BOARD OF PUBLIC UTILITY COMMISSIONERS

The regular meeting of the CITY OF FARMINGTON BOARD OF PUBLIC UTILITY COMMISSIONERS was held Wednesday, May 8, 2013 at 3:00 p.m., in the Executive Conference Room at City Hall, 800 Municipal Dr., Farmington, New Mexico, in full conformity with the laws and ordinances of the Municipality.

I. GENERAL

1. Commission members present: Amanda Weese

Carol Cloer

Dr. James Spence Bill Standley Dr. William Hall

Tory Larsen

Commission members absent: Vic Eicker

Lonnie Setliff

City personnel present:

Water/Wastewater Water/Wastewater Operations

PUC Secretary
PUC Secretary

Electric Utility Director

Electric Transmission & Distribution Electric Generation Electric Engineering

Customer Service

Administrative Services Director

City Manager Mayor Accounting Jeff Smaka

Ron Rosen Cloey Harrison

Amy McKinley

Michael Sims Rodney Romero

Jim McNicol Gary Rollstin

Millie Raymond Jay Burnham

Andy Mason Rob Mayes

Tommy Roberts Sheree Wilson

- 2. Chairman Weese called the meeting to order with a quorum present to conduct the business of the Commission.
- 3. Chairman Weese stated the minutes of March 13, 2013 were not approved at the approved at the last meeting due to lack of a quorum. Commissioner Cloer motioned to approve the March 13, 2013 PUC Commission meeting minutes which was seconded by Commissioner Larsen and motion was passed unanimously.

II. BUSINESS

1. Approval of FY14/15 Utilities Budget

Commissioner Weese asked for a motion to recommend to the City Council the approval of the FY14/15 Utilities budget. Commissioner Spence asked if there were any changes since the budget meeting and Mr. Sims responded no. Commissioner Spence motioned to approve recommendation of the FY14/15 Utilities budget to City Council which was seconded by Commissioner Hall and motion passed unanimously.

2. Open Meetings Resolution – Jay Burnham

Mr. Burnham presented the Open Meetings Resolution for the open meetings for the Public Utility Commission and stated that the meetings would be held the second Wednesday of every month at 3:00 pm in the Executive Conference Room at City Hall. Mr. Burnham asked for recommendation to City Council for the acceptance of the resolution to accept the date, time and place as presented.

Commissioner Standley motioned to accept and approve recommendation to the City Council the Open Meetings Resolution, which was seconded by Commissioner Cloer and motion passed unanimously.

3. Quarterly Financial Report – Andy Mason

Mr. Mason reported that the Electric Utility's operating revenue was up \$2.6 million from FY12. Electric sales increased \$2.9 million; mainly due to increases in the PCA of \$4 million, offset by decreases in sales to industrial customers of \$1.2 million. Surplus sales were up slightly, \$4 thousand. Other revenues declined by \$385 thousand, mainly due to less auction proceeds and joint use billings. Operating expenses were lower by \$264 thousand. Purchase power decreased \$2.6 million. Fuel costs, natural gas and coal combined increased \$3.4 million. Other expenses were lower by \$1.3 million, mainly due to a \$2.4 million decrease on costs for maintenance projects offset with increases for the amortization of large maintenance costs of \$1.2 million. Non-operating revenues were down \$367 thousand and expenses were also down by \$1.1 million, much of this change was due to reduced transfers to the General Fund for the dividend. Overall the Electric Utility's net income increased by \$3.6 million over last year.

Mr. Mason stated that the Water Utility's operating revenues were \$98 thousand less than the prior year. Water sales were \$114 thousand lower. The renewal/replacement fees increased \$14 thousand, while the water rights acquisition fee had a slight decrease. Operating expenses increased \$121 thousand. The OMI contract decreased \$132 thousand. While salaries and benefits, other operating and depreciation expenses increased a combined \$253 thousand. Non-operating revenues were down \$276 thousand due to lower revenues from grants. Non-operating expenses were \$44 thousand lower. As a result the net income for the Water Utility decreased by \$452 thousand for FY13.

