



FOUR CORNERS
ECONOMIC DEVELOPMENT

BRIEFING TO THE LFC

4CED, CITY OF FARMINGTON, SAN JUAN COUNTY

JULY 19, 2017

2 SITUATION: SJGS PLANT PROFILE

- San Juan Generating Station (SJGS) is a cost-efficient, mine-mouth power plant
- SJGS is among the five largest coal-fired power plants in the Western U.S.



3 SITUATION: SJGS PLANT PROFILE

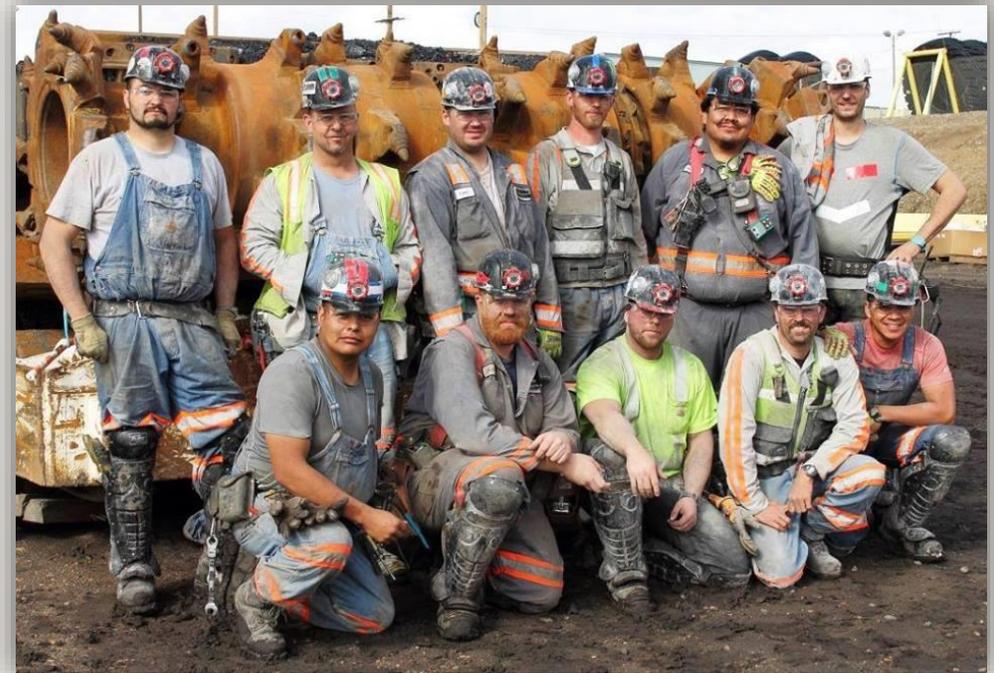
- SJGS is an essential resource for western power grid stability
- SJGS is a major source of base economic, value-adding export jobs and tax revenue for New Mexico
- SJGS is not solely owned by PNM

(City of Farmington owns 8.475% of Unit 4 and is a substantial portion of the City's generation portfolio.)



4 SITUATION: SJGS – JOBS WE CAN'T AFFORD TO LOSE

- SJGS and the San Juan Coal Company (SJCC) mine employs 657 of which 40 percent are Native Americans
- An additional 925 jobs are indirectly connected with the facilities
- Average age of SJGS and SJCC employees is 47 years old, making career change difficult
- Workforce retraining dollars and programming can't be accessed or begin until after layoffs happen



5 SITUATION: SJGS IS ENVIRONMENTALLY COMPLIANT

- SJGS is a four-unit plant with two units being retired at the end of 2017 under terms of a settlement between the State of NM and the EPA.
- Settlement allows continued operations of two units well beyond 2022
- Plant is in full environmental compliance



6 SITUATION: SJGS IS ENVIRONMENTALLY COMPLIANT

- SJGS owners have spent over \$300 million on environmental compliance within the last five years.
- San Juan County is tied for having the least amount of particulate pollution in the U.S. (*in spite of having two coal-fired power plants in the County*).



7 SITUATION: SJGS AND COAL SUPPLY – GOOD SHAPE

- Coal reserves are adequate to run the plant through at least 2032
- Westmoreland Coal is the contract miner
- Coal from the San Juan mine is not otherwise commercially marketable
- Coal production costs reduced by Westmoreland more than 20% through operational efficiency



8 SITUATION: THE INTEGRATED RESOURCE PLAN

- PNM is overseen by the NMPRC and the NMPRC's Integrated Resource Planning (IRP) process. *(IRP's are a common and Federally-required element of utility regulation.)*
- PNM submitted its most current IRP on July 3, 2017 to the NMPRC
- The PNM IRP recommends closing and abandoning SJGS as of 2022

9 SITUATION: THE INTEGRATED RESOURCE PLAN

- The PNM IRP (as filed) allows for consideration for continued operations if material facts used in the analysis are found to be incorrect or incomplete
- The NMPRC has a statutory obligation to review, adopt or order modifications to PNM's IRP
- PNM is seeking regulatory approval for retiring SJGS before all the costs and impacts have been fleshed out.

