

BOARD OF PUBLIC UTILITY COMMISSION

The Budget Meeting of the Board of Public Utility Commissioners/City Council City of Farmington was held Wednesday, April 12, 2023 at 11:45 a.m., at the Farmington Civic Center, 200 West Arrington, Farmington, New Mexico in full conformity with the laws and ordinances of the Municipality.

Upon roll call, the following were found to be present, constituting a quorum:

Commission members present:	Tory N. Larsen Connie Dinning Alex Uhl Patricio Sanchez Linda Corwin Nathan Thompson Diane Schmidt Drew Degner John Buffington Stewart Logan George Sharpe
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Commission members absent:	Hart Pierce
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constituting all members of said Advisory Commission.

Also present were:

Mayor	Nate Duckett
Councilor	Janis Jakino
Councilor	Linda Rodgers
Councilor	Jeanine Bingham-Kelly
Councilor	Sean Sharer
City Manager	Rob Mayes
Deputy City Manager	Julie Baird
Electric Administration	Hank Adair
Electric Engineering	Shawn Weiss
Electric Generation	Britt Chesnut
Electric Business Operations Manager	Sheree Wilson
COF Administrative Services	Teresa Emrich
Community Works	David Sypher
Jacobs	Phil Johnson
PUC Secretary	Amy McKinley

The meeting was convened by the Chair.

BUSINESS

Electric Department Budget:

Utilizing a PowerPoint presentation, Mr. Hank Adair, Electric Utility Director, offered details regarding the proposed FY2024 Electric Department budget.

The FEUS mission is to safely provide reliable, reasonably priced electricity with operational excellence, exceptional customer service and environmental stewardship.

Mr. Adair noted the FEUS service territory encompasses 1,718 square miles with 45,000 metered locations, 18,000 transformers, 263 miles of transmission line, 2,435 miles of distribution line, 36 substations and two generation facilities.

Mr. Adair stated that due to the increase of the Power Cost Adjustment (PCA), which was raised to \$0.06/kWh based on gas and purchase power prices, FEUS is second highest when compared to other utilities. He said the PCA will drop down and this reduction, associated with the base rate, will move FEUS back to being the utility with the lowest rate in the region.

FEUS made some assumptions on revenue, and revenue has stayed pretty flat based on the forecast FEUS had for FY2023. For Industrial customers, specific to FY2023, FEUS reduced consumption by about 5% for FY2024 because, based on the PCA there may be business reasons where industrial customers may lower their energy consumption. FEUS does have a revenue source; the Phase II of the Cost of Service study will go into effect July 1. Residential customers will see a slight increase in their rates, but overall, rates stay reasonably flat based on last year's Cost of Service. In the budget assumption for this coming fiscal year 2024 (July through June), FEUS assumes the \$0.06/kWh will remain until December 2023, or half of the fiscal year. Natural gas prices are uncertain so the utility is taking a conservative approach. FEUS forecasted based on what staff saw from gas pricing as a whole for the entire fiscal year on average. For purchase power, FEUS assumed \$78.25/mWh and that assumption includes purchase power of the CRSP, which is very low cost hydro power. If you were to take that out, the average purchase power price would be about \$83/mWh. FEUS assumes that in FY2025, that average purchase power price would be \$88/mWh. Basically, FEUS is in a fiscal challenge until the new generation source is built, whether it be solar, combined cycle, or reciprocating engines, the utility is going to be in that volatile purchase power market until a generation source is locked in, or the utility enters into inexpensive long term agreements. The utility as a whole is tightening its belt and cutting controllable expenses as much as possible. Currently the utility is below the Restricted level for cash reserves; this impacts the average \$400,000 per month transfer from the enterprise to the general fund. The utility has assumed this transfer will remain suspended through December 2023. FEUS assumed in this budget the \$40 million cost for the reciprocating engines would be fully financed by the NMFA. The city and the utility continue to work on other funding opportunities; if these opportunities come to fruition, the budget could be impacted in a positive way. Again, the utility is taking a conservative approach with this budget.

