

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF NEW MEXICO)
FOR APPROVAL OF ELECTRIC ENERGY)
EFFICIENCY PROGRAMS AND PROGRAM)
COST TARIFF RIDER PURSUANT TO THE)
NEW MEXICO PUBLIC UTILITY AND)
EFFICIENT USE OF ENERGY ACTS,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant.)
_____)

Case No. 12-00317-UT

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NEW MEXICO
PUBLIC REGULATION
COMMISSION
FILED

**DIRECT TESTIMONY OF
JAMES A. BRACK**

ON BEHALF OF

UTILITY DIVISION STAFF

January 23, 2012

CASE NO. 12-00317-UT
PREPARED DIRECT TESTIMONY OF
JAMES A. BRACK

1 **Q. Please state your name and business address.**

2 A. James A. Brack. My address is the New Mexico Public Regulation Commission, P.O.
3 Box 1269, 1120 Paseo de Peralta, Santa Fe, New Mexico 87504-1269.

4

5 **Q. What is your position with the Commission?**

6 A. I am the Economics Bureau Chief for the Utility Division Staff ("Staff") of the New
7 Mexico Public Regulation Commission ("Commission" or "NMPRC").

8

9 **Q. Please describe your educational background and experience.**

10 A. I received a Bachelor of Science in Business Administration from Northern Arizona
11 University in 1982 and a Master of Arts in Economics, majoring in Regulatory
12 Economics, from New Mexico State University in 1989. I have been a Utility Economist
13 in the Commission's Utility Division for 23 years and have been the Chief of the Utility
14 Division's Economics Bureau for the past 11 years.

15

16 **Q. Have you previously testified before this Commission?**

17 A. Yes. Please see Appendix A for a listing of cases in which I have filed either testimony
18 or an affidavit.

19

20 **Q. What is the purpose of your testimony?**

21 A. The purpose is to provide testimony to support for the discount rate used by Staff in its
22 TRC test calculations and to support Staff's incentive proposal for purposes of this case.

23

1 **Q. What discount rate does PNM use in its TRC test calculations?**

2 **A.** As stated by PNM Witness O’Connell, PNM has used is “weighted average cost of
3 capital (“WACC”) of 8.20% as the discount rate” in its TRC test calculations. O’Connell
4 Direct, p. 6, ll.15-16. As further stated by PNM, “[t]his is the same WACC PNM used in
5 the calculation of the revenue requirement for the renewable rider [established in Case
6 No. 12-00007-UT] and is lower than the WACC approved by the Commission in PNM’s
7 last rate case.” **Id.**, ll. 16-18.

8
9 **Q. What is the significance of the discount rate used in PNM’s TRC calculations?**

10 **A.** As stated by PNM witness Patrick O’Connell, PNM calculated “the value of capacity and
11 energy savings expected from PNM’s proposed 2012 Energy and Efficiency Load
12 Management Program Plan (‘2012 Plan’). These values are used in the total resource
13 cost (‘TRC’) calculations that demonstrate the cost effectiveness of each of the energy
14 efficiency and load management programs...presented by PNM Witness Steven Bean.
15 The value of capacity and energy savings is also used in the derivation of the appropriate
16 incentive payment by PNM witness Frank Grave.” O’Connell Direct, p. 2, ll. 12-19.

17
18 As explained by PNM witness O’Connell, to derive the value of the capacity savings
19 benefit used by PNM, PNM calculated “[t]he value of the deferred capacity...as the **net**
20 **present value** of the annual difference in revenue requirements for capital and fixed
21 operations and maintenance expense (‘O &M’) between...two cases”; namely: “one that
22 included the projected impact of the 2012 Plan and one without the impact.” O’Connell
23 Direct, p. 4, ll. 1-13.

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Staff witness Bruno Carrara uses the discount rate presented in my testimony to determine Staff's recommended deferred capacity value of \$78.42 per kW-year. This value of deferred capacity benefit, in turn, is used by Staff witness John Reynolds in his TRC calculations to determine the cost effectiveness of the PNM's proposed 2012 Plan programs to support Staff's recommendations regarding PNM's proposed 2012 Plan program.

Q. Is PNM's WACC discount rate appropriate for TRC calculation purposes?

A. Not necessarily. The appropriate discount rate to use depends on the perspective from which cost-effectiveness is evaluated. From the participant or general ratepayer perspective, the appropriate discount rate would be the consumer lending rate; namely the interest rate a customer would have to pay if they financed the energy efficiency investment. From a utility perspective, the appropriate discount rate would be the utility's weighted average cost of capital, or the interest rate paid in financing supply-side investments.

