

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL TO ABANDON)
SAN JUAN GENERATING STATION UNITS)
2 AND 3, ISSUANCE OF CERTIFICATES)
OF PUBLIC CONVENIENCE AND)
NECESSITY FOR REPLACEMENT POWER)
RESOURCES, ISSUANCE OF ACCOUNTING)
ORDERS AND DETERMINATION OF)
RELATED RATEMAKING PRINCIPLES AND)
TREATMENT,)

Case No. 13-00_____-UT

PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)

Applicant)

**APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO
FOR APPROVAL TO ABANDON SAN JUAN GENERATING STATION UNITS
2 AND 3, ISSUANCE OF CERTIFICATES OF PUBLIC CONVENIENCE AND
NECESSITY FOR REPLACEMENT POWER RESOURCES, ISSUANCE OF
ACCOUNTING ORDERS AND DETERMINATION OF RELATED
RATEMAKING PRINCIPLES AND TREATMENT**

I. APPROVALS REQUESTED

Public Service Company of New Mexico (“PNM”), by and through its attorneys, files this Application for an order within nine months, but no later than twelve months, of the date of filing of this Application, providing the following approvals:

(1) abandonment of San Juan Generating Station (“SJGS” or “San Juan”) Units 2 and 3 by December 31, 2017, with an accounting order allowing full recovery of the undepreciated investment in SJGS Units 2 and 3 as of the date of retirement through a regulatory asset amortized over twenty years with a carrying charge equivalent to PNM’s pre-tax weighted average cost of capital (“WACC”) on the unamortized balance;

(2) issuance of a certificate of public convenience and necessity (“CCN”) to include Palo Verde Nuclear Generating Station (“PVNGS”) Unit 3 as a supply resource to serve New Mexico retail customers effective January 1, 2018, at a value for ratemaking purposes of \$335 million and recovery of the costs associated with funding the decommissioning trust for PVNGS Unit 3 on a pro rata basis;

(3) issuance of a CCN and any other necessary approvals for the acquisition of an additional 78 megawatts (“MW”) of capacity in SJGS Unit 4 effective January 1, 2015, at a value for ratemaking purposes of approximately \$52.5 million in exchange for an equal amount of capacity in SJGS Unit 3;

(4) recovery of the costs of selective non-catalytic reduction equipment (“SNCR”) together with balanced draft on SJGS Units 1 and 4 to be installed by January 31, 2016, not to exceed \$82 million, with any cost overruns recovered in rates only after a Commission determination in a future rate case that they were prudently incurred, using 17.3.580 NMAC (“Rule 580”) to guide the process; and,

(5) issuance of an accounting order allowing PNM’s cost of compliance with the Best Available Retrofit Technology (“BART”) determination for SJGS under the August 21, 2011, Federal Implementation Plan (“FIP”) issued by the U.S Environmental Protection Agency (“EPA”) to be placed in a regulatory asset for future recovery in a rate case, with a determination in this proceeding that such costs are reasonable and were prudently incurred.

These approvals are either necessary for, or facilitate, compliance with environmental requirements under the Clean Air Act (“CAA”) for SJGS associated with a Revised State Implementation Plan (“Revised SIP”) issued by the New Mexico Environmental Improvement

Board (“EIB”), which is pending approval by the U. S. Environmental Protection Agency (“EPA”).

II. BACKGROUND AND SPECIFIC ASSERTIONS

1. PNM is a vertically-integrated public utility that generates and provides power supplies, transmission of power and distribution of power services to retail electric service customers in New Mexico subject to the jurisdiction of the Commission.

2. In providing power supplies for customers, PNM has a diverse power supply portfolio including coal and nuclear baseload generation, gas, solar and wind generation, and purchased power.

3. One of PNM’s baseload coal generating facilities is SJGS. SJGS consists of four coal-fired units with 1,683 net MW of electric generation capacity. The facility is located in Waterflow, New Mexico, an unincorporated community in San Juan County fifteen miles west of Farmington. The net generation capacity and in-service date for each of the four units at SJGS are:

- Unit 1: 340 MW, on line in 1976.
- Unit 2: 340 MW, on line in 1973.
- Unit 3: 496 MW, on line in 1979.
- Unit 4: 507 MW, on line in 1982.

4. PNM is a part owner and operator of SJGS. PNM owns 50% of Units 1, 2 and 3 and 38.5% of Unit 4. PNM’s total ownership share is 46.3% of the plant’s total capacity. The Amended and Restated San Juan Project Participation Agreement (“Participation Agreement”) is the governing document among the San Juan owners. While PNM serves as operator for San Juan, capital and operations budgets, including

those for environmental controls, are generally subject to approval by the owners pursuant to specified voting requirements. The SJGS ownership structure on a unit-by-unit basis is summarized in the following Table:

SJGS Ownership Structure

Participant	Unit 1	Unit 2	Unit 3	Unit 4
PNM	50.0 %	50.0 %	50.0 %	38.457 %
City of Farmington	--	--	--	8.475%
Los Alamos County	--	--	--	7.2%
Tri-State G&T	--	--	8.2%	--
Tucson Electric Power	50.0 %	50.0 %	--	--
Southern California Public Power Authority	--	--	41.8%	--
M-S-R Public Power Agency	--	--	--	28.8%
City of Anaheim	--	--	--	10.040%
Utah Associated Municipal Power	--	--	--	7.028%

5. San Juan provides base load generation for over 500,000 PNM customers in New Mexico. Base load generation is essential for maintaining reliable electric service. San Juan has been a low-cost, reliable source of electricity for four decades. It is the second-lowest cost source of electricity in PNM’s energy portfolio and a key reason for the relative affordability of PNM’s rates. PNM’s ownership share in San Juan Unit 3 currently represents PNM’s single largest generation resource. San Juan also provides generation capacity for 44,000 Farmington customers and 8,500 Los Alamos customers. Tri-State, in part through its ownership in San Juan, provides generation capacity to

approximately 150,000 members of New Mexico rural electric cooperatives. It is estimated that San Juan provides energy to some 2,000,000 total customers in the Southwestern and Western United States.

6. Effective September 21, 2011, the EPA adopted the FIP establishing selective catalytic control (“SCR”) technology as BART for SJGS to meet the requirements of EPA’s Regional Haze Rule under the CAA. Among other things, the FIP established a limit on nitrogen oxide (“NOx”) emissions of no more than 0.05 lb/MMBtu at each unit of SJGS. EPA determined that the NOx emissions limits can only be achieved by installing SCR. EPA required SJGS to meet this limit by September 21, 2016. 76 Fed.Reg. 52388-52389 (Aug. 22, 2011). A copy of the FIP accompanies the testimony of Mr. Darnell.

7. Prior to adoption of the FIP, in July 2011, New Mexico submitted a revised SIP identifying a less expensive technology, SNCR, as BART for NOx emissions. 76 Fed. Reg. at 52394. PNM supported the new SIP. EPA stated that it would review the revised SIP and, if any significant new information was provided that changed EPA’s analysis, it would make appropriate revisions. 76 Fed. Reg. at 52389. However, EPA specifically rejected adoption of SNCR in the FIP because EPA believed that SNCR “achieves far less reduction in pollution and less visibility improvement, and does not meet the requirement” for BART. 76 Fed. Reg. at 52388.