Mr. Mason reported that the Wastewater Utility's operating revenues slightly decrease by \$9 thousand from FY12. Wastewater sales and renewal/replacement fees were increased a combined \$44 thousand and environmental taxes decreased \$53 thousand. Operating expenses decreased \$48 thousand. Salaries and benefits along with other operating expenses reduced a combined \$209 thousand. While combined, the OMI contract and depreciation expenses were \$161 thousand higher. Non-operating revenues decreased \$16 thousand and expenses decreased \$18 thousand. The Wastewater Utility's net income increased by \$41 thousand from last year.

From March 2012 to March 2013, the cash balance changes for the Electric, Water, and Wastewater funds were \$(3,749,594), \$2,536,159, and \$1,645,561 respectively. For the 3rd quarter of FY13, the cash balance changes for the three utilities were \$(1,518,015), \$(1,180,587), and \$121,185.

The City of Farmington Utility System Revenue Bond Series 2002 is comprised of the following amounts as of March 31, 2013:

	9,4	Electric	Water	W	astewater
Revenue Bonds Payable	\$	3,232,653	\$ 697,563	\$	114,783
Bond Premium		30,616	6,606		1,087
Net Revenue Bonds Payable	\$	3,263,269	\$ 704,169	\$	115,870

4. Integrated Resource Plan-Jim McNicol and Patrick Augustine, Pace Global

Mr. McNicol presented information on a new generation opportunity for the City of Farmington and an update on the Integrated Resource Plan.

Mr. McNicol reported that four of the nine owners will be leaving the San Juan Generation Station project. Commissioner Hall asked if these entities can just walk away and Mr. McNicol responded that the owners cannot just walk away. Mr. McNicol stated the current participation agreement expires in 2022, but it is because of the State Implementation Plan and the agreement which was reached by the owners of the plant, the EPA, the State of New Mexico, and the operator of the plant, PNM, that will provide the avenue for the California owners and Tri-state to depart the project. Mr. McNicol reported the State Implementation Plan is a revised alternative to the federal EPA's plan to install SCR's on all four units. Mr. McNicol stated it was

in February 2013 when the agreement in principle was reached with the State of New Mexico, with federal EPA and with PNM, and there was a representative from PNM that came and made a presentation, which calls for the retirement of Units 2 and 3 at San Juan Station on December 31, 2017. Commissioner Spence asked if the value of the remaining five owners is diluted or is it net sum zero or is the asset less valuable per owner. Mr. McNicol answered that the remaining assets (Units 1 and 4) would not be less valuable. Commissioner Cloer asked that as 4% is 43MW, would 4% of 119MW be 43MW. Mr. McNicol responded that it would not be and stated the current capacity is approximately 8.5% of Unit no. 4, which is the 43MW. The City of Farmington has an opportunity to acquire some of the unsubscribed 119MW on January 1, 2018. Mr. McNicol stated that if the City of Farmington were to do that, depending on the amount of those additional MW, then the City of Farmington would be responsible for a different percentage of Unit 4 in the future, a larger percentage than the current 8.5%.

Commissioner Larsen asked about the financial liability that goes along with the cleanup of the plant retirement and if the City buys a percentage of this 119 MW, does it buy a percentage of additional environmental liability and Mr. McNicol responded that the City of Farmington would owe a higher percentage of terminal liability such as would be associated with the retirement of the plant sometime in the future, the decommissioning costs, and the environmental remediation. Mr. McNicol states the departing owners are still responsible for future liability even if they were to leave the project, but it is among a number of topics that is being discussed toward a goal of reaching a deal.