Q. What discount rate does Staff recommend and what is the support for Staff's recommendation?

A. For the purposes of this proceeding, Staff does not oppose the 8.20% WACC proposed by PNM as the discount rate to calculate the customer capacity deferred savings benefit used in TRC calculations. For future case considerations, however, the Commission should direct PNM to evaluate and present a ratepayer discount rate for purposes of evaluating

1 the cost effectiveness of EUEA programs. Further, in the proceeding recommended by
2 Staff Witness Lamberson, the Commission should determine an appropriate discount rate
3 to be used by all utilities for TRC test purposes to establish a consistent evaluation of all
4 utilities energy efficiency programs.

5
6 **Q. Does PNM currently receive an incentive rate for its 2010 Energy Efficiency and**
7 **Loan Management Program Plan (“2010 Plan”) approved in Case No. 10-00280-**
8 **UT?**

9 **A.** Yes. In Case No. 10-00280-UT, the Commission approved a Staff recommended
10 reduced adder incentive rate of \$.004 per kWh saved and \$4 per KW saved for energy
11 and demand savings expected from PNM’s proposed 2010 Plan, which would result in
12 PNM receiving approximately \$1.4 million in reduced adder revenues, which equals
13 7.7% annual return on the \$18 million in rate-payer funded program costs.” NMPRC
14 Case No. 10-00280-UT, Final Order Partially Adopting Recommended Decision, ¶51,
15 issued June 23, 2011.

16
17 As concluded by the Commission in Case No. 10-00280-UT, “...the Commission agrees
18 that Staff’s recommended reduced adder of \$0.002 per kWh and \$4 per KW provides
19 PNM with a reasonable incentive that complies with the requirements of Section 62-17-
20 5.F. However, as observed by the Hearing Examiner, the Commission and the parties
21 have not yet had sufficient experience with adders to determine the best approach to
22 developing incentives. Thus, while the Commission is approving Staff’s approach in this
23 case, it is not, as the Hearing Examiner stated with respect to PNM’s Reduced Adder, the

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JAMES A. BRACK

1 only way to determine the reasonableness of adders in future cases involving PNM or any
2 other utility.” **Id.** ¶ 57.

3
4 PNM’s 2011 Reduced Adder rate currently is set to recover is \$1.2 million, as an 0.112%
5 element of PNM’s Energy Efficiency Rider, 8th Revised Rider No. 16 at p. 3 or 4,
6 attached as Staff Exhibit JAB-1.

7
8 In Case No. 11-00308-UT, the Commission initiated an investigation into whether PNM’s
9 2011 Reduced Adder Rate is lawful in light of the fact that the Supreme Court vacated
10 the Commission order promulgating replacement Rule 17.7.2 NMAC, which established
11 the per kWh energy savings and per KW demand savings basis of PNM’s Reduced Adder
12 Rate, upon the Attorney General’s appeal of that order. In the Final Order in that case,
13 the Commission found “that PNM’s reduced Adder is evidence-based, cost-based and
14 utility specific as required by the EUEA and the Attorney General. Accordingly, PNM
15 should be not required to refund any of the Reduced Adder amounts it has already
16 collected from ratepayers, and should be allowed to continue to collect those amounts
17 until further order of the Commission. Case No. 11-00308-UT Final Order, ¶¶ 36, A
18 (issued November 3, 2011).

19
20 On rehearing in Case No. 11-00308-UT, the Commission modified PNM’s 2011 Reduced
21 Adder Rate to a “2.0% instead of 7.7%” “annual return on its approved energy efficiency
22 program costs”...”in order to maintain consistency in our overall approach to energy
23 efficiency cases.” Case No. 11-00308-UT, Order on Rehearing, ¶¶ 3 and B (issued

1 December 20, 2011). But, then in an Order Rescinding Order on Rehearing, Reopening
2 Case, and Appointing Hearing Examiner issued January 19, 2012, the Commission
3 rescinded its Order on Rehearing, reestablishing PNM's 2011 Reduced Adder rate as an
4 annual return of 7.7% of its approved energy efficiency program costs.”

5
6 The Final Order in Case No. 11-00308-UT is under appeal at the New Mexico Supreme
7 Court where the A.G. and NMIEC have contested the lawfulness of PNM's incentive
8 rate.

