New Mexico Utility Shareholders Alliance

# SHAREHOLDER News

Third Quarter 2007 Circulation 9000



## INSIDE



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## *Attorney General Gary King Addresses NMUSA Members and Guests in Las Cruces, NM.*

**Story on page 3**

### *The Role Of The New Mexico Public Regulation Commission:*

## REGULATOR OR UTILITY MANAGER?

On August 7, 2007, the New Mexico Public Regulation Commission (PRC) issued an Order amending its rule governing renewable energy for electric utilities. While the Notice of Proposed Rulemaking states that the purpose of the rulemaking is to implement the increased renewable requirements contained in Senate Bill 418, which passed the New Mexico Legislature this spring, amending the Renewable Energy Act (REA), the Commission's rule goes beyond the requirements passed by the Legislature and mandates specific renewable generation. Among other things, the rule requires that "…no less than twenty percent of the renewable portfolio standard is met using wind energy; no less than twenty percent is met using solar energy…etc." According to the rule, this requirement must be met "no later than January 1, 2011" and addressed every year thereafter.

**Continued on page 6, see *REGULATOR***

*Annual Membership Meeting*

**October 3, 2007**

**"Nuclear Power in the 21st Century"**

**For more information, see page 11
and watch for your invitation in the mail.**

**Bob Reed**

## From the President . . .

On July 2, 2007, I attended a meeting of PNM customers, government officials, representatives of Sandia Laboratories and interested members of the general public at PNM's Alvarado Square Conference Center. The meeting was the first in a series to explore *Integrated Resource Planning for the next 20 years.

Following introductory remarks by PNM CEO Pat Vincent, individuals were invited to propose significant elements which could impact resource planning, i.e. shareholder interests. This phase was conducted by Dan Violette of Summit Blue Consulting, an independent agency under contract to PNM. My sense is that Mr. Violette and his staff will pull these inputs into an organized approach for presentation at the next meeting.

PNM representatives then described several facets of company operation, including power generation, fuels mix and transmission. Current renewable energy effort was described and included present wind, photovoltaic (solar) systems and biomass investigations. The meeting ended with a PNM presentation of energy conservation planning. NMUSA will continue to follow these activities and monitor the potential impact on shareholder interests.

** Ref. Title 17, Chapter 7, Part 3, entitled Integrated Resource Plans for Electric Utilities, issued by the New Mexico Public Regulation Commission.*

Bob

## Sarah Cottrell
## New Mexico's Energy and Environmental Policy Advisor

The 2007 legislative session ended over four months ago, and even though the Roundhouse is quieter, action on Governor Richardson's environmental and energy agenda has not slowed down. The 2007 session was successful in terms of new clean energy bills signed into law. As a result of the session, we are setting up the Renewable Energy Transmission Authority, helping people apply for new and expanded tax credits for renewable energy production and sustainable buildings, and crafting policy on biodiesel. I am responsible for advising Governor Richardson on issues including clean energy legislation, climate policy, and environmental issues like endangered species and river ecosystem restoration. Governor Richardson is active in regional forums like the Western Governors Association and national groups like the National Governors Association (he serves on the Natural Resources Committee). I also advise him on issues and participate in committees related to these groups.

A priority project this summer is the Western Regional Climate Action Initiative – a bipartisan partnership launched in February 2007 by Governors Richardson (NM), Schwarzenegger (CA), Napolitano (AZ), Kulongoski (OR), and Gregoire (WA). The governors signed an agreement directing their respective states to develop a regional target for reducing greenhouse gases by August 2007. The partners will devise a market-based program to reach these targets by August 2008. The partner states also have agreed to participate in a multi-state registry to track and manage greenhouse gas emissions in their region and to implement clean tailpipe standards for new vehicles. Since February, the state of Utah and the Canadian provinces of British Columbia and Manitoba have joined as full partners.

A number of other energy and environment initiatives are under way this summer. For example, the Governor established an Energy Innovation Fund with a $2 million appropriation from the legislature. This year funding was awarded to innovative biofuel and advanced solar projects. Last month the Governor announced $3.5 million worth of projects to protect agricultural land and open space, enhance wildlife resources, and promote clean energy development in the state. The Construction Industries Division is updating building codes and considering a slate of new "green building" codes. We have tremendous momentum on energy and environmental policy and no intention of slowing down.

*Sarah Cottrell serves as the Energy & Environmental Policy Advisor to New Mexico Governor Bill Richardson. She received a Master of Public Affairs from Princeton University and graduated magna cum laude with Honors in Political Science from Davidson College.*

## Attorney General King Addresses NMUSA Members in Las Cruces, NM

The New Mexico State Attorney General Gary King was the Key Note speaker for the NMUSA Community Luncheon held at the Hotel Encanto de Las Cruces on Friday, August 3, 2007. The topic of his address was, "The Attorney General's Role in the Regulation of Gas and Electric Utility Companies." Mr. King was well-versed on issues of interest to shareholders and open to considering all sides of issues being considered. He spoke favorably of the working relationship with Carla J. Sonntag, Executive Director of NMUSA. Ms. Sonntag has frequent communication with Mr. King and his Assistant AG, Jeff Taylor. Mr. Taylor is primarily responsible for working on gas and electric utility issues including rate cases.

