

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

DIRECT TESTIMONY AND EXHIBITS

OF

HENRY E. MONROY

December 20, 2013

NMPRC CASE NO. 13-00_____ -UT
INDEX TO THE DIRECT TESTIMONY OF HENRY E. MONROY
WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

I.	INTRODUCTION AND PURPOSE.....	1
II.	REVENUE REQUIREMENTS.....	4
III.	SAN JUAN GENERATING STATION.....	6
IV.	PALO VERDE UNIT 3.....	9
V.	SNCR WITH BALANCED DRAFT.....	11
VI.	REPLACEMENT POWER.....	12
VII.	BASE FUEL IMPACTS UNDER PNM APPLICATION.....	15
VIII.	REVENUE REQUIREMENT FOR OTHER ALTERNATIVES.....	15
IX.	CUSTOMER BILL IMPACTS.....	17

PNM Exhibit HEM-1	Résumé of Henry E. Monroy
PNM Exhibit HEM-2	Summary of 2018 Estimated Revenue Requirements for the Revised SIP with PV Unit 3
PNM Exhibit HEM-3	Illustrative Weighted Average Cost of Capital (“WACC”)
PNM Exhibit HEM-4	Undepreciated Investment in SJGS Unit 2 and 3 after Exchange for 78 MW in SJGS Unit 4
PNM Exhibit HEM-5	Estimated 2018 Palo Verde Unit 3 Revenue Requirement
PNM Exhibit HEM-6	Estimated 2018 SNCR Revenue Requirement
PNM Exhibit HEM-7	Estimated 2018 Revenue Requirement for 177 MW Gas Peaker
PNM Exhibit HEM-8	Estimated 2018 Revenue Requirement for 40 MW Solar Facility
PNM Exhibit HEM-9	Estimated 2018 SCR Revenue Requirement
PNM Exhibit HEM-10	Estimated 20-Year Annual Revenue Requirements for Alternative Resource Portfolios
PNM Exhibit HEM-11	Estimated Impact of Revised SIP with PV Unit 3 on Customer Bills in 2018

AFFIDAVIT

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

I. INTRODUCTION AND PURPOSE

1
2
3 **Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

4 **A.** My name is Henry E. Monroy. Effective March 16, 2013, I became Director, Cost
5 of Service and Corporate Budget for PNM Resources, Inc. (“PNM Resources” or
6 “PNMR”) and its affiliates including Public Service Company of New Mexico
7 (“PNM” or the “Company”). Prior to that date, I was Director, Utility Accounting
8 in which I was responsible for the oversight and management of the utility
9 accounting functions at PNM and Texas-New Mexico Power Company
10 (“TNMP”). My business address is Public Service Company of New Mexico,
11 Main Offices, 414 Silver SW, Mail Stop 0915, Albuquerque, NM 87102.

12
13 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
14 **PROFESSIONAL EXPERIENCE.**

15 **A.** My educational background and professional experience are summarized in PNM
16 Exhibit HEM-1, which includes a tabulation of cases before the New Mexico
17 Public Regulation Commission (“Commission” or “NMPRC”), Public Utility
18 Commission of Texas, and Federal Energy Regulatory Commission, in which I
19 have filed testimony or testified.

20
21 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR, COST**
22 **OF SERVICE AND CORPORATE BUDGET.**

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 **A.** As Director of Cost of Service and Corporate Budget, I am responsible for revenue
2 requirement and cost of service related work for PNM and TNMP. This
3 responsibility includes preparation of revenue requirement analysis and required
4 testimony for regulatory filings. I am also responsible for PNM Resources' corporate
5 budget activities, which include preparation of PNM Resources' annual operating
6 plan.

7
8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

9 **A.** The purpose of my testimony is to address the revenue requirement and customer rate
10 impacts associated with PNM's compliance with the Regional Haze Rule under the
11 federal Clean Air Act. Specifically, my testimony addresses the following:

- 12 • The revenue requirements associated with the Revised State Implementation Plan
13 ("Revised SIP") adopted by the New Mexico Environmental Improvement Board
14 on September 5, 2013, including the installation of Selective Non-Catalytic
15 Reduction technology ("SNCR") with balanced draft on San Juan Generating
16 Station ("SJGS") Units 1 and 4, retiring Units 2 and 3, and replacing the retired
17 capacity with a mix of resources including Palo Verde Nuclear Generating Station
18 Unit 3 ("PV Unit 3"), additional capacity in SJGS Unit 4, new solar generation, and
19 a gas peaking plant. This is the portfolio of resources identified in Mr. O'Connell's
20 testimony as the Revised SIP with Palo Verde Unit 3 ("Revised SIP with PV Unit
21 3");
- 22 • The revenue requirements of the Federal Implementation Plan ("FIP")
23 requiring the installation of Selective Catalytic Reduction technology

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 ("SCR") on all four units at SJGS (no replacement power is added in
2 connection with the FIP);

- 3 • The potential impact on customer bills in 2018 under the Revised SIP with
4 PV Unit 3 portfolio.

5

6 **Q. HAVE YOU PREPARED EXHIBITS IN ADDITION TO PNM EXHIBIT HEM-**
7 **1?**

8 **A.** Yes. I have prepared the following additional exhibits:

- 9 • PNM Exhibit HEM-2: Summary of 2018 Estimated Revenue Requirements for the
10 Revised SIP with PV Unit 3
- 11 • PNM Exhibit HEM-3: Illustrative Weighted Average Cost of Capital ("WACC")
- 12 • PNM Exhibit HEM-4: Undepreciated Investment in SJGS Unit 2 and 3 after
13 Exchange for 78 MW in SJGS Unit 4
- 14 • PNM Exhibit HEM-5: Estimated 2018 Palo Verde Unit 3 Revenue Requirement
- 15 • PNM Exhibit HEM-6: Estimated 2018 SNCR Revenue Requirement
- 16 • PNM Exhibit HEM-7: Estimated 2018 Revenue Requirement for 177 MW Gas
17 Peaker
- 18 • PNM Exhibit HEM-8: Estimated 2018 Revenue Requirement for 40 MW Solar
19 Facility
- 20 • PNM Exhibit HEM-9: Estimated 2018 SCR Revenue Requirement
- 21 • PNM Exhibit HEM-10: Estimated 20-Year Annual Revenue Requirements for
22 Alternative Resource Portfolios

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 **A.** No. The capital structure, WACC, allocations, and resulting revenue requirements
2 shown in my exhibits are presented solely to illustrate the potential impacts on
3 revenue requirements of PNM's proposals in this case. Actual revenue
4 requirements will be determined in future rate proceedings.