8. EPA estimated, using the EPA Air Pollution Control Cost Manual, Sixth Edition (“EPA Cost Manual”), adjusted for various comments it accepted, that installation of SCR at SJGS would cost approximately \$345 million. 76 Fed. Reg. at 52388. In doing so, EPA rejected PNM’s estimate provided by its contractor, Black & Veatch, that the cost would be \$908 million. 76 Fed. Reg. at 52392. Since submitting the Black & Veatch study, PNM

obtained additional cost studies from Sargent & Lundy and put the project out to competitive bid. PNM believes that, due to the characteristics of SJGS and the specific design, engineering and construction work required at SJGS, as well as appropriate recognition of financing costs that are not adequately reflected in the EPA Cost Manual, the EPA's estimates are much lower than SCR will actually cost. PNM's current estimated capital cost of installing SCR on all four units of SJGS is in the range of \$824 million to \$910 million, which was confirmed by a competitive bidding process.

9. The State of New Mexico (through Governor Martinez and the New Mexico Environment Department ("NMED")) and PNM (collectively, "Petitioners") petitioned the U. S. Court of Appeals for the Tenth Circuit to review the EPA's adoption of the FIP. In addition the Petitioners sought a stay of the effective date of the FIP pending review by the Court because PNM would be required to expend large amounts of money to plan, design and begin construction of SCR pending review due to the compliance deadline imposed by the FIP. On March 1, 2012, the Court denied the stay without explaining its reasons for doing so. A copy of the Court order accompanies Mr. Darnell's testimony.

10. PNM also sought a stay and reconsideration by the EPA, providing documentation that further confirms that EPA's cost projections for installation of SCR were grossly underestimated. Although EPA granted stays of interim deadlines under the FIP in order to facilitate discussions regarding a possible alternative to the FIP, the deadline for compliance contained in the FIP has never been extended. To date EPA has declined to grant the stay requested by PNM. Therefore, PNM was required to move forward to begin installation of SCR in order to meet the FIP requirements, even though there is a chance that the FIP may ultimately be overturned on judicial review.

11. The NMED convened a series of stakeholder meetings in August 2012 and also conducted public meetings in Farmington to solicit input from the general public on potential alternatives to the FIP. Similar public meetings were conducted on the Navajo Nation. Governor Martinez was instrumental in getting the parties and stakeholders to the table to explore various alternatives to the FIP. President Ben Shelly of the Navajo Nation was also personally involved.

12. Using information obtained from the stakeholder meetings, on October 2, 2012, NMED proposed an alternative that would have resulted in the retirement of Units 1 and 2 of SJGS by December 31, 2017, replacement of those units with natural gas and other non-coal generation and the installation of SNCR at Units 3 and 4. The EPA did not accept this proposal. However, after further discussions, PNM, NMED and EPA entered into a Term Sheet dated February 15, 2013, which provided the terms and conditions for the possible replacement of the FIP with the Revised SIP after receipt of all necessary regulatory approvals. A copy of the Term Sheet accompanies Mr. Darnell's testimony.

13. The Term Sheet sets out a process and timeline whereby BART compliance would be achieved by the retirement of SJGS Units 2 and 3 by December 31, 2017, with SNCR to be installed on Units 1 and 4 by no earlier than January 31, 2016. In addition, the Term Sheet provides, subject to required approvals, that a natural gas combustion turbine, proposed to be located at SJGS to partially replace Unit 2 and 3 capacity, must undergo Best Available Control Technology analysis. The Term Sheet states that, if the Revised SIP is approved by the EPA, it will "lead to EPA action withdrawing the federal implementation plan for SJGS." Thus, the Term Sheet reflects a tentative agreement that

provides the substance, process and timeline for a process that, if fully implemented, will result in the replacement of the FIP.

14. While not providing a formal stay of the FIP, EPA recognized in a letter dated February 15, 2013, from the EPA Regional Administrator for Region 6 to PNM's CEO and the Secretary of NMED ("EPA Letter") that PNM may defer taking steps to comply with the FIP while the State of New Mexico developed the Revised SIP and goes through the regulatory process required to submit the Revised SIP to EPA. A copy of the EPA Letter accompanies Mr. Darnell's testimony.

15. The EIB conducted hearings in Farmington, New Mexico, on September 5, 2013, and unanimously voted to approve the Revised SIP. A copy of the EIB's Order and Statement of Reasons for Adoption of SIP Revisions, dated September 5, 2013, accompanies Mr. Darnell's testimony. The Revised SIP was submitted to EPA on October 7, 2013. The EPA determined that the Revised SIP is complete on December 17, 2013, and has 135 days from that date to propose action on the Revised SIP. The EPA's proposed action on the Revised SIP will be published in the Federal Register as a proposed rule. The public will be afforded an opportunity to provide comments to EPA on the proposed Revised SIP rule. Under the Term Sheet, EPA is to take final action on the proposed rule within 150 days of its publication.

16. Under the FIP, PNM and the other owners of San Juan are required to install and operate SCR technology on all four San Juan units by the compliance deadline of September 21, 2016. Because of this deadline and the denial of stay requests, it was necessary to incur certain costs related to compliance with the FIP. While the installation of SCR has been suspended pending approval and implementation of the Revised SIP, the

initial expenditures of approximately \$2.8 million for SCR were necessary environmental compliance costs at the time they were made.

17. Even though the EIB has approved the Revised SIP which calls for retirement of SJGS Units 2 and 3, PNM may not retire SJGS Units 2 and 3 without the Commission's permission and approval. Pursuant to NMSA 1978, Section 62-9-5 (2005):

No utility shall abandon all or any part of its facilities subject to the jurisdiction of the commission or any service rendered by means of such facilities, without first obtaining the permission and approval of the commission. The commission shall grant such permission and approval, after notice and hearing, upon finding that the continuation of service is unwarranted or that the present and future public convenience and necessity do not otherwise require the continuation of the service or use of the facility....In considering the present and future public convenience and necessity, the commission shall specifically consider the impact of the proposed abandonment of service on all consumers served in this state, directly or indirectly, by the facilities sought to be abandoned.

18. The Commission has stated that "...an applicant for abandonment must make a factual showing that the proposed abandonment is consistent with the present and future public convenience and necessity, and that the public interest otherwise will in no way be disserved by the proposed abandonment."¹ To satisfy this factual showing, the Commission articulated what is known as the *Commuters' Committee* factors. These factors are addressed in Mr. Ortiz's testimony. The Commission's test is a flexible one that can and should be adapted to meet the specific facts and circumstances being evaluated.² Therefore, in some cases one or more of these factors may not be relevant and other relevant factors may be identified. Under the circumstances of this case, the two primary factors to be considered are the availability of

¹ *Re Public Service Company of New Mexico*, 119 PUR 4th 48, 51 (NMPSC 1990, Case No. 2296), *aff'd Public Service Company of New Mexico v. New Mexico Public Service Commission*, 1991-NMSC-083, 112 N.M. 379, 815 P.2d 1169

² *Id.*

replacement power, or alternative sources of supply, and the relative economics associated with continued operation of SJGS Units 2 and 3, which requires installation of costly SCR on all four units of SJGS, compared to the economics associated with retiring SJGS Units 2 and 3, installing less costly SNCR on SJGS Units 1 and 4 and using the alternative sources of supply.

