

Main Offices
Albuquerque, NM 87158 -1105
P 505 241-2700
F 505 241-2347
PNM.com



March 15, 2021

Ms. Melanie Sandoval
Records Bureau Chief
prc.records@state.nm.us
New Mexico Public Regulation Commission
P.O. Box 1269
Santa Fe, NM 87504

Re: PNM's Amended Application for Approval of the Abandonment and Transfer of Four Corners Power Plant and Issuance of a Financing Order Pursuant to the Energy Transition Act.

Dear Ms. Sandoval:

In compliance with the Hearing Examiner's February 26, 2021 *Order on Sufficiency of PNM's Application and Scope of Issues in Proceeding*, Ordering Paragraphs A and C, Public Service Company of New Mexico ("PNM") hereby files its Amended Application with the New Mexico Public Regulation Commission ("NMPRC") for the approval of PNM's *Application for the Abandonment and Transfer of Four Corners Power Plant and Issuance of a Financing Order Pursuant to the Energy Transition Act*. This Amended Application is supported by testimonies and exhibits, as listed below.

The following documents are included in the filing:

- Amended Application
- Supplemental Testimony of Mark Fenton
- Supplemental Testimony of Thomas G. Fallgren
- Supplemental Testimony of Thomas S. Baker
- Supplemental Testimony of Michael J. Settlage
- Supplemental Testimony of Frank Graves

Separately, in compliance with Ordering Clause D of the Hearing Examiner's February 26th, 2021 Order, PNM is filing a *Motion to Withdraw January 8, 2021 Application Upon Filing of March 15, 2021 Amended Application*.

If there are any questions about these filings, please feel free to contact me at brian.buffington@pnm.com

Sincerely,

/s/ Brian Buffington

Brian Buffington

Senior Project Manager

Cc: Service List 21-00017-UT

GCG#527780

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF THE)
ABANDONMENT OF THE FOUR CORNERS)
POWER PLANT AND ISSUANCE OF A)
SECURITIZED FINANCING ORDER)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)
_____)**

Case No. 21-00017-UT

PUBLIC SERVICE COMPANY OF NEW MEXICO’S AMENDED APPLICATION FOR APPROVAL OF THE ABANDONMENT THROUGH THE SALE OF FOUR CORNERS POWER PLANT AND ISSUANCE OF A FINANCING ORDER PURSUANT TO THE ENERGY TRANSITION ACT

Public Service Company of New Mexico (“PNM” or the “Company”) files its *Amended Application for Approval of the Abandonment through the Sale of the Four Corners Power Plant and Issuance of a Securitized Financing Order* (“Amended Application”) and supplemental testimonies in support thereof. PNM files this Amended Application and supplemental testimonies in accordance with the findings and orders of the Hearing Examiner in his *Order on Sufficiency of PNM’s Application and Scope of Issues in Proceeding* issued February 26, 2021 (“February Order”). The Amended Application is substantially the same as the original Application filed January 8, 2021 but adds a more specific request for approval of the transfer of PNM’s interest in the Four Corners Power Plant (“Four Corners” or “FCPP”), and addresses and confirms that PNM’s decision to continue participating in FCPP beyond 2016 was prudent. PNM is requesting that PNM’s undepreciated FCPP investments that have been included in PNM’s rates as of January

1, 2019, and those investments that have been incurred since 2019, and that will be incurred through December 31, 2024, be recovered as abandonment costs under the Energy Transition Act.¹

PNM has also updated the attachments to the Amended Application – the proposed form of notice and the proposed form of financing order – to reflect the requests in the Amended Application. PNM also updated the proposed form of financing order to define the term “Decommissioning Costs.”

The Energy Transition Act, NMSA 1978, §§ 62-18-1 to -23 (2019), provides a framework to address challenges that come from aging coal-fired generation facilities by giving the New Mexico Public Regulation Commission (“Commission” or “NMPRC”) the tools to accelerate the state’s transition away from coal plants to a significantly cleaner and more diverse energy mix for customers. The Energy Transition Act also gives the Commission authority to directly address the resulting impacts on tribal and local communities in the Four Corners area in a way that is not otherwise contemplated by the Public Utility Act (“PUA”).

PNM seeks the Commission’s approval to: 1) abandon its ownership share in the amount of 200 megawatts (MW) of retail coal-fired generation resources at Four Corners, together with certain associated transmission switchyard facilities; 2) sell and transfer through a Purchase and Sale Agreement (Agreement”) these resources to the Navajo Energy Transitional Company, LLC (“NTEC”); and 3) issue Energy Transition Bonds that will save our customers money over the long-run. Under the Energy Transition Act’s balanced approach to energy transition, the Amended

¹ As required by Ordering Paragraph D of the February Order, PNM is filing on this same date a motion to withdraw the original Application filed January 8, 2021. PNM is not seeking to withdraw or amend any of the direct testimonies submitted in support of the original Application, which remain part of the record in this proceeding. As authorized in the Order, PNM is supplementing its direct testimonies with supplemental testimonies filed on the same date as this Amended Application. The witnesses that have direct and supplemental testimonies are identified at paragraphs 58 and 59 of this Amended Application.

Application will reduce rate impacts and bring long-term benefits to consumers and the State of New Mexico.

The ultimate question for the Commission is whether the sale and abandonment of PNM's share of Four Corners through the Agreement with NTEC is in the public interest. The Energy Transition Act facilitates PNM's transition out of coal for New Mexico to cleaner generation resources. PNM serves its customers from a diverse power supply portfolio that includes coal and nuclear baseload generation, natural gas-fired generation, solar and wind generation, geo-thermal, small-scale battery storage and other purchased power obtained through wholesale market transactions. Exiting this coal-fired facility results in economic as well as environmental benefits for customers.

In conjunction with the requested abandonment and transfer to NTEC, PNM also requests approval of securitized financing, which involves issuing low-cost, highly-rated bonds. The Act requires that portions of the energy transition bond proceeds be dedicated to fund state-administered programs for impacted tribal and local communities. PNM proposes to take all necessary actions to secure the securitized financing of the Four Corners abandonment in the amounts as defined and allowed in the Energy Transition Act.

Section 62-18-4(A) of the Energy Transition Act provides the legal standard for recovery of PNM's undepreciated investments in Four Corners; the Act does not permit the Commission to amend the amount of recoverable investments based on a finding that the 2013 decision was prudent or imprudent. PNM requests a finding that it is authorized to recover its undepreciated investments in Four Corners in accordance with the Energy Transition Act. To the extent that the Commission reviews the issue of PNM's decision in 2013 to continue as an owner of Four Corners, PNM is filing supplemental testimony establishing the prudence of its decision to

continue participating in Four Corners with the understanding that PNM is not waiving its legal position.² PNM requests that the Commission determine that PNM's actual and estimated future undepreciated FCPP investments as of the date of the abandonment of FCPP be recovered as abandonment costs under the Energy Transition Act.

PNM intends to submit a separate application for Commission approval of a replacement resource portfolio following Commission action on this Amended Application. This deferral is authorized by the Energy Transition Act (§ 62-18-4(D)) and will provide for adequate time to complete a competitive bid process to develop and finalize a replacement resource portfolio from feasible replacement resources for Commission consideration.

PNM's Amended Application to abandon and transfer its Four Corners interests and finance related costs pursuant to an Energy Transition Act financing order satisfies the Energy Transition Act's provisions and the net public benefit standards adhered to by the Commission. Approving the abandonment of PNM's share of Four Corners at the end of 2024 and its replacement with a more flexible and lower-cost resource portfolio will save customers money. The public interest is best served through a planned exit process that not only results in customer benefits, but also acknowledges the broader impact to the state's economy and the effect on the Four Corners region.

I. SUMMARY AND TIMING OF REQUESTED APPROVALS

PNM's Amended Application seeks approval for the following actions:

- (1) abandonment of PNM's 200 MW share of Four Corners, representing a minority interest of thirteen percent (13%) of the total generation capacity at the plant, together with certain associated transmission switchyard facilities;

² February Order at 22.

- (2) sale and transfer of PNM's Four Corners ownership interests to NTEC pursuant to the Agreement; and
- (3) securitized financing of plant abandonment and financing costs along with funding for state-administered tribal and community programs.

PNM requests that the Commission apply the Energy Transition Act timeframe and issue a decision on the consolidated requests within the nine-month period beginning March 15, 2021 in accordance with the finding on the statutory deadlines set forth at Ordering Clause B of the February Order. Sections 62-18-5(A) and (C), NMSA 1978, allow the Commission to issue a financing order, together with abandonment approval, within six months from the date the application for a financing order is filed, with a three month extension for good cause . Based on PNM's agreement to amend its Application originally filed January 8, 2021, and the acceptance of such agreement in the Hearing Examiner's Order, PNM voluntarily affirms the statutory nine-month period for final action in this matter by the Commission begins as of the filing date of this Amended Application.

Section 62-18-2 of the Energy Transition Act directly ties securitized financing and its benefits to tribal and regional communities to the abandonment of coal-fired generation resources, and expressly contemplates the securitized financing and abandonment be ruled on in a single proceeding. The Commission generally requires assurances that there are adequate replacement alternatives that will be operational before approving a plant shutdown, and the direct testimonies supporting this Amended Application will identify the potential range of replacement resource options that are generally available in sufficient amounts of capacity to provide reasonable and proper service to PNM's customers.

The Amended Application's requested approvals are summarized below and explained in detail thereafter in the Amended Application and in supporting testimonies and exhibits.

Abandonment and Transfer:

PNM requests the Commission approve the abandonment of PNM's share of Four Corners as of December 31, 2024. More specifically, PNM requests that the Commission approve:

- Abandonment of PNM's 200 MW interest in Four Corners and certain related transmission switchyard facilities pursuant to Section 62-9-5 of the PUA;
- The sale and transfer of these Four Corners interests to NTEC pursuant to the Agreement pursuant to §§ 62-6-12 and 62-6-13 of the PUA; and
- Recovery of Energy Transition Act-defined abandonment and other energy transition costs and related ratemaking treatment, including the issuance of energy transition bonds pursuant to Sections 62-18-1 through -23 of the Energy Transition Act in an estimated amount of \$300 million, which includes the following estimates:
 - Undepreciated investments in Four Corners totaling \$271.3 million;
 - Plant decommissioning costs of \$4.6 million;
 - Transition funds to be distributed to state agencies for tribal and community assistance in the amount of \$16.5 million; and
 - Transactional costs associated with issuing energy transition bonds and obtaining approval of abandonment of \$7.3 million.

In connection with this abandonment, PNM asks that the NMPRC authorize PNM to record regulatory assets with carrying costs as supported by PNM Witness Baker and shown in PNM Exhibit TSB-9. Pursuant to Section 62-18-4(B)(10) of the Act, PNM will track and reconcile each component of the energy transition costs. Accordingly, PNM also requests authority to record and defer with carrying charges any difference between the amounts financed by the energy transition bonds and the final actual energy transition costs to either a regulatory asset (if the actual final energy transition costs are greater than the estimated energy transition costs) or a regulatory liability (if the actual final energy transition costs are less than the estimated energy transition

costs) for recovery/(crediting) to be amortized over a reasonable period established in a PNM general rate case, once actual energy transition costs are known.

Securitized Financing:

PNM requests that the Commission issue a separate financing order approving the issuance of highly-rated bonds secured by a non-bypassable customer charge. The proposed bonds are designed to meet the requirements for a “AAA” or equivalent credit rating and recover the Energy Transition Act-defined abandonment and other energy transition costs listed above. Securitized financing also results in PNM financing and transferring a portion of the bond proceeds for the state to establish and administer the following programs:

- Energy Transition Indian Affairs Fund to be administered by the Indian Affairs Department, in an estimated amount of \$1.5 million;
- Energy Transition Economic Development Assistance Fund to be administered by the Economic Development Department, in an estimated amount of \$5.0 million; and
- Energy Transition Displaced Worker Assistance Fund, to be administered by the Workforce Solutions Department, in an estimated amount of \$10.0 million.

PNM anticipates that the bonds are to be issued at or around the time that PNM’s share of Four Corners is transferred to NTEC.

PNM currently estimates the securitized bonds will be issued in an aggregate amount of approximately \$300 million. The precise amount of bonds to be issued will be based on financing costs at the time of issuance of the bonds as described further in this Amended Application.

As part of the requested securitized financing, PNM asks the Commission to determine that the financing portions of the Amended Application meet the requirements of Section 62-18-4 of the Energy Transition Act, and approve the following:

- PNM’s proposed use of proceeds of the energy transition bonds;

- Formation and capitalization of a special purpose entity that will be a wholly-owned subsidiary of PNM (the “SPE”) and will issue energy transition bonds with a scheduled final maturity of not more than 25 years;
- Collection of non-bypassable energy transition charges, effective upon bond issuance and filing of an advice notice pursuant to the Energy Transition Act, to be paid by all customers receiving electric delivery service from PNM and all customers who acquire electricity from an alternative or subsequent electricity supplier in the utility service area currently served by PNM, to the extent such acquisition is permitted by New Mexico law;
- An adjustment mechanism, effective upon issuance of the energy transition bonds, to make adjustments to the energy transition charges to correct for any over- or under-collection of those charges and to provide for the timely and complete payment of the bonds and recovery of financing costs;
- A description of the energy transition property to be created under the financing order together with PNM’s simultaneous sale of the energy transition property to the SPE;
- PNM’s entry into principal financing agreements and other necessary or appropriate ancillary agreements related to the issuance of the securitized bonds;
- A ratemaking adjustment mechanism to reconcile the estimated energy transition costs with actual costs; and
- A ratemaking method to account, as needed, for the reduction in PNM’s cost of service associated with the amount of undepreciated investments being recovered by the energy transition charges at the time those charges become effective.

For the reasons detailed below, PNM also requests that the Commission issue these financing approvals in the form of a stand-alone financing order in conjunction with the requested abandonment order, to fulfill statutory requirements for securitization.

II. FOUR CORNERS HISTORY

PNM has reliably served customers from Four Corners’ baseload coal generating facilities for decades since the plant Units 4 and 5 came online in 1969 and 1970, respectively. Units 1, 2 and 3 retired in 2010, and were wholly-owned by Arizona Public Service Company (“APS”).

PNM is a co-tenant and minority owner in the plant's remaining Units 4 and 5.³ The plant is operated by APS. The facility is located in Fruitland, New Mexico, an unincorporated community in San Juan County approximately twelve miles west of Farmington. The plant is located on lands leased from the Navajo Nation.

III. SUPPORT FOR AMENDED APPLICATION

1. PNM's Amended Application is filed pursuant to and in accordance with the provisions of the Energy Transition Act, NMSA 1978, §§ 62-18-1 to -23 (2019), and the provisions of Sections 62-6-12, 62-6-13 and 62-9-5 of the PUA. The Energy Transition Act permits the abandonment of qualifying facilities such as Four Corners to be financed with securitized bonds to help reduce costs for customers. An application for a replacement portfolio will be deferred by PNM until after a Commission decision on this Amended Application and completion of a competitive bid evaluation process. The replacement portfolio will be the subject of a separate proceeding before the Commission for review and approval. PNM has identified ample potential replacement resources available in the market to provide proper and reasonable service for customers.

2. The testimonies and exhibits filed on January 8, 2021 with PNM's original Application, together with the supplemental testimonies and exhibits filed with this Amended Application, provide substantial factual support for PNM's requests for: 1) approval of the abandonment of PNM's interests in Four Corners effective December 31, 2024; 2) approval to sell and transfer those interests through the Agreement with NTEC; and 3) approval of the issuance of energy transition bonds for securitized financing of energy transition costs and related ratemaking

³ The ownership of Four Corners is governed by the Amended and Restated Four Corners Project Co-Tenancy Agreement dated September 1, 2019. The current plant owners oversee Arizona Public Service's management and operation of the plant, and the owners review and approve capital and operations budgets. The coal for the plant is supplied under the current Coal Supply Agreement.

treatment, including PNM's undepreciated investments in the coal plant and other abandonment and financing costs as defined in Section 62-18-2, and funding for public interest programs identified in Sections 62-18-2 and -16 of the Energy Transition Act. In addition to those testimonies and exhibits filed on January 8, 2021, and the supplemental testimonies and exhibits filed March 15, 2021, this Amended Application incorporates the following Attachments, which may be referred to by witnesses as Exhibits or Attachments to the Amended Application:

Attachment 1: Proposed Form of Notice (March 15, 2021)

Attachment 2: Proposed Form of Financing Order (March 15, 2021)

3. PNM's most recent economic analyses from the supporting testimonies and exhibits prove there are available adequate replacement resources that cost less than and will be available to replace PNM's existing Four Corners' share, which is needed to serve customers through 2031, and these replacement resources can be available before the time of the abandonment and transfer of this interest to NTEC as of December 31, 2024. As a result, customers will benefit from the early abandonment of PNM's interests in Four Corners; these benefits will increase with securitized financing, which further lowers the costs associated with the abandonment of PNM's 200 MW share.

4. PNM is a New Mexico corporation that currently owns, operates and controls public utility plant, property and facilities, including generation, transmission and distribution facilities that provide retail and wholesale electric service in New Mexico. PNM is a duly incorporated public utility subject to the jurisdiction of the Commission pursuant to the PUA, NMSA 1978, §§ 62-1-1 to 62-6-28 and §§ 62-8-1 to 62-13-15. PNM is authorized to provide utility service within multiple municipalities and communities in various service areas throughout

the state. As a public utility, PNM is required to provide adequate, efficient and reasonable electric service. NMSA 1978, § 62-8-2.

A. ABANDONMENT AND TRANSFER REQUESTS

5. The Energy Transition Act sets forth certain treatments and approvals associated with the abandonment of qualifying generating facilities. Four Corners is a qualifying generating facility as defined in Section 62-18-2(S). As a result of its status as a public utility and its ownership interest in the qualifying generating facility, PNM is a qualifying utility as defined by Section 62-18-2(T) of the Energy Transition Act. Section 62-18-4(A) of the Energy Transition Act provides that a utility may apply for a financing order to recover all its energy transition costs through issuance of energy transition bonds and provides that an abandonment order be obtained pursuant to Section 62-9-5 of the PUA.

6. Section 62-6-12(A)(4) of the PUA states that with the prior authorization of the Commission, a utility may sell public utility plant or property constituting an operating unit or substantial part thereof, where such sell or transfer is not in the ordinary course of business. Section 62-6-13 states that upon a utility's written petition containing a concise statement of the proposed transaction and supporting information:

the commission shall promptly investigate the same, with such hearing and upon such notice as the commission may prescribe, and unless the commission shall find that the proposed transaction is unlawful or is inconsistent with the public interest, it shall give its consent and approval in writing.

7. Section 62-9-5 of the Public Utility Act states that the Commission may approve the abandonment of a utility facility if the present and future public convenience and necessity do not otherwise require the continuation of the use of the facility. The Commission has held that there must be a showing of a net benefit in order to approve a utility plant's abandonment. By its

terms, the Energy Transition Act establishes benefits to the state from the transition away from coal-fired generation to cleaner energy resources with the use of lower-cost securitized financing.

8. Historically, the Commission has used four factors from what is referred to as the *Commuters' Committee*⁴ case as a guide to determining if an abandonment results in a net benefit. These historical factors examined: (1) the extent of the carrier's loss on the particular branch or portion of the service, and the relation of that loss to the carrier's operation as a whole; (2) the use of the service by the public and prospects for future use; (3) a balancing of the carrier's loss with the inconvenience and hardship to the public upon discontinuance of service; and (4) the availability and adequacy of substitute service.

9. The Commission applies a two-step analysis to requests to abandon and transfer interests in a utility facility. First, the Commission considers whether the proposed abandonment results in a net benefit to the public interest. The quantifiable and unquantifiable benefits of the proposed abandonment must outweigh the costs for the Commission to approve the action. If the utility satisfies the standard for approval of the abandonment, the Commission then moves to the second step in the analysis: whether the proposed sale of utility assets results in "no net detriment" to the public. No net detriment requires that the quantifiable and unquantifiable benefits of the transaction at least equal the costs of the transaction.

10. PNM's direct and supplemental testimonies and exhibits provide substantial factual evidence that: abandonment and transfer of Four Corners is not unlawful and or contrary to the public interest under the Public Utility Act and Energy Transition Act, pursuant to NMSA 1978, Sections 62-6-12, 62-6-13, 62-9-5, 62-18-2, 62-18-4, 62-18-5, and 62-18-10; and meets the Commission's conditions for approval of abandonment as having net benefits, in accordance with

⁴ *Commuters' Committee v. Pennsylvania Public Utility Commission*, 170 Pa. Superior Ct. 596, 604-605, 88 A.2d 420, 424 (1952).

the *Commuters' Committee* standards applied by the Commission. Among other things, PNM demonstrates the following:

- a. The sale and transfer of PNM's interests in Four Corners provides substantial economic benefits to customers; does not interfere with the ability of NTEC and the remaining owners to address the shutdown of the plant based on the requirements of the owners and a just transition away from coal for NTEC and the Navajo Nation; and allows PNM to reduce emissions from its generation portfolio used to serve customers by replacing coal fired generation with other lower carbon emitting or zero carbon emitting resources up to seven years earlier than would otherwise occur.
- b. The terms of the Energy Transition Act allow PNM to abandon its interests in Four Corners through securitization of defined abandonment costs. The abandonment costs to be securitized are reasonable and in accordance with the definitions for abandonment costs contained in § 62-18-2 of the Energy Transition Act.
- c. PNM anticipates that any FCPP replacement resources proposed and approved will be in compliance with the environmental standards of performance for PNM's portfolio used to serve customers, as contained in Section 62-18-10(D) of the Energy Transition Act.
- d. PNM has modeled its overall generation portfolio under two alternative scenarios: "with the Four Corners Power Plant," and "without the Four Corners Power Plant." Those scenarios reveal that customers would save money if PNM exits as a co-owner in the plant by December 31, 2024, as opposed to staying in the plant through 2031, its current planned operating life. This analysis conforms with the

requirement from the approved stipulation in Case No. 16-00276-UT that PNM examine an early exit from Four Corners as of 2024 and 2028.

