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**SOAH DOCKET NO. 473-22-1073
DOCKET NO. 52485**

**APPLICATION OF SOUTHWESTERN §
PUBLIC SERVICE COMPANY TO § BEFORE THE STATE OFFICE
AMEND ITS CERTIFICATE OF §
CONVENIENCE AND NECESSITY TO § OF
CONVERT HARRINGTON §
GENERATING STATION FROM COAL § ADMINISTRATIVE HEARINGS
TO NATURAL GAS §**

**SOUTHWESTERN PUBLIC SERVICE COMPANY’S
FIRST SUPPLEMENTAL RESPONSE TO ALLIANCE OF XCEL MUNICIPALITIES’
THIRD REQUEST FOR INFORMATION
QUESTION NO. 3-1**

(Filename: SPSResp3rdAXMSupp01.doc; Total Pages: 25)

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EXHIBITS ATTACHED:

Exhibit SPS-AXM 3-1 (SUPP1) (*non-native format*) 7

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**SOUTHWESTERN PUBLIC SERVICE COMPANY’S
FIRST SUPPLEMENTAL RESPONSE TO ALLIANCE OF XCEL MUNICIPALITIES’
THIRD REQUEST FOR INFORMATION
QUESTION NO. 3-1**

Southwestern Public Service Company (“SPS”) files this supplemental response to the Alliance of Xcel Municipalities’ Third Request for Information, Question No. 3-1. SPS has provided notice, by email, to all parties that SPS’s Supplemental Response to Alliance of Xcel Municipalities’ Third Request for Information and accompanying exhibits (excluding voluminous and exhibits provided pursuant to the protective order) have been filed with the Commission and are available for download from the Commission’s Interchange website.

I. WRITTEN RESPONSES

SPS’s written supplemental responses to Alliance of Xcel Municipalities’ Third Request for Information are attached and incorporated by reference. Each response is stated on or attached to a separate page on which the request has been restated. SPS’s responses are made in the spirit of cooperation without waiving SPS’s right to contest the admissibility of any of these matters at hearing. In accordance with 16 Tex. Admin. Code § 22.144(c)(2)(A) (“TAC”), each response lists the preparer or person under whose direct supervision the response was prepared and any sponsoring witness. When SPS provides certain information sought by the request while objecting to the

provision of other information, it does so without prejudice to its objection in the interests of narrowing discovery disputes under 16 TAC § 22.144(d)(5). Pursuant to 16 TAC § 22.144(c)(2)(F), SPS stipulates that its responses may be treated by all parties as if they were made under oath.

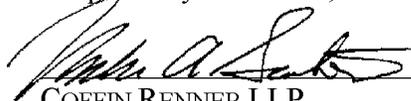
II. INSPECTIONS.

If responsive documents are more than 100 pages but less than eight linear feet in length, the response will indicate that the attachment is voluminous (“(V)”) and, pursuant to 16 TAC § 22.144(h)(2), the exhibit will be made available for inspection at SPS’s voluminous room at 919 Congress Avenue, Suite 900, Austin, Texas 78701; telephone number (512) 721-2700.

If a response or the responsive documents are provided pursuant to the protective order in this docket, the response will indicate that it or the attachment is either Confidential (“CONF”) or Highly Sensitive (“HS”) as appropriate under the protective order. Access to Confidential and Highly Sensitive materials will be available on Coffin Renner’s file sharing link to all parties that have signed and filed the certification under the protective order entered in this docket. Confidential and Highly Sensitive responsive documents will also be made available for inspection at SPS’s voluminous room, unless they form a part of a response that exceeds eight linear feet in length; then they will be available at their usual repository in accordance with the following paragraph. Please call in advance for an appointment to ensure that there is sufficient space to accommodate your inspection.

If responsive documents exceed eight linear feet in length, the response will indicate that the attachment is subject to the FREIGHT CAR DOCTRINE, and, pursuant to 16 TAC § 22.144(h)(3), the attachment will be available for inspection at its usual repository, SPS's offices in Austin, Texas, unless otherwise indicated. SPS requests that parties wishing to inspect this material provide at least 48-hour notice of their intent by contacting Stephanie Tanner at Coffin Renner L.L.P. PC, 1011 West 31st Street, Austin, Texas 78705; telephone number (512) 879-0900; facsimile transmission number (512) 879-0912; email address stephanie.tanner@crtxlaw.com. Inspections will be scheduled to accommodate all requests with as little inconvenience to the requesting party and to SPS's operations as possible.

