

Main Offices
Albuquerque, NM 87158 -1105
P 505 241-0675
F 505 241-2347
PNM.com



October 25, 2023

Ms. Melanie Sandoval
Records Bureau Chief
New Mexico Public Regulation Commission
Prc.records@state.nm.us
PO Box 1269
Santa Fe, NM 87504

Subject: Application for Approval of Purchased Power Agreements, Energy Storage Agreements, and Certificates for Public Convenience and Necessity for System Resources in 2026

Dear Ms. Sandoval:

Enclosed herewith for filing please find Public Service Company of New Mexico's Application for Approval of Purchased Power Agreements ("PPA"), Energy Storage Agreements ("ESA"), and Certificates of Public Convenience and Necessity ("CCN") for System Resources in 2026. The additional documents submitted in support of the Application include the following:

- Proposed form of customer notice;
- Table showing where each PPA Rule requirement is addressed in testimony; and
- Direct Testimony and Exhibits of Henry Monroy, Jeremy Heslop, R. Brent Heffington, Nicholas Phillips, Tim Nichols, Thomas Duane, Roger Nagel, Nick Wintermantel and Thomas Feldman

PNM's Application requests the New Mexico Public Regulation Commission ("NMPRC" or "Commission") approve the Quail Ranch PPA for 100 MW of solar energy over a 20-year term; the Quail Ranch, Sky Ranch II, and Route 66 ESAs for 100, 100 and 49.5 MW of 4-hour battery capacity respectively; and a CCN for the Sandia Energy Storage Project, a 60 MW 4-hour engineer, procure, construct ("EPC") battery storage project that will be owned by PNM. PNM will recover costs of the PPA through its Fuel and Purchased Power Cost Adjustment Clause and will apply to recover the costs of the ESAs and EPC project through base rates in a general rate case following completion of the projects.

PNM will serve a copy of this Application and all attachments on the Attorney General, NMPRC Staff, and all counsel of record and parties pro se in PNM's last rate case (ongoing Case No. 22-

00270-UT). All notices, pleadings, documents and other communications regarding this filing should be sent to the following individuals:

Stacey J. Goodwin
Associate General Counsel
PNM Resources, Inc.
Corporate Offices - Legal Dept.
Albuquerque, NM 87158-0805
Phone: 505-241-4927
Stacey.goodwin@pnmresources.com

Steven Schwebke
Senior Project Manager, Regulatory
PNM
Corporate Offices – Regulatory
Albuquerque, NM 87158-1105
(505) 241-2881
Steven.schwebke@pnm.com

Christopher Atencio
Corporate Counsel
PNM Resources, Inc.
Corporate Offices - Legal Dept.
Albuquerque, NM 87158-0805
Phone: 505-241-2700
Christopher.Atencio@pnmresources.com

Mark Fenton
Executive Director, Regulatory Policy
and Case Management
PNM
Corporate Offices - Regulatory
Albuquerque, NM 87158-1105
(505) 241-2498
Mark.fenton@pnm.com

This application is being electronically filed, and a copy of the check for the filing fee is included. A check in the amount of \$25.00 for the filing fee for this application will be mailed to the NMPRC.

If you have any questions or require additional information regarding this Application, please call me at (505) 241-2881.

Respectfully submitted,

/s/Steve Schwebke
Steve Schwebke
Senior Project Manager, Regulatory Policy and Case Management

cc: Certificate of Service

GCG#

PUBLIC SERVICE COMPANY OF NEW MEXICO
NMPRC CASE NO. 23-00353-UT
EXECUTIVE SUMMARY

PNM is seeking approval for 100 MW of solar energy and 310 MW of battery storage projects to ensure adequate resources are available to meet summer 2026 customer needs. Approval of these resources is necessary to ensure PNM's planning reserves are in line with industry standards and resource adequacy requirements, as discussed in PNM's 2020 IRP and recent resource applications. Achieving this industry standard ensures that adequate capacity exists to meet our customers' needs in a safe and reliable manner.

