

BOARD OF PUBLIC UTILITY COMMISSIONERS

The special budget meeting of the CITY OF FARMINGTON BOARD OF PUBLIC UTILITY COMMISSIONERS was held Wednesday, April 2, 2014 at 10:00 a.m., at the Farmington Public Library, 2101 Farmington Avenue, Farmington, New Mexico, in full conformity with the laws and ordinances of the Municipality.

I. GENERAL

1. Commission members present: Amanda Weese
James Spence
Jeff Parkes
Chris Hunter
Tory Larsen
Carol Cloer
Bill Standley
Marty Johnson
Vic Eicker
Keith Johns
Bill Hall

City Council Liaison: Gayla McCulloch

City Council members present: Dan Darnell
Mary Fischer
Gayla McCulloch
Nate Duckett

Mayor: Tommy Roberts

City personnel present:

Water/Wastewater	Jeff Smaka
Public Works	Ruben Salcido
CH2MHill OMI	Ron Rosen
PUC Secretary	Amy McKinley
Accounting	Sheree Wilson
Utility Business Operations	Susan Nipper
Electric Utility Director	Michael Sims
Electric Transmission & Distribution	Rodney Romero
Electric Generation	Jim McNicol
Electric Engineering	John Armenta
Administrative Services	Andy Mason
City Manager	Rob Mayes

Guests:

Richard Miller, Electric Generation
Annette Lobato, Electric Generation
Jim Eargle, Electric Generation

2. Chair Weese called the meeting to order at 10:00 AM with a quorum present to conduct the business of the Commission.

II. BUSINESS

1. Electric Department Budget – Michael Sims

Mr. Sims welcomed the Council and guests to the budget meeting of the Public Utility Commission. Mr. Sims acknowledged the staff of the utility for the efforts and hours put in to create the FY 2015 and 2016 Electric Department Budget.

Mr. Sims reminded the Commission that the philosophy of the Farmington Electric Utility System is to “Provide reliable and low cost electricity to our customers through operational excellence and exceptional customer service”.

Mr. Sims shared with the Commission and Council members a power point presentation which highlighted portions of the proposed FY 2015 and FY 2016 Electric Department Budget.

Commissioner Standley left the meeting at approximately 11:15 AM.

Mr. Sims spoke about resource adequacy and efficiency and detailed that the utility’s generation resources are aging. Mr. Sims stated that some of the generation equipment used daily at the Animas Power Plant is sixty years old; the utility’s portion of the San Juan Generating Station was purchased in 1982, thirty-two years ago; the Navajo plant was put into service twenty-eight years ago in 1987 and even the Bluffview plant was installed ten years ago.

Mr. Sims emphasized that regulatory compliance is a huge challenge for the utility; new rules and regulations are continuously thrust upon the utility by the federal government. Mr. Sims stated NERC reliability standards are a part of regulatory compliance that is worked on daily to maintain regulatory compliance. Mr. Sims stated these are critical infrastructure cyber security standards and the standards are tremendous. Mr. Sims stated the utility continues to deal with environmental regulatory standards which are also ever-changing. Mr. Sims stated a huge amount of manpower within the electric utility is put into the regulatory compliance element of the utility’s goals.

Mr. Sims stated customers expect environmental stewardship from the utility and while the utility has always had renewable energy in the form of hydro energy, the utility is going to begin looking at different options for renewable energy.

Mr. Sims explained the Power Cost Adjustment (PCA) and stated the PCA is a charge that is charged to all of the utility customers when the power costs are over and above the part of the power costs that are built into the base rate. Mr. Sims stated a power cost of \$0.039 is built into the current base rate for all customer classes. Mr. Sims stated that if during the month the actual power costs are in excess of the \$0.039, an additional fee called the PCA is charged to the customers. Mr. Sims stated the PCA can go up and down, depending on many things; major maintenance that may be going on at one or more of the power plants, purchase power costs, fuel costs; these are just a few examples of the calculations that go into the power cost to determine whether there is a need for a PCA.

