

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR APPROVAL TO ABANDON)
SAN JUAN GENERATING STATION UNITS)
2 AND 3, ISSUANCE OF CERTIFICATES)
OF PUBLIC CONVENIENCE AND)
NECESSITY FOR REPLACEMENT POWER)
RESOURCES, ISSUANCE OF ACCOUNTING)
ORDERS AND DETERMINATION OF)
RELATED RATEMAKING PRINCIPLES AND)
TREATMENT,)
)
PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)
)
Applicant.)
_____)

Case No. 13-00390-UT

**EXCEPTIONS OF THE
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
TO CERTIFICATION OF STIPULATION**

COMES NOW the Albuquerque Bernalillo County Water Utility Authority (ABCWUA), by and through its attorneys, Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., and pursuant to 1.2.2.37(C) NMAC, files the following Exceptions to the Certification of Stipulation issued on April 8, 2015.

Introduction

The Certification of Stipulation (Certification) is thoughtful, balanced and well reasoned and, for the most part, should be sustained. The ABCWUA urges the New Mexico Public Regulation Commission (Commission) to adopt the Certification as its final order; however, the Commission should, contrary to the discussion in the Certification, immediately order PNM to

issue an all-resource RFP for capacity needed to replace the San Juan Units being abandoned and that portion of Unit 4 rightfully excluded by the Examiner.

PNM Should Be Ordered To Issue An All-Resource RFP For Capacity Needed To Replace The Abandoned San Juan Units and Excluded Unit 4

At page 116 of the Certification, the Hearing Examiner states that he “disagrees with the opponents’ arguments that the alternative analysis must be accomplished with a competitive Request for Proposals.” This statement is made despite the failure of the Hearing Examiner to critically discuss the gross cost errors made by PNM in its Strategist modeling or testimony concerning insertion of definitions into the Strategist model that would only produce the results wanted by PNM. But, it is apparent that, as suggested by Attorney General witness Andrea Crane, it is time to consider alternatives. Certification at page 100. The Commission should immediately order PNM to issue an all resource RFP for replacement capacity that will be needed to accommodate the retirement of the San Juan units and the Examiner’s exclusion of Unit 4 via his recommendation to deny a certificate of public convenience and necessity (CCN) for the acquisition of additional capacity in San Juan Unit 4.

PNM has attempted to place the Commission in the position of allowing uneconomic resources into rate base due to the short time period between now and when San Juan Units 2 and 3 will be retired under the provisions of the RSIP. However, as indicated at page 123 of the Certification, PNM’s testimony is that it could replace the entirety of San Juan Units 2 and 3 by the Summer peak of 2018. An all-resource RFP cures this potential timing issue in the most expeditious fashion.

It is time for the Commission to act and let the market place determine the least cost replacement capacity for the retiring San Juan Units and the denial of a CCN for Unit 4.

The Value of Palo Verde Unit 3 Should Not Exceed \$1071

ABCWUA's Brief-in-Chief argued against the inclusion of Palo Verde Unit 3 (PV3) in rate base given that: 1) the operational characteristics of PV3 are ill-suited to serving the future needs of PNM's retail load; 2) other resources exist that are less costly and better suited to PNM's system needs; 3) unquantifiable PV3 risks would be shifted from PNM's shareholders to its retail customers; and, 4) transfer of PV3 to rate base would result in an unfair balancing of costs and benefits between PNM's ratepayers and PNM's shareholders. Although these arguments were made in opposition to including PV3 in rate base at a cost of \$1650 per kW, they also support a finding and Commission order including PV3 in rate base at a cost of \$1071 per kW as recommended in the Certification.

Assuming a PV3 cost of \$1650, there are clearly resources that are less costly and better suited to PNM's system needs. As noted by the ABCWUA, PV3 is inflexible in nature and is more expensive than other resources on PNM's system that are less costly to operate. Further, unquantifiable PV3 risks including decommissioning expenses, no long term solution for spent fuel rods and regulatory expenses do not support a rate base cost of \$1650. However, some of these costs and risks, may be, at least partially offset should the cost of PV3 be reduced to \$1071. Additionally, the placement of PV3 into rate base at book value, as recommended by the Examiner, will allow PNM to get a return of and on book value and rid itself of a substantial amount of operating risk.