9
10 **Q. Has the Commission set other incentive rates for approved EUEA programs?**

11 **A.** Yes, the Commission set an incentive rate for EPE's 2011 energy efficiency programs
12 approved as part of a modified stipulation in Case No. 10-00266-UT, which the
13 Commission calculated as a 2.4% annual return on EPE's approved 2011 energy
14 efficiency program costs. In Case No. 11-00047-UT, the Commission established an
15 incentive rate for EPE's 2013 and 2013 approved energy efficiency programs, also
16 calculated as a 2.4% annual return on EPE's approved EUEA program costs for those
17 year.

18
19 **Q. Does Staff reject PNM's incentive proposal in this case?**

20 **A.** Yes. As presented by Staff witnesses Bruno Carrara and Dwight Lamberson, Staff
21 recommends the Commission reject PNM's avoided cost methodology for purposes of
22 setting an incentive rate for EUEA programs, which is the basis of PNM's incentive

1 proposal. Accordingly, Staff recommends that the Commission reject PNM's incentive
2 proposal.

3
4 **Q: What alternative approach has Staff taken?**

5 **A:** In this case and in related cases, Staff has considered several different ways of calculating
6 an incentive. Staff has considered that an EUEA incentive, like rates set under the Public
7 Utility Act, are required to be cost based, just and reasonable and consistent with the
8 public interest. Also, Staff has concluded that the incentive calculation needs to be
9 simple, transparent, and reasonably reward the Company for successful program
10 performance.

11
12 **Q. What is Staff's incentive proposal?**

13 **A.** For purposes of this case only, Staff recommends, the Commission establish an two part
14 incentive rate for the modified 2012 Plan recommended by Staff Witness Reynolds which
15 is based on: 1) a proxy for an equity return on approved EUEA program costs amortized
16 over a eight year time period at the company's approved WACC shared between
17 customers and the utility at 90/10; and, 2) a shared customer/utility energy savings of
18 90/10% based on estimated energy savings of PNM's approved programs. As calculated
19 by Staff Witness Carrara, Staff proposes a total annual incentive rate of \$1,700,703.

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Q. What recovery period does Staff recommend?

A. Under Staff’s proposal, recovery would be limited to collections for PNM’s 2013 and 2014 program years, only, and would be collected through PNM’ energy efficiency rider. Any future incentive recovery would have to be separately requested and authorized. Recovery would begin upon final commission approval of PNM’s 2012 plan and PNM filing of a revised advice notice reflecting the approved plan. The approved rider should be applied on the first billing cycle after approval and collections should be subject to true-up in PNM Annual Tariff Reconciliation process.

Q. Explain the first component of Staff’s proposal.

A. Although PNM has little risk exposure to the recovery of Commission-approved program costs and is not investing in any program costs, Staff has included a regulatory asset as the proxy to address the “opportunity to earn a profit on cost effective energy efficiency and load management resource development that, with satisfactory program performance, is financially more attractive to the utility than supply side resources” contained in statute. Section 62-15-5.F NMSA 1978. This component addresses what the equity return would be if PNM funded the program costs and was able to recover the program costs through a regulatory asset. This component of Staff’s proposed incentive is based on PNM’s specific approved program costs and WACC, an eight year amortization period consistent with the average life of PNM’s proposed programs, and a 5.06% equity rate which provides a profit that is more attractive than if PNM had indeed invested in supply-side resources. It provides PNM a 10% share of capitalized program costs, while

1 providing ratepayers who essentially fund these programs a 90% share of capitalized
2 program costs. The calculations of this component of Staff's proposed incentive are
3 transparent and present a reasonable sharing of capitalized program expenses.

4
5 **Q. Why is a WACC rate of 8.2% appropriate for the discount rate in this instance?**

6 **A.** Since this analysis views the calculation as if the company was making the expenditure, it
7 is appropriate to use the Company's weighted average cost of capital as the discount rate.

8
9 **Q. Why is the 5.06% equity rate appropriate?**

10 **A.** PNM is not making this expenditure and is recovering the costs from customers nearly
11 contemporaneously. There is also no risk of recovery of the program costs. Lastly,
12 program costs are not really investments in the "bricks-and-mortar" sense. For these
13 reasons, using a PNM equity rate of 5.06% provides a profit that is more attractive than if
14 PNM had indeed invested in supply-side resources.

15
16 **Q. Explain the second component of Staff's proposal.**

17 **A.** The amount of the second component of Staff's proposed incentive is based on the
18 projected fuel savings associated with PNM's approved programs. The saved energy and
19 variable O&M costs are shared between customers and PNM on a 90/10 basis. This
20 component is performance based in so far as it is based on **projected** performance
21 associated with approved EUEA programs. The calculations of this component are
22 transparent and present a reasonable sharing of energy savings between the utility and
23 customers.

