

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF SOUTHWESTERN)
PUBLIC SERVICE COMPANY’S)
APPLICATION FOR APPROVAL TO)
RECOVER ITS REGULATORY)
DISINCENTIVES AND INCENTIVES)
ASSOCIATED WITH SPS’S ENERGY)
EFFICIENCY AND LOAD MANAGEMENT) CASE NO. 10- -UT
PROGRAMS THROUGH ITS ENERGY)
EFFICIENCY RIDER IN ACCORDANCE)
WITH THE 2008 AMENDMENTS TO THE)
EFFICIENT USE OF ENERGY ACT AND)
THE 2010 AMENDMENT TO COMMISSION)
RULE 17.7.2.9(K) NMAC,)
)
SOUTHWESTERN PUBLIC SERVICE)
COMPANY,)
)
APPLICANT)
_____)**

APPLICATION

Pursuant to the New Mexico Efficient Use of Energy Act, as amended in 2008 (NMSA 1978, Sections 62-17-1 through 62-17-11, “EUEA”), and the New Mexico Public Regulation Commission’s (“Commission”) Energy Efficiency Rule, as amended in 2010, (17.7.2 NMAC, “Rule”), Southwestern Public Service Company (“SPS”) applies to the Commission for an order granting the following relief: (1) approval of SPS’s proposed lost revenue adjustment mechanism (“LRAM”) that will allow SPS to recover its regulatory disincentives attributable to SPS’s approved energy efficiency programs; (2) approval of SPS’s proposed incentive mechanism that will provide incentives for SPS to develop energy efficiency and load management programs (collectively, its demand-side management (“DSM”) programs) and make DSM investments; (3) authorize SPS to

recover the disincentives and incentives based on 2011 savings verified by the Independent Program Evaluator beginning June 1, 2012 through SPS's approved energy efficiency rider ("EE Rider") ; and (4) grant all other approvals, authorizations and actions that may be required under the EUEA, the Rule, and the New Mexico Public Utility Act (NMSA 1978, Sections 62-3-1 et seq., "PUA") for SPS to recover its proposed disincentives and incentives attributable to its approved DSM programs.

In support of this Application, SPS states the following:

1. SPS is a New Mexico corporation and wholly owned electric operating company subsidiary of Xcel Energy Inc. SPS owns, operates and controls public utility generation, transmission, and distribution facilities that provide retail and firm wholesale service to the public in portions of New Mexico and Texas.

2. SPS is a public utility as defined by Section 62-3-3(G) of the PUA, and provides retail electric service to the public within New Mexico subject to the Commission's jurisdiction and authority pursuant to the PUA and rules, regulations, and tariffs on file with and approved by the Commission.

3. SPS's principal office in New Mexico is located at 111 E. Fifth Street, Roswell, New Mexico 88201. SPS's principal corporate office is located at 600 S. Tyler Street, Suite 2900, Amarillo, Texas 79101.

4. The names and addresses of SPS's representative and attorneys in this case are:

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5. Since June 2008, when SPS first began offering its DSM programs pursuant to the EUEA, SPS has been experiencing significant and material reductions in energy sales that have resulted in a substantial loss in revenues associated with the recovery of SPS's fixed costs authorized in SPS's last rate case.

6. In 2008, the New Mexico Legislature enacted House Bill No. 305, amending provisions of the EUEA to address both the removal of regulatory disincentives or barriers to the development of energy efficiency and load management programs, as well as provide incentives to encourage utilities to develop cost-effective energy efficiency and load management resources over traditional supply-side resources.

7. In material part, the amended EUEA includes the following provisions that address the recovery of regulatory disincentives and incentives:

(A) Section 62-17-2(B) reflects the Legislature's finding that it is necessary and appropriate to provide rate treatment and financial incentives for the development of cost-effective and achievable energy efficiency and load management programs;

(B) Section 62-17-2(E) also reflects the Legislature's finding that it is in the public interest to remove, to the extent possible, regulatory disincentives and allow the

recovery of costs for reasonable and prudently incurred expenses associate with a public utility's energy efficiency and load management programs and to allow public utilities the opportunity to earn a profit on cost-effective resource development that, subject to satisfactory program performance, is financially more attractive than developing supply-side resources;

(C) Section 62-17-3 furthers the Legislature's findings by establishing New Mexico policy requiring public utilities include cost-effective energy efficiency and load management investments in their energy resource portfolios, and that regulatory disincentives to such investments be eliminated and that the Commission provide public utilities the opportunity to earn a profit on cost-effective energy efficiency and load management programs;

(D) Section 62-17-5(F) directs the Commission to identify regulatory disincentives or barriers for public utility expenditures in energy efficiency and load management measures and ensure that they are removed in a manner that balances the public interest, consumers' interests and investors' interests, and provide public utilities an opportunity to earn a profit on cost-effective energy efficiency and load management resource development that, with satisfactory program performance, is financially more attractive to the utility than supply-side utility resources; and

(E) Finally, Section 62-17-6(A), in material part, establishes that a public utility has the option of recovering its prudent and reasonable costs along with Commission-approved incentives for energy efficiency and load management programs implemented after the effective date of the EUEA through an approved tariff rider or in base rates, or by a combination of the two.

