its
2 recommendation for production cost allocation and presented a production
3 allocation proposal that would replace the current 3 Summer 1 Winter 4 Coincident
4 Peak (“3S1W 4CP”) allocation. PNM’s proposal would change the production
5 allocation focus from the historical gross system peaks to cost allocation based on
6 net system peaks that occur later on in the day.

7

8 After the December 6, 2023 meeting, PNM provided interested stakeholders with a
9 computer model and load data, and answered questions about the proposal so the
10 stakeholders could analyze and potentially develop their own proposals. Several
11 stakeholders provided comments.

12

13 Stakeholders generally agreed that a new production allocator needed to be
14 developed; however, considering the fundamental shift from gross system peaks to
15 net system peaks and the impact a new allocator could have on customer classes,
16 the consensus was that there was not sufficient time required before the filing of
17 this case to revise and refine the proposal. Therefore, PNM proposes to maintain
18 the current 3S1W 4CP production allocator in this rate case filing. PNM witness
19 Abraham Casas supports using the 3S1W 4CP allocator for this case in his direct
20 testimony.

21

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1 **Q. Why is it reasonable to keep the current allocation methodologies in this rate**
2 **case filing?**

3 **A.** PNM strongly believes that a stakeholder-driven process is crucial to achieving a
4 Modern Rate Design and, as I discussed earlier, stakeholders expressed that
5 additional time was needed to determine the appropriate future production
6 allocation methodology. Rather than proposing a methodology that did not have
7 stakeholder support and would potentially be heavily litigated in this rate case,
8 PNM chose to maintain its existing methodologies for this rate case. Because the
9 existing allocation methodologies are reasonable and fairly allocate costs among
10 customer classes, PNM requests the Commission to allow time for the PRAC and
11 PNM to work collaboratively to develop a new allocation methodology.

12

13 It bears repeating that the goal of developing a new allocation methodology is to
14 better reflect how customer classes use resources and the grid as PNM incorporates
15 increasing amounts of renewable resources and energy storage into its portfolio and
16 deploys those resources to meet customer demand. The Commission just approved
17 rates that were derived from the 3S1W 4CP allocation for the calendar year 2024
18 test period in the 2022 Rate Case. With new resources coming online, it is
19 reasonable to wait to make a fundamental change to the production allocator after
20 PNM has the opportunity to evaluate operational data from those resources.
21 Moreover, as noted above, PNM witness Casas explains why the 3S1W 4CP
22 allocation is still viable for this case in more detail in his direct testimony.

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1 **Q. What specific rate design items does PNM intend to work with the PRAC to**
2 **develop?**

3 **A.** PNM proposes to work with the PRAC on the following rate design items:

4 1. Allocation Methodologies. As the grid evolves, cost causation evolves, and
5 as such, PNM intends to work with the PRAC to comprehensively redesign
6 its allocation methodologies, including for production, transmission,
7 distribution, and other allocators.

8 2. Residential Subsidy. The long-standing residential subsidy also requires
9 resolution. The residential subsidy impedes PNM's ability to attract new
10 businesses and may impact other economic development activities for
11 PNM's existing commercial customers. Before solving the residential
12 subsidy issue, however, allocations have to be settled so there is an
13 understanding of each customer class's cost responsibility with the evolving
14 changes on the grid.

15 3. Default TOD Pricing and other Pricing Changes. As PNM gathers more
16 data from the implementation of the TOD pilot and shares it with
17 stakeholders, the PRAC can enable stakeholders to provide valuable
18 feedback and advise on future changes for TOD. PNM plans to implement
19 default TOD rates in the future, as well as work with the PRAC on re-
20 evaluating the current residential block rate structure.

21 4. Net Metering. PNM's existing net metering structure allows net-metered
22 customers to offset their usage against the rooftop solar production and

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1 carry forward any unused kilowatt-hour (“kWh”) credit. The current
2 residential block energy charges include fixed costs, such as customer-
3 related costs that cannot be avoided with solar production. Therefore, so
4 long as the current net metering structure is in place, fixed costs recovery is
5 shifted from net-metered customers to non-net-metered customers.
6 Moreover, the current netting of the kWh monthly assigns the same value
7 to all the kWh produced by the customer’s solar facility, which does not
8 reflect the lower value of solar production during the day when solar
9 generation is abundant. As PNM continues to see consistent new rooftop
10 solar interconnections, PNM believes the time to address the net-metering
11 subsidy issue is in the next rate case filing.

III. PNM’S RATE DESIGN OBJECTIVES

14
15 **Q. What are the overall rate design objectives in this filing?**

16 **A.** At a high level, the objectives are continuity for cost allocation, minimization of
17 rate impacts through banding, and focused efforts to bring some commercial and
18 industrial customers close to cost of service.

19
20 PNM recognizes that this rate case is filed close to PNM’s recently concluded 2022
21 Rate Case, and because the PRAC is proceeding with its collaborative process, one
22 of PNM’s objectives is to minimize changes to how costs are allocated to customer
23 classes to provide a degree of continuity. The proposed banding for non-fuel

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1 revenue requirement increases for this case also continues to provide a reasonable
2 means of addressing the significant differences in resulting rate changes among
3 customer classes that occur when costs are appropriately allocated based on cost
4 responsibility. At the same time, PNM is focusing on the importance of attracting
5 new commercial and large industrial customers who can bring jobs to New Mexico.
6 Therefore, one intent of PNM’s banding proposals is to set rates either at cost-based
7 or to reduce subsidies provided by these classes of customers, which includes
8 moving Rate Schedule 1A – Residential Service (“Residential 1A”) and Rate
9 Schedule 1B – Residential Service Time-of-Use (“Residential 1B”, collectively
10 “Residential customer class”) closer to a cost-based increase. Attracting new
11 commercial and large industrial customers by offering them cost-based or close to
12 cost-based rates will also help to support the cost of investments required to provide
13 reliable and resilient service for all customers.

14

15 **A. Allocation Methodology**

16 **Q. What specific rate design proposal will provide the referenced continuity for**
17 **customers?**

18 **A.** As noted above, PNM proposes to maintain the same allocation methodologies for
19 production, transmission, distribution, and customer-related costs as approved in
20 Case No. 22-00270-UT. Parties had extensive discussions in the 2022 Rate Case
21 about the need to conduct a holistic review of all the allocators to ensure they reflect
22 PNM’s changing resource portfolio and customer behavior. As I discussed earlier,

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1 based on discussions through the PRAC, the consensus was that there is not
2 sufficient time to develop a new allocation methodology. Therefore, instead of
3 developing a new production allocation in this rate case, PNM proposes to maintain
4 the current approved 3S1W 4CP production allocation methodology and to
5 continue working with the PRAC on the new production allocation methodology,
6 amongst other things.

7

8 **Q. Does PNM have a target date when the production allocation methodology**
9 **review will be completed?**

10 **A.** PNM continues to work with the PRAC and aims to have a resolution by the end
11 of 2024. If agreement cannot be reached, PNM will commit to filing a proposal in
12 its next general rate case filing.

13

14 **Q. Are there other allocation methodologies that PNM will work on with the**
15 **PRAC?**

16 **A.** Yes. PNM intends to work out the production allocation methodology first, and
17 then to move on to review the transmission allocation methodology. The current
18 transmission allocation methodology follows the production allocation
19 methodology, which is 3S1W 4CP. This method was approved in Case No. 15-
20 00261-UT. Like the production allocation methodology, the transmission
21 allocation method should be reviewed to determine whether it is still appropriate to
22 match with the production allocation or if an alternative methodology is

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1 appropriate. Ultimately all allocation methodologies will be reviewed with the
2 PRAC, but in the appropriate order.

3

4 **B. Banding**

5 **Q. What is the allocated cost-based non-fuel revenue requirement increase or**
6 **decrease for each customer class?**

7 **A.** The customer class cost-based non-fuel revenue requirement increases and
8 decreases are summarized in PNM Table SC-1 below.⁵

PNM Table SC-1				
	Column A	Column B	Column C	Column D
	Cost-Based Non-Fuel Revenue Increase/Decrease			
Customer Class	Test Period Revenue at Current Rates *	Cost-Based Increase/(Decrease)	Cost-Based Allocated Revenue Requirement	% Change
Residential 1A & 1B	\$ 366,002,790	\$ 110,976,551	\$ 476,979,341	30.32%
Small Power & Small Power TOU	105,207,301	(6,091,808)	99,115,493	-5.79%
General Power 3B	106,791,647	7,549,764	114,341,411	7.07%
General Power 3C	28,215,676	(5,766,798)	22,448,878	-20.44%
General Power 3D	8,359,051	(344,547)	8,014,504	-4.12%
General Power 3E	1,622,980	(512,773)	1,110,207	-31.59%
General Power 3F	492,613	(290,481)	202,131	-58.97%
Large Power 4B	57,310,829	(1,648,741)	55,662,089	-2.88%
Large Service 5B	1,981,778	(1,084,645)	897,133	-54.73%
Irrigation 10A & TOU 10B	1,804,390	256,149	2,060,539	14.20%
Water and Sewage 11B	8,192,657	1,750,070	9,942,728	21.36%
Universities 15B	3,361,728	(1,280,503)	2,081,225	-38.09%
Manufacturing 30B	35,822,209	(4,625,680)	31,196,529	-12.91%
Station Power 33B	230,978	(156,211)	74,767	-67.63%
Large Power 35B	7,049,919	(612,222)	6,437,697	-8.68%
Rate Schedule 36B	20,831,510	(7,394,830)	13,436,680	-35.50%
Private Lighting 6	2,315,366	(478,181)	1,837,186	-20.65%
Streetlighting 20	3,537,205	1,932,271	5,469,476	54.63%
Total	\$ 759,130,627	\$ 92,177,388	\$ 851,308,015	12.14%

9

* Includes current ESA costs.

