

PNM 2014 Electric Rate Case

PNM has filed a request to raise electric prices effective Jan. 1, 2016. The annual increase requested is approximately \$107.4 million, or 12 percent. The bottom line increase to PNM customer bills will be about 7.7 percent due to other offsetting changes that also take effect on Jan. 1, 2016. The average homeowner will see a price increase of about \$9.75 per month, or 32 cents per day. The requested rate increase is primarily driven by investments made, since our last rate increase in 2010, to maintain reliable power and to protect our environment. The increase seeks to recover \$585 million in costs incurred or planned from July 1, 2010 through Dec. 31, 2016 that are not currently included in PNM rates.

The company has been intently focused on managing costs. As a result of this focus, PNM's operating and maintenance costs have only increased 0.2 percent a year since 2010, well below the inflation rate.

92 percent of our request is to pay for investments that include renewable energy, keep power reliable and protect the environment:

- Four new solar centers online by 2016 (\$79 million).
- La Luz Natural Gas Plant online 2016 (\$56 million).
- Emission control equipment at San Juan Generating Station to comply with federal haze regulations (\$81 million).
- Securing critical resources for the future: Purchasing Rio Bravo Generating Station (\$38 million) and Palo Verde Nuclear Generating Station Unit 2 leases (\$163 million)
- Investments to keep our electric system reliable. Examples include a \$30 million investment at PNM's Rio Puerco Switching Station, a critical hub in our transmission system, \$8 million for substation hardening to increase security, and an upgrade modernizing the operations center that serves as the hub for our distribution system.
- Changes in depreciation, Return on Equity and other costs.

The balance of our request is related to declining energy sales driven by the New Mexico economy, improved appliance efficiency, and PNM's own Energy Efficiency programs.

What This Means for Customer Bills

Customers would see an increase in their basic electric rates and a decrease in fuel costs on Jan.1, 2016. What this means for the average residential using 600 kilowatt-hours per month is an increase of \$9.75 per month on their bill, from \$70.26 to \$80.01.

Keeping Electricity Affordable

Our customers tell us that after reliability, affordability is most important to them.

- We've held the line on costs; annual operating and maintenance costs remained steady over the last five years – approximately 0.2 percent annually versus an annual inflation rate of approximately 2 percent.

PNM 2014 Electric Rate Case

- PNM's improved credit ratings results in a lower cost of financing for investments.
- The average residential customer spends less than \$3 a day for electricity. Even with the proposed rate increase, PNM rates will be lower in real dollars than in 1985.
- PNM continues to offer bill assistance programs and education for low-income customers experiencing an emergency, grants to help nonprofits reduce their energy use and bills and energy-saving programs for customers.

Price Structure Changes

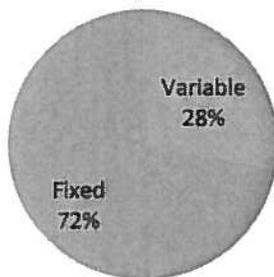
The way energy is produced and consumed has changed dramatically in the last several years and the way PNM electric rates are calculated needs to be modernized as well. This modernization includes proposals to realign electric rates to better match costs and revenue in order to maintain reliability. It also more fairly distributes costs, while ensuring that customers still have options to improve their energy efficiency or install rooftop solar.

Balancing Costs with Revenue

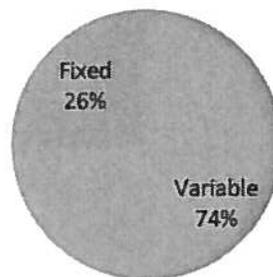
While most of the costs to serve you don't change with usage, the majority of your bill is based on usage. Therefore, we propose:

- A Revenue Balancing Account designed to ensure that the fixed costs that are critical to the reliability of service are recovered, similar to fuel adjustments. With regulatory oversight, PNM would adjust bills annually up or down to ensure that the revenue from customer bills matches the allowed fixed costs of maintaining a reliable system.
- The bill increase includes an increase in the fixed customer charge, which also helps to reduce the energy usage portion of the bill. For residential customers the fixed charge will change from \$5 to \$12.80 per month.

How Costs are Incurred



How Revenues are Collected



PNM 2014 Electric Rate Case

Rooftop Solar

Since launching our rooftop solar program in 2006, PNM has made approximately \$22 million in REC payments to PNM retail customers with solar DG (distributed generation). Today, 4,400 PNM customers participate in our program and we anticipate that rooftop solar will continue to grow.

