

Update: The Energy Transition Act

Economic Development & Policy Committee
UNM – Gallup
August 8-9, 2022

Steve Michel
505-690-8733
stevensmichel@comcast.net



What is the Energy Transition Act?

The ETA (SB489; 2019) provides a path for NM utilities, coops and communities to transition from expensive fossil generation to clean and renewable resources.

The ETA does not cause the closure of coal plants. Rather, it helps NM manage, in a responsible way, coal plant closures already scheduled.





The ETA has four main components

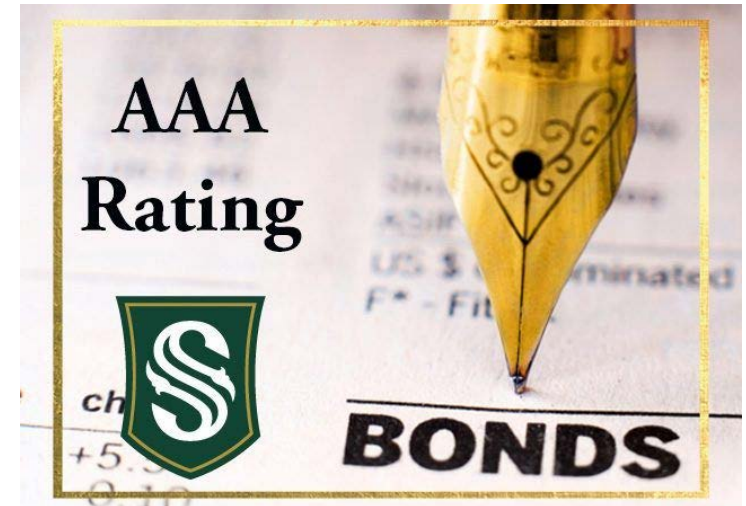
- 1) Financing (securitization) to exit coal plants
- 2) Economic relief for impacted communities
- 3) Requirements for clean and renewable energy
- 4) Coal plant emission standard

FINANCING

Securitization:

low interest AAA-rated bonds
applied to undepreciated investment
("stranded costs")
reclamation + decommissioning
severance and worker training
economic relief

Securitization has been approved by NMPRC for SJGS



ECONOMIC RELIEF

- Worker training and severance
- Apprenticeship requirements for new projects (25% by 2026)
- Tribal outreach + funding
- New resource locational directives
- Economic development funds
- PNM has provided \$40M for SJGS transition



CLEAN + RENEWABLE ENERGY

- Applies to all IOUs and Coops
 - 30% RE by 2025 (\$60/MWh at busbar cap)
 - 50% RE by 2030 (\$60/MWh at busbar cap)
 - 80% RE by 2040
(subject to affordability + reliability)
-
- 100% zero-CO₂ emission electricity by 2045 (2050 for Coops)
(subject to affordability + reliability)



PNM expects economic growth bcz new business is attracted by NM's clean energy

COAL PLANT EMISSION LIMIT

- Applies to 300MW+ coal plants
- 1100 lb CO₂/MWh limit for coal plants after 2022
- NMED recently began a rulemaking to implement this standard



ETA IMPLEMENTATION

July 2019 PNM applied for approval to abandon, finance and replace SJGS

- Abandonment and Financing of SJGS (*approved* in Case 19-00018UT)

- Securitization (\$361M); includes
 - Undepreciated investment (\$283M)
 - Worker relief (\$20M)
 - Economic development (\$20M)
 - Decommissioning and reclamation (\$29M)
 - Transaction costs (\$9M)



- Replacement (*approved* in Case 19-00195-UT)

- 650 MW of solar resources and 300 MW of battery storage; includes
 - 430 MW and \$447 million of capital investment located in the CCSD.
 - 520 MW and more than \$430 million in McKinley County and Jicarilla Apache reservation
 - Rio Arriba County 140 MW wind (approved in a separate case)

ETA IMPLEMENTATION CHALLENGES

- Public Regulation Commission (RESOLVED)

- Refusal to recognize the new law
- Resolved by NM Supreme Court in *Egolf vs. NMPRC*



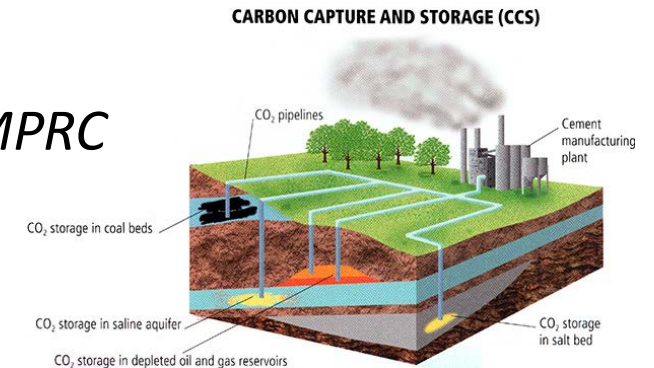
- NEE/Coal Industry (Power the Future) (RESOLVED)

- Claims of unconstitutionality/inapplicability/cost
- Resolved by NM Supreme Court upholding *ETA in CFRE/NEE vs. NMPRC*

- Farmington/Enchant Energy CCS effort (PENDING)

- Inflation Reduction Act may provide add'l incentives for CCS
- *W. Virginia vs. EPA* may boost CCS as the best "inside the fence" GHG reduction system

- PNM delay of bond issuance (PENDING)



CHALLENGES (cont.)

PNM delay of bond issuance (PENDING)

- PNM is delaying SJGS bond issuance to avoid reducing rates
- WRA/CCAIE/PW February 2022 show cause motion sought:
 - enforce ETA and financing order
 - provide required rate reductions when SJGS closes
 - protect customers from ↑ interest rates on delayed bonds
- PRC decision in June, after hearings, granted motion (19-00018UT)
 - required rate reductions of 2% now and 11% in October
 - PNM to demonstrate prudence of delayed bond issuance
- PNM has appealed and requested a stay of PRC decision



CHALLENGES (cont.)

Impacts of PNM delay to customers, communities and shareholders

Promised rate reductions are now in effect (customers)

PNM says it has funded \$40M in transition monies (communities)

\$361M of stranded and other cost recovery TBD (shareholders)



Other Considerations

PNM cannot issue bonds while appeal is pending

NM Supreme Ct. stay of the PRC decision could halt the rate benefits

Delay of bonds jeopardizes attractive, low interest financing

Failure to issue bonds leaves difficult cost recovery issues for PRC