

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 595)**

Case No. 22-00270-UT

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

Applicant)

_____)

DIRECT TESTIMONY

OF

ANGELA L. PINO

December 5, 2022

NMPRC CASE NO. 22-00270-UT
INDEX TO THE DIRECT TESTIMONY OF ANGELA L. PINO
WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

I.	INTRODUCTION AND PURPOSE	1
II.	BASE SALARY COMPENSATION AND MERIT INCREASES	3
III.	INCENTIVE COMPENSATION PLANS	11
	A. Wholesale Power Marketing Incentive Plan.....	14
	B. Business Unit Group Incentive Plan.....	18
IV.	EMPLOYEE BENEFITS.....	23
V.	CONCLUSIONS.....	28

PNM EXHIBIT ALP-1 Statement of Qualifications

AFFIRMATION

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1

I. INTRODUCTION AND PURPOSE

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

3 **A.** My name is Angela L. Pino. I am Director of Total Rewards for PNMR Services
4 Company (“Shared Services”). I am testifying on behalf of Public Service
5 Company of New Mexico (“PNM” or “Company”). My business address is 414
6 Silver Ave. SW, Albuquerque, NM 87102.

7

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
9 **CASE?**

10 **A.** The purpose of my testimony is to explain the Company’s compensation and
11 benefits philosophy as well as the basis for compensation paid and benefits
12 provided to employees. I also discuss certain incentive compensation plans and
13 why the costs associated with these plans should be included as part of the
14 Company’s revenue requirement as a reasonable cost of providing electric service
15 to customers.

16

17 **Q. PLEASE SUMMARIZE THE KEY CONCLUSIONS OF YOUR DIRECT**
18 **TESTIMONY.**

19 **A.** My key conclusions are as follows:

- 20 • PNM’s employee compensation and benefits plans are benchmarked with
21 relevant, independent, third-party industry survey data and represent a
22 reasonable cost of providing safe and reliable service to customers.

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

- 1 • Monetary compensation for employees generally includes base
2 compensation and incentive compensation. Some job classifications are
3 also eligible for overtime pay and/or shift differential pay.
- 4 • Base compensation for non-union employees will increase 5.0% annually
5 in 2023 and 2024. Union employee salaries will also increase 5.0 annually
6 in 2023 and 2024. These increases are consistent with industry trends.
- 7 • The cost of certain PNM incentive compensation plans, including the
8 Wholesale Power Marketing Incentive Plan (“WPM Plan”) and the
9 Business Unit Group Incentive Plan (“Group Incentive Plan”), have
10 previously been included in PNM’s revenue requirement with the approval
11 of the Commission as discussed below. The cost of these incentive
12 compensation plans is reasonable and benefits customers by incentivizing
13 work activities that support the provision of safe and reliable electric
14 service.
- 15 • As part of PNM’s cost-saving measures, PNM has taken steps to control
16 post-retirement benefit costs. PNM has also implemented a robust process
17 to closely monitor the size of its workforce prior to vacancies being filled.

18

19 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR OF**
20 **TOTAL REWARDS.**

21 **A.** I oversee compensation and benefits strategy for PNM Resources, Inc. (“PNMR”)
22 and its affiliate companies, including PNM and Shared Services. A copy of my

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 resume is attached as PNM Exhibit ALP-1. I hold a Bachelor’s Degree in Business
2 Administration from the University of New Mexico. I have worked in the human
3 resources field for over twenty-three years, and have been responsible for a variety
4 of compensation, benefits, employee and labor relations, and staffing functions. I
5 have worked for the Company for over nineteen years, first as a Compensation
6 Analyst, then as a Compensation Supervisor and Manager. I was promoted to
7 Director of Total Rewards in 2019.

8

9 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE**
10 **NEW MEXICO PUBLIC REGULATION COMMISSION (“NMPRC” OR**
11 **“COMMISSION”)?**

12 **A.** No, I have not.

13

14 **Q. WHICH OF THE INCENTIVE COMPENSATION PLANS DO YOU**
15 **DISCUSS?**

16 **A.** I discuss two for purposes of PNM’s cost of service: the WPM Plan and the Group
17 Incentive Plan.

18

19 **II. BASE SALARY COMPENSATION AND MERIT INCREASES**

20

21 **Q. PLEASE DESCRIBE PNMR’S COMPENSATION PHILOSOPHY.**

22 **A.** PNMR has established compensation policies and plans for its affiliated companies,
23 including PNM. PNMR utilizes a “Total Rewards” approach for employee

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 compensation and benefits to attract, retain, and motivate qualified employees. The
2 Total Rewards approach is comprised of both tangible components (*i.e.*,
3 compensation and benefits) and intangible components (*i.e.*, training and
4 development, career growth opportunities and the work environment). The Total
5 Rewards approach is intended to support the overall business objectives of the
6 Company to deliver safe and reliable electric utility services to customers.
7 Compensation plans are designed in accordance with the following principles:

- 8 • *Externally Competitive:* Compensation is benchmarked to be market
9 competitive within the relevant markets in which the Company
10 competes to attract, retain and motivate qualified employees.
- 11 • *Strategically Aligned:* Compensation programs and practices are
12 intended to reinforce each business area's business strategy, structure
13 and needs.
- 14 • *Internally Equitable:* Compensation for jobs fairly reflects their value
15 relative to other jobs within the Company.
- 16 • *Personally Motivating:* Salaries and incentives recognize employees
17 based on individual contribution and job responsibilities.
- 18 • *Cost-Effective:* Compensation programs are designed to provide value
19 to the Company and its customers in relation to the cost involved.
- 20 • *Legally Compliant:* Programs are in compliance with all applicable state
21 and federal laws and regulations.

22

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. WHAT IS COMPENSATION BENCHMARKING?**

2 **A.** Compensation benchmarking is a process that PNM uses to compare factual data
3 on where the Company stands vis-à-vis other companies in our industry for specific
4 job duties and skills. Survey data used to benchmark compensation is prepared by
5 highly-qualified, independent, third-party vendors and provides quantifiable and
6 objective compensation data points.