Because of the way our rates are designed, customers with rooftop solar systems don't pay their entire share of the fixed costs of maintaining the power lines and generation they depend on. Instead, other customers are picking up those costs. To address this, we propose a DG Interconnection Fee designed to better allocate infrastructure costs among customers. The charge will apply only to new rooftop solar customers after Jan. 1, 2016.

- The DG Interconnection Fee of \$6/kW of installed capacity will ensure all residential customers using the electric system are treated equally. The DG Interconnection fee will vary by rate class.
- Changes in the banking option for new DG customers.
- All other program elements provided to rooftop solar customers will continue.

Realigning Customer Costs

PNM is proposing changes to the rate design to establish fair and equitable pricing across customer classes and better align cost recovery with the cost to serve the customer. While residential customers will still be subsidized, we are asking them to contribute more toward the full costs. Different customer classes will see different price increases. That is a result of the costs to serve that particular customer group, while also keeping our bills competitive.

Economic Development Tariff

To keep larger businesses that are foundational to our economy and attract new employers to our state, we will offer a five-year discount for qualifying current and potential new businesses interested in locating to our state.

This tariff applies to large power customers with a demand requirement of 500 kW or more, such as manufacturing operations or data centers. These customers must also have 50 percent of their sales that are out-of-state to bring new dollars into New Mexico. There is also an expansion requirement to encourage our existing customers to grow their businesses.

We already support our state's economic success by keeping rates competitive and power reliable, however potential employers who have considered locating to New Mexico are asking for special business rates that are similar to those offered by other utilities. A number of utilities and states have successfully implemented economic development rates. New businesses bring jobs, revenue and help share in the costs of our electric system.

For more information, visit PowerforProgress.com.

PNM 2014 Electric Rate Case Executive Summary

PNM's electric rate case filing requests a base rate increase of approximately \$107.4 million, effective January 1, 2016. The requested base rate increase combined with other rate changes scheduled to take effect on January 1, 2016, represent an average bill increase of 7.69%. PNM's proposed increase represents an overall revenue requirement of approximately \$983.3 million. PNM requests this increase to account for investments it has made since the last rate case and other necessary investments it plans to make to provide reliable service to PNM's retail customers, and to reflect the declining sales growth in the Company's service territory. The primary driver of PNM's identified revenue deficiency is related to rate base growth and recovery, including depreciation, which account for approximately 92% of the revenue deficiency. Declines in PNM's energy sales account for approximately 20% of the identified deficiency, or nearly \$22 million.¹ PNM's success with energy efficiency programs is a major contributing factor to the decline.

PNM's last rate increase took effect in August of 2011. PNM has avoided seeking a rate increase in the last four years through aggressive cost control. Due to PNM's cost control efforts, its O&M expenses have grown at a pace below the consumer price index level of inflation. Even after implementation of the proposed rates, PNM will continue to offer low, competitive rates for New Mexico business and residential consumers. PNM residential customers pay less for electric service as a percentage of household income than in most other states, and will continue to do so even after the proposed increase is granted.

PNM is proposing several changes to rate design to establish fair and equitable pricing across rate classes, better align cost recovery with cost causation, improve price signals to provide for economic efficiency in energy usage, and remove disincentives for energy efficiency and renewable energy efforts by PNM.

Highlights of the Case

- A revenue requirement including base fuel revenues of \$983,316,658
 - Increased revenue requirement of \$107,441,397
 - ROE of 10.5%
- PNM's proposed rates are based on a Future Test Period (Test Period)
 - Test Period is calendar year 2016 with a Base Period of July 1, 2013, through June 30, 2014.
 - This is the Test Period that best reflects the conditions to be experienced when new rates are expected to go into effect
- Key Drivers for the rate request
 - Increase in rate base from June 30, 2010, through the Test Period ending December 31, 2016, of \$585 million
 - Depreciation Expense
 - Increased plant additions as well as the results of a new depreciation study.

¹ These drivers are partially offset by reductions in fuel and Palo Verde lease costs.