Respectfully submitted,



COFFIN RENNER LLP

Mark A. Santos

State Bar No. 24037433

Kate Norman

State Bar No. 24051121

C. Glenn Adkins

State Bar No. 24103097

1011 West 31st Street

Austin, Texas 78705

(512) 879-0900

(512) 879-0912

mark.santos@crtxlaw.com

kate.norman@crtxlaw.com

glenn.adkins@crtxlaw.com

XCEL ENERGY SERVICES INC.
Mark Walker
State Bar No. 20717318
919 Congress Ave., Suite 900
Austin, Texas 78701
(512) 236-6926
(512) 236-6935 (Fax)
mark.a.walker@xcelenergy.com

ATTORNEYS FOR
SOUTHWESTERN PUBLIC SERVICE COMPANY

SOAH Docket No. 473-22-1073

PUC Docket No. 52485

*Southwestern Public Service Company's First Supplemental Response to
Alliance of Xcel Municipalities' Third Request for Information*

RESPONSES

QUESTION NO. AXM 3-1:

Reference page 9, lines 12-15 of Company witness Grant's direct testimony, please describe and provide the docket numbers and orders related to the past regulatory actions in New Mexico and Texas involving retirement of SPS's coal assets.

APRIL 4, 2022 SUPPLEMENTAL RESPONSE:

NMPRC Case Co. 21-00200-UT - Conversion of Harrington from coal to gas which is a pending case. The hearing examiner filed the recommended decision on April 1, 2022 attached as Exhibit SPS-AXM 3-1 (SUPP1).

Preparer: Michael Knapp
Sponsor: William A. Grant

CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on April 4, 2022, in accordance with the Order Suspending Rules, issued in Project No. 50664.



Mark A. Santos

21-00200-UT - Recommended Decision

Kippenbrock, Ana, PRC <Ana.Kippenbrock@state.nm.us>

Fri 4/1/2022 4:05 PM

To: 'Mark.A.Walker@xcelenergy.com' <Mark.A.Walker@xcelenergy.com>; 'Mark.santos@crtxlaw.com' <Mark.santos@crtxlaw.com>; 'Kate.norman@crtxlaw.com' <Kate.norman@crtxlaw.com>; 'jeffrey.l.comer@xcelenergy.com' <jeffrey.l.comer@xcelenergy.com>; 'cindy.baeza@xcelenergy.com' <cindy.baeza@xcelenergy.com>; 'Zoe.E.Lees@xcelenergy.com' <Zoe.E.Lees@xcelenergy.com>; 'Will.w.dubois@xcelenergy.com' <Will.w.dubois@xcelenergy.com>; 'William.a.grant@xcelenergy.com' <William.a.grant@xcelenergy.com>; 'Mario.a.contreras@xcelenergy.com' <Mario.a.contreras@xcelenergy.com>; 'rbartell@montand.com' <rbartell@montand.com>; 'sshahen@montand.com' <sshahen@montand.com>; 'Stephen.Chriis@walmart.com' <Stephen.Chriis@walmart.com>; 'darueschhoff@hollandhart.com' <darueschhoff@hollandhart.com>; 'tnelson@hollandhart.com' <tnelson@hollandhart.com>; 'awjensen@hollandhart.com' <awjensen@hollandhart.com>; 'nsstoffel@hollandhart.com' <nsstoffel@hollandhart.com>; 'aclee@hollandhart.com' <aclee@hollandhart.com>; 'glgarganoamari@hollandhart.com' <glgarganoamari@hollandhart.com>; 'poldham@omm.com' <poldham@omm.com>; 'kcoleman@omm.com' <kcoleman@omm.com>

Cc: Records, PRC, PRC <PRC.Records@state.nm.us>; Lennon, Robert, PRC <Robert.Lennon@state.nm.us>

📎 1 attachments (361 KB)

21-00200-UT - Recommended Decision.pdf;

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF SOUTHWESTERN PUBLIC)
 SERVICE COMPANY'S APPLICATION 1) TO)
 AMEND ITS CERTIFICATES OF PUBLIC)
 CONVENIENCE AND NECESSITY TO CONVERT)
 HARRINGTON GENERATION STATION FROM)
 COAL TO NATURAL GAS, 2) FOR)
 AUTHORIZATION TO ACCRUE ALLOWANCE FOR)
 FUND USED IN CONSTRUCTION, AND 3) FOR)
OTHER ASSOCIATED RELIEF**

CASE NO. 21-00200-UT

Ana C. Kippenbrock, Law Clerk
New Mexico Public Regulation Commission
 Office of the Hearing Examiners
 P.O. Box 1269
 Santa Fe, New Mexico 87504-1269
 Phone (505) 690-4191
E-mail: Ana.Kippenbrock@State.nm.us

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

| | | |
|---|---|-----------------------------|
| IN THE MATTER OF SOUTHWESTERN |) | |
| PUBLIC SERVICE COMPANY’S |) | |
| APPLICATION 1) TO AMEND ITS |) | |
| CERTIFICATES OF PUBLIC |) | |
| CONVENIENCE AND NECESSITY TO |) | |
| CONVERT HARRINGTON GENERATION |) | Case No. 21-00200-UT |
| STATION FROM COAL TO NATURAL |) | |
| GAS, 2) FOR AUTHORIZATION TO |) | |
| ACCRUE ALLOWANCE FOR FUNDS |) | |
| USED IN CONSTRUCTION, AND 3) FOR |) | |
| OTHER ASSOCIATED RELIEF, |) | |
| |) | |
| SOUTHWESTERN PUBLIC SERVICE |) | |
| COMPANY, |) | |
| |) | |
| APPLICANT. |) | |
| _____ |) | |

RECOMMENDED DECISION

Robert J. Lennon, Hearing Examiner, submits this Recommended Decision to the New Mexico Public Regulation Commission (Commission). The Hearing Examiner recommends that the Commission adopt this Recommended Decision in its Final Order.

