

December 12, 2005

Santa Fe County Commissioners: Mike Anaya, Paul Campos, Harry Montoya, Jack Sullivan Virginia Vigil

Santa Fe City Councilors: Patti Bushee, Miguel Chavez, David Coss, Karen Heldmeyer, Carol Robertson Lopez, Matthew Ortiz, David Pfeffer, Rebecca Wurzbarger

RE: Report of the Santa Fe Energy Task Force

Dear Commissioners and Councilors:

As Chair of the Joint Santa Fe Energy Task Force, I present the enclosed report for your consideration.

Please note that rather than signing the report, I have instead written a dissenting view. I have very strong reasons for doing so, which are outlined in a statement following this letter. I hope that my dissenting views, rather than undermining the work done by PNM and the Task Force, will broaden the discussion with an alternate perspective from which to consider the complex and critical matters presented in the report.

Overall, the actions that Santa Fe decides to take to guide the development of its electrical infrastructure depend on where decision-makers believe the energy industry is headed, and on what they believe will be the economic implications of higher energy costs on our community. Under the assumption that all is basically well and that only minor course corrections may be needed, some recommendations of the report have merit.

However, there is considerable evidence of a growing instability in the energy sector and a worsening economic situation resulting from higher energy costs. Unprecedented one-year price increases for oil (31 percent) and natural gas (108 percent) only hint at the larger problem of energy-resource degradation, which continues to drive prices further upward. Electricity rate-hikes filed in neighboring states (30 percent by Xcel Energy, Colorado's largest utility, and 24 percent by Reliant Energy of Houston) foretell what awaits New Mexicans when the current freeze on our rates expires in 2007. Similar increases here could have potentially devastating effects on our local economy. This perspective is missing from the report, and this omission was the primary and overarching reason I chose to dissent.

That said, I greatly appreciate the opportunity to have served as Chair of this effort, and I offer my sincere commitment to continued support of Santa Fe's efforts to create a sustainable energy future.

Sincerely,

Mark Sardella, PE
Chair – Joint Santa Fe Energy Task Force

**Report of the Santa Fe Energy Task Force
Dissent of Mark Sardella, PE – Chair
December 12, 2005**

I disagree with many of the views and recommendations presented in the report of the Santa Fe Energy Task Force dated December 12, 2005. The following are what I feel are the most serious errors and omissions of the work.

The report fails to set an appropriate context for the assignment.

When asked by the governing bodies to review PNM's plans and recommend practical alternatives, the Task Force assumes responsibility for setting an appropriate context for the assignment. If things in the energy industry were basically OK, and Santa Fe was just looking for a second opinion to validate PNM's assertions, then some of the recommendations of the report might be appropriate. But given the current climate of energy industry destabilization and rapidly rising energy costs, dismissing measures that could protect our community from economic hardship as being impractical or expensive, as is done throughout the report, is not appropriate.

The report fails to warn of the potential for sharply higher rates after 2007.

The discussion of PNM's future electric rates tells that their rates have fallen over the past decade, and that the next rate case will be after 2007. But there is insufficient discussion of current trend of electricity rates in neighboring states where there is no rate freeze in place. A more appropriate discussion would include how rate hikes like those now taking place in Colorado and Texas (30 percent and 24 percent, respectively), if matched here, might affect Santa Fe, and what the community can do to best protect itself against such a scenario. The report's assertion that higher natural gas costs "should have only a moderate effect on the price of electricity in Santa Fe" fails to contemplate that energy is embodied, both directly and indirectly, in all consumer goods and services, and across-the-board increases in energy prices therefore put upward pressure on all prices. PNM's operations are not exempt from this! Prudence dictates that we should be prepared for a major wallop when the rate freeze ends in two years.

The report incorrectly asserts that PNM has no plans for major transmission projects in the near term.

PNM plans to encircle the city with a ring of 115-kilovolt power lines. They refer to these lines as "subtransmission", although there is no such regulatory classification. There is a possibility that these lines will be considered "transmission" for regulatory purposes. A new ring of transmission lines around the city should be viewed as "major" in consideration of the implications it could have on Santa Fe's options for the future provision of electric services.

