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CITY OF SANTA FE, NEW MEXICO

RESOLUTION NO. 2016-__

INTRODUCED BY:

Councilor Peter N. Ives

Councilor Signe I. Lindell

Councilor Renee D. Villarreal

Councilor Joseph M. Maestas

Councilor Christopher M. Rivera

A RESOLUTION

OPPOSING CERTAIN REQUESTS FOR COST RECOVERY IN PNM’S RATE INCREASE PROPOSAL PENDING AT THE NEW MEXICO PUBLIC REGULATION COMMISSION.

WHEREAS, the Public Service Company of New Mexico (“PNM”), may seek rate increases for reasonable and prudent expenses; and

WHEREAS, PNM filed a rate case proposal that includes \$123.5 million in rate increases including the acquisition of 64 MW of power from Palo Verde 2 nuclear power plant in Arizona, a take-or-pay coal contract for the Four Corners Coal Plant, a request for cost recovery for pollution controls known as “balanced draft” at San Juan Generating Station, and an increase to the fixed customer fee; and

WHEREAS, since early 2008, the cost of electricity per kWh provided by PNM to its retail customers has increased by more than 50%, while New Mexico real median household incomes have declined by 6.4%; and

WHEREAS, PNM’s earnings have increased by 461% from 2008 to 2014; and

1 **WHEREAS**, when actual 2014 residential rates are compared to the PNM’s regional
2 peers, it shows that PNM’s residential rates were the highest in the region, and above the USA
3 average; and

4 **WHEREAS**, PNM proposes to increase the residential fixed customer fee from
5 \$5.00/month (\$60.00/year) to \$13.14/month (\$157.68/year), an increase of 163%; and

6 **WHEREAS**, PNM seeks to add the acquisition of 64 MW of power from Palo Verde 2
7 nuclear power plant at 8.1 cents/kWh in 2016, which is the highest cost among alternatives; and

8 **WHEREAS**, the cost per kilowatt hour will continue to rise due to ongoing capital
9 expenditure costs, and operation & maintenance costs at a 27 year old facility; and

10 **WHEREAS**, this proposed acquisition will expose ratepayers to unnecessary financial
11 liabilities through 2046 including equipment failure risk, decommissioning risk and spent fuel
12 disposal costs; and

13 **WHEREAS**, PNM’s testimony has not provided any economic modeling, including the
14 use of Strategist – PNM’s economic modeling tool – or other financial analyses that demonstrates
15 that this resource is cost-effective; and

16 **WHEREAS**, PNM has failed to evaluate the acquisition of Palo Verde 2 nuclear power
17 against any feasible alternatives, let alone “all feasible alternatives” as required by PRC
18 regulations (17.7.3 NMAC and § 62-17-10 NMSA 1978); and

19 **WHEREAS**, at PNM’s planned level of production for 2016-2033, PNM’s 64 MW of
20 Palo Verde 2 power purchases will consume about 7 billion gallons of water for the time period;
21 and

22 **WHEREAS**, PNM is a 13% owner in the Four Corners coal plant with 200 MW of
23 power production; and

24 **WHEREAS**, PNM is retroactively seeking approval for a new “take-or-pay” coal supply
25 contract they signed in December 2013 without Public Regulation Commission (“PRC”) approval

1 or notification that will increase fuel costs in 2016 by 40%, in 2017 by 53% and through the 15-
2 year life of the contract by 128.5% regardless of whether the coal is used or not; and

3 **WHEREAS**, the dollar increase due to the new fuel contract over the 15-year period
4 (2016-2031) is \$269,768,000, and the total projected amount of the coal fuel cost between 2016-
5 2031 at Four Corners is \$579,590,000; and

6 **WHEREAS**, PNM did not provide any financial analysis in its testimony to justify,
7 support or explain that further investment in the Four Corners coal plant; and

8 **WHEREAS**, El Paso Electric Company (“EPE”), another electric utility in New Mexico,
9 is currently an owner at Four Corners coal plant and has decided to abandon their 108 MW shares
10 “to avoid future increased costs, risks and liability of coal fired generation”; and

11 **WHEREAS**, according to the Certification of Stipulation in NM PRC Case No.
12 15-00109-UT submitted by the Hearing Examiner that incorporates the Joint Stipulation signed
13 by EPE, the New Mexico Attorney General, and the NM PRC Staff to approve abandonment,
14 EPE performed multiple financial analyses which showed a “net benefit to customers of
15 abandonment to be in the range of \$110 million to \$170 million”; and