PNM recently hit two new peak demand requirements in summer 2023, 2,131 MW retail system peak on July 17 and July 18 consecutively. The continued increase in peak demand, combined with the rapidly changing characteristics of the resource fleet, provides further evidence and support for PNM's need to acquire additional resources to continue to be able to reliably meet our customers' needs.

The resources selected in this filing are the result of a competitive RFP process that was overseen by an independent evaluator. The resources selected represent the lowest-cost portfolio, providing for 60 MW of utility-owned battery storage through an engineer, procure, construct ("EPC") agreement, 250 MW of battery storage projects contracted through energy storage agreements ("ESAs"), and an additional 100 MW of solar through a power purchase agreement ("PPA"). The cost evaluation included consideration of financial implications of the fixed price ESAs and assessment of the incremental costs associated with the fixed price ESAs on our customers. These resources were also selected based on the high likelihood of deliverability by summer of 2026, minimizing developer risks seen in earlier agreements. PNM is proposing, for the first time, a volumetric pricing structure for the ESAs to address the incremental costs associated with fixed price ESAs.

PNM's application seeks approval of one PPA and three ESAs pursuant to 17.9.551 NMAC, which outlines the requirements for filing an application for approval of long-term PPAs and ESAs. PNM seeks approval of a certificate of public convenience and necessity ("CCN") for the utility-owned battery storage pursuant to NMSA § 62-9-1 (1978) which outlines the requirements for a CCN application, including specific requirements for energy storage systems. PNM is requesting approval by May 1 or within 6 months to provide developers notice to proceed to ensure resources are available for summer of 2026. The resources that are the subject of this application are necessary for PNM to meet its peak load requirements in 2026, and to provide safe and reliable service including meeting a reliability standard of 0.1 loss of load event, a "best practices" industry standard, equivalent to one loss of load event every ten years.

PNM's application includes the testimony of nine witnesses which supports the all-resource request for proposals, the analysis of the bids received, and the selection of the most cost-effective portfolio of resources that are proposed therein. Cost recovery of the PPA will be through PNM's fuel and purchased power cost adjustment clause; PNM will

seek cost recovery of the ESAs and the EPC project through a general rate case proceeding following completion of the projects.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO’S)
APPLICATION FOR APPROVAL OF PURCHASED)
POWER AGREEMENTS, ENERGY STORAGE)
AGREEMENTS, AND CERTIFICATES OF PUBLIC)
CONVENIENCE AND NECESSITY FOR SYSTEM) Case No. 23-00353-UT
RESOURCES IN 2026)
)
)
**PUBLIC SERVICE COMPANY OF NEW MEXICO,)
)
Applicant)
_____)****

**PUBLIC SERVICE COMPANY OF NEW MEXICO’S APPLICATION FOR
APPROVAL OF PURCHASED POWER AGREEMENTS, ENERGY STORAGE
AGREEMENTS, AND CERTIFICATES OF PUBLIC CONVENIENCE AND
NECESSITY FOR SYSTEM RESOURCES IN 2026**

Public Service Company of New Mexico (“PNM” or the “Company”) files its *Application for Approval of Purchased Power Agreements, Energy Storage Agreements, and Certificates of Public Convenience and Necessity for System Resources in 2026*. New Mexico’s Energy Transition Act (“ETA”) requires PNM to supply one hundred percent of all retail electricity sales with zero carbon resources by January 1, 2045. To meet this goal, PNM has engaged in comprehensive efforts to retire existing carbon-emitting resources and replace them with carbon-free generation and battery storage. This Application represents PNM’s next step toward meeting the ETA requirements while maintaining resource adequacy sufficient to meet modern reliability standards.

This Application requests the Commission approve the resource additions necessary to meet peak load requirements in 2026. PNM is seeking to add approximately 100 MW of solar and 310 MW of battery energy storage—250 MW through energy storage agreements (“ESAs”) and 60 MW through a certificate of public convenience and necessity (“CCN”) for a utility-owned

battery energy storage system (“BESS”)—to meet system requirements. These resources will serve to move PNM to an industry standard loss of load expectation (“LOLE”) equal to one-day-in-ten-years, *i.e.*, a 0.1 LOLE. The portfolio of resources included in this Application will provide cost effective and reliable service while keeping on track to meet the ETA requirements and PNM’s target to provide service from 100% carbon-free generation by 2040.