- e. The Energy Transition Act provides mechanisms that mitigate economic impacts to tribal and local communities from the shutdown of the plant, and PNM's analyses demonstrate customers benefit from exit of Four Corners when compared to being supplied from alternative generation resources. Abandonment of the plant when accomplished in conjunction with the issuance of energy transition bonds results in increased savings to customers and benefits impacted communities.
- f. PNM has confirmed the availability of adequate potential new resources that, subject to Commission approvals in a separate proceeding, will be sufficient to replace PNM's share of the Four Corners coal, and result in a net public benefit.

B. FINANCING ORDER REQUESTS

Overview

11. As a qualifying utility under Section 62-18-2(T) of the Energy Transition Act, the Company is authorized pursuant to Section 62-18-4(A) of the Energy Transition Act to file a financing application for issuance of a financing order under Section 62-18-5 of the Energy Transition Act (the "Financing Order") as part of the Amended Application under which the Company has requested approval to abandon Four Corners, a qualifying generating facility.

12. As described in supporting testimonies and exhibits, the Company seeks the issuance of the Financing Order to recover the costs of abandonment (and other related Energy Transition Act-defined energy transition costs) through the issuance of energy transition bonds as defined by the Energy Transition Act (the energy transition bonds to be issued pursuant to the

Financing Order, the “Energy Transition Bonds”), using the securitization financing mechanism provided in the Energy Transition Act (the “Securitization”). PNM will recover its Energy Transition Act-defined energy transition costs (the “Energy Transition Costs”) through the Securitization. The bonds are to be issued around the time that PNM abandons Four Corners. The proposed Securitization allows for the recovery of costs relating to the abandonment of Four Corners at substantially lower customer impacts than would apply through continued ownership and utilizing traditional ratemaking methods.

13. The testimony of PNM Witness Atkins, CEO of Atkins Capital Strategies, LLC, and formerly with Guggenheim Securities, LLC, includes a review of utility securitization transactions generally and a detailed discussion of the Securitization proposed by the Company in this Financing Application and provides the memorandum regarding potential bond ratings required by the Energy Transition Act. Guggenheim Securities, LLC is a securities firm attested to by the State Board of Finance as being experienced in the marketing of bonds and capable of providing such a memorandum. Charles Atkins’ qualifications and experience were also similarly attested to by the State Board of Finance.

14. In order to facilitate the securitization, the Company will either use the SPE whose formation was approved by the Commission in Case No. 19-00018-UT, or will form a new SPE, which will be a Delaware limited liability company that will be wholly-owned by the Company.⁵ The SPE has the limited purposes of issuing one or more series of energy transition bonds, paying

⁵ In Case No. 19-00018-UT, the Commission approved the issuance of a financing order that authorizes PNM to form a special purpose entity that will issue up to \$361 million of energy transition bonds in connection with PNM’s abandonment of the San Juan Generating Facility (the “SJGS Bonds”). PNM expects to issue the SJGS Bonds in 2022 prior to the issuance of the Energy Transition Bonds to be issued pursuant to this Amended Application (the “Four Corners Bonds”). Depending on rating agency and investor preferences at the time of issuance, the Four Corners Bonds may be issued by the same special purpose entity that issues the SJGS Bonds or through a separate special purpose entity. The substantial majority of utilities that have conducted multiple securitization issuances have used a separate special purpose entity for each issuance.

the net proceeds of any such issuance to the Company to purchase energy transition property as defined in Section 62-18-2(I) of the Energy Transition Act created by a financing order, and performing other activities related thereto. The proposed Energy Transition Bonds will be issued by the SPE under an indenture between the SPE and an indenture trustee (the “Indenture”).

15. The SPE will be capitalized through the issuance of the Energy Transition Bonds and a concurrent equity capital contribution from the Company. The Company intends that its equity capital contribution to the SPE will be 0.5% of the total capital of the SPE (with the Energy Transition Bonds representing the remaining 99.5% of the capitalization of the SPE).⁶ In accordance with Section 62-18-4(B)(8) of the Energy Transition Act, the Company’s equity capital contribution to the SPE will not be less than 0.5% of the total capital of the SPE. This minimum capitalization level also will satisfy existing Internal Revenue Service safe harbors so that the Company will not recognize gross income upon the receipt of cash in exchange for the issuance of the Energy Transition Bonds. The Company proposes earning a return on this capital contribution equal to the interest rate on the longest maturing tranche of the Energy Transition Bonds, and to be paid as an ongoing financing cost of the Securitization.

16. PNM currently estimates that the SPE will issue approximately \$300 million in aggregate principal amount of the Energy Transition Bonds, as discussed further below. The SPE will use the proceeds it receives from the sale of the Energy Transition Bonds to: (i) pay the upfront financing costs as defined in Section 62-18-2(K) of the ETA incurred in connection with the issuance of the Energy Transition Bonds (including reimbursement to the Company of any such

⁶ If the Four Corners Bonds are issued through the SPE that issues the SJGS Bonds, PNM will make an initial capital contribution to the SPE at the time of issuance of the SJGS Bonds equal to 0.5% of the total capitalization of the SPE and an additional capital contribution to the SPE at the time issuance of the Four Corners Bonds so that the total contribution equals 0.5% of the total capitalization of the SPE. The capital contribution with respect to the SJGS Bonds will be held by the trustee under the indenture for the SJGS Bonds and the capital contribution with respect to the Four Corners Bonds will be held by the trustee under the indenture for the Four Corners Bonds.

costs paid by the Company) (the “Upfront Financing Costs”), as described in the direct testimonies of PNM Witnesses Sanchez and Baker, and (ii) purchase from PNM, on the date of issuance of the Energy Transition Bonds, the energy transition property created under the Financing Order (the “Energy Transition Property”).

17. In accordance with Section 62-18-10 of the Energy Transition Act, PNM will use the proceeds it receives from the sale of the Energy Transition Property to the SPE: (i) to make any required payments under Section 62-18-16, (ii) to pay decommissioning costs being recovered as Abandonment Costs, and (iii) for purposes of providing utility service to customers, including making capital expenditures for the purpose of providing utility service to customers, and the repayment of any indebtedness incurred for the purpose of making such payments. Proceeds of the Energy Transition Bonds shall not be used for purposes of paying dividends, making affiliate loans or paying incentive compensation.

18. The purchase of the Energy Transition Property by the SPE from the Company will be made pursuant to the terms of an energy transition property purchase and sale agreement between the Company and the SPE (the “Purchase Agreement”). The Energy Transition Property to be purchased by the SPE includes the right to impose, charge, collect and receive energy transition charges (the “Energy Transition Charges”) in an amount necessary to provide for full payment and recovery of all of the Energy Transition Costs identified in the Financing Order. As set forth in Section 62-18-2(G) of the Energy Transition Act, the Energy Transition Charges are the non-bypassable charges paid by all PNM customers to fully recover the Energy Transition Costs identified in the Financing Order, including paying the principal of and interest on the Energy Transition Bonds as scheduled and in full, as well as the other ongoing financing costs associated with the Energy Transition Bonds. The Energy Transition Property also includes the

adjustment mechanism required by Section 62-18-6 of the Energy Transition Act, which is the ability to adjust the amount of the Energy Transition Charges owed by PNM's customers in order to ensure that the amounts actually collected are sufficient to pay all amounts owed with respect to the Energy Transition Bonds as scheduled and in full, including the other ongoing financing costs. The methods of calculating the Energy Transition Charges and the Company's proposed adjustment mechanism required by Section 62-18-6 of the Energy Transition Act are described in the testimony of PNM Witness Settlage.

19. PNM currently estimates that the Energy Transition Bonds will be issued in a single series with multiple tranches with varying maturities to attract a greater number of investors. PNM proposes and expects that the Energy Transition Bonds will be sold pursuant to a negotiated sale to investors, coordinated through one or more underwriters in a public offering registered with the Securities and Exchange Commission. PNM proposes to retain the flexibility to determine at the time of issuance, consistent with its commitment to use commercially reasonable efforts to achieve the lowest cost objective, whether to conduct a public offering or a Rule 144A private placement. The Company currently expects that the Energy Transition Bonds will be issued with a final scheduled maturity date of approximately 25 years from the date of issuance of the Energy Transition Bonds, and a final legal maturity date of approximately 28 years from the date of issuance, and with semiannual payments of principal and interest. The initial debt service payment may be scheduled to take place more than six months after issuance of the Energy Transition Bonds. The number, size and tenor of the series and tranches offered to investors will be determined by rating agency requirements and investor demand at the time of pricing, and as a result, the actual structures may differ. In no event will the final scheduled maturity date of the Energy Transition Bonds be more than 25 years from the date of issuance of the Energy Transition

Bonds. A discussion of scheduled maturity dates and legal maturity dates is included in the testimony of PNM Witness Atkins.

20. The assets of the SPE, consisting primarily of the Energy Transition Property and the collection account established under the Indenture (the “Collection Account”), will be pledged as collateral to secure payment of the Energy Transition Bonds.

21. The Collection Account will be held by the indenture trustee and will facilitate the payment of principal of and interest on the Energy Transition Bonds and other ongoing financing costs associated with the Energy Transition Bonds. The Collection Account will consist of three or more subaccounts, including: (i) a general subaccount into which the Company as servicer will remit Energy Transition Charge collections on a regular basis; (ii) a capital subaccount to hold the initial equity capital contribution made by the Company to the SPE; and (iii) an excess funds subaccount to hold excess remittances and investment earnings on the Collection Account not needed to pay the current Periodic Revenue Requirement (as defined below) so that such amounts can be available to make payments in future periods. Other forms of credit enhancement and other mechanisms (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts, or surety bonds) to improve the credit quality and marketability of the Energy Transition Bonds may be used in furtherance of the lowest cost objective. The structure and operation of the Collection Account is described in more detail in the testimony of PNM Witness Atkins.

22. Each tranche of the Energy Transition Bonds will bear interest at a fixed rate.

23. The Company will enter into a servicing agreement with the SPE (the “Servicing Agreement”). Under the Servicing Agreement, the Company will be responsible for billing, monitoring, collecting and remitting the Energy Transition Charges.⁷ As compensation for its

⁷ The Energy Transition Charges to be imposed in connection with the Four Corners Bonds will be separate and independent of the energy transition charges approved in Case No. No. 19-00018-UT with respect to the SJGS Bonds

duties under the Servicing Agreement, PNM proposes to receive from the SPE a servicing fee equal to 0.05% per annum of the initial principal balance of the Energy Transition Bonds. This fee is based on current market rates in similar utility securitization transactions. As described in the testimony of PNM Witness Atkins, payment of a servicing fee that is consistent with market rates is necessary to maintain the essential bankruptcy-remote nature of the SPE.

24. The Company further proposes that the Company may not resign from its duties as servicer unless: (i) the Company determines that performance of its duties as servicer is no longer permissible under applicable law, or (ii) the Company shall have received the consent of the Commission and that such action will not result in a suspension, reduction or withdrawal of the then current ratings on any of the Energy Transition Bonds. If the Company defaults on its duties as servicer or is required for any reason to discontinue those functions, then a successor servicer acceptable to the indenture trustee and, if required, the rating agencies, may be named to replace the Company. In this event, the servicing fee paid to a successor servicer would likely need to be higher than the servicing fee paid to the Company. The Company has proposed that, in the event a successor servicer is appointed, the servicing fee be allowed to increase; provided that the Commission's consent would be required for any servicing fee in excess of 0.60% per annum on the initial principal balance of the Energy Transition Bonds.

Description of Qualifying Facility

25. Section 62-18-4(B)(1) of the Energy Transition Act requires that a qualifying utility's application for a financing order include a description of the facility that the qualifying

(the "SJGS Charges"). Under the servicing agreement relating to the SJGS Bonds, PNM, in its capacity as servicer, will remit the collections from the SJGS Charges to the indenture trustee for the SJGS Bonds. Under the servicing agreement relating to the Four Corners Bonds, PNM, in its capacity as servicer, will remit the collections from the Four Corners Charges to the indenture trustee for the Four Corners Bonds. PNM, the SPE for each of the SJGS Bonds and the Four Corners Bonds and the related indenture trustees will enter into an intercreditor agreement, a form of which is attached as Exhibit D to the proposed form of indenture, which will address PNM's responsibilities for the collection and remittance of these separate charges.

utility proposes to abandon or for which abandonment authority was granted after December 31, 2018. The Company proposes to abandon its share of Four Corners, also referred to as the Four Corners Power Plant or FCPP. The facility is further described above and in more detail in the direct testimony of PNM Witness Fallgren.

Estimate of Energy Transition Costs

26. Section 62-18-4(B)(2) of the Energy Transition Act requires that a qualifying utility's application for a financing order include an estimate of Energy Transition Costs, defined in Section 62-18-2(H) as the sum of: (1) financing costs (as defined in the Energy Transition Act); (2) abandonment costs (as further described in Section 62-18-2(H)(2) of the Energy Transition Act)("Abandonment Costs"); (3) any other costs required to comply with changes in law enacted after January 1, 2019 incurred by the qualifying utility at the qualifying generating facility ("Change in Law Costs"); and (4) payments required pursuant to Section 62-18-16 of the Energy Transition Act (the "Section 16 Payments"). Through the direct testimonies of PNM Witnesses Sanchez and Baker, PNM has provided an aggregate estimate of approximately \$300 million of Abandonment Costs, Upfront Financing Costs and Section 16 Payments. PNM has not identified any Change in Law Costs in this Amended Application. The estimated Upfront Financing Costs and Section 16 Payments are subject to change and will be updated at the time of issuance of the Energy Transition Bonds as provided in Section 62-18-4(B)(6).

27. With regard to the Abandonment Costs, the direct and supplemental testimonies and exhibits provide substantial support for the undepreciated investments which PNM seeks to recover through the issuance of the energy transition costs, and the supplemental testimonies and exhibits further respond to the Hearing Examiner's February Order requiring additional information on such costs. The direct testimonies and exhibits also provide substantial support for

plant decommissioning costs PNM seeks to recover through the issuance of the energy transition costs.

28. The Company proposes that the maximum principal amount of the Energy Transition Bonds to be issued pursuant to the Financing Order would be equal to the sum of (A) the \$276 million of estimated Abandonment Costs set forth in this Amended Application that are recoverable pursuant to Section 62-18-2(H)(2) of the Energy Transition Act; (B) Section 16 Payments (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 62-18-4(B)(6) of the Energy Transition Act); and (C) Upfront Financing Costs (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 62-18-4(B)(6) of the Energy Transition Act). The SPE shall not issue Energy Transition Bonds in a principal amount in excess of \$300 million unless PNM shall have obtained an amendment to the Financing Order pursuant to Section 62-18-7(B)(2) of the Energy Transition Act to update the maximum principal amount of the Energy Transition Bonds that may be issued. If PNM's energy transition cost estimate at the time of issuance is lower than the estimate included in this Amended Application, the SPE shall reduce the size of the bond issuance accordingly.

29. In addition to the Upfront Financing Costs, additional financing costs as defined in Section 62-18-2(K) of the Energy Transition Act will be incurred while the Energy Transition Bonds remain outstanding (the "Ongoing Financing Costs"). The Ongoing Financing Costs will be recovered through the Energy Transition Charges. The Ongoing Financing Costs will include payment of principal and interest on the Energy Transition Bonds ("Debt Service Payments"), and other fees and expenses incurred during the life of the Energy Transition Bonds to service and support the Energy Transition Bonds (the "Other Ongoing Financing Costs"). The testimony of

PNM Witness Atkins includes a proposed preliminary structure for the Energy Transition Bonds, including estimated Debt Service Payments. PNM Witness Sanchez's testimony includes a schedule of estimated Other Ongoing Financing Costs. The estimated Ongoing Financing Costs are subject to change and will be updated at the time of bond issuance as provided by Section 62-18-4(B)(6). While the servicing fee, administration fee and return on capital contribution will be based upon fixed amounts upon bond issuance, other components of these costs will be subject to variation over the life of the Energy Transition Bonds.

Estimated Energy Transition Charges and True-Up Adjustment Mechanism

30. Section 62-18-4(B)(3) of the Energy Transition Act requires that a qualifying utility's application for a financing order include an estimate of the amount of Energy Transition Charges necessary to recover the estimated Energy Transition Costs provided in a financing application and the proposed calculation of the estimated Energy Transition Charges, based on the estimated date of issuance and estimated principal amount of each series of energy transition bonds proposed to be issued. PNM estimates that the Energy Transition Charges for the initial full year (2025) following issuance of the Energy Transition Bonds will be approximately \$16.7 million. Through PNM Exhibit MJS-6 attached to the direct testimony of Michael J. Settlage, PNM has provided the estimated amount of Energy Transition Charges for the initial full year following issuance of the Energy Transition Bonds for each rate schedule.

31. A detailed discussion of the proposed calculation of the Energy Transition Charges is included in the direct testimony and related exhibits of PNM Witness Settlage. The Company's proposed calculation of the Energy Transition Charges involves a multi-step process that begins with an estimate of the Energy Transition Charge collections that would be necessary to pay on a timely basis all scheduled payments of principal and interest (or deposits to sinking funds with

respect to principal and interest) and all Other Ongoing Financing Costs over a specified period of time (the period covered by such estimate, the “Remittance Period,” and the estimated revenue required for such period, the “Periodic Revenue Requirement”). In establishing the initial Energy Transition Charges, the Company will estimate the Periodic Revenue Requirement for a Remittance Period beginning on the date of issuance of the Energy Transition Bonds and ending on the first scheduled principal and interest payment date on the Energy Transition Bonds. The Periodic Revenue Requirement for any subsequent Remittance Period will be further adjusted through the true-up adjustment mechanism described below.

32. PNM will next determine the aggregate amount of Energy Transition Charges that must be assessed during a Remittance Period to collect the Periodic Revenue Requirement during the Remittance Period (the “Periodic Billing Requirement”). The Periodic Billing Requirement accounts for collection lag and uncollectible amounts. For each Remittance Period, PNM will estimate the timing of collections of Energy Transition Charges based on a weighted average balance of days outstanding on PNM’s customer bills. PNM also will estimate an uncollectible amount.

33. After determining the Periodic Billing Requirement, the next step in the Company’s proposed process of calculating the Energy Transition Charges involves allocating the Periodic Billing Requirement to the Company’s various customer classes and further sub-allocating the Periodic Billing Requirement based on PNM’s rate schedules within the customer classes. In accordance with the requirements of Sections 62-18-5(F)(3) and 62-18-6(A) of the Energy Transition Act, the Company’s proposed method of allocation will be consistent with the production cost allocation methodology authorized in the Company’s most recent general rate

case. PNM's proposed allocation methodology is described in the testimony and exhibits of PNM Witness Settlement.

34. The final step in the Company's proposed process of calculating the Energy Transition Charges involves determining the Energy Transition Charges for customers within each customer class and rate schedule based on the portion of the Periodic Billing Requirement allocated to each class. In accordance with the requirements of Sections 62-18-5(F)(3) and 62-18-6(A) of the Energy Transition Act, the Company's proposed process for calculating the initial Energy Transition Charges would assess the charges consistent with energy and demand cost allocations within each customer class. Given the differing characteristics of each customer class and rate schedule, differing methodologies will be used. A detailed description of the proposed methodology for each of the Company's customer classes and rate schedules is included in PNM Exhibit MJS-5 attached to the Direct Testimony of PNM Witness Settlement.

35. In addition, Section 62-18-4(B)(4) of the Energy Transition Act requires that a qualifying utility's application for a financing order include a description of the proposed adjustment mechanism that complies with Section 62-18-6 of the Energy Transition Act.

36. Section 62-18-6(B) of the Energy Transition Act provides that the Commission shall periodically approve adjustments of energy transition charges pursuant to the adjustment mechanism approved in a financing order to correct for any over-collection or under-collection of the energy transition charge and to provide for timely payment of scheduled principal of and interest on energy transition bonds and the payment and recovery of financing costs in accordance with the financing order. Pursuant to Sections 62-18-6(B) and 62-18-6(C) of the Energy Transition Act, the qualifying utility shall file at least semiannually (and at least quarterly during the two-year period preceding the final maturity date of the energy transition bonds), or more frequently

as provided in the financing order: (1) a calculation estimating whether the existing energy transition charge is sufficient to provide for timely payment of scheduled principal of and interest on the energy transition bonds and the payment and recovery of other financing costs in accordance with the financing order or if either an over-collection or under-collection is projected; and (2) a calculation showing the adjustment to the energy transition charge to correct for any over-collection or under-collection of energy transition charges.

