

## **Executive Summary**

### **Implementing the Energy Transition Act**

#### ***PNM's Next Step Toward a Clean Energy Future***

The State of New Mexico is fully committed to climate action. The Energy Transition Act charts a new energy policy course for the state to transition from coal-fired energy resources to a carbon-free environment. The new law does so by creating an innovative framework for New Mexico's public utilities to replace coal plants with proven resources such as wind, solar and cleaner natural gas, as well as cutting-edge energy storage technologies. The Energy Transition Act also provides utilities with an important financial tool to accomplish this goal and help support impacted communities.

In response to the Energy Transition Act, PNM is working hard to become the nation's first investor-owned utility to achieve a zero-emission goal by 2040. We're doing this through a collaborative approach to replace the generation from the San Juan coal plant. By doing this, we are committed to get to the best result for New Mexico's future while keeping energy affordable for the communities we serve.

#### ***Overview of PNM's Consolidated Application***

PNM is asking the Commission to consider three actions that will enable us to take the next step in the transition towards a cleaner energy future for all. We are making these requests in a Consolidated Application so the Commission can look holistically at the new vision contemplated by the Energy Transition Act.

- First, we are asking the Commission to approve the retirement of the San Juan coal plant as of July 1, 2022.
- Second, we are seeking to replace the coal-fired units at San Juan with a portfolio of cleaner and reasonably-priced power generation resources.
- Finally, we are asking the Commission to approve a financing order that will permit lower-cost debt to finance the transition to cleaner energy resources and fund state-administered tribal and community programs and severance and job training for workers at the plant and associated coal mine.

#### ***The Path Forward***

To replace the coal-fired generation at San Juan, PNM is including four resource replacement scenarios in its Consolidated Application. Our proposal for replacement resources benefited from a robust RFP response that resulted in a total of 390 bids. Through this process, PNM and outside experts focused on identifying replacement portfolios that will meet the Energy Transition Act's objectives of complying with renewable portfolio standards and other environmental goals, mitigating the impact of coal retirement on tribal and local communities, and maintaining reliable service. Moreover, the San Juan coal plant retirement is just a first step on a longer carbon-free energy path for New Mexico. PNM anticipates adding even more

renewable and storage resources through subsequent filings in the coming years, especially if the cost declines for these resources continue.

The first scenario includes a combination of new solar resources and battery storage distributed throughout New Mexico, with flexible, fast-start natural gas generation located in San Juan County. The following table provides an overview of the proposed replacement resources in this scenario.

<b>Project</b>	<b>Resource Type</b>	<b>Nameplate Capacity</b>	<b>County</b>
Arroyo Solar Project	Solar	300 MW	McKinley
Arroyo Storage Project	Battery	40 MW	McKinley
Jicarilla 1 Solar Project	Solar	50 MW	Rio Arriba
Jicarilla Storage Project	Battery	20 MW	Rio Arriba
Sandia Storage Project	Battery	40 MW	Bernalillo
Zamora Storage Project	Battery	30 MW	Bernalillo
Pinon Gas Plant	Natural Gas	280 MW	San Juan

PNM is recommending this portfolio to the Commission as the optimum mix of resources to transition our system to meet the short- and long-term objectives of the Energy Transition Act. If this scenario is approved, the penetration of renewable resources on our system would essentially double over the next couple of years, putting the Company on track to meet the Act’s 40 percent renewable portfolio standard in 2025. Independent power producers, not PNM, will own and operate approximately half of the battery and all the renewable resources in Scenario 1.

The following resource replacement scenarios are also included for consideration in PNM’s Consolidated Application:

- Under the second scenario, the San Juan coal plant would be replaced entirely by natural gas resources located exclusively in San Juan County.
- Under the third scenario, the coal plant would be replaced by renewables and battery storage distributed throughout the state, with no new natural gas generation.
- Under the fourth scenario, the coal plant would be replaced entirely by renewable energy resources.

PNM has concluded that the third and fourth scenarios are not adequate and reliable replacement portfolios for the San Juan coal plant. We understand that people will have questions about our

assessment of these scenarios, and we are looking forward to engaging with stakeholders and continuing the dialogue to identify an energy solution that works best for New Mexico.

### ***Community Impact***

This plan takes into account the well-being of our local communities and our state at large in mitigating the impact of coal plant retirements. It will help support the tax base for the school district and create a significant number of construction jobs for workers in San Juan County. PNM recognizes and is sensitive to the fact, however, that retiring the San Juan coal plant will result in the loss of long-term jobs in the Farmington area. These high-wage jobs will not be easily replaced. The Energy Transition Act also addresses the effects of the coal plant closure by dedicating a significant portion of the proceeds from the sale of energy transition bonds to provide severance and job training for affected PNM and coal mine employees, as well as additional tribal and regional support through state-administered programs.

### ***Benefits of Commission Approval***

- Significantly reduces coal-fired generation in PNM’s resource portfolio.
- Takes advantage of available tax incentives for renewable power.
- Supports economic development opportunities in San Juan County.
- Delivers significant carbon reductions.
- Puts PNM on a path to comply with the Energy Transition Act’s renewable portfolio and zero-carbon standards.
- Energy Transition Act securitization finances transition at the lowest feasible cost.
- Accelerates the transformation of our energy resources while keeping energy affordable.
- Maintains reliable service.

### ***Conclusion***

The Energy Transition Act provides a roadmap to a clean energy future for all New Mexicans. PNM looks forward to doing our part and taking the next step to make this vision a reality.