

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FROM REVISION OF ITS RETAIL) Case No. 15-00261-UT
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 513)
)
)
PUBLIC SERVICE COMPANY OF NEW MEXICO,)
Applicant.)
_____)**

ORDER ON POSSIBLE FURTHER PROCEEDINGS

THIS MATTER comes before the New Mexico Public Regulation Commission (“PRC” or “Commission”) on the August 4, 2016 Recommended Decision (“RD”)(as corrected August 15, 2016) issued by Hearing Examiner Carolyn Glick concerning Public Service Company of New Mexico’s (“PNM”) August 27, 2015 Application for Revision of Retail Rates (“Application”) and Advice Notice No. 513. Having considered the Recommended Decision, and the record in this case, and being fully informed in the premises, the Commission

THEREFORE FINDS AND CONCLUDES:

- 1) The Commission has jurisdiction over the parties and the subject matter of this case.
- 2) Among the issues in PNM’s application addressed by Section XV of the RD is a proposed disapproval of PNM’s request to recover in rate base an acquisition adjustment for PNM’s acquisition of 64.1 MW of capacity in Palo Verde Unit 2, as well as recovery of lease expenses for extensions of five other leases for capacity in Palo Verde Units 1 and 2. PNM exercised the purchase and extensions under the terms of existing lease agreements with third party owners.

3) The recommendation for disallowance in the RD is based on the Hearing Examiner's conclusion that PNM's decisions to extend the leases and purchase the additional 64.1 MW of capacity were imprudent in light of PNM's failure to meet its burden to demonstrate through substantial evidence that PNM had considered alternatives to the lease extensions/purchase options and that PNM's preferred choice of exercising the lease extensions/purchase was the most cost effective alternative.

4) PNM's post-hearing brief expressly acknowledges that its "repurchase of the PV2 Interest is subject to a prudence standard" and that notwithstanding its reliance on its 2011 IRP filing (which was not approved by the Commission), the IRP "in itself, is not applicable to this case's determination whether PNM's repurchase of the PV2 interests at fair market value was prudent and reasonable." (PNM Post-Hearing Brief at 58, 64)

5) The RD specifically notes that the recommended disallowance of the lease extension/purchase costs are not necessarily permanent allowances:

PNM in its next base rate case filing can attempt to show that the PV repurchase and lease extensions are the most cost effective resources among available alternatives to meet customers' needs at that time....In PNM's next base rate case, the PRC will consider any evidence and arguments submitted as to what type of resources are needed and represent the most cost effective alternatives at that time. At a minimum, any such evidence presented by PNM shall include the average cost per kWh of each option considered.

6) PNM has previously indicated that it intends to file another rate case before the end of 2016.

7) The Commission recognizes the significant public interest in this matter and the Commission's corresponding duty to safeguard the public interest by balancing the interests of utilities and consumers by setting rates that are fair, just and reasonable while affording the

utility recovery of its prudently incurred costs and an opportunity to earn a reasonable return on its investments.

8) The Commission finds that in light of the fact that the disallowance of the PV lease extension/repurchase costs would not necessarily be permanent, but would still impose a substantial delay in PNM's ability to recover such costs, a reasonable alternative that could mitigate the impact to PNM and potentially lessen possible negative impacts to the utility and ultimately its customers would be to reopen the record in this case and conduct a supplemental hearing limited to the issue of the prudence of PNM's decision to exercise the lease extensions and repurchase options and the inclusion of the cost of converting San Juan Generating Station Units 1 and 4 to a balanced draft configuration in rate base, subject to PNM agreeing to the following:

A. Voluntarily extending the suspension period in this case to December 15, 2016.

B. Submitting evidence demonstrating that its decision to exercise the lease extensions/purchase was prudent, including a showing that the lease extension/purchase is the most cost effective alternative;

C. Demonstrating that its decision to install balanced draft was prudent; and

D. Making the Strategist modeling program available to all parties at no cost. .

9) If PNM agrees to the foregoing, and subject to the response of the other parties, the Commission's intent would be to complete such hearing by December 15, 2016 and issue a comprehensive final order disposing of all the issues presented in the rate case at that time.

WHEREFORE, IT IS ORDERED:

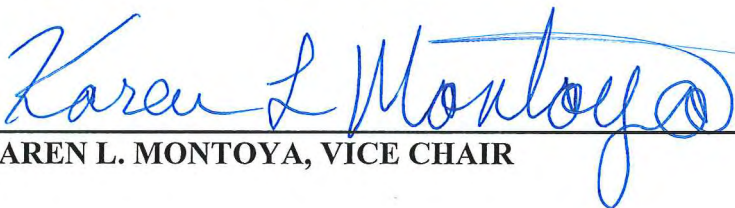
- A. PNM shall file a response to this Order by no later than 3:00 P.M., Monday, August 29, 2016, and shall specifically state whether it agrees to the conditions set forth in Paragraph 8 of this Order,
- B. The other parties and Staff shall also have until 3PM Monday August 29, 2016 to provide their position on the Commission's proposal set forth herein
- C. A copy of this order shall be served on all parties listed on the attached certificate of service via e-mail where such e-mail addresses are known and if not known, by regular first class postal delivery.
- D. This order is effective immediately.

ISSUED under the Seal of the Commission at Santa Fe, New Mexico, this 24th day of August, 2016.

NEW MEXICO PUBLIC REGULATION COMMISSION



VALERIE ESPINOZA, CHAIR



KAREN L. MONTOYA, VICE CHAIR



LYNDA LOVEJOY, COMMISSIONER



PATRICK H. LYONS, COMMISSIONER



SANDY JONES, COMMISSIONER

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. 513)
)
PUBLIC SERVICE COMPANY OF NEW MEXICO,)
APPLICANT)

Case No. 15-00261-UT

OFFICIAL SERVICE LIST

I CERTIFY that on this date I sent to the parties listed below, via email only, a true and correct copy of the *Order on Possible Further Proceeding* issued August 24, 2016.

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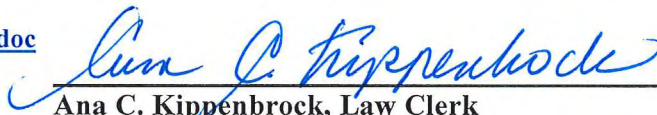
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DATED this 24th day of August 2016.

NEW MEXICO PUBLIC REGULATION COMMISSION

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