Unfortunately, for all our fighting, the San Juan Generating Station did retire in December of 2022. The City of Farmington was an 8% owner in SJGS unit 4, or 2.9% of the whole station. So now that the plant is retired, based on a county ordinance the plant will have to be fully decommissioned within a certain timeframe. As owners of the power plant, the city has 2.9% of the decommissioning obligation. By December 2022, FEUS had to fund half of its decommissioning obligation, or \$900 thousand. Within the proposed FY2024 budget, FEUS included \$800 thousand to fully fund the city's portion of the decommissioning fund. It is possible the remaining owners will stretch out the decommissioning so the funds may not all be in this fiscal year, but again the utility has taken a conservative approach for this budget.

FEUS assumed for FY2024 that Bloomfield would remain a customer. We are currently in the civil law suit with Bloomfield and we wait for the results of that. Even if agreements were reached, there is no way Bloomfield could become its own utility and perform all the necessary reconfiguration in the next fiscal year.

The new generation for the reciprocating engines and solar is in FEUS' immediate budget and will be within upcoming budgets as well as the utility has solar and the combined cycle in its five year plan.

Based on all the changes the utility has seen, FEUS needs to focus on its bread and butter, making electricity and serving customers, so the enterprise of broadband is on hold.

Sales by Customer demonstrates the detail of what is in 2023 and what the utility is looking at on a go forward basis within the proposed FY2024 budget. The interesting storyline is the utility has seven industrial customers, or 0% of the customer base, yet these seven customers are 31% of the utility's load. In response to a question by Commissioner Sharpe, Mr. Adair said Enterprise, Harvest Midstream and Linde make up the utility's key industrial customers.

When reviewing the utility's power resources for FY2023 the utility's energy resource mix consists of 43% Gas, 33% Purchase Power; 14% Hydro, and 8% coal. For FY2024 the resource mix is anticipated to be 46% gas, 48% Purchase Power and 6% Hydro. Mr. Adair noted the 6% Hydro does not include the hydro power the utility receives from WAPA, which is about 6% and this would decrease Purchase Power to approximately 42%.

Commissioner Sharpe asked if the costs by resource include the capital recovery, the depreciation on the resource. Mr. Adair noted that as of this date, the utility has zero debt, although the utility does have operating costs.

Commissioner Sharpe stated that when Solar does appear on the utility's list of power resources, it will show up as a zero cost, or close to it and Mr. Adair agreed. Mr. Adair did not there is a need to balance the power resources as FEUS still has a grid to run and voltage to control; this is why the utility needs the reciprocating engines to be complimentary to the solar installation being discussed.

Commissioner Thompson asked if the proposed solar resource will include battery. Mr. Adair said no and reminded the commission the IRP said to install solar, allow battery costs come down as well as allow other technology resources to come on line for extended battery usage time.

Commissioner Thompson commented that he felt the fuel forecast at \$5.44/mmbtu in the proposed FY2024 budget is not conservative enough. Mr. Adair responded there were lengthy discussions among staff and consultants and it was determined this rate on average over 12 months is a good forecast. Mr. Adair said this does not mean there won't be two or three months that are above this forecast.

Commissioner Thompson questioned the 10% increase in salaries. Mr. Adair clarified stating the assumption uses fully staffed department and also included increases in health insurance expenses. Mr. Adair stated one additional staff position was added; a Communications Engineer to support the Scada team.

Commissioner Logan asked what the projected health insurance premium increase will be for the coming fiscal year. City staff responded that while preliminary budget figures indicated a 10% increase in health insurance costs on January 1, a recent assessment of health insurance costs has demonstrated the city is performing well with regard to large losses so the City was able to drop the original 10% increase to 5%.

The proposed FY2024 FEUS Budget forecasts Revenues of \$135.8 million and Expenditures of \$116.3 million. The Ending Cash Balance for the proposed FY2024 FEUS Budget is \$54.1 million.

Commissioner Thompson ask what the cost per MW is for the new reciprocating engines. Mr. Adair said the project was bid in 2019 and the levelized cost of energy was \$59/MW using a ballpark project cost of \$30 million. Mr. Adair said the utility is waiting for bid responses so staff may review current cost estimates.

Commissioner Thompson asked if the utility will end its participation in NMMEA. Mr. Adair said this is another option staff is reviewing.

