

**PUBLIC SERVICE COMPANY OF NEW MEXICO
RENEWABLE ENERGY PORTFOLIO PROCUREMENT PLAN FOR 2013**

I. INTRODUCTION

Public Service Company of New Mexico (“PNM”) has prepared this Renewable Energy Portfolio Procurement Plan for 2013 (“2013 Plan” or “Plan”) in compliance with the Renewable Energy Act (“REA”), NMSA 1978, §§ 62-16-1 *et seq.*, and 17.9.572 NMAC (“Rule 572”) of the rules of the New Mexico Public Regulation Commission (“NMPRC” or “Commission”). This Plan is also submitted pursuant to the Commission’s Final Order in Case No. 11-00265-UT as amended by the Order Granting Motion issued in that case on January 31, 2012 in which PNM was directed to file its 2013 Plan by April 30, 2012 and to include proposed specific procurements that would enable PNM to meet the renewable portfolio standard (“RPS”) in 2014 or sooner and to include proposed revisions to PNM’s Solar REC Incentive Program (“SIP”).

- NEW PROCUREMENTS FOR 2013-2014

To comply with its RPS, PNM requests Commission approval of the following:

- a. Construction in 2013 of 20 MW of PNM-owned solar photovoltaic (“PV”) facilities at various sites within PNM’s service area. Additionally, PNM conditionally requests a CCN for these facilities, to the extent that the Commission determines a CCN is required;

- b. Implementation of a new Customer Solar REC Purchase Program (“CSPP”) for customer-sited solar systems with an AC capacity rating of 100 kW or lower to be in effect through the end of 2016. The CSPP includes a total of 9 MW_{AC} capacity spread over four years allocated in 6 month increments with declining price steps for each of the two categories of system sizes;

- c. Procurement of energy and RECs under a Purchased Power Agreement (“PPA”) from a new geothermal generation facility sized at 10 MW that would be in-service as of January 1, 2014;

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d. Purchase in 2013 of 104,500 MWh of wind generated RECs to achieve RPS compliance, given the fact that the solar and geothermal facilities will be under construction during 2013;

e. Purchase in 2013 of 94,000 wind RECs, if necessary, in the event that PNM has not received regulatory approval to source the Sky Blue Program from resources other than the New Mexico Wind Energy Center (“NMWEC”);

f. Purchase of 15,000 solar RECs to comply with the solar diversity requirement in 2013, since PNM’s proposed 20 MW of new solar plant to be constructed during 2013 will provide an insufficient amount of RECs to fully meet the 2013 diversity requirement;

g. Purchase of RECs from customer-sited solar systems sized greater than 100 kW_{AC} up to and including systems sized at 1 MW_{AC} under a capacity reservation of 2 MW at a price of \$0.02 per kWh for 2013 and 2014 (“capacity set aside program”); and

h. Recording as regulatory assets the costs for these procurements and costs associated with registration and retirement of the RECs through the Western Renewable Generation Information System (“WREGIS”) with authorized carrying charges until included in rates.

- VARIANCE REQUESTS

PNM requests a variance for 2013 from the non-wind/non-solar (“other”) resource diversity requirements of Rule 572.14 due to the technical constraint that construction of a geothermal resource to meet the “other” diversity requirement will not be completed until 2014.

PNM also requests a variance from the final order in Case No. 11-00265-UT for the capacity set aside program described above in order to offer the \$0.02 per kWh price.

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II. RPS AND RCT CALCULATIONS

PNM's projected total and net RPS requirements for 2013 and 2014 are shown in Table 1. This calculation takes into account the requirements of Rule 572.10 with regard to certain large, non-governmental consumers with consumption exceeding ten million kilowatt hours per year, which reduces the total RPS requirement. The calculation also takes into account the application of the RCT and the reduction of the RPS when renewable portfolio costs reach the RCT; however, in both 2013 and 2014, PNM's anticipated procurement costs for renewable energy and RECs are less than the RCT percentage for those years in Rule 572.

