

EXECUTIVE SUMMARY

PNM and New Mexico have been at the forefront of the nation's energy transition to non-carbon-emitting resources, while maintaining reliability and customer service. This rate case begins to capture the changes in PNM's cost of service brought about by the Energy Transition Act and PNM's pledge to have a carbon-free generation portfolio by 2040. While savings from retirement of baseload coal in PNM's portfolio help hold the line on rate increases, they cannot be considered in isolation. Rather, they should be considered in the context of necessary changes to the PNM grid that are required for a carbon free transition. Ultimately, the necessary and ongoing transformation of PNM's energy grid can only happen with new and continued investments.

The energy transition is working to keep customers' bills affordable, while still ensuring safe and reliable service. The average residential customer's monthly bill using 600 kwh will increase by \$0.75 or approximately 0.9% in 2024 when compared to a bill today. This bill comparison between today and when rates change in 2024 looks at all components of a customer's bill, including: annually changing energy efficiency and renewable energy riders; changes to fuel costs, as renewable resources replace coal from the San Juan plant and a portion of nuclear fuel from the Palo Verde leases; and the Energy Transition Charge to recover securitized amounts for San Juan approved by the Commission. This level of impact, after six years, shows the ability to keep customers' bills affordable while the state transitions to cleaner energy.

Rate Case Drivers

The increased costs of providing electric service are driven by a variety of factors, not least of which are the significant investments PNM has made in its system since its last base rate case was completed in 2018. There is no question that reducing generation costs through the energy transition is helping keep customer bills affordable. The removal of costs associated with the now

abandoned San Juan coal plant, for example, has helped offset the significant increases PNM has seen in providing quality service to customers. Some of the key factors behind PNM's \$63.7 million revenue deficiency, along with some of the offsets that have kept it manageable, are:

- Needed investments in transmission, distribution, and generation facilities for six years of operations, covering 2019 through 2024. In particular, PNM is focused on expanding and improving its aging infrastructure to provide the underlying infrastructure crucial to a successful energy transition and to support distribution generation.
- Cost reductions from closing the San Juan coal plant and the expiration of 114 MW leased Palo Verde Nuclear Generating Station capacity.
- Lower-cost replacements for San Juan and Palo Verde using renewable energy purchases and battery storage systems. Some of these costs will be reflected in PNM's requested base rates, while energy purchases will flow through PNM's fuel clause.
- Updated depreciation rates for natural gas plants to align with the Company's 2040 carbon-free portfolio goal.
- Improved customer-oriented services, such as fee-free payment options, and increased payment location options to address the needs of our customers
- Increasing operating costs reflecting six years of inflation, including the impacts of today's current high inflation and the expenses that come with providing quality electric service to our customers. Distribution maintenance increases also are necessary to enhance vegetation management programs to protect lines and support

wildfire mitigation efforts. PNM has endeavored to keep operating costs below inflationary levels.

- Growing energy sales and customer loads since our last filing help cover the increased cost of doing business as PNM continues the energy transition.
- Overall costs of capital that are based on PNM's actual capital structure and reflect an increase in the return on equity that shareholders require to fund new investments in PNM's system, which is partly offset by PNM's efforts to lower its cost of debt that goes into funding these investments.

PNM also plans to use the fuel clause to flow back to customers anticipated income tax credits that are tied to nuclear fuel production under the new federal Inflation Reduction Act.

Impacts to Customers

PNM has managed operating costs and helped keep rates affordable for customers by delaying planned rate increases in 2020 and 2021. PNM is proposing to keep the bill impact relatively flat for residential customers by “banding” the impact of the \$63.8 million revenue deficiency. Banding, which is a method of limiting the customer class revenue requirement increase to a given percentage above or below the average system impact, is a common methodology used by utilities to allocate the revenue deficiency across all customer classes. Under our banding proposal, the average non-fuel base rate increase for the residential customer class will be 9.65%, while the system average non-fuel rate increase will be 8.77%. Banding helps hold the net impact to an average residential customer's monthly bill in 2024 to less than 1% (taking into account changes in other riders and fuel costs). PNM has chosen this starting point for rate design because the current state of high inflation and pressures from the COVID-19 pandemic are still being felt by our customers. Similar to the approach taken in PNM's 2016 rate case, spreading the collection

of the revenue deficiency across all customer classes reflects a prioritization of residential customers.

PNM is committed to a stakeholder-driven rate design as we work toward a modern rate design that will align with PNM's carbon-free future. One of the initial steps of a modern rate design that PNM is proposing is a time-of-day pilot that will help steer future rate design changes to align customer energy use with the times when the cost of energy production is less expensive. PNM and stakeholders are already engaging through an advisory committee process so that PNM's evolving rate design complements the evolving ways in which customers use energy.

PNM's Application is supported by Company experts and outside witnesses, whose detailed testimonies and exhibits provide the necessary financial and operations information to ensure a thorough and complete review can be conducted by the New Mexico Public Regulation Commission, its Staff, and other parties that will participate in these proceedings.

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