Mr. Sims stated the utility receives Wheeling Revenue from three different entities; PNM to the City of Aztec; the utility wheels a small amount of power for Tri-State and the utility wheels power out of the system from the Williams plant in Bloomfield.

Mr. Sims reviewed the various power resources from which the utility receives power. Mr. Sims stated the utility has a contract with the Western Area Power Administration which runs through 2024 for power purchases. Mr. Sims said the utility receives power resources from its 43 MW of San Juan Unit 4. Mr. Sims also reviewed the resources received from the Animas Power Plant, Bluffview Power Plant and Navajo plant. Mr. Sims detailed the age of the Animas Power Plant. Mr. Sims stated the steam portion of the Animas plant is sixty years old. Mr. Sims stated the plan is to take the steam portion of the plant off line and retire it at the end of this year. Mr. Sims stated there are environmental challenges associated with the steam side that will cost millions of dollars to mitigate if that part of the plant is kept in service. Mr. Sims stated major maintenance would have to be performed on the steam portion of the plant and, due to the age of the plant, it is not worth the cost. Mr. Sims stated the gas turbine at the Animas Plant is in good shape and is still an economical resource but it will be operating in simple cycle rather than combined cycle. Mr. Sims stated the utility’s plan is to use the Animas plant as a peaking unit beginning the end of this year. Mr. Sims stated a purchase power agreement would be used to replace the short term loss of power. Mr. Sims stated the utility is aware of the challenge of replacing the Animas Plant power in a long term manner.

Mayor Roberts asked what the projected cost is of the retirement of the steam component of the Animas Plant.

Mr. Sims stated there is no cost related to the retirement of the steam component of the plant and the utility does not anticipate having to do anything with the steam portion except to quit using it. Mr. Sims said there is an estimated \$1 million cost directly related to the retirement for some major inspections to the gas turbine that have been moved up. Mr. Sims stated this cost is completely offset by the difference in the power cost.

Mayor Roberts asked if there would be a physical change with how the Animas Plant looks on the ground.

Mr. Sims stated the plant will look the same.

Commissioner Hunter asked what the current installed capacity is on the Animas Plant and what the capacity will go down to when the combined cycle is removed from the Animas Plant.

Mr. Sims stated the amount being used today is approximately 25 MW and when the combined cycle is removed it will go down to approximately 19 MW.

Discussion was had regarding what effect the proposed acquisition of more resources in the San Juan Generating Station would have on the projected 2015 electric power resources. Mr. Sims stated the proposed acquisition of more resources in the San Juan Generating Station would change the numbers substantially but it is very difficult to know how the utility's resource division would play out since, if the acquisition of more resources in the San Juan Generating Station did come to fruition, the utility would not take advantage of the added power until 2018.

Commissioner Cloer asked what the status is of the Bluffview expansion.

Mr. Sims stated the Bluffview expansion depends on the potential acquisition of assets at the San Juan Generating Station. Mr. Sims stated that if the acquisition of assets at the San Juan Generating Station does not occur, the Bluffview expansion could take place or the utility would begin looking at another resource.

Mr. Sims reported on the costs associated with the Animas Power Plant. Mr. Sims stated the costs at the Animas plant could be even greater once the utility spends money on the environmental upgrades necessary to keep the Animas plant running. Mr. Sims stated it makes no sense to keep the Animas plant running as it is now.

Mr. Sims stated the utility is conservative when budgeting purchase power because it is volatile; things can affect it; if Palo Verde loses a unit for a couple of months, power costs in the west increase considerably.

Mr. Sims reported that \$19.3 million is the estimated budget amount for purchase power in FY 2016. Mr. Sims stated \$2.5 million is the estimated budget amount for reimbursement to the General Fund for services such as attorney fees and administrative services in FY 2016.

Mr. Sims reported on the Capital Project expenses budgeted for the next five years, 2015 – 2020. Mr. Sims stated that in the past, the utility focused mainly for a two-year to five-year period, but not a large effort was put into a long-term capital projects plan. Mr. Sims noted the acquisition of the 65 MW of new generation is in this budget. Mr. Sims stated that if the San Juan acquisition comes to fruition, this money will not be spent in this five year budget period.