37. The Company's proposed adjustment mechanism (the "True-Up Adjustment Mechanism") is described in detail in the direct testimony and related exhibits of PNM Witness Settlage and in the proposed form of Financing Order attached as Attachment 2 to this Amended Application. The True-Up Adjustment Mechanism is a formula-based mechanism to periodically adjust the Energy Transition Charges to correct for any over-collection or under-collection of the Energy Transition Charges and to provide for timely payment of scheduled principal of and interest (or deposits to sinking funds in respect of principal and interest) on the Energy Transition Bonds and the payment of Other Ongoing Financing Costs. The True-Up Adjustment Mechanism will remain in effect until the Energy Transition Bonds and all financing costs have been fully paid and recovered, any under-collection is recovered from customers and any over-collection is returned to customers. In addition to the required semi-annual (and quarterly during the two-year period preceding the final maturity date of the Energy Transition Bonds) standard adjustments, the Company also proposed to be granted authority to make optional interim true-up adjustments at any time, without limits as to frequency, in order to ensure timely payment of scheduled principal of and interest (or deposits to sinking funds in respect of principal and interest) on the Energy Transition Bonds and the payment of Other Ongoing Financing Costs. In addition, the Company proposes to make a non-standard true-up adjustment in connection with any general rate case, as

necessary to reflect any changes to the allocation of the Energy Transition Charges as a result of changes in the production cost allocation methodology used in such general rate case.

Securities Firm Memorandum

38. Section 62-18-4(B)(5) of the Energy Transition Act requires that a qualifying utility’s application for a financing order include a memorandum with supporting exhibits from a securities firm (the “Securities Firm Memorandum”) indicating that the proposed issuance satisfies the current published “AAA” rating or equivalent criteria of at least one nationally recognized statistical rating organization for issuances similar to the proposed energy transition bonds. Under Section 62-18-4(B)(5) of the Energy Transition Act, the securities firm providing the Securities Firm Memorandum must be attested by the State Board of Finance as being experienced in the marketing of bonds and capable of providing the Securities Firm Memorandum.

39. On December 15, 2020, the State Board of Finance issued its written attestation of both Guggenheim Securities, LLC, and Charles Atkins as being experienced in the marketing of bonds and capable of providing the Securities Firm Memorandum. As required by Section 62-18-4(B)(5) of the Energy Transition Act, Guggenheim Securities, LLC has delivered its Securities Firm Memorandum, a copy of which is included with the direct testimony of PNM Witness Atkins as PNM Exhibit CNA-4.

Commitments of the Company

40. In accordance with Section 62-18-4(B)(6) of the Energy Transition Act, the Company commits to file with the Commission following the issuance of the Energy Transition Bonds (a) a description of the final structure and pricing of the Energy Transition Bonds, (b) the updated Upfront Financing Costs, Ongoing Financing Costs and Section 16 Payments, and (c) an updated calculation of the Energy Transition Charges. This commitment of the Company is

addressed in the testimony of PNM Witness Sanchez. In accordance with Section 62-18-5(J) of the Energy Transition Act, upon the issuance of the Energy Transition Bonds, the Company will file an advice notice with the Commission, subject to review by the Commission for errors and corrections, that identifies the actual Energy Transition Charges to be included on customers' bills, effective fifteen days from the date the advice notice is filed.

41. Section 62-18-4(B)(12) of the Energy Transition Act requires that a qualifying utility's application for a financing order include a statement from the qualifying utility committing that the qualifying utility will use its commercially reasonable efforts to obtain the "lowest cost objective" (as defined in § 62-18-2(N) of the Energy Transition Act). Under this section, the lowest cost objective means that the structuring, marketing and pricing of energy transition bonds results in the lowest energy transition charges consistent with prevailing market conditions at the time of pricing of energy transition bonds and the structure and terms of energy transition bonds approved pursuant to a financing order.

42. The Company commits that it will use commercially reasonable efforts to obtain the lowest cost objective. The Company's commitment is addressed in the testimony of PNM Witness Sanchez. As described by PNM Witness Sanchez, the Company believes that the Commission's approval of the Financing Order substantially in the form proposed in Attachment 2 of this Amended Application (and specifically including all of the key provisions identified in the testimony of PNM Witness Atkins) will best position the Company to achieve the lowest cost objective. The proposed form of Financing Order in Attachment 2 is consistent with the financing order issued by the Commission on April 1, 2020 in Docket 19-00018-UT.

Proposed Timing of Issuance and Term of the Energy Transition Bonds

43. Section 62-18-4(B)(7) of the Energy Transition Act requires that a qualifying utility's application for a financing order include an estimate of timing of the issuance and term of the energy transition bonds, or series of bonds; provided that the scheduled final maturity for each bond issuance shall be no longer than twenty-five years.

44. As described in the testimony of PNM Witness Sanchez, the Company expects to cause the issuance of the Energy Transition Bonds as promptly as possible after the last of the following events have occurred: (1) issuance of a final, non-appealable financing order acceptable to the Company; (2) the abandonment of Four Corners; (3) delivery of any necessary Securities and Exchange Commission approvals under the Securities Act of 1933; and (4) completion of the rating agency process. The Company currently estimates the issuance of the Energy Transition Bonds would occur soon after January 1, 2025.

45. As described above, the latest scheduled maturity for any tranche of the Energy Transition Bonds will be not more than 25 years from the date of issuance of the bonds. The latest final legal maturity date for any tranche of the Energy Transition Bonds may be more than 25 years from the date of issuance of the Energy Transition Bonds.

Assignee of the Energy Transition Property

46. Section 62-18-4(B)(8) of the Energy Transition Act requires that a qualifying utility's application for a financing order include identification of plans to sell, assign, transfer or convey, other than as security, interest in energy transition property, including identification of an "assignee" (as defined in Section 62-18-2(C) of the Energy Transition Act), and demonstration that the assignee will be a financing entity wholly owned, directly or indirectly, by the qualifying

utility that will initially be capitalized by the qualifying utility in such a way that equity interests in the financing entity are at least one-half percent of the total capital of the assignee.

47. As discussed above and to the extent the SPE previously approved by the Commission is not utilized for the issuance of the requested energy transition bonds, the Company will form the SPE, or use the same SPE used for the SJGS energy transition bonds, with the Company as the sole member of the SPE. As also discussed above, the limited purposes of the SPE will be to issue energy transition bonds, to pay the net proceeds of such issuance to the Company to purchase energy transition property created by a financing order, and to perform other activities related thereto, and the equity interests in the SPE will be at least 0.5% of the total capital of the SPE. PNM's plans to sell the Energy Transition Property to the SPE as assignee are described above.

Potential Ancillary Agreements

48. Section 62-18-4(B)(9) of the Energy Transition Act requires that a qualifying utility's application for a financing order include identification of "ancillary agreements" (as defined in the Energy Transition Act) that may be necessary or appropriate. Pursuant to Section 62-18-2(B) of the Energy Transition Act, an ancillary agreement means a bond, insurance policy, letter of credit, reserve account, surety bond, interest rate lock or swap arrangement, hedging arrangement, liquidity or credit support arrangement or other similar agreement arrangement entered into in connection with the issuance of the energy transition bonds that is designed to promote the credit quality and marketability of the bonds or to mitigate the risk of an increase in interest rates.

49. Based on the testimony of PNM Witness Atkins, the Company does not anticipate requiring any credit enhancements to issue the Energy Transition Bonds (other than the 0.5%

capital subaccount and True-Up Adjustment Mechanism). However, as described in the testimony of PNM Witness Atkins, it is important that PNM has flexibility to enter into ancillary agreements to include other forms of credit enhancement and other mechanisms (e.g., letters of credit, additional amounts of overcollateralization or reserve accounts, or surety bonds) to improve the marketability of the Energy Transition Bonds in furtherance of the lowest cost objective.

Proposed Ratemaking Matters

50. As required by Section 62-18-4(B)(10) of the Energy Transition Act, a description of PNM's proposed ratemaking process to reconcile and recover or refund any difference between the Energy Transition Costs financed by the Energy Transition Bonds and the actual final Energy Transition Costs incurred by PNM is included in the direct testimony of PNM Witness Baker.

51. As required by Section 62-18-4(B)(11) of the Energy Transition Act, PNM includes in the testimony of PNM Witness Baker a proposed ratemaking method to account for the reduction in the qualifying utility's cost of service associated with the amount of undepreciated investments being recovered by the energy transition charge at the time that charge becomes effective. PNM's proposed ratemaking method is consistent with the Commission's approval of such a method in Case No. 19-00018-UT.

Draft Transaction Documents

52. PNM has submitted drafts of the following agreements: (1) a limited liability company operating agreement (the "SPE LLC Agreement"), between the SPE and PNM; (2) the Indenture; (3) the Purchase Agreement; (4) the Servicing Agreement; (5) an Administration Agreement; and (6) an Intercreditor Agreement (together with the SPE LLC Agreement, the Indenture, the Purchase Agreement, the Servicing Agreement, and the Intercreditor Agreement, the "Transaction Documents."). These draft agreements are substantially the same as to terms and

conditions as the draft agreements filed by PNM in Case No. 19-00018-UT, with the addition of the form of Intercreditor Agreement to address intercreditor rights given that PNM will be servicing both the SJGS Bonds and the Environmental Trust Bonds to be issued pursuant to this Application. PNM has provided drafts of the Transaction Documents to allow the Commission to evaluate the principal rights and responsibilities of the parties thereto. The final versions of these agreements, however, will be subject to change based on input from the rating agencies, investors and other parties involved in the marketing and structuring of the energy transition bonds. PNM has requested that the Commission approve the substance of the Transaction Documents, which would be executed substantially in the form submitted to the Commission, subject to such changes as are legally appropriate and necessary to satisfy bankruptcy or rating agency considerations or that otherwise are consistent with the provisions of the Financing Order.

Required Provisions for Issuance of a Financing Order

53. Pursuant to Section 62-18-5(E) of the Energy Transition Act, the Commission shall issue the Financing Order as a stand-alone order approving the financing application if the Commission finds that the financing portions of this Application comply with the requirements of Section 62-18-4 of the Energy Transition Act. The Commission also must include in the Financing Order authorizing the Securitization of the items required by Section 62-18-5 of the Energy Transition Act.

54. The Company has included as Attachment 2 to this Financing Application the proposed form of Financing Order containing detailed Findings of Fact, Conclusions of Law and Ordering Paragraphs addressing matters relating to the Securitization. These provisions of the proposed Financing Order reflect the level of detail and scope that will be expected by investors and the rating agencies. These detailed findings and conclusions maximize the stability of the cash

flows in the Securitization and provide the basis for the legal opinions upon which the rating agencies will rely in assigning the highest possible ratings for the Energy Transition Bonds. The combination of maximized cash flow stability and the highest possible ratings will allow the Energy Transition Bonds to be structured and priced to meet the statutory requirements. Accordingly, the Company requests that the Commission issue the Financing Order for the Energy Transition Bonds in substantially the form of the proposed Financing Order attached as Attachment 2 to this Consolidated Application.

IV. NOTICE AND PROCEDURAL REQUIREMENTS

55. PNM's proposed form of Notice, as revised, is attached to the Amended Application as Attachment 1. As required by the Energy Transition Act, PNM's revised proposed Form of Financing Order is attached to the Amended Application as Attachment 2. PNM will publish the Notice as may be approved and issued by the Commission in the manner so directed.

56. PNM has served a copy of this Amended Application and supporting pre-filed supplemental testimonies on the New Mexico Attorney General, the Commission's Utility Division Staff, and the parties to this case, as well as on the parties to Case Nos. 16-00276-UT (PNM's most recent general rate case) and 19-00018-UT (PNM's Abandonment/Securitization case for SJGS).

57. The following designated corporate representatives and legal counsel for PNM should receive all notices, discovery requests, objections and responses, briefs, and all other documents related to this case:

Stacey J. Goodwin, Esq.
Associate General Counsel
Ryan Jerman, Esq., Corp. Counsel
PNMR Services Company
414 Silver Avenue SW MS 805
Albuquerque, New Mexico 87158

Raymond L. Gifford
Wilkinson Baker Knauer LLP
2138 W. 32nd Ave., Suite 300
Denver, CO 80211
Phone: (303) 626-2350
Fax: (202) 783-5851

Richard L. Alvidrez, Esq.
Miller Stratvert P.A.
500 Marquette NW, Suite 1100
P.O. Box 25687
Albuquerque, NM 87125
Phone: (505) 842-1950

Phone: 505-241-4927

RGifford@wbklaw.com

RAIvidrez@mstlaw.com

Fax: 505-241-2338

Stacey.Goodwin@pnmresources.com

Ryan.Jerman@pnmresources.com

All pleadings, correspondence and other documents should be delivered electronically to the following email addresses:

Mark.Fenton@pnm.com

Brian.Buffington@pnm.com

Ryan.Jerman@pnmresources.com

Stacey.Goodwin@pnmresources.com

RGifford@wbklaw.com

RAIvidrez@mstlaw.com

Carey.Salaz@pnm.com

58. The following witnesses provided testimonies and exhibits in support of the original Application on January 8, 2021. The testimonies and exhibits are incorporated by reference herein, and provide support for the Amended Application.

- a. Mark Fenton, PNM Executive Director of Regulatory Policy and Case Management
- b. Laura E. Sanchez, PNMR Chief Policy & Legal Advisor
- c. Thomas G. Fallgren, PNM Vice President of Generation
- d. Nicholas L. Phillips, PNM Director of Integrated Resource Planning
- e. Thomas S. Baker, PNMR Manager of Cost of Service
- f. Michael J. Settlage, PNMR Services Lead Pricing Analyst
- g. Charles N. Atkins, CEO of Atkins Capital Strategies, LLC

59. The following witnesses provided supplemental testimonies and exhibits in response to the Hearing Examiner's February Order and in further support of PNM's Amended Application:

- a. Mark Fenton, PNM Executive Director of Regulatory Policy and Case Management
- b. Thomas G. Fallgren, PNM Vice President of Generation
- c. Thomas S. Baker, PNMR Manager of Cost of Service
- d. Michael J. Settlage, PNMR Services Lead Pricing Analyst
- e. Frank C. Graves, Principal at the Brattle Group

WHEREFORE, PNM respectfully requests that the Commission issue notice of this proceeding, conduct all necessary hearings in accordance with the statutory deadlines contained in the Energy Transition Act based on the filing date of the Amended Application, and issue a stand-alone Financing Order and related Final Order that expressly include the Findings and Conclusions set forth in PNM's form of Financing Order included in Attachment 2 and incorporated herein, and the request for approval of the abandonment and sale of FCPP. PNM requests that the Commission approve the Amended Application after review in a single proceeding and among other things determine that:

A) The proposed Agreement for the sale and transfer of PNM's ownership interests in Four Corners is not unlawful, nor inconsistent with or detrimental to the public interest. Therefore, PNM should be authorized to engage in ongoing activities related to the exit of Four Corners, including the sale and transfer of its ownership interests in Four Corners to NTEC.

B) It will be more economic for customers if PNM exits from and abandons Four Corners rather than continues as a co-tenant in the plant until a later retirement of the plant; and PNM has demonstrated a net benefit associated with the proposed abandonment and sale and transfer of the plant to NTEC.

C) The public convenience and necessity do not require the continued use of Four Corners for the provisions of electricity service to customers after December 31, 2024, and Four

Corners should be abandoned and transferred to NTEC at that time, consistent with the provisions of the Agreement with NTEC. It is in the public interest for PNM to abandon its interests in Four Corners effective on or around December 31, 2024, and PNM should be authorized to take all necessary steps to abandon and transfer to NTEC its interest in the coal plant.

D) The estimated Abandonment Costs, which include PNM's actual and estimated undepreciated FCPP investments as of the time of abandonment and plant decommissioning costs, shall be recovered under the financing order pursuant to the Energy Transition Act.

E) In the event the Commission reviews the prudence of PNM's decision in 2013 to continue as an owner in Four Corners in accordance with its ratemaking determinations in Case No. 16-00276-UT, find under any such review that PNM is authorized to recover its requested actual and estimated undepreciated investments in FCPP Corners as of the time of abandonment under the requested financing order pursuant to the Energy Transition Act.

F) It is in the public interest to grant PNM's request to establish regulatory assets, with carrying charges relating to undepreciated investments; coal mine reclamation and plant decommissioning and stranded inventories to be amortized over a reasonable period of time established in PNM's next general rate case.

G) It is further in the public interest to authorize PNM to establish regulatory assets and liabilities to address differences between amounts financed by the energy transition bonds and final actual energy transition costs through either a regulatory asset (if the actual final energy transition costs are greater than the estimated energy transition costs) or a regulatory liability (if the actual final energy transition costs are less than the estimated energy transition costs) for recovery/(crediting) to be amortized over a reasonable period established in PNM's next general rate case.

H) PNM's request for issuance of a Financing Order that meets the provisions of Sections 62-18-4 through -7, -9, and -17 through -19 of the Energy Transition Act is in the public interest and should be approved and separately issued as a stand-alone order, and such order shall contain the necessary detailed findings and conclusions set forth in PNM's revised proposed form of Financing Order.

I) PNM should be granted any other such authorizations necessary to implement the proposed actions in accordance with the requirements of the Public Utility Act, the Energy Transition Act, and applicable Commission rules.

Respectfully submitted this 15th day of March 2021.

PUBLIC SERVICE COMPANY OF NEW MEXICO

/s/ Stacey Goodwin

Stacey J. Goodwin, Associate General Counsel
Ryan Jerman, Corporate Counsel
PNMR Services Company
Corporate Headquarters – Legal Department
Albuquerque, NM 87158-0805
(505) 241-4927
(505) 241-4836
Stacey.Goodwin@pnmresources.com
Ryan.Jerman@pnmresources.com

Raymond L. Gifford
Wilkinson Barker Knauer, LLP
2138 W. 32nd Ave., Suite 300
Denver, CO 80211
(303) 626-2350
RGifford@wbklaw.com

Richard L. Alvidrez
Miller Stratvert P.A.
500 Marquette NW, Suite 1100
P.O. Box 25687
Albuquerque, New Mexico 87125
(505) 842-1950

Attorneys for Public Service Company of New Mexico

GCG#527791

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF THE)
ABANDONMENT OF THE FOUR CORNERS)
POWER PLANT AND ISSUANCE OF A)
SECURITIZED FINANCING ORDER)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)
)

Case No. 21-00017-UT

PROPOSED FORM OF NOTICE (MARCH 15, 2021)

NOTICE is hereby given of the following matters pertaining to the above captioned case pending before the New Mexico Public Regulation Commission (“NMPRC” or “Commission”):

On March 15, 2021, Public Service Company of New Mexico filed its Amended Application for the abandonment and sale of its ownership share and the related financing of the Four Corners Power Plant (“FCPP”) pursuant to the Energy Transition Act. Pursuant to the Act, PNM is deferring a request for replacement resources until after Commission consideration of PNM’s proposal to abandon and sell the coal plant with securitized financing. PNM’s Application is requesting the following approvals from the Commission:

- (1) abandonment of FCPP, including (a) abandonment of the FCPP plant and facilities located near Fruitland, New Mexico, and (b) recovery of abandonment costs and related energy transition costs as defined in the Energy Transition Act (“ETA”) of approximately \$300 million;
- (2) sale of PNM’s abandoned interest in FCPP to the Navajo Transitional Energy Company, LLC under Sections 62-6-12(A)(4) and 62-6-13 of the Public Utility Act; and
- (3) a financing order under the ETA approving the issuance of highly-rated Energy Transition Bonds in the principal amount of approximately \$300 million secured by a non-

bypassable customer charge that will provide for recovery of: a) PNM's undepreciated investments totaling \$271.3 million; b) decommissioning costs of \$4.6 million; c) transactional costs associated with issuing energy transition bonds and obtaining approval of abandonment of \$7.3 million; d) the Energy Transition Indian Affairs Fund to be administered by the Indian Affairs Department, in the amount of \$1.5 million; e) the Energy Transition Economic Development Assistance Fund to be administered by the Economic Development Department, in the amount of \$5.0 million; and f) the Energy Transition Displaced Worker Assistance Fund, to be administered by the Workforce Solutions Department, in the amount of \$10.0 million.

In accordance with Section 62-18-5(A) of the ETA and the filing of its Amended Application, PNM requests that the Commission issue these approvals within nine months of PNM's March 15, 2021 filing date.

The following is a summary of PNM's assertions and testimony filed in support of the Application:

(1) Pursuant to the ETA, PNM's Consolidated Application requests approval to: abandon, sell and transfer to the Navajo Transitional Energy Company, LLC PNM's minority ownership interest in FCPP as of December 31, 2024; and finance abandonment and other energy transition costs through the issuance of ETA authorized and securitized energy transition bonds, which dedicate a portion of the energy transition bond proceeds for those purposes.

(2) Abandonment of FCPP will result in a net benefit to customers. PNM's analyses demonstrate that it may be financially more costly for customers to continue to rely on power from PNM's 200 MW share of FCPP beyond the current planned operational period through 2031, than the anticipated cost of relying on new resources upon an early exit from FCPP as of December 31, 2024. PNM further states that the sale of FCPP is lawful and is in the public interest.

(3) PNM states that customers will continue to benefit from the approval of the FCPP abandonment in the future because the costs of continuing to rely on FCPP are estimated to exceed the costs of abandoning FCPP and replacing its capacity with potential new resources. Although actual savings will be determined based on the cost of future replacement resources, PNM estimates that the early exit from FCPP could result in customer savings ranging from \$300 million to \$30 million. The benefits to customers include savings from the use of securitized financing to finance the early abandonment of FCPP, which further lowers costs to customers when compared to traditional rate recovery of costs relating to abandonment. PNM asserts that its prior decision to remain in FCPP was prudent and that PNM is authorized to recover the requested undepreciated investments in FCPP as abandonment costs in accordance with the ETA.