5

6 **Q.** **PLEASE SUMMARIZE THE ESTIMATED REVENUE REQUIREMENTS OF**
7 **THE REVISED SIP WITH PV UNIT 3 PORTFOLIO.**

8 **A.** PNM Exhibit HEM-2 presents the estimated 2018 revenue requirements of the Revised
9 SIP with PV Unit 3 portfolio. This revenue requirement calculation includes the
10 following resources and plant additions:

- 11 • the incremental costs of recovering the undepreciated investment in SJGS Units 2
12 and 3 over a 20-year period, after the exchange for 78 MW of additional capacity in
13 SJGS Unit 4,
- 14 • the installation of SNCR, including balanced draft, on SJGS Units 1 and 4,
- 15 • PV Unit 3 at a value of \$335 million (\$2,500/kW),
- 16 • a 177 MW gas peaking facility and
- 17 • a 40 MW solar facility.

18

19 The gas and solar facilities have been included in the calculation of revenue
20 requirements, even though they are not part of the application in this case, in order to
21 provide the Commission with a complete picture of potential revenue requirements in
22 2018. In addition, to present a total cost comparison between the Revised SIP with PV
23 Unit 3 and the FIP, I have included the impacts associated with estimated savings in

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 O&M and fuel handling expenses at SJGS and impacts to base fuel costs under these
2 two portfolios.

III. SAN JUAN GENERATING STATION

5
6 **Q. HOW WILL THE ACQUISITION OF 78 MW OF GENERATION CAPACITY
7 IN SJGS UNIT 4 BE REFLECTED ON PNM'S BOOKS?**

8 **A.** As described in the Direct Testimony of Mr. Sategna, the 78 MW will be acquired in
9 exchange for 78 MW of capacity that PNM owns in Unit 3. The 78 MW of Unit 4 to be
10 acquired will be recorded on PNM's books at the net book value per MW of PNM's 78
11 MW of capacity in Unit 3 at the effective date of the acquisition. The value as of
12 January 1, 2015 is projected to be \$673 per kW and would result in an increase in the net
13 book value of PNM's interest in SJGS Unit 4 of \$52,494,000 and a decrease of the same
14 amount in the net book value of its interest in SJGS Unit 3, as shown in PNM Exhibit
15 HEM-4.

16
17 **Q. HAS PNM CALCULATED A SEPARATE REVENUE REQUIREMENT FOR
18 THE PROPOSED ACQUISITION OF 78 MW IN SJGS UNIT 4?**

19 **A.** No. As stated above, this acquisition is the result of an exchange between SJGS Unit 3
20 and SJGS Unit 4 at the estimated net book value of the SJGS Unit 3 capacity. Since the
21 78 MW of capacity in Unit 3 is already included in customer rates, PNM does not
22 expect any incremental revenue requirement to result from the exchange of that capacity
23 for the same amount of capacity in Unit 4.

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

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Q. PLEASE IDENTIFY THE UNDEPRECIATED INVESTMENT ASSOCIATED WITH SJGS UNITS 2 AND 3 FOR WHICH PNM IS SEEKING RATE TREATMENT.

A. The estimated book balance associated with the early retirement of SJGS Units 2 and 3 is \$204,995,787 as of December 31, 2017, after the 78 MW transfer of capacity in SJGS Unit 3 for the same amount of capacity in SJGS Unit 4 on January 1, 2015. For this estimate, PNM took the net book value of Units 2 and 3 as of June 30, 2013, and used current capital projections and existing depreciation rates to project the net book value as of December 31, 2017. Please refer to PNM Exhibit HEM-4.

Q. WHAT IS THE INCREMENTAL REVENUE REQUIREMENT ASSOCIATED WITH RECOVERY OF THE UNDEPRECIATED INVESTMENT IN SJGS UNITS 2 AND 3?

A. The incremental revenue requirement reflects the difference between the current treatment of Units 2 and 3, whereby PNM receives a full return on and of its investment in the units over their remaining lives of 36 years and PNM's proposal to receive a full return on and of the undepreciated investment in SJGS Unit 2 and 3 as a regulatory asset amortized over a 20-year period. This shortening of the recovery period results in an incremental revenue requirement of \$4,124,122 in 2018, as shown on PNM Exhibit HEM-4.

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 **Q. DOES THE ESTIMATED INCREMENTAL REVENUE REQUIREMENT**
2 **FOR RECOVERY OF THE UNDEPRECIATED INVESTMENT IN UNITS 2**
3 **AND 3 INCLUDE THE EFFECTS OF ACCUMULATED DEFERRED**
4 **INCOME TAXES (“ADIT”)?**

5 **A.** Yes. PNM projects a rate base reduction in 2018 of \$77,190,139 associated with the
6 expected ADIT on the requested regulatory asset for the undepreciated investment in
7 SJGS Units 2 and 3.

8

9 **Q. ARE THERE ANY OTHER TAX RELATED ITEMS ASSOCIATED WITH**
10 **THE UNDEPRECIATED INVESTMENT IN SJGS UNITS 2 AND 3 THAT**
11 **AFFECT THE REVENUE REQUIREMENT?**

12 **A.** Yes. There are two tax effects that will affect the recoverable amount. First, there are
13 unreversed flow-through basis differences related to the investment in SJGS Units 2 and
14 3, primarily Equity Allowance for Funds Used During Construction (“AFUDC”).
15 These differences between the book basis and the tax basis of utility assets results in a
16 benefit to customers through reduced recoverable income tax expense in the year they
17 originated. The reversal of these flow-through differences will increase recoverable tax
18 expense in the final revenue requirement calculations. Over the life of the underlying
19 assets, there is no increase or decrease to total recoverable income tax expense as a result
20 of these basis differences. Second, Investment Tax Credit (“ITC”) amortization related
21 to the investment in SJGS Units 2 and 3 will decrease recoverable tax expense in the
22 final revenue requirement calculation. PNM will calculate these impacts in future rate
23 proceedings, but does not anticipate that the differences will be material.

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 **Q. ARE THESE TAX EFFECTS CURRENTLY INCLUDED IN THE**
2 **CALCULATION OF BASE RATES FOR PNM?**

3 **A.** Yes, they are. Currently, these items are recognized over the book life of the underlying
4 plant assets. The recovery period will change to correspond to the 20-year recovery
5 period for the undepreciated investment in SJGS Unit 2 and 3.

