Q. WHAT SYSTEMS RELATED TO THE TEXAS MARKET TRANSACTIONS WILL NEED MODIFICATIONS TO SUPPORT THE PROPOSED AMS?

A. Modifications to TNMP's EDI gateway, Banner, Meter Head-End System (TMS) and Integration application (TIBCO ESB) are required to support the Texas Market Transaction.

Q. WHAT INFORMATION SYSTEMS RELATED TO THE EXISTING DISTRIBUTION OPERATIONS WILL NEED MODIFICATIONS TO SUPPORT THE PROPOSED AMS? ARE THERE ASPECTS OF THE CURRENT IT HARDWARE AND SOFTWARE INFRASTRUCTURE THAT WILL NEED TO CHANGE TO SUPPORT THE PROPOSED AMS?

A. Yes; new acquisition of Hardware and Software is needed to support TNMP's AMS program. All new systems listed above will require both hardware servers and software purchases. Legacy support software and databases, such as Oracle, will also require potential license negotiation as the MDMS and OMS will utilize these packages, therefore requiring more licenses.

Q. HAS TNMP ENTERED INTO ANY CONTRACTS TO PURCHASE THESE SYSTEMS?

A. No contracts have been established to purchase any systems. The vendors for the new systems have provided quotations only, and have not been contracted to provide goods and services. This will occur after the approval of this filing. Based on my experience, the quotes from vendors, and the input of my team, I support the costs detailed in KKM-2 with regard to TNMP's AMS efforts.

IV. O&M SAVINGS

Q. HAS BTS IDENTIFIED ANY BACK-OFFICE O&M SAVINGS THAT CAN BE PASSED ON TO CUSTOMERS?

A. Yes. These are identified in KKM-2. When determining whether to implement a MDMS system or upgrade the LodeStar requirements to support TNMP's AMS, the analysis shows that implementing a MDMS is less expensive than the upgrades for Lodestar. Therefore, the ongoing maintenance agreements for LodeStar that are in currently in TNMP's rates will be passed back to customers as a savings. These savings will not occur until the entire MDMS system is installed and all data is transferred from LodeStar.

Q. DOES IMPLEMENTING A MDMS ALLOW FOR ANY OTHER O&M SAVINGS?

A. Yes. TNMP will no longer need the licensing for Itron's MV90i and Field Data Collection System (FCS). Over the course of the deployment of AMS, TNMP will eliminate all residential "drive-by"-read meters from the service territory. Once that is complete, the back-office systems supporting them, i.e. FCS, will be retired. Itron's MV90 system licensing will be significantly reduced as TNMP will eliminate the majority of the C&I meters and IDR meters using MV90 today. The savings in yearly maintenance fees will be passed on to the consumers.

V. CONCLUSION

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS REGARDING THE MODIFICATIONS AND ENHANCEMENTS TO THE BACK-OFFICE SYSTEMS, THE CHANGES TO EXISTING IT INFRASTRUCTURE, AND THE WEB PORTAL.

A. Based on my experience and knowledge, the modifications and enhancements to the IT systems that I have described are required to support the proposed AMS and the estimated costs that I sponsor for these activities are reasonable and necessary.

Q. IS THIS THE CONCLUSION OF YOUR TESTIMONY?

A. Yes, it does.

AFFIDAVIT

STATE OF TEXAS §
§
COUNTY OF DALLAS §

BEFORE ME, the undersigned authority, on this day personally appeared Kimberly K. Morris, who, upon proving his identity to me and by me being duly sworn, deposes and states the following:

"My name is Kimberly K. Morris. I am of legal age, a resident of the State of Texas, and have never been convicted of a felony. I certify that the foregoing testimony, offered by me on behalf of Texas-New Mexico Power Company, are true and correct and based upon my personal knowledge and experience."

Kimberly K. Morris

SWORN TO AND SUBSCRIBED before me, Notary Public, on this 25 day of May, 2010, to certify which witness my hand and seal of office.

SEAL:

NOTARY PUBLIC in and for the
State of Texas

KENDALL ANN EVANS
Notary Public, State of Texas
My Commission Expires
November 13, 2013

My Commission expires 11·13·2013

KIMBERLY K. MORRIS

Education Background and Business Experience

Kimberly K. Morris is Director, Architecture and leads the Enterprise Architecture and Information Security practices at PNM Resources, a holding company of energy and energy-related businesses based in Albuquerque, NM.

Ms. Morris has held senior IT management positions in energy, retail, finance and technology. With more than 17 years experience in Information Technology, she has established information security practices and compliance programs, architected global enterprise technology strategies and solutions, established IT operations for startup organizations and strategically outsourced operational services.

She holds a B. A. in Business Information Management from Southeastern Oklahoma State University, is a graduate of the Regional Leadership Forum (RLF) sponsored by the Society for Information Management (SIM) and has pursued graduate studies at Amberton University. Ms. Morris is a member of EEI security committee, ISACA, the SIM Dallas Chapter and serves on the board of directors for CAEAP.

Capital	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**Total**
Software Systems Costs	303,500	125,000	1,225,000	150,000			1,803,500
MDMS Software	303,500						
MDM Software - Complex Billing System		125,000	125,000				
Outage Management Software			1,100,000	150,000			
MDM Server Hardware	140,000	25,000	25,000	25,000	25,000		240,000
Hardware	115,000						
Storage	25,000	25,000	25,000	25,000	25,000		
MDM Software Complex Billing System		140,000	25,000	25,000	25,000		215,000
Hardware		115,000					
Storage		25,000	25,000	25,000	25,000		
OMS Server Hardware			250,000	150,000			400,000
Infrastructure Software Licenses		250,000					250,000
Security Management and Monitoring Tool		250,000					
External labor for SW Implementation (MDM, Billing &OMS)	1,000,000	1,200,000	1,250,000	250,000			3,700,000
MDMS Back-Office Work	1,000,000	450,000	250,000				
Complex Billing Back-Office Work		750,000					
OMS Back-Office Work			1,000,000	250,000			
OMS Installation & Training			600,000	150,000			750,000
Labor (BTS Internal)	500,000	1,000,000	1,000,000	250,000			2,750,000
Web Portal	700,000	0	0	0			700,000
WebPortal Software	700,000						
Sub-Total Costs	**2,643,500**	**2,740,000**	**4,375,000**	**1,000,000**	**50,000**		**10,808,500**

O & M	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Software Product Maintenance	60,000	135,000	360,000	410,000	410,000	410,000	410,000	410,000	410,000	410,000	410,000	410,000		4,265,000
Product Maintenance - MDMS	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000		
Product Maintenance - OMS			220,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000		
Product Maintenance - Complex Billing System		25,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000		
TMS Maintenance														
Secuity Management and Monitoring Tool Maintainance		50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000		
Web Portal	0	300,000	300,000	300,000	0	0	900,000							
Data hosting Services		300,000	300,000	300,000										
Labor (STS Internal)		450,000	800,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	8,550,000
Security Audits		250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000		2,750,000
Sub-Total Costs	60,000	835,000	1,230,000	1,410,000	1,410,000	1,410,000	2,720,000	1,410,000	1,410,000	1,410,000	1,410,000	1,410,000	750,000	15,565,000

O & M BENEFITS (SYSTEM RETIREMENT AND SUPPORT)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
Software Product Maintenance (Reduction)			(71,000)	(71,000)	(71,000)	(71,000)	(128,000)	(128,000)	(128,000)	(128,000)	(128,000)	(128,000)		(1,052,000)
Product Maintenance - MV90XI			(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)	(24,000)		
Product Maintenance - FCS							(57,000)	(57,000)	(57,000)	(57,000)	(57,000)	(57,000)		
Product Maintenance - LODESTAR			(47,000)	(47,000)	(47,000)	(47,000)	(47,000)	(47,000)	(47,000)	(47,000)	(47,000)	(47,000)		
Labor (STS Internal - Support Cost Reduction)			(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)		(3,000,000)
Sub-Total Costs			(371,000)	(371,000)	(371,000)	(371,000)	(428,000)	(428,000)	(428,000)	(428,000)	(428,000)	(428,000)		(4,052,000)

PUC DOCKET NO. _____

BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

TEXAS-NEW MEXICO POWER COMPANY
REQUEST FOR APPROVAL
OF AN ADVANCE METERING SYSTEM (AMS)
DEPLOYMENT AND AMS SURCHARGE

PREPARED DIRECT TESTIMONY AND EXHIBITS
OF
MICHAEL D. MONTGOMERY

ON BEHALF OF
TEXAS-NEW MEXICO POWER COMPANY

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TABLE OF EXHIBITS

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PLACE OF EMPLOYMENT.