7

8 **Q. WHY DO COMPANIES BENCHMARK COMPENSATION?**

9 **A.** Companies benchmark compensation to assess if their compensation programs and
10 plans are aligned with the market to attract, retain and motivate employees. Factors
11 that generally influence compensation benchmarking can include level of job
12 responsibility, industry type, company size (e.g., revenues between \$1.0 billion and
13 \$3.0 billion), and geographical area (e.g., local market, regional market or national
14 market). Due to the pandemic and an increase in companies offering remote work,
15 the geographical area used for benchmarking has had to be expanded to
16 accommodate the fact that PNM now competes nationally for talent.

17

18 **Q. WHAT ARE THE BENEFITS OF BENCHMARKING IN ASSESSING**
19 **EMPLOYEE COMPENSATION?**

20 **A.** Benchmarking has several benefits. First, benchmarking provides a fact-based
21 understanding of the cost and performance drivers of PNM's compensation plans.
22 This allows PNM to assess the current state of its compensation program. Second,

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 benchmarking allows PNM to more easily identify and prioritize compensation
2 options. This means that PNM can review those plans and/or programs that need
3 more attention based on how they compare with the market. Third, benchmarking
4 helps provide periodic measurement against a market-based baseline that assists
5 PNM in determining reasonable annual merit pool and incentive award levels for
6 employees in the job categories covered under our plans.

7

8 **Q. HOW DOES PNMR OBTAIN ITS COMPENSATION SURVEY DATA?**

9 **A.** PNMR purchases compensation survey data from Willis Towers Watson (“WTW”)
10 and AON, PLC (“AON”). Each of these third-party survey vendors is established
11 and highly-qualified. WTW is a leading global professional company that, as an
12 independent, third-party firm, conducts regional, national and industry surveys and
13 provides consulting and other services in the areas of benefits, talent management,
14 rewards and risk and capital management. AON is among the world’s top global
15 human capital and management consulting firms and also provides human capital
16 and management consulting services, including compensation survey data. Both of
17 these vendors conduct surveys of other participating companies on an annual basis
18 to gather confidential compensation information.

19

20 **Q. PLEASE PROVIDE A DESCRIPTION OF PNM’S PROCESS FOR**
21 **COMPENSATION BENCHMARKING.**

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **A.** PNM determines whether there are survey data available for the particular job
2 classification or classifications being evaluated. If survey data are available, the
3 data are used to benchmark a particular job classification or group of job
4 classifications. The appropriate market data are identified by assessing the market
5 in which PNM competes for talent. The appropriate markets may be different for
6 each job classification. By assessing the appropriate market for each job
7 classification, a determination is made whether to use utility and/or general
8 industry survey data, and whether to use local, regional or national survey data.
9 Due to the pandemic and an increase in companies offering remote work, PNM is
10 now competing nationally for talent. The job classification is matched to applicable
11 survey data.

12
13 Compensation survey data typically provide a range of compensation, which is
14 generally presented in percentile format. PNM's compensation philosophy is to
15 utilize the market median (or 50th percentile) when benchmarking. If survey data
16 are not available for a job classification or group of job classifications, the job(s)
17 are slotted into a pay grade with other jobs that have a similar scope or similar
18 characteristics.

19
20 **Q. WHAT ARE THE COMPONENTS THAT MAKE UP THE**
21 **COMPENSATION PAID TO EMPLOYEES?**

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **A.** Compensation for employees is generally comprised of two elements: (1) base
2 compensation and (2) incentive compensation. Also, based on certain job
3 classifications, some employees are eligible for overtime and/or shift differential
4 pay. Additionally, all regular, full-time and part-time employees are eligible to
5 receive employee benefits.

6

7 **Q. WHAT IS THE PURPOSE OF BASE SALARIES?**

8 **A.** Base salary is a fixed portion of the employee’s total compensation. It is earned by
9 performing the functions of the job, which are identified by job descriptions.

10

11 **Q. HOW ARE EMPLOYEE BASE SALARIES DETERMINED?**

12 **A.** For non-union employees, an individual employee’s base salary is determined by
13 using the applicable salary band for the specified job classification within the
14 PNMR salary structure, and is intended to reflect a variety of factors including the
15 employee’s knowledge, skills, experience, education and performance. Union
16 employees’ base salaries are negotiated as part of the collective bargaining process.

17

18 **Q. DOES PNM TYPICALLY PROVIDE ANNUAL MERIT INCREASES TO**
19 **EMPLOYEE BASE SALARIES?**

20 **A.** Yes. Before 2022, PNM’s annual merit increases averaged 2.5% – 3.0% for non-
21 union employees and 2.0% – 3.0% for union employees. Based on the 2022 WTW
22 Salary Budget Survey, 2022 World at Work Salary Budget Survey, PNM increased

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 the annual merits pool in 2022 to 3.5% for non-union employees to align with
2 market trends, and 2.5% for union employees based on the current Collective
3 Bargaining Agreement. Further, beginning in 2022, an additional 0.5% was
4 allocated for non-union employees to fund real-time labor market conditions and
5 pay equity. Based on this benchmark data, the general trend in 2020-2022 for merit
6 budgets will continue to escalate at a total of 5.0% (4.5% in annual merit increases,
7 plus 0.5% in labor market adjustments and pay equity) for non-union employees.

8

9 As shown by PNM witness Sanders, PNM applied annual escalation percentages to
10 salaries in the Base Period to estimate employee base salaries in the Test Period.
11 For union and non-union employees, a 5.0% annual escalation percentage was used
12 for 2023 and 2024.

13

14 **Q. HOW DO NON-UNION EMPLOYEES EARN MERIT INCREASES?**

15 **A.** Annual merit increases for non-union employees are based on an individual's
16 performance during the previous year, the likelihood of sustaining the employee's
17 performance level, and their salary within the salary range for the job classification.
18 PNMR has a common merit award date for all eligible non-union employees. Non-
19 union merit awards are typically effective in late March each year.