Mr. Sims reported on a proposed location for a new substation. Mr. Sims stated the existing Sullivan substation is located at the corner of Sullivan and 30th Street and there is a tremendous amount of residential load and some commercial load on this substation; the utility has had significant issues with this substation over the past five years. Mr. Sims stated the Sullivan substation will be replaced with a new

substation named Cottonwood substation to be located north of the Cottonwood Heights subdivision.

Councilor Duckett asked if the location of the substation at the top of a hill poses any threat as far as lightning strikes.

Mr. Sims stated the location of the new Cottonwood substation does not cause a big concern to the utility.

Mr. Sims reported on the proposed Aztec substation. Mr. Sims stated this substation would serve multiple purposes, not just to have transmission into Aztec, but to connect the northwest side to the northeast side of the utility's system as well.

Mr. Sims reported on the capital improvements related to the Relay and SCADA issues. Mr. Sims stated these are not big ticket items, but there are many of these projects and a lot of work is required in making these upgrades.

Mr. Sims reported on the \$2.5 million environmental project that must be completed to enable the utility to discharge cooling tower effluent to the river from the Bluffview Power plant. Mr. Sims stated the only real emission this effluent has is TDS. Mr. Sims stated that the EPA will not allow the utility to discharge this effluent to the City sewer system, but the EPA will allow, within limits, discharge to the river. Mr. Sims stated if another unit is built at the Bluffview location there would be too much effluent to discharge to the river and the EPA would not allow that; very expensive water treatment equipment would have to be installed and this could make it not advantageous to build a unit there.

Mr. Sims stated the utility is considering installing solar panel systems at four different locations around the system at a budgeted cost of \$200,000. Mr. Sims stated these demonstration projects would be used for utility staff to gain experience with this type of technology so in future years, the utility could potentially build a utility scale, solar generation plant. Mr. Sims stated solar costs have come down in the last few years and it is anticipated that by the 2017 budget, while solar plants would not be as inexpensive as fossil fuel, they will be in the range to where it would not be ridiculously expensive to put those in. Mr. Sims stated the utility has a good location for solar development at the Bluffview Power Plant, right on Murray Drive.

Councilor Fischer asked if there would be enough room at the Bluffview Power Plant site for a solar plant as well as a Bluffview 2 plant. Mr. Sims stated the highway frontage along Murray Drive is where the utility would anticipate putting something like a solar plant; there are other locations, but the Bluffview location is along the roadway and people can see it.

Mayor Roberts observed that the \$200,000 would get the solar assets on the ground and asked how the arrangement would be structured between the utility and the city departments where these generators would be located.

Mr. Sims stated these demonstration installations will not be very large; the demonstration panel in front of the library would supply a couple of rooms with lights, it would not produce much power. Mr. Sims stated that in regards to billing or those kinds of things, this has not yet been worked out.

Mayor Roberts asked if the General Fund would be expected to fully pay for the costs or would there be some kind of subsidy flowing through to the General Fund from the utility.

Mr. Sims stated the General Fund would under no circumstances pay more for the electricity than it does now. Mr. Sims stated the utility would buy the infrastructure, the solar panel and all that goes with it.

Mayor Roberts thanked the utility staff for the forward thinking and stepping into the solar arena as it is something that needs to be done. Mayor Roberts commented that these projects still need to be examined from an economical perspective.

Mr. Sims stated the only commitment the utility is making today is the proposed \$200,000 so the utility and the community may learn the benefits of utilizing solar technology.

