DOCKET
12-OIR-01
DATE APR 27 2012
RECD. APR 27 2012

From: Noah Long
To: DeCarlo, Lisa@Energy; Jones, Melissa@Energy; Weisenmiller, Robert@Energy; Grant, Sekita@Energy; Vaccaro, Kourtney@Energy;
cc: Matt Vespa;
Subject: relevent letter regarding SJGS
Date: Friday, April 27, 2012 10:50:38 AM
Attachments: SJGS 3rd alt ltr_Marks_Howe_04242012.pdf

Dear Commissioner Weisenmiller,

I think the attached letter from two NM PRC commissioners is highly relevant to the SB 1368 proceeding. As we discussed, there are multiple means by which SJGS might meet the recent EPA air rule, with very different implications for EPS compliance. Direction from the CEC on California utility participation may well be instrumental in these decisions.

I hope the attached letter can be entered into the record for the proceeding.

Best,

Noah

Noah Long
Natural Resources Defense Council
111 Sutter St. 20th Floor
San Francisco, CA 94104-4540
Tel: (415) 875-6100
Fax: (415) 875-6161
www.nrdc.org

NEW MEXICO PUBLIC REGULATION COMMISSION

Commissioner Jason Marks
District 1
505-827-8015

Commissioner Douglas J. Howe
District 3
505-827-4533

P.O. Box 1269
1120 Paseo de Peralta
Santa Fe, NM 87504-1269

April 24, 2012

Governor Susana Martinez
State Capitol Room 400
Santa Fe, NM 87501

US Congressman Steve Pearce
2432 Rayburn House Office Bldg
Washington, DC 20515

Congressman Ben Ray Lujan
330 Cannon HOB
Washington, D.C. 20515

Representative Martin Heinrich
336 Cannon HOB
Washington, DC 20515

Senator Tom Udall
110 Hart Senate Office Building
Washington DC, 20510

Senator Jeff Bingaman
703 Hart Senate Office Bldg.
Washington, D.C. 20510

A Request that the US EPA, the State of New Mexico and Public Service Company of New Mexico Voluntarily Stay their Litigation to Allow Further Time to Seek a Third Alternative Solution for San Juan Generating Station

The four coal-fired generating units at the San Juan Generating Station ("SJGS") first went into service in the 1970s. Although pollution control systems have been updated over the years, SJGS is not compliant with current EPA regional haze reduction standards. Achieving regulatory compliance following the EPA's mandated plan could require an investment of $750 million or more, leaving the state and its largest utility saddled with an inordinately expensive, aging, and inefficient relic. Even the PNM/State of New Mexico alternate compliance plan for SJGS, estimated to cost "only" $100 million, looks like an ill-advised investment in the past.

We believe there is a third alternative that must be considered, an alternative that decreases, rather than increases, the state's exposure to the environmental, regulatory and financial risks posed by over-reliance on a 40-year old coal generation plant. This would be based around scheduling the retirement of one or more of the existing SJGS units, to be replaced with natural gas fired combined cycle technology.

We write today to encourage PNM, the State of New Mexico, and the EPA to seek a voluntary stay of the current litigation over the two competing plans in order to allow the parties sufficient time to explore this third alternative and, hopefully, to enter into a agreement that resolves environmental and cost concerns but also, importantly, provides a pathway to the future for the Four Corners Region. We believe that whatever decision is made regarding SJGS will be the *most important strategic energy decision* facing the State now and for the foreseeable future.

The EPA and the PNM/State proposed solutions for SJGS are deeply flawed because:

- Both solutions would entail the investment of significant capital in a 40 year old, inefficient power plant to be paid by the customers of PNM and other New Mexico utilities over a period stretching beyond 2070. By the time this plant and its retrofits would be paid off by the customers it would be 100 years old or older.

- SJGS would remain exposed to future EPA environmental regulation since neither solution reduces the dependence of SJGS on coal.

- Both proposed solutions would have the perverse result of decreasing plant output while increasing the CO2 emission per MWH produced and increasing the cost per MWH produced. In both solutions, we will get less clean air at higher cost.

- Neither of the proposed solutions address the ancillary impacts of coal use at SJGS, including the worrisome amounts of carbon dioxide emissions, water consumption, and coal ash disposal. In fact, both proposed solutions could exacerbate these impacts.

- The proposed solutions ignore the vast quantities of natural gas - a much cleaner fossil energy resource - abundantly available in New Mexico at historically low costs.

Both proposed solutions leave the Four Corners Region and its citizens bound to an outdated technology and aging infrastructure with no apparent bridge to a future sustainable economic foundation. In short, the current solutions being contemplated for SJGS are simply unsustainable.

There is a third alternative for SJGS, however, which would involve: retiring some of the existing coal units and replacing them with modern, efficient, clean natural gas fired combined cycle technology which takes advantage of New Mexico's abundant natural gas resources; implementing the State/PNM solution for the SJGS units that would continue to be operational; and implementing a modest amount of renewable energy resources in the region.

Preliminary analyses done by independent parties indicate that this third alternative solution would reduce haze by an amount at least equal to the EPA's proposed solution but at a cost savings of more than 40%. Further, this third alternative would significantly reduce CO2 emissions, water consumption and coal ash disposal requirements, while providing an infrastructure for future cleaner energy development in the Four Corners Region. The addition

of renewable energy resources would not only help PNM to meet its statutory RPS requirements within cost constraints but would also facilitate the attraction of clean-tech companies to the Four Corners, a benefit which could not happen under the currently proposed solutions.

But so far, it appears there is no serious discussion ongoing about this or any other third alternative solution. Given the high stakes and the money involved for New Mexico, we believe that serious consideration has to be given to this third alternative. What it will take is better cooperation between the parties and, especially, *more time to bring the parties into a mutual understanding.*

We believe all reasonable parties would want this third alternative thoroughly explored before customers are forced into an irrevocable commitment involving hundreds of millions of dollars. We are asking that you support our request to the EPA, the State and PNM to enter into a temporary stay of the EPA's order and for them to request the 10th Circuit Court to stay its proceedings so that the parties may have additional time to further discuss and analyze this alternative solution that we believe would be of the greatest benefit to the state. We believe that the parties would be open to such a request and would find your support of a stay to be helpful to the process.

The stakes are high and, unfortunately, time for careful decision-making is running out. The people of New Mexico and the Four Corners will not be served by implementation of a hasty plan, whose long-term consequences are severe, simply to meet an arbitrarily established deadline.

Sincerely,

Jason Marks, Commissioner 1st District
New Mexico Public Regulation Commission

Douglas Howe, Commissioner 3rd District
New Mexico Public Regulation Commission