20

21 **Q. ARE THESE ANNUAL MERIT INCREASES COMPETITIVE AND**
22 **REASONABLE?**

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **A.** Yes. In order to remain competitive, the Company has increased annual merit
2 increases over the previous three years, from 2.5% in 2018, and 3.0% from 2019
3 through 2021. Due to the pandemic and increase in companies offering remote
4 work, PNM is now competing nationally for talent, resulting in difficulty retaining
5 and attracting employees. This led to the Company increasing the annual merit pool
6 to 4.0% in 2022, which also included 0.5% to address real-time labor market
7 conditions and pay equity. As I just noted, in order to be competitive with other
8 companies, in 2023 and 2024, the annual merit pool will increase to 5% which
9 includes 0.5% to address real-time labor market conditions and pay equity.

10

11 **Q. HAS THE LABOR MARKET FOR ENGINEERING POSITIONS**
12 **REQUIRED ADDITIONAL INCREASES TO ENSURE RETENTION AND**
13 **COMPETITIVE SALARIES**

14 **A.** Yes. The local market for engineering employees has significantly increased over
15 the last few years, making it difficult to retain and attract employees for those roles.
16 To mitigate the risks associated with the lack of quality talent for these positions,
17 PNM increased the engineering base salaries by 10% in the first quarter of 2022
18 and plans for an additional 15% increase included in the linkage data, resulting in
19 an additional O&M labor cost of \$438,602 annually.

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**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

III. INCENTIVE COMPENSATION PLANS

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Q. WHAT IS THE TOTAL COST OF THE INCENTIVE PLANS INCLUDED IN THE TEST PERIOD REVENUE REQUIREMENT?

A. I prepared PNM Table ALP-1 which identifies the forecasted cost included in the Test Period (12 months ending December 31, 2024) for the incentive compensation plans that I discuss below.

PNM Table ALP-1 – Test Period Incentive Plan Costs

Incentive Compensation Program	Estimated Costs
WPM Plan	\$ 511,935 (PNM)
Group Incentive Plan	\$6,262,795 (PNM Resources)

Q. WHAT IS THE PURPOSE OF INCENTIVE COMPENSATION PLANS?

A. Incentive compensation plans are intended to incentivize employees to meet or exceed specific performance metrics. Incentive compensation is an “at risk” component of an employee’s total compensation. That means that if the specific performance metrics are not met or exceeded, the incentive compensation is not paid. Unlike base salary, which is paid regardless of whether performance metrics are met, incentive compensation gives employees a direct stake in meeting established performance metrics.

Q. HOW DO INCENTIVE COMPENSATION PLANS BENEFIT PNM’S CUSTOMERS?

A. PNM’s performance metrics established under its incentive compensation plans are designed to align with the overall Company objectives of providing safe, reliable

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 and cost-effective service to customers. Customers benefit from the attainment of
2 these performance metrics.

3

4 **Q. HAS PNM INCLUDED THE COST OF ALL OF ITS INCENTIVE**
5 **COMPENSATION PLANS AND PROGRAMS IN THE REVENUE**
6 **REQUIREMENT IN THIS CASE?**

7 **A.** No. PNMR has incentive compensation plans and programs, other than the WPM
8 Plan and the Group Incentive Plan, that are not included in the revenue requirement.

9 These other plans include:

- 10 a. An Annual Incentive Plan that applies primarily to employees in
11 management, specifically salary grades G01 to G04 (senior managers,
12 directors, subsidiary vice presidents). This plan requires achievement of
13 many performance-based goals that benefit customers, but also has an
14 earnings per share performance threshold that must be met before awards
15 can be earned and awarded to eligible employees.
- 16 b. An Officer Annual Incentive Plan that applies only to PNMR officers and
17 has an earnings per share performance threshold that must be met before
18 awards can be earned and awarded to officers.
- 19 c. Long-Term Incentive Plans that provide an opportunity for PNMR officers
20 to earn performance share awards that if earned vest immediately, and
21 restricted stock rights awards that vest over three years.

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 d. A discretionary non-PNMR officer restricted stock rights awards program
2 that provides the opportunity for certain management employees, who are
3 not PNMR officers, to be awarded restricted stock rights awards that vest
4 over three-years. Long term incentive programs such as this are standard
5 compensation practices and help retain employees, resulting in less turnover
6 costs and highlights a focus on meeting customer goals.

7

8 **Q. HAVE THE EMPLOYEE INCENTIVE PROGRAMS REQUESTED IN**
9 **THIS PROCEEDING PREVIOUSLY BEEN INCLUDED IN PNM’S**
10 **REVENUE REQUIREMENT?**

11 **A.** Yes. These employee incentive programs have been approved in prior cases. Most
12 recently, in PNM’s 2015 Rate Case, Case No. 15-00261-UT, the Commission
13 approved recovery for 90% of PNM’s requested cost recovery of the WPM Plan.
14 The Group Incentive Program was a new program presented for Commission
15 consideration for the first time in the 2015 Rate Case and was included in rates.

16

17 **Q. CAN YOU DETAIL THE TWO INCENTIVE COMPENSATION PLANS**
18 **THAT PNM SEEKS TO INCLUDE IN ITS REVENUE REQUIREMENT IN**
19 **THIS CASE?**

20 **A.** Yes. I address each plan separately below.

21

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **A.** *Wholesale Power Marketing Incentive Plan*

2 **Q.** **PLEASE DESCRIBE THE WHOLESAL POWER MARKETING**
3 **DEPARTMENT (“WPM DEPARTMENT”).**

4 **A.** The WPM Department is responsible for all wholesale purchases and sales of
5 electricity and purchases and sales of natural gas by PNM used in electric
6 generation. The group is also responsible for generation dispatch, for acquiring
7 ancillary services for the Balancing Authority, and for complying with all North
8 American Electric Reliability Corporation requirements.