(4) PNM is a “qualifying utility” under Section 2(T) of the ETA and therefore is authorized pursuant to Section 4(A) of the ETA to file a financing application for issuance of a financing order under Section 5 of the ETA in its Application. PNM will recover its ETA-defined energy transition costs through the securitization financing set forth in the ETA. The proposed securitization of these costs allows for the recovery of costs relating to the abandonment of FCPP at substantially lower customer impacts than would be required through traditional ratemaking methods.

(5) Proceeds of the sale of the Energy Transition Bonds will be used to finance payment of certain abandonment costs pursuant to the ETA, and will be used for utility purposes, including expenditures authorized by the ETA such as funding state administered programs to benefit affected workers and communities..

(6) If the Application is approved, PNM anticipates issuing the Energy Transition Bonds around the time of PNM’s exit from FCPP as of December 31, 2024. Customers will be

assessed an Energy Transition Charge on their bills after issuance of the Energy Transition Bonds. PNM is not requesting any adjustment to its general base rates in its Application. Upon the Energy Transition Charge taking effect, PNM states that customers will receive a credit in the form of a rate-rider for FCPP related costs that are being collected in base rates at that time.

(7) Although the exact energy transition charge revenues will be calculated at the time the bonds are issued, PNM has estimated the first-year revenue requirement to be approximately \$16.7 million, which will be allocated to customer rate classes consistent with the production cost allocation methodology for rates approved by the Commission. The following table represents the estimated allocation of the first-year revenues that would occur under current rates:

1 – Residential	\$9,176,849
2 – Small Power	\$1,947,985
3B – General Power	\$2,597,644
3C – General Power Low LF	\$365,323
4B- Large Power	\$1,525,751
5B – Lg. Svc. (8 MW)	\$80,023
10 – Irrigation	\$53,753
11B – Wtr/Swg Pumping	\$134,775
15B – Universities 115 kV	\$83,163
30B – Manuf. (30 MW)	\$440,619
33B – Lg. Svc. (Station Power)	\$3,583
35B – Lg. Svc. (3 MW)	\$250,133
36B – SSR – Renew. Energy Res.	\$30,901
6 – Private Lighting	\$8,756
20 – Streetlighting	\$25,354

PNM proposes to assess the charges to customers within each rate class consistent with energy and demand cost allocations within the class.

(8) In order to assess the Energy Transition Charge on future customer bills, PNM will file an Advice Notice with the Commission at the time the securitized bonds are issued. The approved non-bypassable charges will be used to repay the bonds after issuance and will be periodically reset through similar subsequent filings. For residential customers, PNM proposes to

implement two levels of charges based on the monthly amount of electricity consumed: the estimated non-bypassable charge for residential customers that consume up to 900 kWh of power per month would be \$1.32/month; for customers consuming more than 900 kWh per month, the estimated charge would be \$3.44/month. For small power customers, PNM estimates that the initial Energy Transition Charge will be \$2.89/month. PNM presents these revenue requirements and bill impacts for informational purposes only; the final revenue requirements and Energy Transition Charges may vary from the amounts included in PNM's Application.

(9) Further information regarding this case can be obtained by contacting PNM or the Commission at the addresses and telephone numbers provided below. The Commission has assigned Case No. 21-00017-UT to this proceeding and all inquiries or written comments concerning this matter should refer to that case number.

The present procedural schedule for this case is as follows:

a. On or before _____, 2021, any person desiring to intervene to become a party ("intervenor") in this case must file a motion for leave to intervene in conformity with NMPRC Rules of Procedure 1.2.2.23(A) and (B) NMAC. Persons who wish to provide comments on this case without becoming a party may do so without filing a motion to intervene.

b. On or before _____, 2021, Staff shall, and Intervenors may, file Direct Testimony.

c. Rebuttal testimony may be filed on or before _____, 2021.

d. Motions in limine and other pre-hearing motions may be filed on or before _____, 2021.

e. Responses to motions in limine and other pre-hearing motions may be filed on or before _____, 2021.

f. If necessary, a pre-hearing conference shall be held on _____, 2021 at _____ a.m./p.m.

g. Oral public comments may be submitted on _____, 2021 at 9:30 a.m. Such comments will not be considered as evidence in this proceeding.

h. A public hearing on this matter shall be held beginning on _____, 2021 commencing at 9:30 a.m. MT. Due to the ongoing COVID-19 pandemic, the public hearing is currently anticipated to be conducted via the Zoom video conference platform. This could change depending on the specific circumstances at the time of the hearing. Access to and participation in the evidentiary hearing shall be limited to party-participants (i.e., attorneys and witnesses) and any Commissioners desiring to participate. The Zoom hearing will be livestreamed through YouTube and will be displayed on the Commission's website. Persons not participating in the hearing as an attorney or witness may view the hearing on the Commission's website and shall not join the hearing via Zoom except to provide oral comments.

i. The procedural dates and requirements of this case are subject to further order of the Commission or Hearing Examiner. Interested persons should contact the Commission for confirmation of the hearing date, time, and place since hearings are occasionally rescheduled.

j. Any interested person may contact the Commission's offices, telephone number 888-427-5772. This case has been docketed as Case No. 21-00017-UT and any inquiries should refer to that number.

k. Interested persons may also examine PNM's Application and all other pleadings, testimony, exhibits and other documents filed in the public record for this case on the Commission's website at <https://edocket.nmprc.state.nm.us>.

l. The Commission's Rules of Procedure (1.2.2.1 NMAC) shall apply to this proceeding except as modified by order of the Commission or Hearing Examiner. A copy of the rules may be obtained from the offices of the Commission or at <http://164.64.110.134/parts/title01/01.002.0002.html>.

m. Anyone filing pleadings, documents or testimony in this case shall comply with the Commission's electronic filing policy, as amended from time to time. This includes filings in .pdf format, with electronic signatures, sent to the Records Bureau's email address, as set out on the Commission's website, at: prc.records@state.nm.us, within regular business hours of the due date. Documents received after business hours will be considered as filed the next business day. Regular business hours are from 8:00 a.m. to 5:00 p.m. Mountain Time. Parties shall serve a copy on all parties of record and Staff in the manner specified on the most recent Certificate of Service for this case. All filings shall be e-mailed on the date they are filed with the Commission. Any such filings shall also be e-mailed to the Hearing Examiner at:

Anthony.Medeiros@state.nm.us.

All documents emailed to the Hearing Examiner shall include Word files if created in that format.

n. Any person whose testimony has been pre-filed shall attend the hearing and submit to examination under oath.

o. Any interested person may appear at the time of hearing and make a written or oral comment pursuant to 1.2.2.23(F) NMAC without becoming an intervenor.

p. Interested persons may also send written comments, which shall reference NMPRC Case No. 21-00017-UT. Such comments will not be considered as evidence in this proceeding.

q. Additional details regarding this proceeding and its procedural requirements are set forth in the Hearing Examiner's _____, 2021 Procedural Order.

ANY PERSON WITH A DISABILITY REQUIRING SPECIAL ASSISTANCE IN ORDER TO PARTICIPATE IN THIS PROCEEDING SHOULD CONTACT THE COMMISSION AT LEAST 24 HOURS PRIOR TO THE COMMENCEMENT OF THE HEARING.

Issued at Santa Fe, New Mexico, on _____, 2021.

NEW MEXICO PUBLIC REGULATION COMMISSION

Hearing Examiner

GCG#527785

**ATTACHMENT 2
PUBLIC SERVICE COMPANY OF NEW MEXICO'S
PROPOSED FORM OF FINANCING ORDER (MARCH 15, 2021)**

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF THE)
ABANDONMENT OF THE FOUR CORNERS)
POWER PLANT AND ISSUANCE OF A)
SECURITIZED FINANCING ORDER)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant)
_____)**

Case No. 21-_____-UT

FINAL ORDER ON REQUEST FOR ISSUANCE OF A FINANCING ORDER

THIS MATTER comes before the New Mexico Public Regulation Commission (“Commission”) on the Recommended Decision issued by Hearing Examiner Anthony Medeiros on Public Service Company of New Mexico’s (PNM) Request for Issuance of a Securitized Financing Order included as part of the March 15, 2021 Amended Application of PNM for Approval of the Abandonment of the Four Corners Power Plant and Issuance of a Securitized Financing Order pursuant to the Energy Transition Act (“Application”). The Commission, having reviewed the Recommended Decision (RD), the Application and being otherwise duly informed,

FINDS:

1. The Commission has jurisdiction over the parties and the subject matter of this case.
2. [FURTHER COMMISSION DISCUSSION, IF ANY]

IT IS THEREFORE ORDERED:

A. The Recommended Decision on Public Service Company of New Mexico's (PNM) Request for Issuance of a Financing Order, including the Statement of the Case, Discussion, Findings of Fact and Conclusions of Law, Decretal Paragraphs and the Financing Order recommended by the Hearing Examiner, are well taken and are hereby incorporated by reference as if fully set forth in this Final Order, and are ADOPTED, APPROVED and ACCEPTED as the Findings, Conclusions and Orders of the Commission.

B. All exceptions, pending motions, requests or any other matter not expressly ruled on or addressed in the hearing or in the discussion of this Final Order herein are hereby deemed denied and disposed of consistent with the discussion of this Final Order.

C. This Order is effective immediately.

D. Copies of this Order shall be served on all persons listed in the attached Certificate of Service, via e-mail to those whose e-mail addresses are known, and otherwise via regular mail.

ISSUED under the Seal of the Commission at Santa Fe, New Mexico, this [] day of [], 20[].

NEW MEXICO PUBLIC REGULATION COMMISSION

STEPHEN FISCHMANN, CHAIR, DISTRICT 5

JOSEPH MAESTAS, VICE-CHAIR, DISTRICT 3

CYNTHIA B. HALL, COMMISSIONER, DISTRICT 1

JEFFERSON L. BYRD, COMMISSIONER, DISTRICT 2

THERESA BECENTI-AGUILAR, COMMISSIONER, DISTRICT 4

[ATTACH CERTIFICATE OF SERVICE]

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF THE)
ABANDONMENT OF THE FOUR CORNERS)
POWER PLANT AND ISSUANCE OF A)
SECURITIZED FINANCING ORDER)

21-_____-UT

RECOMMENDED DECISION
ON PNM'S REQUEST FOR ISSUANCE OF A FINANCING ORDER

[DATE]

The Hearing Examiner submits this Recommended Decision to the New Mexico Public Regulation Commission (“Commission” or “PRC”) pursuant to NMSA 1978, 8-8-14, and the Commission’s Rules of Procedure 1.2.2.29(D)(4) and 1.2.2.37(B) NMAC. The Hearing Examiner recommends that the Commission adopt the following statement of the case, discussion, findings of fact, conclusions of law, and ordering paragraphs in an Order.

I. STATEMENT OF THE CASE

On March 22, 2019, Governor Michelle Lujan Grisham signed into law Senate Bill 489 (“SB 489”), which included the Energy Transition Act (“ETA”) and amendments to the Renewable Energy Act and the Air Quality Control Act. The effective date of the provisions in SB 489 was June 14, 2019.

On January 8, 2021 Public Service Company of New Mexico (“PNM”) filed its original Application for Approval of the Abandonment of the Four Corners Power Plant and Issuance of a Securitized Financing Order pursuant to the Energy Transition Act.

On January 19, 2021, the Commission issued its Initial Order Assigning Hearing Examiner, whereby the Commission appointed the undersigned Hearing Examiner to preside over the case and extended the timeframe for review of PNM’s application under NMSA 1978, Section 62-18-5 by an additional three months for a total of nine months.

On February 26, 2021, the Hearing Examiner issued an Order on Sufficiency of PNM’s Application and Scope of Proceeding that found the original application submitted by PNM on January 8, 2021, was deficient because it did not plead and adequately support PNM’s request to transfer its interest in the Four Corners Power Plant (“FCPP”) to the Navajo Transitional Energy Company (“NTEC”) under Sections 62-6-12(A)(4) and 62-6-13 of the Public Utility Act. The

Hearing Examiner: A) required PNM to file an amended application by March 15, 2021; B) provided a nine-month period of review for the Amended Application pursuant to NMSA 1978, Section 62-18-5(A); C) required PNM to submit supplemental testimony addressing, at a minimum, issues identified in the February Order; D) required PNM to move to withdraw the January 8, 2021 Application; and E) required PNM to email the Hearing Examiner Word versions of the Amended Application, proposed form of notice, direct testimonies, and supplemental testimonies.

On March 15, 2021, PNM filed its Amended Application for Approval of the Abandonment of the Four Corners Power Plant and Issuance of a Securitized Financing Order pursuant to the Energy Transition Act (“Application”). In the Application, PNM requested the following approvals from the Commission:

(A) Abandonment of PNM’s 200 MW interest in the Four Corners Power Plant (“Four Corners”).

(B) The sale and transfer of PNM’s Four Corners ownership interests to Navajo Transitional Energy Company (“NTEC”) together with certain transmission switchyard facilities.

(C) Approval of a financing order under the ETA providing for the issuance of highly-rated energy transition bonds (the energy transition bonds to be issued pursuant to this Financing Order, the “Energy Transition Bonds”) in the principal amount of approximately \$300 million secured by a non-bypassable customer charge that will provide for recovery of: (1) PNM’s undepreciated investments totaling \$271.3; (2) decommissioning costs of \$4.6 million; (3) transactional costs associated with issuing Energy Transition Bonds and obtaining approval of abandonment of \$7.3 million; (4) the Energy Transition Indian Affairs Fund to be administered by the Indian Affairs Department, in the amount of \$1.5 million; (5) the Energy Transition Economic Development Assistance Fund to be administered by the Economic Development Department, in the amount of \$5.0 million; and (6) the Energy Transition Displaced Worker Assistance Fund, to be administered by the Workforce Solutions Department, in the amount of \$10.0 million.

Also on March 15, 2021, PNM filed its Motion to Withdraw January 8, 2021 Application Upon Filing of March 15, 2021 Amended Application as required by the Hearing Examiner's February 26, 2021 Order.

[DISCUSSION OF PREHEARING CONFERENCE]

[DISCUSSION OF PROCEDURAL ORDER]

[] parties intervened or were deemed intervenors in this case. They include the following:

[LIST INTERVENORS]

[DISCUSSION OF ANY ORDER REGARDING PROCEDURES FOR DISCOVERY]

[DISCUSSION OF HEARING]

[DISCUSSION OF POST-HEARING BRIEFING]

II. BACKGROUND AND LEGAL FRAMEWORK

[DISCUSSION FROM HEARING EXAMINERS]

III. ISSUES AND RECOMMENDATIONS

[DISCUSSION FROM HEARING EXAMINERS ISSUES AND RECOMMENDATIONS]

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Statement of the Case, Discussion and all findings and conclusions therein, whether or not separately stated, numbered or designated as findings and conclusions are incorporated by reference herein as findings and conclusions of the Commission. Based on the foregoing Statement of the Case and Discussion, the Hearing Examiners also recommend that the Commission make the following further Findings of Fact and Conclusions of Law:

A. Findings of Fact

Identification of Applicant and Qualifying Generating Facility

1. PNM is a New Mexico corporation that owns, operates and controls public utility plant, property and facilities, including generation, transmission and distribution facilities that provide retail and wholesale electric service in New Mexico. PNM is a public utility subject to the jurisdiction of the Commission pursuant to the Public Utility Act.

2. Four Corners is a coal-fired generating facility operating pursuant to a certificate of public convenience and necessity (“CCN”). The plant initially consisted of five coal-fired units with 2,040 MW of electric generation capacity; the units came on-line separately in 1963 (Units 1 and 2), 1964 (Unit 3), 1969 (Unit 4) and 1970 (Unit 5). Units 1, 2 and 3 retired in 2010, and were wholly owned by Arizona Public Service Company (“APS”). PNM is a co-tenant and minority owner in the plant’s remaining Units 4 and 5.¹ The plant is operated by APS, which owns 63% of the capacity output. PNM owns 13%; Salt River Project owns 10%; Tucson Electric Power owns 7%; and NTEC owns 7% of the capacity. The facility is located in Fruitland, New Mexico, an unincorporated community in San Juan County approximately twelve miles west of Farmington. Through the Supporting Testimony,² a further description of Four Corners was included in the Application.

Application History

3. Pursuant to Section 4(A) of the ETA, in order to obtain a financing order, a qualifying utility shall obtain approval to abandon a qualifying generating facility pursuant to

¹ The ownership of Four Corners is governed by the Amended and Restated Four Corners Project Co-Tenancy Agreement dated September 1, 2019. The current plant owners oversee Arizona Public Service’s management and operation of the plant, and the owners review and approve capital and operations budgets. The coal for the plant is supplied under the current Coal Supply Agreement.

² The “Supporting Testimony” includes PNM’s direct testimonies filed on January 8, 2021, and supplemental testimonies filed on March 15, 2021.

Section 62-9-5 of the NMSA 1978. Section 4(A) provides that the application for the financing order may be filed as part of the application for approval to abandon a qualifying generating facility. PNM filed its original Application and supporting direct testimony on January 8, 2021. Pursuant to the February Order, PNM was directed to file an amended application by March 15, 2021, addressing specific issues. On March 15, 2021, PNM filed the Application and supplemental testimony pursuant to the February Order and sought approval for three primary actions: (1) PNM's abandonment of its interest in Four Corners; (2) the sale and transfer of PNM's ownership interest in Four Corners to NTEC; and (3) the issuance of a financing order to authorize securitized financing related to such abandonment. While PNM has deferred a request for approval of replacement resources until a subsequent application, the Application and supporting testimony have identified that there are adequate potential new resources that will be available to provide reasonable and proper service to retail customers when four Corners is transferred and abandoned.

4. In a separate order issued on the date hereof, the Commission authorized PNM to abandon and to sell and transfer its interest in Four Corners to NTEC effective December 31, 2024.

Energy Transition Costs to be Securitized

5. Pursuant to Section 4(A) of the ETA, a qualifying utility that is abandoning a qualifying generating facility may apply to the Commission for a financing order to recover all of its energy transition costs through the issuance of energy transition bonds. Section 4(B)(2) of the ETA requires that a qualifying utility's application for a financing order include an estimate of the "energy transition costs" (as defined in the ETA). Under Section 2(H) of the ETA, energy transition costs means the sum of: (1) financing costs (as defined in the ETA); (2) abandonment costs (as further described in Section 2(H)(2) of the ETA); (3) any other costs required to comply with changes in law enacted after January 1, 2019 incurred by the qualifying utility at the

qualifying generating facility; and (4) payments required pursuant to Section 16 of the ETA (the “Section 16 Payments”).

Estimated Upfront Financing Costs and Estimated Ongoing Financing Costs

6. Under Section 2(K) of the ETA, financing costs mean the costs incurred by a qualifying utility or an assignee to issue and administer energy transition bonds, including: (1) payment of the fee authorized pursuant to Section 5(L) of the ETA; (2) principal, interest, acquisition, defeasance and redemption premiums that are payable on energy transition bonds; (3) any payment required under an ancillary agreement and any amount required to fund or replenish a reserve account or other account established under any indenture, ancillary agreement or other financing document relating to the energy transition bonds; (4) any costs, fees and expenses related to issuing, supporting, repaying, servicing and refunding energy transition bonds, the application for a financing order, including related state board of finance expenses, or obtaining an order approving abandonment of a qualifying generating facility; (5) any costs, fees and related expenses incurred relating to any existing secured or unsecured obligation of a qualifying utility or an affiliate of a qualifying utility that are necessary to obtain any consent, release, waiver or approval from any holder of such an obligation to permit a qualifying utility to issue or cause the issuance of energy transition bonds; (6) any taxes, fees, charges or other assessments imposed on energy transition bonds; (7) preliminary and continuing costs associated with subsequent financing; and (8) any other related costs approved for recovery in the financing order.

7. As discussed in the Supporting Testimony, certain financing costs will constitute costs of issuing the Energy Transition Bonds and of obtaining this Financing Order and the approval of the abandonment of the San Juan coal plant. These financing costs under Section 2(K) of the ETA will be financed through the issuance of the Energy Transition Bonds and are referred

to herein as “Upfront Financing Costs.” As described in the Supporting Testimony, the Upfront Financing Costs will include (i) the fees and expenses of incurred by the Company in obtaining the Financing Order and the order approving the abandonment of PNM’s interest in Four Corners, including the fee of bond counsel to the Commission as contemplated by Section 5(L) of the ETA, and (ii) the fees and expenses associated with issuing the Energy Transition Bonds, including underwriting discount, a financial advisor structuring fee, the fees of legal counsel, rating agency fees, trustee fees and expenses, accounting and auditing fees, printing, filing and marketing expenses, Securities and Exchange Commission (“SEC”) registration fees, costs of organizing the SPE, servicer set up fees, original issue discount and miscellaneous other costs. As described in the Supporting Testimony, it is important that this Financing Order provide for flexibility to include other forms of credit enhancement and other mechanisms (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts, or surety bonds) to improve the marketability of the Energy Transition Bonds. These credit enhancements are additional potential Upfront Financing Costs and Other Ongoing Financing Costs (as defined below). The Upfront Financing Costs will include amounts paid directly by the SPE and amounts paid to PNM as reimbursement for amounts paid with respect to such costs. The Upfront Financing Costs are financing costs pursuant to Section 2(K)(4) of the ETA (and Section 2(K)(1) with respect to the fee authorized by Section 5(L) of the ETA). PNM Exhibit LES-2 included estimated Upfront Financing Costs of \$7.3 million. PNM Exhibit LES-2 also provided that additional Upfront Financing Costs relating to original issue discount for the Energy Transition Bonds were not expected to exceed 0.05% of the aggregate principal amount of the Energy Transition Bonds. The estimated Upfront Financing Costs are subject to change and will be updated at the time of issuance of the Energy Transition Bonds as provided in Section 4(B)(6) of the ETA.