19. To identify replacement power resources, PNM performed the same resource planning analysis that would be employed during the preparation of its Integrated Resource Plan (“IRP”). New Mexico and the Commission require the development of a long term resource plan through an IRP process. Resource planning requires a long-term view to ensure the development of the most cost-effective portfolio. The resources that PNM recommends to be brought in as jurisdictional resources between 2015 and 2018 not only replace the capacity for the retired SJGS Units, but will also become part of the foundation for PNM’s long-term resource portfolio, providing a properly diversified fuel mix.

20. PNM has identified several resources to cost-effectively replace the approximately 418 MW of retired SJGS capacity to timely meet customer needs. These resources include 78 MW of additional capacity in SJGS Unit 4, PNM’s share of PVNGS Unit 3 representing 134 MW, 40 MW of new utility-scale solar, and a 177 MW gas plant. These proposed resources comprise a total of 429 MW. It is important to note that these resources were selected based on a twenty year planning analysis, consistent with the requirements of the IRP process.

21. At this time, PNM is only seeking CCNs for an additional 78 MW of capacity in SJGS Unit 4 and for the 134 MW represented by PNM’s interest in PVNGS Unit 3 to replace the retired SJGS Units 2 and 3. PNM proposes to exchange 78 MW of capacity in SJGS Unit 3 for an additional 78 MW in SJGS Unit 4 effective January 1, 2015. SJGS Unit 4 has long been recognized by the Commission and its predecessors as a critical, low-cost resource in PNM’s

most cost-effective supply portfolio. In addition, this exchange reduces the amount of undepreciated investment in abandoned plant that must be recovered and helps resolve some of the complicated legal issues associated with SJGS Unit 4 ownership by California governmental utilities. Even with this additional capacity in SJGS Unit 4, the amount of coal-fired generation in PNM's diversified supply portfolio is reduced by 340 MW.

22. PNM's analysis demonstrates that PVNGS Unit 3 is a component of the most cost-effective supply portfolio, even at a valuation higher than the value offered by PNM. This will provide approximately 134 MW of additional low-cost nuclear capacity with its associated benefits of reducing the risk associated with future carbon regulations.

23. PNM is not seeking a CCN for the additional gas and solar resources identified as replacement power supplies. PNM's identification of these potential replacement power supplies, while not being approved in this case, helps to demonstrate that the present and future public convenience and necessity do not require the continued operation of SJGS Units 2 and 3 in compliance with the FIP. Instead, the public interest will be served by approval of PNM's Application in this case. PNM's customer needs will be adequately and reliably served by a reasonable, diversified, cost-effective supply portfolio.

24. The Commission has long recognized the benefits of diversifying the fuel mix of a supply portfolio. Fuel diversity is important in minimizing the risk that some unanticipated event may adversely impact the price or supply of any one fuel. Conversely, fuel diversity assures that customers will receive the benefits of events that favorably impact the price or supply of a particular fuel. Given the circumstances that exist today, it is reasonable to reduce the amount of coal and increase the amount of nuclear generation from existing nuclear plants in PNM's supply portfolio due to the likely regulation of greenhouse gas emissions. In the near

term, additional amounts of gas generation and renewable energy resources are warranted. Given that the future cannot be seen with perfect clarity, it would not be wise to totally eliminate any particular fuel source from a reasonably diversified supply portfolio.

25. PNM does not believe that approval pursuant to NMSA 1978, Section 62-6-12(A)(4) (1989) is required for the exchange of capacity between SJGS Units 3 and 4 because of the small amounts involved. Neither is it required for PVNGS Unit 3 since PNM already owns the interest sought to be certified. However, if the Commission determines that such approval, in addition to the issuance of CCNs, is required, then PNM requests that the Commission grant such approval. The showing necessary for approval under this provision of the Public Utility Act (“PUA”) is met by the showing necessary for approval for the issuance of a CCN or authorization for abandonment.³

26. In determining if a CCN should be granted, the Commission considers the public convenience and necessity. The Commission generally has equated the public convenience and necessity with the public interest and has stated that the standard implies a net public benefit. Because the need for additional capacity is dependent on the approval of abandonment of SJGS Units 2 and 3, the two requests must be viewed together. The benefits of granting the CCNs requested in this case are provided because they are for lower cost alternatives than continued operation of SJGS Units 2 and 3 with SCR installed on all four units of SJGS, as required by the FIP. As such, the abandonment of SJGS Units 2 and 3 creates a need for the additional capacity in SJGS Unit 4 with SNCR and balanced draft installed, and the inclusion of PVNGS Unit 3 as a jurisdictional resource. These facilities are the most economical choices among other feasible alternatives, including continued operation of SJGS Units 2 and 3 with SCR installed on all four units of SJGS; compliance with the Revised SIP without inclusion of PVNGS Unit 3; and early

³ *Re Public Service Company of New Mexico*, 2013 WL 4045659, *3 (NMPRC Case No. 13-00004-UT)

retirement of all four units of SJGS. SJGS Unit 4 and PVNGS Unit 3 are reliable generation facilities which are in compliance with applicable environmental requirements.

27. PNM has taken steps to mitigate valid public concerns regarding the abandonment of SJGS Units 2 and 3 which involve potential adverse impacts on the economy of the Four Corners region of New Mexico.

29. The Revised SIP constitutes a material change which warrants a different course of action from what has been identified in previous IRPs.

30. If PNM's request for permission to abandon SJGS Units 2 and 3 is granted, there will be undepreciated investment that should be recovered in rates. PNM is requesting an accounting order that specifically authorizes recovery of the undepreciated investment as recorded on PNM's books of account as of the date of retirement. PNM has projected this amount to be approximately \$205 million. The final amount for which PNM is seeking approval is the actual undepreciated investment at December 31, 2017, less the 78 MW that would be part of the exchange for 78 MW of SJGS Unit 4, proposed to be authorized effective January 1, 2015. This specific identification is necessary in order for PNM to transfer the amount out of FERC Account 101 (Electric Plant in Service) to FERC Account 182.2 (Regulatory Asset).

31. The proper test to use to determine if recovery of the undepreciated investment in SJGS Units 2 and 3 should be allowed after they are retired is composed of two parts: (1) whether the investment at issue was prudently incurred; and, (2) whether it is reasonable to abandon the plant.

32. Prudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions

had to be made. In determining whether a judgment was prudently made, only those facts available at the time judgment was exercised can be considered. Hindsight review is impermissible. Every investment may be assumed to have been made in the exercise of reasonable judgment, unless the contrary is shown.⁴

33. All of the investment in SJGS Units 2 and 3 is prudent. The prudence of the investment was initially determined when PNM was granted CCNs for the units. SJGS Units 2 and 3 have reliably served customers and been included as a jurisdictional resource for about forty years. In that time, only once has investment in SJGS Units 2 and 3 been challenged as imprudent and that challenge was rejected by the Commission.⁵ Future investment in SJGS Units 2 and 3 will be limited to what is needed for prudent and reliable operation during the time they remain in service. Thus, there is no question that the investment in SJGS Units 2 and 3 was and is prudent.