(This would force PNM (and others) to fully recover all undepreciated investment and reclamation expenses plus implies a guaranteed return on new investments for PNM's replacement capacity with an unknown cost.)

10 SITUATION: THE INTEGRATED RESOURCE PLAN

- Final SJGS abandonment decision could be made by 2018 to be followed by an abandonment hearing before the NMPRC
- No precedents exist for an abandonment process of this magnitude. Many questions remain.
- With SJGS closing in 2022, PNM will be required to make additional investments in new power generation resources (which may or may not be located in New Mexico)

|| IMPLICATIONS: STATE OF NEW MEXICO FISCAL IMPACTS

- SJGS and SJCC annually make \$26 million of tax payments to the State of New Mexico *(not including tax revenue to other NM jurisdictions)*
- The State of New Mexico will incur the loss of income taxes associated with 657 direct jobs at an average wage (excluding benefits) of \$86,000
- Lost GRT revenue from SJGS and SJCC workers – assuming just 40% of the workers' net disposable income is spent in NM on GRT applicable products and services, is \$880 thousand annually
- Lost GRT revenue from vendors to SJGS and SJCC – \$1.6 million annually

12 IMPLICATIONS: STATE OF NEW MEXICO – UNDETERMINED FISCAL IMPACTS

- The State of New Mexico will incur unemployment expenses and/or population outflow should the plant and mine close
- Fiscal impacts associated with the 925 indirect jobs lost
- As 96 percent of the 657 affected workers are covered by company healthcare plans, the State of New Mexico faces exposure to a substantial expansion in the number of Medicaid beneficiaries

13 IMPLICATIONS: SAN JUAN COUNTY

- Together SJGS and SJCC are the largest source of assessed property value in San Juan County
- SJGS and SJCC contribute annually \$9.6 million in property taxes – approximately 10% of all property taxes paid. San Juan County receives almost \$3.4 million of this amount.
- Since 2008, the County's budget has declined by as much as \$53 million.
- San Juan College will stand to lose \$2 million in lost property taxes.
- San Juan College may lose the annualized \$300,000 spent by PNM for professional development of its SJGS workforce
- Central Consolidated School District (91% Native American, 72% Economically Disadvantaged) will lose \$3.7 million

14 IMPLICATIONS TO SAN JUAN COUNTY

- Home owners (under yield control regulations) will be exposed to significantly higher property taxes in the Central Consolidated School District. Other County property owners may see property tax increases.
- A potential outmigration of affected SJGS plant and SJCC mine families would result in a reduction to County school districts of up to \$3.5 million annually.
- San Juan County will, if the current processes are allowed to stay in force, be stuck with an unsightly and nontaxable industrial relic.



15 IMPLICATIONS: CITY OF FARMINGTON

- City of Farmington owns the electric utility (FEUS) serving San Juan County.
- FEUS owns 8.475% of SJGS Unit 4 that represents more than 40% of its baseload capacity.
- FEUS does not want to see its interest in this vital asset prematurely closed.
- FEUS customers face stranded asset exposure of \$34 million.

16 IMPLICATIONS: CITY OF FARMINGTON

- FEUS will have to replace a well running, low-cost, environmentally compliant coal-fired power plant with new generation estimated in the utility budget at \$97 million.
- FEUS performed economic analysis during its current IRP process showing that if SJGS ran an additional five years beyond 2022, FEUS customers would save \$20 million in costs on a Net Present Value (NPV) basis.

17 QUESTIONS FOR PNM

- Does PNM have an obligation to restore the SJGS plant site to its pre-development condition? How does PNM plan to do this? Are these costs included in the IRP?
- Does PNM, as a good corporate citizen, have an obligation to consider the economic implications to New Mexico as a whole (over and beyond that of just its Rio Grande corridor customers) as part of the cost of SJGS abandonment?

18 QUESTIONS FOR PNM

- Does PNM have any examples it can share with the State of NM and economic development leadership about successful economic transitions of local economies who have experienced the shutdown of a large mine-mouth, baseload coal-fired power plant?
- Has PNM analyzed and considered grid stability issues and associated costs stemming from retirement of SJGS with WECC, FERC and other regulatory authorities?