Mr. King spoke about Section 8-5-17 of the New Mexico statutes that states the Attorney General is mandated to "… represent residential and small business consumers in matters before the public regulation commission. . ."

The AG's role in utility regulation is unique not only because it is statutorily mandated, but because the focus is placed specifically on the interests of residential and small business customers. These utility customers pay the vast majority of utility rates, often exceeding 90% of a company's revenue requirement. But the Attorney General acknowledged that his office needs to be sensitive to the business climate and interests of utility companies as well as the potentially conflicting interests.

Mr. King addressed the challenge of determining fair utility rates, recognizing that rates must be affordable while not creating an unfair burden on shareholder investors or the utility company providing the service. He talked about the tiered rates being proposed by PNM in their recently filed electric rate case. He said tiered rates may help promote conservation because, if adopted, ratepayers will pay more per kWh of electricity when they exceed what is predetermined to be the average residential usage per month.

Speaking of the challenges in his office, Mr. King stated, "With new laws relating to efficiency and renewable portfolio standards, as well as the need to conduct new generation to meet growing demand, it is becoming difficult to keep up with the caseload, given the limited resources of my office." Commenting on this statement, Ms. Sonntag talked about the NMUSA's role in stopping the Citizen Utility Review Board (CURB) legislation a couple of years ago. "This legislation, if passed, would have established another taxpayer-funded entity to represent consumers," she said. "NMUSA supports properly funding the AG's office and will continue to oppose funding of a competing entity that would duplicate the efforts of the AG's office and increase the burden on taxpayers."

Ms. Sonntag also discussed the value of membership in the NMUSA and highlighted its current initiatives: 1. Repeal of the coal Severance Tax Surtax; 2. Opposition to socialized utility rates; and 3. Participation in gas and electric utility rate cases. At the federal level, NMUSA is in support of LIHEAP funding as well as making the dividend and capital gains tax rate cuts permanent.

The meeting was a success and well attended by NMUSA members. In addition to our members, we were pleased to have the following in attendance: District Judge Douglas Driggers, State Representatives Gloria Vaughn, Andy Nunez and Nate Cote, State Senator Lee Rawson, and Donna McClennahan and Grant Olson from U.S. Congressman Steve Pearce's office.

## The Power Source Challenge

On July 1, 2007, the provisions of Senate Bill 418, the Renewable Energy Portfolio Standards Act (REA) became law. These provisions updated the original REA to impose new requirements which challenge electric utilities operating in New Mexico to produce a percentage of total delivered power from renewable sources as follows:

| By Year | Percentage of Renewable Power |
|---|---|
| 2011 | 10 |
| 2015 | 15 |
| 2020 | 20 |

There is a mitigating proviso, however, which allows each utility to evaluate the cost of a renewable source and reject it if that cost exceeds one percent (1%) of the customer's annual electric charges or $49,000, which ever is less. But the rate increases by one-fifth percent (0.2%) annually, reaching the lesser of a maximum of two percent (2%) of a customer's annual electric charges or $99,000 by the year 2011.

As shareholders, we need to appreciate the ramifications of this challenge. From the utility standpoint, most of the sources of renewable power do not satisfy the definition of "dispatchable" power, which is power available on a continuous basis. Being human, we sometimes forget that we use electric power continuously, day and night. Heating or cooling our home, for example, requires constant and reliable power.

Proponents of renewable power sources tend to view solar (photo-voltaic) and wind as providers of "substantial" percentages of total power, when, as a matter of fact, only nuclear, bio-mass and hydro can provide "dispatchable" power. That's why the integration of renewables in the total power picture poses a unique problem. But, even with this restriction, the Public Regulation Commission is requiring each utility to devote a specified percentage of its renewable effort to certain modes of renewable energy! And this is not to say that the development of renewables is undesirable, but only to point out that meeting the statutory requirements will undoubtedly require some reduction in the 'up front' cost of renewables plus the development in energy storage to satisfy the dispatchable power requirement.

## Update on: Dividend and Capital Gains Tax Cuts

The tax rate cuts on dividend income and capital gains enacted four years ago as part of President Bush's economic stimulus package are set to expire in 2010. Although that may seem a long way off, the American Gas Association (AGA) is starting now to lay the foundation for an all-out advocacy effort to keep those tax cuts in place—permanently, it hopes. The association's position is that the lower tax rates not only benefit utility shareholders but also make natural gas utilities, which have a long history of paying dividends, more attractive investments and improve their access to capital for the expansion projects necessary to meet the growing demand for natural gas.

Historically, income earned from stock dividends has been taxed at the same rate as an individual's ordinary income. Under the temporary tax relief package, the tax rate on dividend income was lowered from a high of 38.6 percent to 15 percent for people in the top four income tax brackets. At the same time, the tax rate on capital gains was reduced from 20 percent to 15 percent.

