

BOARD OF PUBLIC UTILITY COMMISSIONERS

The regular meeting of the CITY OF FARMINGTON BOARD OF PUBLIC UTILITY COMMISSIONERS was held Wednesday, July 10, 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: Tory Larsen
Vic Eicker
Carol Cloer
Bill Standley
Jim Spence
Amanda Weese – via telephone

Commission members absent: Bill Hall

City personnel present:

Water/Wastewater	Jeff Smaka
Water/Wastewater Operations	Ron Rosen
PUC Secretary	Amy McKinley
Accounting	Sheree Wilson
Administrative Services Director	Andy Mason
Utility Business Operations	Susan Nipper
Customer Service	Nicki Parks
Electric Utility Director	Michael Sims
Electric Transmission & Distribution	Rodney Romero
Electric Generation	Jim McNicol
Electric Engineering	John Armenta
Legal	Jennifer Breakell
City Manager	Rob Mayes
Mayor	Tommy Roberts

Guests:

Enterprise	David T. West
Enterprise	Derrell Morrow
Praxair	Rick Nogger

2. Chair Weese called the meeting to order with a quorum present to conduct the business of the Commission.
3. The minutes of May 8, 2013 were not approved at the last meeting due to lack of a quorum. Commissioner Cloer motioned to approve the May 8, 2013 PUC Commission meeting minutes which was seconded by Commissioner Larsen and motion was passed unanimously.

II. BUSINESS

1. Nomination and Vote for Vice-Chair:

Chair Weese opened the floor for nominations for the office of vice-Chair of the Commission. Commissioner Larsen nominated Commissioner Spence for the position of Vice-Chair, which was seconded by Commissioner Standley and Commissioner Cloer. No other persons were nominated, and the nomination passed unanimously.

2. Customer Service Report:
Nicki Parks, Customer Care Manager reported that for the calendar year 2013 (January to date), 278 families received utility assistance at a total amount of \$36,475.12, approximately \$131.21 per family. For the fiscal year, which just ended June 30, 2013, 461 families were assisted at a total cost of \$56,096.02.

\$100,000 per year is allotted in this fund. In FY 2012, 553 families were helped. The click2gov online utility payments for calendar year 2013 shows 16,869 payments for a total paid of \$2.7 million.

Commissioner Cloer asked if the utility assistance program is a self-referral program or how customers are aware of it, and does the provider get a percentage. Ms. Parks responded that some customers have used the service for years and there is word of mouth for friends and family. Mr. Parks stated that anytime someone calls and asks for assistance paying bill or needing more time to pay, Customer Service refers the customer to ECHO and to LIHEEP, a state run program. Ms. Parks stated that the providers do receive a percentage of the fee. Mr. Parks stated that ECHO is a good program because they have other aid programs besides the city's assistance program.

3. Water/Wastewater Report:

Mr. Smaka reported that with regard to the wastewater treatment plant, he had applied for a \$10 million loan for the wastewater expansion of the wastewater treatment plant which will give redundancy in the plant. Mr. Smaka stated he had been verbally informed that the City of Farmington is number 5 on the priority list for the State. Mr. Smaka stated that he is waiting for the State to go through the process of officially notifying the City of Farmington of its position on the list. Mr. Smaka stated that the meter replacement project, which will replace approximately 13,000 meters in the system and upgrade to an automatic metering system, is scheduled to bid next week.

Vice Chair Spence asked which percentage of the metering is remote. Mr. Smaka responded that 2,500 to 3,000 of over 16,000 meters are remote. Vice Chair Spence asked if the City is seeing a savings in reduction to personnel. Mr. Smaka responded that eventually the City will see a reduction. City Manager Mayes commented that the City has already reduced the personnel by approximately three and there is the potential for more reductions. Vice-Chair Spence asked when the program will be close to 100%. Mr. Smaka responded it will take close to a year to replace all the meters and have the system up and running. Commissioner Standley asked when the program started. Mr. Smaka responded meters started being read with handheld devices in 2002. Mr. Smaka stated that beginning in about 2006 all new meters had reading devices on them. Commissioner Standley asked if this was done to make sure the program worked before making a large investment. Mr. Smaka stated that selecting a vendor of the equipment took a long time. Mr. Smaka said they slowly added to the system and now there are enough funds, over \$6 million of loans and grants to complete the system. Commissioner Standley asked over what period of time it will pay for itself. Mr. Smaka stated less than ten years but could not give exact numbers without documentation. Vice Chair Spence asked if the metering system will sense tampering. Mr. Smaka stated it will sense tampering, as well as leaks on the customer's side of the meter.