9
10 **Q.** **WHEN WAS THE WPM PLAN IMPLEMENTED?**

11 **A.** The WPM Department has had an incentive compensation plan since 1996.

12
13 **Q.** **WHICH EMPLOYEES ARE COVERED UNDER THE WPM PLAN?**

14 **A.** As of June 30, 2022, all twenty-nine employees in the WPM Department are
15 eligible, including the director, managers, traders, pre-schedulers and
16 administrators. Employees eligible for the WPM Plan are not eligible for any other
17 incentive plan, and employees outside of the WPM Department are not eligible
18 under the WPM Plan.

19
20 **Q.** **WHAT IS THE PURPOSE OF THE WPM PLAN?**

21 **A.** The purpose of the WPM Plan is to motivate and reward employees in the WPM
22 Department to meet performance metrics that benefit customers. These metrics

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 include achieving system reliability targets, controlling fuel costs for the customer,
2 maximizing return from optimizing PNM's power resources, and generating
3 jurisdictional value with the participation in the Western Energy Imbalance Market
4 ("EIM"). The system reliability performance targets include compliance with the
5 Southwest Reserve Sharing Group member requirements, compliance with the
6 Disturbance Control Performance Recovery standard, forecasting accuracy
7 performance, minimizing penalties and encouraging safety. Jurisdictional financial
8 targets include controlling costs and maximizing off-system sales margins for the
9 benefit of customers. The EIM performance target is established to maximize the
10 EIM Gross Benefit from EIM participation, for overall savings that benefit
11 customers.

12

13 **Q. IS THE LEVEL OF THE INCENTIVE COMPENSATION FOR THE**
14 **EMPLOYEES IN THE WPM DEPARTMENT BENCHMARKED?**

15 **A.** Yes. The incentive compensation opportunity for employees under the WPM Plan
16 is benchmarked against the market median for similar employee job classifications
17 utilizing compensation survey data compiled by WTW and AON. The WTW
18 survey utilized for the compensation benchmarking was the CDB Energy
19 Marketing and Trading Compensation Survey Report – US Total Direct
20 Compensation. The other survey utilized for benchmarking was the AON U.S.
21 Energy Marketing and Trading Compensation Survey.

22

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. PLEASE DESCRIBE THE KEY PROVISIONS OF THE WPM PLAN.**

2 **A.** The WPM Plan is capped at a specified maximum amount for the award pool that
3 is based on the market median. Individual employee payouts are based on
4 individual employee performance during the WPM Plan year, the WPM Plan cap,
5 and the level of overall award pool funding. Awards are only paid to employees if
6 they achieve the performance targets identified in the WPM Plan.

7

8 **Q. WHAT HAS BEEN THE HISTORY IN TERMS OF PAYMENT OF**
9 **INCENTIVE COMPENSATION UNDER THE WPM PLAN?**

10 **A.** Since 2008, incentives under the WPM Plan have been awarded to WPM
11 Department employees achieving the incentive performance targets. It is
12 reasonable to anticipate that the WPM Plan will be earned and paid to employees
13 in 2023 and thereafter, and it is therefore reasonable to include this incentive plan
14 in the Test Period cost of service. Please see PNM Table ALP-2 for historical pools
15 and cost

16

PNM Table ALP-2 – Historical WPM Plan Costs

Performance Year	Pool	Actual Cost	% Payout
2018	\$715,432	\$398,617	56%
2019	\$738,390	\$405,565	55%
2020	\$758,966	\$413,076	54%
2021	\$834,876	\$483,762	58%
2022	\$815,796	TBD	TBD

17

18 **Q. WHAT IS THE ANTICIPATED COST OF THE WPM PLAN FOR THE**
19 **TEST PERIOD?**

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **A.** The cost of the WPM Plan for the Test Period is estimated to be \$511,935. The
2 estimated cost of the plan was determined based on the actual cost of the plan as of
3 June 30, 2022. The cost of the WPM Plan for the Test Period includes the twelve
4 months of the forecasted 2024 WPM Plan.

5

6 **Q.** **SHOULD THE COST OF THE WPM PLAN CONTINUE TO BE**
7 **INCLUDED AS PART OF THE REVENUE REQUIREMENT FOR**
8 **PURPOSES OF SETTING CUSTOMER RATES?**

9 **A.** Yes. The cost of this plan is reasonable in relation to the experience necessary for
10 the job classifications and the compensation provided for comparable work by other
11 companies. Because the Company's proposed cost recovery is based on an average
12 of actual payouts as opposed to the market-based cap, the budget remains below
13 market. This plan also provides benefits to PNM customers by encouraging
14 employees to meet operational goals that are primarily related to providing safe,
15 reliable and cost-effective services to customers. If achievement of goals exceeds
16 the requested amounts, employees will still receive payout of the program, however
17 that cost would be borne by the Company.

18

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **B.** *Business Unit Group Incentive Plan*

2 **Q.** **WHEN WAS THE GROUP INCENTIVE PLAN ESTABLISHED?**

3 **A.** The Group Incentive Plan was implemented January 1, 2015.

4

5 **Q.** **PLEASE DESCRIBE THE GROUP INCENTIVE PLAN.**

6 **A.** The Group Incentive Plan is designed to motivate and reward eligible non-union
7 employees for achieving operational metrics and to promote collaboration and
8 teamwork to achieve specified business area performance metrics. This plan
9 provides benefits to New Mexico customers by encouraging employees to meet
10 operational goals, such as reliability and customer service, that are primarily related
11 to the provision of safe, reliable and cost-effective service to customers. The Group
12 Incentive Plan does not have an earnings per share performance metric. The Group
13 Incentive Plan is a key component of the total compensation package that is offered
14 to our eligible employees.