I. Statement of the Case

Southwestern Public Service Company (“SPS”), a wholly owned utility subsidiary of Xcel Energy, Inc., (“Xcel”), filed a request for amendment to three existing certificates of public convenience and necessity (“CCN”) to allow a change in fuel (coal to natural gas) for the three steam turbine units at SPS’s Harrington Generating Station. Specifically, an Order that:

- (1) amends the certificates of public convenience and necessity previously obtained by SPS to authorize SPS to convert the three coal-powered steam turbine units at Harrington Generating Station, north of Amarillo, Texas, to natural gas generation;

(2) authorizes SPS's Certificated Estimated Cost of construction and authorizes SPS to accrue an Allowance for Funds Used During Construction ("AFUDC") for the Harrington Conversion (*see* Rule 580); and

(3) grants to SPS such other approvals, authorizations, and relief as the Commission deems necessary, proper, and appropriate for SPS to implement the approvals authorized in this case

The Harrington Generating Station is located in Texas with a total net capacity of 1,050 MW. The commission granted the current CCNs for the station's three turbines ("Units") in the mid 1970's.

SPS's request was filed on August 6, 2021 and included substantial supporting testimony.

On August 19, 2021, the Commission issued its Initial Order Appointing Hearing Examiner. The Order appointed the undersigned, Robert J. Lennon, charged with the duty to take all actions necessary, within his limits, to conduct any necessary hearings and take other action consistent with Commission procedure including issuance of this Recommended Decision.

On October 8, 2021, following a scheduled status conference, a Procedural Order was issued. The Order approved the Notice to be published and set a deadline for the publication. The Order set a deadline for motions to intervene. The order set a deadline for the filing of testimony. The Order also scheduled the hearing on the merits to begin on February 15, 2022.

Notice was timely published, and an affidavit of same was filed.

A motion for protective order was file and granted.

A supplemental procedural order was issued scheduling the hearing via zoom.

The following entities filed motions for leave to intervene:

- Sierra Club
- Coalition for Clean Affordable Energy
- New Mexico Large Customer Group
- Occidental Permian, Ltd.

There were no objections to the motions for leave to intervene.

The parties conducted discovery and reached an agreement regarding the order of presentation and receipt of evidence.

The hearing was conducted, via zoom, and available to the public via YouTube, on February 15, continuing to February 16, and 17, 2022. Preliminary motions regarding the appearance of out-of-state attorneys and a late motion to intervene were heard and granted. Counsel for the Large Customer Group requested, and was excused, from attending the hearing. The late filing of Errata, substantially changing direct testimony by Sierra Club was permitted as was additional testimony from an SPS witness in response thereto.

The following witnesses appeared, their pre-filed direct testimony was admitted, and they were subject to cross-examination and examination by this hearing examiner. Limited re-direct and re-cross examination was permitted.

On behalf of SPS

William A. Grant, Xcel Energy Manager of Resource Planning and Bidding

Mark Lytal, Xcel, Director, Regional Capital Projects Development of Energy Supply

Jeffrey L. West, Xcel, Senior Director in Environmental Services

John Goodenough, Manager of Energy Forecasting for Xcel Energy Services, Inc.

D. Dean Koujak, Guidehouse, Inc., Director, Energy, Sustainability and Infrastructure

Ben Elsey, Xcel, Manager, Resource Planning and Bidding

On Behalf of Sierra Club

Devi Glick, Synapse Energy Economics

On Behalf of PRC Staff

Jack D. Sidler, PRC Utility Division, Acting Engineering Bureau Chief,

On Behalf of SPS regarding Sierra Club's "Errata" Testimony

Ben Elsey, Xcel, Manager, Resource Planning and Bidding

Coalition for Clean Affordable Energy (CCAE) did not file direct testimony, present a witness or file post-hearing briefs.

New Mexico Large Customer Group (NMLCG) did not file direct testimony, present a witness or file post-hearing briefs.

Occidental Permian LTD (OPL) also did not file direct testimony, present a witness or file post-hearing briefs.

The role of the latter three parties was minimal. The three active parties were SPS, Sierra Club, and PRC Staff.

Post-hearing briefs and response briefs were filed by SPS, Sierra Club and PRC Staff.

II. Summary of Case for presentation at Open Meeting

This summary is to be read at a Commission Open Meeting, if necessary. As a summary, details are omitted in the spirit of brevity. More detail is available in the remainder of the recommended decision (RD) and the evidence upon which the RD relies.