Compared with the original dividend income tax rates, the 15 percent rate drops the federal tax bite by an estimated $773 million annually for investors holding natural gas and combination gas-electricity distribution company stocks, according to AGA data. The calculation is based on an average of $5.94 billion in annual dividend payments from 2003 through 2005. At a tax rate of 28 percent, shareholders would pay $1.66 billion on that dividend income, but only $891 million at the 15 percent rate.

If the dividend income tax rate cut expires, shareholders won't be the only ones affected. Utilities and their customers will feel the impact as well because utility infrastructure expansion projects ultimately are funded through customer rates. These projects are financed by utilities with a combination of debt and equity capital. With support from their regulators, utilities attempt to reach an optimal mix of these sources of capital. Improved stock values, whether arising from the dividend tax rate cut or other factors, help to reduce the cost of capital to utilities, which also benefits their customers.

"The lowering of the dividend income tax rate has helped utilities attract investors and has assisted energy companies in attracting the capital for needed expenditures," says AGA Finance Committee Chairman David Dzuricky, Senior Vice President and Chief Financial Officer at Piedmont Natural Gas Co.

Dzuricky also notes that the 15 percent dividend income tax rate is the same as the tax rate on capital gains. "This levels the playing field in that an investor is no worse off getting some of his or her capital back as a dividend rather than through stock price appreciation."

Although AGA's current strategy is to champion making the tax rate cuts permanent, political realities may force the association to push for another extension of the tax rate cut expiration date instead. "This obviously is not as good as a permanent tax cut," says Rick Shelby, AGA Executive Vice President of Public Affairs. "An extension doesn't afford the same degree of certainty as a permanent tax reduction does for utility shareholders and members of the investment community, all of whom always are looking for certainty upon which to base long-term investment decisions."

*This is an edited version of an article originally printed in American Gas magazine.* 

## Edison Electric Institute Also Supports the Tax Rate Cuts

Tom Kuhn, President of Edison Electric Institute (EEI) said, "The lower federal rate on dividends and capital gains has been a boon for the U.S. economy, helping to generate almost eight million new jobs, fuel a 40-percent surge in the stock market value and nearly triple U.S. economic growth.

Significantly, much of the economic benefit has gone to seniors and middle-income families. In 2005, a total of $112 billion in dividend income qualified for the lower tax rate; one in five American families received dividends and 70 percent of those families had household incomes under $100,000.

In 2004, more than 24 million American families realized an average $950 tax cut on their federal income tax returns from the dividend and capital gains provisions," Kuhn said.

Seven million of those families were headed by senior citizens, who realized an average tax cut of $1,231. The 2003 tax law change also ignited a resurgence of business investment, which has grown by 6.6 percent annually following nine quarters of declines before the new rate went into effect. "This is particularly crucial for capital-intensive industries such as electric utilities, which are now entering one of the biggest infrastructure investment cycles in several decades," Kuhn said. "The lowered dividend rate has bolstered investment in our sector, strengthened our utilities' credit quality and reduced the cost of capital needed to do the job of reinforcing the nation's transmission grid, building new generating capacity and improving the nation's environment."

## NMUSA Urges Your Support

Please contact your Congressional delegate in support of legislation that would make the dividend and capital gains tax rate cut permanent.

**Senator Jeff Bingaman** (505) 346-6601
senator_bingaman@bingaman.senate.gov
625 Silver Avenue SW, Suite 130
Albuquerque, NM 87102

**Representative Heather Wilson** (505) 346-6781
ask.heather@mail.house.gov
20 First Plaza NW, Suite 603
Albuquerque, NM 87102

**Senator Pete V. Domenici** (505) 346-6791
http://domenici.senate.gov/contact/contactform.cfm
Albuquerque Plaza 201 3rd Street, NW Suite 710
Albuquerque, NM 87102

**Representative Tom Udall (**202) 225-6190
http://tomudall.house.gov/feedback.cfm
1410 Longworth House Office Building
Washington, DC 20515

**Representative Steve Pearce** (505) 522-2219
http://pearce.house.gov/contact/issue_subscribe.htm
400 North Telshor, Suite E
Las Cruces, NM 88011

# Rate Cases

**El Paso Electric** filed a rate case (06-00258) on 6/30/07 seeking a $31.7 million increase which included 16.75% residential increase. A stipulated agreement (an agreement by all parties that allows the case to be settled without a full hearing) was signed by all interested parties, except the New Mexico Industrial Energy Consumers (NMIEC) and PNM, who did not oppose the agreement.

The stipulated agreement provided for a 1.1% overall increase in the amount of $5.8 million. The final order was signed by the Commission on 7/3/07 with Chairman Ben Lujan dissenting.

On 7/26/07 the Commission issued an order reopening the case due to concern that the wording in the case ". . apparently abrogates the Commissions authority to investigate EPE's rates during the initial two years that the Stipulation is in effect."