Under Rule 572.11.B, the RCT for 2013 is 2.50 % of "all customers' aggregated overall annual electric charges." The RCT increases to 2.75 % in 2014. In applying the RCT, PNM used projected revenues in 2013 and 2014 from electric charges to retail customers but separately calculated the revenue contribution attributable to customers subject to the rate impact cap (i.e., the lesser of 2 % or \$99,000) of Rule 572.10.C and the remaining customers subject to the RCT. This resulted in RCT revenues of \$22.7 million for 2013 and \$25.1 million for 2014. PNM projects that the net customer rate impacts of the existing and proposed procurements and programs that PNM will use for RPS compliance in 2013 and 2014 will be 2.17 % in 2013 and 2.55 % in 2014. The RCT calculations are also shown in Table 1.

III. EXISTING RENEWABLE ENERGY RESOURCES AND PROGRAMS

PNM's existing renewable resources and programs include wind and solar, of which a portion is met with distributed generation ("DG") solar facilities, and a small amount of hydro REC procurements.

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WIND: NMWEC is projected to generate approximately 525,000 MWh of energy and associated RECs annually. Currently, the NMWEC is also used to supply energy and RECs for PNM's Sky Blue Program, under which customers currently consume about 94,000 MWh annually. RECs used for Sky Blue sales cannot also be used for RPS compliance. However, PNM has proposed in Case No. 10-00018-UT to source the Sky Blue Program from other wind and solar resources. If that proposal is approved, all projected NMWEC generation of 525,000 MWh would be used for RPS compliance starting in 2013 at a projected annual net compliance cost, after taking into account avoided costs, of \$1,457,432.

SOLAR:

- Solar REC Purchase Programs: These programs are comprised of the Small Photovoltaic ("PV") REC Purchase Program ("Small PV Program"), Large PV REC Purchase Program ("Large PV Program"), and the Solar REC Incentive Program ("SIP"). PNM projects that these programs will generate 85,199 MWh of RECs in 2013 and 97,319 MWh of RECs in 2014 at total annual costs of \$8.7 million and \$9.3 million, respectively. Additional information concerning these programs is shown in Table 2.

- Capacity Set Aside Program: The Final Order in Case No. 11-00265-UT approved a new price step in the SIP under which PNM would set aside capacity in its annual renewable energy procurement plan for solar facilities sized greater than 100 kW_{AC} up to and including 1,000 kW_{AC} at a price equal to the highest competitive price established in PNM's most recent Request for Proposal ("RFP") process. For 2012, the Commission approved a \$0.02 per kWh price and 2 MW_{AC} capacity for this program. For both 2013 and 2014, PNM proposes to reserve up to 2 MW_{AC} of capacity each year for program participation at the same \$0.02 per kWh pricing

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level that applies in 2012, and is requesting a variance to do so. Projected costs for the purchase of RECs from the proposed programs are about \$24,694 in 2013 and \$97,366 in 2014.

- PNM-Owned Solar Resources:

- * During 2011, PNM acquired, under a turnkey construction contract, 22 MW of solar generation located at 4 separate sites. PNM also completed a project consisting of 500 kW of solar PV generation with battery storage. Projected generation of energy and RECs from these facilities during 2013 and 2014 is 53,909 MWh and 53,635 MWh, respectively. The annual revenue requirements associated with these solar installations, net of avoided costs, are \$7.1 million in 2013 and \$3.2 million in 2014.

- * PNM-owned solar PV facilities at its Aztec building (5 kW) and at Algodones (25 kW), from which the RECs have a grandfathered 3-to-1 weighting, is projected to result in approximately 110 MWh of RECs for RPS compliance purposes. The amortization of the capital investment for these facilities is complete, so no procurement costs are associated with RECs from these facilities. Recognition of the avoided costs from these facilities results in a savings to customers of \$1,178 in 2013 and \$1,316 in 2014.

