

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) **Case No. 15-00261-UT**
NOTICE NO. 513,)
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)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
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Applicant.)
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APPLICATION FOR REVISION OF RETAIL ELECTRIC RATES

Public Service Company of New Mexico (“PNM”), through its undersigned counsel, files its Application for Revision of Retail Electric Rates (“Application”). PNM is filing concurrently with this Application its supporting testimony and exhibits, and PNM’s Advice Notice No. 513. In support of its Application and Advice Notice No. 513, PNM states:

1. PNM is a public utility that provides retail electric service in New Mexico subject to the jurisdiction of the New Mexico Public Regulation Commission (“NMPRC” or “Commission”).
2. PNM’s current rates for electric service were authorized by the Commission in its approval of the Amended Stipulation in Case No. 10-00086-UT (“2010 Rate Case”).
3. PNM has made significant and necessary capital investments in public utility plant and property since 2010, and must continue to do so in order to maintain reliable service to its customers.
4. Those investments, along with the PNM’s declining sales growth and other factors described in PNM’s testimony and exhibits, have materially altered PNM’s operating

and financial conditions from the conditions existing at the time PNM's current rates were set in the 2010 Rate Case.

5. The Application and supporting testimonies and exhibits show a revenue requirement for PNM of \$981,455,795. This represents an annual revenue increase of \$123,498,612. The requested rate increase will result in a projected overall average rate increase of 14.39%. The actual average bill increase will vary among rate classes.

6. PNM has filed its Advice Notice No. 513 with a proposed effective date of October 1, 2015, or as otherwise ordered by the Commission, in accordance with the provisions of Rule 17.1.210.9 NMAC and Rules 17.9.530.7(L) and 17.9.530.9 NMAC. PNM understands that the Commission will suspend the effectiveness of the new rates within thirty days of the Advice Notice filing, pending a hearing in accordance with NMSA 1978, § 62-8-7(C) (2011). PNM requests prompt consideration of its Application and Advice Notice No. 513 within a suspension period of nine months, so that new rates will go into effect no later than the first day of PNM's July 2016 billing cycle.

7. PNM's currently authorized rates are no longer just and reasonable and do not allow for a reasonable return on its investment in public utility plant and property.

8. PNM's rates and authorized revenues as presently allocated do not adequately reflect the cost of service for the respective classes of electric customers.

9. On December 11, 2014, PNM filed a general rate case proceeding in Case No. 14-00332-UT. The Commission issued final orders on May 13 and May 27, 2015, that resulted in the rejection and dismissal of that case. In its orders, the Commission determined that PNM's filing was incomplete and that it was based on an improper future test year period ("FTY Period").

10. In Case No. 14-00332-UT, the Commission interpreted, for the first time: the filing requirements, including a fully functional cost of service model, for rate case applications using a FTY Period pursuant to 17.1.3 NMAC (“FTY Rule”); and the Commission’s restrictions for establishing the latest date after an application filing date that a FTY Period could begin.

11. The present rate case filing package complies with the FTY Rule’s filing requirements, and uses a twelve-month period for a FTY that is consistent with the Commission’s final orders in Case No. 14-00332-UT.

12. PNM’s filing is based on a twelve-month Base Period ending March 31, 2015, and a twelve-month Test Period beginning October 1, 2015, and ending September 30, 2016.

13. In addition to its proposed changes to its general rates, PNM is seeking approval of the continued use of its Renewable Energy Rider (“Rider 36”). Pursuant to the Amended Stipulation approved in the 2010 Rate Case, the continuation of the Renewable Energy Rider must be reauthorized in this case by the Commission. The Renewable Energy Rider charges are reviewed and reset by the Commission on an annual basis. PNM proposes to continue the Renewable Energy Rider because it is a beneficial mechanism for both customers and PNM to timely recover costs incurred to comply with the Renewable Energy Act, NMSA 1978, §§62-16-1 to -10 (2004, as amended 2007) (“REA”).

14. The rates proposed herein are just and reasonable and should be approved.

15. Pursuant to 17.1.2.10(B)(1) NMAC, PNM is submitting the following documents as part of this Application:

a. PNM Advice Notice No. 513 (“Appendix A”);

b. Direct Testimony and Exhibits of Gerard Ortiz, Henry Monroy, Robert Hevert, Chris Olson, Aubrey Johnson, Dane Watson, Sheila Mendez, Ahmad Faruqui, Susan Taylor, Elisabeth Eden, Jason Peters, Erik Buchanan, Gail Vavruska-Marcum, Leonard Sanchez, Roger Larsen, Matthew Harland, Stella Chan, Julio Aguirre and Daniel Hansen; and

c. Rule 530 Schedules A through Q (as modified by the requirements of the FTY Rule, 17.1.3.8(A) NMAC).