Commissioner Sanchez commented on the typical low cost of gas and he said because of the recent high costs, there is a tendency to go to the negative when considering natural gas. He said there is something to be said for reliability.

Chair Larsen asked for a motion to recommend City Council approval of the proposed Electric Department FY2024 budget. Vice-Chair Dinning offered such a motion and Commissioner Degner seconded.

Those voting aye:	Commissioner Degner	Commissioner Uhl
	Vice-Chair Dinning	Chair Larsen
	Commissioner Sanchez	Commissioner Corwin
	Commissioner Schmidt	Commissioner Logan
	Commissioner Buffington	Commissioner Sharpe

Those voting no: Commissioner Thompson

The motion passed.

Water/Wastewater Operations Annual Report:

Mr. Phil Johnson offered a review of the Jacobs 2022 Annual Report which highlights many of the water and wastewater projects Jacobs undertook in the past year.

Jacobs and the City of Farmington is focused on shared goals of providing safe drinking water and core wastewater services.

Jacobs and Farmington hit 100-percent compliance in Water and 99.8-percent for wastewater. Mr. Johnson noted that Farmington's Water Treatment Plants produced 3.836 billion gallons of safe drinking water. The Wastewater Treatment Plant processed 1.54 billion gallons of wastewater.

Mr. Johnson highlighted various projects completed that improved the operation of wastewater and water operations throughout the city. Jacobs worked with San Juan County to correct a regular concern of sewer backups at the jail. San Juan County purchased new grinder pumps for Lift Station 20 and the issue has improved significantly. Jacob and the city of Farmington worked together to modify operations of the distribution system to increase fire flows near English and Main Streets. Mr. Johnson also noted a natural gas leak hazard affecting five homes was discovered by Jacobs personnel who notified the New Mexico Gas Company and contacted 911 about the hazard. Jacobs personnel shut down the street until authorities arrived on site.

The Jacobs operations team worked with the City on a solution to manage biosolids that reduced the volume of material going to a landfill and applied a composting process to produce solids that could be land-applied to hayfields. Jacobs and the City of Farmington received the Utility of the Future Today in the Beneficial Biosolids award from the Water Environment Federation.

Chair Larsen commented about how pleased he is that Jacobs and City of Farmington strive to maintain the water and sewer systems in Farmington.

Water Utility Budget Presentation:

Mr. David Sypher offered a presentation detailing the proposed FY2043 Water Utility Budget. The presentation provided information about the water utility facilities throughout the city. Mr. Sypher noted there are 367 miles of various sized water pipe, 18 pump stations, approximately 2,775 fire hydrants, approximately 8,481 valves, and approximately 17,816 water meters. The City of Farmington water system has 13 storage tanks in the distribution system varying in size from 0.06 MG to 4.0 MG with a total storage capacity of 27 MG. The City of Farmington has a total of 29,540 acre-feet of water rights.

Mr. Sypher highlighted the efforts underway to examine the potential for raising the dam at Farmington Lake. Raising the dam would provide 73% more water storage for Farmington.

A recap of the FY2023 Water Utility Budget indicates Projected Actual Revenues for FY2023 is \$22.57 million with Projected Actual Expenditures of \$24 million with a project Ending Cash of \$10.73 million. Construction at Water Treatment Plan 1 was deferred to FY2024.

The FY2024 Projected Revenue for Renewal and Replacement system improvements is \$4.6 million. The report indicated the emphasis remains on capital upgrades to improve service delivery and fire protection.

The Water Utility Proposed FY2024 Budget Overview forecasts Revenues of \$35.57 million and \$35.53 million for Expenditures. The Ending Cash Balance for FY2024 is forecast to be \$10.73 million. The proposed FY2024 Water Utility Budget assumes 3.7% reduction in revenues in FY2024 over FY2023 projected actuals.

Chair Larsen asked for a motion to recommend City Council approval of the Water Utility proposed FY2024 Budget. Commissioner Sharpe offered such a motion and Commissioner Buffington seconded.

Commissioner Uhl asked if the capital upgrade projects to improve service lines to aid in fire protection are nearing completion. Mr. Sypher said these projects should be completed in approximately four years.