OTHER:

- Santa Fe Hydro: PNM received Commission approval in Case No. 11-00265-UT for the procurement under a five year purchase agreement with the City of Santa Fe of RECs associated with net-metered energy generation by a hydroelectric project in Santa Fe. Procurement projections for 2013 and 2014 are 400 MWh per year at a cost of \$20 per MWh, totaling \$8,326 annually including WREGIS costs and carrying charges.

- Biogas: In Case No. 09-00260-UT, PNM received approval for a program through which it would procure biogas to be used for generation of electricity and the associated biomass

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RECs. PNM currently has one signed contract for a supply of biogas. However, completion of the seller's project remains uncertain. Consequently, PNM has not projected any RECs will be generated from biogas purchases in the 2013 and 2014 timeframe.

IV. PROPOSED PORTFOLIO

In addition to existing renewable energy resources and programs, additional renewable energy resources will be necessary to meet the RPS requirements for 2013 and 2014.

GEOTHERMAL PROJECT: PNM proposes to enter into a PPA to procure energy and RECs from a 10 MW geothermal facility that is expected to be in service by January 1, 2014 and which would be located about 20 miles southwest of Lordsburg, New Mexico. The energy would be delivered to PNM at PNM's Hidalgo station. Annual generation is projected to be approximately 80,167 MWh at a total projected compliance cost in 2014, net of avoided costs, of \$6.1 million. There may be some test energy generated in late 2013, that PNM would also purchase along with the associated RECs, but any such amounts are currently unknown.

PNM-OWNED SOLAR PV FACILITIES: PNM proposes to acquire 20 MW of PV facilities under a turnkey construction contract that to be located at several of PNM's existing solar facility sites and at a new site near the Albuquerque load area. Generation from these facilities as they come on-line in stages during 2013 is projected to be 11,310 MWh. Generation during their first full year of operation in 2014 is projected to be 48,470 MWh. The RPS compliance cost, net of avoided costs, associated with these facilities is projected to be \$1.2 million in 2013 and \$4.5 million in 2014. PNM also requests a CCN for these facilities, if the Commission determines that a CCN is needed in addition to procurement plan approval.

WIND REC PROCUREMENTS: Because the solar facilities and the geothermal plant will be in construction during 2013, PNM will require a one-time procurement of stand-alone wind

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RECs to ensure compliance with the RPS in 2013. PNM proposes to procure 104,500 MWh of wind-generated 2011-vintage RECs at a cost of \$4.00/MWh for a total compliance cost of \$419,568 in 2013. PNM does not propose to procure such RECs during 2014.

SOLAR REC PROCUREMENTS: Because the solar facilities will be in construction during 2013, actual generation achieved during 2013 may not be sufficient for PNM to meet the full solar diversity requirement. Accordingly, PNM requests approval to procure stand-alone solar RECs in 2013 to meet the full solar diversity requirement. PNM anticipates that it will purchase a total of 15,000 MWh of RECs at a price of \$40.00/MWh for a total cost of \$600,225 including WREGIS costs. PNM does not propose to procure such RECs during 2014.

REC PROCUREMENTS FROM CUSTOMER SITED SOLAR SYSTEMS:

- CSPP: in the Final Order in Case No. 11-00265-UT (i.e., PNM's proposed renewable plan for 2012), the Commission directed that PNM's 2013 Plan should include proposed modifications to the SIP for systems up to 100 kW_{AC} in size. In response to this directive, PNM is proposing a four-year CSPP program to be in effect through the end of 2016 as detailed below:

- * For Solar Systems sized up to 10 kW_{AC}, PNM will offer new subscribers an initial REC purchase price of \$0.040 per kWh. This price will decline by \$0.005 per kWh every six months until it reaches \$0.025 per kWh, where it will remain. There will be annual capacity allotments of 2 MW_{AC} in 2013 and 2014, and 1 MW_{AC} in 2015 and 2016. The term of REC purchase agreements in the CSPP will be 8 years.

- * For Solar Systems sized above 10 kW_{AC} up to 100 kW_{AC}, the price would start at \$0.05 per kWh in 2013 and decline by \$0.005 per kWh every six months. The subscription level is limited to 500 kW_{AC} in each six month period during 2013 and 2014 and declines to 250 kW_{AC} in each six month period during 2015 and 2016.