16. Pursuant to 17.1.3.11 NMAC, revenue requirements information and data related to the Base Period, adjusted Base Period, linkage data and Test Period are being provided in fully functional electronic format so that amounts in schedules and supporting work papers required by the FTY Rule can be traced with relative ease to supporting detailed data. PNM has identified any data that is not provided in fully functional electronic format together with an explanation as to why it is not provided in fully functional electronic format. To the extent inputs to the fully functioning electronic support for the Test Period are fed by systematic calculations within other PNM programs that are not downloadable to fully functioning and executable spreadsheets, PNM will rerun such supporting programs for input changes reasonably required by the Commission's Utility Division Staff or intervenors in accordance with 17.1.3.11(B) NMAC.

17. Pursuant to 17.1.2.10(B)(2)(a) and (b) NMAC, attached as Appendix B to this Application is PNM's proposed Notice to Customers, which includes a statement of the present rates and the proposed rates for each customer class and the anticipated bills to residential customers under the proposed rates at various usage levels under the proposed new rates. Appendix B is provided for informational purposes only and the level of

authorized revenue and final rate design approved by the Commission may change the rates ultimately charged to each customer class and for each consumption level from those proposed by PNM.

18. In compliance with 17.1.210.11(C) NMAC, PNM states that anticipated changes in annual revenue resulting from the proposed changes to the rates as set forth in this Application, the number of customers in each rate class affected or likely to be affected and the impact on customers at a class average of consumption within each class as nearly as may be calculated are concisely stated in the tables contained in the Notice to Customers.

19. In compliance with 17.1.210.11(B) NMAC, PNM will serve a copy of this Application and the related Advice Notice on the Attorney General and all counsel of record and pro se parties in Case No. 14-00332-UT.

20. Pursuant to 17.1.2.10(B)(2)(c)(i) NMAC, PNM identifies the following proposed changes to the ratemaking treatment upon which the present rates are based, the reasons for the proposed changes, and the impact in dollars of the proposed change on the rates:

a. PNM's filing is based on a Test Period for the twelve-month period beginning October 1, 2015, consistent with the Commission's FTY orders issued in Case No. 14-00332-UT and Case No. 15-00139-UT. In accordance with the requirements of the FTY Rule and Rule 530, PNM is providing information consisting of:

(i) the Base Period, which is PNM's actual experience as reflected on its book balance of accounts for the twelve month period ended March 31, 2015;

(ii) an Adjusted Base Period that includes fully explained annualizations, normalizations and adjustments for known and measurable changes that occur within the Base Period;

(iii) linkage data providing specific and detailed description of all line items for April 1, 2015, through September 30, 2015, the period between the end of the Base Period and the beginning of the Test Period;

(iv) the Test Period containing expected financial and operating conditions to be experienced by PNM for the twelve-month period October 1, 2015, through September 30, 2016. The Test Period best reflects the conditions to be experienced during the period when the proposed new rates take effect, based on the Commission's recent interpretations of NMSA 1978, §§ 62-3-3(P) and 62-6-14(D); and

(v) data and support for Construction Work in Progress ("CWIP") during the Test Period, for projects that will be in service within the period October 1, 2016, through February 28, 2017, the five months after the Test Period, in accordance with NMSA 1978, § 62-6-14(E).

b. PNM has or expects to place 460 capital projects in-service between March 31, 2015, and February 28, 2017. The net increase to rate base from June 30, 2010, through the end of the Test Period, including CWIP, is approximately \$655 million.

c. PNM is proposing to recover the cost of purchasing the ownership interests represented by three Palo Verde Unit 2 leases (totaling 64 MW), in

accordance with prior Commission orders granting PNM authority to repurchase these interests at fair market value.

d. PNM agreed in the 2010 Rate Case to use embedded cost principles in this, its next rate case, which would result in rate decreases for some non-residential classes while substantially increasing rates for the residential and irrigation classes. To mitigate the resulting disproportionate changes to rates among the rate classes, PNM proposes to cap any non-fuel base rate increase at 15.6%. PNM has established an upper and lower range, or “banding”, that balances the goal of efficient and equitable rate design with the prudential principle of gradualism.

