

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF AN INQUIRY INTO THE)
STATUS AND EFFECT OF PUBLIC SERVICE)
COMPANY OF NEW MEXICO'S SHUTDOWN OF)
SAN JUAN GENERATING STATION UNIT 1)**

Case No. 18-00085-UT

FINAL ORDER CLOSING DOCKET

THIS MATTER comes before the New Mexico Public Regulation Commission (Commission) on the October 9, 2018, Public Service Company of New Mexico (PNM) Motion to Close Inquiry Docket and Commission Utility Division Staff's November 15, 2018 Response in Conditional Support of PNM's Motion to Close Inquiry Docket and PNM's Acceptance of Conditions

Having reviewed the Petition, the Commission **FINDS:**

1) The Commission issued an Initial Order on April 25, 2018 requiring PNM to file a response, within 13 days, to the original Petition filed in this matter seeking a formal inquiry into the March 17, 2018 coal silo collapse and resulting explosion and fire at San Juan Generating Station Unit 1 (SJGS 1),

2) The Commission's Initial Order required PNM to provide "a factual statement of the nature and cause of the coal silo incident as well as the anticipated need for and schedule of repairs required to restore SJGS Unit 1 to operation." The Order further required PNM's response to address the necessity and appropriateness of the Petition's request for a cost/benefit analysis, alternatives assessment and request for further proceedings and to address the effect of the shutdown of Unit 1 on fuel costs in its response.

3) The April 25 Initial Order further required the Commission's Utility Division Staff to file a pleading addressing both the Petition and PNM's response within thirteen (13) days of PNM's response to the Petition

4) On May 8, 2018, PNM filed a Verified Response supported by the Affidavit of Thomas G. Fallgren, Vice President of PNM Generation. PNM's Response provided a Factual Statement of the Nature and Cause of the Coal Silo Incident indicating that the incident occurred due to a structural failure in one of four coal silos - Coal Silo 1-D - resulting in a separation of the lower conical section of the silo from the upper cylindrical section. The separation allowed 614 tons of coal to fall and the coal dust ignited and exploded. No personal injuries resulted.

5) PNM's Verified Response indicates there was no impact on PNM's ability to serve customers because PNM was able immediately to receive assistance from the Southwest Reserve Sharing Group (SRSG) and also ramp up its Lordsburg generating Station and La Luz Energy Center peaking facility within ten minutes. PNM subsequently augmented these measures by purchasing short term power on the open market and then ramped up its Afton Generating Station to full load. Although SJGS 1 was shutdown, SJGS 4 was not impacted.

6) PNM indicates that an investigation by Wasatch Engineering Services LLC determined that the silo failure was the result of a weld failure due to corrosion, wall thinning and fabrication flaws such as lack of welding penetration that were not observable from external inspection.

7) PNM indicated that the repairs to the silo were estimated at \$15-20M and “repairable on a least cost basis for customers” as SJGS’s casualty insurance policy with Factory Mutual Insurance Company will provide coverage with a \$2M deductible. Because PNM is a fifty percent owner of SJGS 1, its share of the deductible is \$1M. PNM indicates that this repair cost can be managed within the existing annual capital and O&M budget for SJGS 1 .

8) In addition, PNM indicates that two maintenance outages had been planned for SJGS 1 in 2018 totaling 55 days and the maintenance planned during those outages were to be performed during the outage resulting from the coal silo failure.

9) PNM’s Response further noted that under the existing SJGS participation agreement with its co-owners, the obligation of the participants where “less than substantially all of a unit is destroyed” is to repair and reconstruct such unit. PNM noted that even if its co-owner Tucson Electric Power (TEP) were to agree to a shutdown of SJGS 1, the owners would remain responsible for common area O&M costs which would be approximately \$20M/year through 2022. PNM indicates its share would be approximately \$40M. The owners would also remain obligated to make minimum coal supply payments under the existing Coal Supply Agreement totaling approximately \$174M through 2022. In addition, the need for replacement energy for the 170MW at SJGS 1 would incur unknown additional costs.

10) PNM also noted that the effect of the SJGS 1 shutdown on fuel costs affected the ability to make off system sales during “shoulder” periods when all of the “must-run”

baseload capacity is not necessary to meet consumer demands. PNM estimates the lost opportunity for off-system sales at less than \$2M.

11) PNM's response notes that there is no need for a continued formal proceeding as the Commission's Utility Division Staff has undertaken its own investigation and PNM has fully cooperated with that investigation.

12) Staff's May 31, 2018 response acknowledges that although much of PNM's information is "preliminary" in nature, PNM has cooperated with Staff's inquiries, "often anticipating Staff's questions and taking the initiative to submit the entirety of documents that relate, directly and indirectly, to Staff's questions about the incident, plant operating procedures, and impacts on related contractual relationships."