34. Generally, the Commission has determined reasonableness by comparing costs to benefits. PNM's cost/benefit analysis compares the cost of a portfolio including PVNGS Unit 3 to allow compliance with the Revised SIP to the cost of portfolios that: (a) assumes the continued operation of all four SJGS units with SCR as required by the FIP; (b) assumes compliance with the Revised SIP without PVNGS Unit 3; and (c) assumes abandonment of all four units of SJGS. PNM has included in the costs of complying with the Revised SIP the costs associated with full recovery of the undepreciated investment in SJGS Units 2 and 3. Customers are better off with the Revised SIP with PVNGS Unit 3 than with any other feasible alternative

⁴ NMPRC Case No. 10-00086-UT, Certification of Stipulation, page 61 (June 21, 2011), adopted by Final Order Partially Approving Certification of Stipulation (July 28, 2011)

⁵ NMPRC Case No. 10-00086-UT, Final Order Partially Approving Certification of Stipulation, ¶¶ 150-153, at pages 65-67 (July 28, 2011)

for meeting environmental requirements at SJGS. The net benefits are determined by reference to the difference in the net present values among the various alternatives. Given the benefits of retiring SJGS Units 2 and 3 to comply with the Revised SIP, PNM's actions have been and are reasonable. In addition a computerized Monte Carlo simulation demonstrates that the Revised SIP with PVNGS Unit 3 is also the least risky alternative.

35. Regulation should provide the proper incentives for management to act reasonably. If it is reasonable to retire plant, that decision should not come with adverse financial impacts on shareholders. Otherwise there is a disincentive for management to make economic decisions regarding continuing operations of plant which may no longer be economic due to obsolescence or other reasons, such as exist in this case where environmental compliance to keep them operating becomes more expensive than other alternatives. PNM has taken reasonable and prudent steps to mitigate the costs of environmental compliance at SJGS. Therefore, the proper balancing of customer and investor interests, as well as the overall public interest, requires that the undepreciated investment in SJGS Units 2 and 3 be recovered in rates.

36. The "used and useful" concept is not a proper consideration in the determination of whether or not the undepreciated investment in SJGS Units 2 and 3 should be recovered after retirement. Even where applicable, the used and useful concept is only one factor to be considered in ratemaking and the appropriate ratemaking treatment of plant does not automatically follow from a used and useful determination. Strict application of the used and useful concept to the early retirement of SJGS Units 2 and 3 ignores that they have been used and useful in serving customer needs for approximately forty years. PNM has continued to invest in these plants to keep them operational and reliable precisely because they have long been an important low-cost resource in a cost-effective supply portfolio. To ignore this history

sends the wrong incentive to utility management regarding the actions to be taken involving resource decisions. PNM is seeking to retire SJGS Units 2 and 3 because doing so, even with full recovery of the undepreciated investment, is more cost-effective for customers and provides greater environmental benefits than keeping them operational at a higher cost. Thus, full recovery of undepreciated investment under these circumstances is the only way to properly balance the interests of customers and investors and the overall public interest.

37. It is reasonable to recover the undepreciated investment in SJGS Units 2 and 3 over a twenty year period in order to properly balance impacts on customer rates and timely recovery of the undepreciated investment. The twenty year recovery period is consistent with the twenty year planning horizon required for the IRP process. In order to assure full recovery of the undepreciated investment, a carrying charge equal to PNM's pre-tax WACC should be applied to the unamortized balance.

38. PVNGS Unit 3 was originally granted a CCN in NMPSC Case No. 1216. As a result of excess capacity, it was decertified in NMPSC Case No. 2285 wherein the Commission gave up regulatory authority over PVNGS Unit 3. However, due to the proposed retirement of SJGS Units 2 and 3, the public convenience and necessity will be served by the recertification of PVNGS Unit 3. PNM is willing to have its interest in PVNGS Unit 3 recertified as a resource to serve New Mexico retail customers at a fair rate base valuation. PNM believes that a fair valuation for both PNM and its customers is \$335 million (\$2500/kW). This amount is confirmed as fair and reasonable by an independent valuation study and is consistent with values PNM has seen in its recent attempts to purchase lease interests in PVNGS Unit 2.

39. PNM proposes to recover in rates amounts associated with the PVNGS Unit 3 decommissioning trust on a pro rata basis to reflect that portion of the life of PVNGS Unit 3

during which it would be certified, consistent with ratemaking procedures and practices approved by the Commission for PVNGS Units 1 and 2. PNM will contribute approximately \$11 million in funding to the PVNGS Unit 3 trust so that the funding for the Unit 3 trust is equal to the average funding of the Units 1 and 2 trusts at December 31, 2017.

40. PNM has taken reasonable steps to assure the lowest reasonable cost for installation of SNCR on SJGS Units 1 and 4 and for the equipment and modifications necessary to convert them to balanced draft (collectively, "SNCR project").

41. Under the Term Sheet, the SNCR project must be completed within fifteen months of the EPA approval of the revised SIP, but not earlier than January 31, 2016. The Term Sheet also provides that EPA final action on the Revised SIP should be completed within 345 days of the EIB's approval of the Revised SIP. Based on this timeline, PNM expects that EPA will have taken final action on the Revised SIP by August of 2014.

42. With the installation of SNCR, the retirement of two units and the conversion to balanced draft, San Juan is well-positioned to meet anticipated environmental regulations. PNM has assessed the need and cost-effectiveness of San Juan Units 1 and 4 using a twenty year planning horizon, which is consistent with the IRP process. The conclusion from this analysis is that these units should remain viable generation resources for at least this twenty year period.

43. Although not required by the Revised SIP, the NMED, as part of the amendment to San Juan's New Source Review permit, has required that San Juan convert to a balanced draft configuration. The balanced draft conversion is being done in conjunction with the installation of the SNCR technology. Both the installation of SNCR and the conversion to balanced draft involve modifications to San Juan's existing emissions controls and plant

equipment. It makes sense, from cost and efficiency standpoints, to contract for and implement both of these modifications as a single project. It is prudent for the San Juan owners to implement the balanced draft conversion at the same time that the required SNCR technology is being installed rather than as separate projects.

44. Balanced draft will help ensure demonstrated compliance with the National Ambient Air Quality Standards (“NAAQS”) and results in a significant reduction in fugitive emissions which provides myriad operational benefits, including a cleaner workplace. Also, the chemical reaction associated with the operation of SNCR results in the generation of ammonia. The balanced draft conversion will mitigate workplace exposure to ammonia fumes. Balanced draft is an essential element in any state-of-the-art coal power plant emission controls.

45. Although negotiations for a revised Participation Agreement are still underway, it is hoped that the Revised SIP will lead to a revised Participation Agreement which will permit several of the SJGS owners to exit the plant in an orderly fashion, avoid potential costly and protracted litigation or arbitration, and provide for a more stable ownership structure for the remaining plant participants which is beneficial in assuring continued reliable service from SJGS.

46. PNM requests issuance of a final order granting its Application within nine months of the filing of this Application, in accordance with NMSA 1978, Section 62-9-1(C) (2005), but in no event later than twelve months from the date of filing this Application.

47. The following designated corporate representatives and legal counsel for PNM should receive all notices, discovery requests, objections and responses, briefs, and all other documents related to this case:

Benjamin Phillips Associate General Counsel PNM Resources, Inc. Corporate Headquarters – Legal Department Albuquerque, NM 87158 (505) 241-4836 (505) 241-2338 (Fax) ben.phillips@pnmresources.com	Bradford Borman Senior Corporate Counsel PNM Resources, Inc. Corporate Headquarters – Legal Department Albuquerque, NM 87158-0805 (505) 241-4864 (505) 241-2338 (Fax) Bradford.Borman@pnmresources.com	Mark Fenton Director, Regulatory Policy and Case Management PNM Resources, Inc. Corporate Headquarters – Regulatory Department Albuquerque, NM 87158-1105 (505) 241-2498 (505) 241-2347 (Fax) mark.fenton@pnmresources.com
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48. Pursuant to 17.1.2.9(B) NMAC, PNM has determined that notice to other utilities of this Application is not required.