⁵ Please note that in the Acronyms/Abbreviations at the beginning of my testimony, I provide a simple summary of each rate schedule and the relevant abbreviation for the rate schedule.

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1 The proposed total system non-fuel revenue requirement increase is 12.14%.
2 Columns B and D show the non-fuel cost-based increase or decrease amount and
3 percentage for each customer class.

4
5 As seen in PNM Table SC-1, following the historical trend, the Residential
6 customer class continues to see a need for increased cost recovery that is
7 significantly higher than the system increase. This reflects ongoing investments at
8 the distribution level as supported by PNM witness Warner that benefit residential
9 and small business customers.

10

11 **Q. Is past banding of revenue requirement increases reflected in the relative**
12 **differences in percentage impacts shown in PNM Table SC-1?**

13 **A.**Yes. Over the last several rate cases, the residential non-fuel revenue requirement
14 increase has been kept below the allocated cost-based increase in accordance with
15 the principles of gradualism and avoidance of rate shock. To make up the
16 difference, other customer classes have been subsidizing residential customers.
17 These subsidizing customer classes, based on the allocated cost-based revenue
18 requirement, would otherwise have seen a decrease in prior rate cases, even as far
19 as a double-digit revenue requirement reduction, had rates been set on a cost basis.
20 In this case, besides the Residential customer class, the other customer classes that
21 show an allocated cost-based increase are Rate Schedule 3B – General Power
22 Service – Time-of-Use (“General Power 3B”), Rate Schedule 10A – Irrigation

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1 Service (“Irrigation 10A”), Rate Schedule 10B – Irrigation Service Time-of-Use
2 (“Irrigation TOU 10B”), Rate Schedule 11B – Water and Sewage Pumping Service
3 – Time-of-Use (“Water and Sewage 11B”), and Rate Schedule 20 – Integrated
4 System Streetlighting and Floodlighting Service (“Streetlighting 20”).
5

6 **Q. Is PNM proposing to band the non-fuel cost-based increase or decrease in this**
7 **rate case?**

8 **A.** Yes. While PNM continues to work towards cost-based rates, a cost-based non-
9 fuel revenue requirement increase of 30% for the Residential customer class would
10 be inconsistent with the principles of gradualism the Commission has applied in
11 past cases and would result in rate shock. On the other hand, a cost-based non-fuel
12 revenue requirement for some other customer classes would mean a significant
13 decrease. Therefore, PNM believes it is appropriate to apply banding to both the
14 non-fuel cost-based increase and decrease.
15

16 **Q. What is the banding proposal in this rate filing?**

17 **A.** PNM proposes an upper band of 175%, which means no customer class will see an
18 increase higher than 175% of the system increase of 12.14%. This translates to a
19 class increase of 21.25% by multiplying 12.14% by 175%. PNM also proposes a
20 lower band of 0%, which translates into no increase to allocated non-fuel revenue
21 requirement for some customer classes. Please see PNM Table SC-2 below with
22 the proposed banded changes to customer class cost responsibility.

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PNM Table SC-2				
	Column A	Column B	Column C	Column D
	Banded Non-Fuel Revenue Increase/Decrease			
Customer Class	Test Period Revenue at Current Rates *	Banded Increase/(Decrease)	Banded Revenue Requirement	% Change
Residential 1A & 1B	\$ 366,002,790	\$ 77,773,264	\$ 443,776,054	21.25%
Small Power & Small Power TOU	105,207,301	5,190,334	110,397,635	4.93%
General Power 3B	106,791,647	7,549,764	114,341,411	7.07%
General Power 3C	28,215,676	-	28,215,676	0.00%
General Power 3D	8,359,051	-	8,359,051	0.00%
General Power 3E	1,622,980	-	1,622,980	0.00%
General Power 3F	492,613	-	492,613	0.00%
Large Power 4B	57,310,829	-	57,310,829	0.00%
Large Service 5B	1,981,778	(1,084,645)	897,133	-54.73%
Irrigation 10A & TOU 10B	1,804,390	256,149	2,060,539	14.20%
Water and Sewage 11B	8,192,657	1,740,888	9,933,545	21.25%
Universities 15B	3,361,728	-	3,361,728	0.00%
Manufacturing 30B	35,822,209	-	35,822,209	0.00%
Station Power 33B	230,978	-	230,978	0.00%
Large Power 35B	7,049,919	-	7,049,919	0.00%
Rate Schedule 36B	20,831,510	-	20,831,510	0.00%
Private Lighting 6	2,315,366	-	2,315,366	0.00%
Streetlighting 20	3,537,205	751,634	4,288,838	21.25%
Total	\$ 759,130,627	\$ 92,177,388	\$ 851,308,015	12.14%

* Includes current ESA costs.

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Q. Why does PNM propose an upper band of 175%?

A PNM continues to work towards cost-based rates. The Residential customer class, Water and Sewage 11B, and Streetlighting 20 are the classes that are the furthest away from their allocated cost-based revenue requirement; therefore, PNM believes a more aggressive band will help the movement towards rate unity. After applying an upper band of 175%, the Residential customer class still receives over \$33 million of subsidy in the Test Period.

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1 **Q. Why does PNM propose a lower band of zero percent?**

2 **A.** There are several reasons for PNM’s proposal. First, the customer classes PNM
3 proposes a zero percent increase for are classes that have been subsidizing the
4 Residential customer class significantly as demonstrated in the 2022 Rate Case
5 cost-based revenue requirement increase and in the current filing. While PNM
6 continues to support a move towards cost-based rates, PNM does not recommend
7 that any customer class receive a rate decrease except Rate Schedule 5B – Large
8 Service \geq 8,000 kW Minimum (“Large Service 5B”) for the reasons discussed
9 below. However, PNM also does not believe increasing the subsidies provided by
10 these non-residential customer classes is appropriate. Therefore, PNM proposes no
11 revenue requirement change to certain customer classes, which means these classes
12 will continue to provide subsidies at the current level but will not see an increase in
13 the level of subsidy they provide. The added advantage of this proposal is to
14 provide reduced volatility for the customer classes who have a 0% increase under
15 PNM’s banding proposal. Mirroring the Residential customer class, most of these
16 other customer classes have moved further away from cost-based rates over time,
17 but from the opposite direction; this means that their rates recover more than the
18 allocated cost-based revenue requirement. Secondly, some of these customer
19 classes, such as Rate Schedule 4B – Large Power Service – Time-of-Use (“Large
20 Power 4B”), Rate Schedule 30B – Large Service for Manufacturing \geq 30,000 kW
21 (“Manufacturing 30B”), Rate Schedule 35B – Large Power Service \geq 3,000 kW
22 Time-of-Use (“Large Power 35B”) and Rate Schedule 36B – Special Service Rate

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1 – Renewable Energy Resources (“Rate Schedule 36B”), are representative of the
2 types of customers that the State of New Mexico and PNM would like to recruit to
3 the state to foster a growing economy that would bring in additional jobs and other
4 economic benefits. Therefore, the reduced volatility in rates that result from a 0%
5 increase will aid PNM in its efforts to attract new businesses, retain existing
6 customers, and potentially incentivize customers to expand their businesses.

7

8 The customer classes to which PNM proposes to apply the lower band of 0%,
9 meaning no increase in allocated non-fuel revenue requirement in this case, are:

- 10 • Rate Schedule 3C – General Power Service (Low Load Factor) – Time-of-Use
11 (“General Power 3C”);
- 12 • Rate Schedule 3D – General Power Service – Time-of-Use (“General Power
13 3D”) (for municipalities and counties);
- 14 • Rate Schedule 3E – General Power Service (Low Load Factor) (“General Power
15 3E”) (for municipalities and counties);
- 16 • Rate Schedule 3F – Non-Residential Charging Station – Pilot (“General Power
17 3F”);
- 18 • Large Power 4B;
- 19 • Rate Schedule 15B – Large Service for Public Universities (“Universities
20 15B”);
- 21 • Manufacturing 30B;

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- 1 • Rate Schedule 33B – Large Service for Station Power – Time-of-Use (“Station
2 Power 33B”);
- 3 • Large Power 35B;
- 4 • Rate Schedule 36B; and
- 5 • Rate Schedule 6 – Private Area Lighting Service (“Private Lighting 6”).
- 6

7 **Q. After applying the lower band to those customer classes, are they now cost-**
8 **based?**

9 **A.** No. To achieve cost basis, those customer classes’ non-fuel revenue requirements
10 and resulting rates would need to be reduced. By keeping the current non-fuel
11 revenue requirement allocation, these customer classes will continue to provide \$23
12 million of subsidy in the Test Period.

13

14 **Q. What are the proposed increases for General Power 3B and Irrigation 10A**
15 **and Irrigation TOU 10B?**

16 **A.** PNM proposes the cost-based increase of 7.07% for General Power 3B since its
17 increase is below the system average increase of 12.14%. Irrigation 10A and
18 Irrigation TOU 10B’s non-fuel cost-based increase is below the upper band of
19 175% of the system average increase of 12.14%; therefore, PNM recommends the
20 cost-based increase of 14.2%. These proposed increases will bring the two rate
21 schedules to cost basis.