13) Staff's response focuses on the role of corrosion in the silo collapse, while noting that PNM took ownership of the coal silo with the potentially defective weld. Staff therefore recommends that there be no further formal proceedings provided "PNM hold customers harmless from all costs relating to the coal silo collapse including the costs of replacement power" and the Commission "disallow PNM from recovering from ratepayers any costs associated with the coal silo failure and shutdown of Unit 1, including loss of off-system sales, repair costs associated with bringing Unit 1 back up, cost of installing support structure to prevent similar failures on other coal silos with potential welding flaws.

14) On June 15, 2018, PNM filed a pleading seeking to respond to Staff and acknowledged the information it provided was preliminary and indicated it would file a final report after its consultants completed their analyses.

15) On July 13, 2018, PNM filed a Notice of Return of Service of San Juan Generating Station Unit 1 as of July 5, 2018.

16) On October 9, 2018, PNM filed a Motion to Close Inquiry Docket and Supporting Memorandum and Documentation indicating that its investigation and analyses were now complete and that they confirmed PNM's earlier preliminary representations to Staff and the Commission and that there was no need for a further formal investigation in this docket and that the docket be closed.

17) Following review of PNM's additional documentation, on November 15, 2018, Staff filed a Response in Conditional Support of PNM's Motion to Close Inquiry Docket, and PNM's Acceptance of Conditions. Staff indicates that PNM's Motion to Close the Docket should be granted upon two conditions, to which PNM has indicated its consent.

18) First, Staff argues that PNM customers should be held harmless from the costs of repairing the coal silo failure at the San Juan Generating Station Unit 1 as well as the costs of reinforcing the other coal silos at the San Juan Generating Station and PNM will not seek recovery of any additional costs related to the repairs of the failed coal silo or reinforcements of the other coal silos in a future rate case, and Staff will not seek additional disallowances of such costs in a future rate case.

19) Second, Staff argues that any Commission order closing this docket should provide that the Commission makes no determination and establishes no precedent regarding the reasonableness of PNM's initial acceptance of ownership or previous inspections of the coal silo in regard to the coal silo failure.

20) The Commission finds Staff and PNM's conditions for closure of this docket to be reasonable in light of the documentation and representations submitted to Staff as related to the Commission.

IT IS THEREFORE ORDERED:

- A. PNM's Motion to Close Docket and the conditions in Staff's Response accepted by PNM as set forth in paragraphs 18 and 19 are well taken and adopted as conditions of this order.
- B. PNM customers shall be held harmless from any and all costs associated with repairing the coal silo failure at the San Juan Generating Station Unit 1, as well as any and all costs associated with reinforcing the other coal silos at the San Juan Generating Station. PNM will not seek recovery of any additional costs related to the repairs of the failed coal silo or reinforcements of the other coal silos in a future rate case, and Staff will not seek additional disallowances of such costs in a future rate case. Any limitations as to Staff's future ability to seek further disallowances are expressly subject to the accuracy of the representations made to Staff.
- C. The Commission makes no determination in this order and establishes no precedent regarding the reasonableness of PNM's initial acceptance of ownership or previous inspections of the coal silo in regard to the coal silo failure.
- D. This docket is closed.
- E. A copy of this Order shall be served on all parties listed on the certificate of service via email, if the email addresses are known, and only if not known, by regular mail.
- F. This Order is effective immediately.

ISSUED under the Seal of the Commission at Santa Fe, New Mexico, this 3rd day of
December, 2018.

NEW MEXICO PUBLIC REGULATION COMMISSION

EXCUSED

SANDY JONES, CHAIR

VOTED YES

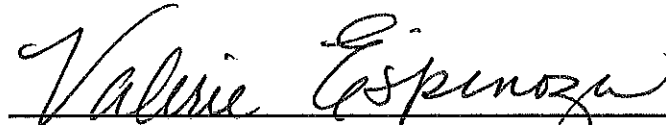
CYNTHIA HALL, VICE CHAIR



PATRICK H. LYONS, COMMISSIONER

VOTED YES

LYNDA LOVEJOY, COMMISSIONER



VALERIE ESPINOZA, COMMISSIONER



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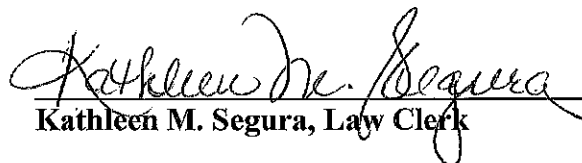
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing **Final Order Closing Docket** issued by the New Mexico Public Regulation Commission on December 5, 2018, was sent via email on December 5, 2018, to the following parties:

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|-----------------------|--|-------------------------------|--|
| Ryan Jerman | Ryan.Jerman@pnmresources.com ; | Richard Mertz | rcmertz7@outlook.com ; |
| Stacey Goodwin | Stacey.Goodwin@pnmresources.com ; | Nicholas Phillips | nlphillips@consultbai.com ; |
| Ryan Anderson | Ryan.Anderson@pnm.com ; | Jim Dauphinais | jdauphinais@consultbai.com ; |
| Mark Fenton | Mark.Fenton@pnm.com ; | Andrea Crane | ctcolumbia@aol.com ; |
| Joan Drake | jdrake@modrall.com ; | Jennifer Breakell | jbbreakell@fimt.n.org ; |
| Caitlin Liotiris | ccollins@energystrat.com ; | Marvin T. Griff | Marvin.Griff@thompsonhine.com ; |
| Kathleen Fraser | kfraser@energystrat.com ; | Stephen Curtice | stephen@youtzvaldez.com ; |
| Sarah Cottrell Propst | propst@interwest.org ; | Barry W. Dixon | bwdixon953@msn.com ; |
| Lisa Tormoen Hickey | lisahickey@newLawgroup.com ; | Peter J. Gould | pgouldlaw@gmail.com ; |
| Zoe E. Lees | Zel@modrall.com ; | Charles F. Noble | Noble.ccae@gmail.com ; |
| Thomas Manning | cfreCleanenergy@yahoo.com ; | Steven S. Michel | smichel@westernresources.org ; |
| Glenda Murphy | gmurphy@westernresources.org ; | Dave Effross | Dave.Effross@westernresources.org ; |
| Jason Marks | lawoffice@jasonmarks.com ; | Bruce C. Throne | bthroneatty@newmexico.com ; |
| Travis Richie | Travis.ritchie@sierraclub.org ; | Mariel Nanasi | Mariel@seedsbeneaththesnow.com ; |
| Zach Pierce | Zach.pierce@sierraclub.org ; | Rob Witwer | witwerr@southwestgen.com ; |
| Jane Yee | jyee@cabq.gov ; | Chris Hunter | Chris@cornerstoneresults.com ; |
| Tony A. Gurule | TGurule@cabq.gov ; | Senator Steve Neville | steven.neville@nmlegis.gov ; |
| Saif Ismail | sismail@cabq.gov ; | Rep. James Strickler | jamesstrickler@msn.com ; |
| Danyel Mayer | dmayer@cabq.gov ; | Rep. Sharon Chahchischilliage | Sharon.chahchischill@nmlegis.gov ; |
| Louis W. Rose | lrose@montand.com ; | Senator Carlos Cisneros | Carlos.cisneros@nmlegis.gov ; |
| Sharon T. Shaheen | sshaheen@montand.com ; | Senator William Sharer | bill@williamsharer.com ; |
| Randy S. Bartell | rbartell@montand.com ; | Rep. Rod Montoya | roddmontoya@gmail.com ; |
| Steven Gross | gross@portersimon.com ; | Rep. Paul Bandy | paul@paulbandy.org ; |
| Martin R. Hopper | mhopper@mrsrpower.org ; | Rep. Patricia A. Lundstrom | Patricia.lundstrom@nmlegis.gov ; |
| Lorraine Talley | ltalley@montand.com ; | Charles Gunter | Charles.gunter@state.nm.us ; |
| Vicky Ortiz | Vortiz@montand.com ; | Jack Sidler | Jack.sidler@state.nm.us ; |
| Peter Auh | pauh@abcwua.org ; | Michael C. Smith | Michaelc.smith@state.nm.us ; |
| Nann M. Winter | nwinter@stelznerlaw.com ; | John Reynolds | John.reynolds@state.nm.us ; |
| Dahl Harris | dahlharris@hotmail.com ; | Sarah Becker | Sarah.becker@state.nm.us ; |
| Jeffrey Albright | Jalbright@lrrc.com ; | Bradford Borman | Bradford.Borman@state.nm.us ; |
| Carla Bond | Cbond@lrrc.com ; | Elisha Leyba-Tercero | Elisha.leyba-tercero@state.nm.us ; |
| Megan A. O'Reilly | Oreilly.ccae@gmail.com ; | Joseph Yar | jyar@nmag.gov ; |
| Don Hancock | sricdon@earthlink.net ; | Cydney Beadles | Cydney.beadles@state.nm.us ; |

Dated this 5th day of December, 2018.

NEW MEXICO PUBLIC REGULATION COMMISSION


Kathleen M. Segura, Law Clerk