1

2 **Q. On what basis has Staff concluded that its incentive proposal is just and reasonable**
3 **and consistent with the public interest?**

4 **A.** Staff's incentive proposal is based on Company specific costs and savings associated
5 with approved EUEA program. Staff's cost sharing proposal balances the interests of
6 both PNM and its ratepayers. First, it provides PNM a 1.7M incentive for its 2013 and
7 2014 program years, only, which directly is linked to approved program costs and
8 estimated energy savings, providing PNM the opportunity to earn a greater profit on its
9 approved EUEA program than it earns on its supply-side resources, as required by the
10 EUEA. Further, Staff's recommended incentive amount, is reasonably consistent with
11 PNM's current incentive recommended by Staff and approved by the Commission in
12 Case No. 10-00280-UT. On the other hand, recognizing that EUEA programs are
13 ratepayer funded, do not include capital expenditure at this time and therefore present
14 little if no risk to the utility, Staff's proposal provides that 90% of Staff's calculated
15 incentive is retained by ratepayers, providing PNM a 10% share.

16

17 **Q. Does this conclude your testimony?**

18 **A.** Yes.

APPENDIX A

Case Experience of James A. Brack
NMPRC Utility Economist

NMPUC Case No.	Company	Type of filing
2231	Socorro Electric Cooperative, Inc	Financing
2247	Texas-New Mexico Power Company	Extension of Time
2273	El Paso Electric	Financing
2288	El Paso Electric	Financing
2305	Gas Company of New Mexico	Variance
2307	Gas Company of New Mexico	Rates
2329	Kit Carson Electric Cooperative, Inc.	Financing
2335	Sierra Electric Cooperative, Inc.	Financing
2347	New Mexico Waterworks	CCN -- Rates
2353	Gas Company of New Mexico	Rate Rider
2354	Public Service Company of New Mexico	Financing
2359	Texas-New Mexico Power Company	Financing
2368	Ranchos de Placitas Water Company	Sale of Utility
2385	Public Service Company of New Mexico	Financing
2389	Independent Utility Company	Sale of Utility
2392	El Vadito de Los Cerrillos	CCN -- Rates
2402	Texas-New Mexico Power Company	Financing
2406	Valley View Association	Rates
2419	Texas-New Mexico Power Company	Financing
2439	Rio Rancho Utilities Corporation	Rates (Sewer)
2440	Rio Rancho Utilities Corporation	Rates (Water)
2452	Socorro Electric Cooperative, Inc.	Financing
2464	Sierra Electric Cooperative, Inc.	Rates
2466	Sandia Peak Utility Company	Financing
2468	Texas-New Mexico Power Company	Financing
2470	Mesa Development Center, Inc.	Financing
2481	New Mexico Waterworks	Show Cause
2482	Public Service Company of New Mexico	Financing
2500	Public Service Company of New Mexico	Exercise Agreement
2513	Southwestern Electric Cooperative, Inc.	Financing
2515	Public Service Company of New Mexico	Financing
2518	Kit Carson Electric Cooperative, Inc.	Financing
2523	Socorro Electric Cooperative, Inc.	Financing
2531	Texas-New Mexico Power Company	Rates
2532	Sandia Peak Utility Company	Financing
2545	Public Service Company of New Mexico	Financing
2555	Sierra Electric Cooperative, Inc.	Financing
2565	Mesa Development Center, Inc.	Rates
2574	Socorro Electric Cooperative, Inc.	Financing
2577	Kit Carson Electric Cooperative, Inc.	Financing
2578	Independent Utility Company	Financing
2587	Gas Company of New Mexico	Sale of Assets
2588	City of Santa Fe -- PNM	Financing /Sale of Utility/
2596	Public Service Company of New Mexico	Financing
2603	New Mexico Waterworks	Sale of Assets
2614	Sandia Peak Utility Company	Financing
2626	Public Service Company of New Mexico	Financing
2632	Southwestern Electric Cooperative, Inc.	GDP
2655	PNM-Gas Services	Rates
2662	PNM-Gas Services	Rates
2692	Public Service Company of New Mexico	Financing
2695	Socorro Electric Cooperative, Inc.	GDP
2700	Public Service Company of New Mexico	Variance
2712	Texas-New Mexico Power Company	Financing
2721	Public Service Company of New Mexico	Financing
2728	Public Service Company of New Mexico	Securities
2737	Kit Carson Electric Cooperative, Inc.	Rates
2739	Public Service Company of New Mexico	Financing
2751	Public Service Company of New Mexico	Financing
2752	PNM-Gas Services	Variance
2761	PNM-Electric Services	Rates
2762	PNM-Gas Services	Rates
2778	Sierra Electric Cooperative, Inc.	Financing
2783	Socorro Electric Cooperative, Inc.	Financing
2800	Ranchland Utility Company	CCN -- Rates