I. SUMMARY AND TIMING OF REQUESTED APPROVALS

PNM’s Application seeks Commission approval of a proposed resource portfolio that includes: a long-term solar Power Purchase Agreement (“PPA”) for Quail Ranch solar project with a 100 MW nameplate capacity; three Long-Term ESAs for the Sky Ranch II, Route 66 and Quail Ranch four-hour battery projects with a combined 250 MW capacity; and a CCN to construct the 60 MW four-hour BESS Sandia Storage Project.

PNM is requesting approval of the PPA and ESAs pursuant to 17.9.551 NMAC, Prior Approval of Power Purchase Agreements (the “PPA Rule”). The PPA Rule requires the Commission to issue its final order acting on an application for approval of a PPA or ESA within six months of the date the application is filed, or the application is deemed approved. PNM is requesting approval of the PPA and ESAs within this six-month timeframe.

PNM is requesting approval of the CCN for the Sandia Storage Project pursuant to N.M. Stat. Ann. § 62-9-1 (1978), which requires the Commission issue an order granting or denying an application for a CCN within nine months of the initial filing date, unless the Commission extends the nine-month statutory period for an additional six months for good cause shown. PNM entered an Engineering, Procurement, and Construction (“EPC”) contract with DEPCOM Power Inc. to build the Sandia Storage Project. While the Public Utility Act provides

for a nine-month approval process for CCN approval, the Sandia Storage Project EPC agreement requires an unappealable order approving PNM's application for CCN by June 1, 2024, to achieve a commercial operation date prior to the 2026 summer peak season. To meet this timeline, PNM requests the Commission issue a final order approving the CCN within the same six-month timeline as the PPA and ESAs requested in this proceeding, which is by May 1, 2024.

II. SUPPORT FOR APPLICATION

1. PNM's Application is filed pursuant to and in accordance with 17.9.551 NMAC and N.M. Stat. Ann. § 62-9-1 (1978). 17.9.551 NMAC outlines the general requirements for filing an application for approval of long-term PPAs and ESAs and N.M. Stat. Ann. § 62-9-1 (1978) outlines the requirements for a CCN application. The testimonies and exhibits filed with this Application discuss how PNM's proposed portfolio of resources satisfy these regulatory and statutory requirements.

2. PNM is a New Mexico corporation that owns, operates and controls public utility plant, property and facilities, including generation, transmission and distribution facilities that provide retail and wholesale electric service in New Mexico. PNM is a duly incorporated public utility subject to the jurisdiction of the Commission pursuant to the Public Utility Act, NMSA 1978, §§ 62-1-1 to 62-6-28 and §§ 62-8-1 to 62-13-15 ("PUA"). PNM is authorized to provide utility service within multiple municipalities and communities in various service areas throughout the state. As a public utility, PNM is required to provide adequate, efficient, and reasonable electric service pursuant to NMSA 1978, Section 62-8-2.

3. The testimonies and exhibits filed with this Application provide substantial factual support for PNM's request for approval of 1) one long-term solar PPA; 2) three ESAs comprising projects

totaling 250 MW of four-hour battery energy storage; and 3) a CCN for the 60-MW Sandia four-hour BESS.

4. Each of the Application's requested approvals is summarized below.

Power Purchase Agreement:

Quail Ranch Solar Project. A long-term PPA between PNM and Quail Ranch Solar LLC for all the output of the Quail Ranch solar photovoltaic facility over a twenty-year term at a rate of \$29.84/MWh, which has a nameplate capacity of 100 MW, will be located in Bernalillo County, New Mexico, and is expected to have a Commercial Operation Date ("COD") of November 2, 2025.