6
7 **Q. WHAT ARE THE O&M SAVINGS IDENTIFIED AS THE RESULT OF THE**
8 **PROPOSED RETIREMENT OF SJGS UNITS 2 AND 3?**

9 **A.** PNM has projected the O&M savings associated with the retirement of SJGS Unit 2 and
10 3 to be \$22,301,049 in 2018, as shown on PNM Exhibit HEM-2. These savings were
11 calculated by comparing the forecasted 2018 O&M expense for the two SJGS units that
12 will not be retired, to the forecasted O&M expense expected under the FIP for all four
13 units, but excluding any incremental O&M costs directly associated with the SNCR
14 with balanced draft or SCR technology. These amounts were excluded because they are
15 separately accounted for in the revenue requirements for the individual plant items,
16 shown in PNM Exhibits HEM-6 and HEM-9 respectively. The O&M savings reflect a
17 reduction in common costs, and general operations and maintenance and administrative
18 expenses, as well as a reduction in fuel handling expenses.

19

20 **IV. PALO VERDE UNIT 3**

21
22 **Q. PLEASE EXPLAIN THE CALCULATION OF THE REVENUE**
23 **REQUIREMENTS FOR PV UNIT 3.**

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 **A.** PNM Exhibit HEM-5 presents the calculation of the 2018 revenue requirements related
2 to recertifying PV Unit 3 as a resource to serve New Mexico retail customers. The
3 calculation is based on an average rate base for calendar year 2018, plus projected 12
4 months of expenses for 2018. The 2018 revenue requirement is estimated at
5 \$67,758,087. The revenue requirement includes the following components:

6 Rate Base:

7 a. Net book value of the generation assets for PV Unit 3, as of January 1, 2018, of
8 \$335,000,000, based on the fair valuation proposed by Mr. Darnell of \$2,500 per
9 KW of capacity;

10 b. Projected net book value of \$2,976,377 related to the transmission assets associated
11 with PV Unit 3;

12 c. Estimated ADIT balances;

13 d. Estimated working capital balances, including nuclear fuel inventory, materials and
14 supplies inventory, and prepayments;

15 Operating Expenses

16 e. Estimated O&M expense to operate and maintain PV Unit 3, including normalized
17 outage expenses, and third-party transmission expense necessary to move power
18 from PV Unit 3 to serve retail load;

19 f. Estimated depreciation expense, based on a recovery period of 29 years,
20 corresponding to the termination date of the PV Unit 3 operating license in 2047;

21 g. Estimated property taxes, based on the estimated balance of net plant in service;

22 h. Estimated decommissioning expense based on projected funding requirements
23 associated with the nuclear decommissioning of Palo Verde Unit 3;

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 e. Estimated property taxes, based on the estimated balance of net plant in service;

2 Income Taxes and Other

3 f. Federal and state income taxes for the return on rate base; and

4 g. Revenue tax calculation based on the current New Mexico I&S fees.

5
6 **Q. WHAT ARE THE ESTIMATED CONSTRUCTION COSTS FOR THE SNCR
7 AND BALANCED DRAFT AT SJGS UNITS 1 AND 4.**

8 **A.** PNM's share of the costs of constructing the SNCR and balanced draft on SJGS Units 1
9 and 4, including AFUDC, is estimated to be \$81,937,374. This amount reflects PNM's
10 increased ownership interest in SJGS Unit 4 as a result of the 78 MW transfer described
11 earlier in my testimony.

12
13 **VI. REPLACEMENT POWER**

14
15 **Q. WHAT REPLACEMENT POWER OPTIONS HAVE YOU INCLUDED IN
16 THE CALCULATION OF THE REVENUE REQUIREMENT FOR THE
17 REVISED SIP WITH PV UNIT 3 RESOURCE PORTFOLIO?**

18 **A.** In addition to the 78 MW of additional capacity in SJGS Unit 4, and the inclusion of PV
19 Unit 3 as a jurisdictional resource to serve New Mexico retail customers, for which
20 PNM is seeking CCN approval in the proceeding, PNM has identified two potential
21 replacement power facilities for which Commission approval would be requested in
22 future proceedings: a 177 MW gas peaking facility and a 40 MW solar facility. All of

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00 _____-UT**

1 these resources are included as replacement resources in PNM's revenue requirement
2 estimate for the Revised SIP with PV Unit 3 portfolio.

3
4 **Q. PLEASE EXPLAIN THE CALCULATION OF THE REVENUE**
5 **REQUIREMENTS FOR THE 177 MW GAS FACILITY.**

6 **A.** PNM Exhibit HEM-7 presents the calculation of the 2018 revenue requirements for the
7 projected 177 MW gas facility. The projected in-service date for this facility is April,
8 2018. The calculation assumes an average rate base for calendar year 2018, plus
9 projected 12 months of expenses for 2018. The 2018 annual revenue requirement is
10 estimated at \$21,537,655. The revenue requirement includes the following components:

11 Rate Base:

12 a. Estimated gross plant in service, net of accumulated depreciation, for the 177 MW
13 gas facility and a gas pipeline to serve the facility;

14 b. Estimated ADIT balances;

15 Operating Expenses

16 c. Estimated O&M expense reflecting the cost to operate and maintain the 177 MW
17 gas facility and gas pipeline;

18 d. Estimated depreciation expense, based on an estimated useful life of 40 years;

19 e. Estimated property taxes, based on the estimated balance of net plant in service;

20 Income Taxes and Other

21 f. Federal and state income taxes for the return on rate base; and

22 g. Revenue tax calculation based on the current New Mexico I&S fees.

23

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 **Q. PLEASE EXPLAIN THE CALCULATION OF THE REVENUE**
2 **REQUIREMENTS FOR THE 40 MW SOLAR FACILITY.**

3 **A.** PNM Exhibit HEM-8 presents the calculation of the 2018 revenue requirements for the
4 proposed 40 MW solar facility. The projected in-service date for the 40 MW solar
5 facility is January 2016. The calculation assumes an average rate base for calendar year
6 2018, plus projected 12 months of expenses for 2018. The 2018 annual revenue
7 requirement is estimated at \$11,027,796. The revenue requirement includes the
8 following components:

9 Rate Base:

- 10 a. Estimated gross plant in service, net of accumulated depreciation;
11 b. Estimated ADIT balances;

12 Operating Expenses

- 13 c. Estimated O&M expense reflecting the cost to operate and maintain the 40 MW
14 solar facility;
15 d. Estimated depreciation expense, based on an estimated useful life of 30 years;
16 e. Estimated property taxes, based on the estimated balance of net plant in service;

17 Income Taxes and Other

- 18 f. Federal and state income taxes for the return on rate base, including Federal
19 Investment Tax Credits; and
20 g. Revenue tax calculation based on the current New Mexico I&S fees.