4. Water/Wastewater Operations Report:

Mr. Rosen reported that water production indicates normal flow for the previous month. Mr. Rosen stated the lake level is at 99% full. Mr. Rosen reports that other information is fairly normal. Mr. Rosen stated that although June was a hot month, they did not produce what was produced last year.

Mr. Rosen responded to Commissioner Standley's question from the June meeting regarding the conversion of TDS to grains per gallon. Mr. Rosen stated that the river is typically 10-15 grains per gallon. Mr. Rosen stated the department will be asking residents to review the adjustments on their water softeners and to set their unit on the lower level.

Vice Chair Spence asked if Mr. Rosen is aware of any municipalities in the state or elsewhere that imposes tighter regulations on water softeners. Mr. Rosen reported that the entities that discharge into the Colorado basin are the only communities that are restricted with TDS, so anything on the other side of the continental divide does not have any issues with TDS or permit issues with TDS. Mr. Rosen reported that from what he has heard, currently Aztec and Bloomfield are not having issues meeting the 400 mg incremental increase. Mr. Rosen stated that in Colorado, there are communities having trouble meeting this increase. Mr. Rosen stated the EPA has promulgated enforcing and permitting to the State level, so the state of Colorado has been slower on enforcement. Mr. Rosen stated that the

communities he has seen where there are very strong restrictions, is in the state of California.

Mayor Roberts asked what net reduction in lake levels are expected in the next few months. Mr. Rosen stated that at this time we are maintaining a level at or above 80% between now and mid-August. Mayor Roberts asked how long we will be able to pump from river, as we are seeing a significant reduction of flow in the river. Mr. Rosen agreed that there is a significant reduction of flow in the river and reported that 40cfs was the measurement today. Mr. Rosen stated this rate does have to do with how much water is being pulled for irrigation and if we have to do any sharing there. Mr. Rosen stated it is unknown exactly what the upstream demands are going to be that may dictate having to shut the pump off.

Mayor Roberts asked if Mr. Rosen expects a scenario where a call will have to be made on our storage share in Navajo. Mr. Rosen responded that it is being monitored very closely and he is doing some regression analysis and historic data for the City and will look at that and make sure we are continuing to monitor this in case we have to make a call to have a release from the Lake Nighthorse.

Commissioner Larsen asked if there is other technology besides the classic homeowner water softener with salt that could be encouraged or suggested. Mr. Rosen stated that there are some technologies out there but that he is not sure how well they work. Commissioner Larsen asked who knows how well they work because it seems like the salt water softener is the bane of the City of Farmington. Commissioner Larsen also stated that someone should be looking to see about other alternatives. Mr. Rosen responded that there are other alternatives, such as using reverse osmosis with canister units made for home use, but those also have a discharge that goes to the sewer, so there is really no net gain, it is just being diverted from drinking water to the sewer. Mr. Rosen stated he had seen some technologies that use electromagnetics, but he is not convinced that they work. Mr. Rosen says he has spoken with other experts in the field and there is some in trepidation about those technologies.