15

16 **Q.** **WHICH EMPLOYEES ARE ELIGIBLE TO RECEIVE AWARDS UNDER
17 THE GROUP INCENTIVE PLAN?**

18 **A.** The pay-grade levels for eligible non-union employees are generally categorized at
19 a manager level and below. Approximately 812 employees are eligible to
20 participate in the Group Incentive Plan in the Test Period. Employees eligible for
21 the Group Incentive Plan are not eligible for incentive compensation under any
22 other program or plan.

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. HOW MUCH IS PNM SEEKING TO RECOVER FOR THE COST OF THE**
2 **GROUP INCENTIVE PLAN?**

3 **A.** PNM has included the cost of the Group Incentive Plan at \$6,262,795 on a total
4 company basis (including TNMP). PNM witness Sanders shows how this total
5 amount is allocated for purposes of PNM's retail cost of service. PNM is only
6 including the portion of the Group Incentive Plan applicable to PNM (either for
7 direct PNM employees, or Shared Services employees, that provide service to
8 PNM). PNM engaged WTW to benchmark incentive compensation levels within
9 the Group Incentive Plan to determine if our awards were reasonable for the eligible
10 job categories

11

12 **Q. HOW WAS THE GROUP INCENTIVE PLAN COST ESTIMATED?**

13 **A.** To establish the 2022 Group Incentive Plan budget, PNM used an internal analysis
14 of existing incentive compensation plans and the WTW benchmarking data to
15 determine reasonable incentive award levels for eligible employees. With the
16 internal analysis, PNM considered the entire incentive compensation structure for
17 the Company. Award levels were aligned by the grade and salary of these job
18 categories as well as how the compensation structure fits with other incentive plan
19 structures to avoid any compensation compression issues.

20

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. WHAT HAS BEEN THE HISTORY IN TERMS OF PAYMENT OF**
2 **INCENTIVE COMPENSATION UNDER THE GROUP INCENTIVE**
3 **PLAN?**

4 **A.** In the 2015 Rate Case, PNM sought to recover \$3,943,469 on a total Company
5 basis for payment of incentive compensation to remain market competitive. In part,
6 because the Plan was new and therefore historical data on its potential payout did
7 not exist, the Commission authorized rate recovery of \$2,567,000 and the actual
8 amount of available incentive compensation was reduced accordingly. The Group
9 Incentive Program has historically been below market; however, as the labor
10 market has shifted over the past several years, the Company has had to increase the
11 pool of the program in order to attract and retain qualified employees in the job
12 categories included in the program. In 2020, 59% of voluntary terminations came
13 from the employee job categories covered by the Group Incentive Plan. In 2021,
14 57% of voluntary terminations came from these eligible employee job categories.
15 Based on the information from the WTW benchmarking study, increasing the
16 Group Incentive Plan to align with market will assist PNM in retaining employees
17 in these job categories and establishes a competitive incentive plan.

18 Please see PNM Table ALP-3 for Historical Group Incentive Costs.

19 **PNM Table ALP-3 – Historical Group Incentive Costs**

Performance Year	Cost
2020	\$5,267,000
2021	\$5,467,000
2022 (Planned)	\$5,835,434

20
21

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. DOES THE GROUP INCENTIVE PLAN MITIGATE EMPLOYEE**
2 **ATTRITION COSTS TO CUSTOMERS?**

3 **A.** Yes. When a new employee is hired, it takes, on average, four to five months for
4 the employees in professional positions to reach full productivity, according to the
5 Bersin by Deloitte Strategic Onboarding Study. That four- to five-month period
6 costs, on average, \$24,181 per employee, based on an average annual salary of
7 \$96,724. With 105 voluntary terminations in the twelve months ended June 30,
8 2022, the cost of attrition was \$2.5 million. A competitive incentive budget for the
9 Group Incentive Plan will assist PNM with retaining an engaged workforce and
10 reduce costs related to attrition, which would promote increased operational
11 efficiency and directly benefit customers.

12
13 **Q. HOW WAS THE TEST PERIOD EXPENSE DEVELOPED FOR THE**
14 **GROUP INCENTIVE PLAN?**

15 **A.** The anticipated cost of the Group Incentive Plan in the Test Period is calculated by
16 utilizing the actual employee headcount and base salary as of June 30, 2022, plus
17 the expected increase in headcount in 2023 and 2024 described by PNM witnesses
18 Gray, Mendez, Cervantes, and Pitts. Each individual employee's base salary was
19 annually escalated 5% in 2023 and 2024, as shown by PNM witness Sanders, and
20 then multiplied by the eligible employee award, at the target award level, based on
21 their job grade, as reflected in the following PNM Table ALP-4. Eligible

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 employees will only receive an award at the end of the performance period if the
2 specified performance targets are achieved.

3 **PNM Table ALP-4 – Group Incentive Award Costs**

Grade	Employee Count	Target Award Level	Cost
G14	24	5.00%	\$ 48,397
G13	14	5.00%	\$ 30,740
G12	25	5.00%	\$ 63,406
G11	26	6.00%	\$ 86,641
G10	30	6.00%	\$ 104,086
G09	47	7.00%	\$ 221,897
G08	99	7.00%	\$ 551,946
G07	102	8.00%	\$ 735,017
G06	214	8.00%	\$ 1,800,812
G05	231	9.00%	\$ 2,619,853
Total	812	Total	\$ 6,262,795

4
5 The available pool of awards for the Group Incentive Plan will be \$6,262,795. The
6 available pool for each business area will be based on eligible employees and the
7 eligible earnings of those employees during the performance period.

8

9 **Q. ARE THE REQUESTED COSTS OF THE GROUP INCENTIVE PLAN**
10 **REASONABLE?**

11 **A.** Yes. The Company’s proposal for the Group Incentive Plan recognizes the need to
12 maintain the incentive plan funding close to market levels. The proposal is in
13 alignment with market studies. The cost is reasonable in amount and will assist

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 PNM in attracting, motivating and retaining qualified employees and should be
2 included in the determination of the Test Period revenue requirement.