A. My name is Michael D. Montgomery. I serve as Regulatory Project Manager in the Cost of Service and Pricing Group in the Regulatory Policy and Planning Department at PNMR Services Company ("PNMR Services"), a wholly owned subsidiary of PNM Resources, Inc. ("PNM Resources"). My business address is 225 East John Carpenter Freeway, Suite 1500, Irving, Texas 75062.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Texas-New Mexico Power Company ("TNMP" or "Company"), which is a wholly owned subsidiary of PNM Resources.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. Exhibit MDM-1 describes my background and experience, including AMS deployment experience and regulatory proceedings in which I provided testimony.

Q. PLEASE DESCRIBE YOUR DUTIES AS THE REGULATORY PROJECT MANAGER FOR PNMR SERVICES.

A. As the Regulatory Project Manager, I am responsible for providing pricing, rate design, cost analysis and load research and analysis in support of PNM corporate, regulatory and marketing objectives.

Q. HAVE YOU PREPARED ANY EXHIBITS?

A. Yes. I am sponsoring Exhibits MDM-1 through MDM-6, which are attached to my testimony. Each of these exhibits was prepared by me or under my direction and control. The information contained in these exhibits and workpapers is true and correct to the best of my knowledge and belief.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to support TNMP's request for approval of its Advanced Metering System (AMS) Deployment Plan and for approval of AMS surcharges. I describe the models that TNMP used in calculating the surcharges, the costs that were included in the models, the assumptions used in the models, the allocation methodologies, and the results of the models.

III. MODEL USED IN CALCULATING THE PROPOSED AMS SURCHARGES

Q. WHAT MODEL WAS USED TO CALCULATE THE SURCHARGES PROPOSED IN THIS FILING?

A. As a starting point, TNMP used the version of the American Electric Power Texas (AEP) modified Advanced Metering Infrastructure Example Project Valuation Model (McKinsey Model), which was adopted by the Commission in Project No. 33874 (Form for Transmission and Distribution Utility Advanced Metering Infrastructure Surcharge), this model was filed publically on the Commission's interchange. TNMP chose to base its surcharge development starting with the AEP modified and approved McKinsey model and made minor changes as needed. A complete copy of TNMP's Surcharge Model (Surcharge Model) is attached as Exhibit MDM-2. A summary of the annual revenue requirement generated in the TNMP's Surcharge Model is attached as Exhibit MDM-3. I will describe the changes TNMP made to the modified AEP McKinsey Model to derive the TNMP AMS Surcharge Model.

Q. WHAT WAS THE PRIMARY ADAPTATION THAT WAS MADE TO THE MCKINSEY MODEL BY AEP RESULTING IN A MODEL SUBSEQUENTLY USED AND GENERALLY ACCEPTED BY THE COMMISSION?

A. To calculate surcharges, AEP changed the McKinsey Model from a cost-benefit model to a revenue requirement model, which is more typically used for ratemaking purposes. The purpose of the AEP model is to determine the revenue requirement necessary to calculate a surcharge by customer class — not to compare the costs of the Deployment Plan to the potential benefits customers might receive from the deployment of an advanced metering system. Such a cost-benefit analysis is not necessary in this case because the Texas Legislature has already determined that there are benefits to deploying advanced metering.

A revenue requirement calculation was also added to the Surcharge Model for the calculation of the surcharges.

Q. WERE OTHER CHANGES MADE BY TNMP TO THE AEP MODIFIED MCKINSEY MODEL SO THAT IT COULD BE USED TO CALCULATE ADVANCED METERING SYSTEM SURCHARGES?

A. Yes. Other necessary changes included:

- TNMP did not include System Integration Agreement (SIA) refunds, as AEP did in the model, as it had none.
- TNMP revised the book depreciation calculation in the Surcharge Model to capture the capital costs associated with the pilot program[1] as well as the initial deployment of non-pilot program meters on January 2010 of the first year and used a half-year convention method for determining the other years, rather than the full-year convention assumed in the McKinsey Model. The change to the half-year convention is more consistent with how TNMP will be deploying advanced meters throughout the year.
- TNMP removed the net present value (NPV) calculation from the Surcharge Model. TNMP did not base determination of the surcharge on an analysis of NPV.
- TNMP expanded the portions of the model that tracked the deployment schedule, growth rates and calculation of meter and installation costs to differentiate between active and inactive ESIIDs, include counts for both poly and single phase meters, and to group ESIIDs into three geographical location types: Suburban, Rural, and Desolate. This enabled TNMP to more accurately calculate capital costs related to the deployment of AMS meters.
- TNMP removed the following sections/tabs from the Surcharge Model. These sections/tabs were not used in the TNMP model in determining the AMS surcharge amount:
    - WP-Rem. Costs & Neg Salvage
    - RevenueEnhancement

- DistOpsSavings
- AvoidedCapital

- TNMP adjusted the rate class level surcharge calculation to calculate a two tier surcharge by rate class. The first tier is 5 years, which is the length of the deployment period, and the second tier being 7 years. The revenue requirement for residential and secondary less than or equal to 5 kW rate classes are collected over both tiers, and capped at an increase of 130% over the existing metering charge that is included in base rates.[2]

Q. DID TNMP MAKE ANY MAJOR ADAPTATIONS TO THE MCKINSEY MODEL AS ADAPTED BY AEP THAT WAS ULTIMATELY APPROVED BY THE COMMISSION AS PART OF THE AEP SETTLEMENT?

A. No. No major adaptations were made to the McKinsey model as adapted by AEP and ultimately approved by the Commission.

Q. PLEASE SUMMARIZE HOW TNMP'S REQUESTED SURCHARGE MEETS THE REQUIREMENTS OF SUBST. R. 25.130.

A. The surcharges apply only to customers who are not required by ERCOT to have IDR meters or receive un-metered service,[3] and the allocation of the revenue requirements for the AMS among the customer classes and the design of the surcharges are reasonable and equitable and the surcharge design was developed to cap the impacts for all rate classes. I will discuss the design in more detail later in my testimony. A levelized revenue requirement over a multi-year period has been developed using the reasonable costs of the AMS supported by the testimony of Mr. Whitehurst, Mr. Burke, Ms. Morris, Mr. Kessler, and myself. Estimated cost savings have been included in developing the revenue requirements. The levelized revenue requirements by rate class are divided by the billing units in the rate class to derive the surcharge. Exhibit MDM-3 is a summary of the AMS Revenue Requirements, Exhibit MDM-4 is a summary of the AMS Surcharge per rate class, and Exhibit MDM-5 is a summary of the billing frequencies used in the calculation of the surcharge.

[1] PUC Substr R. 25.130(k) (1) – "...The costs of providing AMS services include those costs of AMS installed as part of a pilot program pursuant to this section." Additionally, the details of the pilot program are discussed in Mr. Allan Burke and Mr. Gary Kessler's testimony.
[2] Metered lighting does not have a separate base charge.

IV. CALCULATION OF AMS RECOVERY FACTORS

Q. WHICH TNMP RATE CLASSES WILL BE AFFECTED BY THE AMS SURCHARGE?

A. The following TNMP Tariff rate classes will be affected by the AMS Surcharge: 6.1.1.1.1 Residential, 6.1.1.1.2 Secondary Less Than or Equal to 5 kW, 6.1.1.1.3 Secondary Greater Than 5 kW Non-IDR, 6.1.1.1.4 Primary Non-IDR, and 6.1.1.1.6 Schedule VI - Metered Lighting.

Q. DO THE CLASSIFICATIONS FOR THE PROPOSED AMS CLASSES COINCIDE WITH THE AVAILABILITY FOR EACH RATE SCHEDULE INCLUDED IN TNMP'S TARIFF?

A. Yes.

Q. PLEASE DESCRIBE THE CALCULATION OF THE AMS COST RECOVERY FACTORS.

A. For the residential and secondary less than or equal to 5 kW Non-IDR customer classes, TNMP is proposing a two-step cost recovery factor. For the first five years of the AMS cost recovery period, TNMP is proposing the following monthly fixed factors:

Residential	$4.80
SEC <= 5 KW Non-IDR	$5.00
SEC > 5 KW Non-IDR	$16.70
PRIMARY Non-IDR	$20.13
Lighting-Metered	$11.04

The monthly fixed factors were evaluated and adjusted to maintain a relationship of an increase of no more than 130% over the monthly fixed metering charge in TNMP's current base rates. TNMP's decision to cap the increase was to achieve the needed revenue requirement and not unduly burden one class of customers when comparing the costs of the AMS surcharge to the metering charge in current base rates.