22

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1 **Q. What non-fuel revenue requirement change does PNM propose for Large**
2 **Service 5B?**

3 **A.** PNM proposes to recover the allocated cost-based non-fuel revenue requirement
4 from Large Service 5B, no more and no less, which means this rate schedule is not
5 subject to banding and will be cost-based. Since Large Service 5B is a subsidizing
6 customer class currently, a cost-based proposal means a decrease in non-fuel
7 revenue requirement to remove the \$1 million subsidy provided.

8
9 This rate schedule is offered to retail customers who contract for a demand of no
10 less than 8,000 kW, or 8 MW, and who take service from PNM's transmission
11 system. In the last two rate cases approved by the Commission, Large Service 5B
12 was subject to the lower band. Application of a lower band to this rate schedule in
13 the past meant it received a minimum increase as a percentage of the system average
14 increase even though the allocated cost-based non-fuel revenue requirement for this
15 rate schedule showed a decrease. The result is that this rate schedule has
16 historically provided a subsidy to other rate classes, mainly to the Residential
17 customer class.

18
19 **Q. Why is PNM proposing a pure cost-based rate for Large Service 5B?**

20 **A.** The Pricing team works closely with PNM's economic development team to
21 provide pricing analysis to prospective customers based on the rate schedule for
22 which prospective customers qualify. A majority of the potential customers the

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1 economic development team works with are eligible for Large Service 5B service,
2 and the average maximum load of these customers is 375 MW. However, due to
3 the subsidy built into the banded non-fuel revenue requirement, rates for Large
4 Service 5B are higher than what the prospective customers expect. Therefore, PNM
5 proposes to structure the rates for Large Service 5B to be cost-based to improve
6 PNM's competitiveness with other utilities in other states trying to attract these
7 customers.

8

9 **Q. What is the non-fuel revenue requirement impact of a cost-based Large**
10 **Service 5B?**

11 **A.** There is no impact to the total non-fuel revenue requirement. However, since Large
12 Service 5B will be cost-based, the subsidy that would have been provided by this
13 rate schedule will now be shifted to other rate classes that are receiving a banded
14 increase. After costs are allocated, and assuming Large Service 5B would have
15 been subject to the lower band and thus had a 0% increase or no change, the amount
16 of subsidy that Large Service 5B would have provided is about \$1 million.

17

18 **Q. Why does PNM want to propose a cost-based rate for Large Service 5B?**

19 **A.** PNM believes that with a cost-based Large Service 5B rate that there would be an
20 opportunity to attract new customers to the state. A new Large Service 5B customer
21 would create primary and secondary jobs within PNM's service territory, likely
22 having an overall positive economic impact.

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1 **Q. Is PNM’s proposed cost-based Large Service 5B rate an economic**
2 **development tariff?**

3 **A.** No. The cost-based Large Service 5B rate is different from Rider No. 45 –
4 Economic Development Rider (“EDR”). The EDR is an economic development
5 tariff which offers stated discounts, for a limited term, on demand charges to
6 eligible rate schedules. A cost-based Large Service 5B rate, by contrast, does not
7 include any discounted rates, and the rates reflect 100% of the costs allocated to
8 these customers. The difference between the proposed and current Large Service
9 5B is the removal of any non-fuel revenue requirement subsidy provided by this
10 rate schedule for the Residential and other customer classes.

11

12 **Q. What is the non-fuel revenue requirement increase proposal for Small Power**
13 **and Small Power TOU and why?**

14 **A.** PNM recommends a 4.93% increase for Rate Schedule 2A – Small Power Service
15 and (“Small Power”) and Rate Schedule 2B – Small Power Service – Time-of-Use
16 (“Small Power TOU”). While the residential subsidy is reduced by implementing
17 a 175% upper band for the Residential customer class, the banded 21.25% increase
18 of \$77.8 million is still short of the cost-based increase of about \$111 million, and
19 therefore, a subsidy is required. In other words, other customer classes must cover
20 the residential subsidy.⁶ Therefore, a 4.93% increase from both Small Power and

⁶ PNM’s proposed non-fuel revenue requirement increase for Streetlighting 20 also does not cover its cost of service, meaning that Small Power and Small Power TOU are also subsidizing Streetlighting 20.

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1 Small Power TOU is needed to provide the subsidy for the customer classes that
2 will not be paying their fully allocated non-fuel revenue requirement.

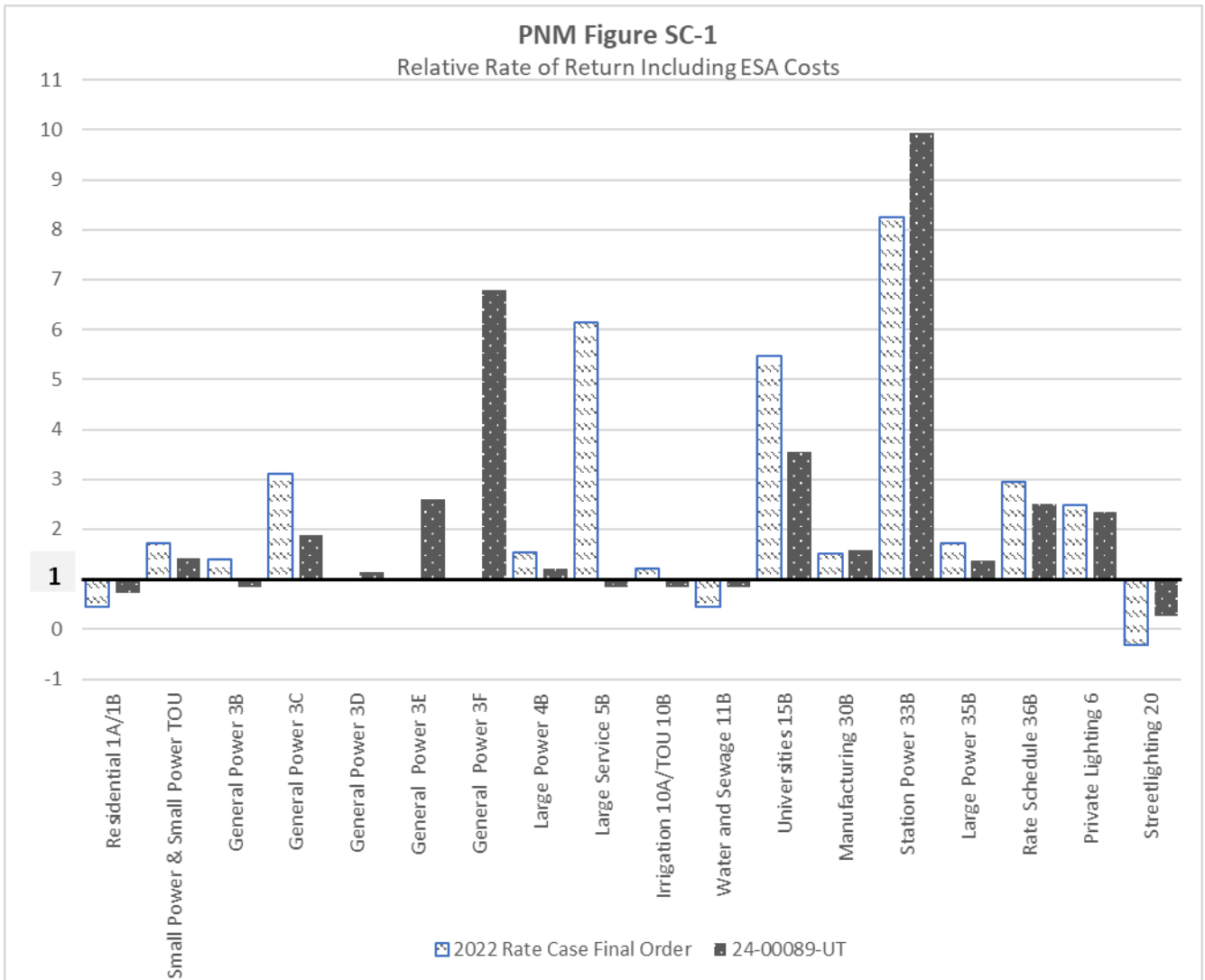
3

4 **Q. Does this banding proposal and recommended changes to the various rate**
5 **schedules help to move the rates closer to cost-based?**

6 **A.** Yes. With PNM’s proposal, three customer classes will be cost-based: General
7 Power 3B, Large Service 5B, and Irrigation 10A and Irrigation TOU 10B.
8 Moreover, the residential subsidy is also reduced to \$33.2 million from the \$48
9 million that was provided under the approved 2022 Rate Case. Please see PNM
10 Table SC-2 for the proposed changes for each customer class after banding. PNM
11 Figure SC-1 shows the Relative Rate of Return for both the 2022 Rate Case Final
12 Order and for the proposed case. The Relative Rate of Return shows the rate of
13 return of customer class relative to the system rate of return. A value of “1” means
14 the class is at equilibrium with the system and reflects cost-based non-fuel rates. A
15 value above “1” indicates the class is paying above cost basis and is providing a
16 subsidy to other classes who are not paying their full cost of service. A value below
17 “1” indicates the class is paying less than cost basis and is receiving a subsidy from
18 other classes who are paying more than their full cost of service. As can be seen,
19 there are improvements for 10 rate schedules, which means these rate schedules,
20 under PNM’s banding proposal, are moving closer to unity.

21

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1

2

3

IV. OTHER PROPOSED RATE DESIGN CHANGES

4

5

A. Proposed Recovery of Energy Storage Agreement Costs

6

Q. How are ESA costs recovered currently?

7

A. In the 2022 Rate Case, the ESA costs were functionalized into production, transmission, and distribution functions, and allocated to rate classes using the respective allocators. The allocated costs are recovered in base rates through

9

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1 demand charges or through energy charges for those rate classes that do not have a
2 demand charge.