**PNM Gas Services** filed a gas rate case on 5/30/06 and received the final order on 6/26/07. There were several important issues in this case that will impact the company, its ratepayers and its shareholders:

1. The Commission disallowed significant Operations and Maintenance (O & M) expenses and rate base adjustments such as: a) Rate base adjustment for the company's prepaid pension assets of $17.6 million; b) Rate base adjustment for construction Work in Progress of $6.6 million; and c) O & M reduction for Results Based Pay of $2,782,304.

2. Return on Equity (ROE) of 9.53%. This is significant to the company and can affect their ability to acquire funds when needed. It also affects the investment community's perception of the regulatory environment in which PNM operates and, thus, affects its stock price. (See "How Does the New Mexico Commission Rate?" on page 6 of this issue.) In the "Annual Survey of Utility Rate Proceedings" (December 29, 2006) completed by the Public Utilities Reports, Inc. this ROE is low in comparison to other utility companies nationwide. Forty-eight (48) out of the 54 companies in the report were allowed an ROE of 10.0% or higher.

3. The company's decoupling proposal was rejected with prejudice (meaning this proposal may never be refiled) by the Commission. Decoupling is a rate mechanism that separates the recovery of fixed distribution system costs from the volume of gas delivered to customers. It removes a utility company's disincentive to promote increased energy efficiency and aligns the customers' and company's interests. While the Commission said they would consider decoupling in the future, there are no proceedings filed at this time that include it.

The American Gas Association (AGA) has studied the subject of decoupling extensively. Today, there are over 16 million residential customers being served by 18 companies in 11 states under decoupled rates. Because this type of rate structure has not raised customer bills, the AGA has found no problems with its use.

Both PNM Gas Services and the New Mexico Attorney General have appealed the decision in this case to the New Mexico Supreme Court.

**PNM Resources** filed an electric rate case (07-00077) on 2/21/07. PNM is proposing "stepped" rates that would include progressively higher rates based on blocks of usage in the following increments: 0-200 kWh, 201-700 kWh and over 700 kWh per month. The overall proposed rate increase of 12.3% or $68.9 million includes 12.2% for residential customers or an annual average increase of $5.82 per month for 600 kWh and $10.41 per month based on 1,000 kWh per month. The company is also requesting a fuel adjustment clause to allow monthly adjustments for fuel costs, which is currently in use by both SPS and El Paso Electric.

New rates would go into effect sometime after May 1, 2008. The hearing will be conducted after Thanksgiving 2007.

**Southwestern Public Service (SPS)** an Xcel Energy Company filed its first general New Mexico retail rate increase case in 21 years on 7/30/07. SPS is seeking an overall $17.3 million or 6.6 percent increase.

The proposed rates would increase the bill of the average residential service customers using 1000 kWh of energy per month by $6.12 per month or 7.3%. New rates would go into effect May 29, 2008.

The hearing for this case has not yet been scheduled.

**_REGULATOR,_ Continued from cover.**

The initial question raised by this amended rule is whether it is consistent with the REA. On the issue of a diverse renewable portfolio, the law itself requires that a utility's renewable energy portfolio "…shall be diversified as to the type of renewable energy resource, taking into consideration the overall reliability, availability, dispatch flexibility, and cost…" The REA appears to give the Commission no authority to establish specific renewable generation requirements. Instead, the Commission's role under the law is to review a utility's plan and approve it or require it to be modified. More significant, however, is the fact that specific generation requirements, like the ones imposed by the PRC in this rule, were discussed during the last legislative session. These requirements were removed from the final version of the bill when a consensus was reached among the interested parties, which included the Commission. This series of events seems to indicate that the Commission is overstepping its bounds and, it appears, has considered that implication. The Commission, in its August 7 Order adopting the rule, makes the point that the courts in New Mexico do not recognize legislative history, and thus any appeal of the rule on this basis would likely be rejected.

In hindsight, it is obvious that the previous language of the REA, which required annual increases in renewable generation, was not ideal as a model for planning, because utilities do not build generation in such small increments. Generation development is often referred to as being "lumpy", i.e., it is not constructed based on an upward-sloping line, but in large increments. When new generation is built, there is usually an excess of capacity, which is utilized gradually over time, and eventually becomes less than the load requirements. The shortfall is made up with purchased power agreements (PPAs), until another generation source is constructed, leading again to excess capacity. The amended REA remedies the problem by replacing the annual requirements with five-year requirements, which is likely to be more synchronous with utility planning and operations.

But the Commission's requirement that specific renewable generation makes up a utility's renewable portfolio beginning in 2011, with annual reviews thereafter goes beyond any requirement in the law, and appears to inject the PRC into the role of utility management. Such a role is generally not recommended. According to the Leonard S. Goodman's treatise, The Process of Ratemaking (p. 134) Goodman states, "An agency is not a 'super board of directors' for the regulated company. Regulatory agencies do not have the responsibility to manage any company; their function is solely to regulate their activities in accordance with statutory standards and regulatory policy. An agency, therefore, does not order a company to acquire specific resources…" NMUSA agrees with Goodman and believes that utility company management is best left to those who are trained and experienced in this type of work.