21
22

1 **VII. BASE FUEL IMPACTS UNDER PNM APPLICATION**

2
3 **Q. HAS PNM CALCULATED THE BASE FUEL IMPACTS ASSOCIATED**
4 **WITH THE REVISED SIP WITH PV UNIT 3 AND COMPARED THOSE TO**
5 **THE BASE FUEL IMPACTS OF THE FIP?**

6 **A.** Yes. PNM utilized PROMOD to calculate the forecasted base fuel cost for PNM retail
7 customers under the Revised SIP with PV Unit 3 portfolio and under the FIP portfolio.
8 PNM utilized the market price curves provided by PACE Global that incorporate the
9 projected impacts of carbon and other factors on future market prices for gas and
10 electricity. In 2018 there is a net fuel cost saving of \$3,127,294 under the Revised SIP
11 with PV Unit 3 portfolio compared to the FIP portfolio. These fuel cost savings are
12 primarily the result of replacing coal with nuclear fuel, and the additional solar
13 generation, which has no fuel costs.

14
15 **VIII. REVENUE REQUIREMENT FOR OTHER ALTERNATIVES**

16
17 **Q. HAVE YOU PERFORMED A CALCULATION OF REVENUE**
18 **REQUIREMENTS UNDER THE FIP RESOURCE PORTFOLIO?**

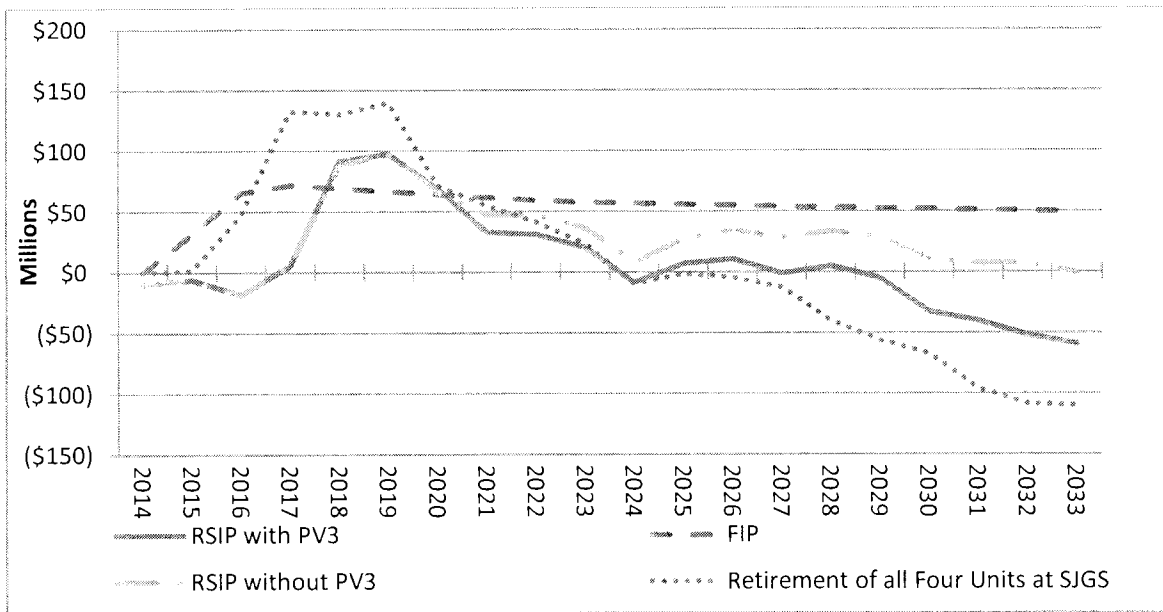
19 **A.** Yes. The 2018 revenue requirements for the FIP portfolio are shown in PNM Exhibit
20 HEM-9. These revenue requirements assume the installation of SCR technology on all
21 four units at SJGS. PNM has assumed the SCR technology on Unit 3 would be in-
22 service in May 2015, Unit 1 SCR would be in-service in December 2015, Unit 4 SCR
23 would be in-service in May 2016 and Unit 2 SCR would be in-service in December
24 2016. The revenue requirements identify the incremental operating expenses associated

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 with the FIP, including expenses specific to the operation and maintenance of the SCR
2 technology, and depreciation and property taxes associated with the SCR.

3
4 **Q. HAS PNM PREPARED ANY OTHER REVENUE REQUIREMENTS**
5 **ANALYSES?**

6 **A.** Yes. PNM has estimated the annual incremental revenue requirements for each year
7 from 2014 through 2033 for each of the four alternative resource portfolios identified by
8 Mr. O’Connell, including the Revised SIP with PV Unit 3, Revised SIP without PV
9 Unit 3, the FIP, and retirement of all four units at SJGS. The table below shows the
10 incremental revenue requirements of these portfolios over the 20-year planning period.
11 See PNM Exhibit HEM-10.



IX. CUSTOMER BILL IMPACTS

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Q. WHAT IS THE ESTIMATED ANNUAL CUSTOMER BILL IMPACT UNDER THE REVISED SIP WITH PV UNIT 3 PORTFOLIO?

A. PNM Exhibit HEM-11 presents the estimated annual customer bill impacts in 2018 of the Revised SIP with PV Unit 3 portfolio. In these calculations the total revenue requirement was allocated among rate classes in proportion to the revenue generated by each rate class in 2012. For example, in 2012, residential customers contributed 44.38% of total revenues, so the bill impact estimate allocates 44.38% of the revenue requirements associated with the Revised SIP with PV Unit 3 to the residential customers.

For an average residential customer consuming 600 kWh per month, the estimated annual bill impact in 2018 of the RSIP with PV Unit 3 is \$87.91. A small power customer consuming 1,500 kWh per month would experience an estimated annual bill impact of \$230.84 in 2018. Average bill impacts for other customer classes are shown on PNM Exhibit HEM-11.