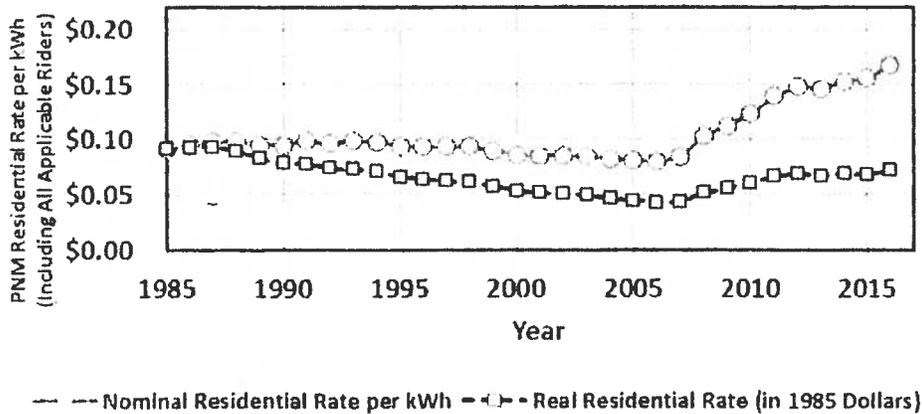
- o Continue the Earnings Test process to assure that use of the Renewable Energy Rider does not result in excessive earnings by PNM.

The proposed rate increase and bill impact for major classes is provided below:

Proposed Rate Increase and Bill Impact for Major Classes		
Class	% Revenue Increase	Bill % Increase
Residential	16.34%	11.92%
Small Power	13.29%	9.31%
General Power	8.26%	3.73%
Large Power	11.39%	5.92%
Large Power >= 8,000	7.59%	2.03%
Universities	3.77%	-1.48%
Manufacturing	-1.46%	-7.33%
System Total	12.27%	7.69%

Even with the proposed rate increase, PNM rates will be lower in real dollars than in 1985.

PNM Residential Rate History - 1985 through 2016 (Est.)
(Rates Depicted Include all Applicable Riders)



#519002

Subject: Price Increase Request for Jan. 1, 2016

Dear Customer,

We understand no one likes paying more for anything, and electricity is no different. Because we value your business, we want to inform you about a proposed change that impacts you.

PNM has filed a request with the N.M. Public Regulation Commission to increase electricity rates beginning Jan.1, 2016. This request is about ensuring you continue to receive reliable service and move towards a cleaner electric supply. Approximately 92 percent of the request is to recover \$585 million in system improvements incurred to serve our customers from 2010 through 2016. To recover those investments we are proposing an overall retail rate increase of 12 percent. The net impact, however, will be 7.7 percent as some offsetting changes will occur at the same time. The average homeowner will see a price increase of about \$9.75 per month, or 32 cents per day.

We take price increases seriously and have kept expenses down. PNM's operating and maintenance costs have only increased 0.2 percent a year since 2010, well below the inflation rate. These investments have improved and maintained the electric system -- provided strong reliability, and increased the use of cleaner resources, including natural gas, solar and wind. These investments include:

- Four new solar centers online by 2016 (\$79 million) capable of powering 16,200 average homes;
- La Luz Natural Gas Plant online 2016 (\$56 million), to serve customers when demand is highest, to support renewable energy growth and ensure reliable power under a variety of grid conditions;
- Emission control equipment at San Juan Generating Station to comply with federal haze regulations (Selective Non-Catalytic Reduction equipment to reduce NOx emissions, \$81 million);
- Critical resources for the future: purchasing Rio Bravo Generating Station Natural Gas Plant (\$38 million) and purchasing some of the leased assets at Palo Verde Nuclear Generating Station Unit 2 (\$163 million); and
Investments to keep our electric system reliable, including a \$30 million investment at PNM's Rio Puerco Switching Station, a critical hub in our transmission system, \$8 million for substation hardening to increase security, and modernizing our distribution system operations center.

As part of this request the company is also proposing changes to our electric rate pricing structure to better align rates with how customers use our system. Proposed changes to the electric rate pricing structure are:

- A Revenue Balancing Account pilot program, also known as decoupling, designed to support recovery of fixed costs that are critical to service reliability, similar to fuel adjustments that are regularly recovered;
- The proposed changes to rate structure include an economic development tariff to support state and local efforts to retain and attract companies that provide economic based jobs.
- A distributed generation interconnection fee, applied only to new rooftop solar customers after Jan. 1, 2016, ensure that these customers pay their use of the system.

We remain committed to providing you with affordable, reliable and environmentally responsible electricity. We also recognize that any price increase will have an impact on our customers. To learn about energy-saving and assistance programs or how PNM is making our power supply cleaner and more reliable and for more information about why PNM is requesting a price increase, visit www.PowerforProgress.com.

Best Regards,