

EXECUTIVE SUMMARY

PNM is applying to the New Mexico Public Regulation Commission (“NMPRC”) for approvals needed by the Company to make important changes in the operation of the San Juan Generating Station (“SJGS”). The approvals requested are associated with the Revised State Implementation Plan (“Revised SIP”) issued by the New Mexico Environmental Improvement Board (“EIB”), which is pending approval before the Environmental Protection Agency (“EPA”). The Application does not request a change in rates at this time but seeks Commission authorization to recover certain costs associated with retiring SJGS Units 2 and 3 and acquiring replacement power when rates are set in the future.

PNM’s proposed plan to implement the Revised SIP is the best alternative for compliance with the Regional Haze requirements of the federal Clean Air Act. It will cost less and result in substantially greater environmental benefits than the EPA’s Federal Implementation Plan (“FIP”) which it is intended to replace. The resulting PNM resource portfolio will be better balanced and less exposed to the risks of future fuel cost fluctuations and increased environmental regulations associated with carbon emissions. PNM is asking the NMPRC to issue its final order by September 20, 2014, but no later than December 20, 2014, to accommodate compliance with the Revised SIP if approved by the EPA.

I. Summary of Approvals Sought

- Authority for PNM to abandon SJGS Units 2 and 3, and to allow PNM to recover its undepreciated investment in those units over a twenty year period rather than the current recovery timeline to 2053 with a carrying charge equal to PNM’s pre-tax weighted average cost of capital;
- Issuance of a certificate of public convenience and necessity (“CCN”) and any other necessary approvals for 78 MW of additional capacity in SJGS Unit 4, that will be acquired through an exchange of capacity at \$52.5 million of book value, between Units 3 and 4. This transaction and the retirement of Units 2 and 3 will result in reducing PNM’s ownership of coal plants by 340 MW;
- Issuance of a CCN to include the Company’s ownership of 134 MW of Palo Verde Nuclear Generating Station (“PVNGS”) Unit 3 as a supply resource to serve New Mexico retail customers at a value for ratemaking purposes of \$2,500 per kW and recovery of the costs associated with funding the PVNGS Unit 3 decommissioning trust on a pro rata basis;
- An order allowing cost recovery of the installation of selective non-catalytic reduction equipment (“SNCR”), together with balanced draft conversion on SJGS Units 1 and 4, not to exceed a total cost of \$82 million;
- An order allowing creation of a regulatory asset for future recovery of prudent and reasonable costs that PNM was required to incur to begin complying with the FIP before the Revised SIP was identified.

II. Benefits of Approving Application Compared to Other Alternatives

- The retirement of Units 2 and 3 and the installation of SNCR on Units 1 and 4 under the Revised SIP along with the inclusion of PVNGS Unit 3 in rate base will cost less

than the continued operation of all four SJGS units under the FIP, or any of the other available options. The Revised SIP saves PNM's customers over \$780 million in the next 20 years compared to the FIP.

- The Revised SIP will achieve comprehensive environmental benefits beyond those that would be realized under the FIP. These additional benefits include significant reductions in emissions of sulfur dioxide, particulate matter, carbon monoxide, carbon dioxide, volatile organic compounds and mercury, as well as reductions in water consumption and coal combustion residuals. These additional reductions help to protect customers from the impact of future environmental regulations.
- PNM is committed to mitigating adverse economic impacts to the Four Corners region and the local Native American community as a result of the retirement of SJGS Units 2 and 3. For example, the Company will not lay off any SJGS plant employees as a result of the shutdown, and will use shareholder dollars to provide \$1 million in funding over 5 years for job training programs for members of the Navajo Nation. The first \$200,000 installment of that commitment was made in 2013.
- PNM has employed integrated resource planning principles and has identified a properly diversified fuel mix adequate to assure service reliability for customers and to reduce future risk associated with price volatility and carbon regulation upon the retirement of SJGS Units 2 and 3. These resources include PNM's 134 MW share of PVNGS Unit 3, an additional 78 MW in SJGS Unit 4, 40 MW of new utility-scale solar and a 177 MW gas plant. PNM is seeking a CCN at this time only for the additional capacity at PVNGS and in SJGS Unit 4. Future regulatory filings will address the specifics of other resource additions.

III. Conclusion

PNM's Application requests approval for several of the actions necessary for SJGS to comply with federal regulations through the implementation of the Revised SIP. This plan represents the best path forward for customers, stakeholders, and PNM. The Revised SIP, including the elements of this filing, will cost less than the alternative FIP and result in broad and significant environmental protections not addressed in the federal plan. These actions will also help to insulate customers from the possibility of significant additional costs to comply with new power plant emissions regulations being developed today. Approval of PNM's Application will also enable the company to move forward with plans to reduce its use of coal and significantly increase its use of cleaner fuels, including natural gas and solar. This more diverse portfolio will also help minimize the potential impact of unanticipated future volatility in fuel costs. The elements of this Application are part of the most responsible path to compliance with current and expected federal regulations and will result in profound, sustainable environmental benefits while mitigating the rate impact to customers.

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