16 **WHEREAS**, in addition to the economic analysis benefits, EPE specifically noted that “a
17 driving factor favoring abandonment and sale is the avoidance of continuing and future
18 environmental restrictions and increased costs, avoidance of environmental and other litigation,
19 and avoidance of cost increases due to continued plant operation including cost increases and
20 liability for additional decommissioning and final mine reclamation costs”; and

21 **WHEREAS**, the Four Corners coal plant consumes more than 5 billion gallons of water
22 annually; and

23 **WHEREAS**, Governor Martinez has issued a formal drought declaration that
24 encompasses the entire state of New Mexico; and

25 **WHEREAS**, according to the National Centers of Environmental Information, March

1 2016 was the driest month in New Mexico in the last one hundred years and 43% of the state is
2 locked in moderate drought; and

3 **WHEREAS**, the State of New Mexico has suffered through numerous natural disasters
4 associated with the drought, including crop production and livestock loss, severe wild fires, and
5 flooding due to severe wild fires; and

6 **WHEREAS**, “Drought conditions can create serious problems for many New Mexico
7 communities, farms, ranches, and open spaces. Fire danger is high, water reservoirs run low, and
8 in some cases, we’ve seen towns like Las Vegas take dramatic steps to reduce basic water
9 consumption in their residents’ homes and businesses,” said Governor Martinez; and

10 **WHEREAS**, New Mexico has some of the best solar and wind energy potential in the
11 country and the benefits of solar and wind energy production include the creation of jobs in New
12 Mexico. New Mexico could not only be a producer and exporter of renewable energy, but also a
13 leader nation-wide and internationally; and

14 **WHEREAS**, PNM seeks cost recovery cost for the Palo Verde 2 nuclear power at 8.1
15 cents/kWh, the most expensive price for an energy resource on PNM’s system; and

16 **WHEREAS**, in comparison, PNM’s cost for solar is 3.9cents/kWh (NM PRC Case
17 16-00105-UT), and other regional utilities have recently purchased solar for 5.8 cents/kWh (El
18 Paso Electric had 50 megawatts of solar approved in NM PRC Case 12-00386-UT) and
19 4.2cents/kWh (Southwestern Public Service had 140 megawatts of solar approved in NM PRC in
20 case 15-00083-UT in 2015); and

21 **WHEREAS**, PNM seeks cost recovery for pollution controls, “balanced draft”, at the
22 San Juan Generating Station in the amount of \$52 million; and

23 **WHEREAS**, PNM’s request to recover full cost of balanced draft should be disallowed
24 because:

25 1) balanced draft is not necessary or required. New Mexico Environment Department has

1 stated that: “PNM’s assertion that the state of New Mexico required balanced draft conversion is
2 incorrect. PNM’s request to implement the balanced draft project was entirely voluntary and only
3 appears in the air quality permit because PNM requested the inclusion of the project in their air
4 quality application.”

5 2) PNM did not perform any cost benefit analyses on balanced draft.

6 3) the balance draft installation is not cost-effective and was an imprudent investment;
7 and

8 **WHEREAS**, the Governing Body has taken steps to make climate change mitigation and
9 renewable energy investment a top priority including a commitment to reach carbon neutrality by
10 2040.

11 **NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE**
12 **CITY OF SANTA FE** that:

13 1. the Governing Body does not support the 163% increase in residential customer
14 fixed charges; and

15 2. the Governing Body does not support cost recovery for the acquisition of 64
16 more megawatts of Palo Verde nuclear generation from Arizona; and

17 3. the Governing Body does not support cost recovery for the new Four Corners
18 coal contract.

19 4. the Governing Body does not support cost recovery for balanced draft technology
20 at the San Juan Generation Station; and

21 5. staff is directed to forward this resolution to each of the five New Mexico Public
22 Regulation Commissioners, as well as their Chief of Staff.

23 PASSED, APPROVED AND ADOPTED this _____ day of _____, 2016.
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JAVIER M. GONZALES, MAYOR

ATTEST:

YOLANDA Y. VIGIL, CITY CLERK

APPROVED AS TO FORM:

KELLEY A. BRENNAN, CITY ATTORNEY