

Work Session of the City Council, City of Farmington, New Mexico, held Tuesday, July 2, 2013 at 9:00 a.m. in the Executive Conference Room at City Hall, 800 Municipal Drive, Farmington, New Mexico, in full conformity with the rules, regulations and ordinances of the municipality.

At such meeting the following were present, constituting a quorum:

MAYOR	Tommy Roberts
COUNCILORS	Dan Darnell Mary M. Fischer Gayla McCulloch Jason Sandel

Constituting all the members of the Governing Body.

Also present were:

CITY MANAGER	Rob Mayes
CITY ATTORNEY	Jay B. Burnham
CITY CLERK	Dianne Smylie
DEPUTY CITY CLERK	Melody Coyner

EMPLOYEE OF THE MONTH PROGRAM AWARD

Employee Council President Shannon Ben recognized Electric Transmission and Distribution Foreman Dennis Nosker as the Employee of the Month award recipient for June 2013. Mr. Nosker was presented with a plaque and a gift certificate and the Mayor and Council expressed their appreciation to him for his dedication to the City.

DIRECT STAFF TO NEGOTIATE THE ACQUISITION OF UP TO 65 ADDITIONAL MEGAWATTS IN SAN JUAN GENERATING STATION UNIT 4

Providing opening remarks, City Manager Rob Mayes stated that staff is seeking direction from the Council on whether to enter into negotiations to acquire up to 65 additional megawatts ("MW") of capacity in San Juan Generation Station ("SJGS") Unit 4 at no purchase cost to the City. He emphasized that today's decision is non-binding and that, if negotiations are successful, a formal written acquisition agreement will be presented to the Public Utility Commission ("PUC") for review with a recommendation being presented to the Council at a later date.

Electric Utility Director Mike Sims introduced Generation Manager Jim McNicol, Pace Global ("Pace") Executive Vice President Gary Vicinus and Power Markets Advisory Manager Patrick Augustine.

Utilizing a PowerPoint presentation, Mr. McNicol briefly reviewed the City's current generation and load, noting that the City is a net purchaser of power; current power assets; the purpose of the Integrated Resource Plan ("IRP"); the 2012 IRP, noting the most favorable options of a natural gas combined cycle addition of 65 or 105 MW in 2017 and an addition of solar in 2025 and the pros and cons of a coal option; the status of SJGS including the four exiting owners, the State Implementation Plan ("SIP") and the 119 newly available MW; and the opportunity for the City to acquire up to 65 MW of the newly available capacity from the departing owners at no cost, pointing out that the construction cost of a new combined cycle plant would be \$1500/kilowatt. In addition, he stated that the final decision on acquisition of available power is expected sometime between August and October, 2013 and reviewed the future costs to the City related to an increased ownership in SJGS Unit 4 (estimated to be between \$200 to \$400 per kilowatt) including routine capital, operation and maintenance; extraordinary capital/SNCRs; partial plant retirement; and plant decommissioning.

In response to inquiry from Councilor Sandel, Mr. Sims stated that the City purchases power 90 percent of the time throughout the year.

Responding to Mayor Roberts, Mr. McNicol reviewed the \$330 million environmental upgrades to all 4 units at SJGS from 2007 to 2010 as a result of litigation with the Grand Canyon Trust that lowered nitrogen

oxide ("NOx") emissions but not to the best available retrofit technology ("BART") threshold; reduced sulfur dioxide emissions to a level substantially below what is allowed; reduced particulate emissions; and addressed mercury control to adequately meet standards. He pointed out that the proposed SIP requires shut down of SJGS Units 2 and 3 and installation of selective non-catalytic reduction ("SNCR") on Units 1 and 4 which will further reduce the NOx emissions to meet the BART threshold and Mr. Sims pointed out that the SIP meets the U.S. Environmental Protection Agency's ("EPA") Regional Haze Rule and that the EPA will never be able to change the BART requirements for regional haze at SJGS if the proposed SIP is accepted by the EPA.

In response to inquiry from Mayor Roberts, Mr. Sims stated that the Four Corners region has never met the existing threshold for ground level ozone and that with the potential shutdown of units at Four Corners Power Plant and SJGS it is highly unlikely that it will ever meet the new requirement for ground level ozone.

Mr. Sims responded to questions from Mayor Roberts regarding President Obama's focus on cracking down on carbon emissions at coal power plants, "clean" coal and the relative cleanness of SJGS using coal after the installation of SNCR.

Discussion followed regarding the provisions in the participation agreement regarding the financial responsibilities of the departing owners.

In response to inquiry from Councilor Fischer, Mr. Sims stated that the 119 available MW are the result of the departing California owners leaving SJGS Unit 4. Contending that the 119 available MW does not equal what is owned by the departing California owners, Councilor Fischer asked to be provided with the spreadsheets that show how the transfers add up to the 119 MW.