Energy Storage Agreements:

Quail Ranch Energy Storage Project. A long-term ESA between PNM and Quail Ranch Energy Storage LLC for the capacity and energy storage of the Quail Ranch Energy Storage Project over a twenty-year term at a volumetric rate of \$49.20/MWh, a 100 MW four-hour battery storage facility co-located with the Quail Ranch solar facility, expected to have a COD of November 2, 2025.

Sky Ranch Energy Storage Project. An ESA between PNM and Sky Ranch II Energy Storage LLC for the capacity and energy storage of the Sky Ranch II Energy Storage Project over a twenty-year term at a volumetric rate of \$28.04/MWh, a 100 MW four-hour battery storage facility co-located with the Commission-approved Sky Ranch solar project in Valencia County, New Mexico, and expected to have a COD of February 1, 2026.

Route 66 Energy Storage Project. An ESA between PNM and Route 66 Energy Storage LLC for the capacity and energy storage of the Route 66 Energy Storage Project over its contractual (approximately 20 year) term at a volumetric rate of \$48.95/MWh, a 49.5 MW four-

hour battery storage facility co-located with the Commission-approved Route 66 solar facility in Cibola County, New Mexico, expected to have a COD of February 1, 2026.

Certificate of Convenience and Necessity

Sandia Storage Project. A certificate of public convenience and necessity (“CCN”) for the Sandia Storage Project, a 60 MW four-hour battery storage facility located near PNM’s existing Sandia Substation in southeast Albuquerque, New Mexico. PNM entered an Engineering, Procurement, and Construction (“EPC”) contract with DEPCOM Power Inc. to build the facility, which will be owned by PNM, is anticipated to cost approximately \$131 million, and is expected to have a COD of May 1, 2026

5. PNM used a robust and competitive Request for Proposals (“RFP”) and resource modeling analysis to identify, evaluate, and select for Commission approval the portfolio of resources presented in this Application. PNM enlisted the services of qualified experts to assist and conduct portions of the solicitation and evaluation processes. These analyses determined that the proposed portfolio of resources is the optimum mix of generation resources that can be available by May 2026 to economically and reliably serve retail customers.

6. PNM’s RFP resulted in a range of bid proposals to meet 2026 reliability needs. PNM’s economic modeling and resource adequacy and reliability modeling demonstrate that the selected resources meet system reliability and customer load needs in 2026 at a lower cost than other resources bid into the portfolio. As a result, customers will benefit from PNM entering into agreements at issue in this Application.

7. PNM’s analysis supports the selection of the PPA, ESA, and CCN resources that in combination with each other and when combined with PNM’s generation portfolio will result in adequate and reliable service to customers at a fair and reasonable cost.

8. The PPA and ESAs are sponsored by PNM Witness Jeremy Heslop and are further supported by analyses detailed in other witness testimonies and exhibits. PNM's supporting testimonies and exhibits provide the necessary detail concerning the terms and conditions of the PPA and each ESA and the associated costs. The evidence presented shows that the PPA and ESAs are consistent with the provision of safe and reliable service at the lowest reasonable cost, considering both short- and long-term costs and other relevant factors set forth in the PPA Rule.

9. PNM's supporting testimony and analysis shows that the PPA and ESAs presented in this Application meet the public convenience and necessity standard applicable under the PPA Rule and Commission precedent. PNM has satisfied the information requirements of 17.9.551.8 NMAC and the agreements are needed, reasonable, and in the public interest.

10. PNM is proposing, for the first time, a volumetric pricing structure for the ESAs. This pricing structure bases the price of the ESAs dependent upon the output of co-located solar production facilities. Consequently, every unit of solar energy produced justifies a dollar per MWh price for both solar energy and battery usage. As such, facilities with a higher ratio of solar-to-battery capacity will have a lower per-unit price; however, there will be no disparate effects on the notional value of the contract. Furthermore, this pricing structure still allows for a fully controllable tolling agreement between PNM and the counterparty for use of the battery facility.