e. PNM is proposing a four-year pilot mechanism (the “Revenue Balancing Account” or “RBA”) for residential and small power customers to remove the regulatory disincentives for energy efficiency programs as required by the Efficient Use of Energy Act. PNM’s proposal identifies the set total amount of fixed costs to be recovered through volumetric charges from residential and small power customers, subject to the Commission’s final determination in this case. If energy sales are higher in a given year than necessary to recover this set total amount of fixed costs, PNM will refund the overage to customers in the following year. Conversely, if sales are lower than necessary to recover the set total amount of fixed costs from these classes, PNM will collect the under-recovered amounts. PNM considered other alternatives to remove the regulatory disincentives for energy efficiency programs, as required by the Amended Stipulation in PNM’s 2010 Rate Case, but found the RBA to be the most balanced, practical and effective method for residential and small power customers to remove disincentives.

f. PNM is proposing changes to its customer charges and demand charges that improve the recovery of fixed costs based on the fully allocated embedded cost of service study for each rate class. The increased monthly customer charge is designed to recover the customer fixed costs that include meters, services, billing, meter reading, bill processing and customer accounting. Providing for recovery of these fixed costs through the customer charge sends a more accurate price signal to customers of what it costs to have service available to them regardless of how much energy they use. The increased demand charge sends improved price signals to customers to improve their load factors, and makes rates more competitive for high load factor customers.

g. PNM is proposing to implement a new economic development tariff that will offer a declining percentage discount to encourage new industry to locate in the state and existing customers to expand their operations within the state. PNM believes declining percentage discounts are one of the best methods to incentivize industry to relocate to New Mexico and existing customers to reinvest in their businesses here, while also providing protection to the Company's existing customers.

h. PNM is proposing changes to its depreciation rates for its production, transmission, distribution and general plant in accordance with a detailed depreciation study.

i. PNM is proposing to include coal and nuclear fuel handling expenses and purchases of spinning reserves in base fuel expenses.

j. PNM is proposing to establish: (1) a regulatory asset to defer and to begin recovering expenses incurred as a result of its exit from the Alvarado Square building in downtown Albuquerque and the consolidation of its offices into the PNM headquarters building; (2) a regulatory asset to defer and to begin recovering expenses to be incurred to re-program PNM's Time of Use ("TOU") meters to accommodate proposed changes in PNM's TOU rates; (3) a regulatory asset to begin recovering incremental expenses incurred in this proceeding; (4) a regulatory liability to accumulate and begin passing on to customers certain refunds from the Department of Energy relating to spent fuel costs; (5) a new regulatory asset for costs incurred to implement a recurring credit card payment program; (6) a regulatory liability to recognize expenses associated with asset retirement obligations recorded on a straight-line basis, instead of using the accretion method as otherwise required under Generally Accepted Accounting Principles ("GAAP"); (7) a regulatory liability to recognize underground coal mine reclamation costs on a straight-line basis, instead of recovery under accretion expense, as otherwise required under GAAP; and (8) a regulatory asset relating to state Net Operating Loss carryforwards.

k. PNM is proposing ratemaking treatment for the revenues associated with chemical pretreatment of the coal for San Juan Generating Station ("SJGS").

l. PNM is applying the following treatment to total non-fuel and fuel base rates: PNM assumes that the existing coal supply agreement for SJGS will be in place, rather than the proposed new agreement, in accordance with the pending Recommended Decision in Case No. 13-00390-UT, which recommended denial of PNM's request for approval of a certificate of public convenience and necessity for

replacement power from SGJS Unit 4. PNM nonetheless demonstrates the benefits to customers that would result from implementation of the new coal supply agreement if PNM's proposed resource portfolio were to be approved by the Commission. The benefits of the new coal supply agreement would flow to customers through PNM's Fuel and Purchased Power Cost Adjustment Clause ("FPPCAC").

21. Nineteen witnesses provide testimony and exhibits in support for PNM's proposals, as follows:

- Gerard Ortiz, Vice President of Regulatory Affairs, serves as PNM's policy witness and provides an overview of the circumstances dictating the need for rate relief and summarizes PNM's requested approvals; discusses the use of a future test year period; supports the proposed treatment of certain coal supply costs; summarizes the regulatory asset and liability treatments requested by PNM; discusses the policies behind PNM's key rate design proposals, including rate impact mitigation, improved rate structures, economic development principles and removal of regulatory disincentives relating to energy efficiency efforts; supports PNM's request to continue its existing Renewable Energy Rider (Rider 36); and demonstrates PNM's compliance with Commission orders and rules.
- Henry Monroy, Director of Internal Audit and Cost of Service, supports PNM's revenue requirements and items included in the calculation of PNM's revenue requirement; explains PNM's request to establish regulatory assets and liabilities; and sponsors the fully functional cost of service model.
- Robert Hevert, Principal in Sussex Economic Advisors, supports PNM's proposed return on equity ("ROE") and addresses related topics, including current

economic conditions and confirmation of the reasonableness of PNM's proposed capital structure.