In response to inquiries from Mayor Roberts, Mr. Sims stated that the Electric Utility has a trust fund for the reclamation of the coal mine but that there is no sinking fund for decommissioning SJGS, contending that the relative cost to the City would be fairly small. He noted that the plant life of SJGS is projected to 2052 and, following brief discussion, stated that the useful life of SJGS is easily another 20 years. Mr. McNicol stated that the effective date for those items in the agreement relating to cost allocation between now and the end of 2017 would go into effect on January 1, 2014 but that the actual swap of the capacity would not happen until the units are retired on December 31, 2017. However, he stated that there is the potential that one or more parties may be interested in making capacity swaps prior to 2017.

Following discussion, Mr. Sims stated that it would take four to five years to get a new 65-megawatt combined cycle power plant on line.

Following further discussion, Councilor Sandel emphasized the importance of public input in the decision to acquire additional SJGS capacity.

Staff responded to questions from the Council regarding the decommissioning of Units 2 and 3 and the contractual obligations of the departing owners.

In response to inquiry from Councilor McCulloch, Mr. McNicol stated that the remaining owners are currently in agreement on the amount of MW each will potentially get through the negotiation process.

Responding to Councilor Fischer regarding the availability and cost of coal, Mr. McNicol stated that a long-term fuel supply is being investigated with the potential for coal price stability. Following discussion, Mr. Sims stated that the new coal contract price will definitely be no more than what it is now and is likely to be less. Councilor Fischer asked to be provided information on coal costs and the future of water rights related to the plant including water contract terms and duration.

Utilizing a PowerPoint presentation, Mr. Augustine briefly reviewed the 2012 Risk Integrated Resource Plan ("RIRP") conclusions; the current situation; and the objectives of the RIRP update (prudence review of the option for incremental capacity at SJGS Unit 4; assessment of an additional set of portfolios to gain better insights on cost, risk,

timing and technologies; and a cost and risk-based comparison of the new set of portfolios against the 2012 portfolios), contending that the presentation will show that the option to pursue additional coal capacity is a low cost option and that the risks can be mitigated by diversifying the portfolio with some combined cycle and solar additions. He further reviewed the objectives and metrics and the portfolios, noting that Portfolios 2 and 7 were the preferred options from the 2012 IRP; that Portfolios 4.1 (coal - 60 MW in 2018), 4.2 (coal - 60 MW in 2018 and combined cycle - 65 MW in 2022) and 4.3 (coal - 80 MW in 2018) consider the additional generation from SJGS Unit 4; and that the Stress Test assumes SJGS would shut down in 2025 requiring the addition of 105 MW combined cycle generation. Following a brief review of the "Score Card Summary of Portfolio Options," Mr. Augustine pointed out that Portfolios 2 and 7 are higher cost than the coal options; Portfolio 4.1 has an over-reliance on coal and a significant market exposure; Portfolio 4.2 has the flexibility to add solar; and Portfolio 4.3 and the Stress Test have high quantum event risk and an over-reliance on coal. In closing, he stated 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.

Responding to Mayor Roberts, Mr. Augustine stated that the additional 65 MW combined cycle generation in Portfolio 4.2 is based on the City building a 65 MW facility but that the City purchasing 65 MW from the private sector would be another feasible option, noting that the 2012 IRP assessed the City being a minority owner in a larger plant as a favorable option.

In response to inquiry from Councilor Darnell, Mr. Sims stated that there is currently no requirement that a percentage of the City's generation be from renewables but that, if such a requirement were implemented, it would be phased in over a significantly long period of time.

Returning to his PowerPoint presentation, Mr. McNicol briefly reviewed the recommendation from the PUC and staff to acquire 60 to 65 MW SJGS capacity in 2018 or sooner, install 65 MW of new combined cycle generation in 2022 and the complimentary options to use the Animas Power Plant ("Animas") as a peaking facility and to add solar at some point in the future; the justification, considerations and benefits of the recommendation; historical performance of SJGS; and the City's energy mix and typical capacity. In closing, he summarized that new SJGS capacity would reduce the amount of purchased power; has no acquisition cost; preserves the long-term energy mix; will provide low cost, base-load energy; and contended that, if the City does not pursue the opportunity, someone else will.

In response to inquiries from Councilor Fischer, City Attorney Jay Burnham confirmed that, as currently proposed, there will be no acquisition costs to acquire a portion of the 119 MW available from the departing owners and that bond payments on Pollution Control Revenue Bonds will remain the responsibility of the bond issuer.

In response to inquiries from Councilor Darnell, Mr. McNicol stated that it is possible through negotiations or a bilateral agreement with one of the departing owners for the City to take possession of additional megawatts prior to 2018. Mr. Sims stated that, if it is determined that it is not necessary to operate Animas at full capacity, the steam units would be shut down and the plant would continue gas operation as a peaking unit resulting in the potential for excess natural gas under the City's current gas purchase contract. However, he stated that anticipated natural gas prices in 2018 will be close to, if not more than, what is being paid pursuant to the existing coal contract and that he does not anticipate a problem offsetting the small amount of excess gas.

Councilor McCulloch expressed a desire for the departing owners to mitigate the City's future costs and liabilities and her support for aggressively negotiating a deal for up to 65 additional megawatts.