Commissioner Spence asked if the remaining five owners are committed to staying the course and Mr. McNicol responded that the five owners are committed to staying in the project. Mr. McNicol stated that two of the owners, PNM and Tucson Electric, are committed not to take on any amount of the unsubscribed 119MW and the remaining three owners, City of Farmington, UAMPS, and the City of Los Alamos, have an opportunity to take on all or some of the 119MW. Mr. McNicol stated the City of Farmington has an opportunity to commit to acquiring some amount of new capacity in San Juan Unit 4 and there will be no transaction costs associated with that. Mr. McNicol reported there is a real cost, including future O & M, future capital, eventual plant de-commissioning and the City of Farmington would be obligated to pay these costs going forward if the City had a higher ownership percentage in Unit No. 4. Mayor Roberts asked what the combined capacity is on Units 1 and 4 and Mr. McNicol responded 847MW combined. Mayor Roberts asked if the five remaining entities would have 119MW less than that and asked what happens to the 119MW if it is unsubscribed if it would still be produced. Mr. McNicol stated there is some question about whether it would still be produced and that PNM has stated that it will not be part of the solution to find a home for the 119MW. Mr. Sims stated that the most likely scenario is that someone will step up to acquire the 119MW. Mayor Roberts stated that an argument could be made that this is an opportunity to reduce reliance on dirty coal, so the question is, is it going to be produced anyway and Mr. Sims stated that his belief is that it will be. Commissioner Spence asked if these units are going to continue as 100% coal or will there be a migration to an upgrade to a noncoal base and Mr. McNicol stated that the remaining Units 1 and 4 would remain as coal generating units.

Mr. McNicol briefly reviewed the October 12, 2012 presentation by Pace Global at the October 12, 2012 PUC meeting and the most favorable options considered at that time (Portfolios 2 and 7) had to do with the addition of combined cycle natural gas in the 2017 timeframe at either approximately 65MW or a larger plant, 105. Mr. McNicol stated that there was the option to additionally integrate Solar into the portfolio by mid next decade; coal was also studied.

Pat Augustine of Pace Global reviewed the key planning questions and approach that the City currently faces. Mr. Augustine reported that Pace Global worked with the City in 2012 to develop the Risk Integrated Resource plan and there were three major conclusions that came out of that study: 1) the preferred plan, in order to minimize both cost and risk, was to maintain a capacity mix that was close to load expectations; 2) relying on coal additions from San Juan was the lowest cost option but carried quite a bit of risk; 3) the preferred strategy from the 2012 plan was a natural gas combined cycle addition with the ability to supplement with solar.

Mr. Augustine reported that Portfolios 2 and 7 were the preferred options from the 2012 IRP. Mr. Augustine stated that with the present opportunity to acquire a larger stake in San Juan Generating Station, Pace Global constructed different portfolios around Concept 4, a coal based portfolio. Mr. Augustine reported that Portfolio 4.1 is acquiring 60MW of new additional coal at San Juan and that Portfolio 4.1 has an over reliance on coal and significant market exposure. Mr. Augustine stated that Portfolio 4.2 has that 60MW and supplements it with an additional 65MW of a combined cycle of natural gas fired plant. Mr. Augustine stated that Portfolio 4.2 offers the ability to add solar post 2025 just as in Portfolio 7 and that Portfolio 4.2 moves the City into the reserve margin basis of getting that goal of having sufficient owned capacity to meet future load needs without compromising too much on the other objectives. Mr. Augustine stated that Portfolio 4.3 goes up to an 80MW take from San Juan, and that having a very significant share of ownership in that San Juan unit assuming a full 80MW might be at a high risk level, although the cost on cost basis, is lowest.

Mr. Augustine reported that in addition to the 2012 IRP Portfolios 2 and 7, a combination of coal, combined cycle and/or solar additions (Portfolio 4.2) can meet the City's requirements with competitive cost and risk profiles. Mr. Augustine pointed out that a diverse portfolio that includes combined cycle and flexibility to add solar in future provides the lowest overall risk profile.

The recommendation is to acquire an additional 60MW at San Juan Generating Station to be timed on the first day of 2018 or sooner in combination with installing 65MW of new Combined Cycle generation in 2022, and complimentary options of Animas peaking and solar.

Commissioner Standley motioned to recommend to the City Council that they move forward with the purchase of 65MW of additional capacity at San Juan Generation Station Unit 4 subject to final review and approval of negotiation of agreement with City of Farmington which was seconded by Commissioner Cloer. Commissioner Larsen opposed. The motion carried.

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 4:46 p.m.

Approved this 10th day of July, 2013.

James Spence, Board Vice-Chairman