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* Other terms of the proposed program address the effects of capacity cancellations in the SIP and under-subscription in the CSPP. For example, any capacity cancelled in the SIP, including the Interim Program approved by the Commission in Case No. 11-00265-UT, will be rolled-over on an equivalent dollar basis to the CSPP, such that the capacity times the step price will equal the same total cost as the rolled-over capacity times the originally reserved price per kWh. Additionally, any undersubscribed capacity in the CSPP will roll-over into the next price step without a change in the amount of capacity.

- Capacity Set Aside Program: PNM proposes to reserve capacity under the SIP for subscription by customer-sited solar systems of 100 kW_{AC} and up, to and including 1 MW_{AC}. The contract term for these agreements will be through December 31, 2020, with a REC price of \$0.02 per kWh. PNM would offer 2 MW_{AC} in each of the years 2013 and 2014 for such subscription.

V. RESOURCE DIVERSITY

Commission approval of the above described projects, programs and REC procurements will enable PNM to fully meet its Rule 572 diversity requirements in 2014. PNM will meet all diversity requirements, except for “other”, in 2013. Table 1 shows procurements by resource type in MWh and by percentage of the overall portfolio.

V. REQUEST FOR VARIANCES

Rule 572.14 states that “public utilities shall not be required to provide a fully diversified renewable portfolio ... when full diversification is prevented by technical constraints or limitations.” In Case No. 10-00037-UT, the Commission determined that this provision of the

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Rule should be invoked by a request for a variance. Accordingly, to implement the 2013 Plan, PNM requests a variance from the resource diversity requirement for “other” resources for 2013. This is because resources to satisfy the “other” diversity requirement cannot be developed and be in operation by 2013; the proposed geothermal project, described above, will under construction in 2013 and not in commercial operation until the beginning of 2014. PNM’s variance request is supported, in lieu of an affidavit per 1.2.2.40 NMAC, by the direct testimony of Mr. Ortiz.

PNM also requests a variance for the price term of the capacity set aside program approved by the Commission in Case No. 11-00265-UT for customer-sited solar systems sized greater than 100 kW_{AC} up to and including systems of 1 MW_{AC} in order to offer 2 MW_{AC} of capacity for subscription at a price of \$0.02 per kWh in 2013 and 2014. The Case No. 11-00265-UT order requires that this component of the program be priced at the level of the highest bid price for RECs accepted by PNM. The variance would allow PNM to offer a price \$0.02 per kWh for this category of the program rather than a price of \$0.04 per kWh, which is the price of the proposed one-time procurement in 2013 of 15,000 MWh of solar RECs.

VI. APPROVALS REQUESTED

PNM requests Commission approval of the new procurements set out in this 2013 Plan, including approval for the following:

- Acquisition in 2013 of 20 MW of solar PV facilities under a turnkey construction contract. This includes a request for a CCN if the Commission determines a CCN is needed ;
- The procurement of energy and RECs under a PPA for the output from a 10 MW geothermal facility that is projected to go into service in January 1, 2014. ;
- The procurement in 2013 of 104,500 MWh of wind generated RECs;

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- The procurement in 2013 of 15,000 MWh of solar generated RECs to comply with the solar diversity requirement;
- The implementation of the CSPP for customer-sited solar facilities sized up to 100 kW_{AC};
- The procurement under the SIP of up to 2 MW_{AC} of capacity in 2013 and 2014 at a price of \$0.02 per kWh for solar facilities sized greater than 100 kW_{AC} up to and including 1 MW_{AC}. PNM also requests a variance from the Final Order in Case No. 11-00265-UT to set the price at e \$0.02 per kWh;
- Authorization to recover in future rates the procurement costs for these new resources and associated WREGIS and carrying charges; and
- A variance in 2013 from the resource diversity requirements in Rule 572 for “other” resources due to the limited availability of such resources in 2013.