## How does the New Mexico Public Regulation Commission Rate?

According to the May 22, 2007 report by the Power and Utilities Global Equity Research division of Lehman Brothers, New York, the New Mexico Public Regulation Commission (NMPRC) ranks forty-sixth (46th) in the nation among all state utility commissions. The bottom tier has not changed from 2006 and includes Arizona, Hawaii, Montana, New Hampshire and New Mexico.

The criteria used to rank the state commissions included:

- Performance Based Ratemaking (PBR): the Commission provides incentives for companies to perform and share benefits with ratepayers;
- Allowed Return on Equity (ROE): rate case outcomes (allowed ROE) are consistent with 10-year Treasury levels;
- Settle or Litigate: the Commission encourages settlement between all parties rather than litigation;
- Rate Levels: absolute rate levels are low, providing less rate shock for consumers;
- Other Factors: 1) the Commission has a track record for reaching decisions that are outside of consensus expectation; 2) the Commission and staff enjoy a reputation for providing reasonable recommendations and decisions; and 3) the Commission has the ability to recognize and address emerging trends.

In this same report, the analysts anticipated an ROE of 10.5% in the PNM Gas Services rate case decided on 6/26/07; however, the NMPRC awarded an ROE of 9.53%. See the related story on Rate Cases on page 5 in this issue of *Shareholder News*.

Commissioner Jones

### An Interview with
# Commissioner Sandy Jones
### PRC, District 5

**NMUSA:** Please tell us about yourself.
**Commissioner Jones:** "I am a life long resident of New Mexico and live in Williamsburg, NM. I owned and operated a successful construction business for many years.

**NMUSA:** What are your goals and objectives while serving on the New Mexico Public Regulation Commission (PRC)?
**Commissioner Jones:** To secure New Mexico's future. To accomplish that, we need to understand the balance between industry and the consumer; we need to encourage small business successes and other factors that will allow our kids to stay in New Mexico, have quality jobs, raise their children and continue the culture and history of our state.

**NMUSA:** What do you feel is the most important function of the PRC?
**Commissioner Jones:** To make sound decisions today on issues that will affect us for years to come.

**NMUSA:** Is there anything you feel within the PRC that could be improved upon? If so, what?
**Commissioner Jones:** Yes. Constituent services, outreach, streamlining the rules and regulations process, consistent - not selective enforcement of rules and regulations, emphasis on maintaining companies in compliance rather than chasing fines.

**NMUSA:** Regarding New Mexico's gas and electric utility industry:
a) What do you think are its strengths?
**Commissioner Jones:** New Mexico's utility companies are financially strong, they have a solid, long-term history in New Mexico and they have strong merchant programs.
b) What are its weaknesses?
**Commissioner Jones:** Although our New Mexico utilities are strong financially, I believe we are entering a building boom era in our state and I am concerned that the companies may not be able to obtain the necessary capital required to fund the growth.

**NMUSA:** What would you do to improve the gas and electric industry?
**Commissioner Jones:** From the industry perspective, there needs to be a more open dialogue on regulatory issues. As an example, we should not settle our rate cases by the industry starting at a high rate and the PRC starting at a low rate and then meeting in the middle. We should have a dialogue on what the rate payer should pay given the current circumstances. This should not be handled like a cow sale.

**NMUSA:** Overall, do you feel that the industry is concerned about ratepayers and are the rates being charged fair to both the company and the ratepayer for this service?
**Commissioner Jones:** Yes. New Mexico is fortunate to have a very high gas and electricity reliability rate and our companies understand customer service.

**NMUSA:** What do you feel is a fair rate of return for a regulated gas or electricity company operating in New Mexico?
**Commissioner Jones:** 10%. While there are others that think it should be lower, a 10% rate of return puts our companies in a very good financial borrowing position. This will allow them to obtain the necessary capital in the next 15 years required to keep up with demand.

**NMUSA:** Do you have other points of interest in New Mexico's gas and electric Industry you'd like to share?
**Commissioner Jones:** We rely heavily on oil and gas reserves in our state for many reasons which include providing the majority of our state's operating budget. Because these resources are being depleted, we should take a portion of the profit from these resources and use it to finance renewable energy and capital projects in the state.

# In Brief

**El Paso Electric Announces New President and Chief Executive Officer.** Ershel C. Redd Jr. became President and Chief Executive Officer of El Paso Electric on May 15, 2007. Redd succeeds Gary R. Hedrick, who has served as El Paso Electric's President and CEO since November 5, 2001. Hedrick will remain on EPE's Board of Directors through the end of his term in 2008.