3

4

IV. EMPLOYEE BENEFITS

5 **Q. WHAT ARE THE BENEFITS THAT ARE GENERALLY OFFERED TO**
6 **FULL-TIME EMPLOYEES?**

7 **A.** PNM offers the following benefits to full-time employees:

- 8 • Retirement Savings Plan (401k)
- 9 • Medical plan with a preferred provider or high deductible plan choice
- 10 • Dental
- 11 • Vision
- 12 • Life insurance and Accidental Death & Dismemberment insurance
- 13 • Short-term disability
- 14 • Long-term disability
- 15 • Flexible spending accounts
- 16 • Health savings accounts
- 17 • Educational assistance program
- 18 • Employee assistance program
- 19 • Paid time off
- 20 • Holiday pay
- 21 • Wellness program

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

- 1 • PNM Retirement plan – for those employees who were hired before
2 12/31/1997

3

4 **Q. ARE THE BENEFITS PROVIDED TO EMPLOYEES REASONABLE?**

5 **A.** Yes. The PNMR Benefits Department benchmarks the benefits to ensure they are
6 market competitive. As of the last benefits benchmark survey in 2020, the
7 employee benefit portfolio was determined to be within market median, although
8 PNMR closed the defined benefit plan for employees in 1997 while other utilities
9 continued to provide a defined benefit. The benefits benchmarking survey,
10 completed by AON, determines the relative value by dividing PNMR's benefit
11 value by the average benefit value for 18 utilities participating in the comparison.
12 The index for PNMR shows that our relative index is 94% of the average benefit
13 value of the 18 utilities. Overall, the PNMR employee benefit portfolio is within
14 market, thus making it competitive.

15

16 **Q. WHAT ARE THE SIGNIFICANT CHANGES OCCURRING, OR**
17 **EXPECTED TO OCCUR, FOR EMPLOYEE BENEFITS OFFERED**
18 **DURING THE BASE PERIOD AND THE TEST PERIOD?**

19 **A.** National trends show that medical costs continue to increase year-over-year. In
20 2022, increases in medical costs, on average, were 6.5% nationally for mid-sized
21 to large employers. For 2023, medical costs are expected to increase again, on
22 average 6.5% nationally for mid-sized to large employers. Based on those trends,

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 and as shown by PNM witness Sanders, PNM is using an escalation factor of 6.0%
2 for its medical costs from the Base Period to the Test Period. For other benefits,
3 no other significant changes are expected from the end of the Base Period to the
4 end of the Test Period.

5

6 **Q. HAS PNM TAKEN ANY STEPS TO TRY TO CONTROL MEDICAL**
7 **COVERAGE COSTS?**

8 **A.** Yes. In an effort to reach long-term objectives, effective January 1, 2018, the
9 Company changed medical network providers and claims administrators to help
10 streamline the administration. The design is a two-tier network that is intended to
11 stabilize and reduce claims costs through competitive contracted rates and
12 improved efficiencies in administering healthcare.

13

14 In addition, in 2019 the Company changed its pharmacy benefit manager. The new
15 manager offers highly competitive rates through its programs, contracted discounts,
16 rebates, and mail order program, including an additional program targeting chronic
17 disease and specialty drugs to manage cost trends that will go in effect in 2023.

18

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. WHAT IS THE AMOUNT THAT EMPLOYEES CONTRIBUTE TO THEIR**
2 **ACTIVE MEDICAL AND DENTAL PREMIUMS AND EXPLAIN HOW**
3 **THAT AMOUNT IS DETERMINED.**

4 **A.** Currently, employee participants pay 27% on average toward their overall medical
5 premium. By comparison, the utility industry trend is to have employees pay 23%
6 on average toward their overall medical premium. Participants, on average, pay
7 50% toward their overall dental premium. The employee dental contribution, as
8 per the utility trend, is considered to be market practice. The medical and dental
9 premiums contributed by employees are both benchmarked.

10

11 **Q. DOES PNM PROVIDE MEDICAL BENEFITS TO RETIRED**
12 **EMPLOYEES?**

13 **A.** Yes. These benefits are commonly referred to a Post-retirement Benefits Other
14 than Pensions or “PBOP” for short. The PBOP medical benefits were offered to
15 employees during their tenure as active employees, and in conformity with those
16 commitments, PNM has continued to pay for and recover the cost of the PBOP
17 benefits from customers. These PBOP benefits are a reasonable and necessary cost
18 of doing business in that they helped attract and retain qualified employees
19 necessary to serve PNM’s customers.

20

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 **Q. IS PNM UNDER ANY REQUIREMENT TO ADDRESS EFFORTS**
2 **RELATING TO COST SAVING EFFORTS WITH RESPECT TO THE**
3 **PBOP?**

4 **A.** Yes. Under the final order in Case No. 2529, PNM is required to report on its cost-
5 saving efforts relating to its PBOP plan.

6

7 **Q. HAS PNM TAKEN ANY STEPS TO CONTROL PBOP COSTS?**

8 **A.** Yes. The following actions have been implemented to reduce PBOP expenses: (1)
9 eligibility for plan participation has been discontinued (*i.e.*, retiree medical benefits
10 do not apply to employees hired after December 31, 1997); (2) for retirees over age
11 65, the retiree medical programs were modified to utilize medical benefits provided
12 under Medicare Part A & B for retirees not covered under the Hartford Medicare
13 Supplemental Plan (“The Hartford”) which reduces Company costs; (3) Wellness
14 and Disease Management Programs, which focus on prevention and reduce the high
15 dollar claims and long-term plan expense, have been expanded to cover retirees
16 participating in the retiree medical plan; (4) since 2014, all eligible retirees are
17 enrolled in a Medicare supplement insured plan through The Hartford, which has
18 limited the premium increase exposure over the long-term; (5) for eligible retirees
19 over age 65, who retired on, or after, January 1, 1988, the Company’s contributions
20 toward the premiums under the plan have been capped at \$100 per month for
21 medical and \$35 per month for prescription drugs; (6) since 2014 all eligible retirees
22 are enrolled in a Part D through Express Scripts; (7) PNM contracted with Benistar

**DIRECT TESTIMONY OF
ANGELA L. PINO
NMPRC CASE NO. 22-00270-UT**

1 Administrative Services, Inc. for the administration of these services, to further
2 reduce administration costs; (8) in 2017, the Premium and Value medical plan
3 options provided to retirees collapsed into the Standard plan;(9) PNM implemented
4 a 5% future cost escalation cap for pre-65 retiree medical expenses in 2018; and
5 (10) the Company also implemented the Express Scripts Advanced Utilization
6 Management program, which reduces pharmacy costs through prior authorization,
7 step therapy, and drug quantity limits.