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2805	West Mesa Water Company	Financing/GDP
2814	Caprock Water Company	Financing/GDP
2823	El Dorado Utilities Inc.	Rates
2842	New Mexico Waterworks	Abandonment
2851	Roosevelt County Electric Cooperative, Inc.	Financing
2858	Texas-New Mexico Power Company	Financing
2866	Otero County Electric Cooperative, Inc.	Financing
2874	Zia Natural Gas Company	CCN – Rates
2876	Sierra Electric Cooperative, Inc.	Financing
2935	Socorro Electric Cooperative, Inc.	Financing
2989	Plains Electric G & T Coop.	Merger
3037	Independent Utility Company	CCN – Rates
3037	Independent Utility Company	CCN – Rates [Stipulation]
3062	Comm South Communications	CCN – Rates
3103	Texas-New Mexico Power Company	GDP – Merger
3137	Public Service Company of New Mexico	Transition - Part II
3137	Public Service Company of New Mexico	Transition – Holding Co.
3199	Rio Grande Electric Cooperative, Inc.	Financing
3331	Otero County Electric Cooperative, Inc.	Financing
3333	Northern Rio Arriba Electric Cooperative, Inc.	Financing
3336	Springer Electric Cooperative, Inc.	Financing
3337	Socorro Electric Cooperative, Inc.	Financing
3338	Mora-San Miguel Electric Cooperative, Inc.	Financing
3339	Southwestern Electric Cooperative, Inc.	Financing
3378	Texas-New Mexico Power Company	Transition – SOS
3395	Texas-New Mexico Power Company	Financing
3576	West Mesa Water Company	Sale-Transfer/GDP
3603	Texas-New Mexico Power Company	Affiliated Transaction
3636	Duncan Valley Electric Cooperative, Inc.	Rates
3643	Texas-New Mexico Power Company	Rates [Stipulation]
3672	Texas-New Mexico Power Company	GDP – Affiliated Transaction
3760	Texas-New Mexico Power Company	Abandonment
3762	Duncan Valley Electric Cooperative, Inc.	Rule 550 Continuation
3767	Socorro Electric Cooperative, Inc.	Financing
3777	Sierra Electric Cooperative, Inc.	Financing
3838	Public Service Company of New Mexico	Financing
03-00044-UT	Texas-New Mexico Power Company	Financing
03-00131-UT	Texas-New Mexico Power Company	Financing
03-00263-UT	Public Service Company of New Mexico	Financing – Phase I & II
03-00292-UT	Public Service Company of New Mexico	Financing/ Affiliated Transaction
03-00333-UT	Texas-New Mexico Power Company	Affiliated Transaction
04-00306-UT	El Paso Electric	RPS Procurement Plan
04-00311-UT	Public Service Company of New Mexico	RPS Procurement Plan
04-00334-UT	Southwestern Public Service	RPS Procurement Plan
04-00315-UT	PNM/TNMP	Sale
05-00354-UT	Southwestern Public Service	RPS Procurement Plan
05-00355-UT	El Paso Electric	RPS Procurement Plan
05-00356-UT	Public Service Company of New Mexico	RPS Procurement Plan
06-00210-UT	PNM-Gas Services	Rates
07-00053-UT	Public Service Company of New Mexico	Energy Efficiency – Electric
07-00319-UT	Southwestern Public Service	Rates
07-00359-UT	Southwestern Public Service	RPS Procurement Plan
07-00360-UT	El Paso Electric	RPS Procurement Plan
07-00385-UT	Public Service Company of New Mexico	Financing
08-00091-UT	El Paso Electric	Financing
08-00221-UT	Public Service Company of New Mexico	RPS Procurement Plan
09-00008-UT	Public Service Company of New Mexico	Rates
09-00258-UT	Southwestern Public Service	RPS Procurement Plan
09-00321-UT	Public Service Company of New Mexico	FPPCAC
10-00086-UT	Public Service Company of New Mexico	Rates
10-00196-UT	Southwestern Public Service	RPS Procurement Plan
11-00012-UT	Navopache Electric Cooperative, Inc.	Continuation/Variance
11-00047-UT	El Paso Electric	Energy Efficiency
11-00123-UT	Public Service Company of New Mexico	Energy Efficiency
11-00435-UT	Public Service Company of New Mexico	Inquiry and Investigation
12-00007-UT	Public Service Company of New Mexico	Renewable Energy Rider

