

PUBLIC SERVICE COMPANY OF NEW MEXICO

RENEWABLE ENERGY PORTFOLIO PROCUREMENT PLAN

FOR 2007

Filed Pursuant to 17.9.572 NMAC

August 16, 2006

**PNM Renewable Energy Portfolio
Procurement Plan for 2007**

1 **I. INTRODUCTION**

2 Public Service Company of New Mexico (“PNM”) has prepared this Renewable
3 Energy Portfolio Procurement Plan for 2007 (“2007 REP”) in compliance with the
4 Renewable Energy Act (“REA”), §§ 62-16-1 *et seq.* NMSA 1978 and Title 17.9.572 NMAC
5 (“Rule 572”). The REA, at § 62-16-4(D), requires New Mexico’s investor-owned electric
6 utilities to file a procurement plan each year by September 1, for review and approval by the
7 New Mexico Public Regulation Commission (“Commission” or “NMPRC”), that describes
8 the cost of procurement for any renewable energy resource in the next calendar year required
9 to comply with the renewable portfolio standard (“RPS”) established by the REA. The plan
10 must be reasonable as to its terms and conditions considering price, availability,
11 dispatchability, any renewable energy certificate (“REC”) values and diversity of the
12 resource, or should otherwise demonstrate that it is in the public interest. The REA, at § 62-
13 16-6, provides that costs incurred by a public utility that are consistent with a renewable
14 energy procurement plan approved by the Commission shall be deemed to be reasonable.

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16 Pursuant to variance granted by the Commission in Case No. 05-00356-UT, this 2007
17 REP includes information regarding PNM’s Renewables RFP process, comparison with the
18 self-build biomass assessment and the resulting renewable resource selection, information
19 that, absent the variance, would have been provided in a Supplement to PNM’s 2006 REP

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21 **II. RENEWABLE PORTFOLIO STANDARD**

22 The REA and Rule 572 establish an RPS applicable to all investor-owned electric
23 utilities in New Mexico. In 2007 and 2008, the RPS will be 6% and 7% of retail sales,

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1 respectively. It will increase 1% annually until reaching 10% in the year 2011.
2 Starting in 2007, PNM's RPS obligation will include the New Mexico retail load previously
3 service by Texas-New Mexico Power Company ("TNMP"), which was acquired by PNM
4 Resources, the parent company of PNM, in 2005 pursuant to the Stipulation approved by the
5 Commission in Case No. 04-00315-UT. Compliance with the RPS is demonstrated by a
6 public utility's retirement of RECs that document the generation of renewable energy
7 contracted for delivery in New Mexico. RECs can be banked for up to four years.
8 Reductions in the RPS are authorized for non-governmental customers with annual
9 consumption exceeding 10 million kilowatt hours ("kWh") in accordance to Section 10(C) of
10 Rule 572. The Reasonable Cost Threshold ("RCT") established by the Commission pursuant
11 to Section 11(A) of Rule 572 in NMPRC Case No. 04-00253-UT establishes a two-prong
12 cost test above which PNM would not be required to acquire renewable energy resources for
13 purposes of RPS compliance. PNM's projected RPS requirements for 2006 and 2007 are
14 shown in the attached Table 1.

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16 **III. RENEWABLE ENERGY CERTIFICATES**

17 A REC is a document verifying that renewable energy has been generated.
18 Essentially, the REC documents the "renewable energy" attribute of the electric generation
19 that underlies it. During 2007 and 2008, PNM plans to meet the RPS using RECs associated
20 with generation from wind and RECs acquired from solar photovoltaic ("PV") facilities.
21 Beginning in 2009, PNM anticipates that it will be able to acquire RECs pursuant to a power
22 purchase agreement ("PPA") that is described below. RECs that are transferred by sale or
23 retired by PNM due to renewable energy sales to retail customers under PNM's Sky Blue
24 program are not banked and will not be used by PNM to demonstrate compliance with the

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1 RPS. PNM retires RECs for RPS compliance purposes using a two-step approach. RECs are
2 retired on a first-in, first-out basis starting with wind RECs that have been accruing since
3 mid-2003. When this REC retirement process reaches months/years that include RECs from
4 more than one type of renewable energy resource (e.g., RECs acquired from both wind and
5 solar resources in 2006), they will be retired on a pro-rata basis by resource type, although
6 first-in, first-out within each resource type. This process will avoid expiration of RECs
7 before they can be retired and will avoid any preferential treatment of RECs acquired from
8 different resource types within a year.

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10 **IV. BIOMASS RESOURCES**

11 **A. PROCUREMENT OF BIOMASS RECS:** Under §§ 16-16-4 and 16-16-6 of the
12 REA, PNM is requesting Commission approval of the procurement of renewable energy and
13 associated RECs pursuant to a PPA (“Biomass PPA”) between PNM and Western Water &
14 Power Production Company, LLC (“Western”) that was executed on July 17, 2006 and
15 approval of recovery of the costs that PNM will incur in connection with the Biomass PPA.
16 The biomass plant will have a net generation capacity of 32 MW and PNM will be
17 purchasing all of the capacity and all of the generated energy, estimated to be about 252,288
18 MWh annually, for use in serving its New Mexico retail customers. The Biomass PPA is the
19 result of negotiations undertaken following PNM’s evaluation of bids submitted pursuant to
20 its Request for Proposal for renewable energy projects other than wind (“Renewables RFP”)
21 that was issued by PNM in October 2005. The Biomass PPA provides renewable energy at a
22 cost that meets both prongs of the RCT and that is competitive with fossil fuel alternatives.
23 The plant has load-side location, is dispatchable and will provide additional capacity to serve

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1 jurisdictional loads and meet reserve margin requirements. In addition, as a project using
2 renewable resources, the plant provides important environmental benefits to New Mexico.
3 Under Rule 572, biomass RECs are weighted at 2 to 1; therefore, the RECs resulting from
4 this project will make a significant contribution to PNM's ability to meet its RPS
5 requirements. The biomass facility is expected to begin operations in early 2009, so that
6 biomass RECs will be available to use for RPS compliance beginning in 2009.