11. PNM conducted rigorous modeling and review to determine the optimal pricing structure for the ESAs. The volumetric pricing structure avoids any recognition of lease liability and associated imputed debt. PNM compared the cost of the volumetric priced ESAs to fixed-price option by considering the effects of imputed debt on the PNM's capital structure. The analysis presented in this Application shows that the volumetric-priced ESAs provide the most cost-

effective option when making conservative assumptions regarding the impact of imputed debt associated with fixed-price ESAs.

12. PNM will recover the energy costs associated with the Quail Ranch PPA through its Fuel and Purchased Power Cost Adjustment Clause in accordance with Rule 551.9(A). PNM will seek recovery of the ESA costs in a PNM general rate review filing in which PNM seeks to adjust its base rates.

13. The Sandia Storage Project meets the statutory criteria for issuance of a CCN for an energy storage system under NMSA 1978, Section 62-9-1(D). The project will reduce costs to ratepayers by locating the facility near an existing PNM substation, limiting transmission and substation expansion requirements. By utilizing the Sandia Storage Project to store energy produced from renewable resources during off-peak load periods for discharge during peak, PNM can reduce the use of fossil fuels for meeting demand. The Sandia Storage Project will also aid in ensuring grid reliability, support increased diversification of energy resources, contribute to the reduction of air pollutants resulting from power generation, and ensure efficient service to PNM's customers. The Sandia Storage Project is also the most cost-effective among feasible alternatives. PNM requests that the Commission grant PNM a CCN because the public convenience and necessity require the construction, ownership, and operation of the Sandia Storage Project, which will ensure PNM's ability to provide reliable and efficient service at the most cost-effective rate.

14. PNM will seek recovery of the Sandia Storage Project costs in a PNM general rate review filing in which PNM seeks to adjust its base rates.

15. Each of these resources proposed in this Application have approval date provisions written into their associated contracts to ensure project engineering and equipment purchases can occur to meet the 2026 installation dates. It is important to meet these deadlines because the costs of the

projects otherwise may increase or become unavailable. These specified approval dates are outlined below:

- The Quail Ranch Solar Project: June 3, 2024
- The Quail Ranch Storage Project: June 3, 2024
- The Sky Ranch Storage Project: October 1, 2024
- The Route 66 Storage Project: October 1, 2024
- The Sandia Storage Project: June 1, 2024

16. Under the PPA Rule, an electric utility is required to obtain the Commission’s written approval before becoming irrevocably bound under a long-term PPA, which is defined as a PPA with a term of five years or more and for which the utility intends to seek rate recovery from New Mexico retail customers. 17.9.551.7(E)-8(A) NMAC. The PPA Rule also requires that a utility file an application for approval with the Commission within thirty days after the execution of a long-term PPA. 17.9.551.8(B). The PPA and ESAs presented in this application are for a term greater than five years. All of these agreements were executed on or after September 27, 2023, so PNM’s Application is filed timely. In addition, under Section 6.1 of each of the agreements, they become effective only after satisfaction of conditions precedent, including Commission approval.

17. PNM is requesting approval of the PPA and ESAs pursuant to 17.9.551(10) NMAC. The PPA Rule requires the Commission to issue its final order acting on an application for approval of a PPA or ESA within six months of the date the application is filed, or the application is deemed approved. PNM is requesting approval of the PPA and ESAs within this six-month timeframe.

18. N.M. Stat. Ann. § 62-9-1 (1978) requires the Commission issue an order granting or denying an application for a CCN within nine months of the initial filing date, unless the Commission extends the nine-month statutory period for an additional six months for good cause

shown. PNM is requesting the Commission issue an order granting a CCN for the Sandia Storage Project concurrent with the six-month timeframe provided in the PPA Rule. Approving a CCN for the Sandia Storage Project withing a six-month timeframe is appropriate because the resource is needed for summer 2026 and it meets each of the requirements for a CCN for a battery storage system under Section 62-9-1(D).