49. Attachment A to this Application is a proposed form of notice to be published in newspapers of general circulation in PNM’s service territory and in San Juan County pursuant to 17.1.2.9(D).

50. Attachment B to this Application is a Glossary of Acronyms and Defined Terms used in this Application and the accompanying testimony and exhibits.

III. SUMMARY OF EVIDENCE

In support of its Application, PNM is filing testimony of the following witnesses:

(1) Gerard T. Ortiz, Vice President, Regulatory Affairs for PNM, describes the specific approvals PNM is requesting in its Application and why these approvals should be granted. He explains the timing associated with PNM’s Application and other approvals necessary for the Revised SIP to be implemented. He discusses the regulatory principles applicable to PNM’s Application and the tests and factors to be considered in determining if the Application and its various components should be approved. He

discusses past decisions of the Commission and its predecessors that may be relevant to consideration of the Application. Based on the evidence presented by PNM and applicable regulatory principles, Mr. Ortiz demonstrates that:

- a) It is in the public interest to abandon SJGS Units 2 and 3 because PNM has identified adequate alternatives to maintain service reliability to customers that are less costly than being able to continue to operate SJGS Units 2 and 3 with SCR installed on each unit of SJGS. These alternatives to operating SJGS under the FIP will reduce exposure to future environmental regulations; result in a better balanced, properly diversified resource portfolio; and will be less risky in the face of always uncertain fuel prices. Under these circumstances, the present and future public convenience and necessity do not require their continued operation.
- b) Proper regulation should allow full recovery of the undepreciated prudent investment in the retired plant in order to provide the proper regulatory incentives for management to make the appropriate economic decisions with regard to existing plant and facilities.
- c) The undepreciated investment in SJGS Units 2 and 3 was prudently incurred and PNM is acting reasonably in pursuing abandonment. Therefore, in order to properly balance the interests of customers and investors and the overall public interest, PNM should be allowed full recovery of the remaining prudent investment, amortized over a twenty year period with a carrying charge at PNM's pre-tax WACC on the unamortized balance. The used and useful concept is not a relevant consideration supporting a different result.

- d) The acquisition cost of the additional capacity in SJGS Unit 4 is the proper valuation for ratemaking purposes because customers benefit from the acquisition and the acquisition resulted from an arm's length transaction.
- e) PNM's offer to recertify PVNGS Unit 3 at its proposed value for ratemaking purposes is supported by an independent valuation analysis and should be accepted by the Commission. PNM demonstrates that PVNGS Unit 3 is a less costly resource for PNM's customers than other alternatives even at a higher rate base valuation than what PNM is proposing. PVNGS Unit 3, as an existing nuclear plant with a recent license extension, provides numerous benefits over other alternatives.
- f) PNM's Application provides a path to comply with environmental requirements applicable to SJGS that costs less than other alternatives, provides a properly diversified supply portfolio and achieves greater overall environmental improvements than the FIP, which requires the installation of more costly SCR on all four units of SJGS. Under the circumstances presented, PNM's actions are prudent and reasonable, benefitting customers and the overall public interest, and its Application should be approved in its entirety.

(2) Ronald Darnell, Senior Vice President, Public Policy for PNM, provides an overview of the environmental regulations applicable to SJGS's operations which are driving the need to retire SJGS Units 2 and 3 and find replacement power. He summarizes the history surrounding the environmental requirements under the CAA related to the BART NOx determination for SJGS. He discusses the limited options available to PNM to bring SJGS into compliance with the applicable environmental requirements, including the FIP issued by the EPA which would require the installation of expensive SCR on each operating unit of SJGS,

and the proposed Revised SIP. In doing so, Mr. Darnell demonstrates the prudence and reasonableness of PNM's actions to benefit customers. Mr. Darnell describes the greater environmental benefits achievable under the Revised SIP compared to the FIP. He will also describe the Term Sheet and PNM's efforts to mitigate adverse impacts on the economy of the Four Corners region. Mr. Darnell explains that PNM is offering to have PVNGS Unit 3 recertified as a resource to serve New Mexico retail customers contingent on the Commission's adoption of PNM's proposed fair valuation of PVNGS Unit 3 for ratemaking purposes.

(3) Chris Olson, Vice President, Generation for PNM, provides background concerning SJGS and its current ownership structure. He explains that the Revised SIP will require a revised participation agreement resulting in a new ownership structure for SJGS following the implementation of the Revised SIP and the retirement of SJGS Units 2 and 3. He explains that negotiations among the San Juan owners are currently underway. He explains that the probable minimum additional amount of capacity that PNM will acquire in SJGS Unit 4 to partially replace the capacity lost due to retirement of Units 2 and 3 is 78 MW. He summarizes the various regulatory approvals necessary for the revised ownership structure. To support the issuance of a CCN for additional capacity in SJGS Unit 4, he discusses its operational and compliance status as well as its status as a source of continued reliable and cost-effective generation capacity. With regard to the approval of PNM's costs associated with the installation of SNCR and balanced draft on SJGS Units 1 and 4, he discusses the cost of this technology and describes the processes and measures that PNM has taken to assure the reasonableness of these costs. He describes the need for and benefits of installing balanced draft at this time. On the issue of a CCN for PNM's interest in PVNGS Unit 3, he provides a discussion of its recent operational and compliance status as well as the benefits of adding nuclear capacity from an

existing facility to PNM's resource portfolio for serving New Mexico retail customers in order to partially replace the capacity lost due to the abandonment of SJGS Units 2 and 3. He also discusses the transmission capacity that is expected to be used to bring power from PVNGS Unit 3 to New Mexico retail customers. He explains why PNM had to incur certain initial costs associated with the installation of SCR on all four SJGS units in order to meet the compliance deadline under the FIP and describes the steps PNM took to ensure the reasonableness of the costs that were incurred.

(4) Patrick J. O'Connell, PNM's Director of Planning and Resources, describes the proposed changes in PNM's supply portfolio to comply with the Revised SIP. Mr. O'Connell provides a more detailed explanation of possible alternatives to PNM's proposed plan to comply with the Revised SIP including: compliance with the FIP; compliance with the Revised SIP without recertifying PVNGS Unit 3; and early retirement of all four units of SJGS. He explains why PNM's proposal is the most cost-effective approach to maintaining service reliability while meeting the applicable environmental requirements. He shows that PVNGS Unit 3 is part of the most cost-effective resource portfolio even at valuations higher than the value proposed by PNM. Mr. O'Connell explains how PNM's approach comports with IRP requirements.

(5) J. Edward Cichanowicz, an independent expert specializing in environmental control technologies for fossil fuel-fired power stations, provides testimony that explains the requirements of the EPA's Regional Haze Rule under the CAA relevant to the BART NOx determination for SJGS. He describes SNCR and its costs. He explains that the existing environmental emissions controls installed at SJGS Units 1 and 4 both complement and enhance the operation and performance of the SNCR. In addition Mr.

Cichanowicz testifies that PNM's cost estimates for SNCR and balanced draft are reasonable and that SJGS Units 1 and 4 with SNCR and balanced draft will remain economically viable considering reasonably foreseeable future environmental regulations. Mr. Cichanowicz also discusses the benefits of existing nuclear generation for purposes of compliance with air emission requirements relative to other alternatives.