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8 **B. COST AND COST RECOVERY:** Costs incurred under the Biomass PPA will
9 meet both parts of the RCT. Consequently, PNM is requesting that the Commission
10 determine that the costs of the Biomass PPA, including contract payments and debt
11 imputation mitigation costs, are reasonable and recoverable by PNM in retail rates.

12

13 **V. WIND RESOURCES**

14 **A. PROCUREMENT OF NMWEC RECs:** In 2007, PNM will continue to procure
15 wind energy generated at the New Mexico Wind Energy Center ("NMWEC") and the RECs
16 associated with that generation from FPL Energy, Inc. under the parties' 25-year contract
17 initiated in mid-2003. PNM anticipates that RECs equivalent to approximately 313,539
18 MWh of wind energy will be acquired from the NMWEC in 2007 to meet the RPS. The
19 ability to bank RECs for up to four years enables PNM to meet the RPS in the near term
20 primarily using RECs from the NMWEC while pursuing renewable resource diversity in the
21 longer-term.

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23 **B. COST AND COST RECOVERY:** Pursuant to Paragraph 12 of the Case 3137
24 Stipulation, to date, PNM has recorded NMWEC RECs at a cost of \$5.00 per MWh, or

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1 \$0.005 per kWh, which represents the lowest price PNM has obtained for NMWEC RECs in
2 the market. The Stipulation approved by the Commission in NMPRC Case No.
3 04-00311-UT ("2004 Renewables Stipulation") provides that:

4 "Determination and recovery of the costs of the renewable resources from the
5 NMWEC used to meet the RPS beginning in 2006 should be deferred until PNM's
6 next general electric rate case. Such deferral is consistent with the provisions of
7 Paragraph 12 of the Stipulation approved on January 28, 2003 in NMPRC Case 3137
8 ('Case 3137 Stipulation'). If, in its next general electric rate case, PNM seeks to
9 recover the costs of the renewable resources from the NMWEC used to meet the RPS,
10 PNM will be required to establish the reasonableness of such costs...."

11 Pursuant to this provision, determination and recovery of the costs for the NMWEC RECs
12 procured in 2007 will be deferred until PNM's next general electric rate case.

13

14 **VI. SOLAR PHOTOVOLTAICS ("SOLAR PV")**

15 **A. CUSTOMER-OWNED SOLAR PV INCENTIVE PROGRAM:** In December 2005,
16 the Commission approved PNM's Small PV Program, under which PNM acquires RECs
17 from small PV systems with capacity rated at 10 kW or smaller that are obtaining net
18 metering services from PNM pursuant to Title 17.9.571 NMAC ("Rule 571"). The tariff
19 under which this program is offered became effective on March 1, 2006. Customer
20 participation in the program has been greater than PNM anticipated, however, PNM is not
21 able at the present time to determine whether this higher than expected rate of subscription
22 represents a long-term trend. Therefore, PNM is recommending that the Commission
23 eliminate the requirement that, after the annual budgeted amount of kW PV facilities are

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1 installed, any subsequent subscribers be put on a wait list to be connected in the following
2 year. PNM proposes (1) to retain the \$0.13 per kWh purchase rate for RECs and (2) to allow
3 PNM to accept all applicants on a first-come, first serve basis, while not changing the
4 currently approved total budget for the Small PV Program of \$2,781,166.

5

6 **B. COST AND COST RECOVERY:** Under the Small PV Program, PNM pays \$0.13
7 per kWh equivalent for each REC resulting from the customer's generation of renewable
8 energy using the solar PV facilities under contract. As authorized by Paragraph 12 of the
9 Case 3137 Stipulation, PNM is presently recording the cost of Small Solar PV Program
10 RECs on its financial statements as a regulatory asset to be recovered through rates resulting
11 from PNM's next electric rate case.

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13 **C. OTHER SOLAR PROGRAMS:** Additional renewable resource diversity will be
14 achieved during 2007 with the PNM-owned 25 kW PV resource that was installed in May
15 2006 pursuant to the Commission's Final Order and Order Granting Second Request for
16 Variance in Case No. 04-00311-UT, and PNM's existing 5 kW PV system located at a PNM
17 building in Albuquerque. RECs from these facilities will also be used for RPS compliance
18 during 2007.

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20 **VII. CONCLUSION**

21 In addition to the planned procurements and other activities described above, PNM
22 will continue to work with various governmental and private sponsored efforts to develop
23 renewable energy projects and renewable resource diversity in New Mexico.

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TABLE 1: CALCULATIONS OF THE ESTIMATED RPS REQUIREMENTS FOR 2007-08

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Year	2007	2008
Projected Retail Sales (MWh)*	9,530,734	9,801,655
RPS Percentage	6%	7%
RPS Before Adjustments (MWh)	571,844	686,116
Adjustments for Large Customers (MWh)**	-30,497	-35,757
Adjustments for the RCT (MWh)	0	0
Projected Net RPS Requirement (MWh)	541,348	650,359
Projected Effective RPS as a Percentage	5.7%	6.6%

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*Based on the load forecast used in PNM's February 1, 2006 Informational Filing, which include TNMP-NM loads beginning in 2007.

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**Based on an assumption that RECs from the New Mexico Wind Energy Center and from Solar PV are used for RPS compliance and result in a combined price of \$5.73 per MWh in 2007 and \$5.83 in 2008.

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