This case is a CCN case. SPS seeks approval to convert its Harrington power plant to use natural gas instead of coal for fuel. The plant provides power to both Texas and New Mexico, in a ratio of 2/3, 1/3, respectively. The plant consists of three turbines know as units. The plant was designed to use either coal or gas as fuel. The plant currently burns only coal. To use gas, a supply pipeline is necessary. SPS's request for approval to build the gas supply pipeline to operate on gas is the subject of this case. The estimated cost for the conversion is between sixty-five and seventy-five million dollars. The majority of the expense for the conversion will be incurred to build the pipeline to supply the fuel for the plant.

It is helpful to clearly state that this case is only a CCN case, not a rate case, and not an abandonment case. As a CCN case, the Public Utility Act at Section 62-9-6 controls. The statutory issue is whether the proposed modification satisfies a “public convenience and necessity” standard. The standard requires demonstration of a net public benefit. Further SPS must demonstrate that the modification is the most cost effective among feasible alternatives. SPS has presented evidence of the costs of the feasible alternatives sustaining this burden.

There were three intervenors which elected to not actively participate in the case. They did not present direct testimony or other evidence opposing SPS’s request. PRC staff also does not oppose SPS’s request for approval but suggests a few reporting type conditions. The three-day hearing was consumed not only by SPS’s presentation but also by Sierra Club’s opposition. Substantial financial analysis, and much testimony was presented regarding computer modeling. The parties agreed to allow Sierra Club to present substantially different modeling results, as “Errata,” just days prior to the hearing. SPS testimony in response to the substantially altered testimony and position of the Sierra club witness was received. The Sierra Club witness had first testified that modeling indicated that none of the three unit should be converted from coal to gas; But, she later admitted modeling errors, and opined, in contrast, that two of the units should be converted from coal to gas and that only one of the units should be retired from service. So, the issue in this case had been narrowed: whether to convert all three, or just two, of the units from coal to gas. There was no dispute that gas is a cleaner fuel than coal.

Evidence revealed that the vast majority of the conversion expense is to build the gas supply pipeline. And, that there are only minor modifications necessary for the three Units because they were designed to burn either fuel.

Evidence revealed that the difference in cost between the two options, two or three units, over the next 20 years, reduced to net present value, was about only five million dollars over a twenty year period. The five million dollar saving is only a small fraction of the gross costs over the next twenty years of operation. \$11,949,000,000 versus, \$11,944,000,000. This five million dollar difference was credibly characterized as **statistically insignificant**, and within the statistical margin of error of the financial analysis. So, there was no persuasive evidence of any significant difference in cost between the conversion of two units or the conversion all three units.

SPS's position is that all three units should be converted because not only is the cost of the supply pipeline is essentially the same for two or three Units; the third Unit will provide continued capacity and increased reliability to the public even if it is only operated during times of peak need.

The Sierra Club position is, generally, to oppose an extension of approval for the use of fossil fuels like gas. Sierra Club relies upon a strict reading of the net benefit test; that the option to not convert and retire one of three units would cost five million dollars less than converting all three, and upon such a strict application conversion of only two units should be approved, with retirement of the third unit.

Commission Staff and SPS contend that the Sierra Club position is flawed as it is driven only by theoretical economic modeling considerations without regard to actual real-life circumstances; That while the public convenience and necessity standard implies a net public benefit, and SPS must show that the change is most cost-effective among feasible alternatives, one cannot ignore reality. The reality is that there is no statically significant financial difference between the costs of the two alternatives, converting two or converting three units from coal to gas. There being no significant difference in cost, other practical "qualitative" criteria must be

considered. Specifically, reliability support, especially during high demand--favoring conversion of all three units. Sierra Club's contentions were fully considered but not persuasive.

Interestingly, evidence was presented that operating on gas for the remainder of the expected life of the plant is consistent with New Mexico's movement to renewable resources and the life of the plant is within New Mexico's time limit 2045. While Sierra Club's general position remains that approval of the conversion to a different fossil fuel, albeit cleaner than coal, should not be extended, there is an alternative and valid perspective in the evidence consistent with the Sierra Club position: That the continuing full capacity provided by all three units, not just two units, allows for more reliable power for consumers during peak demand. So, converting from coal for all three units, with continuing reliability, actually supports the gradual transition to renewables.

The evidence supports an approval of SPS's request for modification of the CCNs for all three of the Units allowing construction of the gas supply pipeline and the conversion from coal to gas. Uncontested, the record also supports approval of the estimated cost of construction and the accrual of AFUDC, allowances for funds used during construction pursuant to Rule 580 and the reporting type regulatory conditions suggested by PRC Staff.

