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HOUSE MEMORIAL 86

51ST LEGISLATURE - STATE OF NEW MEXICO - FIRST SESSION, 2013

INTRODUCED BY

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A MEMORIAL

REQUESTING THE PUBLIC REGULATION COMMISSION TO PRACTICE RISK-AWARE REGULATION BY PLANNING FOR AND MANAGING RISK ASSOCIATED WITH ELECTRIC UTILITY INDUSTRY INVESTMENTS.

WHEREAS, the electric utility industry in the United States has entered what may be the most uncertain, complex and risky period in its history; and

WHEREAS, new capital investment in the United States electric utility industry is expected to total approximately two trillion dollars (\$2,000,000,000,000) over the next twenty years; and

WHEREAS, utilities must endorse regulatory efforts to minimize investment risks on behalf of consumers and utility shareholders; and

WHEREAS, avoiding expensive utility investment mistakes

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1 will require improved approaches to risk management in the
2 regulatory process; and

3 WHEREAS, one of the most important duties of a twenty-
4 first century electricity regulator is to understand, examine
5 and manage the risk inherent in utility resource selection; and

6 WHEREAS, public utility commissioners play a crucial role
7 in guiding many utility capital investment decisions; and

8 WHEREAS, public utility commissioners must understand the
9 risks associated with different electricity generation
10 resources and consider short-term and long-term impacts on
11 ratepayers and society; and

12 WHEREAS, the costs and risks associated with electricity
13 generation include those associated with start-up and
14 infrastructure, fuel and operations, regulations, potential
15 greenhouse gas emissions, water constraints, capital shock
16 risks and planning risks; and

17 WHEREAS, these large capital requirements and operational
18 challenges may substantially affect both the cost of energy and
19 the health of the environment in New Mexico; and

20 WHEREAS, there are many strategies that state regulators
21 can use to manage and minimize risk associated with utility
22 investment, including:

23 A. diversification of utility supply portfolios
24 with an emphasis on low-carbon resources and energy efficiency;

25 B. robust planning processes for all utility

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1 investment;

2 C. transparency in ratemaking practices to reveal
3 risk;

4 D. financial and physical hedges, including
5 long-term contracts;

6 E. holding utilities to their contractual
7 obligations and commitments;

8 F. continuous analysis to anticipate and avoid
9 risk; and

10 G. reviewing and updating ratemaking processes, as
11 appropriate; and

12 WHEREAS, regulation informed by risk management and risk
13 minimization principles yields benefits to consumers,
14 utilities, investors, electricity systems and society;

15 NOW, THEREFORE, BE IT RESOLVED BY THE HOUSE OF
16 REPRESENTATIVES OF THE STATE OF NEW MEXICO that the public
17 regulation commission be requested to present a detailed
18 strategic plan for practicing "risk-aware regulation",
19 including the seven strategies outlined above, to the
20 legislative finance committee by October 1, 2013; and

21 BE IT FURTHER RESOLVED that the public regulation
22 commission be requested to manage and minimize risk associated
23 with utility investment by considering the following in the
24 appropriate regulatory proceedings:

25 A. health and environmental impacts associated with

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1 a proposed generation facility, including impacts on air and
2 water quality;

3 B. water usage from a proposed generation facility,
4 including the amount of water to be used, the source of the
5 water and the impact on agriculture and domestic use; and

6 C. risk analysis related to the life-cycle cost of
7 generation, including related fuel costs, regulatory compliance
8 costs and other related factors; and

9 BE IT FURTHER RESOLVED that copies of this memorial and of
10 the Ceres April 2012 report entitled "Practicing Risk-Aware
11 Electricity Regulation: What Every State Regulator Needs to
12 Know" be transmitted to the public regulation commissioners,
13 the state's rural electric cooperatives and the chief executive
14 officers and boards of directors of utility companies providing
15 services in New Mexico.