- Chris Olson, Vice President, Generation, supports PNM's capital investments in generation facilities and non-fuel operations and maintenance expenses ("O&M"), including appropriate expense adjustments related to the timing of plant outages and changes in the composition of the generation fleet.
- Aubrey Johnson, Vice President of New Mexico Operations, supports PNM's capital investments in transmission and distribution and the related O&M expenses. He also supports PNM's purchase of the 40% leased capacity of the Eastern Interconnect Project and rights of way renewals.
- Dane Watson, Principal in Alliance Consulting, presents PNM's depreciation study in support of new depreciation rates for PNM's production, transmission, distribution and general plant.
- Sheila Mendez, Director of IT Program/Portfolio Management & Quality, supports the corporate capital investments needed to maintain facilities, equipment, and reliable information technology systems.
- Dr. Ahmad Faruqui, Principal in the Brattle Group, presents and supports PNM's future test year load forecast.
- Susan Taylor, Manager-Utility Margins, supports the forecasted fuel and purchased power expenses; recovery of those expenses through Base Fuel Rates and PNM's existing FPPCAC; and addresses the existing coal supply agreement and the alternative coal supply contract.

- Elisabeth Eden, Vice President and Treasurer, addresses PNM's financial health; supports PNM's proposed capital structure and weighted-average cost of capital; supports the purchase of leases representing 64 MW in Palo Verde Unit 2; and addresses the elimination of the need to allocate a portion to former gas operations for PNM's pension plan.
- Jason Peters, Director, General Accounting, discusses accounting matters relating to: PNM's books and records, PNM's Lead-Lag Study, asset retirement obligations, the Palo Verde Unit 2 acquisition adjustment, coal mine reclamation, pension and other postretirement benefits, capital loads, and allocated costs; and provides cost/benefit analyses for: prepaid pension assets, non-qualified retirement plans, post-employment benefits other than pension, and the unamortized balance of loss on reacquired debt.
- Erik Buchanan, Director, Corporate Budget, supports the capital budgeting process as it relates to linkage data and the test period, including the capital prioritization process, the calculation and allocation of budgeted capital clearings to the electric plant accounts; supports calculations relating to forecasted cost of removal, retirements and depreciation expenses; identifies CWIP projects; and presents the calculation of budgeted allowance for funds used during construction.
- Gail Vavruska-Marcum, Director of Compensation, supports the revenue requirements associated with employee base salary and incentive compensation programs, as well as employee benefits.
- Leonard Sanchez, Associate General Counsel, supports the reasonableness and prudence of PNM's litigation expenses.

- Roger Larsen, Manager of Marketing and Energy Efficiency Outreach, supports the reasonableness of PNM's allowable advertising expenses.
- Matthew Harland, Director of Income Tax, addresses income tax expenses and accumulated deferred income taxes included in rate base.
- Stella Chan, Director of Pricing and Load Research, supports PNM's rate design proposals, including: customer class cost allocations and certain modifications that mitigate disproportionate impacts resulting from the embedded cost methodology; the need for PNM's pilot RBA mechanism to address regulatory disincentives for energy efficiency measures; a new economic development tariff; and other rate design proposals.
- Julio Aguirre, Senior Pricing Analyst, supports PNM's Rate Design Model; explains bill impacts; supports continuation of the Renewable Energy Rider (Rider 36); supports: time-of-use periods, changes to customer and demand charges, changes to Rate 16 – Special Charges, and the operation of the RBA tariff; and sponsors the proposed rate schedules and other tariff changes.
- Dr. Daniel Hansen, Vice President at Christensen Associates Energy Consulting, supports the pilot RBA mechanism and why it is preferred to other potential alternatives to address regulatory disincentives relating to energy efficiency resources.