(6) Thomas Sategna, Vice President and Corporate Controller for PNM Resources, Inc. and PNM, explains the proper accounting treatment associated with abandonment of SJGS Units 2 and 3 and for the transfer of capacity between SJGS Units 3 and 4 to support the accounting orders requested by PNM. He describes the regulatory history of PVNGS Unit 3 as background for PNM's proposal to include it in rate base at the proposed fair valuation. In addition, Mr. Sategna provides testimony justifying the issuance of an accounting order authorizing PNM to record as a regulatory asset the costs incurred to comply with the FIP prior to agreement on the Term Sheet. He states that PNM will seek in a future rate case to recover the litigation costs associated with the FIP and the Revised SIP, including the costs associated with this Application, as well as the costs associated with negotiating the revised San Juan participation agreement.

(7) John Reed, Chairman and Chief Executive Officer of Concentric Energy Advisors, Inc. and CE Capital Advisors (collectively, "Concentric"), presents Concentric's valuation study of PVNGS Unit 3 which supports the reasonableness of PNM's proposed rate base valuation.

(8) Henry Monroy, Director, Cost of Service and Corporate Budget for PNM, identifies the costs associated with PNM's Application and provides a description of the expected incremental revenue requirements and the estimated customer impacts. Mr.

Monroy explains the assumptions he used to develop the incremental revenue requirements, including assumptions regarding rate of return and jurisdictional allocation factors. He also compares the incremental revenue requirements associated with approval of PNM's Application with the incremental revenue requirements associated with the alternative scenarios described in Mr. O'Connell's testimony.

(9) Terry Horn, Vice President and Treasurer for PNM Resources, Inc. and PNM, describes the methods PNM proposes to use to finance PNM's capital needs and why these methods are reasonable. Mr. Horn discusses the importance of fair and equitable treatment of investors for prudent investments made to reliably and cost-effectively serve customers so as to maintain, and hopefully improve, PNM's credit standing to the ultimate benefit of customers. Mr. Horn explains the need for Commission approval of the ratemaking principles and treatment associated with recertification of PVNGS Unit 3 proposed by PNM, including the rate base valuation needed by PNM in order to commit PVNGS Unit 3 to Commission jurisdiction. Mr. Horn describes the current status of the PVNGS Unit 3 decommissioning trust and explains PNM's request for approval of the proper ratemaking treatment for the trust consistent with PNM's request for a CCN for PVNGS Unit 3. Mr. Horn provides information regarding the ownership and leasing arrangements for PVNGS Units 1 and 2 and PNM's plans regarding the PVNGS leases so that the Commission has a clear understanding of how the leases affect PNM's resource portfolio over the next few years.

WHEREFORE, PNM prays the Commission for an order within nine months, but no later than twelve months, of the date of filing of this Application, providing the following approvals: (1) abandonment of San Juan Generating Station ("SJGS") Units 2 and 3 by

December 31, 2017, with an accounting order allowing full recovery of the undepreciated investment in SJGS Units 2 and 3 as of the date of retirement through a regulatory asset amortized over twenty years with a carrying charge equivalent to PNM's pre-tax weighted average cost of capital ("WACC") on the unamortized balance; (2) issuance of a certificate of public convenience and necessity ("CCN") to include Palo Verde Nuclear Generating Station ("PVNGS") Unit 3 as a supply resource to serve New Mexico retail customers effective January 1, 2018, at a value for ratemaking purposes of \$335 million and recovery of the costs associated with funding the decommissioning trust for PVNGS Unit 3 on a pro rata basis; (3) issuance of a CCN and any other necessary approvals for the acquisition of an additional 78 megawatts ("MW") of capacity in SJGS Unit 4 effective January 1, 2015, at a value for ratemaking purposes of approximately \$52.5 million in exchange for an equal amount of capacity in SJGS Unit 3; (4) recovery of the costs of selective non-catalytic reduction equipment ("SNCR") together with balanced draft on SJGS Units 1 and 4 to be installed by January 31, 2016, not to exceed \$82 million, with any cost overruns recovered in rates only after a Commission determination in a future rate case that they were prudently incurred, using Rule 580 as a guide in the process; and (5) issuance of an accounting order allowing PNM's cost of compliance with the Best Available Retrofit Technology ("BART") determination for SJGS under the August 21, 2011, Federal Implementation Plan ("FIP") issued by the U.S Environmental Protection Agency ("EPA") to be placed in a regulatory asset for future recovery in a rate case, with a determination in this proceeding that such costs are reasonable and were prudently incurred, all in accordance with this Application and the accompanying testimony and exhibits, and for such further relief as the Commission deems proper under the circumstances.

Respectfully submitted this 20th day of December, 2013,

PUBLIC SERVICE COMPANY OF NEW MEXICO



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GCG#517360

ATTACHMENT A

PROPOSED FORM OF NOTICE OF PROCEEDING

Consisting of 8 pages

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
 OF PUBLIC SERVICE COMPANY OF NEW)
 MEXICO FOR APPROVAL TO ABANDON)
 SAN JUAN GENERATING STATION UNITS)
 2 AND 3, ISSUANCE OF CERTIFICATES)
 OF PUBLIC CONVENIENCE AND)
 NECESSITY FOR REPLACEMENT POWER)
 RESOURCES, ISSUANCE OF ACCOUNTING)
 ORDERS AND DETERMINATION OF)
 RELATED RATEMAKING PRINCIPLES AND)
 TREATMENT,)
)
 PUBLIC SERVICE COMPANY OF NEW)
 MEXICO,)
)
)
 Applicant)
 _____)

Case No. 13-00 _____-UT

PROPOSED FORM OF NOTICE OF PROCEEDING

NOTICE is hereby given of the following matters pertaining to the above captioned case pending before the New Mexico Public Regulation Commission (“NMPRC” or “Commission”):

On December 20, 2013, Public Service Company of New Mexico (“PNM” or “Company”) filed an Application requesting the following approvals from the Commission by September 20, 2014, but no later than December 20, 2014:

(1) abandonment of San Juan Generating Station (“SJGS” or “San Juan”) Units 2 and 3 by December 31, 2017, with an accounting order allowing full recovery of the undepreciated investment in SJGS Units 2 and 3 as of the date of retirement through a regulatory asset amortized over twenty years with a carrying charge equivalent to PNM’s pre-tax weighted average cost of capital (“WACC”) on the unamortized balance;

(2) issuance of a certificate of public convenience and necessity (“CCN”) to include Palo Verde Nuclear Generating Station (“PVNGS”) Unit 3 as a supply resource to serve New Mexico retail customers effective January 1, 2018, at a value for ratemaking purposes of \$335 million and recovery of the costs associated with funding the decommissioning trust for PVNGS Unit 3 on a pro rata basis;

(3) issuance of a CCN and any other necessary approvals for the acquisition of an additional 78 megawatts (“MW”) of capacity in SJGS Unit 4 effective January 1, 2015, at a value for ratemaking purposes of approximately \$52.5 million in exchange for an equal amount of capacity in SJGS Unit 3;

(4) recovery of the costs of selective non-catalytic reduction equipment (“SNCR”) together with balanced draft to be installed on SJGS Units 1 and 4 by January 31, 2016, not to exceed \$82 million, with any cost overruns recovered in rates only after a Commission determination in a future rate case that they were prudently incurred, using the Commission’s Cost Overrun Rule (17.3.580 NMAC) to guide the process; and

(5) issuance of an accounting order allowing PNM’s cost of compliance with the Best Available Retrofit Technology (“BART”) determination for SJGS under the August 21, 2011, Federal Implementation Plan (“FIP”) issued by the U.S Environmental Protection Agency (“EPA”) to be placed in a regulatory asset for future recovery in a rate case, with a determination in this proceeding that such costs are reasonable and were prudently incurred.