The report fails to contemplate the implications of allowing PNM to encircle the city with 115-kilovolt power lines.

An August 2, 2004 letter from Debbie O'Callaghan of PNM suggests that the 115-kilovolt lines planned for the ring around the city will be considered transmission, while Debbie Brunt of PNM stated at our February 28th meeting that these lines would not be federally regulated. Santa Fe should consider what effect the ring will have, under both regulatory scenarios, on its options for the future provision of electricity. Could distributed generation, under various ownership scenarios, be interconnected to the ring? Could electricity from outside the ring be made available to Santa Feans without paying unreasonable tariffs or

wheeling charges? Does the ring either eliminate, or make much more difficult, the City's option to create a municipal electric utility in the future?

The report dismisses the idea of creating a municipal utility without any discussion of the potential benefits it could bring.

No city embarks on a municipal utility effort because they think it will be fun or convenient. Municipal electric utilities are generally created for economic reasons following the realization that public power rates are generally 10 percent lower than rates from investor-owned utilities, and that operating a utility can provide significant revenues. Furthermore, energy dollars spent for municipal electricity recirculate within the local community, creating increased economic activity, whereas dollars given to investor-owned utilities tend to leave town without providing local benefits. Other advantages – especially the elimination of barriers to interconnection of distributed generation, all stem from one primary difference between the two ownership models: An investor-owned utility makes all decisions based on shareholder value, while a municipal utility makes its decisions based on community value. The two perspectives yield markedly different results to questions of whether to proceed with infrastructure projects, incentive programs, and education programs.

The report incorrectly asserts that creating a municipal utility involves condemnation and costly litigation.

Rio Rancho has already contracted for a preliminary investigation of the costs and benefits of creating a limited municipal utility to serve currently un-served areas of the city (i.e. new development). Such an approach would hardly spark a condemnation battle, since condemnation isn't contemplated. This "toe-in-the-water" approach could help Santa Fe explore the benefits of creating a full municipal utility without posing an immediate threat to PNM. Considering the importance of reliable, affordable electricity in Santa Fe, the threat of sharply higher electricity costs after 2007, the potential for financial benefits from serving a \$65 million electricity market, and the ability of even a limited municipal utility to help Santa Fe reach its goal to become a renewable energy capital, spending a few thousand dollars to begin an investigation of this option is more than prudent.

The report hails the benefits of PNM-financed efficiency projects without pointing out a very serious drawback of the program.

The greatest benefits of energy efficiency projects follow from the reduced number of dollars leaving the community via the utility company. A one-time expenditure on higher efficiency pays dividends year after year – dividends which stay in the community and can be spent on other things in the local economy. If the cost-saving measure is implemented under PNM's efficiency program, which includes a full cost-recovery mechanism that assures that their revenues remain unchanged, there is **no reduction** of the energy-dollar flow leaving town, and thus no benefit to the community. Paying a utility to **not** deliver energy furthermore sets an extremely dangerous precedent that must be avoided!

Barriers to interconnection of distributed generation, and how to remove them, are not discussed.

The benefits of interconnecting non-utility-owned generation to the power grid are well understood – so well, in fact, that many countries now impose mandatory interconnection policies and award damages to owners of generators who encounter utility-imposed barriers. Attempts in this country to create a third-party-neutral, mandatory interconnection standard have been successfully blocked by utilities, however. (I was part of the IEEE team that

worked for many years on the most recent effort to create such a standard.) The utility's ability to block interconnection of generators prevents large-scale, strategic deployment of distributed resources that could reduce system cost and improve reliability. There are several ways around this problem, which must be investigated in light of the potential benefits.

The report incorrectly asserts that there are no practical alternatives to PNM's near-term proposals.

PNM's proposals are technical in nature, and in order to determine whether the measures they propose are necessary requires an engineering review that is beyond the capability of the task force. That said, the appropriate action is to recommend a third-party technical review of PNM's work, including their assertion that no practical alternatives exist. Agreeing with their technical assertions without having the necessary technical background to evaluate them is inappropriate.

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