8. In addition to the Upfront Financing Costs, which will be recovered from the proceeds of the sale of the Energy Transition Bonds, additional financing costs as defined in Section 2(K) of the ETA will be incurred while the Energy Transition Bonds remain outstanding (the “Ongoing Financing Costs” and, together with the Upfront Financing Costs, the “Financing Costs”). The Ongoing Financing Costs will be recovered through the energy transition charges approved in this Financing Order (the “Energy Transition Charges”). The Ongoing Financing Costs will include payment of principal and interest on the Energy Transition Bonds (“Debt Service Payments”), which are financing costs pursuant to Section 2(K)(2) of the ETA. PNM Exhibit CNA-4 includes an illustrative preliminary structure for the Energy Transition Bonds, including estimated Debt Service Payments. In addition to Debt Service Payments, the Ongoing Financing Costs also will include other fees and expenses incurred during the life of the Energy Transition Bonds to service and support the Energy Transition Bonds (the “Other Ongoing Financing Costs”). As described in the Supporting Testimony, these Other Ongoing Financing Costs include servicing fees, the return on PNM’s capital contribution, administration fees, auditor fees, legal fees, rating agency surveillance fees, trustee fees and expenses, independent director or manager fees, credit enhancement costs and miscellaneous other costs. These Other Ongoing Financing Costs are financing costs pursuant Section 2(K)(4) of the ETA. As set forth in the Supporting Testimony of PNM Witness Laura Sanchez and PNM Exhibit LES-3, PNM’s estimated annual Other Ongoing Financing Costs are approximately \$0.5 million. The estimated Ongoing Financing Costs are subject to change and will be updated at the time of issuance of the Energy Transition Bonds as provided in Section 4(B)(6) of the ETA. While the servicing fee, administration fee and return on capital contribution will be based upon fixed amounts upon

issuance of the Energy Transition Bonds, other components of the Other Ongoing Financing Costs will be subject to variation over the life of the Energy Transition Bonds.

Estimated Abandonment Costs

9. Pursuant to Section 2(H)(2) of the ETA, energy transition costs include abandonment costs, which for a qualifying generating facility shall not exceed the lower of \$375,000,000 or 150% of the undepreciated investment in a qualifying generating facility being abandoned, as of the date of abandonment. Section 2(H)(2) of the ETA further provides that the abandonment costs subject to this limitation include: (a) up to \$30,000,000 per qualifying generating facility in costs not previously collected from the qualifying utility's customers for plant decommissioning and mine reclamation costs, subject to any limitations ordered by the Commission prior to January 1, 2019, and affirmed by the New Mexico Supreme Court prior to the effective date of the ETA, associated with the abandoned qualifying generating facility; (b) up to \$20,000,000 per qualifying generating facility in costs for severance and job training for employees losing their jobs as a result of an abandoned qualifying generating facility and any associated mine that only services the abandoned qualifying generating facility; (c) undepreciated investments as of the date of abandonment on the qualifying utility's books and records in a qualifying generating facility that were either being recovered in rates as of January 1, 2019, or are otherwise found to be recoverable through a court decision; and (d) other undepreciated investments in a qualifying generating facility incurred to comply with law, whether established by statute, court decision or rule, or necessary to maintain the safe and reliable operation of the qualifying generating facility prior to the facility's abandonment.

10. Through the Supporting Testimony, PNM provided an estimate of the undepreciated investment in PNM's ownership interest in Four Corners as of the time of the

proposed abandonment (the “Undepreciated Investment”). PNM’s calculation of the estimate of the Undepreciated Investment is described in the Supporting Testimony and PNM Table TSB-1. PNM’s resulting estimate was \$271.3 million of Undepreciated Investment. The Undepreciated Investment is an energy transition cost pursuant to Section 2(H)(2)(c) and 2(H)(2)(d) of the ETA.

11. As described in the Supporting Testimony, PNM expects Four Corners to continue to operate following PNM’s abandonment of Four Corners, and PNM does not employ workers at Four Corners. As a result, PNM does not expect the abandonment to result in the acceleration of mine reclamation costs (which are capped and not included in PNM’s rates); or any severance and job training for PNM employees losing their jobs. Accordingly, PNM is not requesting recovery of any mine reclamation costs or severance and job training costs through the issuance of the Energy Transition Bonds. PNM will remain responsible for plant decommissioning costs of \$4.6 million. Accordingly, PNM is requesting recovery of the decommissioning costs as described in the Supporting Testimony and PNM Exhibit TSB-4 (“Decommissioning Costs”).

12. The Undepreciated Investment and the Decommissioning Costs are referred to herein as the “Abandonment Costs.” As described in the paragraphs above, PNM has estimated aggregate Abandonment Costs of \$276 million, consisting of the estimated Undepreciated Investment and estimated Decommissioning Costs. In accordance with Section 2(H)(2) of the ETA, the maximum amount of the Abandonment Costs that would qualify as energy transition costs subject to recovery through the issuance of the Energy Transition Bonds is limited to the lesser of (1) \$375,000,000 or (2) 150% of the undepreciated investment of the San Juan coal plant as of the date of abandonment (or \$407 million based on the estimated Undepreciated Investment). As a result, the Company’s estimated Abandonment Costs proposed to be financed through the

issuance of the Energy Transition Bonds does not exceed the limitations of Section 2(H)(2) of the ETA.

Change in Law Costs

13. Through the Application, PNM did not identify any costs that qualify as energy transition costs pursuant to Section 2(H)(3) (“Change in Law Costs”).

Section 16 Payments

14. Through the Application, including the Supporting Testimony, PNM has provided an estimate of the Section 16 Payments. Section 16(J) of the ETA requires that within 30 days after receiving the proceeds of Energy Transition Bonds, PNM will be required to make payments equal to the following percentages of the financed amount of the Energy Transition Bonds as follows:

- 0.50% to the Indian affairs department for deposit in the energy transition Indian affairs fund established under the ETA;
- 1.65% to the economic development department for deposit in the energy transition economic development assistance fund established under the ETA; and
- 3.35% to the workforce solutions department in the energy transition displaced worker assistance fund established under the ETA.

The Section 16 Payments are energy transition costs pursuant to Section 2(H)(4) of the ETA. PNM’s estimate of \$16.5 million of Section 16 Payments is based upon its estimate of the other energy transition costs to be financed through the issuance of the Energy Transition Bonds, including \$276 million of Abandonment Costs and \$7.3 million of Upfront Financing Costs. The estimated Section 16 Payments are subject to change and will be updated at the time of issuance of the Energy Transition Bonds as provided in Section 4(B)(6) of the ETA.

15. Through the Application, including the Supporting Testimony, and as provided in Section 4(B)(6) of the ETA, PNM has committed to file with the Commission following the

issuance of any Energy Transition Bonds: (1) a description of the final structure and pricing of the bonds; (2) updated Financing Costs and Section 16 Payment amounts, and (3) an updated calculation of the Energy Transition Charges.

Maximum Amount of Energy Transition Bonds Authorized for Issuance

16. Pursuant to Section 5(F)(1) of the ETA, a financing order shall include, among other things, approval for the qualifying utility or assignee to issue energy transition bonds as requested in the application, to use energy transition bonds to finance the maximum amount of energy transition costs as requested in the application, as may be adjusted pursuant to Section 4(B)(6) of the ETA. PNM has proposed that the maximum amount of the Energy Transition Bonds to be issued by the SPE shall be equal to the sum of (A) the \$276 million of estimated Abandonment Costs set forth in the Application, (B) Section 16 Payments (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 4(B)(6) of the ETA), and (C) Upfront Financing Costs (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 4(B)(6) of the ETA). The SPE shall not issue Energy Transition Bonds in a principal amount in excess of \$300 million unless PNM shall have obtained an amendment to the Financing Order as provided in Section 7(B)(2) of the ETA. If PNM's energy transition cost estimate at the time of issuance is lower than the estimate included in the financing application, the SPE shall reduce the size of the bond issuance accordingly.

17. Through the Supporting Testimony, the Application includes a proposed ratemaking process to reconcile and recover or refund any difference between the energy transition costs financed by the Energy Transition Bonds and the actual final energy transition costs incurred by PNM or the SPE. PNM will track and reconcile each component of the energy transition costs

described above. Any difference between the amounts financed by the Energy Transition Bonds and the final actual energy transition costs will be deferred and recorded to either a regulatory asset (if the actual final energy transition costs are greater than the estimated energy transition costs) or a regulatory liability (if the actual final energy transition costs are less than the estimated energy transition costs). PNM proposed to include the amortization of the regulatory asset or regulatory liability in a general rate case, after the final energy transition costs are known. PNM stated that it will propose to recover or refund the differences back to customers over the remaining life of the Energy Transition Bonds. Consistent with the Commission's decision in Docket No. 19-00018-UT, PNM has proposed that the unamortized balance of the regulatory asset or regulatory liability will incur carrying costs at PNM's then current cost of debt to compensate PNM or its customers for the time value of money.

Structure of the Energy Transition Bonds

18. PNM will form the SPE as a Delaware limited liability company, with PNM as the sole member.³ The SPE will be formed for the limited purposes of issuing one or more series of energy transition bonds, paying the net proceeds of any such issuance to PNM to purchase energy transition property as defined in Section 2(I) of the ETA created by a financing order, and performing other activities related thereto.

³ In Docket No. 19-00018-UT, the Commission approved the issuance of a financing order that authorizes PNM to form a special purpose entity that will issue up to \$361 million of energy transition bonds in connection with PNM's abandonment of the San Juan Generating Facility (the "SJGS Bonds"). Through the Supporting Testimony, PNM expects to issue the SJGS Bonds in 2022 prior to the issuance of the Energy Transition Bonds to be issued pursuant to this Financing Order (the "Four Corners Bonds"). Depending on rating agency and investor preferences at the time of issuance, the Four Corners Bonds may be issued by the same special purpose entity that issues the SJGS Bonds or through a separate special purpose entity. In either case, the SJGS Bonds and the Four Corners will be issued under separate trust indentures. Through the Supporting Testimony, PNM indicated that the substantial majority of utilities that have conducted multiple securitization bond issuances have used a separate special purpose entity for each bond issuance.

19. The SPE will be managed by a board of managers with rights and duties set forth in the SPE LLC Agreement (as defined in the Application). As long as any Energy Transition Bonds remain outstanding, the SPE will have at least one independent manager with no organizational affiliation with PNM other than possibly acting as independent manager(s) for another bankruptcy-remote subsidiary of PNM or its affiliates. The SPE will not be permitted to amend the provisions of the SPE LLC Agreement or other organizational documents that relate to bankruptcy-remoteness of the SPE without the consent of the independent manager(s). Similarly, the SPE will not be permitted to institute bankruptcy or insolvency proceedings or to consent to the institution of bankruptcy or insolvency proceedings against it, or to dissolve, liquidate, consolidate, convert or merge without the consent of the independent managers. Other restrictions to facilitate bankruptcy-remoteness may also be included in the SPE LLC Agreement as required by the rating agencies.

20. The SPE will require ongoing administration services, such as corporate maintenance, reporting and internal accounting functions. The SPE will have no staff to provide these administrative services. These services will be provided by PNM pursuant to the terms of the Administration Agreement (as defined in the Application).

21. The SPE will be capitalized through the issuance of the Energy Transition Bonds and a concurrent equity capital contribution from PNM. Through the Supporting Testimony, PNM estimated that its equity capital contribution to the SPE will be 0.5% of the total capital of the SPE (with the Energy Transition Bonds representing the remaining 99.5% of the capitalization of the SPE).⁴ In accordance with Section 4(B)(8) of the ETA, PNM's equity capital contribution to the

⁴If the Four Corners Bonds are issued through the SPE that issues the SJGS Bonds, PNM will make an initial capital contribution to the SPE at the time of issuance of the SJGS Bonds equal to 0.5% of the total capitalization of the SPE and an additional capital contribution to the SPE at the time of issuance of the Four Corners Bonds so that the total contribution of PNM equals 0.5% of the total capitalization of the SPE. The capital contribution with respect to the

SPE will not be less than 0.5% of the total capital of the SPE. This minimum capitalization level also will satisfy existing Internal Revenue Service safe harbors so that PNM will not recognize gross income upon the receipt of cash in exchange for the issuance of the Energy Transition Bonds. PNM proposed earning a return on this equity capital contribution relating to the Energy Transition Bonds equal to the interest rate on the longest maturing tranche of the Energy Transition Bonds, to be paid as an Ongoing Financing Cost.

22. The SPE will issue and sell the Energy Transition Bonds in one or more series consisting of one or more tranches. Through the Supporting Testimony, PNM included a preliminary projected bond structure with the Energy Transition Bonds being issued in a single series with multiple tranches. As described in the Supporting Testimony, PNM expects that the Energy Transition Bonds will be issued with a final scheduled maturity date of approximately 25 years from the date of issuance of the Energy Transition Bonds, and a final legal maturity date longer than the scheduled final maturity, driven by rating agency considerations, with semiannual payments of principal and interest. The initial debt service payment may be scheduled to take place more than six months after issuance of the Energy Transition Bonds. As discussed in the Supporting Testimony, the difference between the scheduled final payment date and legal final maturity date is to provide additional credit protection by allowing shortfalls in principal payments to be recovered over this additional time period due to any unforeseen circumstance, in furtherance of achieving the desired “AAA” or equivalent credit ratings for the bonds. The rated final maturity of the Energy Transition Bonds will be the legal final maturity date. The number, size and tenor of the series and tranches offered to investors will be determined by rating agency requirements and investor demand at the time of pricing, and as a result, the actual structures may differ. In no

SJGS Bonds will be held by the trustee under the indenture for the SJGS Bonds and the capital contribution with respect to the Four Corners Bonds will be held by the trustee under the indenture for the Four Corners Bonds.

event will the final scheduled maturity date of the Energy Transition Bonds be more than 25 years from the date of issuance of the Energy Transition Bonds.

23. The Energy Transition Bonds will be structured in a manner designed to provide for substantially levelized annual revenue requirements over the expected life of the bonds.

24. PNM has proposed that the Energy Transition Bonds will be sold pursuant to a negotiated sale to investors, coordinated through one or more underwriters in a public offering registered with the Securities and Exchange Commission (the “SEC”). As discussed in the Supporting Testimony, SEC-registered transactions are considered to be more liquid than Rule 144A or other private placement transactions. Publicly offered transactions are not limited to “qualified institutional investors” or “accredited investors” upon initial issuance or resale, as privately placed transactions are, and this broader potential investor universe will potentially be more attractive to investors and more likely to obtain lower interest rate coupons on any particular pricing day. While PNM has proposed and expects the transaction to be conducted as an SEC-registered offering conducted through a negotiated sale to underwriters, PNM will determine at the time of the proposed transaction, consistent with its commitment to use its commercially reasonable efforts to achieve the lowest cost objective, whether transaction will be conducted as a SEC-registered public offering or a Rule 144A private placement.

25. As described in the Supporting Testimony, each tranche of the Energy Transition Bonds will bear interest at a fixed rate.

26. As described in the Application, including the Supporting Testimony, PNM expects to cause the issuance of the Energy Transition Bonds as promptly as possible after the last of the following events have occurred: (1) issuance of a final, non-appealable financing order acceptable to the Company; (2) PNM’s abandonment of its interest in Four Corners; (3) delivery of any

necessary SEC approvals under the Securities Act of 1933; and (4) completion of the rating agency process. PNM estimated that the issuance of the Energy Transition Bonds would occur in 2025.

Energy Transition Property

27. Concurrent with the issuance of any series of the Energy Transition Bonds, PNM will transfer to the SPE the energy transition property created pursuant to this Financing Order (the “Energy Transition Property”), including all of its rights under this Financing Order and specifically the right to impose, charge, collect and receive the Energy Transition Charges approved in this Financing Order. This transfer will be structured so that it will qualify as a “true sale” within the meaning of Section 14(A) of the ETA. The transfer of the Energy Transition Property will be made pursuant to the Purchase Agreement (as defined in the Application) and a related bill of sale, and the Purchase Agreement will expressly state that the transaction is a sale or other absolute transfer. By virtue of this transfer, the SPE will acquire all of the right, title and interest of PNM in the Energy Transition Property created under this Financing Order.

Security

28. The payment of the Energy Transition Bonds and related charges authorized by this Financing Order is to be secured by the Energy Transition Property created by this Financing Order and by certain other collateral as described in the Application, including the Supporting Testimony. The Energy Transition Bonds will be issued pursuant to the Indenture (as defined in the Application) under which the Indenture Trustee will administer the trust. Pursuant to the Indenture, the SPE will establish a collection account (the “Collection Account”) to be held by the Indenture Trustee as collateral to facilitate the payment of the principal of, interest on and other costs approved in this Financing Order related to the Energy Transition Bonds in full and on a timely basis. The Collection Account will include a general subaccount (the “General

Subaccount”), a capital subaccount (the “Capital Subaccount”), an excess funds subaccount (the “Excess Funds Subaccount”), and may include other subaccounts (the General Subaccount, the Excess Funds Subaccount, the Capital Subaccount and any other subaccounts under the indenture, collectively are the “Subaccounts”).

29. The Indenture Trustee will deposit in the General Subaccount the Energy Transition Charge remittances that the servicer remits to the Indenture Trustee. The Indenture Trustee will apply moneys in the General Subaccount according to the priorities set forth in the Indenture to pay expenses of the SPE, to pay principal of and interest on the Energy Transition Bonds, and to meet the funding requirements of the other Subaccounts. Funds in the General Subaccount will be invested by the Indenture Trustee in short-term, high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the Indenture Trustee to pay principal of and interest on the Energy Transition Bonds and all other components of the Periodic Revenue Requirement (as defined below), and otherwise in accordance with the terms of the Indenture.

30. PNM will make its capital contribution (as described above) to the SPE, and the SPE will deposit that capital contribution into the Capital Subaccount. The Capital Subaccount will serve as collateral to facilitate the timely payment of principal of and interest on the Energy Transition Bonds and all other components of the Periodic Revenue Requirement. Any funds drawn from the Capital Subaccount to pay these amounts due to a shortfall in the Energy Transition Charge remittances will be replenished to its original level through future Energy Transition Charges as adjusted through the true-up adjustment mechanism described below. The funds in the Capital Subaccount will be invested by the Indenture Trustee in short-term, high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be

applied by the Indenture Trustee to pay principal of and interest on the Energy Transition Bonds and all other components of the Periodic Revenue Requirement.

31. The Excess Funds Subaccount will hold any Energy Transition Charge remittances and investment earnings on the Collection Account in excess of the amounts needed to pay current principal of and interest on the Energy Transition Bonds and to pay all other components of the Periodic Revenue Requirement (including, but limited to, funding or replenishing the Capital Subaccount). Any balance in or amounts allocated to the Excess Funds Subaccount on a true-up adjustment mechanism date will be subtracted from the Periodic Revenue Requirement for purposes of the true-up adjustment. The funds in the Excess Funds Subaccount will be invested by the Indenture Trustee in short-term, high-quality investments, and such funds (including, to the extent necessary, investment earnings) will be applied by the Indenture Trustee to pay principal of and interest on the Energy Transition Bonds and all other components of the Periodic Revenue Requirement.

32. If for any reason the amount of Energy Transition Charges remitted to the General Subaccount is insufficient to make, on a timely basis, all scheduled payments of principal of and interest on the Energy Transition Bonds and to make payment on all other components of the Periodic Revenue Requirement, the Excess Funds Subaccount and the Capital Subaccount will be drawn upon, in that order, to make those payments. Any deficiency in the Capital Subaccount due to such withdrawals must be replenished on a periodic basis through the true-up adjustment mechanism process. Following repayment of the Energy Transition Bonds and all related Financing Costs and the release of funds by the Indenture Trustee, the SPE will distribute the final balance of the Collection Account to PNM. PNM has proposed that it will credit customers by the

amount of the distribution, less the amount of the Capital Subaccount and any unpaid return on the capital contribution due to PNM as set forth in this Financing Order.

33. Other forms of credit enhancement and other mechanisms (*e.g.*, letters of credit, additional amounts of overcollateralization or reserve accounts, or surety bonds) to improve the credit quality and marketability of the Energy Transition Bonds may be used in furtherance of the lowest cost objective.

Servicing Arrangements

34. PNM will enter into the Servicing Agreement (as defined in the Application), under which PNM will serve as the initial servicer of the Energy Transition Property and the Energy Transition Bonds. The Servicing Agreement will, among other things, include the following provisions:

(a) PNM will be responsible for metering, calculating, billing, collecting and remitting the collected Energy Transition Charges from electric utility customers arising from the Energy Transition Property owned by the SPE.⁵ As servicer, PNM will be obligated to make daily remittances of the Energy Transition Charges (or estimates of such receipts) to the trustee on servicer business days.