Q. IS PNM ASKING THE COMMISSION TO APPROVE THE ESTIMATED BILL IMPACTS OR TO AUTHORIZE A CHANGE IN RATES AT THIS TIME?

A. No. The estimated bill impacts have been provided solely to provide the Commission with information regarding the potential impact of approval of

**DIRECT TESTIMONY OF
HENRY E. MONROY
NMPRC CASE NO. 13-00_____ -UT**

1 PNM's Application on future customer bills. The actual rate impact will depend
2 on the actual revenue requirements and rate design adopted when new rates are
3 set in future PNM retail rate proceedings.

4

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A.** Yes.

GCG#517365

PNM EXHIBIT HEM-1

Consisting of 2 pages

HENRY E. MONROY
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Henry E. Monroy

Address: PNM Resources Inc.
414 Silver SW
Albuquerque, NM 87102

Position: Director, Cost of Service and Corporate Budget

Education: Bachelor of Accountancy, New Mexico State University, 2001
Certified Public Accountant in the State of New Mexico, December 2012

Employment: Employed by Public Service Company of New Mexico since 2003.
Positions held within the Company include:

Director, Cost of Service and Corporate Budget
Director, Utility Accounting
Manager, Cost of Service
Senior Manager, Derivative Accounting
Manager, Energy Analysis and Accounting
Project Manager
Senior Accountant

Testimony Filed:

- In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates pursuant to Advice Notice No. 352. – NMPRC – Case No. 08-00273-UT, filed September 22, 2008.
- In the Matter of Texas-New Mexico Power Company's Request for Approval of an Advance Metering System (AMS) Deployment and AMS Surcharge. – PUCT – Docket No. 38036, filed May, 2010.
- In the Matter of the Application of Public Service Company of New Mexico for the Abandonment and Decertification of the Generating Station in Las Vegas, New Mexico, NMPRC – Case No. 10-00264-UT, filed August 30, 2010.

- Initial Filing of PNM to Revise Sheets in its OATT, Coordination Tariff, and GFAs Reflecting Implementation of Transmission Formula Rate – FERC – Docket Nos. ER13-685-000, ER13-687-000 and ER13-690-000, filed December 2012.
- In the Matter of Public Service Company of New Mexico’s Renewable Energy Portfolio Procurement Plan for 2013 and Proposed 2014 Rider Rate Under Rate Rider No. 36. – NMPRC – Case No. 13-00183-UT, filed June 1, 2013.
- In the Matter of the Application of Public Service Company of New Mexico for Continued use of Fuel and Purchased Power Cost Adjustment Clause. – NMPRC – Case No. 13-00187-UT, filed May 28, 2013.

PNM EXHIBIT HEM-2

Consisting of 1 page

PNM Exhibit HEM-2
 Summary of 2018 Estimated Revenue Requirements RSIP with PV Unit 3

HEM-2
 Page 1 of 1

Line No.	Description	A Amount	B Reference
1	Estimated Incremental Annual Revenue Requirement for Undepreciated Investment in SJGS Unit 2 and 3		
2	Incremental Revenue Requirement	\$ 4,124,122	PNM Exhibit HEM-4, Page 1, Column A, Line 30
3	Subtotal	<u>4,124,122</u>	
4			
5	SNCR and Replacement Power Revenue Requirements		
6	Estimated 2018 Palo Verde Unit 3 Revenue Requirement	67,758,087	PNM Exhibit HEM-5, Page 1, Column C, Line 49
7	Estimated 2018 SNCR Revenue Requirement	12,685,971	PNM Exhibit HEM-6, Page 1, Column A, Line 28
8	Estimated 2018 Revenue Requirement for 177 MW Gas Peaker	21,537,655	PNM Exhibit HEM-7, Page 1, Column A, Line 47
9	Estimated 2018 Revenue Requirement for 40 MW Solar Facility	<u>11,027,796</u>	PNM Exhibit HEM-8, Page 1, Column A, Line 28
10	Subtotal	113,009,509	
11			
12	Other Impacts of Revised SIP Compared to FIP		
13	O&M and Fuel Handling Savings	(22,301,049)	
14	Base Fuel Impacts	<u>(3,127,294)</u>	
15	Subtotal	(25,428,343)	
16			
17	Total Revised SIP with PV3 Revenue Requirement	<u><u>\$ 91,705,288</u></u>	

PNM EXHIBIT HEM-2

PNM EXHIBIT HEM-3

Consisting of 1 page

PNM Exhibit HEM-3
 Illustrative Weighted Average Cost of Capital

HEM-3
 Page 1 of 1

Line No.	A Capital Component	B Total Capitalization Base Period	C Percentage of Total Capitalization	D Capital Component Cost	E Weighted Average Cost
1					
2	Long Term Debt	1,215,870	49.00%	6.35%	3.11%
3					
4	Preferred Stock	11,529	0.46%	4.62%	0.02%
5					
6	Common Equity	1,254,063	50.54%	10.00%	5.05%
7					
8	Total	2,481,462	100.00%		8.18%
9					
10				Statutory Tax Rate, Beginning 2018	38.62%
11					
12					Tax gross up
13				Long Term Debt	3.11%
14				Preferred Stock	0.03%
15				Common Equity	8.23%
16				Pre-Tax WACC	11.37%

PNM EXHIBIT HEM-4

Consisting of 3 pages

Estimated Incremental Annual Revenue Requirement for Undepreciated Investment in SJGS Unit 2 and 3

Line No	A 2018 Revenue Requirement	B Reference
1 Regulatory Asset - Undepreciated Investment in Unit 2 & 3	\$ 204,995,787	Exhibit HEM-4, Page 2, Column O, Line 36
2		
3 Accumulated Amortization	(5,124,895)	
4		
5 Average Unamortized Regulatory Asset	199,870,892	
6 <i>(Line 1 + Line 3)</i>		
7 ADIT	(77,190,139)	
8		
9 Net Regulatory Asset	\$ 122,680,754	
10 <i>(Line 5 + Line 7)</i>		
11		
12 WACC	8.18%	Exhibit HEM-3, Column E, Line 8
13		
14 Carrying Charge on Regulatory Asset	\$ 10,035,286	
15 <i>(Line 9 * Line 12)</i>		
16		
17 Total Amortization Expense	10,249,789	
18		
19 Income Taxes	3,913,540	
20		
21 Total Non-Fuel Revenue Requirement	24,198,615	
22 <i>(Line 14 + Line 17 + Line 19)</i>		
PNM Retail Share of Non-Fuel revenue requirement		
23 <i>(Line 21 * 93.33%)</i>	22,584,567	
24 Revenue Tax @ 0.508573%	114,859	
25 Total PNM Non-Fuel Retail Revenue Requirement, Assuming 20 Year Recovery	\$ 22,699,426	
26 <i>(Line 23 + Line 24)</i>		
27		
28 PNM Retail Revenue Requirement, Assuming 36 Year Recovery	18,575,304	Exhibit HEM-4, Page 3, Column A, Line 25
29		
30 Incremental Revenue Requirement for Undepreciated Investment of Unit 2 & Unit 3	\$ 4,124,122	Exhibit HEM-2, Page 1, Column A, Line 2
31 <i>(Line 25 - Line 28)</i>		