III. Analysis

SPS provides energy to both New Mexico and Texas customers. The ratio is roughly two to one, Texas over New Mexico. There is a recent Texas history of the Harrington conversion from coal to gas, which is not dispositive, but should be acknowledged. SPS also needs approval for the conversion from the Texas authorities. SPS succinctly describes the status of the Texas proceedings in its closing brief:

“... pursuant to an order issued by the Texas Commission on Environmental Quality (“TCEQ”), Harrington must cease operating on coal by

December 31, 2024.¹ The requirement to cease operations as a coal-fired facility stems from National Ambient Air Quality Standards (“NAAQS”) emissions quality monitoring at Harrington from 2017 to 2019.² As a result of that monitoring, SPS entered into an agreed order with the TCEQ (“Agreed Order”) to avoid a non-attainment designation for areas surrounding Harrington.³

In New Mexico PRC case No. 19-00170-UT, SPS committed to studying the retirement of is “coal assets” providing service to New Mexico customers. The instant case naturally follows.

The conversion of Harrington, the subject of this proceeding, is to SPS, substantially driven by the agreed order in Texas to cease operations with coal by December 31, 2024

SPS is not at this time, requesting a determination of ratemaking principles and treatment, that will apply to Harrington post conversion.

SPS is requesting AFUDC estimated at \$2.1 million.

SPS estimates the cost of the conversion to be between \$65 and \$75 million. Of this total, the amount related to the New Mexico customers is about 1/3, approximately \$21 to \$25 million.

The cost of operating on gas is much less than the long-term cost of operating with coal and installing environment controls, estimated at \$255 million to \$529 million according to witness Ben R. Elsey (Elsey DT, p 6). Such controls are not realistically a “least cost” option as compared to conversion to natural gas fuel.

Law

The controlling law is New Mexico’s NMSA 1978 § 62-9-1 (2018). For clarity, only relevant portions are provided below, with *emphasis added*.

62-9-1. New construction; ratemaking principles.

A. No public utility shall begin the construction or operation of any public utility plant or system or of any *extension of any plant or system* without first obtaining from the commission a certificate that public convenience and necessity require or will require such construction or operation. ...

¹ SPS Ex. 5 (West Dir.) at 8:12-13.

² *Id.* at 6:6-12.

³ *Id.* at 7:12-18, Attachment JLW-1.

...

C. The commission may approve the application for the certificate without a formal hearing if no protest is filed within sixty days of the date that notice is given, pursuant to commission order, that the application has been filed. The commission shall issue its order granting or denying the application within nine months from the date the application is filed with the commission. Failure to issue its order within nine months is deemed to be approval and final disposition of the application; provided, however, that the commission may extend the time for granting approval for an additional six months for good cause shown.

...

The CCN, literally Certificate of Convenience and Necessity, law mandates a public convenience and necessity before issuance *or amendment* of a such a certificate. In other words, such an amendment must be in the public interest. This case does not concern construction of a new facility to provide additional capacity, only an extension the current plant with a gas supply pipeline and relatively minor modifications in the plant. The plant will then use natural gas rather than coal. The time frame of the testimony was twenty years into the future. SPS must demonstrate that the conversion is the most cost effective of feasible alternatives. Essentially, which alternative is the “least-cost” alternative. Additionally, which, non- quantitative, rather than solely qualitative, criteria may be considered. In this case the consideration of non-quantitative criteria was important because there was no *statistical* difference between the two disputed alternatives.

Facts

There is no dispute in the evidence that Harrington produces 1050 MW of power and no dispute that the power contributes to reliable provision of power to consumers, including those in New Mexico. SPS presents as a “given” that it must cease coal-fired operations by December 31, 2024. While this deadline is not in dispute, the finding herein is not “driven” by that deadline. That gas is a cleaner fuel than coal is also not disputed.

Issue

The dispute, as framed by the testimony of witnesses, and arguments of counsel is, succinctly: Which option provides the best public net benefit ? Converting all three units from coal to gas, or converting only two units, retiring one?

Evidence

The evidence in this case is substantial in quantity. The parties, SPS, Sierra Club, in particular, fully presented evidence regarding complex computer modeling; they were permitted to present testimony and arguments about which data should or should not be included in said models; and argued as to what, if anything, beyond the modeling outputs should be considered. Although, the volume of the evidence is substantial, the volume of determinative credible evidence is less so.

The current Harrington CCNs were approved by the Commission during the 1970s. (DT Grant p.10)

All three of the Harrington units were designed to burn both coal and natural gas. (DT Grant p. 9)

To convert from the current coal to gas fuel...

“... additional natural gas burners and associated piping and control equipment are needed to convert each unit. The plant’s common gas distribution header must also be increased in size to deliver a larger natural gas flow to the three units. Finally, a new 20-inch diameter natural gas supply line will be constructed from Harrington to the northeast and will tap into two different gas supplier transmission lines approximately twenty miles away.” (DT Grant, p. 9)

The estimated cost for the conversion is \$75 million which included the estimated \$2.1 AFUDC. This cost is the total company cost which could be further broken down to the approximate 1/3 New Mexico portion as compared to the 2/3 Texas portion. (DT Lytel, p.15) Most of cost of conversion is to construct a pipeline which could serve either two or three units.