8

9 **Q. HAS PNM IMPLEMENTED ANY OTHER EMPLOYEE COST SAVINGS**
10 **ACTIONS, IN ADDITION TO THOSE DISCUSSED ABOVE?**

11 **A.** Yes. As noted previously, PNM has implemented a robust process to closely
12 monitor the size of its workforce prior to vacancies being filled.

13

14 **V. CONCLUSIONS**

15 **Q. DO YOU HAVE ANY CONCLUDING OBSERVATIONS?**

16 **A.** Yes, I want to reiterate that the compensation and benefits costs for PNM's
17 employees are reasonable and competitive based on relevant benchmarks. The
18 costs associated with the incentive compensation programs benefit customers
19 through the improvement of operational metrics and are a necessary cost of
20 attracting and retaining qualified employees.

21

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

23 **A.** Yes.

GCG#530101

Statement of Qualifications

PNM Exhibit ALP-1

Is contained in the following 4 pages.

Angela L. Pino, CCP

Summary

Human Resources professional with over 20 years of experience and expertise in Human Resources specializing in Compensation, Incentive Plans, Equity Plans, Job Evaluation and Classification, Salary Administration and Benefits in Regulated and Government organizations. Focus in strategic planning, design, implementation/execution and administration of various compensation and equity programs, HRIS/HR systems, regulatory compliance, and Executive Leadership, Senior Management and Board of Director interaction. Successful record of developing and enhancing programs and communications, implementing cost effective administration, and developing creative solutions in support of the organization's human capital and business objectives. Demonstrated track record in cross-functional team building and collaboration to achieve business objectives.

Professional Experience

Director Total Rewards

December 2019-Current

PNM Resources, Inc.

Lead the Compensation, Benefits and HRIS teams responsible for the strategic design and management of enterprise-wide Compensation, Equity Programs, Benefits and HR systems. Provide leadership and strategic direction and serve as an internal consultant to help drive business outcomes, including:

- Review, design, implement, communication and management of the company's general compensation & benefits plans, policies and structures to support business strategy and that are externally competitive and internally equitable, cost-effective and perceived as valuable by employees.
- Review and analyze benefits, compensation and equity competitive markets to determine employee needs, trends, regulations and best practices. Develop recommendations, build stakeholder alignment, and make strategic modifications to programs to meet the changing marketplace and company goals.
- Collaborate with other Human Resources leaders in talent acquisition, learning and leadership development, Employee and Labor Relations and the business to ensure rewards are aligned with desired performance, workforce development and succession planning efforts.
- Manage vendor contracts and service delivery to ensure cost-competitiveness, quality and compliance.
- Advise, consult with and serve as a member of the Human Resources leadership team in the development and execution of short-term and long-term plans and budgets based on broad corporate goals, and strategic planning.
- Collaborate with Finance, Legal, Corporate Tax and other corporate functions to ensure alignment with strategic plans and regulatory compliance.
- Manage benefits and compensation programs to ensure alignment with shareholder and regulatory stakeholder interests.
- Research and prepare Board of Director related materials for presentation to the Compensation Committee.
- Lead the development and execution of the CD&A and proxy disclosures and ensure compliance with all regulatory requirements.
- Prepare annual budgets including financial analysis and cost/benefit analysis.
- Establish and maintain long-term networking relationships through active involvement and participation in business, community and external boards activities.
- Serve as an expert resource to the business, including the company's executive management and HR teams concerning benefits, compensation and equity strategies and the impact of those on the business.
- Served as a company expert in the preparation of direct, rebuttal testimony and interrogatories for public utility commission regulated rate cases.
- Analyze the effectiveness of current programs as to their ability to attract, motivate and retain critical talent in support of the Total Rewards model.

Compensation Manager

September 2015-December 2019

PNM Resources, Inc.

Lead a team responsible for the strategic design and management of enterprise-wide compensation, Equity Programs, and HR systems. Provide leadership and strategic direction and serve as an internal consultant to help drive business outcomes, including:

- Review, design, implementation, communication and management of the company's compensation plans, policies and structures to support business strategy and that are externally competitive and internally equitable, cost-effective and perceived as valuable by employees.
- Review and analyze the compensation and equity competitive markets to determine employee needs, trends, regulations and best practices. Develop recommendations, build stakeholder alignment, and make strategic modifications to programs to meet the changing marketplace and company goals.
- Evaluate and analyze the results of programs; report findings to the leadership and develop the business case and rationale for recommended changes.
- Collaborate with other Human Resources leaders in talent acquisition, benefits, learning and leadership development, Employee and Labor Relations and the business to ensure rewards are aligned with desired performance, workforce development and succession planning efforts.
- Manage vendor contracts and service delivery to ensure cost-competitiveness, quality and compliance.
- Advise, consult with and serve as a member of the Human Resources leadership team in the development and execution of short-term and long-term plans and budgets based on broad corporate goals, and strategic planning.
- Collaborate with Finance, Legal, Corporate Tax and other corporate functions to ensure alignment with strategic plans and regulatory compliance.
- Manage compensation programs, including cash compensation, incentive and variable pay programs, merit programs, and equity programs. Ensure alignment with shareholder and regulatory stakeholder interests.
- Research and prepare Board of Director related materials for presentation to the Compensation Committee.
- Lead the compensation related portions of the CD&A and proxy disclosures and ensure compliance with all executive compensation matters and regulatory requirements.
- Prepare annual budgets including financial analysis and cost/benefit analysis.
- Oversee the HR technology infrastructure to ensure the company has the necessary systems in place to meet objectives and operational effectiveness.
- Establish and maintain long-term networking relationships through active involvement and participation in business, community and external boards activities.
- Serve as an expert resource to the business, including the company's executive management and HR teams concerning compensation equity strategies and the impact of those on the business.
- Served as a company expert in the preparation of direct, rebuttal testimony and interrogatories for public utility commission regulated rate cases.
- Analyze the effectiveness of current programs as to their ability to attract, motivate and retain critical talent in support of the Total Rewards model.