3

4 **Q. What is PNM’s proposed recovery mechanism in this filing and why?**

5 **A.** PNM proposes to recover all ESA costs in Rider No. 23 – Fuel and Purchased
6 Power Cost Adjustment Clause (“FPPCAC”). PNM witness Greinel explains in
7 detail why PNM is proposing this shift, specifically addressing the financial impact
8 on PNM of the imputed debt calculation that is placed on long-term fixed payment
9 agreements such as the ESAs. To mitigate the negative impacts from imputed debt,
10 PNM proposes to remove all ESA costs from base rates and recover those costs
11 through the FPPCAC.

12

13 **Q. Is PNM proposing recovery of all ESA costs through the FPPCAC?**

14 **A.** Yes. For consistency, PNM proposes to recover the costs of all ESAs, both fixed
15 price and variable price, through the FPPCAC.

16

17 **Q. How will the ESA costs be recovered in the FPPCAC?**

18 **A.** PNM witness Casas sponsors the allocation of the ESA costs. As explained by
19 witness Casas, PNM will functionalize ESA-related costs as 67% production, 30%
20 transmission and 3% distribution before the costs are allocated to each rate schedule
21 based on the applicable allocators. While the ESA costs are allocated based on a
22 capacity allocator, the costs assigned to each rate schedule will still be recovered

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1 on a kWh basis. PNM witness Dr. Pitts calculates the FPPCAC rates included in
2 the bill impact analysis, as well as sponsors a proposed revised Rider No. 23.

3

4 **Q. What is the effect of recovering the ESA costs through the FPPCAC?**

5 **A.** From a cost allocation perspective, there is no impact from the change since the
6 allocators used to allocate the ESA costs, whether in base rates currently or in the
7 FPPCAC, are the same allocators that PNM is using for production, transmission,
8 and distribution.

9

10 From a cost recovery perspective, the ESA costs are currently recovered through a
11 demand charge for rate schedules that have a demand charge, and an energy charge
12 for those rate schedules which have only a customer charge and an energy charge.
13 With this proposed change, all the ESA costs will now be collected as a kWh
14 charge.

15

16 **Q. What is the change to each customer class's non-fuel revenue requirement plus
17 the ESA costs that will be recovered through the FPPCAC?**

18 **A.** Please see PNM Table SC-3 for changes to the non-fuel revenue requirement after
19 banding, Column C, and the changes in customer class responsibility that includes
20 the ESA costs that PNM is proposing to collect through the FPPCAC, Column F.
21 Since ESA costs are currently included in base rates, PNM believes a fair

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1 comparison to current rates is to show the Test Period ESA costs that will be
2 recovered through the FPPCAC to the non-fuel base rate increases.

3

PNM Table SC- 3

	Column A	Column B	Column C	Column D	Column E	Column F	Column G
Customer Class	Test Period Revenue at Current Rates *	Banded Non-Fuel Revenue Increase/(Decrease)	Banded Non-Fuel Revenue Requirement	% Change	Test Period Allocated ESA Costs	Total Increase/(Decrease) with ESAs	Total % Change with ESAs
Residential 1A & 1B	\$ 366,002,790	\$ 77,773,264	\$ 443,776,054	21.25%	\$ 41,068,775	\$ 118,842,039	32.47%
Small Power & Small Power TOU	105,207,301	5,190,334	110,397,635	4.93%	8,448,972	13,639,306	12.96%
General Power 3B	106,791,647	7,549,764	114,341,411	7.07%	12,548,711	20,098,475	18.82%
General Power 3C	28,215,676	-	28,215,676	0.00%	2,027,261	2,027,261	7.18%
General Power 3D	8,359,051	-	8,359,051	0.00%	869,093	869,093	10.40%
General Power 3E	1,622,980	-	1,622,980	0.00%	105,548	105,548	6.50%
General Power 3F	492,613	-	492,613	0.00%	33,008	33,008	6.70%
Large Power 4B	57,310,829	-	57,310,829	0.00%	6,545,602	6,545,602	11.42%
Large Service 5B	1,981,778	(1,084,645)	897,133	-54.73%	149,823	(934,822)	-47.17%
Irrigation 10A & TOU 10B	1,804,390	256,149	2,060,539	14.20%	183,673	439,822	24.38%
Water and Sewage 11B	8,192,657	1,740,888	9,933,545	21.25%	845,566	2,586,453	31.57%
Universities 15B	3,361,728	-	3,361,728	0.00%	342,877	342,877	10.20%
Manufacturing 30B	35,822,209	-	35,822,209	0.00%	4,982,045	4,982,045	13.91%
Station Power 33B	230,978	-	230,978	0.00%	11,310	11,310	4.90%
Large Power 35B	7,049,919	-	7,049,919	0.00%	1,022,379	1,022,379	14.50%
Rate Schedule 36B	20,831,510	-	20,831,510	0.00%	2,792,142	2,792,142	13.40%
Private Lighting 6	2,315,366	-	2,315,366	0.00%	47,433	47,433	2.05%
Streetlighting 20	3,537,205	751,634	4,288,838	21.25%	118,011	869,645	24.59%
Total	\$ 759,130,627	\$ 92,177,388	\$ 851,308,015	12.14%	\$ 82,142,228	\$ 174,319,616	22.96%

4 * Includes current ESA costs.

5

6 **Q. How does recovery of the ESA costs through the FPPCAC influence the**
7 **calculation of the Contribution to Production Component charge in**
8 **accordance with Exhibit D2 of the Second Amended and Restated Special**
9 **Service Contract (“SSC”)?**

10 **A.** In the 2022 Rate Case, the production-allocated ESA costs were included as part of
11 the production capacity revenue requirement in calculating the Contribution to

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1 Production Component as per Exhibit D2 of the SSC since the ESAs provide
2 needed capacity to the system. In this filing, PNM's proposal to change the
3 recovery of the ESA costs from base rates to the FPPCAC does not change the
4 characteristics of the ESAs, which continue to provide a capacity value. PNM is
5 only changing the method of recovering ESA costs in this case. Therefore, the
6 production-allocated ESA costs will continue to be considered as production
7 capacity revenue requirement for purposes of calculating the Contribution to
8 Production Component charge for Rate Schedule 36B. PNM witness Casas
9 sponsors the derivation of the Contribution to Production Component.

10
11 ***B. Community Solar***

12 **Q. Please provide some background on issues that are pending resolution**
13 **regarding community solar implementation.**

14 **A.** Several issues pending resolution in the second phase of the docket addressing the
15 implementation of the community solar program, Case No. 23-00071-UT, will
16 impact the information PNM is providing in this case. For example, a
17 determination of the methodology for calculation of the subsidy and how that
18 subsidy will impact non-subscribers is pending resolution in that case.⁷
19 Specifically, with respect to the calculation of the subsidy, the Commission will
20 determine the methodology for quantifying net utility costs, the calculation of the

⁷ Case No. 23-00071-UT, PNM Ex. 6 (Settlage Reb.) at 23:19-26:10. (While PNM can support identification of certain categories of costs and avoided costs to be tracked to determine the subsidy in a future rate case, PNM maintains that adoption of a permanent methodology must occur in a rulemaking).

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1 three percent of total aggregate retail rate (“TARR”) limitation, and a protocol for
2 recovery of the amount of the subsidy that falls within or in excess of the three
3 percent limit. The specific components of the TARR are also at issue in that case,
4 which will necessarily impact its calculation.⁸ Finally, as explained in more detail
5 by PNM witness Larese, PNM cannot yet determine costs and avoided costs
6 associated with community solar in this case, given that some uncertainty still exists
7 as to the location and size of the community solar facilities that will be
8 interconnected.⁹

9

10 **Q. Please explain the update to the bill credit in this case.**

11 **A.** The community solar bill credit has three components: the Base Bill Credit Rate ,
12 the FPPCAC Rate, and the Renewable Energy Rate, as those terms are defined in
13 PNM’s proposed Rider No. 56. Fundamentally, the calculation of the bill credit is
14 dependent on the calculation of Total Aggregate Retail Rate, as that term is defined
15 by NMSA 1978, Section 62-16B-2(O). PNM witness Dr. Pitts sponsors the
16 derivation of the TARR and calculation of the bill credit for each rate schedule.

17

⁸ PNM maintains that Aggregate Retail Rate can be interpreted to be all the components of the TARR less the calculated amount of the FPPCAC and the Renewable Energy Rate.

⁹ Case No. 23-00071-UT, PNM Post-Hearing Brief-in-Chief at 7 (“Until the interconnection process is complete, and community solar facilities are being built, PNM will not know with any degree of certainty the impact a community solar facility will have on its system—including whether costs can be avoided as a result of the facility”).

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1 **Q. Please explain the calculation of the subsidy up to the three-percent cap.**

2 **A.** PNM provided a sample calculation of the subsidy in Case No. 23-00071-UT.
3 Section 62-16B-7(B)(8) of the Community Solar Act states that non-subscribers
4 shall not subsidize costs attributable to subscribers, unless the Commission
5 determines it is in the public interest; in that case, non-subscribers cannot be
6 charged more than three percent of the non-subscriber’ aggregate retail rates on an
7 annual basis to subsidize subscribers. PNM believes that the appropriate
8 interpretation of aggregate retail rate is the Total Aggregate Retail Rate less the
9 calculated components of the FPPCAC and the Renewable Energy Rate.¹⁰ Since
10 the components of the TARR are largely determined in a rate case, it is appropriate
11 to recalculate the anticipated subsidy in this rate case although the Commission
12 may very well change how the subsidy cap is determined when it issues a final
13 order in Case No. 23-00071-UT. PNM witness Dr. Pitts shows the subsidy cap
14 derivation applying PNM’s interpretation of the aggregate retail rate.