In his Direct Testimony, on behalf of SPS, Excel Director Elsey presented present the below table summarizing the two-year and twenty-year analysis of six different scenarios. The chart includes the critical determination that that converting all three units would cost only \$5 million more (net present value, over twenty years) than converting two of the units and retiring one unit. (DT Elsey, page 33)

| Scenario | Description | Delta (\$M) | NPV (\$M) 2022-2024 | Delta (\$M) | NPV (\$M) 2022-2041 |
|------------|---|-------------|---------------------|-------------|---------------------|
| Scenario 2 | Convert all Harrington Units to natural gas | \$0 | \$2,450 | \$0 | \$11,949 |
| Scenario 1 | Retire all Harrington Units | \$168 | \$2,618 | \$123 | \$12,072 |
| Scenario 3 | Install DSI on all Harrington Units | (\$10) | \$2,440 | \$439 | \$12,388 |
| Scenario 4 | Install SDA on all Harrington Units | (\$10) | \$2,440 | \$695 | \$12,644 |
| Scenario 5 | Convert 1 Unit to gas / Retire 2 Units | \$92 | \$2,542 | \$62 | \$12,011 |
| Scenario 6 | Convert 2 Units to gas / Retire 1 Unit | \$39 | \$2,490 | (\$5) | \$11,944 |

The conclusion was achieved with computer modeling. For practical reasons, including the need for continuing power, and the very high cost of installing “scrubbers” on units, only Scenarios 2 and 6 were viable options. SPS’s Ben Elsey, presented SPS’s credible interpretation of the data in his Direct Testimony on page 35:

Over a 20-year period, converting all three Harrington units to operate on natural gas and preserving the capacity value (Scenario 2) is \$123M lower in cost than the retirement of all three Harrington units (Scenario 1). Furthermore, SPS’s customers will incur \$168M of additional costs between now and the end of 2024, on a PVRR basis, if all three Harrington Units are retired instead of converting the units to operate on natural gas. The high customer rate impact in the first three years is due to the need to accelerate collection on the remaining depreciation expense and any decommissioning costs associated with Harrington 12 to 16 years earlier than currently planned.

The partial retirement and partial gas conversion scenarios (Scenarios 5 & 6) favor better than the retirement of all three Harrington units (Scenario 1). Over a 20-year period, converting Harrington Unit 3 unit to operate on natural gas and

preserving 355MW of capacity, while retiring Harrington Units 1 and 2 (Scenario 5) is \$62M higher than converting all three units to operate on natural gas, on a PVRR basis. Over a 20-year period, converting Harrington Units 2 & 3 to operate on natural gas and preserving 710MW of capital capacity, **while retiring Harrington Unit 1 (Scenario 6) is approximately \$5M lower cost than converting all three units to operate on natural gas on a PVRR basis.** However, SPS's customers will incur \$39M higher costs between now and 2025, on a PVRR basis, if Harrington Unit 1 is retired. *Emphasis added*

This hearing examiner examines not just the delta figure (\$5M) but also the twenty-year net present value estimated cost figures, noting that the \$5M delta between the two options is a very small percentage of either of the two alternative cost figures in the final column.

Witness Elsy testified credibly that a \$5 million net present value difference over the projected 20 years is statistically insignificant and within the margin of error for the analysis. He also credibly testified, there being no actual difference, real life (qualitative vs. quantitative) concerns must be considered. That even if the third converted unit were used only for peak demand, it would provide improved reliability (a substantial benefit if there were an unusual weather event for example) not reflected in the pure financial analysis. Also, that continuing the full 1050 MW capacity of the plant with three units, facilitates the movement toward renewables, with the security it provides, as somewhat less-reliable renewables are added to the power grid.

SPS's request to convert Harrington to natural gas is consistent with the Energy Transition Act's ("ETA") goal of 100% carbon-free energy by 2045, because the units at Harrington are scheduled to reach the end of their useful lives between 2036 and 2040 – 5 to 9 years before the ETA's 2045 deadline. (DT Grant, p.12) More generally, and more important to the local Texans, the conversion to from coal will improve air quality in Texas.

Staff recommended approval of SPS's requests for both the CCN amendments and the AFUDC, but suggested the following regulatory reporting conditions:

- a. SPS shall file copies of all construction permits received for this project in this docket within two weeks of receipt of the final permits required;
- b. SPS shall file in this docket the actual costs of this project, including the actual allowance for funds used during construction (“AFUDC”) amounts and how they were calculated, and, also, a comparison of the original estimate to the actual installed costs, within one month of becoming available;
- c. SPS shall file a notice of the COD of these units; and
- d. SPS shall file a notice of the date that fuel costs, whether associated with start-up or commercial operation as a natural gas plant, shall first be included in SPS’s Fuel and Purchased Power Cost Adjustment Clause.
(DT Sidler p.16)