PNM EXHIBIT HEM-4

PNM Exhibit HEM-4
 Undepreciated Investment of SJGS Unit 2 and 3 after Exchange for 78 MW in SJGS Unit 4

HEM-4
 Page 2 of 3

Estimated Undepreciated Investment in SJGS Unit 2 and 3 after Exchange for 78 MW in SJGS Unit 4

Line No.	Description	A	B	C	D = B / C	E
		Net book value as of 06/30/13	Current kW Ownership	\$ per kW as of 06/30/13	Estimated Capital Additions - 07/01/13 - 12/31/14	
1	San Juan Unit 1	\$ 95,095,936	170,000	\$ 559	\$ 5,473,048	
2	San Juan Unit 2	112,640,507	170,000	663	2,602,718	
3	San Juan Unit 3	170,124,725	248,000	686	4,645,958	
4	San Juan Unit 4	120,485,000	195,000	618	12,146,648	
5	San Juan Common & Switchyard	95,478,709			17,277,986	
6	Total San Juan	\$ 593,824,878	783,000	\$ 758	42,146,358	
7						
8						
9						
		F	G = B + E + F	H = G / C	I	
		Estimated Additional Accumulated Depreciation - 07/01/13 - 12/31/14	Estimated Balance at 01/01/15	\$ per kW as of 01/01/15	Transfer of kW	
10						
11	San Juan Unit 1	\$ (3,824,170)	\$ 96,744,814	\$ 569	-	
12	San Juan Unit 2	(4,420,751)	110,822,474	652	-	
13	San Juan Unit 3	(7,866,054)	166,904,629	673	(78,000)	
14	San Juan Unit 4	(5,971,609)	126,660,039	650	78,000	
15	San Juan Common & Switchyard	(3,724,030)	109,032,665			
16	Total San Juan	(25,806,614)	\$ 610,164,621	\$ 779	-	
17						
18						
19		J	K = G + J	L	M	
		\$ Value of Transferred kW	Estimated Net Book Value at 01/01/15, after Transfer	Estimated Capital Additions - 01/01/15 - 12/31/17	Estimated Additional Accumulated Depreciation - 01/01/15 - 12/31/17	
20						
21	San Juan Unit 1	\$ -	\$ 96,744,814	\$ 19,046,786	\$ (8,907,004)	
22	San Juan Unit 2	-	110,822,474	-	(9,203,127)	
23	San Juan Unit 3	(52,494,000)	114,410,629	-	(11,034,189)	
24	San Juan Unit 4	52,494,000	179,154,039	8,752,098	(17,719,003)	
25	San Juan Common & Switchyard		109,032,665	8,211,145	(7,390,328)	
26	Total San Juan	\$ -	\$ 610,164,621	\$ 36,010,029	\$ (54,253,652)	
27						
28						
29		N	O			
		Estimated Ending Net Book Value at 12/31/2017	Estimated Unrecovered Investment in San Juan Unit 2 and 3			
30						
31	San Juan Unit 1	\$ 106,884,596	\$ -			
32	San Juan Unit 2	101,619,347	101,619,347			
33	San Juan Unit 3	103,376,440	103,376,440			
34	San Juan Unit 4	170,187,134	-			
35	San Juan Common & Switchyard	109,853,482	-			
36	Total San Juan	\$ 591,920,998	\$ 204,995,787			

Exhibit HEM-4, Page 1, Column A, Line 1
 Exhibit HEM-4, Page 3, Column A, Line 1

Estimated Annual Revenue Requirement of SJGS Unit 2 & 3 Based on Remaining Life of SJGS

<u>Line No</u>	A 2018 Revenue Requirement	B Reference
1	\$ 204,995,787	Exhibit HEM-4, Page 2, Column O, Line 36
2		
3	<u>(2,847,164)</u>	
4		
5	202,148,623	
6		<i>(Line 1 + Line 3)</i>
7	<u>(78,069,798)</u>	
8		
9	<u>\$ 124,078,825</u>	
10		<i>(Line 5 + Line 7)</i>
11		
12	8.18%	Exhibit HEM-3, Column E, Line 8
13		
14	\$ 10,149,648	
15		<i>(Line 9 * Line 12)</i>
16		
17	5,694,327	
18		
19	3,958,139	
20		
21	<u>19,802,114</u>	
22		<i>(Line 14 + Line 17 + Line 19)</i>
		PNM Retail Share of Non-Fuel revenue requirement
23	18,481,313	
		<i>(Line 21 * 93.33%)</i>
24	93,991	
		Revenue Tax @ 0.508573%
25	<u>\$ 18,575,304</u>	Exhibit HEM-4, Page 1, Column A, Line 28
26		<i>(Line 23 + Line 24)</i>