For the remaining seven years of the AMS cost recovery period, TNMP is proposing the following factors:

Residential	$4.17
SEC <= 5 KW Non-IDR	$5.00
SEC > 5 KW Non-IDR	$0.00
Primary Non-IDR	$0.00
Lighting-Metered	$0.00

[3] PUC SUBST R. 25.130(k) (1) – "... in deploying AMS to residential customers and nonresidential customers other than those required by the independent system operator to have an interval data recorder meter."

The proposed initial factors for the residential class is higher than the average factors for those classes over the entire recovery period but will allow TNMP to recover the sum of the annual revenue requirements incurred during the AMS deployment period over that period – the five years beginning January 2011. The estimated revenue to be received from the first five years of the recovery period is subtracted from the levelized total revenue requirement to determine the revenue requirement for the remaining seven years of the recovery period. The revenue requirement is divided by the customer billing units for the remaining months of the recovery period to arrive at the second-step cost recovery factor. TNMP estimated a regulation asset balance at the end of the surcharge period due to carrying charges being applied to revenue over/under collections. TNMP reduced the second tier residential rate to bring the estimated regulation asset balance at the end of the surcharge period to zero. The second-step factors are lower than the average factors over the entire cost recovery period. The averages for the entire recovery period are below:

Residential	$4.42
Sec <= 5 KW Non-IDR	$5.00
Sec > 5 KW Non-IDR	$6.91
Primary Non-IDR	$8.22
Lighting-Metered	$4.60

In his direct testimony, Mr. Whitehurst explains why the two-step factor is important to the Company's mitigation of negative cash flow.

Q. **PLEASE EXPLAIN HOW TNMP'S RATE DESIGN IS NOT UNREASONABLY DISCRIMINATORY, PREJUDICIAL, PREFERENTIAL OR ANTI-COMPETITIVE.**

A. While PUC Subst. R 25.130(k)(3) allows the commission to set the surcharge to reflect a deployment of advanced meters that is up to one-third of TNMP's total meters over each calendar year, regardless of the rate of actual AMS deployment, TNMP is requesting to collect the five year revenue requirement during the deployment period as the total amount collected through tier one of the surcharge, and capping the increase to any one customer class at 130%, even though the cost of the new advanced meters is actually over 200% higher than an existing mechanical meter.[4]

The Commission has already approved a surcharge for Centerpoint Energy, AEP Texas North Company, and AEP Texas Central Company that included a dual tier surcharge.

[4] The cost for each type of meter is as follows: (a) Residential meters - $15; (b) Single phase demand - @ $93.25 net each per unit; (c) poly phase demand - @ $133.00 net each per unit.

The difference between TNMP's tiered structure and the other utilities is that the other utilities adjusted the residential class only.

TNMP's rate design adjusts all customer classes and applies the same increase limit to all classes. When developing the rate class rates, TNMP compared the first tier to the current metering charge that is included in base rate and limited each classes increase to the lesser of the total revenue requirement or 130% of the existing metering charge in base rates.[5] The following table compares the rate classes for the proposed AMS surcharge with the existing base rate charge:

Description	AMS Surcharge	Base Rate Metering Charge	Percent Change
Residential	$4.80	$2.20	118%
Sec <= 5 KW Non-IDR	$5.00	$2.20	127%
Sec > 5 KW Non-IDR	$16.70	$13.30	26%
Primary Non-IDR	$20.13	$265.00	-92%
Lighting-Metered	$11.04	N/A	N/A

Since the other rate classes do not receive a 130% increase, the rate design for the second tier allows for a $0.00 surcharge. If any additional savings are achieved, these classes will receive a credit during the second tier.

V. COSTS INCLUDED IN THE AMS SURCHARGE MODEL

Q. WHAT COSTS CAN BE RECOVERED AS PART OF THE AMS SURCHARGE?

A. Pursuant to Rule 25.130(k)(1), costs subject to the AMS surcharge recovery process are those reasonable and necessary costs incurred in deploying AMS to residential customers and nonresidential customers other than those required by the independent system operator to have an internal data recorder meter. AMS costs consist of advanced metering devices and related investments, regulatory assets, and deferred taxes, the summation of which serves as the basis to calculate a return, based on the Company's respective approved weighted average cost of capital. The reasonable and necessary costs associated with the TNMP AMS Meter Deployment Plan include related operations and maintenance (O&M) expenses (net of cost savings), depreciation and amortization, and incremental federal and state and local taxes applicable to AMS investment (net of

property tax savings from the retirement of existing meters), return on the AMS capital investment, and interest expenses. The estimated amounts of each of these cost components are included in the TNMP Surcharge Model used to calculate the AMS surcharges. In Exhibit MDM-6, TNMP provides a summary of the costs included in the AMS Surcharge Model.

Q. WHAT ARE THE TOTAL ESTIMATED AMS CAPITAL COSTS INCLUDED IN THE AMS SURCHARGE MODEL?

A. The total estimated capital costs for TNMP'S AMS Deployment Plan included in the AMS Surcharge Model are approximately $72.3 million. Estimated capital expenditures are included in Exhibit MDM-6. These amounts include the total estimated investment for advanced meters, the associated communication networks, data processing systems, regulatory assets and the web portal to be deployed during the Company's AMS deployment. The individual components of this investment are described in more detail by witnesses Mr. Burke, Ms. Morris, and Mr. Kessler in their direct testimonies. None of the costs associated with this investment are currently included in TNMP's base rates, and none of these costs will be included in the Company's future base rates, unless directed by the Commission.

Q. PLEASE DISCUSS THE INVESTMENT IN ADVANCED METERS INCLUDED IN THE AMS SURCHARGE MODEL.

A. The investment of approximately $58.1 million in advanced meters[6] included in TNMP'S AMS Surcharge Model represents the estimated costs to acquire and deploy approximately 240,000 (after growth) advanced meters as described in the Company's AMS Deployment Plan. Applicant witness Mr. Burke provides more detail on that deployment in his direct testimony. The costs used as inputs in the model are based on the proposals received from the vendors, adjusted with any company loads.[7]

Q. ARE THERE ANY COSTS IN THE AMS SURCHARGE MODEL FOR METERS THAT WILL BE INSTALLED AFTER THE PROJECTED DEPLOYMENT PERIOD?

A. No. Costs for meters installed after the deployment period will be addressed in future base rate case proceedings.

[5] Metered lighting does not have a separate base charge.
[6] This includes meter, network, and installation costs.
[7] TNMP witness Henry Monroy discusses the Company's loading policy and how the loads were applied.

Q. ARE THERE ANY COSTS IN TNMP'S AMS SURCHARGE MODEL FOR METERS THAT WERE PURCHASED PRIOR TO THE IMPLEMENTATION OF THE AMS DEPLOYMENT PLAN THAT CAN BE RECOVERED IN ACCORDANCE WITH PUC SUBST. R 25.130(K)(1)?

A. Yes. Costs of approximately $3.6 million for meters deployed as part of TNMP's pilot program for AMS meters are included in the surcharge. The costs of the meters, installation, project management, and network cellular costs associated with the deployment of the pilot program meters are included in TNMP's AMS surcharge. Mr. Burke provides additional details on the costs for meter deployment as part of the pilot program.

Q. PLEASE DISCUSS THE INVESTMENT IN BACK-OFFICE SYSTEMS INCLUDED IN THE TNMP'S AMS SURCHARGE MODEL.

A. The investment of approximately $12.5 million in advanced back-office systems included in the AMS Surcharge Model represents the cost of the Company's back-office systems, including the meter data management system (MDMS) used to store the data collected from the advanced meters. Ms. Morris and Mr. Kessler provide more detail on that investment in their direct testimonies. The costs used as inputs in the model are based on the estimates for software, hardware, and both internal and external labor, adjusted with the company loads.

Q. PLEASE DISCUSS THE INVESTMENT REQUIRED TO DEVELOP THE COMPANY'S WEB PORTAL THAT IS INCLUDED IN THE TNMP'S AMS SURCHARGE MODEL.

A. The investment for the web portal of $0.7 million represents the estimated costs to develop and deploy a web portal that meets the required functionality of Commission SUBST. R. 25.130 and the additional functionality developed in Project No. 34610. O&M costs total $0.9 million to maintain the web portal. Mr. Kessler provides more detail on that investment in his direct testimony.

Q. WHAT O&M COSTS ARE INCLUDED IN THE TNMP'S AMS SURCHARGE MODEL?

A. O&M costs of approximately $73.7 million have been included in the AMS Surcharge Model. These costs represent an estimate of the total O&M costs TNMP will incur during the surcharge period to operate and maintain its AMS. In particular, these estimated costs cover such things as salaries and benefits for new personnel, security

audits, network cellular costs, software maintenance and upgrades, and web portal data hosting fees. Mr. Burke and Mr. Kessler provide the details on the O&M costs included in the TNMP's AMS Surcharge Model in their direct testimonies. Exhibit MDM-6 TNMP provides a summary of the O&M costs included in the AMS Surcharge Model.