Commissioner Hunter questioned whether the utility had considered the costs of its stranded assets in determining the rates associated with renewable energy and used an example of an Arizona utility and the arguments being considered by the state regulatory commission associated with the utility's ability to recover stranded assets through a different rate structure. Mr. Sims said that FEUS has the same issues but at the time the renewable rates were put in place and using PNM as an example, the general practice was not to consider those costs. Mr. Sims said that practice is changing throughout the industry. Mr. Sims said that as the utility realizes more renewable customers, those rates will have to be re-evaluated. Mr. Mayes reiterated that the utility will re-evaluate the rates periodically and adjust them as needed. Mr. Hunter restated his belief that the utility needs to be ahead on this subject to make sure the rates are fair for all customers. Commissioner Hunter said that educating the public on the true costs of should be included in this effort.

Councilor Fischer asked what the utility is doing about wind power.

Mr. Sims stated wind maps demonstrate there is not enough wind to support a wind generator in the San Juan County area. Mr. Sims said a wind generator only operates within a certain range of wind velocities. Mr. Sims stated with the wind speeds Farmington has seen the last few days, a wind generator would not be operating.

City Manager Mayes noted the Commission is only asked to recommend approval of budget numbers for the next fiscal year; all other numbers are projections.

City Manager Mayes stated that any kind of concept of any type of utility level solar program would be vetted through the integrated resource plan and vetted through multiple discussions to determine the economic impact. City Manager Mayes stated the locations identified for the four potential exhibition projects are tentative as well, and have not been adopted by the City Council. CM Mayes stated the discussion of the locations have to go through the policy process.

Mayor Roberts asked if the cash reserves in the electric utility pooled with the cash reserves from all other funds for purposes of investment.

Mr. Mayes responded yes.

Mayor Roberts asked if most of those funds are in the form of CDs.

Mr. Mason stated that CDs are used, but other types of investment accounts are used as well.

Mayor Roberts asked if an investment policy review committee determines which investment vehicles are used.

Mr. Mayes stated the city is prohibited by statute from investing in high risk investments.

Mayor Roberts asked what the utility's actual experience will be regarding spending what was budgeted.

Mr. Sims stated it is anticipated the utility will complete most of the budgeted items detailed in the FY 2014 fiscal budget.

Mayor Roberts stated that one of the components of the strategic plan is spending down cash reserves by taking some of that money and allocating it toward capital projects. Mayor Roberts asked what the utility's go forward plan is with respect to cash reserve.

Mr. Sims stated that the utility is dipping in the cash reserve account to pay for capital projects. Mr. Sims stated if the utility continues to draw that down over the

next year or so, and if revenues do not turn around and start putting money back in to the cash reserve account, the utility will have to pull back on some capital projects.

Mayor Roberts asked if there is a targeted minimum level of cash reserve that is above the minimum requirements.

Mr. Sims responded no.

Commissioner Eickert observed that it appears a good buffer zone is already built into the budget for use of the cash reserve funds.

Mayor Roberts asked how often the utility does a cost of service analysis.

City Manager Mayes stated the city has committed to performing an analysis at least every three years.

Chair Weese asked for a motion to make a recommendation to City Council.

Commissioner Cloer made a motion to recommend to City Council the approval of the FY 2015 Electric Department budget. Commissioner Hall seconded the motion and the motion passed unanimously.

The Budget meeting broke for lunch at 11:55 AM and was called back in to order at approximately 12:45 PM.

2. Water/Wastewater Budget – Jeff Smaka:

Mr. Smaka reviewed a powerpoint presentation detailing the proposed FY 2015 Water Utility budget and infrastructure issues of the water utility.

Mr. Smaka stated there are approximately 72 miles of 1950's water pipe needing replacement; at a current cost per mile, this replacement will have an estimated cost of \$66 million and at the current rate of revenue it will take 32 years to replace these lines which have reached the end of their service life.

Mr. Smaka stated the average monthly water bill is approximately \$43.00.

Mr. Smaka stated that for FY 2015, the water utility is proposing \$5.7 million in Capital Improvements in the system and \$3 million in water line improvements.

Councilor Darnell asked if renewal and replacement needs to be increased and if it is increased, how many projects can the utility perform before the community begins to view it as a negative issue.