15

16 **Q. Is PNM presenting its calculated costs and avoided costs associated with**
17 **community solar in this case?**

18 **A.** No. It is still premature to calculate these costs and avoided costs in this rate case.
19 In Case No. 23-00071-UT, PNM told the Commission that in its “next rate case
20 where there was certainty as to the costs and avoided costs (e.g., the location of
21 community solar facilities are known), PNM will seek to recover the costs

¹⁰ See Case No. 23-00071-UT, Rebuttal Testimony of Michael J. Settlage, at 20.

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1 associated with that regulatory asset as part of an overall examination of costs and
2 avoided costs.”¹¹ At this time, there is no certainty as to costs or avoided costs.
3 Specifically, no community solar facilities are providing service in PNM’s territory
4 yet, and as such, PNM has not issued any bill credits to subscribers at this time. As
5 such, no specific costs associated with community solar have been identified or
6 placed in a regulatory asset. Additionally, a large percentage of the community
7 solar facilities selected by the third-party administrator for PNM’s service territory
8 have not completed the interconnection process, meaning that there is insufficient
9 certainty as to the location of the facilities and the resulting costs and avoided costs.

10
11 PNM witness Larese explains the current status of the community solar facilities
12 selected for PNM’s system, as well as why it is important to have certainty as to
13 the location of the community solar facilities in order to determine costs and
14 avoided costs.

15

16 **Q. When will PNM address the costs and avoided costs associated with**
17 **community solar?**

18 **A.** The “when” is somewhat dependent on the Commission’s determinations in the
19 community solar implementation proceeding, Case No. 23-00071-UT. If the
20 Commission orders PNM to address costs and avoided costs in a rate case, PNM
21 will address these issues in its next rate case. Having said that, PNM intends to

¹¹ Case No. 23-00071-UT, PNM Post-Hearing Brief in Chief, at 23.

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1 start gathering data necessary to determine costs and avoided costs once community
2 solar facilities come online and PNM is acquiring the output of those facilities. As
3 noted in Case No. 23-00071-UT, PNM has requested authority in that case to record
4 the bill credits issued to customers in a regulatory asset to be addressed in its next
5 rate case. PNM noted that identified avoided costs, if any, could offset the amounts
6 recorded in the regulatory asset; however, additional location-specific or system
7 costs could also be identified as community solar facilities come online.¹² PNM
8 will net the costs recorded in the regulatory asset plus other costs against avoided
9 costs to determine a subsidy amount and whether the three-percent cap has been
10 reached or exceeded in accordance with the Community Solar Act. Unless
11 otherwise ordered by the Commission, PNM can present these calculations in its
12 next rate case.

13
14 **V. SERVICE TO RATE SCHEDULE 36B CUSTOMER**

15
16 **Q. Please explain what PNM is demonstrating in this case with respect to the Rate**
17 **Schedule 36B customer.**

18 **A.** As discussed in the testimony of PNM witness Monroy, PNM demonstrates that its
19 service to the Rate Schedule 36B customer has no “No Net Adverse Impact” or
20 NNAI on other customers with respect to rates and service. PNM witness Monroy
21 discusses the scope of the NNAI standard in his testimony.

¹² See, e.g., Tr. Vol. III (Barnes) at 551:3-552:13 (noting that uneconomic dispatch could be a cost identified by a utility related to community solar given that Subscriber Organization Agreement does not permit economic curtailment).

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1 **Q. Please explain the requirements of the SSC that support a demonstration of**
2 **No Net Adverse Impact in this proceeding.**

3 **A.** The SSC expressly requires that there is No Net Adverse Impact “to any other PNM
4 retail electric service customers.”¹³ To that end, Exhibit D2 of the SSC shows the
5 determination of each rate charged to the Rate Schedule 36B customer. The Rate
6 Schedule 36B Customer Charge is designed to recover all the customer-related
7 costs assigned to Rate Schedule 36B in PNM general rate cases. Additionally, the
8 “Retail Transmission Capacity Revenue Requirement,” as that term is used in
9 Exhibit D2 of the SSC, is also established in each PNM rate case, and is used to
10 determine the “Transmission Demand Rate” that will be charged to the Rate
11 Schedule 36B customer for the period the rates approved in the general rate case
12 are in effect. PNM also recalculates the allocation of production costs to the Rate
13 Schedule 36B customer in each rate case. This calculation of the charge for
14 allocated system production revenue requirement and Contribution to Production
15 Component for the Rate Schedule 36B customer is done in accordance with Exhibit
16 D2 of the SSC. The calculation determines if the capacity value of the system
17 resources the Rate Schedule 36B customer pays for under Rider No. 47 – Green
18 Energy Rider (“Rider No. 47”) is greater or lesser than the Rate Schedule 36B
19 customer’s allocated system production revenue requirement. PNM witness Casas
20 details the calculation of the Contribution to Production Component charge and the
21 Transmission Demand Rate in his direct testimony.

¹³ SSC at Recitals, part I.

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1 **Q. Can you further explain Exhibit D2 to the SSC as it relates to the calculation**
2 **of the Contribution to Production Component?**

3 **A.** Yes. Exhibit D2 provides the methodology behind the “Special Service Rate
4 Calculation.” The SSC uses the methodology set forth in that exhibit to determine
5 the Rate Schedule 36B customer’s allocated production costs.¹⁴ The result of
6 performing the Exhibit D2 calculations is a “Contribution to Production
7 Component” charge that is applied to the Rate Schedule 36B customer’s monthly
8 on-peak billable demand. The methodology set forth in Exhibit D2 is meant to
9 determine the Rate Schedule 36B customer’s revenue contribution to PNM’s
10 production costs for capacity supplied to the customer from PNM’s traditional
11 energy sources, taking into account the additional capacity provided by any
12 “Renewable Energy Facilities” and “Alternative Capacity Projects”.¹⁵ The
13 additional capacity paid for by the Rate Schedule 36B customer is applied as an
14 offset to the allocated production costs from PNM’s traditional energy sources.

15

16 **Q. How does Exhibit D2, through the calculation of the Contribution to**
17 **Production Component, ensure that PNM’s other customers are not**
18 **subsidizing the Rate Schedule 36B customer?**

19 **A.** The methodology described in Exhibit D2 starts with a calculated capacity value
20 for the system’s production capacity revenue requirement. This system capacity

¹⁴ SSC at Sec. 5.2.1.3.

¹⁵ Generally speaking, “Renewable Energy Facilities” and “Alternative Capacity Projects” are defined in the definitions section of the SSC as solar, wind, and storage facilities procured on behalf of the Rate Schedule 36B customer.

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1 value is applied to the Rate Schedule 36B customer's coincident peak demands to
2 establish its share of the production capacity revenue requirement. This is the same
3 methodology that PNM uses to assign the production capacity revenue requirement
4 to all the other customer classes using each customer class's coincident peak
5 demands. However, the methodology in Exhibit D2 also considers that the Rate
6 Schedule 36B customer pays for specific renewable resources and alternative
7 capacity projects under Rider No. 47, which PNM uses as system resources to serve
8 all its customers. Therefore, the methodology provides a determination of the
9 capacity value of those resources that the Rate Schedule 36B customer pays for and
10 that PNM's other customers benefit from. The comparison of the Rate Schedule
11 36B customer's allocated production revenue requirement with the value of the
12 renewable resources and alternative capacity projects that the customer pays for
13 determines the Contribution to Production Component charge.

14
15 In summary, the Rate Schedule 36B customer is always responsible for its allocated
16 production revenue requirement for system assets and no other customers provide
17 any subsidy to that production revenue requirement. In this case, since the value of
18 the renewable resources brought onto the system by the Rate Schedule 36B
19 customer is greater than the system-allocated production revenue requirement, the
20 Contribution to Production Component charge will be zero per the terms of the
21 SSC. PNM witness Casas provides a step-by-by derivation of the resulting

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1 Contribution to Production Component charge according to Exhibit D2.¹⁶ It should
2 be noted that the Rate Schedule 36B customer will not get a “refund” or a negative
3 Contribution to Production Component charge—the best the Rate Schedule 36B
4 customer can ever do is pay \$0 for its Contribution to Production Component. This
5 provision aids in demonstrating that other customers directly benefit if the
6 Contribution to Production charge is calculated to be a negative number, but the
7 best rate that the Rate Schedule 36B customer can receive is \$0 per kW. If the
8 Contribution to Production Component charge is positive, the Rate Schedule 36B
9 customer will also pay its full share of the system’s production-related revenue
10 requirement, in addition to the capacity value of the renewable resources and
11 alternative capacity projects that the Rate Schedule 36B customer is responsible
12 for.

13

14 **Q. Beyond the Contribution to Production Component calculation described**
15 **previously, does Exhibit D2 also ensure there is no subsidization of the Rate**
16 **Schedule 36B customer resulting from the Rate Schedule 36B customer’s**
17 **transmission revenue requirement allocation?**

18 **A.** Yes. Exhibit D2 provides that the transmission revenue requirement will be
19 allocated to the Rate Schedule 36B customer based on its coincident peak demands,
20 which is the same methodology that is applied to all customer rate classes.
21 Therefore, there is no potential for subsidization by other customers. Simply put,

¹⁶ SSC at Exhibit D2, p. D2-2, subpart (C).

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1 the Rate Schedule 36B customer receives a full allocation of transmission costs
2 consistent with the allocation of these costs to other rate classes.

