

PNM  
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Albuquerque, NM 87158-0604  
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www.pnm.com

August 23, 2007



*A personal commitment  
to New Mexico*

*Transmission Operations*

To: PNM IRP Team Leader

RE: Letter Agreement

Dear IRP Team Leader:

On March 30, 2007, the New Mexico Public Regulatory Commission adopted its rule on "Integrated Resource Plans for Electric Utilities" ("IRP"). On July 2, 2007, Public Service Company of New Mexico ("PNM") hosted a public meeting, where PNM officially began the public advisory process that will lead to PNM's June 2008 IRP filing.

Compliance with the requirements of the rule will require multiple generation expansion and resource acquisition scenarios to be evaluated. A PNM IRP Team has been established to take public input, evaluate resource scenarios and develop the NMPRC IRP filing. PNM's Transmission Operations group ("TO") is preparing to assist the IRP Team in this study effort and we believe that the transmission studies will best be facilitated by an agreement to formalize the working arrangement between the IRP Team and TO as it relates to developing an IRP for New Mexico retail customers. By this Letter Agreement ("Agreement"), the TO group agrees to evaluate the resource portfolios developed by the IRP Team to determine the required transmission network upgrades and the estimated transmission costs associated with each resource expansion portfolio evaluated as a part of the IRP development. This Agreement shall be effective for the period of August 24, 2007 through June 30, 2008.

TO shall post this Agreement and any related communications on its webTTTrans public OASIS site. Posted documents shall include but are not limited to the following: The process to be followed, study scope documents, intermediate and final study results.

IRP Team shall be responsible for paying for the interconnection studies necessary to determine the interconnection network upgrades and TO shall be responsible for paying the cost of studies for delivery related network upgrades. TO will study the generation expansion scenarios to determine the network upgrades necessary for interconnection and for the delivery path from the resource to the retail customer load. TO's total cost to provide interconnection and delivery evaluations during the term of this Agreement is estimated at this time to be \$100,000 with the costs divided equally between interconnection and delivery. TO shall account for its costs to perform the evaluation and will directly charge the IRP Team accounts. TO's actual cost shall include all direct labor costs plus applicable overheads and

any appropriate non-labor costs. TO will update its estimated costs to complete the evaluation on a quarterly basis to enable IRP Team to accurately forecast its own costs for the IRP.

Finally, TO and IRP Team understand that PNM will continue to comply with the requirements of the Federal Energy Regulatory Commission's ("FERC") generator interconnection policy, including the requirement for TO to follow the FERC generator interconnection procedures incorporated into PNM's Open Access Transmission Tariff.

If the IRP Team concurs with the terms of this Agreement, please sign in the space provided below and return to TO with the account information to the following address:

PNM Transmission Operations  
Alvarado Square MS 0604  
Albuquerque, NM 87158-0604


If you have any questions, please call me at 505-241-4570.

Sincerely,

  
Gregory C. Miller  
Lead Director, Transmission Operations

ACCEPTED AND AGREED TO:

PNM IRP Team

By: 

Date: 