PNM states that these approvals are either necessary for, or facilitate, compliance with environmental requirements under the Clean Air Act (“CCA”) for SJGS associated with a Revised State Implementation Plan (“Revised SIP”) issued by the New Mexico Environmental Improvement Board (“EIB”), which is pending approval by the U. S. Environmental Protection

Agency (“EPA”). In addition to the specific regulatory approvals described above, PNM requests such other relief as the Commission may deem proper under the circumstances.

Following is a summary of PNM’s assertions and testimony filed in support of the Application:

(1) PNM was determined to find a better, lower cost alternative to comply with the Regional Haze Rule for SJGS. It acted prudently in working with State and Federal regulators, as well as with environmental groups and other stakeholders, to develop the Revised SIP.

(2) It is in the public interest to abandon SJGS Units 2 and 3 because PNM has identified adequate alternatives to maintain service reliability to customers that are less costly than continuing to operate those units in compliance with the FIP. These alternatives to operating SJGS under the FIP will result in greater overall environmental benefits than achievable with the FIP; reduce exposure to future environmental regulations; result in a better balanced and diversified resource portfolio; and will be less risky in the face of always uncertain fuel prices.

(3) Proper regulation should allow full recovery of the undepreciated prudent investment in retired plant in order to provide the proper regulatory incentives for management to make the appropriate economic decisions with regard to existing plant and facilities.

(4) The undepreciated investment in SJGS Units 2 and 3 was prudently incurred and PNM is acting reasonably in pursuing abandonment. Therefore, in order to properly balance the interests of customers and investors and the overall public interest, PNM should be allowed full recovery of the remaining prudent investment, amortized over a twenty year period with a

carrying charge at PNM's pre-tax WACC on the unamortized balance. Failure to allow full recovery could have serious adverse consequences for PNM's financial health, to the ultimate detriment of customers.

(5) The acquisition cost of the additional capacity in SJGS Unit 4 is the proper valuation for ratemaking purposes because customers benefit from the acquisition and the acquisition resulted from an arm's length transaction.

(6) PNM's offer to recertify PVNGS Unit 3 at its proposed value for ratemaking purposes is supported by an independent valuation analysis and should be accepted by the Commission. PNM demonstrates that PVNGS Unit 3 is a less costly resource for PNM's customers than other alternatives even at a higher rate base valuation than the value PNM is proposing. PVNGS Unit 3, as an existing nuclear plant with a recent license extension, provides numerous benefits over other alternatives.

(7) PNM has developed and implemented processes designed to install SNCR and balanced draft on SJGS Units 1 and 4 at the lowest reasonable cost. Although balanced draft is not required by the Revised SIP, it is required by other environmental requirements and will provide a cleaner, safer environment for employees.

(8) PNM's expenditures to comply with the FIP, incurred prior to development of the Revised SIP, were necessary, prudent and reasonable costs of doing business and should be recovered in rates.

(9) PNM developed its least cost supply portfolio to replace the capacity that would be lost upon retirement of SJGS Units 2 and 3 using integrated resource planning processes, consistent with New Mexico policy and Commission regulations. PNM's analyses shows that,

not only is its proposed supply portfolio the least costly alternative, it is also the least risky in terms of potential future environmental regulations and price volatility associated with fuels.

(10) PNM provides evidence of the potential incremental revenue requirements associated with the planning scenarios it modeled with an explanation of the assumptions used.

On _____, 201____, the Commission entered an Order designating the undersigned to preside over this proceeding and to issue a Recommended Decision, among other matters.

Further information regarding this case can be obtained by contacting PNM or the Commission at the addresses and telephone numbers provided below. The Commission has assigned Case No. 13-00____-UT to this proceeding and all inquiries or written comments concerning this matter should refer to that case number.

The present procedural schedule for this case is as follows:

a. On or before _____, 2014, any person desiring to intervene to become a party (“intervenor”) in this case must file a motion for leave to intervene in conformity with NMPRC Rules of Procedure 1.2.2.23(A) and (B) NMAC. Persons who wish to provide comments on this case without becoming a party may do without filing a motion to intervene.

b. On or before _____, 2014, Staff shall, and Intervenors may, file Direct Testimony.

c. Rebuttal testimony may be filed on or before _____, 2014.

d. A public hearing on this matter shall be held beginning on _____, 2014, commencing at 9:30 a.m. MT at the offices of the Commission, P.E.R.A. Building, 1120 Paseo de Peralta, Santa Fe, New Mexico, and continuing thereafter until concluded.

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

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

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

Any interested person may appear at the time and place of hearing and make written or oral comment pursuant to 1.2.2.23(F) NMAC without becoming an intervenor. All such comments shall not be considered as evidence in this case. Written comments, which shall reference Case No. 13-00____-UT, also may be sent to the Commission at the following address:

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

Interested persons should contact the Commission for confirmation of the hearing date, time and place since hearings are occasionally rescheduled. Any interested person may examine PNM's Application and all other pleadings, testimony, exhibits and other documents filed in the public record for this case at the Commission's address set out above or at the offices of PNM at the following address:

Public Service Company of New Mexico
414 Silver Ave. SW
Albuquerque, NM 87102

Telephone: (505) 241-2700

Anyone filing pleadings, testimony and other documents in this case may file them in person at the Commission's docketing office in the P.E.R.A. Building in Santa Fe, New Mexico, or by mail to the Commission's address at P.O. Box 1269, Santa Fe, New Mexico 87504-1269, and must serve copies on all parties of record and the Commission's Utility Division Staff ("Staff") in the manner indicated on the Certificate of Service for this case. All filings shall be e-mailed to Staff and the parties on the date they are filed with the Commission. All filings shall be e-mailed to the Hearing Examiner at _____.

Additional details regarding this proceeding and its procedural requirements are set forth in the Hearing Examiner's _____, 2014, Procedural Order.

Individuals with a disability who are in need of a reader, amplifier, qualified sign language interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing, may contact the Commission's docketing office at least 24 hours prior to the hearing. The Commission's docketing office may be reached at (505) 827-4526. Public documents associated with the hearing can be provided in various accessible forms for disabled individuals. Requests for summaries or other types of accessible forms also should be addressed to the Utility Division at (505) 827-6960.

Issued at Santa Fe, New Mexico, on _____, 2014.

NEW MEXICO PUBLIC REGULATION COMMISSION

Hearing Examiner

GCG#517361

ATTACHMENT B

GLOSSORY OF ACRONYMS AND DEFINED TERMS

Consisting of 7 pages

GLOSSARY OF ACRONYMS AND DEFINED TERMS

2005 Consent Decree – May 10, 2005, consent decree regarding alleged violations under CAA

2012 Consent Decree – April 12, 2012, consent decree relating to alleged violations under the Resource Conservation and Recovery Act and the Surface Mining Reclamation Act

ACC – Arizona Corporation Commission

ADIT – Accumulated Deferred Income Taxes

AFUDC – Allowance for Funds Used During Construction

Anaheim –Anaheim, California

ANPP – Arizona Nuclear Power Project

APS – Arizona Public Service Company

ASC – Accounting Standards Codification

ATWACC – after-tax weighted average cost of capital

BAC – brominated active carbon

Baghouses – A technology that uses activated carbon on the filter cake to provide extremely high removal of particulate matter, typically exhibiting more than 99.9% removal of fly ash from the flue gas.