Q. ARE THERE ANY COST SAVINGS INCLUDED IN TNMP'S AMS SURCHARGE MODEL?

A. Yes. O&M savings of approximately $21.5 million related to meter reading and technical support cost savings are estimated over the surcharge period and have been included in the AMS Surcharge Model. Mr. Burke provides more detail on the estimated cost savings included in the Company's AMS Surcharge Model in his direct testimony.

In addition, there will be some distribution operational savings that are not included in the model. These savings are based on the lower O&M costs associated with performing a move-in, move-out, and off-cycle meter read, disconnection for non-pays, and the associated reconnections. TNMP has not included these savings in the model, but TNMP proposes to share with all customers who pay the impacted discretionary fees the cost reductions to the underlying discretionary fee activities resulting from the AMS deployment. The discretionary fees were applied as an offset to TNMP's revenue requirement in the last rate case. TNMP proposes to update the discretionary services fees in the rate case, and/or on January 1 of each year after year one of deployment and concluding with a final update after all meters have been deployed in West Texas.

Q. ARE ANY SEVERANCE COSTS INCLUDED IN THE AMS SURCHARGE MODEL?

A. Yes. Estimated severance costs of approximately $0.6 million have been included in the AMS Surcharge Model. This amount represents the estimated costs of reducing meter reading staff. Mr. Burke provides more detail on the estimated severance costs included in the Company's AMS Surcharge Model in his direct testimony.

Q. ARE ANY COSTS ASSOCIATED WITH CUSTOMER EDUCATION INCLUDED IN THE AMS SURCHARGE MODEL?

A. Yes. The Surcharge Model includes customer education costs of $1.9 million. Mr. Whitehurst provides the detail on these estimated costs in his direct testimony.

Q. DID TNMP INCLUDE ANY COSTS ASSOCIATED WITH HOME AREA MONITORS FOR LOW-INCOME CUSTOMERS IN THEIR AMS SURCHARGE MODEL?

A. Yes. Costs for 13,000 low income home monitors costing $130 each are included in the AMS surcharge model. Mr. Whitehurst provides further detail on the low income customers in his direct testimony.

Q. ARE THERE ANY OTHER COSTS INCLUDED IN THE TNMP'S AMS SURCHARGE MODEL?

A. Yes. TNMP's surcharge model includes costs associated with property taxes, Texas gross margin tax, federal income taxes, depreciation expense, interest expense and a return on equity.

Q. PLEASE DESCRIBE THE TAXES INCLUDED IN THE SURCHARGE MODEL.

A. In order for TNMP to collect all reasonable costs associate with deploying AMS, TNMP has constructed the model to calculate the state and local taxes that are required. In addition, TNMP's surcharge model applies the gross-up tax rate to calculate federal income taxes.

Q. PLEASE DESCRIBE THE DEPRECIATION EXPENSE INCLUDED IN THE SURCHARGE MODEL.

Q. The depreciation expense is based on the depreciation of the assets and regulatory assets using the amortization periods for the different assets as discussed by Mr. Monroy. For depreciation related to meters and installation, deferred taxes go from a positive to negative from 2009 to 2010 and then back to a positive in 2011. This is due to a combination of the depreciation assumptions used for the pilot program meters installed in 2009, "Bonus" MACRS assumption used for assets put into service in 2009, and the fact that no meters are budgeted to be deployed in 2010. Pilot meters were placed in service in TNMP's books in December 2009. Book depreciation starts in 2010 and a full year of depreciation is used, not the half year method which is used for all other depreciation on this tab. Even though book depreciation starts in 2010 for the pilot program meters, tax depreciation was counted in 2009. Because these meters cleared in 2009, they qualify for "Bonus Depreciation" which means that, for tax purposes, over half of the meters are depreciated in the year they were put into service. These factors cause high tax depreciation and no book depreciation in 2009 (positive deferred taxes) and

high book depreciation with low tax depreciation (negative deferred taxes) in 2010. Because of the half year depreciation convention used, about 7% of the assets placed in service in 2011 are depreciated in 2011 for book purposes and 10% of assets are depreciated for tax purposes in 2011. This causes the book tax depreciation to be greater than the book depreciation for 2011. The value of the assets put into service in 2011 offset the 2011 depreciation being counted for assets put into service in 2009. The change in deferred taxes going from positive to negative in 2014 to 2015 and then back to positive in 2021 is a normal pattern due to the MACRS depreciation schedules being used, the half year convention used for book depreciation, and the fact that the depreciation for tax purposes takes place over a longer period of time than the book depreciation. Most tax depreciation occurs in the earlier years, causing tax depreciation to be higher than book depreciation and trails off in the later years causing book deprecation to be higher than tax depreciation until the book depreciation goes to zero with a few years of non zero MACRS depreciation in the final years.

Q. PLEASE DESCRIBE THE INTEREST EXPENSE AND THE RETURN ON EQUITY EXPENSE INCLUDED IN THE SURCHARGE MODEL.

A. The Stipulation in Docket No. 36025, TNMP's most recent rate case, Finding of Fact 23 states:

> TNMP's Weighted Average Cost of Capital (WACC) shall be 9.76% based upon a 9.43% Cost of Debt and a Return On Equity (ROE) of 10.25% with a 60/40 debt to equity capital structure. Until revised in TNMP's next general rate case, all PUCT proceedings or other filings at the PUCT requiring application of TNMP's Cost of Debt, WACC, or ROE will apply the foregoing WACC, Cost of Debt, and ROE.

TNMP included this information in determining the interest expense and return on equity.

VI. ASSUMPTIONS USED IN THE AMS SURCHARGE MODEL

Q. WHAT PERIOD OF TIME IS USED IN THE AMS SURCHARGES MODEL TO REPRESENT TNMP'S AMS DEPLOYMENT PERIOD?

A. TNMP's AMS Surcharge Model assumes a deployment period beginning January 2011 and continuing through the December 2015 as described by Mr. Burke in his direct testimony.

Q. WHAT IS THE PROPOSED AMS COST RECOVERY PERIOD?

A. The AMS cost recovery period is 12 years, beginning with the earlier of the 1st billing cycle following a final order, or November 1, 2010.

Q. WHICH CUSTOMERS ARE ASSIGNED THE COSTS ASSOCIATED WITH AMS DEPLOYMENT?

A. According to SUBST. R. 25.130(k)(1), the costs of providing AMS for a particular customer class are to be surcharged only to customers in that specific customer class. Therefore, the AMS revenue requirement is allocated to only those classes that are eligible to receive AMS services. Classes of customers that already have IDR meters, and customers within classes that are unmetered, have not been included in the development of the allocation factors used to allocate AMS costs and are therefore not allocated any costs associated with AMS.

Q. DID THE TNMP USE ANY ASSUMPTIONS CONCERNING ESCALATION RATES IN THE AMS SURCHARGE MODEL?

A. Yes. Recent inflation rate estimates have been estimated at 3% by TNMP. TNMP used an annual escalation rate of 3% for O&M costs and savings estimated to be incurred for the surcharge period that begins after the initial deployment is complete, January 2016 to December 2022. This escalation percentage is a reasonable escalation rate to use over the surcharge period.

Q. THE MCKINSEY MODEL INCLUDED OTHER CATEGORIES OF SAVINGS. WHAT ASSUMPTIONS DID TNMP MAKE WITH RESPECT TO THESE AREAS IN THE AMS SURCHARGE MODEL?

A. TNMP's Surcharge calculations did not include other categories of savings where the AMS program did not generate savings.

VII. AMS REVENUE REQUIREMENT AND ALLOCATION TO THE ELIGIBLE CUSTOMER CLASSES

Q. PLEASE DESCRIBE HOW THE LEVELIZED AMS REVENUE REQUIREMENT WAS DETERMINED.

A. The AMS levelized revenue requirement is based on TNMP's AMS Deployment Plan, described by Mr. Burke in his direct testimony. The levelized AMS revenue requirement I have calculated is based on the results of the Surcharge Model. The AMS revenue

requirement includes the estimated reasonable and necessary component costs for the AMS system, the costs of the AMS meter equipment, including the installation costs, back-office systems costs, additional O&M expenses and offset by any estimated operating cost savings for TNMP. In the model, the AMS revenue requirement was amortized and levelized over twelve years beginning with the revenue month of January 2011 and ending with the billing month of December 2022. My testimony describes the model and inputs to the model used to determine the total revenue requirement for AMS deployment for TNMP and the process for levelizing it.