5. SAIC Cost of Service Study Report:
Presented by Mr. Scott Cochran and Mr. Scott Burnham of SAIC

Mr. Sims gave informative history that was not covered in the SAIC presentation regarding the last rate increase which was in 1982. Mr. Sims stated that in 1982, the utility made massive system wide improvements as a result of events that occurred in the late 70's that convinced the City Council, the Public Utility Commission and the members of the community that the electric utility needed to be upgraded. Mr. Sims stated that the other thing that happened in 1982 was the utility's purchase of a part of the San Juan Plant, which also led to some infrastructure changes associated with that purchase that fed into the adjustment of the rates in 1982. Mr. Sims stated the utility has experienced tremendous growth since 1982. Mr. Sims stated that in 1982 there was minimal system upgrade needed within the infrastructure because it had a useful life. Mr. Sims stated that the utility has been living off that usable life for the past 30 years, so most of the utility's efforts during that period of time were dedicated to system growth and the utility saw massive growth in the system during that period of time. Mr. Sims explained that the PCA allows the utility to adjust rates slightly based on the cost of producing power and/or purchasing power. Mr. Sims pointed out that some may ask why the utility cannot keep adjusting the PCA rather than have a rate increase. Mr. Sims stated that the utility could continue adjusting the PCA, but that the PCA does not pay for wages, utility poles, transformers, wire or anything that has to do with the transmission/distribution system. Mr. Sims also stated that the PCA does not pay for any regulatory costs such as EPA, OSHA, FERC, NERC and WECC. Mr. Sims stated the 30 year old system the utility has enjoyed is getting old and needs an upgrade, and a rate increase is how the utility can pay for it.

SAIC 2013 Cost of Service and Rate Design Study Presentation presented by:
Scott Cochran; Scott Burnham (by phone)

Mr. Cochran stated that the presentation would detail the benefits of public power and would also give an overview of the cost of service. Mr. Cochran stated the

presentation would detail the components of the utility's rate structure and how that is related to the cost of service.

Commissioner Larsen asked if Residential is one of the customer classes within Step 4 of the Customer Class Cost Allocation. Mr. Cochran responded yes.

Commissioner Cloer asked if a customer would receive a cheaper rate if they use more power. Mr. Cochran stated that in performing a cost of service study there is no cost basis to have a lower energy charge for the more energy you use. Mr. Cochran stated that utilities are going to a flat rate or increasing their fixed charges and lowering their variable charges so they offset each other.

Commissioner Spence asked where debt servicing is imbedded in the cost allocation as far as covering current debt and bond obligations. Mr. Cochran responded that the debt service is part of the revenue requirement and it was broken out separately. Mr. Cochran reported that during the test year there was debt service related expense, but going forward it is projected that the utility's existing debt service will be paid off. Mr. Cochran stated the debt service is currently paid off. Mr. Cochran reported there were discussions with Mr. Sims and Ms. Nipper about using those funds that were used for paying those debt service obligations for capital investments and this is taken into consideration in the test year.

Mr. Cochran stated that the Study results recommend an increase to the base rate of \$0.295, which has been in place since the early 80's, to \$0.035. Mr. Cochran reported that the Study Results recommended rate changes for Residential (Rate 1), General Service (Rate 2), Rectifier/Cathodic Protection (Rate 3), Street Lighting/Private Area Lighting (Rate 4,5), Large General Service (Rate 6), Supplemental Power Service (Rate 8), Bulk Power/Long-Term/Bulk Power Interruptible (Rate 9, 21, 9-Int), Transmission (Rate 11) and Outside Purchase Power (Rate 14).

Commissioner Cloer asked if there is any group within those rates that would have a reduced rate. Mr. Cochran responded they cannot say for certain that no customer would receive a rate decrease.

Commissioner Standley asked if there was consideration given to preliminary discussions about the residential rate being slight undercharged and commercial being a bit overcharged. Mr. Cochran responded yes.

Commissioner Standley asked why we are just decreasing the PCA to increase the base rate. Commissioner Standley also asked what if there is a problem with keeping the PCA as it is and keeping the base rate as it is. Mr. Cochran responded the PCA is designed to recover generation and production related costs, it does not cover items such as salaries or distribution related costs.