PNM EXHIBIT HEM-5

Consisting of 1page

Line No	A 2018 Revenue Requirement Before Adjustment	B Adjustment to \$2,500/kW	C 2018 Revenue Requirement	D Reference
1	Gross Plant			
2				
3	231,461,843	191,552,217	423,014,060	
4	8,207,876	-	8,207,876	
5	Total Gross Plant			
6	239,669,719	191,552,217	431,221,936	
7	Accumulated Reserve			
8				
9	(90,952,527)	(3,302,624)	(94,255,151)	
10	(5,315,079)	-	(5,315,079)	
11	Total Accumulated Reserve			
12	(96,267,606)	(3,302,624)	(99,570,230)	
13	Average NBV			
14				
15	140,509,316	188,249,593	328,758,909	
16	2,892,797	-	2,892,797	
17	Total Average NBV			
18	143,402,113	188,249,593	331,651,706	
19	ADIT			
20	(57,366,268)	(72,701,993)	(130,068,260)	
21	Working Capital			
22	31,909,139	-	31,909,139	
23	Rate Base			
24	117,944,985	115,547,600	233,492,585	
25	WACC			
26	8.18%	8.18%	8.18%	Exhibit HEM-3, Column E, Line 8
27	Return on Rate Base			
28	9,647,900	9,451,794	19,099,693	
29	Depreciation Expense			
30				
31	5,876,933	6,605,249	12,482,182	
32	167,160	-	167,160	
33	Total Depreciation Expense			
34	6,044,093	6,605,249	12,649,342	
35	Decommissioning Expense			
36	1,300,000	-	1,300,000	
37	Income Taxes			
38	3,762,468	3,685,991	7,448,459	
39	Property Taxes			
40				
41	1,545,602	2,070,746	3,616,348	
42	31,821	-	31,821	
43	Total Property Tax			
44	1,577,423	2,070,746	3,648,169	
45	O&M			
46	22,933,006	-	22,933,006	
47	Third Party Transmission Expense			
48	5,154,516	-	5,154,516	
49	Total Non-Fuel Revenue Requirement			
50	50,419,405	21,813,779	72,233,184	
51	PNM Retail Share of Non-Fuel revenue requirement			
52	47,056,431	20,358,800	67,415,231	
53	239,316	103,539	342,856	
54	Total PNM Non-Fuel Retail Revenue Requirement			
55	47,295,747	20,462,339	67,758,087	

PNM EXHIBIT HEM-5

PNM EXHIBIT HEM-6

Consisting of 1 page

PNM Exhibit HEM-6
 Estimated 2018 SNCR Revenue Requirement

<u>Line No</u>	A 2018 Revenue Requirement	B Reference
1	\$ 81,937,374	
2		
3	(6,059,401)	
4		
5	75,877,973	
6	<i>(Line 1 + Line 3)</i>	
7	(8,633,241)	
8		
9	\$ 67,244,732	
10	<i>(Line 5 + Line 7)</i>	
11		
12	8.18%	Exhibit HEM-3, Column E, Line 8
13		
14	\$ 5,500,619	
15	<i>(Line 9 * Line 12)</i>	
16	2,156,247	
17		
18	2,145,120	
19		
20	608,976	
21		
22	3,112,857	
23		
24	\$ 13,523,819	
25	<i>(Line 14 + Line 16 + Line 18 + Line 20 + Line 22)</i>	
26	12,621,780	
	<i>(Line 24 * 93.33%)</i>	
27	64,191	
	<i>Revenue Tax @ 0.508573%</i>	
28	\$ 12,685,971	Exhibit HEM-2, Page 1, Column A, Line 7
29	<i>(Line 26 + Line 27)</i>	

PNM EXHIBIT HEM-7

Consisting of 1 page

PNM Exhibit HEM-7
 Estimated 2018 Revenue Requirement for 177 MW Gas Peaker

HEM-7
 Page 1 of 1

Line No	A 2018 Revenue Requirement	B Reference
1		
2		
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* Reflects 9 months, based on in-service date of 4/1/2018

PNM EXHIBIT HEM-7

PNM EXHIBIT HEM-8

Consisting of 1 page

PNM Exhibit HEM-8
 Estimated 2018 Revenue Requirement for 40 MW Solar Facility

<u>Line No</u>	A 2018 Revenue Requirement	B Reference
1		
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3		
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31		

Exhibit HEM-3, Column E, Line 8

Exhibit HEM-2, Page 1, Column A, Line 9

PNM EXHIBIT HEM-8

PNM EXHIBIT HEM-9

Consisting of 1 page

PNM Exhibit HEM-9
 Estimated 2018 SCR Revenue Requirement

HEM-9
 Page 1 of 1

Line No	A 2018 Revenue Requirement	B Reference
1	\$ 457,796,582	
2		
3	(29,192,458)	
4		
5	428,604,124	
6	<i>(Line 1 + Line 3)</i>	
7	(41,098,619)	
8		
9	\$ 387,505,505	
10	<i>(Line 5 + Line 7)</i>	
11		
12	8.18%	Exhibit HEM-3, Column E, Line 8
13		
14	\$ 31,697,950	
15	<i>(Line 9 * Line 12)</i>	
16	12,047,278	
17		
18	12,361,501	
19		
20	3,447,623	
21		
22	14,259,866	
23		
24	\$ 73,814,219	
25	<i>(Line 14 + Line 16 + Line 18 + Line 20 + Line 22)</i>	
	PNM Retail Share of Non-Fuel revenue requirement	
26	68,890,811	
	<i>(Line 24 * 93.33%)</i>	
27	350,360	
	Revenue Tax @ 0.508573%	
28	\$ 69,241,171	
29	<i>(Line 26 + Line 27)</i>	

PNM EXHIBIT HEM-9

PNM EXHIBIT HEM-10

Consisting of 1 page

Estimated 20-Year Annual Revenue Requirements for Alternative Resource Portfolios

(In millions)

Year	RSIP with PV3	FIP	RSIP without PV3	Retirement of all Four Units at SJGS
2014	\$ (10)	\$ -	\$ (10)	\$ 0
2015	\$ (6)	\$ 31	\$ (6)	\$ 2
2016	\$ (18)	\$ 65	\$ (18)	\$ 47
2017	\$ 6	\$ 72	\$ 6	\$ 133
2018	\$ 92	\$ 69	\$ 88	\$ 130
2019	\$ 98	\$ 67	\$ 98	\$ 140
2020	\$ 69	\$ 64	\$ 66	\$ 71
2021	\$ 33	\$ 62	\$ 47	\$ 55
2022	\$ 31	\$ 59	\$ 47	\$ 42
2023	\$ 20	\$ 58	\$ 36	\$ 24
2024	\$ (8)	\$ 57	\$ 9	\$ (9)
2025	\$ 7	\$ 56	\$ 27	\$ (1)
2026	\$ 11	\$ 55	\$ 35	\$ (5)
2027	\$ (1)	\$ 54	\$ 28	\$ (12)
2028	\$ 5	\$ 53	\$ 34	\$ (40)
2029	\$ (5)	\$ 53	\$ 28	\$ (56)
2030	\$ (33)	\$ 52	\$ 11	\$ (67)
2031	\$ (40)	\$ 51	\$ 7	\$ (96)
2032	\$ (52)	\$ 50	\$ 7	\$ (108)
2033	\$ (59)	\$ 50	\$ (0)	\$ (110)