Q. PLEASE DESCRIBE HOW THE LEVELIZED AMS REVENUE REQUIREMENT IS ALLOCATED TO THE ELIGIBLE CUSTOMER CLASSES.

A. The levelized AMS revenue requirement consists of two major components: (1) the projected installed costs of the AMS meters and (2) all other costs necessary to support the AMS meters. The installed costs of the AMS meters are allocated to the eligible customer classes based on each class' meter type composition and the installed costs of the AMS meter that will replace the current meter. The other costs necessary to support the AMS meters are allocated to all of the eligible classes based on the number of meters over the AMS cost recovery period associated with each AMS-eligible customer class.

Q. PLEASE DESCRIBE THE DEVELOPMENT OF THE AMS METER INVESTMENT ALLOCATOR.

A. The total meter investment for each class is based on the specific meter costs for each type of AMS meter replacing a current non-IDR meter and each class' composition of the meter types. The meter types and costs are identified in the testimony of Mr. Burke. After all the meter types are identified and counted for each class, total cost by class is calculated and directly assigned to the each class respectively. This allocation is shown in the Surcharge Model attached as Exhibit MDM-2.

Q. WHY IS THE PROPOSED ALLOCATION FACTOR APPROPRIATE?

A. The use of meter investment by class represents the measure of cost responsibility for the AMS meter deployment for each class. The total number of AMS meters for each class over the AMS cost recovery period represents the cost responsibility for the AMS infrastructure that will be used equally by all eligible customers receiving meter

equipment and services under AMS deployment. The class AMS revenue requirement is shown on the Surcharge Model.

Q. PLEASE DESCRIBE THE DEVELOPMENT OF THE ALLOCATOR FOR THE OTHER COSTS NECESSARY TO SUPPORT THE AMS METERS.

Because all AMS-eligible customers will be able to take advantage of the AMS infrastructure equally, the estimated total number of meters over the entire cost recovery period for each AMS-eligible rate class is used in the development of the allocator for the other costs necessary to support the AMS meters. A ratio of meters to be replaced for each AMS-eligible class to total meters to be replaced for all classes is calculated. These class ratios are then used to allocate the appropriate portion of costs to each rate class. The estimated number of total meters over the cost recovery period for each AMS class of customers is shown on the Surcharge Model.

Certain information technology costs are associated with complex billing of customers subject to power factor adjustments. These costs only apply to the secondary greater than 5 kW Non-IDR, and Primary Non-IDR rate classes. The costs associated with the complex billing of these rate classes were allocated to these two rate classes using a ratio of meters to be replaced for each class subject to complex billing costs to the two classes subject to complex billing.

Costs for low income home monitors were directly assigned to the residential rate class. Low income home monitors will only be distributed to members of the residential rate class.

Q. PLEASE DESCRIBE THE DETERMINATION OF THE AMS COST RECOVERY PERIOD BILLING UNITS USED IN THE DEVELOPMENT OF THE AMS COST RECOVERY FACTORS.

A. TNMP's load forecasting department provided growth rates for each rate class affected by the AMS surcharge for the projected AMS recovery period. These growth rates were applied to the most recent twelve months of customer count data for each eligible AMS customer class. The same growth factors that are used to determine meter count growth over the cost recovery period are used in the AMS model.

The customers included in each AMS-eligible rate class were determined based on customer rate code data in order to ensure that no IDR, unmetered or inactive customers were included in the determination of billing units.

VIII. RESULTS OF THE AMS SURCHARGE MODEL

Q. WHAT WERE THE RESULTS OF THE AMS SURCHARGE MODEL?

A. The TNMP AMS Surcharge Model produces a total levelized revenue requirement of approximately $158.0 million over the surcharge period.

Q. WHAT DID YOU DO WITH THOSE RESULTS?

A. The total revenue requirement calculated in the AMS Surcharge Model was used to calculate the surcharge for each of TNMP's rate classes.

Q. WHAT ARE THE RESULTS BY RATE CLASS?

A. The AMS Surcharge by rate class is the following:

Description	January 2011 through December 2015	January 2016 through December 2022
Residential Service	$4.80	$4.17
Secondary Service Less than or Equal to 5 kW Non-IDR	$5.00	$5.00
Secondary Service Greater than 5 kW Non-IDR	$16.70	$0.00
Primary Service	$20.13	$0.00
Metered Lighting	$11.04	$0.00

A. These Surcharge Rates were given to Mr. Whitehurst to include in TNMP's AMS rider.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

AFFIDAVIT

STATE OF TEXAS §
§
COUNTY OF DALLAS §

BEFORE ME, the undersigned authority, on this day personally appeared Michael D. Montgomery, who, upon proving his identity to me and by me being duly sworn, deposes and states the following:

"My name is Michael D. Montgomery. I am of legal age, a resident of the State of Texas, and have never been convicted of a felony. I certify that the foregoing testimony, offered by me on behalf of Texas-New Mexico Power Company, are true and correct and based upon my personal knowledge and experience."

Michael D. Montgomery

SWORN TO AND SUBSCRIBED before me, Notary Public, on this 21st day of May, 2010, to certify which witness my hand and seal of office.

SEAL:

PATRICIA J. SMITH
Notary Public
STATE OF TEXAS
My Comm. Exp. Dec. 27, 2010

NOTARY PUBLIC in and for the
State of Texas

My Commission expires 12/27/10

Exhibit MDM-1

MICHAEL D. MONTGOMERY Experience and Qualifications

Education Background and Business Experience

Michael Montgomery is a Regulatory Project Manager with PNMR Services Company a subsidiary of PNM Resources, Inc. Mr. Montgomery has extensive experience in the utility industry, specifically rates and regulatory affairs, energy efficiency, strategic planning, and business / operational improvement. Prior to joining PNMR Mr. Montgomery provided consulting services to the utility industry through ScottMadden, a general management consulting firm, served as an Operations Director with Grande Communications, a Texas-based communications company, and served in a variety of positions with Central and South West (CSW), an electric utility holding company formerly based in Dallas. Mr. Montgomery holds a B.S. in Electrical Engineering and is a registered Professional Engineer in Texas and Oklahoma.

As a Regulatory Project Manager at PNMR (2010-Present) Mr. Montgomery provides cost-of-service, rate design, and internal project management support to a variety of regulatory-based projects at PNM and TNMP.

While a Director at Scottmadden, Inc. (2005-2010) Mr. Montgomery managed a number of diverse projects with electric utility clients including:

- Leading the identification, development, and documentation of business processes, system integration, and organizational strategies required to successfully deploy AMS at a large electric utility (2 million+ meters)
- Refocusing and reorganizing the environmental services organization for a large utility in the southeast
- Directing the identification and execution of customer service work process changes needed to improve new customer connection practices at a large utility

While an Operations Director at Grande Communications (2000-2005) Mr. Montgomery helped establish and manage back office customer and business support functions in the Corpus Christi and Midland-Odessa business markets

While at Central and South West, Inc. (1978 – 2000) held a variety of executive, management, and regulatory positions including:

- Director, Strategic Planning (CSW) 1999 – 2000
- Managing Director, EnerShop (CSW subsidiary) 1995 – 1999
- Director, Corporate Ventures (CSW) 1993 – 1995
- Director, Information Technology (PSO) 1991 – 1993
- Director, Rates and Regulatory Affairs (CPL) 1989 – 1991
- Manager, Cost-of-Service (CSW Services) 1986 – 1989
- Manager, Cost-of-Service (PSO) 1981 – 1986
- Engineer, T & D Planning (PSO) 1978 – 1981

PROCEEDINGS IN WHICH MICHAEL D. MONTGOMERY FILED TESTIMONY:

JURISDICTION	DOCKET NO.	DESCRIPTION
Texas	9561	Central Power and Light Company – Request for inclusion of South Texas Project Unit 2 in rate base; provided customer class cost-of-service testimony
Texas	6668 / 8646	Central Power and Light Company – Request for inclusion of South Texas Project Unit 1 in rate base; provided customer class cost-of-service testimony
Oklahoma		Public Service Company of Oklahoma (PSO) – Provided expert testimony and served as an expert witness on cost-of-service related matters in general rate proceedings in the early 80's

RECENT ARTICLES AND SPEECHES:

AMI Deployment Impacts on Customer Service Work Practices, AMRA Fall 2007

Exhibit MDM - 2

TNMP AMS SURCHARGE

McKINSEY MODEL
ALLOCATION MODEL
AND WORKPAPERS

FILED AS HIGHLY SENSITIVE AND HIGHLY CONFIDENTIAL MATERIALS

TNMP AMS SURCHARGES

SUMMARY OF AMS REVENUE REQUIREMENT

($000 unless otherwise noted)