8. On April 8, 2010, the Commission issued its *Final Order Repealing and Replacing 17.7.2 NMAC*, in Case No. 08-00024-UT, amending the Rule to implement the substantive legislative changes to the EUEA effectuated by House Bill 305. Specifically, the amended Rule 17.7.2.9(K) addresses the requirement that regulatory disincentives be

removed to the extent possible and that electric utilities have the opportunity to earn a profit on cost-effective energy efficiency and load management resource development that, based on satisfactory performance, is financially more attractive to a utility than supply-side utility resources.

9. In accordance with the amended EUEA and Rule 17.7.2.9(K), SPS proposes the LRAM to remove SPS's regulatory disincentives by providing for the recovery of fixed cost revenues from lost sales ("lost margins") due to the implementation of SPS's cost-effective energy efficiency programs. In addition, SPS proposes to implement an incentive mechanism that will promote the development of DSM programs in SPS's energy resource selection process. SPS's proposal to address regulatory disincentives and incentives, appropriately balances the interests of consumers, shareholders, and the public.

10. SPS proposes that both the LRAM and incentive mechanism will apply to annual savings to accrue beginning January 1, 2011, and each year thereafter. SPS will file for recovery of the amounts in the LRAM and the incentive mechanism at the time it files its annual Energy Efficiency Report, beginning on May 1st, 2012 based on calendar year 2011 measured and verified savings, and on May 1st of each year thereafter. At that time, SPS will provide energy and demand savings, which have been measured and verified by the Commission's Independent Evaluator. The annual amounts in the LRAM and the incentive mechanism will be recoverable through SPS's EE Rider, on a monthly basis, beginning June 1, 2012, and on June 1st of each year thereafter, unless suspended by the Commission.

11. SPS's proposed recovery of its regulatory disincentives based on the LRAM for a particular vintage of energy efficiency portfolio will extend for the lesser of three years or until such time as SPS's base rates capture the sales reduction attributable to that particular vintage through reduced billing units and SPS is no longer experiencing lost margins.

12. SPS's proposed recovery of its incentives will be based on each calendar year's verified savings and will extend until such time as the incentive mechanism is modified in a subsequent proceeding.

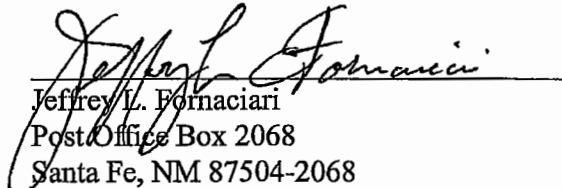
13. In support of its Application, SPS is concurrently filing the direct testimony of the following witnesses: (a) Ruth M. Sakya, whose testimony: (i) summarizes SPS's requested approvals in this proceeding; (ii) explains the regulatory basis for SPS's requested recovery of disincentives and incentives; and (iii) supports SPS's proposed incentive mechanism; and (b) Scott B. Brockett, whose testimony supports SPS's proposal to collect lost margins attributable to its provision of energy efficiency programs through the LRAM.

14. SPS is serving a copy of this filing on Commission Staff and all parties to SPS's most recent base rate case (Case No. 08-00354-UT) and SPS's most recent energy efficiency case (Case No. 09-00258). SPS is attaching a Proposed Notice to the Application as Exhibit 1.

WHEREFORE, SPS respectfully requests that the Commission enter an order: (1) approving SPS's LRAM that will allow SPS to recover its regulatory disincentives attributable to its approved energy efficiency programs; (2) approving SPS's incentive mechanism that will provide incentives to develop DSM programs and make DSM investments; (3) authorizing SPS to accrue its approved disincentives and incentives beginning January 1, 2011, and recover those amounts beginning June 1, 2012 through SPS's approved EE Rider; and (4) granting all other approvals, authorizations and actions that the Commission deems necessary and just under the EUEA, the Rule, and/or the PUA for SPS to recover its proposed disincentives and incentives attributable to its approved DSM programs.