3

4 **Q. Please describe how the Rate Schedule 36B customer's other charges are**
5 **calculated to ensure NNAI.**

6 **A.** In addition to the determination of the Contribution to Production Component
7 charge and the transmission rate described above, PNM's application of the terms
8 of Rate Schedule 36B ensures that no customer subsidizes the Rate Schedule 36B
9 customer. Rate Schedule 36B includes a fully cost-based customer charge, and the
10 Rate Schedule 36B customer pays a fuel charge pursuant to the FPPCAC based on
11 the Rate Schedule 36B customer's hourly usage in excess of the energy produced
12 from the renewable resources that the rate Schedule 36B customer pays for under
13 Rider No. 47. I will also explain how Rider No. 47 and Rider No. 49 – Production
14 Cost Allocation Rider ("Rider No. 49") ensure NNAI for other customers.

15

16 **Q. How does the application of Rider No. 47 impact the Rate Schedule 36B**
17 **customer's other rates?**

18 **A.** First, in accordance with Rider No. 47, the Rate Schedule 36B customer's bill on a
19 monthly basis reflects the full contractual price of any purchased power agreements
20 ("PPAs") or ESAs entered into by PNM pursuant to the SSC to serve the Rate
21 Schedule 36B customer. In other words, the Rate Schedule 36B customer is 100
22 percent responsible for the contract price of resources acquired on its behalf. This

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1 rider ensures that other customers do not have to pay for these resources, but PNM
2 uses these resources (as system resources) to serve other customers when the Rate
3 Schedule 36B customer's load is less than the production from these resources.

4
5 Rider No. 47 requires PNM to credit the Rate Schedule 36B customer for excess
6 energy at the Palo Verde hub market price of energy, which closely tracks the value
7 of energy that PNM would otherwise be paying for to cover any energy shortages
8 or would be receiving for any surplus energy. PNM has commonly traded at the
9 Palo Verde hub to help meet load and operational needs of the system at an
10 economical cost, and the hub prices provide a reasonable proxy for market power.
11 As such, these credits do not result in other customers subsidizing the Rate
12 Schedule 36B customer.

13
14 **Q. Please briefly describe Rider No. 49.**

15 **A.** Rider No. 49 is a mechanism that will recover under-collected production costs
16 from the Rate Schedule 36B customer if the Contribution to Production Component
17 charge is set too low in a rate case. This rider requires that, within four months of
18 the end of the Test Period in a general rate case where a Contribution to Production
19 Component charge has been established in accordance with Exhibit D2 of the SSC,
20 PNM will compare actual capacity values set in accordance with the SSC to
21 stipulated capacity values to ensure an under-collection of costs has not occurred.
22 If an under-collection has occurred, a "Reset Rate" will be calculated in accordance

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1 with the SSC, and the under-collection will be recovered through Rider No. 49,
2 over an 18-month period, in equal monthly amounts. Any under-recovered
3 production costs would subsequently be returned to other customers.

4

5 **Q. Please provide more information on how Rider No. 49 further ensures the Rate**
6 **Schedule 36B customer pays its share of production costs such that those costs**
7 **are not borne by other customers.**

8 **A.** Regarding Rider No. 49, a determination of whether any under-collection of
9 production-related costs has occurred will not be made until four months after the
10 test period for Case No. 22-00270-UT. The test period in that case was calendar
11 year 2024, meaning an under-collection is not calculated until the end of April
12 2025. Having said that, Rider No. 49 is specifically designed to ensure that the
13 Rate Schedule 36B customer pays its fair share, in that actual capacity values are
14 used to calculate whether the Contribution to Production Component charge is
15 under-collecting costs from the Rate Schedule 36B customer. If an under-
16 collection occurs, Rider No. 49 ensures that costs are collected from the Rate
17 Schedule 36B customer and flowed back to other customers, leaving customers
18 neutrally impacted by this rider. Furthermore, this Rider is asymmetrical, meaning
19 that if there is an over collection by PNM, the Rate Schedule 36B customer does
20 not get a refund. The result of Rider No. 49 is that other customers are at worst
21 neutral with respect to the Rate Schedule 36B customer.

22

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1 **Q. In addition to the SSC, Rate Schedule 36B, Rider No. 47 and Rider No. 49, is**
2 **there any additional rate impact on other customer classes as a result of the**
3 **Rate Schedule 36 customer being served by PNM’s system?**

4 **A.** Yes. In a rate case filing, PNM applies a banding process to set an upper band that
5 caps the increases to certain customer classes to avoid rate shock to those classes
6 that would otherwise experience a significantly larger than system-average
7 increase. PNM also utilizes a lower band which sets the “floor” for increases for
8 some customer classes. Rate Schedule 36B was one of the customer classes to
9 which the lower band was applied in Case No. 22-00270-UT. In that case, the Rate
10 Schedule 36B customer class, being at the lower band, provided about a \$6 million
11 subsidy to the customer classes that were at the upper band. Therefore, some
12 customer classes benefit from Rate Schedule 36B.

13

14 **Q. In this proceeding, does Rate Schedule 36B continue to provide a subsidy to**
15 **other customer classes?**

16 **A.** Yes. As shown in PNM Table SC-2, PNM is proposing that Rate Schedule 36B
17 again be subject to a “floor” to provide a \$7.4 million subsidy to other classes,
18 further demonstrating that other customer classes are benefitting from Rate
19 Schedule 36B.

20

21 **Q. What is your conclusion as to whether the NNAI standard is being met?**

22 **A.** It is my conclusion that the Rate Schedule 36B customer is providing a positive
23 impact on other customers’ rates. Therefore, the NNAI standard is being met. Other

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1 customers experience a positive impact on rates and service as a result of PNM's
2 service to the Rate Schedule 36B customer. As discussed in the Direct Testimony
3 of PNM witness Casas, the resources acquired by PNM to serve the Rate Schedule
4 36B customer result in a net benefit of approximately \$19 million to the system,
5 meaning the calculation of the Rate Schedule 36B customer's Contribution to
6 Production Component demonstrates the value of the renewable resources and
7 alternative capacity projects that the Rate Schedule 36B customer pays for is greater
8 than its allocated share of the non-fuel production revenue requirement and the
9 production allocation of the ESA costs. In addition, the Rate Schedule 36B
10 customer pays for its fully allocated transmission cost, and the customer charge for
11 the Rate Schedule 36B customer recovers 100% of the customer-related cost. The
12 result is that the Rate Schedule 36B customer is not being subsidized by any other
13 customer on PNM's system. Moreover, if PNM's banding proposal is approved,
14 the Rate Schedule 36B customer will provide a \$7.4 million subsidy to other rate
15 classes. For all these reasons, the NNAI standard has been met.

16

17

VI. CONCLUSION

18

19 **Q. What conclusions should the Commission draw from your testimony?**

20

A. My testimony summarizes the process that PNM went through with the PRAC to
21 review and revise the allocation methodologies. While stakeholders generally
22 agreed that new allocators needed to be developed, the consensus was that there
23 was not sufficient time before the filing of this case to revise and refine any specific

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1 allocator. Therefore, PNM recommends maintaining the allocation methodologies
2 used to develop rates in the 2022 Rate Case. PNM’s proposal is reasonable and
3 efficient and should be accepted. PNM is committed to working collaboratively
4 with stakeholders in the PRAC to develop new allocation methodologies, and
5 strongly believes that a stakeholder-driven process is crucial to achieving a Modern
6 Rate Design.

7
8 My testimony explains PNM’s banding proposal to apply the upper band of 175%
9 of system average non-fuel revenue requirement increase to the Residential
10 customer class to reduce the subsidy being received and to move that class closer
11 to cost-based rates. PNM also recommends a cost-based Large Service 5B rate and
12 a lower band of a zero percent non-fuel revenue requirement increase for certain
13 customer classes. PNM believes it is unreasonable to increase the subsidies
14 provided by certain customer classes and move them further away from cost-based
15 rates. Therefore, applying the lower band of zero percent increase to the non-fuel
16 revenue requirement to these classes is appropriate. Even with zero percent
17 increase, these classes continue to provide subsidies, mainly to the Residential
18 customer class, but PNM’s banding proposal will move them closer to their cost
19 basis. Furthermore, a cost-based Large Service 5B rate and lower band of zero
20 percent increase can foster economic development in the state of New Mexico.
21 Under PNM’s banding proposal, 10 customer classes are closer to cost-based rates.

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1 Therefore, PNM’s banding proposal is consistent with the long-term goal of cost-
2 based rates and economic development and should be approved.

3
4 My testimony describes the recommended change in recovery of ESA costs from
5 non-fuel base rates to the FPPCAC. The allocation of ESA costs continues to be
6 based on capacity allocators, the same as if the recovery of these costs were to
7 remain in base rates. The proposed change does not alter each class’s cost
8 responsibility, but rather how the allocated cost is recovered. This change in
9 recovery mechanism will lower the costs to all customers and should be approved.

10

11 **Q. Does this conclude your direct testimony?**

12 **A. Yes.**

GCG#532544

PNM Exhibit SC – 1

Statement of Qualifications

Is contained in the following 3 pages.