		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue Requirement																
O&M Benefits		$0	$0	($8)	($48)	($740)	($1,045)	($1,345)	($1,815)	($2,189)	($2,243)	($2,298)	($2,355)	($2,415)	($2,476)	($2,539)
O&M Expense		$0	$0	$770	$3,743	$5,267	$5,797	$6,047	$5,934	$6,102	$6,286	$6,474	$6,668	$6,868	$6,776	$6,979
Depreciation Expense		$0	$0	$818	$2,354	$4,859	$7,170	$8,876	$10,011	$10,034	$8,693	$7,263	$5,465	$3,778	$2,211	$817
Interest Expense		$7	$195	$332	$1,015	$1,678	$1,965	$2,064	$2,056	$1,553	$1,127	$770	$491	$280	$135	$57
Property Taxes		$0	$0	$50	$81	$253	$425	$503	$527	$516	$379	$260	$161	$88	$37	$9
Federal Income Taxes		$3	$76	$130	$396	$655	$767	$805	$802	$606	$440	$301	$192	$109	$53	$22
Return On Equity (On Ending Rate Base)		$5	$141	$241	$736	$1,216	$1,424	$1,496	$1,490	$1,126	$817	$558	$356	$203	$98	$41
Texas Gross Margin Tax		$0	$3	$17	$59	$94	$117	$131	$135	$126	$110	$95	$78	$63	$49	$38
Total Surcharge	$157,981	$14	$415	$2,349	$8,336	$13,283	$16,620	$18,577	$19,142	$17,874	$15,608	$13,423	$11,056	$8,975	$6,883	$5,425

* The total revenue requirement is calculated in TNMP's Surcharge Model

TNMP AMS SURCHARGE

SUMMARY OF AMS SURCHARGE PER TARIFF

Surcharge Nov 2011 - Oct 2022

Tariff Class	Total Revenues	Total Bills	Surcharge
Residential	$ 128,509,543	29,067,075	$4.42
SEC <= 5 KW NON-IDR	$ 11,144,782	2,229,920	$5.00
SEC > 5 KW NON-IDR	$ 17,359,259	2,513,570	$6.91
PRIMARY NON-IDR	$ 231,361	28,133	$8.22
LIGHTING-METERED	$ 419,364	91,152	$4.60
TOTAL	$ 157,664,309	33,929,851	$4.65

Surcharge Nov 2010 - Oct 2015

Tariff Class	Total Revenues	Total Bills	Surcharge
Residential	$ 56,134,674	11,698,670	$4.80
SEC <= 5 KW NON-IDR	$ 4,591,682	918,733	$5.00
SEC > 5 KW NON-IDR	$ 17,359,259	1,039,709	$16.70
PRIMARY NON-IDR	$ 231,361	11,492	$20.13
LIGHTING-METERED	$ 419,364	37,980	$11.04
TOTAL	$ 78,736,340	13,706,584	$5.74

Surcharge Nov 2015 - Oct 2022

Tariff Class	Total Revenues	Total Bills	Surcharge
Residential	$ 72,374,869	17,368,405	$4.17
SEC <= 5 KW NON-IDR	$ 6,553,100	1,311,187	$5.00
SEC > 5 KW NON-IDR			$0.00
PRIMARY NON-IDR			$0.00
LIGHTING-METERED			$0.00
TOTAL	$ 78,927,969	18,679,592	$4.23

* The total revenue requirement for each rate class is calculated in TNMP's Surcharge Model

TNMP AMS SURCHARGE

SUMMARY OF AMS BILL FREQUENCIES

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
AMS CLASS	Bills Per Year*													
RS	379,237	2,298,103	2,320,781	2,343,452	2,366,138	2,389,150	2,412,494	2,436,174	2,460,195	2,484,562	2,509,279	2,534,353	2,133,156	29,067,075
SEC <= 5 KW NON-IDR	30,348	182,675	183,258	183,846	184,428	185,015	185,606	186,201	186,801	187,404	188,012	188,625	157,701	2,229,920
SEC > 5 KW NON-IDR	34,454	207,156	207,584	208,013	208,441	208,872	209,305	209,741	210,179	210,620	211,063	211,509	176,631	2,513,570
PRIMARY NON-IDR	378	2,273	2,289	2,301	2,313	2,326	2,339	2,352	2,365	2,379	2,393	2,407	2,018	28,133
LIGHTING-METERED	1,266	7,596	7,596	7,596	7,596	7,596	7,596	7,596	7,596	7,596	7,596	7,596	6,330	91,152
TOTAL	445,683	2,697,803	2,721,508	2,745,207	2,768,917	2,792,960	2,817,341	2,842,065	2,867,137	2,892,561	2,918,344	2,944,490	2,475,836	33,929,851

* These numbers represent the number of active meters per rate class per year Source is the general assumptions tab of TNMP's filed McKinsey Model

Exhibit MDM - 6

TNMP AMS SURCHARGE
SUMMARY OF COSTS AND SAVINGS

($000 unless otherwise noted)

Cost/Savings*		Amount Included in AMS Surcharge	Cost Type
AMS Capital Costs	$	72,349	Capital
Advanced Meter Investment	$	58,083	Capital
Pilot Program Meter Investment	$	3,618	Capital
Back Office / IT Investment	$	12,458	Capital
Web Portal Investment	$	700	Capital
Web Portal Data Hosting	$	900	O&M
Web Portal Total	$	1,600	
O&M Costs	$	73,713	O&M
O&M Savings	$	(21,515)	O&M
Severance Costs	$	634	Reg Asset
Customer Education Costs	$	1,952	O&M
Low Income Home Area Monitors	$	1,690	O&M

* Data source: TNMP's AMS Surcharge Model

PUC DOCKET NO. _____

BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

TEXAS-NEW MEXICO POWER COMPANY
REQUEST FOR APPROVAL
OF AN ADVANCE METERING SYSTEM (AMS)
DEPLOYMENT AND AMS SURCHARGE

PREPARED DIRECT TESTIMONY AND EXHIBITS
OF
HENRY E. MONROY

ON BEHALF OF
TEXAS-NEW MEXICO POWER COMPANY

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PLACE OF EMPLOYMENT.

A. My name is Henry E. Monroy. I serve as Director, Utility Accounting at PNMR Services Company ("PNMR Services"), a wholly owned subsidiary of PNM Resources, Inc. ("PNM Resources"). My business address is 414 Silver, Alvarado Square, Albuquerque, NM 87158.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of Texas-New Mexico Power Company ("TNMP" or "Company").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. Exhibit HEM-1 describes my background and experience.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS?

A. No.

Q. WHAT ARE THE PRIMARY RESPONSIBILITIES OF YOUR CURRENT POSITION?

A. As Director, Utility Accounting, I am responsible for the oversight and management of the accounting departments at TNMP and Public Service Company of New Mexico ("PNM"). In this role, I report directly to the Vice President Corporate Controller.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is as follows: 1) provide an overview of the accounting assumptions included in the AMS surcharge, 2) discuss the required tracking of AMS related revenues and expenses, 3) discuss the need for creation of regulatory assets and liabilities related to the recovery of the AMS deployment.

II. ACCOUNTING ASSUMPTIONS

Q. ARE THERE ANY COSTS IN THE AMS SURCHARGE MODELS FOR METERS THAT WILL BE INSTALLED AFTER THE PROJECTED DEPLOYMENT PERIOD?

A. No. The costs included in the AMS surcharge model only include the cost of the initial pilot program and the requested deployment of meters over a five-year period through

2015. AMS meters installed after the proposed deployment period will be recovered through base rates as determined in TNMP's general rate cases.

Q. PLEASE DESCRIBE THE PROPOSED DEPRECIATION AND AMORTIZATION ("DEPRECIATION") MODEL ASSUMPTIONS FOR AMS METERING DEVICES, INFRASTRUCTURE AND COMPUTERIZED BUSINESS SYSTEMS USED IN THE AMS SURCHARGE MODELS.

A. TNMP is requesting a depreciation period of 7 years for AMS meters and related infrastructure costs. TNMP is requesting a depreciation period of 5 years for Information Technology and software assets that provide support for the AMS project.