(b) PNM will be responsible for making all true-up adjustment mechanism filings with the Commission to make periodic adjustments to the Energy Transition Charges, and for preparing

⁵ The Energy Transition Charges approved in this Financing Order (the “Four Corners Charges”) are separate and independent of the energy transition charges approved in Docket No. 19-00018-UT with respect to the SJGS Bonds (the “SJGS Charges”). Under the servicing agreement relating to the SJGS Bonds, PNM, in its capacity as servicer, will remit the collections from the SJGS Charges to the indenture trustee for the SJGS Bonds. Under the servicing agreement relating to the Four Corners Bonds, PNM, in its capacity as servicer, will remit the collections from the Four Corners Charges to the indenture trustee for the Four Corners Bonds. PNM, the SPE for each of the SJGS Bonds and the Four Corners Bonds and the related indenture trustees will enter into an intercreditor agreement, a form of which is attached as Exhibit D to the proposed form of indenture, which will address PNM’s responsibilities for the collection and remittance of these separate charges.

and filing any other reports with the Commission, the Indenture Trustee, the rating agencies or other financing parties; and

(c) PNM will not be permitted to resign voluntarily from its duties as servicer unless (i) PNM determines that its continued performance of the duties of servicer would no longer be permitted under applicable law or (ii) PNM receives the consent of the Commission and confirmation that such action will not result in a suspension, reduction or withdrawal of the then current ratings on any of the Energy Transition Bonds.

35. As compensation for its duties under the Servicing Agreement, PNM has proposed that it receive from the SPE a servicing fee equal to 0.05% per annum of the initial aggregate principal amount of the Energy Transition Bonds. As described in the Supporting Testimony, this fee is based on current market rates in similar utility securitization transactions. As described in the Supporting Testimony, payment of a servicing fee that is consistent with market rates is necessary to maintain the essential bankruptcy-remote nature of the SPE.

36. If PNM defaults on its duties as servicer or is required for any reason to discontinue those functions, then an independent successor servicer acceptable to the Indenture Trustee and, if required, the rating agencies, may be named to replace PNM. In this event, the servicing fee paid to a successor servicer would likely need to be higher than the servicing fee paid to PNM. PNM has proposed that, in the event a successor servicer is appointed, the servicing fee be allowed to increase; provided that the Commission's consent would be required for any servicing fee in excess of 0.60% per annum on the initial aggregate principal balance of the Energy Transition Bonds, as described in this Financing Order.

PNM as Administrator of the SPE

37. Under the Administration Agreement, PNM will establish the SPE and perform the administrative duties necessary to maintain the SPE.

38. PNM has proposed that it receive an annual fee of \$150,000 plus out-of-pocket expenses for performing the services required by the Administration Agreement.

Imposition of Energy Transition Charges/Non-Bypassability

39. Through the Application, including the Supporting Testimony, PNM has requested that the Commission authorize PNM to impose, charge, collect and receive Energy Transition Charges from electric utility customers in an amount sufficient to provide for the timely payment of principal and interest on the Energy Transition Bonds and all Other Ongoing Financing Costs. The Energy Transition Charges will be non-bypassable charges (as defined by Section 2(P) of the ETA) that must be paid by all customers: (1) receiving electric delivery from PNM or its successors under Commission-approved rate schedules or special contracts; and (2) all customers who acquire electricity from an alternative or subsequent electricity supplier in the utility service area currently served by PNM, to the extent such acquisition is permitted by New Mexico law. The Energy Transition Charges will be imposed until the Energy Transition Costs and the Financing Costs are paid in full.

40. PNM has proposed that the Energy Transition Charges will be collected by the servicer through an Energy Transition Charge that is separate and apart from PNM's other rates, in the manner described in the Supporting Testimony and in the proposed ETA Rider included as PNM Exhibit 2. The Energy Transition Charges will appear as a separate line item on each customer's electric bill. In addition, all electric bills will state that the Energy Transition Charges are owned by the SPE.

41. In the event a customer of PNM does not pay the full amount of any bill that includes Energy Transition Charges, such partial payments shall be allocated in accordance with applicable Commission requirements and any other requirements of applicable law. PNM has proposed that, following the issuance of any Energy Transition Bonds, for amounts billed on the same date, charges will be credited based on a priority waterfall, with late payment charges being credited first, energy transition charges being credited second, and other charges being credited thereafter in the priority waterfall. PNM has proposed that if more than one series of energy transition bonds are outstanding, partial payments allocable to energy transition charges shall be allocated pro rata based upon the amount of energy transition charges owing with respect to each series.⁶

42. Through the Supporting Testimony filed with the Application, in accordance with Section 4(B)(11) of the ETA, PNM proposed a ratemaking method to account for the reduction in PNM's cost of service associated with the costs being recovered by the Energy Transition Charge at the time that charge becomes effective. As described in the Supporting Testimony, upon PNM's abandonment of Four Corners, the SPE will issue the Energy Transition Bonds. In the Supporting Testimony, PNM proposed that if it begins to collect the Energy Transition Charges from customers and has not adjusted its base rates charged to customers in a general rate case to reflect PNM's abandonment of Four Corners, then PNM would provide a credit to customer bills to reflect the abandonment. Consistent with the Commission's decision in Docket No. 19-00018-UT, PNM proposed to calculate the credit by determining the annual revenue requirements for all costs associated with PNM's ownership interest in Four Corners included in current rates being charged

⁶ Accordingly, if both SJGS Bonds and Four Corners Bonds were outstanding, the aggregate amount of a customer's payment allocated to energy transition charges would be applied pro rata based on the amount of energy transition charges owing with respect to SJGS Bonds as compared to the amount of energy transition charges owing with respect to the Four Corners Bonds.

to customers, including capital, O&M and all other expenses. This credit will be an interim rate adjustment mechanism and will be eliminated when new rates reflecting the change in resources go into effect. PNM will credit these amounts to customer bills for as long as PNM's ownership interest in Four Corners is abandoned and transferred to another owner, PNM is collecting the Energy Transition Charges, and has not adjusted its base rates to reflect the removal of these costs in customer's rates.

Estimated Energy Transition Charges

43. The Application, including the Supporting Testimony, includes PNM's estimate of the Energy Transition Charges based on the estimated date of issuance, estimated maturity and estimated principal amount of the Energy Transition Bonds to be issued as described above. Through the Supporting Testimony, PNM estimates that the Energy Transition Charges for the initial full year (2025) following issuance of the Energy Transition Bonds will be approximately \$16.7 million. Through PNM Exhibit MJS- 6, PNM has provided the estimated amount of Energy Transition Charges for the initial full year following issuance of the Energy Transition Bonds for each rate schedule. The estimated amounts for each rate schedule are based on the production cost allocation methodology used in 15-00261-UT, the Company's most recent general rate case. The actual initial Energy Transition Charges will be determined at the time of the pricing of the Energy Transition Bonds.

Allocation and Calculation of Energy Transition Charges

44. A detailed discussion of PNM's proposed allocation and calculation of the Energy Transition Charges is included in the Supporting Testimony. PNM's proposed calculation of the Energy Transition Charges involves a multi-step process that begins with an estimate of the Energy Transition Charge collections that would be necessary to pay on a timely basis all scheduled

payments of principal and interest (or deposits to sinking funds in respect of principal and interest) and all Other Ongoing Financing Costs over a specified period of time (the period covered by such estimate, the “Remittance Period” and the estimated revenue required for such period, the “Periodic Revenue Requirement”). In establishing the initial Energy Transition Charges, the Company will estimate the Periodic Revenue Requirement for a Remittance Period beginning on the date of issuance of the Energy Transition Bonds and ending on the first scheduled principal and interest payment date on the Energy Transition Bonds. The Periodic Revenue Requirement for any subsequent Remittance Period will be further adjusted through the true-up adjustment mechanism described below.

45. PNM will next determine the aggregate amount of Energy Transition Charges that must be assessed during a Remittance Period to collect the Periodic Revenue Requirement during the Remittance Period (the “Periodic Billing Requirement”). The Periodic Billing Requirement accounts for collection lag and uncollectible amounts. For each Remittance Period, PNM will estimate the timing of collections of Energy Transition Charges based on a weighted average balance of days outstanding on PNM’s customer bills. PNM also will estimate an amount that will be uncollectible.

46. After determining the Periodic Billing Requirement, the next step in the Company’s proposed process of calculating the Energy Transition Charges involves allocating the Periodic Billing Requirement to the Company’s various customer classes and further sub-allocating the Periodic Billing Requirement based on PNM’s rate schedules within the customer classes. In accordance with the requirements of Sections 5(F)(3) and 6(A) of the ETA, the Company’s proposed method of allocation will be consistent with the production cost allocation methodology

used in the Company's most recent general rate case. PNM's proposed allocation methodology is described in the Supporting Testimony and PNM Exhibit MJS-3 and PNM Exhibit MJS-4.

47. The final step in the Company's proposed process of calculating the Energy Transition Charges involves determining the Energy Transition Charges for customers within each customer class based on the portion of the Periodic Billing Requirement allocated to each class. In accordance with the requirements of Sections 5(F)(3) and 6(A) of the ETA, the Company's proposed process for calculating the initial Energy Transition Charges would assess the charges consistent with energy and demand cost allocations within each customer class. Consistent with the Company's most recent general rate case, the Periodic Billing Requirements will be further allocated to various rate schedules within customer classes. Given the differing characteristics of each customer class and rate schedule, differing methodologies will be used as described in the Supporting Testimony. A detailed description of the proposed methodology for each of the Company's customer classes and rate schedules is included in the Supporting Testimony and PNM Exhibit MJS-5.

True-Up Adjustment Mechanism

48. As described in the Supporting Testimony and PNM Exhibit MJS-6, PNM has proposed a formula-based "adjustment mechanism" within the meaning of Section 2(A) of the ETA (the "True-Up Adjustment Mechanism").

49. The True-Up Adjustment Mechanism is a formula-based mechanism to periodically adjust the Energy Transition Charges to correct for any over-collection or under-collection of the Energy Transition Charges and to provide for timely payment of scheduled principal of and interest (or deposits to sinking funds in respect of principal and interest) on the Energy Transition Bonds and the payment of Other Ongoing Financing Costs. The True-Up

Adjustment Mechanism will remain in effect until the Energy Transition Bonds and all financing costs have been fully paid and recovered, any under-collection is recovered from customers and any over-collection is returned to customers. The Company proposes that the True-Up Adjustment Mechanism should include both standard adjustments (“Standard True-Up Adjustments”) and non-standard adjustments (“Non-Standard True-Up Adjustments” and, together with Standard-True Up Adjustments, “True-Up Adjustments”).

50. A Standard True-Up Adjustment is an automatic adjustment to the Energy Transition Charges that is required to occur at least semi-annually (and at least quarterly during the two-year period preceding the final maturity date of the Energy Transition Bonds). A Standard True-Up Adjustment is designed to ensure that the level of Energy Transition Charges to be charged over the next set of collection periods is corrected for over- and under-collection in prior periods, for changes in projected consumption and collection patterns, and for changes in the Periodic Revenue Requirement. In order to effect a Standard True-Up Adjustment, the Company, as servicer under the Servicing Agreement, will file with the Commission a letter requesting the Standard True-Up Adjustment (the “Standard True-Up Adjustment Letter”), which will include the calculations required by Section 6(B) of the ETA. A form of Standard True-Up Adjustment Letter is attached as an exhibit to this Financing Order.

51. In connection with each True-Up Adjustment, PNM will calculate the Periodic Revenue Requirement described above for the current Remittance Period and the next Remittance Period (two six-month periods). Except with respect to the initial True-Up Adjustment, PNM will further adjust the Periodic Revenue Requirement to take into account any over-collection or under-collection of the Energy Transition Charges during the preceding Remittance Period. These proposed calculations are shown in PNM Exhibit MJS-2. PNM will then calculate the Periodic

Billing Requirement, allocate the Periodic Billing Requirement to customer classes and rate schedules, and calculate the adjusted Energy Transition Charges as described in paragraphs 45, 46 and 47 above. In connection with the each True-Up Adjustment, the calculation of the adjusted Energy Transition Charges will be based upon updated projections of customer count, electricity usage and demand for the applicable Remittance Periods.

52. In addition to the required semi-annual (and quarterly during the two-year period preceding the final scheduled maturity date of the Energy Transition Bonds) Standard True-Up Adjustments, the Company also proposed to be granted authority to make optional interim Standard True-Up Adjustments at any time, without limits as to frequency, in order to ensure timely payment of scheduled principal of and interest (or deposits to sinking funds in respect of principal and interest) on the Energy Transition Bonds and the payment of Other Ongoing Financing Costs.

53. A Non-Standard True-Up Adjustment is an adjustment in connection with any general rate case, as necessary to reflect any changes to the allocation of the Energy Transition Charges as a result of changes in the production cost allocation methodology used in such general rate case. In order to effect a Non-Standard True-Up Adjustment, the Company, as servicer under the Servicing Agreement, will file with the Commission a request letter (together with the Standard True-Up Adjustment Letter, a “True-Up Adjustment Letter”), which will include the calculations required by Section 6(B) of the ETA and as described above.

Use of Proceeds

54. As described in the Application, including the Supporting Testimony, the SPE will use the proceeds it receives from the sale of the Energy Transition Bonds to (i) pay the Upfront Financing Costs incurred in connection with the issuance of the Bonds (including reimbursement

to PNM of any such costs paid by PNM) and (ii) purchase the Energy Transition Property from PNM pursuant to the terms of the Purchase Agreement.

55. As described in the Application, including the Supporting Testimony, PNM will use the proceeds it receives from the sale of the Energy Transition Property to the SPE (i) to make required Section 16 Payments and (ii) for purposes of providing utility service to customers, including paying certain Energy Transition Costs financed with the Bonds. In particular, as described further in the Supporting Testimony, PNM will apply the proceeds it receives from the sale of the Energy Transition Property to make required Section 16 Payments, to pay Decommissioning Costs, to make capital expenditures for the purpose of providing utility service to customers, and to repay any indebtedness incurred for the purpose of making any such payments. Proceeds of the Bonds shall not be used for purposes of paying dividends, making affiliate loans or paying incentive compensation.

Lowest Cost Objective

56. In the Application, including the Supporting Testimony, PNM has committed to use its commercially reasonable efforts to obtain the lowest cost objective.

IV. CONCLUSIONS OF LAW

1. PNM is a “public utility” as defined in Section 2(R) of the ETA.
2. Four Corners is a qualifying generating facility as defined in Section 2(S) of the ETA. As a public utility that (i) owns plants, property and facilities for the generation, transmission or distribution, sale or furnishing to or for the public of electricity for light, heat or power or other uses, and (ii) owns a qualifying generating facility, PNM is a qualifying utility as defined in Section 2(T) of the ETA.

3. PNM was authorized to apply to the Commission for this Financing Order through the Application pursuant to Section 4(A) of the ETA to recover all of its energy transition costs as defined in Section 2(H) of the ETA through the issuance of the Energy Transition Bonds.

4. The Commission has jurisdiction over this matter pursuant to the ETA.

5. On the date hereof, the Commission approved PNM's abandonment of Four Corners on December 31, 2024.

6. Section 5(E) of the ETA provides that the Commission shall issue a financing order approving PNM's request to issue the Energy Transition Bonds if the Commission finds that the Application complies with the requirements of Section 4 of the ETA. Pursuant to Section 5(A) of the ETA, in its January 19, 2021 Initial Order Assigning Hearing Examiner the Commission extended the time for issuance of an order granting or denying the application for the financing order under NMSA 1978, Section 62-18-5 by an additional three months, for a total of nine months. PNM has agreed, as set out in the February Order, that the extended nine month deadline under the ETA shall commence upon the filing of its March 15, 2021 Application.

7. As discussed above in this Financing Order, in compliance with Section 4(B)(1) of the ETA, the Application includes a description of Four Corners and PNM's ownership interest therein, the facility for which abandonment authority was requested and granted by the Commission after December 31, 2018.

8. As discussed above in this Financing Order, in compliance with Section 4(B)(2) of the ETA, the Application includes an estimate of PNM's energy transition costs as defined in Section 2(H) of the ETA. The Upfront Financing Costs and Ongoing Financing Costs are energy transition costs as defined in Section 2(H)(1) of the ETA. The Undepreciated Investment and

Decommissioning Costs are energy transition costs as defined in Section 2(H)(2) of the ETA. The Section 16 Payments are energy transition costs as defined in Section 2(H)(4) of the ETA.

9. As discussed above in this Financing Order, in compliance with Section 4(B)(3) of the ETA, the Application includes an estimate of the amount of Energy Transition Charges necessary to recover the estimated energy transition costs provided in the Application and the proposed calculation of the estimated Energy Transition Charges, based on the estimated date of issuance and estimated principal amount of each series of the Energy Transition Bonds proposed to be issued.

10. As discussed above in this Financing Order, in compliance with Section 4(B)(4) of the ETA, the Application includes a description of the True-Up Adjustment Mechanism, which is a proposed adjustment mechanism that complies with Section 6 of the ETA.

11. As discussed above in this Financing Order, in compliance with Section 4(B)(5) of the ETA, the Application includes the Securities Firm Memorandum indicating that the proposed issuance of the Energy Transition Bonds by the SPE satisfies the current published “AAA” rating or equivalent criteria of at least one nationally recognized statistical rating organization for issuances similar to the proposed Energy Transition Bonds.

12. As discussed above in this Financing Order, in compliance with Section 4(B)(6) of the ETA, the Application includes a commitment by PNM to file with the Commission following the issuance of the Energy Transition Bonds (a) a description of the final structure and pricing of the bonds, (b) updated financing costs and payment amount required pursuant to Section 16 of the ETA, and (c) an updated calculation of the Energy Transition Charges.

13. As discussed above in this Financing Order, in compliance with Section 4(B)(7) of the ETA, the Application includes an estimate of timing of the issuance of the Energy Transition

Bonds and term of the Energy Transition Bonds, including a provision that the scheduled final maturity for the Energy Transition Bonds shall be no longer than twenty-five years. The legal final maturity of the Energy Transition Bonds may be longer than twenty-five years.

14. As discussed above in this Financing Order, in compliance with Section 4(B)(8) of the ETA, the Application includes (i) identification of plans to sell, assign, transfer or convey, other than as security, interest in the Energy Transition Property, including identification of the SPE as the assignee as defined in Section 2(C) of the ETA, and (ii) demonstration that the SPE will be a financing entity wholly owned, directly or indirectly, by PNM that will be initially capitalized by PNM in such a way that equity interests in the SPE are at least one-half percent of the total capital of the SPE.

15. As discussed above in this Financing Order, in compliance with Section 4(B)(9) of the ETA, the Application includes identification of ancillary agreements as defined in Section 2(B) of the ETA that may be necessary or appropriate in connection with the issuance of the Energy Transition Bonds, including various forms of credit enhancement or other mechanisms designed to improve the credit quality and marketability of the Energy Transition Bonds.

16. As discussed above in this Financing Order, in compliance with Section 4(B)(10) of the ETA, the Application includes a description of PNM's proposed ratemaking process to reconcile and recover or refund any difference between the energy transition costs financed by the Energy Transition Bonds and the actual final energy transition costs incurred by PNM and the SPE.

17. As discussed above in this Financing Order, in compliance with Section 4(B)(11) of the ETA, the Application includes PNM's proposed ratemaking method to account for the

reduction in PNM's cost of service associated with the costs being recovered by the Energy Transition Charge at the time that charge becomes effective.

18. As discussed above in this Financing Order, in compliance with Section 4(B)(12) of the ETA, the Application includes a statement from PNM committing that PNM will use its commercially reasonable efforts to obtain the lowest cost objective as defined in Section 2(N) of the ETA.

19. As discussed above in this Financing Order, in compliance with Section 4(C) and 4(D) of the ETA, the Application and Supporting Testimony identified adequate potential new resources sufficient to provide reasonable and proper service to retail customers.

20. The Application complies with all of the requirements of Section 4 of the ETA.

21. As required by Section 5(F)(1) of the ETA, this Financing Order includes approval for PNM to use the Energy Transition Bonds to finance the estimated amounts of Abandonment Costs identified in the Application and this Financing Order. As required by Section 5(F)(1) of the ETA, this Financing Order includes approval for PNM to use the Energy Transition Bonds to finance the estimated amounts of Upfront Financing Costs and Section 16 Payments identified in the Application and this Financing Order, as such amounts may be updated pursuant to Section 4(B)(6) of the ETA. As required by Section 5(F)(1) of the ETA, this Financing Order includes approval of the proposed use of proceeds of the Energy Transition Bonds by the SPE and PNM. The approved use of proceeds of the Energy Transition Bonds by the SPE and PNM complies with the requirements of Section 10 of the ETA.

22. As required by Section 5(F)(2) of the ETA, this Financing Order includes approval for PNM to recover the Ongoing Financing Costs, as may be adjusted pursuant to Section 4(B)(6)

of the ETA, requested in the Application, through energy transition charges as defined in Section 2(G) of the ETA.