Redd has more than 35 years of experience in various sectors of the energy industry with an extensive background in strategic planning, business development, corporate restructuring, and commercial operations. Most recently, he served as Executive Vice President of Commercial Operations and President of the Western Region of NRG Energy Inc., a leading global developer and operator of generation facilities. Redd has also served as Vice President of Business Development and Corporate Strategy for Xcel Energy Inc., as well as in senior management roles at Energy Development Corporation, the Sid Richardson Carbon and Gasoline Company, Gulf States Oil and Refining Company, and Union Texas Petroleum.

Redd has a Bachelor of Science degree in Economics from Texas Tech University. He has also held memberships in numerous industry organizations including the Natural Gas Processors Association, Northwest Contingency Planning Task Force, the Gas Industry Standards Board and the Natural Gas Producers Forum. He also co-founded the Coalition for California Energy Market Reforms.

**Pinnacle West Capital Corporation's largest subsidiary, Arizona Public Service (APS), Receives Award.** APS recently received the Energy Star Partner of the Year award from the Environmental Protection Agency (EPA) and the Department of Energy (DOE). APS was honored for its Compact Fluorescent Lighting Program and was recognized by the EPA and DOE for outstanding contributions to reducing greenhouse gas emissions through energy efficiency programs.

Through its CFL program, APS discounted the bulbs to less than one dollar each at more than 400 local retail locations throughout Arizona. To date more than three million bulbs have been sold, saving customers more than $90 million in energy costs and reducing carbon emissions by 675,000 tons.

In accepting the Energy Star Partner of the Year award, PNW president/COO and APS CEO Jack Davis thanked the EPA and DOE, pointing out that Arizona currently is the nation's fastest growing state. He said energy efficiency efforts like the CFL program help APS manage rapid growth while helping to protect Arizona's unique environment.

APS became an Energy Partner in 2005 when it first launched its residential lighting program. In 2007 it expanded the program to include more types of CFLs, with a goal of increasing sales by 1.5 million bulbs over the previous year's sales.

**PNM Resources Hires New Utility President. Pat Vincent** was hired as Utilities President for PNM Resources and will be responsible for operations of both PNM and Texas-New Mexico Power Co., including strategy development, utility generation resources and integrated resource planning. She oversees operations spanning two states and serving 712,000 electric and 492,000 gas customers.

Vincent has more than 15 years of experience in utility leadership and most recently served as President and CEO of Public Service Company of Colorado, a subsidiary of Xcel Energy, where she had responsibility for profitability of the $3.8 billion electric and gas utility with 1.3 million electric and 1.2 million gas customers. She also spent 12 years in other industries, including serving as a brand manager for Quaker Oats and managing a strategic consulting group for Price Waterhouse.

She has an MBA from Harvard University, is a graduate of Drake University and is involved in a number of professional and community organizations.

**EnergyCo's Power Production Purchase.** PNM Resources announced in May that its joint venture with a subsidiary of Cascade Investment, LLC, has agreed to purchase a natural gas-fired cogeneration plant within the high-demand Houston Zone of the Electric Reliability Council of Texas. The purchase by the joint venture, currently called EnergyCo, would diversify its generation fleet and provide a substantial amount of marketable electricity.

Under a purchase and sale agreement, EnergyCo would acquire the CoGen Lyondell Power Generation Facility, a combined-cycle plant, from Dynegy (NYSE: DYN) for approximately $467.5 million. Based on Dynegy's winter rating of 614 megawatts, the purchase price equates to less than $800 per kilowatt, which is consistent with new construction costs in the Houston Zone.

**Continued Next Page**

**Xcel Energy Develops Renewable Energy Credit-tracking System**. To meet the demands of increasingly complex environmental regulation, Xcel Energy announced yesterday an innovative software application to manage renewable-energy credits (RECs) for compliance or trading purposes. The system further demonstrates Xcel Energy's leadership in both renewable energy and information technology development, a company release said.

The system will track RECs throughout the company's eight-state service territories and compile them into a comprehensive database. It will enable Xcel Energy to participate in credible and easily audited REC transactions that will create value for its customers and the environment. The system will help make a reality of the REC trading markets envisioned by many state and federal regulators and allow Xcel Energy to register RECs in regional third-party tracking systems. The tracking system will also serve as a valuable compliance tool, ensuring that Xcel Energy meets various state renewable-portfolio standards, which continue to grow in scope and complexity.

The system tracks vintage, source, type and initial value; uses first-in, first-out accounting; and reduces errors, tracks compliance and takes the guesswork out of trading decisions, Mike Carlson, CIO and vice president of Business Systems said. Xcel Energy worked with Pioneer Solutions to develop the new software application.

''Demands for managing environmental products, such as RECs, will continue to grow with increasing regulation,'' said Uday Baral, Pioneer Solutions principal. ''To meet these requirements, companies are fundamentally changing the way they view and track their environmental data. Information technology can help them do this -- moving from separate products and point solutions to a portfolio approach using an integrated framework.''

At the end of 2007, the company will have 2,880 megawatts of wind on its system and by 2020, will expand its total wind capacity to 6,000 megawatts. It continues to be the nation's No. 1 wind-power provider.