Q. WHEN WILL THE AMS METERING DEVICES AND INFRASTRUCTURE BEGIN DEPRECIATING?

A. Depreciation on the AMS metering devices and related capital infrastructure investments will begin in the month following the determination that the asset is used and useful and is placed into plant in service. TNMP has already started depreciation of its pilot program AMS assets prior to establishment of an AMS surcharge collection. As such, TNMP requests the Commission to allow the Company to defer, as a regulatory asset, the depreciation expense on the pilot program assets to match the expense with the collection and recognition of the AMS surcharge revenues as requested in this filing.

III. COST LOADINGS ASSUMPTIONS

Q. PLEASE PROVIDE AN OVERVIEW OF THE COST LOADING ASSUMPTIONS THAT HAVE BEEN PROVIDED FOR INPUT INTO THE AMS COST ESTIMATES USED IN TNMP' AMS SURCHARGE MODELS.

A. TNMP's AMS Surcharge model includes cost loading assumptions applied to capital as well as operating and maintenance ("O&M") costs. The types of loads included are administrative and general loads, purchasing loads as well as labor loads.

Q. PLEASE DESCRIBE THE ADMINISTRATIVE AND GENERAL ("A&G") LOAD USED IN TNMP'S AMS SURCHARGE MODEL.

A. The administrative and general load rate of 2.85% applied to capital costs is used to allocate the expenses of A&G personnel that cannot be readily assignable to the particular capital project, yet support the capital project through the work they perform. The rate has been applied to hardware, software, outside services, and other

miscellaneous expenses such as travel, which are capitalized in the TNMP AMS Surcharge Model.

Q. PLEASE DESCRIBE THE PURCHASING LOAD USED IN TNMP'S AMS SURCHARGE MODEL.

A. The purchasing load is used to allocate the costs of contracting for the goods and services needed to complete a project. These Supply Chain services are billed to projects via the purchasing load. This load, at a rate of .55%, has been applied to both capital and O&M costs in the TNMP AMS Surcharge model to hardware, software, outside services, and other miscellaneous expenses such as travel.

Q. WHAT ARE THE LABOR LOADINGS APPLIED TO AMS-RELATED EMPLOYEE LABOR FOR ESTIMATING BENEFIT COSTS AND PAYROLL TAXES (I.E. FRINGE LOADINGS)?

A. The labor loads applied to AMS related employee labor include loads for time off allowances, employer payroll taxes, pension and benefits, and injuries and damages. Time off allowance loads recognize additional overhead for vacation, illness, and holiday time and are applied as a percentage of straight time labor. For TNMP, the time off allowance rate is 17.36% and for PNMR Shared Services the rate is 14.39%. Employer payroll taxes are applied to straight time labor at 7.31% for TNMP and 7.43% for PNMR Shared Services. Pension and benefits loads recognize the expense related to providing pension and medical benefits to employees and are included in the model at 26.43% for TNMP and 16.55% for PNMR Shared Services. Injuries and Damages loads recognize the expense related to workers compensation premiums and are included in the model at 10.28% for TNMP and .81% for PNMR Shared Services. These labor loads are included in TNMP's AMS Surcharge model on internal labor used for the software development and deployment as well as the cost savings related to internal labor.

IV. OVERVIEW OF AMS COST TRACKING REQUIREMENTS

Q. WILL IT BE NECESSARY FOR TNMP TO SEPARATELY RECORD AND TRACK COSTS RELATED TO AMS DEPLOYMENT?

A. Yes. TNMP will segregate all costs associated with the AMS deployment, including capital expenditures, depreciation, property taxes, internal labor, and all applicable

loads. The tracking of these costs separately will facilitate the reconciliation between the collected AMS surcharge revenues and actual costs.

Q. HOW DOES THE COMPANY PROPOSE TO REPORT AMS THROUGH THE ANNUAL EARNINGS MONITORING REPORTS FILED WITH THE COMMISSION?

A. TNMP will include on its Annual Earnings Monitoring Report a reconciliation between AMS related revenues and expenses and all other operating information related to items recovered in TNMP's base rates.

V. EXCLUSION OF AMS REVENUES AND COSTS FROM OTHER T&D BASE RATE REVENUES AND COSTS

Q. HOW CAN THE COMMISSION BE ASSURED THAT TNMP WILL NOT RECOVER AMS DIRECT AND INDIRECT COSTS THROUGH THE AMS SURCHARGE REVENUES AND ALSO IN T&D BASE RATE REVENUES?

A. As discussed above, TNMP intends to segregate all AMS revenues and costs within its internal general ledger system. This will allow for the appropriate segregation between amounts collected through the AMS surcharge revenue and amounts recovered through TNMP base rate proceedings. This additional level of information reported will allow the Commission to validate that TNMP is not double recovering any of the costs sought under the AMS surcharge and will be necessary to facilitate the annual reconciliation of AMS surcharge revenues and expenses.

Q. SHOULD THE COSTS INCLUDABLE IN THE AMS REVENUE REQUIREMENT CONSIST ONLY OF DIRECT COSTS FOR THE DEPLOYMENT AND OPERATIONS OF THE AMS METERING DEVICES, INFRASTRUCTURE, COMPUTERIZED BUSINESS SYSTEM APPLICATIONS, AND HARDWARE?

A. Yes. Only the direct capital and installation costs and any associated overheads, as well as projected incremental O&M costs, depreciation, and taxes incurred directly in connection with the AMS pilot program and the AMS deployment plan is included in the AMS surcharge request.

Q. DOES TNMP HAVE ANY HISTORIC AMS-RELATED INVESTMENT INCLUDED IN THIS FILING?

A. Yes. As discussed in the testimony of Mr. Burke, TNMP has implemented a pilot program of approximately 10,000 AMS meters prior to the submittal of the AMS

deployment plan. TNMP has included the cost of these meters, including the associated depreciation and taxes in its calculation of the AMS surcharge. As discussed by Mr. Whitehurst, TNMP has incurred costs associated with the AMS initiative including travel expenses and outside service costs paid for development and implementation of an AMS solution, including outside services aided in TNMP's request for federal funding related to its AMS deployment. These costs are currently being deferred in a deferred debit account. These amounts have been reflected in the AMS model in rate base as regulatory assets.

VI. ACCOUNTING FOR AMS RATE BASE

Q. PLEASE DEFINE THE AMS RATE BASE THAT HAS BEEN ESTIMATED AND INCLUDED IN TNMP' SURCHARGE REQUESTS IN THIS CASE.

A. The AMS Rate Base consists of Electric Plant in Service, less Accumulated Depreciation, associated Accumulated Deferred Income Taxes and certain Regulatory Assets.

Q. PLEASE DEFINE "ELECTRIC PLANT IN SERVICE" AS USED IN THIS CASE.

A. Electric plant in service reflects the capital dollars recorded pursuant to the FERC Chart of Accounts, and reflects the capital costs incurred for the AMS meters, software, and infrastructure.

Q. HOW WILL TNMP TRACK THE AMS PLANT ASSETS AND RELATED INFRASTRUCTURE?

A. TNMP will maintain the investment in AMS metering assets and related back-office infrastructure through PNMR plant accounting system; this system will allow the Commission to fully review these costs. PNMR plant accounting system provides tracking through appropriate FERC accounts, sub-accounts, property unit numbers, and project tracking as necessary. This tracking will provide for the reporting of the book value of AMS metering assets and related infrastructure.

VII. ACCOUNTING FOR REGULATORY ASSETS AND LIABILITIES

Q. WHAT GIVES RISE TO REGULATORY ASSETS AND LIABILITIES?

A. Pursuant to Accounting Standards Codification Topic 980 Regulated Operations, rate actions of a regulator can allow a Company to defer or capitalize the recognition of

certain costs (regulatory assets) or certain obligations (regulatory liabilities) until such time that these deferred costs or obligations are matched up with revenues authorized by a regulatory body.

Q. PLEASE DESCRIBE THE REGULATORY ASSETS THAT ARE INCLUDED IN THE AMS SURCHARGE MODELS.

A. TNMP has incurred certain costs in the preparation and development of its AMS deployment plan and surcharge filing. These costs include travel related expenses, as well as fees paid to outsider services for development of the business models, and all such costs have been reflected in the AMS model. In addition, TNMP anticipates incurring legal and rate case expenses in this filing that have been included in the AMS surcharge filing. As discussed in Mr. Burke testimony, TNMP anticipates incurring severance costs as a result of O&M savings from the implementation of the AMS surcharge costs. In the McKinsey model, TNMP has deferred these costs and established these as regulatory assets. The intent of these deferrals is to levelize the costs incurred in the AMS deployment over the period of time the AMS revenues are collected. TNMP is seeking Commission approval for the establishment and recovery of these regulatory assets.