19 QUESTIONS FOR THE NMPRC

- Does the NMPRC believe it is responsible to consider the above economic impacts to the State as a whole and to San Juan County?
- Does the NMPRC have the statutory authority to de facto affect tax policies that results in forgone severance, royalty, property and other tax streams associated with SJGS abandonment?

20 QUESTIONS FOR THE NMPRC

- The NMPRC is an elected body with commissioners representing their district in all matters. How does the NMPRC intend to consider impacts of PNM's IRP on each of the individual NMPRC districts?
- How does the NMPRC intend to address concerns of San Juan County and its citizens specifically pertaining to the avoidance of an abandoned industrial facility and lost tax revenue?

21 QUESTIONS FOR THE NMPRC

- Does the NMPRC intend to schedule hearings on the PNM IRP to allow the public to voice their concerns and to test assumptions underlying the IRP's conclusions?
- Does the NMPRC have adequate resources to analyze the full range of effects of the proposed premature closure and abandonment of SJGS?

22 QUESTIONS FOR THE NM LEGISLATURE

- Did the NM Legislature (in its enabling legislation creating the NMPRC) intend to have the NMPRC affect decisions that would profoundly alter and potentially adversely impact NM's annualized tax revenues?
- Does PNM pay severance or royalty taxes on natural gas purchased for use in its or its contractor NM-domiciled gas-fired power plants? Does this gas come from New Mexico or from states like Texas?
- How much tax revenue of all kinds does the State of New Mexico lose for every MWhr of coal-fired power that is replaced by non-tax paying renewables like solar power or wind energy? *(This calculation should also consider Federal and State subsidies paid to support renewable development.)*

23 QUESTIONS FOR THE EXECUTIVE BRANCH

- What forms of policy guidance has the NM Energy, Minerals and Natural Resource Department given to the legislature regarding the pending impacts of severely reduced tax flows associated with reduced coal-fired power production?
- How does the NM's energy policy contemplate the impending elimination of base-load coal-fired power generation?
- How does the NM Energy, Minerals and Natural Resource Department feel about policy pertaining to preference being granted to NM-produced natural gas being used in new gas-fired power generation?

24 QUESTIONS FOR THE EXECUTIVE BRANCH

- What is the NM Energy, Minerals and Natural Resource Department's view toward the restoration of abandoned industrial facilities (even if not under the department's direct jurisdiction)?

25 THE COST OF INACTION

- Doing nothing will result in economic and tax losses to all parties
- If not modified, the IRP process will result in the closure of SJGS in 2022 based only on the “economics” presented by PNM to the NMPRC



ATTN: PNM IRP

Dear PNM,

4CED, as an economic development organization, is ill-equipped to provide meaningful comment on engineering-related inputs to the IRP Process. Nor is 4CED able to speak to whether (in its opinion) PNM followed the IRP methodology as prescribed by the New Mexico Public Regulation Commission (NMPRC). However, 4CED does believe the IRP process (as prescribed) is fundamentally flawed.

The IRP process fails to consider any societal costs of shutting down San Juan County's and one of New Mexico's single largest industrial employers and complexes. These costs include, but are not limited to, lost employment, taxes, educational funding and economic quality of life implications.

The economic costs to New Mexico and San Juan County (as shown in Appendix A) total a minimum of \$170 million on an annualized basis. The \$170 million does not include the dismantling of the plant and restoration of the land occupied by the plant. (The coal mine is bonded and land will be restored to its native state.) New Mexico and San Juan County can ill afford an abandoned industrial site left to decay. Not restoring the land to its native state is totally inconsistent with being known as the Land of Enchantment and works against 4CED's strategic growth goals in the County of tourism and adventure travel.

Consequently, PNM's proposed IRP outcome of closing the mine and plant in 2022 grossly understates the total costs to New Mexico and San Juan County. The IRP process as it stands is simply too limited in scope to well serve all New Mexico.

27 WHAT WOULD SAN JUAN COUNTY, ITS COMMUNITIES AND 4CED WISH HAPPEN?

- The NM Legislature and the Executive Branch aggressively examine the facts above
- The NM Legislature consider modifying the NMPRC's current ability to broadly undermine NM tax revenues

28 WHAT WOULD SAN JUAN COUNTY, ITS COMMUNITIES AND 4CED WISH HAPPEN?

- The NM Legislature consider in the upcoming session requiring that the NMPRC modify its IRP process to require those under its regulation to include societal economic consequences when calculating a single utility's "least-cost option."
- The NM Legislature implement a task force to review other mechanisms to replace tax revenue lost by the eventual elimination of coal-fired power generation. *(Ideas may include a consumption tax on all electricity regardless of supplier or originating source of production.)*



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