Commissioner Standley asked if the recommendation to acquire the available megawatts at the San Juan Generating Station, which would be a windfall and would bring in a considerable amount of revenue, was taken into consideration. And, if so, perhaps there may not be a need to increase the base rate. Mr. Sims responded that the resource addition, whether it is the increment being considered at San Juan, or whether it is future increments of natural gas/combined cycle, would not necessarily bring a windfall to the City. Mr. Sims stated that it would allow the City to cover its load, and would keep the City from possibly having to purchase power on the open market, and it may keep that PCA levelized somewhat so it did not go up and down all over the place. Mr. Sims stated that if the City were to acquire the 65MW at the San Juan Generating Station, it would mean that if there is a shortfall, instead of going out on the market, the City would have its own power to handle the shortfall.

City Manager Mayes responded that the simplest way to think of the purchase of the additional 65MW at the San Juan Generating Station is that it is more an avoidance of the capital costs for a new asset than it is a revenue generator. City Manager Mayes stated this really is about generating the proper amount of revenue. City Manager Mayes stated the base rate should reflect what goes in the base rate and the PCA should reflect be what is coming from the PCA. Mr. Sims added that the PCA cannot compensate for all system maintenance and upgrade

costs, it can only compensate for those costs directly related to generation, new and purchased power.

Mr. Cochran reported the SAIC Recommendation is a 3 phase rate increase that totals about 2.7% for each of the phases. Mr. Cochran stated that because the PCA has already been increased, a portion of that has already been implemented and is already in place, so SAIC is proposing a 1 percent increase over revenue for residential class.

Commissioner Cloer sought clarification by asking that rather than the 2.7% increase, due to the PCA adjustment already in place, the increase recommended would be 1%. Mr. Cochran responded yes. SAIC has recommended a small increase to the service charges starting at \$3.00 in phase 1, moving to \$3.25 in phase 2, and \$3.75 in phase 3. SAIC also proposes making a flat energy rate; in Phase 1, that energy charge for 0-200 kWh and 200+ kWh is \$0.08650. Mr. Cochran points out there will no longer be a discount for higher usage. Mr. Cochran reported an example of a typical customer, a 500 kWh user, would have an increase of \$1.87 per month.

Mayor Roberts asked if the phases are connected to a time frame and what that time frame is. Mr. Cochran responded the phases would be implemented each consecutive year, with the first rate increase proposed to be approved August/September, 2013.

Commissioner Cloer asked if the Residential share is the largest percentage of the total share in numbers of customer but maybe not necessarily in usage. Mr. Burnham stated that Residential cost of service is approximately 30% of the total cost to run the utility, so in numbers of customers, Residential is the largest, but that it is not the majority of revenue.

Commissioner Cloer stated that it would appear to her that the base rate is the safest and most secure way to ensure that the costs are covered and it needs to be increased.

Vice Chair Spence asked if the typical 300 kWh customer would see an increase of approximately 3.2% per year. Mr. Cochran stated that was correct and the decision was made to bring the Residential class in line with the other customer classes. Mr. Cochran reported that within the cost of service study, it was determined the residential class was under collecting by approximately 15%. Mr. Cochran stated that SAIC is not recommending a move all the way to 15%, but this phase in approach will get the residential class closer to cost of service.

Commissioner Cloer asked if there were any utilities lower than the City of Farmington rates. Mr. Sims responded that for this particular rate class (Residential), for this particular usage, there were none that were lower. Commissioner Larsen asked if this study dollars just represents the base rate. Mr. Cochran responded that the study represents a total bill, including the PCA.

Vice Chair Spence asked if there was a plan to annualize and re-evaluate during phase 1 and adjust phase 2 projections, or will the numbers carry out for the 3 year period. Mr. Sims stated that the plan is not to re-evaluate it every year. Mr. Sims stated the plan going forward is to analyze consumer rates over a 3 year period. Vice Chair Spence stated that he assumed that at some point if there is a divergence from these projections the City will intervene at some point. City Manager Mayes responded yes.