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TABLE 1 -- PROJECTED RPS REQUIREMENTS FOR 2013-2014

RPS Requirements & Compliance	2013	2014
1) Projected Retail Sales (MWh)	8,841,606	8,866,244
2) RPS Annual Requirement (%)	10.0 %	10.0 %
3) RPS Before Large Customer Adjustment (MWh)	884,161	886,624
4) Adjustment for Large Customers (MWh)	82,818	100,445
5) RPS Adjusted for Large Customers (MWh)	801,342	786,179
6) RPS Adjusted for Large Customers (%)	9.1 %	8.9 %
7) Portfolio Annual RPS Compliance (%)	9.1 %	9.3 %
RPS Diversity	2013	2014
8) Wind (MWh)	629,500	525,000
9) Solar (MWh)	80,329	102,215
10) "Other" (MWh)	400	80,567
11) Distributed Generation (MWh)	91,928	116,058
12) Total Annual Renewable Energy for RPS (MWh)	802,157	823,840
Diversity of Net RPS Requirement	2013	2014
13) Wind (%)	78.5 %	62.0 %
14) Solar [includes DG in excess of requirement] (%)	20.0 %	26.3 %
15) "Other" (%)	0.0 %	10.2 %
16) Distributed Generation (%)	1.5 %	1.5 %
RCT Calculation	2013	2014
17) Annual Portfolio Cost (\$)	\$19,656,804	\$23,258,827
18) Projected Annual Revenues (\$)	\$906,330,656	\$912,317,308
19) Annual Portfolio Impact (%)	2.17 %	2.55 %
20) Annual RCT Allowed (%)	2.50 %	2.75 %

Notes:

- | | |
|---|--|
| 1) Projected retail sales | 11) Annual projected DG energy for RPS compliance |
| 2) RPS requirement per Rule 572 § 17.9.572.10 B | 12) Total annual projected renewable energy for RPS compliance |
| 3) Line (1) * Line (2) | 13) {Line (8) - {Line (12) - Line (5)}} / Line (5) |
| 4) Adjustment per 572 § 17.9.572.10 C | 14) {{Line (9) + Line (11)} / Line (5)} - 1.5% |
| 5) Line (3) - Line (4) | 15) Line (10) / Line (5) |
| 6) Line (5) / Line (1) * 100 | 16) 1.5% since DG diversity is met |
| 7) Line (12) / Line(1) * 100 | 17) Annual cost of renewable portfolio |
| 8) Annual projected Wind energy for RPS compliance | 18) Projected annual revenues |
| 9) Annual projected Solar energy for RPS compliance | 19) Line (17) / Line (18) |
| 10) Annual projected Non-Wind/Solar energy for RPS compliance | 20) RCT requirement per Rule 572 § 17.9.572.11 B |

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**TABLE 2 – PARTICIPATION IN CUSTOMER-SITED SOLAR REC PROCUREMENT PROGRAMS
As of April 27, 2012**

PROGRAM:	Small PV REC Purchase Program
<u>Participation:</u>	1,205 participants
<u>Installed Capacity:</u>	3,064 kW _{AC}
<u>Program Status:</u>	Closed to new participants per the Final Order Partially Adopting Recommended Decision in Case No. 10-00037-UT, issued on August 31, 2010.
PROGRAM:	Large PV REC Purchase Program
<u>Participation:</u>	82 participants
<u>Installed Capacity:</u>	6,455 kW _{AC}
<u>Pending:</u>	3 grandfathered applications pending project completion and interconnection for a total capacity of 1,669 kW _{AC}
<u>Program Status:</u>	Closed to new participants per the Final Order Partially Adopting Recommended Decision in Case No. 10-00037-UT, issued on August 31, 2010.
PROGRAM:	Solar REC Incentive Program
<u>Participation:</u>	1,185 participants
<u>Installed Capacity:</u>	6,071 kW _{AC}
<u>Pending:</u>	459 active applications are pending project completion and interconnection
<u>Program Status:</u>	Interim SIP and capacity set-side programs approved in Case No. 11-00265-UT have been implemented.