2012 NOV 28 PM 3 38

**PUBLIC SERVICE COMPANY OF NEW MEXICO
ELECTRIC SERVICES**

**8TH REVISED RIDER NO. 16
CANCELING 7TH REVISED RIDER NO. 16**

ENERGY EFFICIENCY RIDER

Page 1 of 4

DESCRIPTION: This Energy Efficiency Surcharge is a mechanism for recovery of costs associated with energy efficiency programs approved by the New Mexico Public Regulation Commission. The surcharge also includes the costs associated with removal of disincentives to, and a provision of incentives for, expenditures on energy efficiency and load management measures.

APPLICABILITY: This Rider shall be applicable to all PNM customers in the following Affected Customer Classes: 1A, 1B, 2A, 2B, 3B, 3C, 4B, 5B, 11B, 15B, 23, and 30B receiving electric service.

APPLICATION: Subject to the limitations and exemptions contained in Sections 6 and 9 of the Efficient Use of Energy Act, §§ 62-17-1 et seq., as amended or renumbered, and in Sections 9, 11 and 12 of the New Mexico Public Regulation Commission's Energy Efficiency Rule, 17.7.2 et. seq. NMAC, the energy efficiency surcharge shall be added to each customer's bill. The surcharge shall be calculated by multiplying the total charges other than franchise fees and taxes by the appropriate total factor for the surcharge.

RATES, TERMS AND PROCEDURES:

I. Purpose

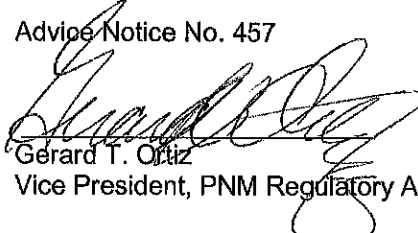
This Rider establishes detailed procedures which will permit the Company to recover from its customers Rider No. 16 Amounts as determined and ordered by the Commission to be administered through this mechanism. This mechanism is specific as to Amounts pertaining to Affected Customer Classes.

II. Definitions

The following definitions shall apply to this Rider:

1. Affected Customer Classes: Customer classes subject to Rider No. 16 with an opportunity to participate in the energy efficiency programs approved by the Commission.
2. Amortization Period: The Amortization Period for program costs approved by the Commission will comply with the period specified in the respective Commission Order for each Rider No. 16 Amount.
3. Annual Projected Sales Revenues: Revenues for the Company projected for the Amortization Period, which includes Revenue, excluding franchise fees and taxes, for Affected Customer Class.
4. Billing Cycle: A period of time consisting of thirty-two (32) days or less, employed by the

Advice Notice No. 457


Gerard T. Ortiz
Vice President, PNM Regulatory Affairs

GCG#515835

EFFECTIVE

DEC 28 2012

REPLACED BY NMPRC

BY Final Order Case NO. 10-00250-LT

Staff Exhibit JAB-1

**PUBLIC SERVICE COMPANY OF NEW MEXICO
ELECTRIC SERVICES**

**8TH REVISED RIDER NO. 16
CANCELING 7TH REVISED RIDER NO. 16**

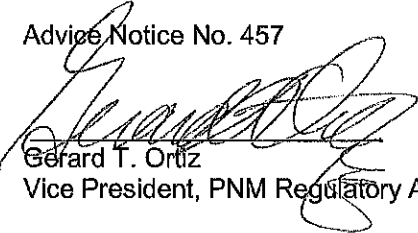
ENERGY EFFICIENCY RIDER

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Company's billing system and used by the Company to render bills for service to customers. The Company employs twenty-one (21) billing cycles, which constitute a billing month and may or may not coincide with a calendar month.