Respectfully submitted,

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Company

EXHIBIT 1

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PROPOSED NOTICE TO CUSTOMERS

NOTICE is hereby given by the New Mexico Public Regulation Commission (Commission) of the following:

1. On July 1, 2010, Southwestern Public Service Company (SPS or Company) filed an application requesting the Commission grant the following relief: (1) approve SPS's proposed lost revenue adjustment mechanism ("LRAM") that will allow SPS to recover its regulatory disincentives attributable to its approved energy efficiency programs; (2) approve SPS's proposed incentive mechanism that will provide incentives for SPS to develop energy efficiency and load management programs (collectively, its demand-side management ("DSM") programs) and make DSM investments; (3) authorization for SPS to recover the disincentives

and incentives based on 2011 savings verified by the Independent Program Evaluator beginning June 1, 2012 through SPS's approved energy efficiency rider ("EE Rider"); and (4) grant all other approvals, authorizations and actions that may be required under the EUEA, the Rule, and the New Mexico Public Utility Act (NMSA 1978, Sections 62-3-1 et seq., "PUA") for SPS to recover its proposed disincentives and incentives attributable to its approved DSM programs.

2. In accordance with the amended EUEA and Rule 17.7.2.9(K), SPS proposes the LRAM to remove SPS's regulatory disincentives by providing for the recovery of fixed cost revenues from lost sales ("lost margins") due to the implementation of SPS's cost-effective DSM programs. In addition, SPS proposes to implement an incentive mechanism that will promote the development of DSM programs in SPS's energy resource selection process. SPS's proposal to address regulatory disincentives and incentives, appropriately balances the interests of consumers, shareholders, and the public.
3. The various current Energy Efficiency Rider rates, and the various estimated rates are shown in the following table:

Rate Class	Estimated Rate per kWh beginning June 1, 2012	Current Rate per kWh	Increase
Residential	\$ 0.002960	\$ 0.002038	\$ 0.000922
Small General Service	\$ 0.002960	\$ 0.002038	\$ 0.000922
Secondary General Service	\$ 0.002947	\$ 0.002029	\$ 0.000918
Primary General Service	\$ 0.002918	\$ 0.002009	\$ 0.000909
Large General Transmission Service	\$ 0.002720	\$ 0.001873	\$ 0.000847
Small Municipal and School Service	\$ 0.002960	\$ 0.002038	\$ 0.000922
Large Municipal and School Service	\$ 0.002947	\$ 0.002029	\$ 0.000918
Public Street and Area Lighting Service	\$ 0.002960	\$ 0.002038	\$ 0.000922

4. The Commission has assigned Case No. 10-____-UT to this filing and inquiries should refer to that case number.

5. The Commission has set the schedule for this case as follows:
 - A. Motion for Leave to Intervene must be filed on or before _____.
 - B. Staff and Intervenors shall file any direct testimony on or before _____.
 - C. Any rebuttal testimony will be filed on or before _____.
 - D. A public hearing will be held beginning at _____ on _____, 2010, at the offices of the Commission, 1120 Paseo De Peralta, Santa Fe, New Mexico, for the purpose of hearing and receiving testimony, exhibits, arguments, and any other appropriate matters in order to determine whether proposed changes in rates in this case should be approved by the Commission. Interested persons should contact the Commission for confirmation of the hearing date, time, and place.
6. The procedural dates and requirements currently set in this case are subject to further Order of the Commission or the Hearing Examiner.
7. Any interested person may examine the rate filings together with any exhibits and related papers that may be filed in this case at the offices of SPS, 111 E. Fifth Street, Roswell, New Mexico, telephone (505) 625-5499 and 600 S. Tyler, Amarillo, Texas, telephone (806) 378-2868 or at the office of the Commission, at the address set out in paragraph 6D above, telephone 1-888-427-5772.
8. The Commission's Utility Division Procedures 1.2.2 NMAC, et. seq., shall apply to this proceeding except as modified by order of the Commission or the Hearing Examiner. A copy of such Rules may be obtained from the offices of the Commission.
9. Any person desiring to become a party to this case must file a Motion for Leave to Intervene in conformity with 1.2.2.23.A and 1.2.2.23.B NMAC on or before the date ordered by the Commission and shown in paragraph 6A above.
10. Any interested person may appear at the hearing and make a written or oral comment pursuant to 1.2.2.23.F NMAC without becoming an intervenor, but the comment will not be considered as evidence in the proceeding.
11. Further information concerning this case may be obtained by contacting:

Southwestern Public Service Company
James Bagley, Manager
Regulatory Administration
P. O. Box 1261
Amarillo, TX 79105
Telephone: (806) 378-2868

or the

New Mexico Public Regulation Commission
P.E.R.A. Building
1120 Paseo De Peralta
Santa Fe, NM 87504-1269
Telephone: 1-888-427-5772

12. Anyone filing pleadings or prefiled testimony will serve copies through U.S. mail and electronically, thereof on all parties of record and the Commission Staff. Any person whose testimony has been prefiled will attend the hearing and submit to examination under oath.
13. Any person with a disability requiring special assistance in order to participate in this proceeding should contact the Commission at least 24 hours prior to the commencement of the hearing.

ISSUED at Santa Fe, New Mexico this ___ day of _____. 2010.

NEW MEXICO PUBLIC REGULATION COMMISSION

Hearing Examiner