Mr. Cochran pointed out that for other rate classes there is no 3 phase approach, it is just a 1 time average system increase of 1%. Mr. Cochran stated that for the General Service category, the service charge goes from \$4.50 to \$6.00, an increase of \$1.50 per month. Mr. Cochran stated that the General Service category has a tiered rate structure, with the first 0-400 kWh at \$0.0875 and anything over the 400 kWh at \$0.08650. Mr. Cochran stated that SAIC recommends having one flat energy rate to encourage conserving consumption. Vice Chair Spence asked if the average increase of 2.2% across the board is right. Mr. Cochran stated yes.

Mr. Cochran reported that for the Large General Service category there is currently no customer charge, so SAIC makes a recommendation to add a customer charge to reflect those customer related costs. Mr. Cochran reported that in the SAIC

study, an increase in the demand charge was made from \$7.75 to \$8.84. Mr. Cochran stated the SAIC study also recommends going from a tiered rate structure to a flat rate of \$0.05642. Mr. Cochran explained that a Large General Service customer would be large supermarkets such as Wal-Mart. Mr. Cochran clarified that the Large General Service user would be charged in a similar fashion as the Residential rate, on a flat per kWh basis.

Vice Chair Spence asked what percentage of revenue Large General usage makes. Mr. Burnham stated that from a cost of service point of view, the Large General is responsible for about 30% of the costs.

Mr. Cochran reported on SAIC's recommendations for Bulk Power Service. Mr. Cochran reports that there is currently no customer charge and SAIC is recommending implementing a \$55.00 customer charge per month. Mr. Cochran reported that SAIC recommends an increase of the demand charge from \$7.00 to \$8.25. Mr. Cochran stated that SAIC recommends moving to a flat energy charge per kWh.

Commissioner Cloer asked for an explanation of an Interruptible Bulk Power customer. Mr. Cochran explained that an Interruptible Bulk Power customer is a customer the utility can call on to interrupt their service. Mr. Sims stated that power to these interruptible customers can be interrupted when the utility needs that additional capacity for an emergency. Mr. Sims stated these interruptible customers are offered very competitive rates that are significantly lower than the other rate classes because they provide a value to the utility by allowing the utility to not have to go out on the open market to purchase power. Commissioner Eicker asked for an example of a customer who participates in this rate. Mr. Sims responded Praxair.

Vice Chair Spence asked if there is a rate for customers who do not necessarily tie into the utility's system, but would like to have it as a backup to their systems, such as the solar or wind power users. Mr. Burnham stated that a rate being recommended by SAIC, Supplemental Power Service (Rate 8) would be the rate for this type of customer.

Commissioner Cloer asked if there is any kind of beneficial rate for entities that provide a community service, such as a hospital. Mr. Cochran responded no.

Mr. Cochran detailed the other recommended rate changes, specifically the Economic development rate. Mr. Cochran explained this rate would offer a sliding discount from applicable demand rates, a 5 year phase-in period, and there would be no change to the energy rate/PCA. Mr. Cochran stated that a customer using this rate, would have a requirement of a 32kW new load at a greater than 40% load factor, the new business would need to add the equivalent of 20 full time employees and be able to provide evidence of that to FEUS.

Vice Chair Spence asked if the rates being eliminated would be covered in a different category. Mr. Sims responded that most of the rates being eliminated are either antiquated and have not been used in a number of years, or as in the case of the Wholesale Service rate, those rates would be negotiated outside of the published rate schedule.

Vice Chair Spence asked what percentage of revenue goes back to the City of Farmington. Mr. Burnham responded approximately 8%, which is generally in line with what municipal utilities provide to communities they serve.

Commissioner Standley asked when the rate would go into effect should it be adopted by the City Council. Mr. Sims responded it most likely would go into effect in December 2013.

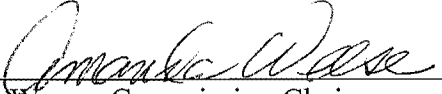
Vice Chair Spence asked for a motion to make a recommendation to the City Council. Commissioner Cloer made a motion to recommend to the City Council to implement the electric rate changes resulting from a Cost of Service study performed by SAIC. The motion was seconded by Commissioner Larsen. The motion passed unanimously.

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 5:27 p.m.

Approved this 17 day of Aug, 2013.



Amanda Weese, Commission Chair