Compensation Supervisor

October 2011-September 2015

PNM Resources, Inc.

Led a team responsible for the design, strategy and administration of the organization's employee compensation, programs. Provided leadership and strategic direction and served as an internal consultant to help drive business outcomes.

- Designed, implemented and managed compensation plans, policies and structures to support the business strategy and that were competitive and cost-effective to meet current and future business needs.
- Managed the enterprise-wide benchmarking processes, salary structure review and maintenance and job evaluation processes.
- Managed the company's salary administration and annual merit program.
- Managed the annual and long-term incentive programs.
- Partnered with Finance & Accounting, Legal, Corporate Tax, Regulatory and other functions on compensation or other data and information for analysis and reporting purposes.

- Served as a company expert in the preparation of direct, rebuttal testimony and interrogatories for public utility commission regulated rate cases.
- Analyzed the effectiveness of current programs as to their ability to attract, motivate and retain critical talent.
- Managed budgets in compliance with business objectives. Proven experience in the areas of accounting, finance, budget management and audit aspects for compensation programs.

Senior Compensation Analyst

August 2004-October 2011

PNM Resources, Inc.

- Responsible for the planning, administration and implementation of organization-wide annual and long-term incentive plans.
- Responsible for the planning and administration of organization-wide annual Merit process.
- Responsible for the review, administration, and implementation of annual salary structure review.
- Responsible for the oversight of day-to-day compensation issues including job evaluation, classification and documentation, market analysis, new hire and internal salary administration, organization structure issues, and policy interpretation.
- Responsible for the implementation, testing, oversight and maintenance of compensation module and tables of PeopleSoft system.
- Represent the compensation function as a member of the company's bargaining team for union negotiations.
- Responsible for day-to-day oversight of lower level permanent and temporary staff.
- Assist in the planning, administration and execution of executive compensation programs, equity plans, and preparation of board materials.
- Assist in the development and implementation of compensation guidelines, policies and procedures.

Compensations Analyst

September 2003-August 2004

PNM Resources, Inc.

- Assist in the planning, administration and implementation of organization-wide annual and long-term incentive plans.
- Assist in the planning and administration of organization-wide annual Merit process.
- Assist in the review, administration, and implementation of annual salary structure review.
- Responsible for the oversight of day-to-day compensation issues including job evaluation, classification and documentation, market analysis, new hire and internal salary administration, organization structure issues, and policy interpretation.
- Responsible for the implementation, testing, oversight and maintenance of compensation module and tables of PeopleSoft system.
- Support the compensation analysis and recommendation in support of Labor negotiations.

Senior Compensation/HRIS Analyst

July 2003-September 2003

Lovelace Sandia Health System

- Responsible for the administration and implementation of organization-wide incentive plans and annual Merit process.
- Responsible for day-to-day compensation issues including job evaluation, classification and documentation, market analysis, new hire and internal salary administration, organization structure issues, and policy interpretation.
- Responsible for the maintenance of Compensation and Job Classification data in Lawson HRIS system.
- Responsible for day-to-day oversight of lower level permanent and temporary staff. Assist in the development and implementation of compensation guidelines, policies and procedures.

Senior Compensation Analyst

July 2001-July 2003

University of New Mexico Hospital

- Responsible for the planning and administration of organization-wide annual Merit process.
- Responsible for the review, administration, and implementation of the annual salary structure review.
- Responsible for the oversight of day-to-day compensation issues including job evaluation, classification and documentation, market analysis, new hire and internal salary administration, organization structure issues, and policy interpretation.
- Responsible for all compensation related issues including representation on the company's bargaining team in annual contract negotiations for local Nurses union.
- Responsible for day-to-day oversight of lower level permanent and temporary staff.
- Assist in the development and implementation of compensation guidelines, policies and procedures.

Senior Compensation Analyst

April 1999-July 2001

City of Albuquerque

- Responsible for the oversight of day-to-day compensation issues including job evaluation, classification and documentation, new hire and internal salary administration, organization structure issues, and policy interpretation.
- Responsible for the planning and administration of organization-wide annual review process.
- Responsible for the review, administration, and implementation of the annual salary structure review for multiple salary structures.
- Responsible for day-to-day oversight of lower level permanent and temporary staff.
- Assist in the development and implementation of compensation guidelines, policies and procedures.

Education

**Bachelor of Business Administration,
Concentration in Accounting and Human Resources**

Graduated: May 1998

University of New Mexico – Albuquerque, NM

Certified Compensation Professional

Completed: May 2008

World at Work

GCG#530100

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 595)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)

Case No. 22-00270-UT

SELF AFFIRMATION

ANGELA L. PINO, Director, Total Rewards, PNMR Services Company, upon penalty of perjury under the laws of the State of New Mexico, affirm and state: I have read the foregoing **Direct Testimony of Angela L. Pino** and it is true and accurate based on my own personal knowledge and belief.

Dated this 5th day of December, 2022.

/s/ Angela L. Pino
ANGELA L. PINO