22. Pursuant to 17.1.2.10(B)(2)(c)(ii) NMAC, PNM identifies the following extraordinary events or circumstances, known or projected, which materially alter PNM's operating or financial condition from the conditions existing during the utility's test period in its last rate case, as supported by the testimony and exhibits of the witnesses identified above:

a. Large capital investments are necessary to adequately maintain the reliability of PNM's system so that it continues to provide benefit to PNM's customers, as well as to meet other legal obligations of the Company.

b. PNM is facing a period of declining sales growth, driven by both weakening customer growth and declining usage per customer.

c. PNM faces uncertainty with regard to the implementation of a new SJGS coal supply agreement that would provide substantial benefits to customers beginning January 1, 2016. PNM witnesses Ortiz and Taylor present information regarding the existing and proposed new coal supply agreement.

23. Pursuant to 17.1.2.10(B)(2)(d) NMAC, PNM has fully complied with all Commission final orders in each of PNM's cases decided during the preceding five years, as evidenced by PNM's annual informational filing of April 30, 2015.

24. PNM is requesting all approvals and determinations necessary to implement the rates as set forth in this Application and the accompanying Advice Notice including approval of cost of service studies, regulatory assets and liabilities, cost allocations, depreciation rates, and tariffs for electric service. Among the requested approvals are the following specific requests:

- approval of the continued use of PNM's existing Renewable Energy Rider;
- approval to establish certain new regulatory assets and liabilities and for rate treatment of other existing regulatory assets and liabilities;
- approval to establish a regulatory asset and liability treatment regarding recovery of certain costs over a straight-line basis compared to a present-value accretion basis as required by GAAP;

- inclusion of coal and nuclear fuel handling expenses and the purchase of spinning reserves in base fuel expense rather than non-base fuel expense;
- approval of ratemaking treatment for the revenues associated with chemical pretreatment of SJGS coal;
- confirmation that PNM's annuitization of the pension benefits of PNM's former gas utility operations will result in eliminating the need to allocate pension expense between electric and gas in future rate cases because 100% of the remaining pension expense will be attributable to PNM's electric operations;
- approval of comprehensive rate design modifications that rely on an embedded class cost of service study to allocate the revenue requirement among rate classes, subject to mitigation of disproportionate impacts and maintenance of competitive rates for at-risk customers.
- approval of rate design changes that better align cost causation with cost recovery by seeking recovery of all customer-related costs through monthly customer charges for all but one rate class and by requesting recovery of demand-related costs through demand charges and includes Time of Use changes;
- approval of the RBA, PNM's proposed four-year pilot decoupling mechanism that will remove regulatory disincentives for energy efficiency programs as required by Section 62-17-5F of the PUA; and
- approval of an economic development tariff to encourage new industry to locate in New Mexico and incentivize existing customers to further invest in their business in this State.

25. PNM is requesting approval of any variance from any rules, regulations or provisions of prior Commission orders that the Commission may determine are necessary to obtain approval of and to implement the rates contained in Advice Notice No. 513.

26. PNM's exact legal name, address and telephone number are:

Public Service Company of New Mexico
414 Silver Avenue SW
Albuquerque, New Mexico 87158
(505) 241-2700

27. The names, address, and telephone numbers of PNM's attorneys are:

Patrick V. Apodaca, Esq.
Sr. VP & General Counsel

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In addition to service on Mr. Phillips and Ms. Goodwin, PNM requests that all pleadings, correspondence and other documents that are served on PNM be mailed and delivered to:

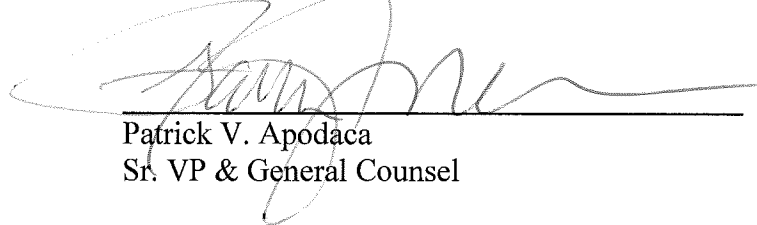
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WHEREFORE, PNM requests that the Commission, after notice and hearing, issue a final order granting all approvals required for PNM to implement the revised rates, to

continue use of the Renewable Energy Rider, and to implement or continue other proposals as set forth in PNM's Application, testimony and exhibits, and the accompanying Advice Notice. PNM further requests that the Commission set such procedural schedules as are necessary for PNM to implement the resulting rate changes effective with billings no later than the first day of the July 2016 billing cycle and for such further relief as the Commission deems proper under the circumstances.

Respectfully submitted this 27th day of August, 2015.

PUBLIC SERVICE COMPANY OF NEW MEXICO



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