23. This Financing Order adequately details the estimated amount of energy transition costs to be financed through the issuance of the Energy Transition Bonds and recovered through the Energy Transition Charges. In accordance with Section 5(F)(1), this Financing Order authorizes the SPE to issue the Energy Transition Bonds in a maximum aggregate principal amount equal to the sum of: (A) the \$276 million of estimated Abandonment Costs set forth in the Application and described in this Financing Order, (B) Section 16 Payments described in the Application and this Financing Order (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 4(B)(6) of the ETA), and (C) Upfront Financing Costs described in the Application and this Financing Order (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 4(B)(6) of the ETA). The SPE shall not issue Energy Transition Bonds in a principal amount in excess of \$300 million unless PNM shall have obtained an amendment to the Financing Order as provided in Section 7(B)(2) of the ETA. If PNM's energy transition cost estimate at the time of issuance is lower than the estimate included in the financing application, the SPE shall reduce the size of the bond issuance accordingly.

24. As required by Section 5(H) of the ETA, this Financing Order authorizes the SPE to issue the Energy Transition Bonds in one or more series with a scheduled final maturity of no more than 25 years for each series. PNM shall not subsequently be required to secure a separate financing order prior to each issuance. In accordance with Section 5(H) of the ETA, this Financing Order provides that the rated final maturity may exceed 25 years.

25. The Energy Transition Bonds to be issued by the SPE pursuant to this Financing Order will constitute energy transition bonds as defined Section 2(F) of the ETA, and the Energy Transition Bonds issued pursuant to this Financing Order and the holders thereof shall be entitled to all of the protections of the ETA.

26. As required by Section 5(F)(3) of the ETA, this Financing Order (i) approves Energy Transition Charges necessary to recover the energy transition costs authorized in this Financing Order to be shown as a separate line item on customer bills, and (ii) provides that the Energy Transition Charges shall be subject to the True-Up Adjustment Mechanism. The Energy Transition Charges authorized in this Financing Order are energy transition charges as defined in Section 2(G) of the ETA.

27. In accordance with Section 5(F)(3), the Energy Transition Charges authorized by this Financing Order are non-bypassable as defined in Section 2(P) of the ETA, meaning that the Energy Transition Charges may not be avoided by an electric service customer in PNM's utility service territory and shall be paid by each customer that receives electric delivery service from the qualifying utility imposing the charge for as long as the Energy Transition Bonds remain outstanding and the related financing costs have not been recovered in full.

28. The methodology approved in this Financing Order for allocating Energy Transition Charges among customer classes and for assessing Energy Transition Charges within customer classes complies with the requirements of Section 5(F)(3) and Section 6(A) of the ETA. Pursuant to Section 6(A) of the ETA, the allocation of Energy Transition Charges among customer classes and the manner of assessing Energy Transition Charges within customer classes is subject to the True-Up Adjustment Mechanism.

29. As required by Section 5(F)(4) of the ETA, this Financing Order approves the True-Up Adjustment Mechanism. The True-Up Adjustment Mechanism approved by this Financing Order, including the Standard True-Up Adjustment Mechanism and Non-Standard True-Up Adjustment Mechanism, complies with the requirements of Section 6 of the ETA.

30. As required by Section 5(F)(5) of the ETA, this Financing Order includes a description of the Energy Transition Property that is created by this Financing Order. The Energy Transition Property created by this Financing Order includes the rights and interests of PNM or the SPE upon assignment under the Financing Order, including the right to impose, charge, collect and receive the Energy Transition Charges in an amount necessary to provide for full payment and recovery of all energy transition costs identified in the Financing Order, including all revenues or other proceeds arising from those rights and interests. The Energy Transition Property also includes the True-Up Adjustment Mechanism approved in this Financing Order. The Energy Transition Property created by this Financing Order is energy transition property as defined in Section 2(I) of the ETA.

31. As required by Section 5(F)(6) of the ETA, this Financing Order includes approval for PNM and the SPE to enter into appropriate ancillary agreements as defined in Section 2(B) of the ETA.

32. As required by Section 5(F)(7) of the ETA, this Financing Order approves PNM's plans for assigning, transferring and conveying, other than as security, all of its right, title and interest in and to the Energy Transition Property to the SPE. The SPE will be an assignee as defined in Section 2(C) of the ETA. The transfer of the Energy Transition Property to the SPE is in accordance with Section 12(B) of the ETA.

33. The rights, interests and property conveyed to the SPE under the Purchase Agreement, including without limitation the irrevocable right to impose, bill, collect and receive the Energy Transition Charges and the revenues and collections from the Energy Transition Charges are energy transition property within the meaning of Section 2(I) of the ETA.

34. As required by Section 5(F)(8) of the ETA, this Financing Order approves (i) PNM's proposed ratemaking process to reconcile and recover or refund any difference between the energy transition costs financed by the Energy Transition Bonds and the actual final energy transition costs incurred by PNM or the SPE, and (ii) PNM's proposed ratemaking method to account for the reduction in PNM's cost of service associated with the amount of costs being recovered through the Energy Transition Charges at the time the Energy Transition Charges become effective.

35. As required by Section 5(G) of the ETA, this Financing Order provides that the creation of the Energy Transition Property shall be simultaneous with the sale of the Energy Transition Property to the SPE and the pledge of the Energy Transition Property to secure the Energy Transition Bonds. Upon its transfer to the SPE, the Energy Transition Property will constitute an existing, present property right, notwithstanding that the imposition and collection of Energy Transition Charges depend on PNM continuing to provide electric energy or continuing to perform its service functions relating to the collection of the Energy Transition Charges or on the level of future energy consumption, as provided in Section 12(A) of the ETA.

36. Pursuant to Section 12(B) of the ETA, the Energy Transition Property will continue to exist until the Energy Transition Bonds and all related financing costs have been paid in full. Pursuant to Section 9(C) of the ETA, if the Energy Transition Bonds are outstanding and the Ongoing Financing Costs have not been paid in full, the Energy Transition Charges authorized in

this Financing Order shall be collected by PNM or its successors or assignees, or a collection agent, in full through a non-bypassable charge that is a separate line item on customer bills and not part of the qualifying utility's base rates. The charge shall be paid by all customers receiving electric delivery from PNM or its successors under Commission-approved rate schedules or special contracts, and all customers who acquire electricity from an alternative or subsequent electricity supplier in the utility service area currently served by PNM, to the extent such acquisition is permitted by New Mexico law.

37. Upon the transfer by PNM of the Energy Transition Property to the SPE, the SPE will have all of the rights, title and interest of PNM with respect to such Energy Transition Property, including the right to impose, collect and receive the Energy Transition Charges authorized by this Financing Order.

38. As provided in Section 12(E) of the ETA, any transfer, sale, grant of security interest or pledge of the Energy Transition Property to the SPE as authorized by this Financing Order does not require prior consent and approval of the Commission.

39. Pursuant to Section 14(A), PNM's sale, assignment and transfer of the Energy Transition Property to the SPE under the Purchase Agreement and related bill of sale shall be an absolute transfer and true sale of, and not a pledge or secured transaction relating to, PNM's right, title and interest in, to and under the Energy Transition Property. As provided in Section 14(C) of the ETA, the characterization of the sale, assignment or transfer as an absolute transfer and true sale, and the corresponding characterization of the property interest of the SPE, shall not be affected or impaired by: (1) commingling of energy transition revenues with other funds; (2) the retention by PNM of (a) a partial or residual interest, including an equity interest, in the Energy Transition Property, whether direct or indirect, or whether subordinate or otherwise, or (b) the right

to recover costs associated with taxes or license fees imposed on the collection of energy transition revenues; (3) any recourse that the SPE may have against PNM; (4) any indemnification rights, obligations or repurchase rights made or provided by PNM; (5) the obligation of PNM to collect energy transition revenues on behalf of the SPE; (6) treatment of the sale, assignment or transfer of Energy Transition Property for tax, financial reporting or other purposes; (7) any subsequent order of the Commission amending the Financing Order pursuant to Section 7(B) of the ETA; (8) any use of the adjustment mechanism approved in this Financing Order; or (9) anything else that might affect or impair the characterization of the Energy Transition Property.

40. Except as otherwise provided in Section 13 of the ETA, the creation, perfection and enforcement of a security interest in the Energy Transition Property to secure the repayment of the principal of and interest on the Energy Transition Bonds are governed by Section 13 of the ETA.

41. Pursuant to Section 13(C) of the ETA, a security interest in the Energy Transition Property will be created, valid and binding at the latest of when (a) this Financing Order is issued, (b) a security agreement is executed and delivered, or (c) value is received for the Energy Transition Bonds. Pursuant to Section 13(D) of the ETA, the security interest will attach without any physical delivery of collateral or other act and the lien of the security interest shall be valid, binding and perfected against all parties having claims of any kind against the SPE, regardless of whether such parties have notice of the lien, on the filing of a financing statement with Secretary of State of the New Mexico. Pursuant to Section 13(E) of the ETA, this security interest in the Energy Transition Property will be a continuously perfected security interest and will have priority over any other lien that may subsequently attach to the Energy Transition Property unless the holder of the security interest has agreed in writing otherwise.

42. Pursuant to Section 13(F) of the ETA, the priority of a security interest in the Energy Transition Property is not affected by the commingling of energy transition revenues with other funds. Any pledgee or secured party shall have a perfected security interest in the amount of all energy transition revenues that are deposited in any account of PNM and any other security interest that may apply to those funds shall be terminated when they are transferred to a segregated account for the SPE or a financing party.

43. As provided in Section 13(G) of the ETA, no order of the Commission amending this Financing Order and no application of the True-Up Adjustment Mechanism shall affect the validity, perfection or priority of a security interest in or transfer of the Energy Transition Property.

44. The Indenture Trustee will be a financing party as defined in Section 2(L) of the ETA. In addition, any other trustee, collateral agent or other person acting for the benefit of a bondholder, and a party to any ancillary agreement as defined in Section 2(B) of the ETA or the Energy Transition Bonds will be a financing party. As provided in Section 12(G) of the ETA, the interests of the SPE, holders of the Energy Transition Bonds and the Indenture Trustee in the Energy Transition Property and in the revenues and collections arising from that property are not subject to setoff, counterclaim, surcharge or defense by PNM or any affiliate thereof.

45. If PNM defaults on any required payment to the Indenture Trustee of Energy Transition Charges collected, a court with jurisdiction in the matter, on application by an interested party and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the energy transition revenues for the benefit of holders of the Energy Transition Bonds, the SPE, the Indenture Trustee and any other financing parties. The order shall remain in full force and effect notwithstanding any bankruptcy, reorganization or other insolvency or receivership proceedings with respect to the qualifying utility or any non-utility affiliate.

46. Pursuant to Section 19(A) of the ETA, the State of New Mexico has pledged to and agreed with holders of the Energy Transition Bonds, the SPE and the Indenture Trustee that the State of New Mexico shall not take or permit any action that impairs the value of the Energy Transition Property, except as allowed pursuant to Section 6 of the ETA, or reduces, alters or impairs Energy Transition Charges that are imposed, collected and remitted for the benefit of the holders of the Energy Transition Bonds, the SPE and the Indenture Trustee, until the entire principal of, interest on and redemption premium on the Energy Transition Bonds, all financing costs and all amounts to be paid to the SPE or a financing party under an ancillary agreement are paid in full and performed in full. Pursuant to Section 19(B) of the ETA, SPE is permitted to include the pledge specified in Section 19(A) of the ETA in the Energy Transition Bonds and any ancillary agreements and documentation related to the issuance and marketing of the Energy Transition Bonds.

47. As provided in Section 17 of the ETA, the Energy Transition Bonds shall not constitute a debt or a pledge of the faith and credit or taxing power of the State of New Mexico or of any county, municipality or any other political subdivision of the State of New Mexico. Holders of the Energy Transition Bonds shall have no right to have taxes levied by the legislature or the taxing authority of any county, municipality or other political subdivision of the State of New Mexico for the payment of the principal of or interest on the Energy Transition Bonds. The issuance of Energy Transition Bonds does not obligate the State of New Mexico or a political subdivision of the State of New Mexico to levy any tax or make any appropriation for payment of the principal of or interest on the Energy Transition Bonds.

48. In accordance with Section 6(F) of the ETA, a True-Up Adjustment will be deemed approved by the Commission without a hearing thirty days after the Company's filing of the True-

Up Adjustment Request Letter unless: (1) no later than twenty days from the date the Company files the True-Up Adjustment Letter, the Commission is notified of a potential mathematical or transcription error in the adjustment; and (2) the Commission determines that the calculation of the adjustment is unlikely to provide for timely payment, or is likely to result in a material overpayment, of scheduled principal of and interest on the Energy Transition Bonds and recovery of Other Ongoing Financing Costs in accordance with the Financing Order, suspends operation of the True-Up Adjustment Mechanism, pending a hearing limited to the issue of the error in the adjustment. In accordance with Section 6(F) of the ETA, any such suspension shall be for a period not to exceed sixty days from the date the Company filed the True-Up Adjustment Letter.

49. As provided in Section 6(G) of the ETA, any Commission hearing with respect to a Standard True-Up Adjustment or Non-Standard True-Up Adjustment will be limited to determining whether there is a mathematical or transcription error in the calculation of the Standard True-Up Adjustment or Non-Standard True-Up Adjustment, as applicable. If, after a hearing, the Commission determines that the calculation of a Standard True-Up Adjustment or Non-Standard True-Up Adjustment contains a mathematical or transcription error, the Commission shall issue an order that rejects and corrects such adjustment. The Company will adjust the Energy Transition Charges in accordance with the Commission's calculation within five days from issuance of any such order. If the Commission orders such a hearing and does not issue an order rejecting a Standard True-Up Adjustment or Non-Standard True-Up Adjustment with a determination of the corrected calculation within 60 days from the date the Company filed the applicable Standard True-Up Adjustment letter or Non-Standard True-Up Adjustment letter, the adjustment to the Energy Transition Charges shall be deemed approved.

50. As provided in Section 11(A) of the ETA, the Commission shall not treat (1) the Energy Transition Bonds as indebtedness of PNM, (2) the Energy Transition Charges paid under this Financing Order revenues of PNM, or (3) the energy transition costs to be financed by the Energy Transition Bonds as costs of PNM.

51. As provided in Section 11(C) of the ETA, if PNM decides not to issue Energy Transition Bonds, such decision shall not be a basis for the Commission to refuse to allow PNM to recover energy transition costs in an otherwise permissible fashion, or as a basis to refuse or condition authorization to issue securities pursuant to Sections 62-6-6 and 62-6-7 NMSA 1978.

52. This Financing Order constitutes a financing order as defined in Section 2(L) of the ETA.

53. This Financing Order meets the requirements for a financing order under Section 5 of the ETA.

54. This Financing Order will be operative and in full force and effect from the date of issuance by the Commission.

55. Pursuant to Section 12(H) of the ETA, any successor to PNM shall be bound by the requirements of the ETA and shall perform and satisfy all obligations of, and have the same rights under this Financing Order as, PNM under this Financing Order in the same manner and to the same extent as PNM, including the obligation to collect and pay energy transition revenues to the Indenture Trustee for the account of the SPE or to any other persons entitled to receive the revenues.

56. Pursuant to Section 7(A) of the ETA, this Financing Order is irrevocable and the Commission shall not reduce, impair, postpone or terminate the Energy Transition Charges approved in this Financing Order, the Energy Transition Property or the collection or recovery of

energy transition revenues, including recovery of the Ongoing Financing Costs through the Energy Transition Charges.

57. Pursuant to Section 9(B) of the ETA, this Financing Order shall remain in effect and unabated notwithstanding the bankruptcy, reorganization or insolvency of the qualifying utility (PNM or its successors) or any non-utility affiliate or the commencement of any proceeding for bankruptcy or appointment of a receiver.

58. In accordance with Section 8(A) of the ETA, this Financing Order has been issued as a separate order from any other order issued by the Commission on the approvals requested in the Application with respect to the Energy Transition Bonds and is a final order of the Commission. Pursuant to Section 8(A) of the ETA, a party aggrieved by the issuance of this Financing Order may apply to the Commission for a rehearing in accordance with Section 62-10-16 NMSA 1978; provided that such application shall be due no later than 10 calendar days after the issuance this Financing Order. An application for rehearing shall be deemed denied if not acted upon by the Commission within 10 calendar days after the filing of the application for rehearing. Pursuant to Section 8(B), an aggrieved party may file notice of appeal with the Supreme Court of New Mexico in accordance with Section 62-11-1 NMSA 1978; provided that such notice shall be due no later than 10 calendar days after denial of an application for rehearing or, if rehearing is not applied for, no later than 10 calendar days after issuance of this Financing Order. Pursuant to Section 8(B) of the ETA, the Supreme Court of New Mexico shall proceed to hear and determine the appeal as expeditiously as practicable.

59. Pursuant to Section 22 of the ETA, effective on the date that any of the Energy Transition Bonds are first issued under this Financing Order, if any provision of the ETA is invalidated, superseded, replaced, repealed or expires for any reason, that occurrence shall not

effect the validity of any action allowed pursuant to the ETA that is taken by the Commission, PNM or its successors, the SPE or any other person, a collection agent, a financing party, a bondholder or a party to an ancillary agreement and, to prevent the impairment of the Energy Transition Bonds issued or authorized in this Financing Order, any such action shall remain in full force and effect with respect to all Energy Transition Bonds issued or authorized pursuant to this Financing Order before the date that such provision is held to be invalid or is invalidated, superseded, replaced, repealed or expires for any reason.

V. ORDERING PARAGRAPHS

Based upon the record, the Findings of Fact and Conclusions of Law set forth herein and, or the reasons stated above, **THE COMMISSION ORDERS:**

1. The findings, conclusions and ordering paragraphs herein are adopted, approved and ordered by the Commission.

2. PNM's application for a financing order authorizing the issuance of one or more series of Energy Transition Bonds by the SPE is granted, subject to the terms set forth in this Financing Order. PNM may cause the Energy Transition Bonds to be issued through the SPE that issues the SJGS Bonds or through a newly formed SPE.

3. PNM may use the Energy Transition Bonds to finance the estimated amounts of Abandonment Costs identified in the Application and this Financing Order. PNM may use the Energy Transition Bonds to finance the estimated amounts of Upfront Financing Costs and Section 16 Payments identified in the Application and this Financing Order, as such amounts may be updated pursuant to Section 4(B)(6)(b) of the ETA.

4. The SPE may issue one or more series of Energy Transition Bonds, with the maximum aggregate principal amount of such Energy Transition Bonds to be equal to the sum of

(A) the \$276 million of estimated Abandonment Costs set forth in the Application and this Financing Order, (B) Section 16 Payments (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 4(B)(6) of the ETA), and (C) Upfront Financing Costs (updated as of the time of issuance and provided to the Commission following issuance in accordance with Section 4(B)(6) of the ETA). The SPE shall not issue Energy Transition Bonds in a principal amount in excess of \$300 million unless PNM shall have obtained an amendment to the Financing Order as provided in Section 7(B)(2) of the ETA. If PNM's energy transition cost estimate at the time of issuance is lower than the estimate included in the financing application, the SPE shall reduce the size of the bond issuance accordingly.

5. PNM is authorized to form the SPE to be structured as described in the Application and this Financing Order. Concurrent with the issuance of the Energy Transition Bonds, PNM shall make an equity capital contribution to the SPE that shall not be less than 0.5% of the total capital of the SPE (with the aggregate principal amount of the Energy Transition Bonds representing not more than 99.5% of the capital of the SPE).⁷ PNM shall be permitted to earn a rate of return on its equity capital contribution to the SPE relating to the Energy Transition Bonds at a rate equal to the rate of interest payable on the longest maturing tranche of Energy Transition Bonds and this return on the capital contribution will be an Other Ongoing Financing Cost and part of the Periodic Revenue Requirement.

6. Each series of the Energy Transition Bonds may be issued in one or more tranches. The SPE is authorized to enter into an Indenture with an Indenture Trustee, consistent with the provisions of this Financing Order, pursuant to which the Energy Transition Bonds shall be issued. Each tranche of the Energy Transition Bonds shall be issued with a fixed interest rate and shall

⁷ See the footnote to Findings of Fact paragraph 21 above.

have a scheduled final maturity of no more than 25 years from the date of issuance of such Energy Transition Bonds, provided that the legal final maturity may exceed 25 years. Following the initial scheduled payment of principal and interest, payments of principal and interest on the Energy Transition Bonds shall be made semiannually. Subject to compliance with the requirements of this Financing Order, PNM and the SPE shall be afforded flexibility in establishing the terms and conditions of the Energy Transition Bonds, repayment schedules, term, payment dates, collateral, redemption provisions, credit enhancement, required debt service, reserves, interest rates and other financing costs.

7. Each of PNM and the SPE is authorized to execute and deliver the Transaction Documents (as defined in the Application) substantially in the form submitted with the Supporting Testimony, subject to such changes as are legally appropriate and necessary to satisfy bankruptcy or rating agency considerations or that are otherwise consistent with the provisions of this Financing Order. Each of PNM and the SPE is authorized to enter into any ancillary agreements (as defined in Section 2(B) of the ETA) consistent with the provisions of this Financing Order that may be appropriate in connection with the issuance of the Energy Transition Bonds, including various forms of credit enhancement or other mechanisms designed to improve the credit quality and marketability of the Energy Transition Bonds in furtherance of the lowest cost objective. Each of PNM and the SPE is authorized to execute and deliver such additional agreements, documents, certificates and instruments as shall be legally appropriate and necessary in order to effectuate the issuance of the Energy Transition Bonds in accordance with the provisions of this Financing Order.