Q. WILL A REGULATORY ASSET OR REGULATORY LIABILITY BE CREATED TO ACCOUNT FOR TEMPORARY DIFFERENCES BETWEEN LEVELIZED AMS SURCHARGE REVENUES AND ACTUAL AMS COSTS INCURRED AND THE EFFECT ON ACTUAL RETURN ON INVESTED CAPITAL?

A. Yes. Due to the levelized approach requested in this filing, TNMP will defer the difference between the monthly collected AMS surcharge revenues and the actual incurred AMS costs, net of O&M calculated savings plus allowed return as a regulatory asset or regulatory liability on the accounting records of TNMP. This deferral reflects the timing difference between costs incurred to deploy the AMS meters and the levelized revenue stream set to recover these costs and is intended to be at zero at the end of the AMS surcharge period. This regulatory asset or liability represents the over or under recoveries of AMS costs compared to the revenues collected. Carrying charges at TNMP's weighted average cost of capital will be applied to either regulatory asset or liability. TNMP is seeking Commission approval for the establishment of this regulatory asset or liability.

Q. WILL A CARRYING CHARGE BE CALCULATED ON THE REQUESTED REGULATORY ASSET OR LIABILITY RELATED TO THE TIMING OF COLLECTION OF AMS REVENUES AND AMS COSTS?

A. Yes. TNMP will record carrying costs on the regulatory asset or liability based on the Company's pre-tax cost of capital and recognize a corresponding interest income or interest expense.

VIII. ACCOUNTING FOR AMS REVENUES AND EXPENSES

Q. HOW DOES TNMP PROPOSE TO ACCOUNT FOR THE RECOVERY OF AMS-RELATED INVESTMENT AND COSTS OVER THE LIFE OF THE AMS SURCHARGE?

A. As discussed above, TNMP will establish internal accounting structures to segregate and report on AMS related revenues and expenses. This includes the calculation and deferral on a monthly basis the difference between the collected AMS revenues and actual incurred AMS costs, net of O&M savings plus allowed return to a regulatory asset or liability. These costs will be deferred and amortized over the AMS surcharge period, with the intent of the regulatory asset or liability to be at zero at the end of the period.

Q. HOW WILL TNMP TRACK AND RECORD AMS SURCHARGE REVENUES?

A. As discussed by Mr. Michael Montgomery, TNMP is requesting the establishment of a new tariff to establish the AMS surcharge collections. The customer billing system employed by TNMP will track separately these AMS surcharge revenues and allow for segregation and reporting of collected AMS surcharge revenues.

Q. HOW WILL TNMP RECORD AND TRACK AMS SURCHARGE OPERATING COSTS?

A. TNMP intends to record AMS related operating costs, (depreciation, property taxes, etc.) to the appropriate FERC accounts. The AMS related operating costs will be assigned a specific internal tracking AMS project number to ensure the specific identification, tracking and reporting of AMS costs. The identification of these costs is critical to the calculation for the deferral or recognition of costs related to collection of AMS revenues as well as necessary to meet the AMS reconciliation and reporting requirements.

Q. HOW WILL O&M AND OTHER SAVINGS BE TRACKED OVER THE LIFE OF THE SURCHARGE?

A. As discussed by Mr. Burke, TNMP meter reading costs will gradually be reduced over the deployment period. As a normal course of business, TNMP will still record costs

associated with meter reading in the appropriate FERC accounts through the AMS surcharge period. Mr. Burke has identified the meter reading costs as of December 31, 2009. This comparison of meter reading costs for each surcharge year against year ending December 31, 2009 will measure meter reading cost reductions or cost savings realized through the deployment of AMS. The cost savings will be the difference between the current annual manual meter reading costs and the annual manual meter reading costs for year ending December 31, 2009.

Similarly for Business Technology expense savings, these savings will be identifiable when the software licensing agreements are cancelled, and TNMP is no longer being charged for items like LodeStar, MV90XI.

If, during the course of a rate case, these costs are removed from base rates, then an additional reconciliation on O&M and other savings will need to be performed.

Q. HOW WILL TNMP CALCULATE DEPRECIATION AND AMORTIZATION ON AMS ASSETS?

A. As discussed above, TNMP is requesting to depreciate the AMS meters and infrastructure over a 7 year period. TNMP is requesting to depreciate the software capital costs over a 5 year period. The requested regulatory asset for previously incurred costs related to the development of the AMS deployment plan and the pilot program are to be amortized over the 12 year surcharge period.

IX. ACCOUNTING FOR EXISTING METERS

Q. WHAT WILL HAPPEN TO EXISTING METERS?

A. As discussed by Mr. Burke, TNMP has a salvage agreement for the existing meters. TNMP will retire all of the existing meters. As a consequence of the AMS deployment plan, TNMP will have meters that are not fully depreciated.

Q. DOES ANY PUCT SUBSTANTIVE RULE ADDRESS RECOVERY OF NON-AMS METERS THAT ARE NOT FULLY DEPRECIATED?

A. Yes. Substantive Rule 25.130(k)(4) addresses the recovery of non-AMS meters that are not fully depreciated. Specifically, it permits a utility to have "reasonable recovery of any non-AMS metering equipment that has not been fully depreciated but has been replaced by the equipment installed under an approved Deployment plan." As discussed by Mr.

Whitehurst, TNMP seeks to accelerate the depreciation of these meters in the next rate case filed after the filing of this proceeding.

Q. HOW IS TNMP CURRENTLY RECOVERING COSTS RELATED TO NON-AMS METERING EQUIPMENT?

A. TNMP is currently recovering its costs related to non-AMS metering equipment through its base rates. The net book value of the metering equipment is included in rate base for which TNMP is earning a rate of return. In addition, TNMP is recovering the associated depreciation expense and property taxes associated with the non-AMS metering equipment in its base rates.

Q. HOW DOES TNMP PROPOSE TO RECOVER COSTS RELATED TO NON-AMS METERING EQUIPMENT THAT IS NOT FULLY DEPRECIATED AFTER THESE NON-AMS METERS ARE RETIRED?

A. TNMP is requesting to recover the non-AMS meters that are retired as a result of the AMS deployment plan as follows: 1) as non-AMS meters are retired as a result of the AMS deployment, transfer the net book value of the retired AMS meters into a regulatory asset account, 2) receive a rate of return on this regulatory asset, similar to the rate of return currently recognized on the net plant in service values, 3) amortize the regulatory asset account until the balance is equal to zero. TNMP intends to include this regulatory asset as well as the associated amortization expense of the regulatory asset in its base rates and will seek recovery for these costs in its general base rate requests.

X. CONCLUSION

Q. CAN YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. TNMP has outlined the appropriate accounting requirements to meet the tracking, recording, reporting, and reconciliation of AMS related revenues and expenses to meet the requirements of the PUCT. In addition, TNMP has requested Commission approval to establish certain regulatory assets and liabilities which allows TNMP to match the incurred costs, net of O&M savings and allowed rate of return to levelized AMS surcharge revenues. In addition, TNMP has outlined the requested recovery for existing non-AMS metering equipment as well as associated carrying costs on its requested AMS related regulatory assets and liabilities through its upcoming general base rate increase request.

Q. IS THIS THE CONCLUSION OF YOUR TESTIMONY?

A. Yes.

AFFIDAVIT

STATE OF NEW MEXICO §
§
COUNTY OF BERNALILLO §

BEFORE ME, the undersigned authority, on this day personally appeared Henry E. Monroy, who, upon proving his identity to me and by me being duly sworn, deposes and states the following:

"My name is Henry E. Monroy. I am of legal age, a resident of the State of New Mexico, and have never been convicted of a felony. I certify that the foregoing testimony, offered by me on behalf of Texas-New Mexico Power Company, are true and correct and based upon my personal knowledge and experience."

Henry E. Monroy

SWORN TO AND SUBSCRIBED before me, Notary Public, on this 21 day of May, 2010, to certify which witness my hand and seal of office.

SEAL:

Jacqueline L. Candelaria
NOTARY PUBLIC in and for the
State of New Mexico

My Commission expires 4-16-2013

HENRY E. MONROY
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Henry E. Monroy

Address: PNM Resource Inc.
Alvarado Square
Albuquerque, NM 87158

Position: Director, Utility Accounting

Education: Bachelor of Accountancy, New Mexico State University, 2001

Employment: Employed by Public Service Company of New Mexico since 2003.
Positions held within the Company include:

Director, Utility Accounting
Manager, Cost of Service
Senior Manager, Derivative Accounting
Manager, Energy Analysis and Accounting
Project Manager
Senior Accountant

Testimony Filed:

- In the matter of the application of Public Service Company of New Mexico for revision of its retail electric rates pursuant to advice Notice No. 352. – NMPRC – Case No. 08-00273-UT, Filed September 2008.