The Sierra Club witness, relying upon questionable modeling, and controverting her earlier sworn testimony, was successfully impeached and her contentions not persuasive. She contended that the computer modeling should have included a speculative variable, accounting for the future environmental cost of pollution from the gas fuel. She proposed a strict application of the least-cost concept relying upon the insignificant \$5M NPV 20-year cost difference; The lease-cost concept did not however consider real life qualitative factors, like reliability and capacity for peak demand, allowing a net public benefit from converting all three units. All of Sierra Club’s evidence and arguments were considered but were not sufficient refute SPS’s clear presentation-- that actual real-life practical matters are important, especially in a case where there is no substantial difference in projected cost between two alternatives. Witness Koujak presented the “qualitative factors” concept credibly in his testimony. (DT Koujak, p.15) The public benefit of preserving the capacity of the third unit for real-world reliability, is the straw which tips the scale in favor of converting all three units.

IV. Findings of Fact

The Hearing Examiner recommends that the Commission **Find** as follows:

1. All findings of fact and conclusions of law contained in all sections of this Recommended Decision are adopted as findings of fact and conclusions of law of the Commission.

2. SPS is a public utility, and its New Mexico retail service is subject to the jurisdiction of the Commission.

3. Reasonable, proper and adequate notice of SPS's Application and these proceedings has been provided.

4. The proposed amendments to the CCNs allowing thereby allowing the proposed project, a conversion of the fuel used at Harrington Generating Station from coal to natural gas, is required by public convenience and necessity and will not result in unnecessary duplication or economic waste. Amendment of the CCNs, as requested, for the conversion, is in the public interest and should be approved.

5. The estimated cost of the project, as proposed by SPS in the Application, is approved.

6. The accrual of an Allowance for Funds Used During Construction (AFUDC) is appropriate.

7. The conditions of approval requested by PRC Staff regarding regulatory reporting are reasonable.

V. Conclusions

SPS satisfied its burden to prove by a preponderance of the evidence that the Commission should approve the requested amendments to its Certificates of Public Convenience and Necessity allowing the conversion of the Harrington Generation Station from Coal to Natural Gas.

There being no persuasive evidence in opposition thereto, the Commission should also approve the request for the certified Estimated Cost of Construction and authorize the accrual of an Allowance for Funds Used During Construction. (AFUDC).

There being evidence in opposition to the reasonable regulatory reporting conditions of approval as set forth by the Staff witness, the Commission should include said conditions in the Final Order.

VI. DECRETAL PARAGRAPHS

The Hearing Examiner recommends that the Commission Order as follows:

A. The findings, conclusions and rulings contained in this Recommended Decision are adopted and approved as findings, conclusions and rulings of the Commission

B. SPS's requested amendments to its Certificates of Convenience and Necessity for the Harrington Generation Station allowing conversion from coal to natural gas as fuel are GRANTED, subject to the following conditions:

a. SPS shall file copies of all construction permits received for this project in this docket within two weeks of receipt of the final permits required;

b. SPS shall file in this docket the actual costs of this project, including the actual allowance for funds used during construction ("AFUDC") amounts and how they were calculated, and, also, a comparison of the original estimate to the actual installed costs, within one month of becoming available;

c. SPS shall file a notice of the COD of these units; and

d. SPS shall file a notice of the date that fuel costs, whether associated with start-up or commercial operation as a natural gas plant, shall first be included in SPS's Fuel and Purchased Power Cost Adjustment Clause.

C. To the extent requested, SPS is GRANTED approval to include AFUDC in the Certificate of Estimated Cost of the Project.

D. The Commission accepts SPS's estimated cost for purposed of the Cost Overrun Rule.

E. Any and all ratemaking aspects of the project are not part of this proceeding and are reserved for future proceedings before the Commission.

F. This Order is effective immediately.

ISSUED at Santa Fe, New Mexico this 1st day of April, 2022

NEW MEXICO PUBLIC REGULATION COMMISSION

/s/ Robert J. Lennon

Robert J. Lennon,
Hearing Examiner

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF SOUTHWESTERN PUBLIC)
SERVICE COMPANY’S APPLICATION 1) TO AMEND)
ITS CERTIFICATES OF PUBLIC CONVENIENCE AND)
NECESSITY TO CONVERT HARRINGTON)
GENERATION STATION FROM COAL TO NATURAL)
GAS, 2) FOR AUTHORIZATION TO ACCRUE)
ALLOWANCE FOR FUND USED IN CONSTRUCTION,)
AND 3) FOR OTHER ASSOCIATED RELIEF)**

CASE NO. 21-00200-UT

CERTIFICATE OF SERVICE

I CERTIFY that on this date I sent, via email only, a true and correct copy of the

Recommended Decision issued on April 1, 2022, to the following:

- | | | | |
|----------------------------|--|-------------------------|--|
| Mark A. Walker | Mark.A.Walker@xcelenergy.com ; | B. Tyler | bltyler@hollandhart.com ; |
| Mark Santos | Mark.santos@crtxlaw.com ; | Steven S. Michel | smichel@westernresources.org ; |
| Catherine Norman | Kate.norman@crtxlaw.com ; | Cydney Beadles | cydney.beadles@westernresources.org ; |
| Jeffrey L. Comer | jeffrey.l.comer@xcelenergy.com ; | April Elliott | april.elliott@westernresources.org ; |
| Cindy Baeza | cindy.baeza@xcelenergy.com ; | Pat O’Connell | pat.oconnell@westernresources.org ; |
| Zoe E. Lees | Zoe.E.Lees@xcelenergy.com ; | Maj Holly L. Buchanan | Holly.buchanan.1@us.af.mil ; |
| Will DuBois | Will.w.dubois@xcelenergy.com ; | Mr. Thomas Jernigan | Thomas.Jernigan.3@us.af.mil ; |
| William Grant | William.a.grant@xcelenergy.com ; | Capt Robert L. Friedman | Robert.Friedman.5@us.af.mil ; |
| Mario A. Contreras | Mario.a.contreras@xcelenergy.com ; | Mrs. Ebony M. Payton | Ebony.Payton.ctr@us.af.mil ; |
| Randy Bartell | rbartell@montand.com ; | TSgt Arnold Braxton | Arnold.Braxton@us.af.mil ; |
| Sharon Shaheen | sshaheen@montand.com ; | Dana S. Hardy | dhardy@hinklelawfirm.com ; |
| Steve W. Chris | Stephen.Chriiss@walmart.com ; | Sarah Merrick | sarahmerrick@eversheds-sutherland.com ; |
| David A. Rueschhoff | darueschhoff@hollandhart.com ; | Michael McMillin | mmcmillin@omm.com ; |
| Thorvald A. Nelson | tnelson@hollandhart.com ; | Omme Service | ommesevice@omm.com ; |
| Nikolas Stoffel | awjensen@hollandhart.com ; | Joan Drake | jdrake@modrall.com ; |
| Austin W. Jensen | nsstoffel@hollandhart.com ; | Perry Robinson | Perry.Robinson@urenc.com ; |
| Adele Lee | aclee@hollandhart.com ; | Michael P. Gorman | mgorman@consultbai.com ; |
| Gina Gargano-Amari | glgarganoamari@hollandhart.com ; | Amanda Alderson | aalderson@consultbai.com ; |
| Phillip G. Oldham | poldham@omm.com ; | William Templeman | wtempleman@cmtisantafe.com ; |
| Katherine Coleman | kcoleman@omm.com ; | Michael J. Moffett | mmoffett@cmtisantafe.com ; |
| Melissa Trevino | Melissa_Trevino@oxy.com ; | Keven Gedko | kgedko@nmag.gov ; |
| Jason Marks | lawoffice@jasonmarks.com ; | Sydney Wright | swright@nmag.gov ; |
| Joshua Smith | Joshua.smith@sierraclub.org ; | Gideon Elliot | gelliott@nmag.gov ; |
| Dru Spiller | Dru.spiller@sierraclub.org ; | Jennifer Van Wiel | jvanwiel@nmag.gov ; |
| Cara Lynch | Lynch.Cara.NM@gmail.com ; | Andrea Crane | ctcolumbia@aol.com ; |
| Don Hancock | Sricdon@earthlink.net ; | Doug Gegax | dgegax@nmsu.edu ; |
| Bradford Borman | Bradford.Borman@state.nm.us ; | Matthew Miller | Matthew.miller@sierraclub.org ; |
| John Bogatko | John.Bogatko@state.nm.us ; | Stephanie Dzur | Stephanie@Dzur-Law.com ; |
| Marc Tupler | Marc.Tupler@state.nm.us ; | April Elliott | ccae@elliottanalytics.com ; |
| John Reynolds | john.reynolds@state.nm.us ; | | |
| Judith Amer | Judith.Amer@state.nm.us ; | | |
| Milo Chavez | Milo.Chavez@state.nm.us ; | | |
| Jack Sidler | Jack.Sidler@state.nm.us ; | | |
| Elisha Leyba-Tercero | Elisha.Leyba-Tercero@state.nm.us ; | | |
| Chuck Martinez | Chuck.martinez@state.nm.us ; | | |
| Gabriella Dasheno | Gabriella.Dasheno@state.nm.us ; | | |
| Georgette Ramie | Georgette.Ramie@state.nm.us ; | | |
| David Ault | David.Ault@state.nm.us ; | | |
| Robert Lundin | robert.lundin@state.nm.us ; | | |
| Peggy Martinez-Rael | Peggy.Martinez-Rael@state.nm.us ; | | |
| Elizabeth Ramirez | Elizabeth.Ramirez@state.nm.us ; | | |
| Ana C. Kippenbrock | Ana.kippenbrock@state.nm.us ; | | |

DATED April 1, 2022.

NEW MEXICO PUBLIC REGULATION COMMISSION

Ana C. Kippenbrock

Ana C. Kippenbrock, Law Clerk