8. PNM is authorized to recover the Ongoing Financing Costs, including Other Financing Costs, as described in the Application and this Financing Order through the Energy Transition Charges authorized in this Financing Order.

9. PNM or the SPE as its assignee is authorized to impose, charge, collect and receive Energy Transition Charges necessary to recover the Ongoing Financing Costs, to be imposed as described in the Application, including the Supporting Testimony, and in this Financing Order. The Energy Transition Charges shall be subject to the True-Up Adjustment Mechanism described in the Application, including the Supporting Testimony, and in this Financing Order until the Energy Transition Bonds and the Ongoing Financing Costs are paid in full.

10. The Energy Transition Charges authorized in this Financing Order shall be non-bypassable as defined in Section 2(P) of the ETA, meaning that payment of an Energy Transition Charge may not be avoided by an electric service customer located within PNM's utility service area and shall be paid by each customer that receives electric delivery service from the qualifying utility (PNM or its successor) imposing the charge for as long as the Energy Transition Bonds secured by the Energy Transition Charges are outstanding and the related Ongoing Financing Costs have not been recovered in full.

11. The Energy Transition Charges shall appear as a separate line item on each customer's electric bill. In addition, all electric bills shall state that all rights to the Energy Transition Charges are owned by the SPE.

12. PNM's proposed ETA Rider as shown in PNM Exhibit MJS-2 is hereby approved.

13. Upon issuance of the Energy Transition Bonds, PNM shall file an advice notice with the Commission, subject to review by the Commission for errors and corrections, that identifies the actual initial Energy Transition Charges to be included on customers' bills, effective fifteen days from the date the advice notice is filed.

14. The True-Up Adjustment Mechanism described in the Application, including the Supporting Testimony, and in this Financing Order is approved. PNM or its assignee is authorized

to recover the Periodic Revenue Requirement through the Energy Transition Charges and shall file with the Commission at least semiannually (and at least quarterly during two-year period preceding the final maturity date of the Energy Transition Bonds) a True-Up Adjustment Letter as described in this Financing Order. In addition to the semiannual Standard True-Up Adjustments, PNM is authorized to implement optional Standard True-Up Adjustments at any time, without limitation as to frequency, in order to ensure timely payment of scheduled principal of and interest (or deposits to sinking funds in respect of principal and interest) on the Energy Transition Bonds and the payment of other ongoing financing costs, and to implement Non-Standard Adjustments as described above in this Financing Order.

15. In connection with each True-Up Adjustment, PNM shall file an advice notice with the True-Up Adjustment Request Letter to implement the revised Energy Transition Charges.

16. PNM's method of allocating the Periodic Billing Requirement to customer classes and rate schedules and assessing the Energy Transition Charges within rate schedules as described in the Application, including the Supporting Testimony, and in this Financing Order is hereby approved. As provided in Section 6(A) of the ETA, the allocation and assessment of energy transition are both subject to the True-Up Adjustment Mechanism. PNM shall file a True-Up Adjustment Request Letter in connection with any general rate case when necessary to reflect any adjustments in the allocation of ETCs as a result of changes in the production cost methodology used in such general rate case.

17. The creation of the Energy Transition Property as described in this Financing Order is approved. The Energy Transition Property shall consist of all rights and interests of the qualifying utility (PNM or its successors) or its assignee under this Financing Order, including the right to impose, charge, collect and receive Energy Transition Charges in an amount necessary to

provide for full payment and recovery of all Ongoing Financing Costs, including all revenues or other proceeds arising from those rights and interests. The Energy Transition Property also include the rights and interests of the qualifying utility (PNM or its successors) or its assignee in the True-Up Adjustment Mechanism approved under this Financing Order.

18. The creation of the Energy Transition Property is conditioned upon and shall be simultaneous with, the transfer of the Energy Transition Property to the SPE pursuant to the Purchase Agreement and related bill of sale and the pledge of the Energy Transition Property to secure the Energy Transition Bonds. The Energy Transition Property shall continue to exist until the Energy Transition Bonds and all Ongoing Financing Costs have been paid in full.

19. In accordance with the terms and conditions of this Financing Order, the SPE may pledge to an Indenture Trustee, as collateral for payment of the Energy Transition Bonds, the Energy Transition Property, including the SPE's right to receive the related Energy Transition Charges when collected, and the other collateral described in the Indenture.

20. PNM shall structure the issuance of the Energy Transition Bonds in a manner consistent with the provisions of IRS Revenue Procedure 2005-62.

21. The Securitization Transaction Structure described in the Application is approved.

22. In its capacity as the initial servicer of the Energy Transition Bonds under the Servicing Agreement, PNM is authorized to calculate, bill, collect and receive for the account of the SPE, the Energy Transition Charges established under this Financing Order, as adjusted from time to time pursuant to the True-Up Adjustment Mechanism, and to make such filings and take such other actions as are required or permitted by this Financing Order in connection with the True-Up Adjustment Mechanism. The servicer of the Energy Transition Bonds will be entitled to collect servicing fees in accordance with the provisions of the Servicing Agreement, provided that

the annual servicing fee payable to PNM for acting as servicer (or any other servicer affiliated with PNM) shall be 0.05% of the initial aggregate principal amount of the Energy Transition Bonds plus out-of-pocket expenses, and (ii) the annual servicing fee payable to any other servicer not affiliated with PNM shall not at any time exceed 0.60% of the initial aggregate principal amount of the Energy Transition Bonds plus out-of-pocket expenses, except as provided in the paragraph below.

23. PNM shall not resign as servicer except upon either (a) a determination by PNM that the performance of its duties under as servicer shall no longer be permissible under applicable law, or (b) satisfaction of the following: (i) receipt of confirmation that such action will not result in a suspension, reduction or withdrawal of the then current ratings on any of the Energy Transition Bonds and (ii) the Commission shall have approved of such resignation. Upon the occurrence of an event of default under the Servicing Agreement relating to the servicer's performance of its servicing functions with respect to the Energy Transition Charges, the Indenture Trustee may replace PNM as the servicer in accordance with the terms of the Servicing Agreement. If the servicing fee of the replacement servicer will exceed the applicable maximum servicing fee specified herein, the appointment of such replacement servicer will not be effective until (i) the date the Commission approves the appointment of such replacement servicer or (ii) if the Commission does not act to either approve or disapprove the appointment, the date which is 45 days after notice of appointment of the replacement servicer is provided to the Commission. No entity may replace PNM as the servicer in any of its servicing functions with respect to the Energy Transition Charges and the Energy Transition Property authorized by this Financing Order, if the replacement would cause any of the then-current credit ratings of the Energy Transition Bonds to be suspended, withdrawn or downgraded.

24. The servicer shall remit collections (or estimated amounts of collections) of the Energy Transition Charges to the SPE or the Indenture Trustee for the SPE's account on each business day.

25. In the event a customer of PNM does not pay the full amount of any bill that includes Energy Transition Charges, such partial payments shall be allocated in accordance with applicable Commission requirements and any other requirements of applicable law. Following the issuance of any Energy Transition Bonds, for amounts billed on the same date, charges shall be credited based on a priority waterfall, with late payment charges being credited first, Energy Transition Charges being credited second, and other charges being credited thereafter in the priority waterfall. If more than one series of energy transition bonds are outstanding, partial payments allocable to energy transition charges shall be allocated pro rata based upon the amount of energy transition charges owing with respect to each series.⁸

26. PNM shall be entitled to receive an administration fee for its performance of administration duties for the SPE under the Administration Agreement, provided that the aggregate annual administration fee payable to PNM (or any of its affiliates) while serving as administrator for the SPE shall be \$50,000 per year plus out-of-pocket expenses.

27. The servicing and administration fees collected by PNM (or any affiliate of PNM) acting as servicer or administrator under the Servicing Agreement or the Administration Agreement, respectively, shall be included in PNM's cost of service. The expenses incurred by PNM (or any affiliate of PNM) to perform obligations under the Servicing Agreement or Administration Agreement not otherwise recovered through the Energy Transition Charges shall be included in PNM's cost of service.

⁸ See the footnote to Findings of Fact paragraph 41 above.

28. PNM has the continuing, irrevocable right to cause the issuance of the Energy Transition Bonds in one or more series in accordance with the terms of this Financing Order.

29. PNM shall provide the Commission with a copy of each registration statement, prospectus, Current Report on Form 8-K or other filing made with the SEC in connection with any issuance or proposed issuance of the Energy Transition Bonds within 5 business days following the date of such filing with the SEC.

30. In accordance with Section 4(B)(6) of the ETA, PNM shall file with the Commission within 30 days after the issuance of the Energy Transition Bonds, a report describing the final structure and pricing of the Energy Transition Bonds, updated Financing Costs and Section 16 Payments amounts, and an updated calculation of the Energy Transition Charges. In addition, PNM will file final forms of the Transaction Documents.

31. In connection with any issuance of the Energy Transition Bonds, PNM shall use its commercially reasonable efforts to obtain the lowest cost objective.

32. The ratemaking method addressed in Findings of Fact paragraph 17 above to reconcile and recover or refund any difference between the energy transition costs financed by the Energy Transition Bonds and the actual final energy transition costs incurred by the PNM or the SPE, as described in this Financing Order, is approved.

33. The ratemaking method addressed in Findings of Fact paragraph 42 above to account for the reduction in PNM's cost of service associated with the amount of undepreciated investments being recovered by the Energy Transition Charges at the time the charge becomes effective, as described in this Financing Order, is approved.

34. The SPE is authorized to use the proceeds it receives from the sale of the Energy Transition Bonds to (i) pay the Upfront Financing Costs incurred in connection with the issuance

of the Energy Transition Bonds (including reimbursement to PNM of any such costs paid by PNM) and (ii) to purchase the Energy Transition Property from PNM pursuant to the terms of the Purchase Agreement and related bill of sale. PNM and the SPE are authorized to enter the Purchase Agreement and related bill of sale consistent with the provisions of this Financing Order.

35. PNM is authorized to use the proceeds it receives from the sale of the Energy Transition Property to the SPE (i) to make required Section 16 Payments and (ii) for purposes of providing utility service to customers, including paying certain Energy Transition Costs financed with the Energy Transition Bonds. In particular, PNM shall apply the proceeds it receives from the sale of the Energy Transition Property to make required Section 16 Payments, to pay Decommissioning Costs, to make capital expenditures for the purpose of providing utility service to customers, and to repay any indebtedness incurred for the purpose of making any such payments. Proceeds of the Bonds shall not be used for purposes of paying dividends, making affiliate loans or paying incentive compensation.

36. In accordance with Section 5(J) of the ETA, PNM shall file a report, within 30 days following receipt of the proceeds from the sale of the Energy Transition Bonds and annually thereafter until all bond proceeds have been disbursed, specifying (1) the gross amount of proceeds arising from the sale of the Energy Transition Bonds, (2) any amounts expended for payment of Upfront Financing Costs (including reimbursement to PNM for such costs paid by PNM), (3) the amount of Section 16 Payments made, (4) the amount of proceeds used to make capital expenditures for the purpose of providing utility service to customers, (5) the amount of proceeds used to repay indebtedness incurred for the purpose of making any such payments, and (6) the amount of remaining proceeds, if any.

37. Following repayment of the Energy Transition Bonds and all related financing costs and the release of funds by the Indenture Trustee, the SPE shall distribute the final balance of the Collection Account to PNM. PNM shall credit customers by the amount of the distribution, less the amount of the Capital Subaccount and any unpaid return on the capital contribution due to PNM as set forth in this Financing Order. PNM shall similarly credit customers by the aggregate amount of any Energy Transition Charge collections subsequently received by the SPE.

38. In accordance with Section 5(I) of the ETA, to the extent permitted under applicable law, during any period in which the Energy Transition Bonds are outstanding, the SPE LLC Agreement shall provide that in order for the SPE to file a voluntary bankruptcy petition on behalf of the SPE, the prior unanimous consent of the managers of the SPE shall be required.

39. In accordance with Section 5(K) of the ETA, the Commission is authorized to review and audit the books and records of PNM and the SPE, relating to the Energy Transition Property and the receipt and disbursement of proceeds of the Energy Transition Bonds.

40. All regulatory approvals within the jurisdiction of the Commission that are necessary for the issuance of the Energy Transition Bonds and all related transactions, are granted.

41. The Commission finds that the Application satisfies the requirements of Section 4 of the ETA. The Commission finds that this Financing Order constitutes a financing order within the meaning of Section 2(L) of the ETA. The Commission finds that this Financing Order complies with the provisions of Section 5 of the ETA. A financing order issued under Section 5 of the ETA gives rise to rights, interests, obligations and duties as expressed in the ETA. It is the Commission's express intention to give rise to those rights, interests, obligations and duties by issuing this Financing Order. PNM and any successor servicer are authorized to take all actions

as are required to effectuate the transactions approved in this Financing Order, subject to compliance with the requirements of this Financing Order.

42. This Financing Order is irrevocable and the Commission shall not reduce, impair, postpone or terminate the Energy Transition Charges approved in this Financing Order, the Energy Transition Property or the collection or recovery of energy transition revenues, including recovery of the Ongoing Financing Costs through the Energy Transition Charges.

43. Any successor to PNM shall be bound by the requirements of the ETA and shall perform and satisfy all obligations of, and have the same rights under this Financing Order as, PNM under this Financing Order in the same manner as PNM, including the obligation to collect and pay energy transition revenues to the Indenture Trustee for the account of the SPE or to any other persons entitled to receive the revenues. This Financing Order also is binding upon any servicer or other entity responsible for billing and collecting the Energy Transition Charges on behalf of the SPE, and upon any successor to the Commission.

44. If the Energy Transition Bonds are outstanding and the Ongoing Financing Costs have not been paid in full, the Energy Transition Charges authorized in this Financing Order shall be collected by PNM or its successors or assignees, or a collection agent, in full through a non-bypassable charge that is a separate line item on customer bills and not part of the qualifying utility's base rates. The charge shall be paid by all customers receiving electric delivery from PNM or its successors under Commission-approved rate schedules or special contracts, and all customers who acquire electricity from an alternative or subsequent electricity supplier in the utility service area currently served by PNM, to the extent such acquisition is permitted by New Mexico law.

45. This Financing Order shall remain in effect and unabated notwithstanding the bankruptcy, reorganization or insolvency of the qualifying utility (PNM or its successors) or any non-utility affiliate or the commencement of any proceeding for bankruptcy or appointment of a receiver.

46. In accordance with Section 19 of the ETA, the Commission pledges to and agrees with holders of the Energy Transition Bonds, the SPE and the Indenture Trustee that the Commission shall not take or permit any action that impairs the value of the Energy Transition Property, except as allowed pursuant to Section 6 of the ETA, or reduces, alters or impairs Energy Transition Charges that are imposed, collected and remitted for the benefit of the holders of the Energy Transition Bonds, the SPE and the Indenture Trustee, until the entire principal of, interest on and redemption premium on the Energy Transition Bonds, all financing costs and all amounts to be paid to the SPE or a financing party under an ancillary agreement are paid in full and performed in full. The SPE is permitted to include this pledge in the Energy Transition Bonds and any ancillary agreements and documentation related to the issuance and marketing of the Energy Transition Bonds.

47. A copy of this Financing Order shall be served on all parties listed on the official service list for this case via e-mail where such e-mail addresses are known and if not known, by regular first-class postal delivery.

48. This Financing Order is effective immediately.

49. In accordance with 1.2.2.35(D) NMAC, the Commission has taken administrative notice of all Commission orders, rules, decisions and other relevant materials in all Commission proceedings cited in this Order.

50. Any matter not specifically ruled on during the course of this proceeding or in this Order is disposed of consistent with this Order and the Commission's Rules.

51. This Docket is closed.

ISSUED under the Seal of the Commission at Santa Fe, New Mexico, this ____ day of _____.

NEW MEXICO PUBLIC REGULATION COMMISSION

STEPHEN FISCHMANN, CHAIR, DISTRICT 5

JOSEPH MAESTAS, VICE-CHAIR, DISTRICT 3

CYNTHIA B. HALL, COMMISSIONER, DISTRICT 1

JEFFERSON L. BYRD, COMMISSIONER, DISTRICT 2

THERESA BECENTI-AGUILAR, COMMISSIONER, DISTRICT 4

EXHIBIT A

FORM OF STANDARD TRUE-UP ADJUSTMENT LETTER

New Mexico Public Regulation Commission
[ADDRESS]
Attention:

Re: Energy Transition Act Financing Order, 21-_____-UT

Dear [_____]:

Pursuant to the financing order of the New Mexico Public Regulation Commission (the “Commission”) adopted on [_____] , in the above-referenced matter (the “Financing Order”), Public Service Company of New Mexico (“PNM”), as servicer of the energy transition bonds issued pursuant to the Financing Order, submits this filing for a True-Up Adjustment (as defined in the Financing Order) to the energy transition charges authorized pursuant to the Financing Order.

PNM has calculated the True-Up Adjustment in accordance with the methodology approved in the Financing Order. Attachment 1 hereto is the Energy Transition Charge True-Up Mechanism Form and Attachment 2 hereto is PNM’s workpapers showing the calculation of the adjusted energy transition charges. Attachment 3 hereto is PNM’s advice notice with respect to implementing the adjusted energy charges pursuant to the True-Up Adjustment.

Pursuant to the Financing Order and Section 6(F) of the Energy Transition Act, the True-Up Adjustment will be deemed approved by the Commission without a hearing thirty days after PNM’s filing of this letter unless: (1) no later than twenty days from the date PNM files this letter, the Commission is notified of a potential mathematical or transcription error in the adjustment; and (2) the Commission determines that the calculation of the adjustment is unlikely to provide for timely payment, or is likely to result in a material overpayment, of scheduled principal of and interest on the energy transition bonds and recovery of other ongoing financing costs in accordance with the Financing Order, and suspends operation of the True-Up Adjustment, pending a hearing limited to the issue of the error in the adjustment. In accordance with Section 6(F) of the Energy Transition Act, any such suspension shall be for a period not to exceed sixty days from the date PNM filed this letter.

Accordingly, so long as the Commission takes no action to suspend operation of the True-Up Adjustment, the True-Up Adjustment requested in this letter shall become effective on [_____].

Respectfully submitted,
PUBLIC SERVICE COMPANY OF NEW MEXICO

By: _____
Name:
Title:

Attachment 1 to True-Up Adjustment Request Letter

PNM Exhibit MJS-2, Appendix 1: Form of Recovery Period True-up							Page 1 of 1
Public Service Company of New Mexico (PNM)							
Energy Transition Bond rider true-up calculation summary report							
ETA Rider No 51							
Remittance Period Start Date: _____							
Remittance Period End Date: _____							
Line No.	Description	Equation	Calculation of the True-up (1)	Projected Revenue Requirement to be Billed and Collected (2)	Revenue Requirement for Projected Collection Period (1)+(2)=(3)	Data Source	
1	Prior period remittances from Start date: to End Date:						
2							
3	True-up for the Prior Remittance Period						
4	Revenue Requirement						
5	Actual Cash Receipt Transfers Interest Income						
6	Cash Receipts Transferred to the SPE						
7	Interest income on Subaccounts at the SPE						
8	Total Current Period Actual Daily Cash Receipts Transfers and Interest Income	<i>Line 6 + Line 7</i>	-				
9	(Over)/Under collection of prior remittance period revenue requirements	<i>Line 4 + Line 8</i>					
10	Cash in Excess Funds subaccount						
11	Cumulative (Over)/Under collections through the end of prior remittance period	<i>Line 9 + Line 10</i>	\$		\$		
12							
13							
14	Current Remittance Period with Start date: through End Date:						
15	Principal						
16	Interest						
17	Servicing Costs						
18	Other On-Going Costs						
19	Current Remittance Period Total Revenue Requirement	<i>Line 15 + Line 16 + Line 17 + Line 18</i>	\$				
20							
21	Current Remittance Period Cash Receipt Transfers and Interest Income:						
22	Cash Receipts Transferred to SPE		(A)	(B)			
23	Interest Income on Subaccounts at SPE		(A)	(B)			
24	Total Current Remittance Period Cash Receipt Transfers and Interest Income	<i>Line 22 + Line 23</i>	\$	\$			
25	Estimated Current Remittance Period (Over)/Under Collection	<i>Line 19 + Line 24</i>	\$	\$	\$		
26							
27							
28	Projected Remittance Period with Start date: through End Date:						
29	Principal						
30	Interest						
31	Servicing Costs						
32	Other On-Going Costs						
33	Projected Remittance Period Total Revenue Requirement	<i>Line 29 + Line 30 + Line 31 + Line 32</i>		\$	\$		
34							
35	Revenue Requirements to be Billed in Projected Remittance Period, TOTAL	<i>Line 11 + Line 25 + Line 33</i>			(C) \$		
36	Forecasted Sales (in kWh) for Projected Remittance Period (adjusted for uncollectibles)						
37	Average Energy Transition Bond rider charge per kWh	<i>Line 35 / Line 36</i>			\$		
38							
39							
40							
41	Footnotes:						
42	(A) Reflects cash receipts and interest income that have been billed, collected, and remitted to SPE						
43	(B) These are the remaining months in the current period whose collection is estimated.						
44	Remaining estimated months are for this time period:						
45	(C) This is the total amount for recovery.						

Attachment 2 to True-Up Adjustment Request Letter

[Advice Notice]

Attachment 3 to True-Up Adjustment Request Letter

[Workpapers]