STELLA CHAN: EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Stella Chan

Address: Public Service Company of New Mexico
Main Offices
Albuquerque, New Mexico 87158-1105

Position: Director, Pricing and Strategic Customer Marketing

Education: University of Houston, Houston, Texas

- MBA with concentration in Finance
- BBA with major in Finance

Language Skills:

Fluent in English, Mandarin Chinese and Cantonese

Employment: Public Service Company of New Mexico, Albuquerque, New Mexico:
Director, Pricing & Strategic Customer Marketing: 2013 to present

Colorado Springs Utilities, Colorado Springs, Colorado
Manager, Pricing & Forecasting, Planning and Finance Division:
2003-2013

University of Houston, Houston, Texas, New Mexico:
Adjunct Faculty – Finance Department: 2003

Independent Consultant: 2002 to 2003

- Challenger Development, L.C.
- Boyce Power System

Energy Wholesale Operations, Houston, Texas
Director, Government and Regulatory Affairs: 2001

Enron Corporation, Houston, Texas
Director, Government Affairs: 2000-2001
General Manager, Operations, SK-Enron, Seoul, South Korea: 1999-2000
Director, Regulatory Affairs, Enron International: 1997-1999
Manager, Rates and Tariffs, Enron Energy Services: 1997

El Paso Energy, Houston, Texas
Staff Analyst, Research and Competitive Analysis: 1996-1997
Consultant, Business Development: 1995-1996

Employment (Continued):

Duke Energy (formerly Texas Eastern), Houston, Texas
Project Leader, Strategic Planning: 1994-1995
Project Leader, Market Planning and Analysis: 1992-1994

El Paso Energy (formerly Tenneco Gas), Houston, Texas
Senior Analyst, Cost Allocation and Rate Design: 1990-1992
Analyst, Special Projects: 1987-1989

Community Activities (Colorado Springs, Colorado):

Board Chair, Urban Peak Colorado Springs
Treasurer, Urban Peak Colorado Spring
Board Member, CASA (Court Appointed Special Advocate), Pikes Peak Region
Steering Committee, Community Focus Fund, Colorado Springs Utilities

Testimony Filed Before the New Mexico Public Regulation Commission:

<u>Case Number</u>	<u>Proceeding/Subject Matter</u>
Un-Docketed	Advice Notice No. 478, relating to the revision of PNM Rate No. 20- Integrated System Streetlighting and Floodlighting Service, September 27, 2013
Un-Docketed	Advice Notice Nos. 480 and 65, regarding consolidation of PNM's North and South Rules, updates to service rules, and changes to Rule 15 - Line Extension Policy, November 15, 2013
14-00118-UT	Matter of PNM's Advice Notice 493, relating to modification to the qualifying criteria for service under Rate No. 5B-Large Service to Customers, April 22, 2014
14-00150-UT	Matter of PNM's Application for Approval of the City of Rio Rancho Underground Project Rider Pursuant to Advice Notice No. 495, May 25, 2014
14-00158-UT	PNM's Renewable Energy Portfolio Procurement Plan for 2015 and Proposed 2015 Rider No. 36 Rate, June 2, 2014
14-00310-UT	PNM's Application for Approval of 2014 Electric Energy Efficiency and Load Management Program Plan and Revision to Tariff Rider No. 16, October 6, 2014
14-00332-UT	Application of PNM for Revision of its Retail Electric Rates Pursuant to Advice Notice No. 507

- 14-00337-UT Application of PNM for Approval of the City of Albuquerque 2014 Underground Project Rider pursuant to Advice Notice No. 502
- 15-00166-UT In the Matter of Public Service Company of New Mexico’s Renewable Energy Portfolio Procurement Plan for 2016 and Proposed 2016 Rider Rate Under Rate Rider No. 36
- 15-00261-UT In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice Notice No. 513
- 16-00276-UT In the Matter of the Application of Public Service Company of New Mexico for Revision of Its Retail Electric Rates Pursuant to Advice Notice No. 533
- 19-00018-UT Abandonment of San Juan Generating Station Units 1 & 4
- 19-00158-UT In the Matter of Public Service Company of New Mexico’s Application for Approval of PNM Solar Direct Voluntary Renewable Energy Program, Power Purchase Agreement, and Advice Notice Nos 560 and 561
- 20-00121-UT Petition for Rate Adjustment Mechanism to Remove Regulatory Disincentives
- 21-00031-UT Application for Approval of Two PPA’s and ESA’s and Addendum to Special Service Contract
- 22-00058-UT PNM’s Application For Authorization to Implement Grid Modernization Components That Include Advanced Metering Infrastructure and Application to Recover the Associated Costs Through a Rider, Issuance of Related Accounting Orders, and Other Associated Relief
- 22-00270-UT In the Matter of the Application of Public Service Company of New Mexico for Revision of Its Retail Electric Rates Pursuant to Advice Notice No. 595
- 23-00251-UT In the Matter of Public Service Company of New Mexico’s Application for Approval of a Purchased Power Agreement and an Energy Storage Agreement Pursuant to 17.9.551 NMAC.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 625)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)
_____)**

Case No. 24-00089-UT

SELF AFFIRMATION

Stella Chan, Director of Pricing for Public Service Company, upon penalty of perjury under the laws of the State of New Mexico, affirm and state: I have read the foregoing **Direct Testimony of Stella Chan** and it is true and accurate based on my own personal knowledge and belief.

Dated this 14th day of June, 2024.

/s/ Stella Chan
Stella Chan

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 625)
)
**PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)
_____)****

Case No. 24-00089-UT

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the **Public Service Company of New Mexico’s Application for Revision of Its Retail Electric Rates Pursuant to Advice Notice No. 625** was emailed to parties listed below on June 14, 2024.

I further certify that a true and correct copy of **Public Service Company of New Mexico’s USB Drive: 2025 PNM Rate Change Models** was mailed by first class mail, postage prepaid, to individuals with mailing addresses listed below on June 14, 2024.

PRC Records Management Bureau	Prc.records@prc.nm.gov;
Anthony Medeiros	Anthony.medeiros@prc.nm.gov;
Ana Kippenbrock	Ana.kippenbrock@prc.nm.gov;
Arthur O’Donnell	Arthur.O'Donnell@prc.nm.gov;
Alejandro Rettig y Martinez	Alejandro.martinez@prc.nm.gov;
Christopher Ryan	Christopher.Ryan@state.nm.us;
PRC ADVISORY STAFF	
Robert Lundin	robert.lundin@prc.nm.gov;
Scott Cameron	Scott.cameron@prc.nm.gov;
ABCWUA	
Andrew Harriger	akharriger@sawvel.com;
Charles Kolberg	ckolberg@abcwua.org;
Christopher Melendez	cmelendrez@abcwua.org;
Dahl Harris	dahlharris@hotmail.com;
David Garrett	dgarrett@resolveuc.com;
Ed Farrar	edfarrarcpa@outlook.com;
Keith Herrmann	kherrmann@stelznerlaw.com;
L. Erica Flores	eflores@stelznerlaw.com;
Mark Garrett	mgarrett@garrettgroupllc.com;

Nann M. Winter	nwinter@stelznerlaw.com;
BERNALILLO COUNTY	
Emma Douglas	Emma@Jalblaw.com;
Jeffrey H. Albright	JA@JalbLaw.com;
Mateo Dunne	Mateo@transformconsulting.com;
Marah deMeule	mdemeule@bernco.gov;
Maureen Reno	mreno@reno-energy.com;
Natalia Sanchez Downey	ndowney@bernco.gov;
Valarie Joe	vjoe@bernco.gov;
W. Ken Martinez	Kenmartinez@bernco.gov;
CCAE	
Cara Lynch	Lynch.Cara.NM@gmail.com;
Charles de Saillan	desaillan.ccae@gmail.com;
Don Hancock	sricdon@earthlink.net;
Justin Brant	jbrant@swenergy.org;
COALITION FOR COMMUNITY SOLAR ACCESS (CCSA)	
Jacob Schlesinger	jschlesinger@keyesfox.com;
Joseph Yar	joseph@velardeyar.com;
Kevin Cray	kevin@communitysolaraccess.org;
Shawna Tillberg	shawna@velardeyar.com
CITY OF ALBUQUERQUE	
Bryan Rowland	browland@cabq.gov;
Devon King	dking@cabq.gov;
Jennifer Lucero	jenniferlucero@cabq.gov;
Larry Blank	lb@tahoeconomics.com;
KROGER	
Jody Kyler Cohn	jkylercohn@BKLawfirm.com;
Joseph Yar	joseph@velardeyar.com;
Justin Bieber	jbieber@energystrat.com;
Kurt J. Boehm	kboehm@bkllawfirm.com;
NEE	
Christopher Sandberg	cksandberg@mac.com;
Mariel Nanasi	mariel@seedsbeneaththesnow.com;
Stephanie Dzur	Stephanie@dzur-law.com
NMDOJ	
Andrea Crane	ctcolumbia@aol.com;
Courtney Lane	clane@synapse-energy.com;
Doug Gegax	dgegax@nmsu.edu;
Gideon Elliot	gelliott@nmag.gov;
Jocelyn Barrett	jbarrett@nmag.gov;