19. Time is of the essence in reviewing and approving the PPA, ESAs and CCN presented in this Application. For solar and battery project developers for the PPA and ESAs and the EPC contractor for the Sandia Storage Project to meet COD in advance of the 2026 summer peak, PNM requests the Commission issue a final decision approving its Application by May 1, 2024.

III. NOTICE AND PROCEDURAL REQUIREMENTS

20. PNM's proposed form of Notice is attached to the Application as Exhibit 2. PNM will publish the approved Notice as may be issued by the Commission in the manner so directed.

21. PNM has served a copy of this Application and supporting pre-filed direct testimony on the New Mexico Attorney General, the Commission's Utility Division Staff, and parties to Case No. 22-00270-UT (PNM's most recent rate case).

22. The following designated corporate representatives and legal counsel for PNM should receive all notices, discovery requests, objections and responses, briefs, and all other documents related to this case:

Christopher Atencio, Esq.
Corporate Counsel
PNM Resources, Inc.
Corporate Offices – Legal Dept.
Albuquerque, New Mexico 87158-0805
Phone: 505-241-4929
Christopher.atencio@pnmresources.com

Stacey J. Goodwin
Associate General Counsel
PNM Resources, Inc.
Corporate Offices – Legal Dept.
Albuquerque, New Mexico 87158-0805
Phone: 505 241-4927
Stacey.Goodwin@pnmresources.com

All pleadings, correspondence and other documents should be delivered electronically to the following email addresses:

Steven Schwebke
Senior Project Manager, Regulatory
PNM
Corporate Offices – Regulatory
Albuquerque, NM 87158-1105
Phone: 505 241-2881
Steven.schwebke@pnm.com

Mark Fenton
Executive Director, Regulatory Policy
and Case Management
PNM
Corporate Offices – Regulatory
Albuquerque, NM 87158-1105
Phone: 505 241-2498
Mark.Fenton@pnm.com

23. The following witnesses provide testimonies and exhibits in support of the Application. The testimonies and exhibits are incorporated by reference herein. The application elements that they support are outlined in Exhibit 1 to this Application.

- a. Henry E. Monroy, Vice President, Regulatory and Corporate Controller
- b. Nicholas Phillips, Director, Atrium Economics, LLC
- c. Roger W. Nagel, Principal, Aion Energy, LLC
- d. Nick Wintermantel, Principal Consultant and Partner, Astrapé
- e. Thomas P. Duane, PNM Manager of Transmission Planning
- f. R. Brent Heffington, PNM Managing Director of Generation
- g. Jeremy W. Heslop, PNM Senior Contracts Manager, Generation Engineering Group
- h. Tim Nichols, PNM Principal of Finance and Special Projects
- i. Thomas M. Feldman, Director, Atrium Economics, LLC

WHEREFORE, PNM respectfully requests that the Commission issue a notice of this proceeding, conduct all necessary hearings in accordance with pertinent statutory deadlines, approve the Application and among other things determine that:

A) PNM's request for regulatory approval of the executed long-term PPA with the 100-MW Quail Ranch Solar Project, and request for regulatory approval of the executed long-term

ESAs with the 100-MW Quail Ranch Energy Storage Project, the 100-MW Sky Ranch Energy Storage Project, and the 50-MW Route 66 Energy Storage Project are in the public interest and should be granted, in accordance with the PPA Rule.

B) PNM's request for a CCN for the 60-MW, four-hour Sandia Storage Project should be approved and a CCN should be issued.

C) PNM should be granted any other such authorizations necessary to implement the proposed actions in accordance with the requirements of the Public Utility Act, the PPA Rule, and any other applicable Commission rules.

Respectfully submitted this 25th day of October 2023.

PUBLIC SERVICE COMPANY OF NEW MEXICO

/s/ Christopher Atencio _____

Christopher Atencio, Esq.

Corporate Counsel

PNMR Services Company

Corporate Headquarters – Legal Department

Albuquerque, NM 87158-0805

(505) 241-4929

(505) 241-2338

Christopher.atencio@pnmresources.com

Attorney for Public Service Company of New Mexico