The Hearing Examiner concludes at page 131 of the Certification that the valuation of PV3 at its net book value fairly balances the interests of investors and ratepayers. While the ABCWUA does not entirely agree with this statement, his recommended reduced value mitigates

against the risks identified by the ABCWUA. The Commission is urged to consider the testimony of Staff witness David Rode to support the recommended reduced value of PV3. Mr. Rode identifies the deficiencies of PNM's risk analysis for PV3 as well as why PNM's Strategist modeling selected PV3 as a least cost resource. Among other things, Mr. Rode's testimony indicates:

1. PNM has not demonstrated convincingly that the proposed RSIP with PV3 is the most cost effective portfolio.
2. The only reason SJ4 and PV3 appear "most cost effective" is that PNM does not appear to have seriously considered other base load alternatives.
3. Using PNM's definition of base load capacity as coal and nuclear, PV3 is the only feasible base load option.
4. PNM could have considered other base load options that could have achieved similar cost objectives while reducing the potential risk exposure.
5. Modern Gas Turbine Combined Cycle (GTCC) facilities have low variable costs and are capable of operating on a continuous basis.
6. A number of western utilities are proposing use of GTCC facilities as base load capacity in their resource selection plans, including: Avista, PacifiCorp and Portland General Electric.
7. The EPA's newly proposed Clean Power Plan assumes that gas-fired facilities can run at capacity factors of up to 70% or more to compensate for coal-fired plant retirements.
8. It was not reasonable for PNM to limit the possible base load capacity choices to only SJ4 and PV3 given that other options are clearly available.
9. PNM has made modeling choices that either neglect or conflict with assumptions implicit in the PACE forecasts [for gas prices] on which PNM's modeling relies.
10. PNM should have considered cost risks associated with decommissioning. It did not. Also, risks related to equipment failures and outage duration are material to nuclear power plants, but were not considered by PNM in its risk analysis.
11. PNM's risk analysis for PV3 did not comport with the requirements of IRP Rule 17.7.3.9(G)(1).

12. The decommissioning cost reported for thirteen nuclear facilities is approximately 70% higher than PNM's estimate for PV3.
13. Nuclear power plants are large, enormously complex engineering projects. Although they operate the vast majority of the time with a high degree of reliability, the U.S.'s aging fleet of nuclear plants has encountered several instances in which equipment failure have produced extraordinary costs, prolonged outages and in some cases, early retirement of the plants.
14. PNM's Strategist modeling assumed a fixed outage duration of 37 days. Notwithstanding this estimate, PNM reported actual refueling outage durations for the three Palo Verde units ranging from 29.8 to 110.9 days. The average refueling outage duration was 47.2 days.
15. With the exception of CO2 cost risk, PNM's cost risk analysis does not include risks specific to SJ4 or PV3.
16. The risk variable selected by PNM predominantly affects generators other than SJ4 and PV3 and may skew the risk results in favor of PNM's preferred course of action.

Staff Ex. 10 Rode Direct Testimony at 11, 15, 16, 18, 19, 20, 26, 37, 39, 41, 42, 44, 45. Mr. Rode's analysis supports a reduced rate base value for PV3.

Dated this 21st day of April, 2015.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the **Exceptions of the Albuquerque Bernalillo County Water Utility Authority to Certification of Stipulation** was mailed first-class, postage-paid, on April 21, 2015, to the following persons whose mailing addresses are listed below and emailed to those persons at the email addresses shown below:

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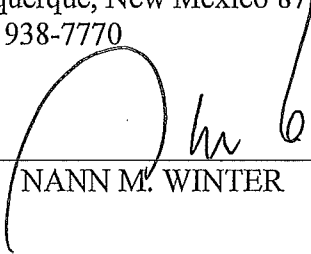
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Dated this 21st day of April, 2015.

Respectfully submitted,

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