Maria Oropeza	Moropeza@nmag.gov;
NM AREA	
Brian Andrews	bandrews@consultbai.com;
Christopher Walters	cwalters@consultbai.com;
Gerard Ortiz	gortiz1229@gmail.com;
Greg Meyer	gmeyer@consultbai.com;
James R. Dauphinais	jdauphinais@consultbai.com;
Katrina Reid	office@thegouldlawfirm.com;
Kelly Gould	kelly@thegouldlawfirm.com;
Peter J. Gould	peter@thegouldlawfirm.com;
PRC ADVOCACY STAFF	
Agata Malek	agata.malek@prc.nm.gov;
Bryce Zedalis	bryce.zedalis1@prc.nm.gov;
Christopher Dunn	Christopher.Dunn@prc.nm.gov;
Ed Rilkoff	ed.rilkoff@prc.nm.gov;
Elisha Leyba-Tercero	Elisha.leyba-tercero@prc.nm.gov;
Elizabeth Jeffreys	elizabeth.jeffreys@prc.nm.gov;
Elizabeth Ramirez	Elizabeth.Ramirez@prc.nm.gov;
Evan Evans	evan.evans@integritypower.net;
Gabriella Dasheno	gabriella.dasheno@prc.nm.gov;
Georgette Ramie	georgette.ramie@prc.nm.gov;
Jack Sidler	Jack.Sidler@prc.nm.gov;
John Bogatko	john.bogatko@prc.nm.gov;
Jonah Mauldin	Jonah.Mauldin@prc.nm.gov;
Marc Tupler	Marc.tupler@prc.nm.gov;
Peggy Martinez-Rael	Peggy.Martinez-Rael@prc.nm.gov;
PNM	
Carey Salaz	Carey.Salaz@pnm.com;
Christopher Atencio	Christopher.Atencio@pnmresources.com;
Debrea Terwilliger	dterwilliger@wbklaw.com;
John Verheul	John.verheul@pnmresources.com;
Justin Rivord	Justin.Rivord@pnm.com;
Mark Fenton	Mark.Fenton@pnm.com;
Phillip Metzger	Phillip.metzger@pnm.com;
PNM Regulatory	pnmregulatory@pnm.com;
Raymond L. Gifford	rgifford@wbklaw.com;
Rick Alvidrez	ralvidrez@mstlaw.com;
Stacey Goodwin, Esq.	Stacey.Goodwin@pnmresources.com;
Steve Schwebke	Steven.Schwebke@pnm.com;
SIERRA CLUB	
Jason Marks	lawoffice@jasonmarks.com;

Matt Gerhart	matt.gerhart@sierraclub.org;
WAL-MART	
Andrew D. Teague	Andrew.Teague@walmart.com;
Randy S. Bartell	rbartell@montand.com;
Sharon T. Shaheen	sshahen@montand.com;
Steve W. Chriss	Stephen.chriss@wal-mart.com;
WRA	
Clare Valentine	clare.valentine@westernresources.org;
Cydney Beadles	Cydney.Beadles@westernresources.org;
Caitlin Evans	caitlin.evans@westernresources.org;

NMPRC	
PRC Records Management Bureau New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Anthony Medeiros New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Anna Kippenbrock New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Arthur O'Donnell New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Alejandro Rettig y Martinez New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Christopher Ryan New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Robert Lundin New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Scott Cameron New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
ABCWUA	
Dahl Harris 2753 Herrudura Road Santa Fe, NM 87505	Charles W. Kolberg, General Counsel Albuquerque Bernalillo County Water Utility Authority P.O. Box 1293 Albuquerque, NM 87103

Keith Herrmann Stelzner, Winter, Warburton, Flores & Dawes, P.A. P.O. Box 568 Albuquerque, NM 87103	Nann M. Winter Stelzner, Winter, Warburton, Flores & Dawes, P.A. P.O. Box 568 Albuquerque, NM 87103
Andrew Harriger Sawvel and Associates, Inc. 100 E. Main Cross Street, Suite 300 Findlay, OH 45840	David Garrett Resolve Utility Consulting 101 Park Ave Ste 1125 Oklahoma City, OK 73102
L. Erica Flores Stelzner Law 302 8 th St NW Suite 200 Albuquerque, NM 87102	Mark Garrett Garrett Group Consulting LLC 4028 Oakdale Farm Circle Edmond, OK 73013
BERNALILLO COUNTY	
Emma Douglas 201 Third Street NW, Suite 500 Albuquerque, NM 87102	Mateo Dunne 8701 Camden Street Alexandria, VA 22308
Jeffrey H. Albright JAlbright Law, LLC 201 Third St. NW, Suite 1880 Albuquerque, NM 87102	Marah deMeule Bernalillo County 415 Silver Ave SW 6 th Floor Albuquerque, NM 87102
Maureen Reno Reno Energy Consulting Services, LLC 19 Hope Hill Road Derry, NH 03038	Valarie Joe Bernalillo County 415 Silver Ave SW 6 th Floor Albuquerque NM 87102
Natalia Sanchez Downey Deputy County Attorney 415 Silver Ave SW Albuquerque, NM 87102	W. Ken Martinez Bernalillo County 415 Silver Ave SW 6 th Floor Albuquerque NM 87102
CCAE	
Charles de Saillan 25 Wildflower Way Santa Fe, NM 87506	Don Hancock c/o Cara Lynch 3305 Lykes Drive NE Albuquerque, NM 87110
Cara Lynch 3305 Lykes Dr. NE Albuquerque, NM 87110	Justin Brant 2334 Broadway, Suite A Boulder, CO 80304
COALITION FOR COMMUNITY SOLAR ACCESS (CCSA)	

Joseph Yar Velarde & Yar, P.C. 4004 Carlisle Blvd NE, Ste S Albuquerque, NM 87107	Shawna Tillberg Velarde & Yar, P.C. 4004 Carlisle Blvd NE, Ste S Albuquerque, NM 87107
CITY OF ALBUQUERQUE	
Bryan Rowland City of Albuquerque 1 Civic Plaza NW Albuquerque, NM 87102	Jennifer Lucero City of Albuquerque 1 Civic Plaza NW Albuquerque, NM 87102
Larry Blank Tahoeconomic, LLC 6061 Montgomery Rd Midlothian, TX 76065	Devon King 1 Civic Plaza NW Albuquerque, NM 87102
KROGER	
Jody Kyler Cohn Boehm, Kurtz, & Lowry 36 East Seventh Street, Suite 1510 Cincinnati, OH 45202	Joseph Yar Velarde & Yar, P.C. 4004 Carlisle Blvd NE, Ste S Albuquerque, NM 87107
Kurt J. Boehm Boehm, Kurtz, & Lowry 36 East Seventh Street, Suite 1510 Cincinnati, OH 45202	Justin Bieber Energy Strategies LLC 111 East Broadway, Suite 1200, Salt Lake City, Ut, 84111
NEE	
Mariel Nanasi 600 Los Altos Norte Street Santa Fe, NM 87501-1260	Stephanie Dzur 5724 Nugget Ct NE Albuquerque, NM
Christopher Sandberg 2324 14 th Street SE Rio Rancho, NM 87124	
NMDOJ	
Andrea Crane The Columbia Group Inc. 2805 East Oakland Park Blvd, #401 Ft. Lauderdale, FL 33306	Doug Gegax Doug Gegax Consulting 4805 Sage Road Las Cruces, NM 88011
Gideon Elliot New Mexico Department of Justice Office of the Attorney General P.O. Drawer 1508 Santa Fe, NM 87504	Jocelyn Barrett New Mexico Department of Justice 408 Galisteo St Santa Fe, NM 87501

<p>Courtney Lane 485 Massachusetts Ave Suite 3 Cambridge, MA 02139</p>	<p>Maria Oropeza New Mexico Department of Justice 408 Galisteo St Santa Fe, NM 87501</p>
<p>NM AREA</p>	
<p>Peter J. Gould The Gould Law Firm P.O. Box 34127 Santa Fe, NM 87594</p>	<p>Kelly Gould The Gould Law Firm P.O. Box 34127 Santa Fe, NM 87594</p>

Christopher Walters Brubaker & Associates, Inc. 16690 Swingley Ridge Road, Suite 140 Chesterfield, MO 63017	Brian Andrews Brubaker & Associates, Inc. 16690 Swingley Ridge Road, Suite 140 Chesterfield, MO 63017
Greg Meyer Brubaker & Associates, Inc. 16690 Swingley Ridge Road, Suite 140 Chesterfield, MO 63017	Gerard Ortiz GT Ortiz Energy Consulting, LLC 4219 Via de Luna NE Albuquerque, NM 87110
Katrina Reid P. O. Box 34127 Santa Fe, NM 87594	James R. Dauphinais Brubaker & Associates, Inc. 16690 Swingley Ridge Road, Suite 140 Chesterfield, MO 63017
PRC ADVOCACY STAFF	
Bryce Zedalis New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Ed Rilkoﬀ New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Elizabeth Jeﬀreys New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Elisha Leyba-Tercero New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Elizabeth Ramirez New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Gabriella Dasheno New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Georgette Ramie New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Jack Sidler New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
John Bogatko New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Jonah Mauldin New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Marc Tupler New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Peggy Martinez-Rael New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504

Christopher Dunn New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504	Agata Malek New Mexico Public Regulation Commission P.O. Box 1269 Santa Fe, NM 87504
Evan Evans Integrity Power Consulting 101 Merlot Drive Abilene, TX 79602	
SIERRA CLUB	
Jason Marks Jason Marks Law, LLC 1011 Third Street NW Albuquerque, NM 87102	Matt Gerhart 2215 Lead Ave SE, Albuquerque, NM 87106
WALMART	
Andrew D. Teague Wal-Mart Stores, Inc. Energy Services 2608 SE J St, MS 5530 Bentonville, AR 72716	Randy S. Bartell 325 Paseo de Peralta Santa Fe, NM 87501
Shannon Shaheen 325 Paseo de Peralta Santa Fe, NM 87501	Steve W. Chriss Wal-Mart Stores, Inc. Energy Services 2608 SE J St, MS 5530 Bentonville, AR 72716
WRA	
Cydney Beadles Western Resource Advocates 343 East Alameda Street Santa Fe, NM 87501	Clare Valentine 343 E. Alameda St Santa Fe, NM 87501
Caitlin Evans 343 E. Alameda St Santa Fe, NM 87501	

Dated this 14th day of June, 2024.

By: /s/ Carey Salaz
Carey Salaz, Director
PNM Regulatory Planning and Policy
Public Service Company of New Mexico

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