

# PNM 2014 Electric Rate Case

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

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

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

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

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

## **What This Means for Customer Bills**

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

## **Keeping Electricity Affordable**

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

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

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

## Price Structure Changes

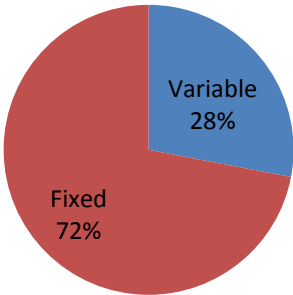
The way energy is produced and consumed has changed dramatically in the last several years and the way PNM electric rates are calculated needs to be modernized as well. This modernization includes proposals to realign electric rates to better match costs and revenue in order to maintain reliability.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

## Balancing Costs with Revenue

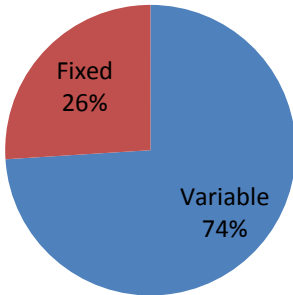
While most of the costs to serve you don’t change with usage, the majority of your bill is based on usage. Therefore, we propose:

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

How Costs are Incurred



How Revenues are Collected



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## **Rooftop Solar**

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

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

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

## **Realigning Customer Costs**

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

## **Economic Development Tariff**

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

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

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

*For more information, visit [PowerforProgress.com](http://PowerforProgress.com).*