Balanced Draft – A technology that uses a second induced draft fan near the exit of the environmental control system to supplement the actions of the first fan by “pulling” the air and gases.

BART – Best Available Retrofit Technology

Btu – British thermal unit

Btu/kWh – British thermal unit per kilowatt hour

CAA – Clean Air Act

CA Owners – a collective term for Anaheim, M-S-R and SCPPA

CAPM – Capital Asset Pricing Model

GLOSSARY

CCN – Certificate of Public Convenience and Necessity

CCR – carbon combustion residuals

CEC – California Energy Commission

C.F.R. – Code of Federal Regulations

CO – Carbon Monoxide

CO₂ – Carbon Dioxide

Company – Public Service Company of New Mexico

Concentric – Concentric Energy Advisors, Inc. and CE Capital Advisors

CCR – Coal Combustion Residuals

Delta – Delta Generating Station

DCF – discounted cash flow

EAF – Equivalent Availability Factor

EIB (see also NMEIB) – New Mexico Environmental Improvement Board

EOR – Enhanced Oil Recovery

EPA – U.S. Environmental Protection Agency

EPA Cost Manual – the EPA Air Pollution Control Cost Manual, Sixth Edition

EPA Letter – a letter dated February 15, 2013, from the EPA Regional Administrator for Region 6 to PNM's Chief Executive Officer and the Secretary of NMED

EPC – Engineering, Procurement and Construction Agreement

EPE – El Paso Electric Company

EPRI – Electric Power Research Institute

EPRI Tag – EPRI's resource alternative data base

ESP – Electrostatic Precipitator

GLOSSARY

Farmington – City of Farmington

FERC – Federal Energy Regulatory Commission

FC4 or FC5 – Four Corners Unit 4 or Unit 5

F.D. – forced draft

FGD – Flue Gas Desulfurization

FIP – Federal Implementation Plan

Fluor – Fluor Corporation

FMV – Fair Market Value

FPA – Federal Power Act

FPPCAC – fuel and purchased power cost adjustment clause

GADS – Generating Availability Data System

GT – gas turbine

GAAP – Generally Accepted Accounting Principles

GWC – general works construction

HgCl₂ – Soluble Mercuric Chloride

ICR – Information Collection Request

IRC – Internal Revenue Code

IRP – Integrated Resource Plan

IRP Rule – 17.7.3 NMAC

IRS – Internal Revenue Service

ITC – Investment Tax Credit

IVT-SIP – Interstate Visibility Transport State Implementation Plan

GLOSSARY

kW – kilowatt

kWh – kilowatt hour

LADWP – Los Angeles Department of Water and Power

lb/MMacf – pounds per million actual cubic feet

lb/mmBtu – pounds per million British thermal units

Los Alamos – Incorporated County of Los Alamos

MACRS – Modified Accelerated Cost Recovery System

MATS – Mercury and Air Toxics Standards

MMBtu – Million British thermal units

Moody's – Moody's Investors Services

MOP – Maximum Option Period

M-S-R – M-S-R Public Power Agency

MW -- megawatts

N₂ – molecular nitrogen

NAAQS – National Ambient Air Quality Standards

NERC – North American Electric Reliability Corporation

NDT – Nuclear Decommissioning Trust

NH₃ -- ammonia

NMAC – New Mexico Administrative Code

NMED – New Mexico Environment Department

NMEIB or Board – New Mexico Environmental Improvement Board

NMPRC – New Mexico Public Regulation Commission

GLOSSARY

NMPSC – New Mexico Public Service Commission (a predecessor agency to the NMPRC)

NMSA – New Mexico Statutes Annotated

NO_x –Nitrogen Oxides

NPV – Net Present Value

NVPRR – Net Present Value of Revenue Requirements

NRC – Nuclear Regulatory Commission

NSPS – New Source Performance Standards

NSR – New Source Review

O&M – Operating and Maintenance

PACE – Pace Global

Participation Agreement – Amended and Restated San Juan Project Participation Agreement

Petitioners– a collective term for PNM, State of New Mexico and NMED regarding the Petition for review of the FIP to the Tenth Circuit

PM – particulate matter emissions

PM_{2.5} -- Particulate matter less than 2.5 microns in size

PNM – Public Service Company of New Mexico

PNMR – PNM Resources, Inc.

PPA – Purchased Power Agreement

ppb – parts per billion

ppm – parts per million

PUA – New Mexico Public Utility Act

PV – photovoltaic

PV3 – Palo Verde Nuclear Generating Station Unit 3

GLOSSARY

PVNGS or Palo Verde – Palo Verde Nuclear Generating Station

REPP – Renewable Energy Portfolio Procurement Plan

Regional Haze Rule – refers to 40 C.F.R. §§ 51.308-309, an EPA rule under setting visibility standards in national parks and wilderness areas

Revised SIP – Revised State Implementation Plan

Revolver – PNM revolving credit facilities

RFP – Request for Proposals

RSIP – Revised State Implementation Plan

RUS – Rural Utility Service

S&L -- Sargent & Lundy

S&P – Standard & Poor's Rating Services

SCE – Southern California Edison Company

SCPPA – Southern California Public Power Authority

SCR – Selective Catalytic Reduction (a control technology for NOx emissions)

SFAS – Statement of Financial Accounting Standards

SIP – State Implementation Plan

SJCC – San Juan Coal Company

SJGS or San Juan – San Juan Generating Station

SJPPA – San Juan Plant Participation Agreement

SNCR – Selective Non-Catalytic Reduction (a control technology for NOx emissions)

SNCR Project – installation of SNCR on SJGS Units 1 and 4 and equipment and modifications for conversion to balanced draft

SO₂ – Sulfur Dioxide

GLOSSARY

SO₃ – Sulfur Trioxide

SO_x – Sulfur Oxides

SRP – Salt River Project

State Petitioners -- a collective term for the State of New Mexico and NMED regarding the Petition for review of the FIP to the Tenth Circuit

Statement of Reasons – EIB’s Order and Statement of Reasons for Adoption of SIP Revisions in EIB Docket No. 13-02(R)

STEAG – STEAG Energy Services, LLC

TBtu – Trillion Btu

Tenth Circuit – United States Court of Appeals for the Tenth Circuit

TEP – Tucson Electric Power Company

Term Sheet or Term Sheet Agreement – an agreement entered into between PNM, NMED and EPA, dated February 15, 2013

TLG – TLG Services, Inc.

TNMP – Texas-New Mexico Power Company

Tri-State – Tri-State Generation and Transmission Association, Inc.

TSA – Transmission Service Agreement

U1 or U4 – SJGS Unit 1 or Unit 4

UAMPS – Utah Associated Municipal Power Systems

UG-CSA – Underground Coal Sales Agreement

U.S.C. – United States Code

ug/m³ – Micrograms per cubic meter of air

VOC – volatile organic compounds

WACC – weighted average cost of capital

GCG #517350