Those voting aye:	Commissioner Degner	Commissioner Uhl
	Vice-Chair Dinning	Chair Larsen
	Commissioner Sanchez	Commissioner Corwin
	Commissioner Schmidt	Commissioner Logan
	Commissioner Buffington	Commissioner Sharpe
	Commissioner Thompson	

Those voting no: None

The motion passed.

Wastewater Utility Budget Presentation:

Mr. Sypher opened his presentation with a slide noting the average daily flows at the Wastewater Treatment Plant. The designed maximum capacity is 6.67 MGD. The highest day flow in 2022 was 5.17 MGD. The slide demonstrated flows higher than the designed 6.67 MGD in 2019 and 2021.

Commissioner Sharpe asked if water quality issues were exceeded on the highest flow dates in 2019 and 202. Mr. Sypher said the plant experienced no water quality issues. The treatment plant is designed to manage at maximum flow for short periods.

Mr. Sypher reminded the commission of the various expansions of the Wastewater Treatment Plant. Phase 1A, 1B and II, at a cost of \$16.8 million, was completed in 2004 and included a Headworks Facility, MRAS unit, secondary clarifier, primary rehab, expand disinfection and drying beds; Phase III, at a cost of \$22 million, was completed in 2018 and included MRAS Basins, Final Clarifiers, Solids Handling Facility, UV Disinfection; Phase IV includes additional and acquisition, which was completed in FY2019, expand Composting Capacity which is planned for FY2024, and purchase and install MRAS 3 Basin Equipment, planned for completion in FY2028. Phase IV does include NPDES Permit Requirements.

The city's wastewater utility system has approximately 234 miles of pipe of various sizes, 20 lift stations, 49 pumps, and approximately 5,590 manholes. Mr. Sypher reminded the commission of the many areas around the city where the installation of septic systems is allowed.

The current NPDES permit was issued November 1, 2021 for a 5 year term that expires October 2026. The Total Dissolved Solids (TDS) Limit has a WWTP Effluent of less than 497 mg/l increase. The Permit was issued with a relaxation in TDS from 400 mg/l.

The Wastewater Utility Budget report noted the Projected Revenue for FY2023 is \$14.19 million and FY2023 Projected Expenditures is \$17.88 million. Water usage is 3.7% less than the same time last year.

The Wastewater Utility Proposed FY2024 Budget Overview forecasts Revenues of \$13.31 million and \$15.43 million for Expenditures. The Ending Cash Balance for FY2024 is forecast to be \$12.3 million.

Commissioner Sanchez asked if the major sources of TDS have been identified and asked if it is due to water softener usage and/or industrial/commercial laundries. Mr. Sypher said in 2014 many industrial users were identified and to the degree controls could be requested and put in place, this piece of the TDS issue was exhausted and TDS levels were reduced. He said reducing water softener use would be another big change. To date, the system does allow for some adjustments allowing the ability to remain below TDS limits.

Chair Larsen asked for a motion to recommend City Council approval of the Wastewater Utility proposed FY2024 Budget. Commissioner Schmidt offered such a motion and Commissioner Buffington seconded.

Those voting aye:	Commissioner Degner	Commissioner Uhl
	Vice-Chair Dinning	Chair Larsen
	Commissioner Sanchez	Commissioner Corwin
	Commissioner Schmidt	Commissioner Logan
	Commissioner Buffington	Commissioner Sharpe
	Commissioner Thompson	

Those voting no: None

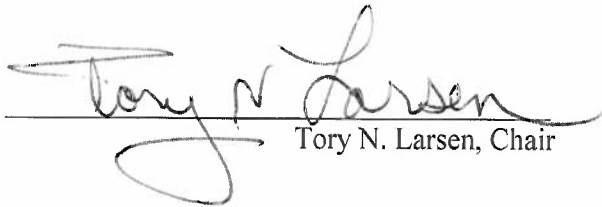
The motion passed.

Mayor Duckett offered his thanks to the members of the Public Utility Commission for their service and commented that the Public Utility Commission plays an important role as an advocate for the citizens of our community.

ADJOURNMENT

There being no further business to come before the Commission, by unanimous voice vote, the meeting was adjourned at 1:46 pm.

Approved this 10th day of May, 2023.


Tory N. Larsen, Chair