**Tucson Electric Power Awarded a $100,000 Federal Grant to Study Solar Energy.**

The $100,000. Federal grant awarded to Tucson Electric Power (TEP) will be used for developing new methods to evaluate how effectively solar energy systems can replace traditional utility generating resources. The grant was awarded through the U.S. Department of Energy's Solar America Initiative, which supports research and development efforts to encourage the use of solar energy.

"As TEP and other utilities ramp up our use of solar energy, we need to develop a much better understanding of how this and other renewable resources can be seamlessly integrated into our long-term power generation portfolio," said Tom Hansen, Vice President of Environmental Services, Conservation and Renewable Energy for TEP.

TEP will use the grant to develop computer models to evaluate solar generation production data measured in 10-second time increments. The models should help utilities better develop the tools to integrate the intermittent nature of solar power into a traditional fossil fuel-based generation portfolio.

"Passing clouds can reduce the output of a photovoltaic array by 80 percent or more in less than a minute's time," Hansen said. "Utility planners and system power dispatchers will need tools to manage such volatility in order to economically balance the resources necessary to provide safe, reliable electric service."

The grant also calls for TEP to research the true costs and benefits of photovoltaic (PV) arrays installed on customers' homes and businesses. Nearly 400 TEP customers have installed such systems with help from subsidies provided through the company's popular SunShare program.

TEP will prepare a final report on its research for release by June 30, 2008, and publicize the results in trade magazines, journals and industry conferences.

**Drawing Winners:** NMUSA attends and holds various meetings around the state. Winners of the drawings for an NMUSA monogrammed insulated bag are:

Albuquerque: Cindy Edwards, PNM Resources

Las Cruces: Donna McClennahan, U.S. Representative Steve Pearce's office.

EEI President Thomas R. Kuhn joins with PNM Resources Chairman, President & CEO, Jeffry E. Sterba, and Duke Energy Chairman, President & CEO James E. Rogers during the EEI Board of Directors Meeting, June 19, in Denver, CO, where Sterba succeeded Rogers as EEI Chairman.

# Learning from History

*"Those that fail to learn from history, are doomed to repeat it."* – Winston Churchill

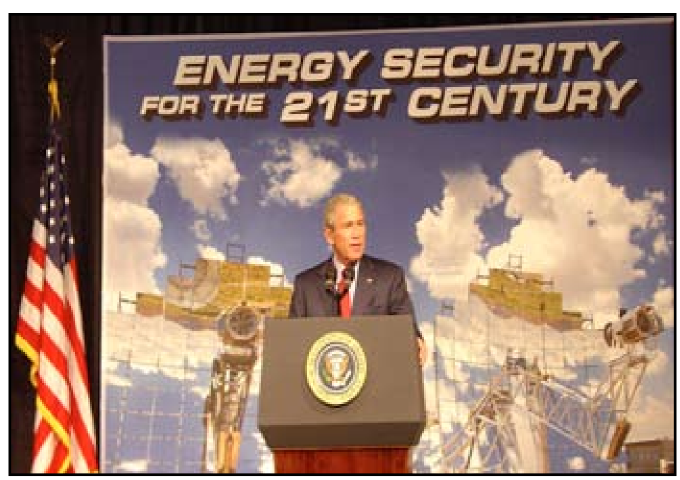
In September, 1990 a well-intentioned California Air Resources Board (CARB) passed the Zero-Emission Vehicle (ZEV) Mandate. Under this rule, by 1998 2% of all new vehicles sold by major manufacturers were to be ZEV. In the context of the technology available at the time, this meant electric. By 2003, ZEVs were to be 10% of all sales. The problem with this program from the beginning and which continues to this day, is the lack of an appropriate battery technology. CARB believed that the mandate would spur research and development and new technology batteries would be available to meet the mandate timeline. What CARB discovered is that you cannot mandate technology. Since 1990, the ZEV Mandate has been continuously modified so that today Low Emission Vehicles (LEVs) are included in the program. Nearly two decades later, all major automobile manufacturers, domestic and foreign, agree that the only barrier today to a mass produced electric ZEV is still battery technology.

Now the New Mexico Public Regulation Commission (PRC) has planted both feet firmly on the slippery slope of legislating technology and passed an alternative energy mandate. Under this mandate, "larger utilities" (read shareholder owned) must use a pre-set mix of alternative sources. As reported in the Albuquerque Journal, some PRC Commissioners believe New Mexico has the potential to develop a vigorous solar energy industry and say set percentages are needed to force utilities to develop the relatively expensive solar energy resources. Apparently not satisfied with their role of balancing the interests of consumers and utility owners, the PRC has decided to use their regulatory powers to mandate technology development.

On August 8, 2005, President Bush signed the first national energy legislation in more than a decade at a bill-signing ceremony at Sandia National Laboratories (SNL). The very next day, Southern California Edison (SCE) announced plans for the world's largest solar energy facility near Victorville, California. The facility will use the Stirling dish and engine technology. Tests conducted here in New Mexico at SNL by SCE and the lab showed the Stirling dish technology to be almost twice as efficient as other solar technologies including Photo Voltaic (PV) cells. The California facility will cover 4,500 acres, generate 500MW/hr, and serve as many as 278,000 homes. The process does not use water and the engines are emission-free.