PNM EXHIBIT HEM-11

Consisting of 5 pages

Customer Impact

Residential Customers Allocation by Year

Line No.	Year	Notes	2018
1	RSIP with PV3 Revenue Requirement	[A]	\$91,705,288
2	Cost Allocators	[B] = 2012 Class Revenue / Total Revenue	44.38%
3	Estimated Residential RSIP with PV3 Allocation	[C] = [A] * [B] \$	40,698,878
4	Residential kWh (2012 Actuals)	[D]	3,333,146,888
5	Estimated RSIP with PV3 Rate per kWh	[E] = [C] / [D]	\$0.012210

Residential Customers Estimated RSIP with PV3 Bill Impact

Line No.	kWh Use	Estimated Annual RSIP with PV3 Bill Impact for 2018
	[F]	[G] = \$0.012210 * [F] * 12
6		
7	600	\$87.91
8		

Small Power Customers Allocation by year

Line No.	Year	Notes	2018
9	RSIP with PV3 Project Revenue Requirement	[A]	\$91,705,288
10	Cost Allocators	[H] = 2012 Class Revenue/Total Revenue	13.51%
11	Estimated Small Power RSIP with PV3 Allocation	[I] = [A] * [H] \$	12,393,634
12	Small Power kWh (2012 Actuals)	[J]	966,425,575
13	Estimated RSIP with PV3 Rate per kWh	[K] = [I] / [J]	\$0.012824

Small Power Customers Estimated RSIP with PV3 Bill Impact

Line No.	kWh Use	Estimated Annual RSIP with PV3 Bill Impact for 2018
	[L]	[M] = \$0.012824 * [L] * 12
14		
15	1,500	\$230.84
16		

All Other Customer Classes Cost Allocators by Year

Line No.	Customer Class	2018
		<i>[N] 2012 Class Revenue / Total Revenue</i>
17	3B/3C - General Power	21.26%
18	4B - Large Power	12.06%
19	5B - Mines 46/115 kV	0.72%
20	10 - Irrigation	0.29%
21	11B - Wtr/Swg Pumping	1.44%
22	15B - Universities 115 kV	0.81%
23	30B - Manuf. (30 MW)	4.30%
24	6 - Private Lighting	0.34%
25	20 - Streetlighting	0.89%

All Other Customer Classes Allocation by Year

Line No.	Customer Class	2018
		<i>[O] [N]class * \$91,705,288</i>
26	3B/3C - General Power	\$ 19,493,172
27	4B - Large Power	\$ 11,056,461
28	5B - Mines 46/115 kV	\$ 659,644
29	10 - Irrigation	\$ 268,957
30	11B - Wtr/Swg Pumping	\$ 1,318,752
31	15B - Universities 115 kV	\$ 742,964
32	30B - Manuf. (30 MW)	\$ 3,944,755
33	6 - Private Lighting	\$ 311,547
34	20 - Streetlighting	\$ 816,524

2012 Actual kWh - All Other Classes

Line No.	Customer Class	2018
		<i>[P]</i>
35	3B/3C - General Power	1,939,015,568
36	4B - Large Power	1,411,906,111
37	5B - Mines 46/115 kV	91,241,920
38	10 - Irrigation	28,455,014
39	11B - Wtr/Swg Pumping	191,783,766
40	15B - Universities 115 kV	101,874,529
41	30B - Manuf. (30 MW)	633,849,603
42	6 - Private Lighting	16,252,906
43	20 - Streetlighting	50,551,135

Estimated RSIP with PV3 Rate - All Other Classes

Line No.	Customer Class	2018
		<i>[Q] [O] [P]</i>
44	3B/3C - General Power	\$0.010053
45	4B - Large Power	\$0.007831
46	5B - Mines 46/115 kV	\$0.007230
47	10 - Irrigation	\$0.009452
48	11B - Wtr/Swg Pumping	\$0.006876
49	15B - Universities 115 kV	\$0.007293
50	30B - Manuf. (30 MW)	\$0.006223
51	6 - Private Lighting	\$0.019169
52	20 - Streetlighting	\$0.016152

Estimated Average Annual RSIP with PV3 Bill Impact - All Other Classes

Line No.	Customer Class	Est. Average Monthly kWh Based on 2012 Actuals <i>[R]</i>	Estimated Average Annual RSIP with PV3 Bill Impact for 2018 <i>[S] [Q] * [R] * 12</i>
53	3B/3C - General Power	35,248 \$	4,252.28
54	4B - Large Power	476,871 \$	44,811.77
55	5B - Mines 46/115 kV	3,801,747 \$	329,822.04
56	10 - Irrigation	7,842 \$	889.46
57	11B - Wtr/Swg Pumping	101,796 \$	8,399.70
58	15B - Universities 115 kV	8,489,544 \$	742,963.86
59	30B - Manuf. (30 MW)	52,820,800 \$	3,944,755.40
60	6 - Private Lighting	N/A	N/A
61	20 - Streetlighting	N/A	N/A

Annual No. of Customer Bills - All Classes

Line No.	Customer Class	Annual No. of Bills - Projected 2018 <i>(1)</i>
62	1A/1B - Residential	5,539,706
63	2A/2B - Small Power	659,200
64	3B/3C - General Power	55,010
65	4B - Large Power	2,961
66	5B - Mines 46/115 kV	24
67	10 - Irrigation	3,629
68	11B - Wtr/Swg Pumping	1,884
69	15B - Universities 115 kV	12
70	30B - Manuf. (30 MW)	12
71	6 - Private Lighting	0
72	20 - Streetlighting	1,716

Average Dollar per Bill Impact - All Classes

Line No.	Customer Class	Average Dollar per Bill Impact <i>(1)</i>
73	1A/1B - Residential	\$7.35
74	2A/2B - Small Power	\$18.80
75	3B/3C - General Power	\$354.36
76	4B - Large Power	\$3,734.31
77	5B - Mines 46/115 kV	\$27,485.17
78	10 - Irrigation	\$74.12
79	11B - Wtr/Swg Pumping	\$699.97
80	15B - Universities 115 kV	\$61,913.66
81	30B - Manuf. (30 MW)	\$328,729.62
82	6 - Private Lighting	N/A
83	20 - Streetlighting	N/A

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

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

HENRY E. MONROY, Director, Cost of Service and Corporate Budget, Public Service Company of New Mexico, upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony and Exhibits of Henry E. Monroy** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 01 day of December, 2013.



HENRY E. MONROY

SUBSCRIBED AND SWORN to before me this 4th day of December, 2013.

Cari Bussard

NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

12/1/15