5. M&V Report: The annual monitoring and verification report of the independent evaluator for the prior calendar year.
 6. Rider No. 16 Amounts: The dollar amounts of Rider No. 16, including the amounts for the Incentive/Disincentive Adder Revenues, shall be determined by Commission Orders and the Commission's Energy Efficiency Rule, NMAC 17.7.2 ("the Rule"), and will be collected from Electric Service Customers within the Affected Customer Classes. A separate pool of dollar amounts will be set up for each identified component of this rider identifying the dollars to be recovered compared to the actual Dollars recovered for each rider component.
 7. Reconciliation Amounts: Consists of Rider No. 16 Amounts that were under-recovered/credited or over-recovered/credited during their respective amortization terms.
 8. Electric Service Customer: A customer receiving electric service directly from the Company within the Company's New Mexico service territory.
 9. Incentive/Disincentive Adder Revenues: The dollar amounts to be recovered through the energy efficiency disincentive/incentive adder rate determined by Commission Orders and the Rule.
- III. Methodology for Developing and Administering the Rider No. 16 Amounts
1. Effective Date: The date specified by Order of the Commission or by the Rule to begin billing this rate.
 2. Rider No. 16 Amounts: Rulings by the Commission and the Rule establish the individual amounts to be collected, including the amounts of the Incentive/Disincentive Adder Revenues. This mechanism is designed to accommodate only those amounts ordered for collection on a percentage of bill basis whereby the billing factors will be derived using Annual Projected Sales Revenue associated with Electric Service Customers within Affected Customer Classes adjusted for anticipated savings from the energy efficiency programs approved by the Commission.
 3. Reconciliation Amounts: Reconciliation Amounts will be summed with and absorbed into existing Rider No. 16 Amounts by pool and will assume that respective amount's collection

Advice Notice No. 457


Gerard T. Ortiz

Vice President, PNM Regulatory Affairs

GCG#515835

EFFECTIVE

DEC 28 2012

REPLACED BY NMPRC
BY Final Order Case No. 10-00280-UT

**PUBLIC SERVICE COMPANY OF NEW MEXICO
ELECTRIC SERVICES**

**8TH REVISED RIDER NO. 16
CANCELING 7TH REVISED RIDER NO. 16**

ENERGY EFFICIENCY RIDER

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conditions and terms. This transaction will be specifically noted and identified in the next subsequent Energy Efficiency Surcharge Factor filing.

IV. Calculation of the Energy Efficiency Surcharge Factors

For purposes of determining the Energy Efficiency Surcharge Factors, each of the Rider 16 Amounts, including the amounts of the Incentive/Disincentive Adder Revenues, is fully amortized (exhausted) over their respective periods commencing with the first Billing Cycle of the month following approval of either the Rider 16 Amounts or the effective date of the Adder in accordance with the Rule. The total combined Energy Efficiency Surcharge Factor is 2.342%, of Affected Customer Classes bills. The total Factor is determined as follows:

- (A) Each Energy Efficiency Surcharge Factor for Customers is determined by dividing the annual recovery amounts by the combined total Annual Projected Sales Revenue for Affected Customer Classes;
- (B) Reconciliation Amounts incapable of generating a factor out to five (5) decimal places are summed with and absorbed into existing Rider No. 16 Amounts and their disposition is recognized within the existing factor.
- (C) The total combined Energy Efficiency Surcharge Factor is comprised of the following elements:

Rate Element	Amount to be Recovered	Element Rate
2011 Program Year Costs	\$17,135,022	2.150%
2011 Reduced Adder	\$1,284,705	0.112%
2011 Reconciliation of Program Costs	\$672,699	0.080%
Total	\$19,092,426	2.342%


The recovery period will be as specified in the Commission's Final Orders.

V. Annual Reconciliation Filings

The Company shall file with the Commission an annual report on its energy efficiency programs. The initial report was due on April 1, 2009 and covered the period from the effective date of Rider No. 16 through December 31, 2008. Subsequent reports are due on April 1 following the end of each calendar year. That report will contain:

1. Energy Efficiency Surcharge Factor Report: Schedules shall contain sufficient information describing:

Advice Notice No. 457


Gerard T. Ortiz
Vice President, PNM Regulatory Affairs

GCG#515835

EFFECTIVE

DEC 28 2012

REPLACED BY NMPRC
BY Final Order Case No. 10-06280-LIT

**PUBLIC SERVICE COMPANY OF NEW MEXICO
ELECTRIC SERVICES**

**8TH REVISED RIDER NO. 16
CANCELING 7TH REVISED RIDER NO. 16**

ENERGY EFFICIENCY RIDER

Page 4 of 4

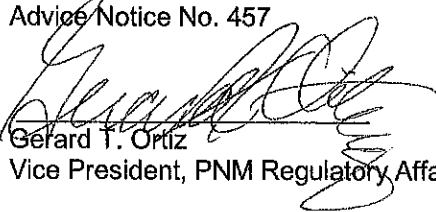
- a. A Summary of the Energy Efficiency Surcharge Factors;
 - b. Calculation of each Energy Efficiency Surcharge Factor, for each package of programs and Incentive/Disincentive Adder Revenues and by each Affected Customer Class;
 - c. Calculation of the Energy Efficiency Surcharge Factor to be applied for the subsequent 12 months;
 - d. A Summary of Annual Projected Sales Revenue, less anticipated savings;
 - e. A Summary consisting of the beginning balance of each Rider No. 16 Amount, the sum total of the annual transactions, and the ending balance; and
 - f. A detail listing of expenditures and collections for each Rider No. 16 Amount, for each package of programs and Incentive/Disincentive Adder Revenues, by Affected Customer Class.
2. M&V Report: The M&V Report shall be submitted with the annual reconciliation filing as a separate document.
3. Amounts Not Generating a Factor: If the sum of all Rider No. 16 Amounts have been depleted to the extent that an annual factor cannot be calculated out to five (5) decimals, the residual amount will be held by the Company until:
- a. Additional Rider No. 16 Amounts occur and these amounts can be combined with these existing amounts to create an annual factor; or
 - b. The disposition of this amount is determined in conjunction with a subsequent proceeding before the Commission.
4. Other Annual Reconciliation Filings Content: The Annual Reconciliation Filings shall contain sufficient information describing:
- a. Any material change in Rider No. 16 Amounts and explanations of the sources of those changes;
 - b. Any material difference in respective annual projected kWhs and anticipated savings, and the reasons for any proposed difference; and
 - c. The addition/deletion of and to any individual Rider No. 16 Amounts due to accounting adjustments, the M&V Report or other reasons, including a true-up of the Adder calculation for M & V and performance results.

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BY Final order Case NO. 10-00280-UT

Advice Notice No. 457


Gerard T. Ortiz

Vice President, PNM Regulatory Affairs

GCG#515835

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

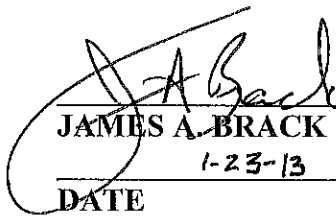
IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF ELECTRIC) Case No. 12-00317-UT
ENERGY EFFICIENCY PROGRAMS AND)
PROGRAM COST TARIFF RIDER)
PURSUANT TO THE NEW MEXICO)
PUBLIC UTILITY AND EFFICIENT USE OF)
ENERGY ACTS,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
APPLICANT.)

AFFIDAVIT OF JAMES A. BRACK

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, JAMES A. BRACK, do hereby swear, depose and state as follows:

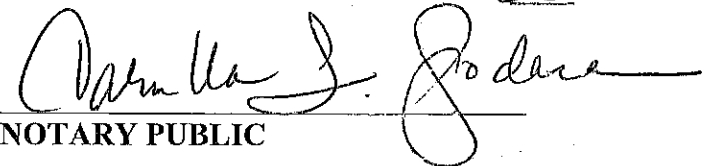
I hereby attest that I have read the foregoing **DIRECT TESTIMONY OF JAMES A. BRACK**, and the statements contained therein are true and accurate to the best of my knowledge and information.



JAMES A. BRACK
1-23-13

DATE

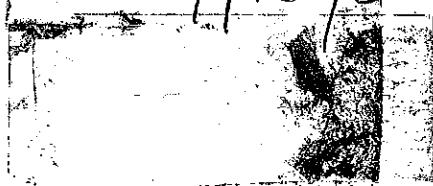
SUBSCRIBED, SWORN TO AND ACKNOWLEDGED before me this 23
day of January 2013.



NOTARY PUBLIC

My Commission Expires:

9/15/2013



BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL OF ELECTRIC)
ENERGY EFFICIENCY PROGRAMS AND)
PROGRAM COST TARIFF RIDER)
PURSUANT TO THE NEW MEXICO)
PUBLIC UTILITY AND EFFICIENT USE OF)
ENERGY ACTS,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
APPLICANT.)
_____)

Case No. 12-00317-UT

2013 JAN 23 PM 3 54

NEW MEXICO
PUBLIC REGULATION
COMMISSION
FILED

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing *Direct Testimony of James A. Brack.*, issued January 23, 2013, was sent by electronic mail to the individuals listed below.

Benjamin Phillips	Ben.phillips@pnmresources.com;
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Ashley Schannauer
James Brack
Ryan Jerman
John Reynolds
Sandra Skogen

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Jim.brack@state.nm.us;
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John.Reynolds@state.nm.us;
Sandra.skogen@state.nm.us;

And Mailed to:

Abelardo Suniga
1721 Villa Contesa Drive, NW
Los Lunas, NM 87031

James and Nichol Brown
6104 Bancroft Ct., NE
Albuquerque, NM 87111

DATED this **23rd** day of January, 2013.

NEW MEXICO PUBLIC REGULATION COMMISSION



Carmella Apodaca, Paralegal