A 500 MW solar facility in New Mexico, for example, could satisfy nearly 30% of PNM's annual average peak demand. But even if this technology were shown to be more efficient and cost effective than any other alternative energy source, credit for its use would be limited due to the mandatory minimums contained in the New Mexico mandate for wind, biomass, and distributed generation. A utility would still be required to invest in or purchase other less efficient and more expensive renewables. Commissioner Sandy Jones recognized this when he argued that market forces should be allowed to determine which types of alternative energy utility companies adopt. Yet the Commission voted on August 7, 2007 (with Commissioners Jones and King dissenting) to mandate the type of technology required in the utility company's renewable portfolio.

Which alternative energy technology is the most efficient and cost effective is still unclear. What is clear is that the PRC is on a mission to develop New Mexico's solar (and alternative) energy industry on the backs of New Mexico's utility customers, many who are already hard pressed to pay their current bills each month. What next, a surcharge on movie tickets to subsidize New Mexico's film industry?

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# Calendar of Events

**September 12, 2007** - Annual Board of Directors Meeting – Albuquerque, NM
Special Guest: Gretchen S. Kitchel, Senior Public Affairs Representative, Pinnacle West Capital Corporation (PNW) the holding company for Arizona Public Service (APS).Officers and Directors will be elected for the 2007 – 2008 term.

**October 3, 2007** - Annual Membership Meeting – Albuquerque, NM
"Nuclear Power in the 21st Century" presented by Jim Ferland, Senior Vice President of Energy Resources for PNM Resources.
Mr. Ferland has served as Vice President of Global Nuclear Field Services for Westinghouse Electric Co. Prior to Westinghouse, Ferland served as President and Chief Executive Officer of Louisiana Energy Services and led the successful licensing of the first major new nuclear project in the United States in 20 years – the LES Uranium Enrichment Plant that is currently under construction in southern New Mexico.

**November 1-3, 2007** Alliance of Utility Shareholder Associations (AUSA) Meeting - Phoenix, AZ
Utility shareholder groups from across the United States will meet for three days and take a tour of Palo Verde Nuclear Generating Station outside of Phoenix, AZ.

## Be a part of the New Mexico Utility Shareholders Alliance!

We'll keep you informed of issues affecting your utility company stock. And, we'll insure that the collective voice of the utility shareholder is heard by decision makers at the state and federal levels.

Membership is easy – just complete the form below and mail it with your voluntary dues contribution of $15.

If you aren't a member or haven't paid dues for 2007, we strongly urge you to do so now. Dues are voluntary but help us attend regulatory and legislative meetings to advocate the interests of utility shareholders. Your contribution also helps fund this newsletter, our web site (www.nmusa.org) and membership meetings.

Name

Spouse's Name (if applicable)

Address

City State Zip

Telephone Email Address

**I own shares of stock in:** (NM utility stock ownership required)
(Check all that apply)

_____ El Paso Electric
_____ Pinnacle West (Arizona Public Service)
_____ PNM Resources
_____ UniSource Energy (Tucson Electric Power)
_____ Xcel Energy (Southwestern Public Service)
_____ Other ______________________

Please complete this form and mail with your annual dues of $15. Please make checks payable to NMUSA.

Mail to: **New Mexico Utility Shareholders Alliance, 1003 Tomas Ct. SW, Albuquerque, NM 87121-8065**
E-mail: nmusa@rt66.com Telephone: (505) 836-4223 FAX (505) 836-4522

# From the Executive Director . . .


Carla J. Sonntag

It has been a busy and tough time for gas and electric utility companies operating in New Mexico. Regulation has become our utmost concern as we attend Commission hearings, meetings and workshops. The vast majority of our members live in the state of New Mexico, which makes us both the ratepayer and the shareholder affected by these decisions. And, it adds balance to everything we do.

It is our sincere hope, as we watch cases unfold and decisions made, that New Mexico will find an equilibrium that is fair and equitable to both the consumer and the shareholder. The results of decisions made today may not be seen for several years. But at some point in the future, New Mexico will feel the impact and be able to judge clearly if those decisions were in the best interest of all our citizens or the special interests of a few. (Please see “Rate Cases” on page 5 and “Learning from History” on page 10 of this issue.)

We appreciate your membership and support of our endeavors. Your involvement in writing letters and calling decision makers help them understand that the decisions they make affect real people. Our membership continues to grow as utility shareholders learn of our work and dedication to fairness.

We are looking forward to a great time at our Annual Membership Meeting on October 3, 2007 and hope you will join us. The invitations are in the mail. If you don’t receive an invitation, please call us at (505) 836-4223; it’s possible that your address needs to be updated in our system.

My best,

**NM Utility Shareholders Alliance**
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