Mr. Smaka responded that the renewal and replacement rate needs to be increased; the lines are not being replaced fast enough. Mr. Smaka stated a rate study is underway to help determine how many projects can realistically be accomplished in a year. Mr. Smaka stated another part of this study is to determine what the utility rate would need to be to accomplish a set amount of projects in a specified amount of time. Mr. Smaka stated the 1950's lines have exceeded their life by ten years or more, these lines need to be replaced.

Mr. Smaka stated a rate study will be brought before the Commission and then forwarded on to Council with recommendations regarding a rate increase.

Mr. Smaka stated that a large percentage of the drop in revenue was from bulk customers; the Navajo Utility Authority has dropped consumption considerably.

Commissioner Hunter asked if the city is in good shape regarding water rights or if the city needs to be more aggressive with obtaining water rights.

Mr. Smaka stated that water rights have been looked at using the current growth rate of 2% and the city water rights will go out to approximately 2055.

Commissioner Parkes stated that it appears that expenses are being projected to be approximately \$3.5 million more than the revenues, which will cut the cash balance almost in half to about \$4 million and asked at what point the water utility becomes concerned with the amount of cash reserves.

Mr. Smaka stated that the minimum required cash balance is approximately \$2 million.

Chair Weese asked for a motion to make recommendation to City Council on the Water department budget. Vice Chair Spence made a motion to recommend to City Council the approval of the FY 2015 Water Department budget. Commissioner Johns seconded the motion and all present stated Aye. Commissioner Eicker was not in the room at the time of the vote by the commission.

Mr. Smaka detailed the proposed FY 2015 Wastewater Utility budget and reviewed the multiple facilities and infrastructure of the utility.

There was discussion regarding the issues regarding the EPA requirements for controlling TDS discharge.

Mr. Smaka detailed the proposed FY 2015 budget figures.

Commissioner Hunter asked if there is a recommended cash reserve for the wastewater budget.

Mr. Smaka stated the recommended minimum cash reserve is approximately \$1.5 million.

Vice Chair Spence noted the difference in the proposed FY 2015 revenue and expense amounts and asked if rates should be increased.

Mr. Smaka stated yes and it is anticipated that a cost of service study will be presented to the Commission in the 2014 calendar year.

Vice Chair Spence stated that he assumed a recommendation of approval is being asked for and he has trouble doing that without a request for a rate increase.

Mr. Smaka stated that spending down cash reserves is included in the proposed FY 2015 budget figures.

Mayor Roberts stated the challenge today is to articulate this is a fiscally responsible budget to adopt.

City Manager Mayes stated that some projects in this proposed FY 2015 budget were budgeted but not spent in prior years but the dollars have been allocated and the cash reserve dollars reflect these allocations.

Mayor Roberts stated there is a cash reserve policy and generally we only dip below the minimum threshold in emergency situations. Mayor Roberts stated his concern is that there is a deviation from the historical informal practice of not dipping below the established threshold and this is being done banking on the approval of a rate increase.

City Manager Mayes stated there is an aggressive project list and the question is if it is too aggressive for the comfort of the Public Utility Commission and the City Council.

Commissioner Eicker stated his impression is the Commission and Council have pushed the utility to improve the infrastructure and this proposed budget demonstrates the utility is seriously working on this.

Chair Weese asked for a motion to recommend approval to City Council of the Wastewater portion of the Water/Wastewater Utilities FY 2015 budget. Commissioner Hall made a motion to recommend to City Council the adoption of

the wastewater portion of the Water/Wastewater FY 2015 budget. Commissioner Johns seconded the motion.

Commissioners in favor of the Motion: Commissioner Hunter, Commissioner Larsen, Commissioner Cloer, Commissioner Hall, Commissioner Johnson, Commissioner Johns and Commissioner Eicker. Commissioners against the Motion: Vice Chair Spence and Commissioner Parkes. The motion passed.

III. ADJOURNMENT

There being no further business to come before the Commission, upon motion duly made and seconded, the meeting was adjourned.

The meeting was adjourned at approximately 2:10 p.m.

Approved this 14th day of May, 2014.


Amanda Weese, Chair