In response to inquiry from Councilor Sandel, Mr. Augustine stated that the potential for Animas to come off line and be used as a peaking facility was not considered in the 2013 RIRP update and Mr. Sims pointed out that it is not certain that Animas will come off line but that, if it does, it makes the opportunity to acquire additional capacity in SJGS

Unit 4 a better deal. Following discussion, Councilor Sandel contended that the City asked for a study to justify its desire to acquire a portion of the available capacity. In response to further inquiry from Councilor Sandel, Mr. McNicol reiterated that the remaining owners are in agreement on the amount of MW each will potentially get through the negotiation process. Mr. Sims noted that negotiations have been strictly confidential among the owners; but that, if at some point the available capacity could not be taken on by the current owners, there are other electric utilities that have transmission access in this area that would be interested in acquiring the available capacity.

Following discussion regarding potential changes in Federal and State regulations, Mr. Sims stated that every megawatt of solar energy must be backed up by fossil energy.

Discussion followed concerning Federal and State regulations and potential changes to regulations.

Councilor Sandel stated that he supports the conclusions of the 2012 RIRP that the City needs additional capacity but that the risk of coal is significant and that, from his perspective, it is the wrong time to "double down" on old technology instead of investing in natural gas and renewable capacity.

Responding to Mayor Roberts regarding Councilor Sandel's contention that the City asked for a study to justify its desire to acquire a portion of the available capacity, Mr. Vicinus assured the Council that the analyses and conclusions of the 2013 RIRP Update were reached independently without pressure from the City to reach a particular conclusion.

Councilor Darnell expressed his appreciation for the work that has gone into the IRP both by Pace and staff and suggested that public and private utility entities pool resources to develop a combined cycle peaking plant when SJGS Units 2 and 3 are decommissioned.

Thereupon, a motion was made by Councilor Darnell, seconded by Councilor McCulloch to direct the Electric Utility System to negotiate the acquisition of up to 65 additional megawatts of capacity in SJGS Unit 4.

Councilor Fischer stated that she does not have enough information about the proposal and contended that the risk of additional coal-fired generation could be devastating to the community.

The Mayor called for the vote upon the motion to direct the Electric Utility System to negotiate the acquisition of up to 65 additional megawatts of capacity in SJGS Unit 4, as recommended by the Public Utility Commission and staff. The roll was called with the following result:

Those voting aye:	Dan Darnell Gayla McCulloch
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Those voting nay:	Mary M. Fischer Jason Sandel
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The Mayor voted in favor of the motion and declared the motion carried.

Mayor Roberts stated that he was persuaded by the quantitative analysis presented and pointed out that the negotiations may not result in a deal that is acceptable to the City. In addition, he urged staff to investigate the possibility of the City to partnering with the private sector to build a new combined cycle generating facility at some point in the future.

PRESENTATION/PROPOSED PLANS FOR FIRE STATION #1 & FIRE ADMINISTRATION BUILDING

Due to time constraints, City Manager Rob Mayes withdrew this item from today's agenda.

APPOINTMENT TO THE CITIZEN POLICE ADVISORY COMMITTEE

After providing the Council with background and professional information on Lisa Martin, Mayor Roberts asked the Council's consideration of her appointment to the Citizen Police Advisory Committee (term to June 2016).

Thereupon, a motion was made by Councilor Darnell, seconded by Councilor McCulloch to confirm the appointment of Lisa Martin to the Citizen Police Advisory Committee, as recommended by the Mayor, and upon voice vote the motion carried unanimously.

APPOINTMENT TO THE LIBRARY BOARD

After providing the Council with background and professional information on Daniel Sheesley, Mayor Roberts asked the Council's consideration of his appointment to the Library Board (term to May 2016).

Thereupon, a motion was made by Councilor Darnell, seconded by Councilor McCulloch to confirm the appointment of Daniel Sheesley to the Library Board, as recommended by the Mayor, and upon voice vote the motion carried unanimously.

COUNCIL BUSINESS

Power Outages

Responding to concern expressed by Councilor Fischer regarding the recent increase in power outages, Electric Utility Director Mike Sims explained that during this time of year power outages are most often caused by birds in the power lines. However, he pointed out that as a result of the significant efforts of the tree trimmers there are fewer outages this year than usual.

Councilor Fischer expressed her appreciation for the quick, courteous and professional response to a power outage on July 1.

Mayor Roberts briefly left the meeting.

Parked Police Car on North Monterey Avenue and 17th Street

Councilor Fischer asked Police Chief Kyle Westall to investigate why there is a police car parked at North Monterey Avenue and 17th Street, noting that it appears to be abandoned.

Commendation of City Staff

Councilor McCulloch expressed her appreciation to the Electric Utility, Fire and Safety Departments for their efforts in handling a small electrical fire at her office and a downed power line in her pasture.

CLOSED MEETING

A motion was made by Councilor Sandel, seconded by Councilor McCulloch to close the meeting to discuss request for proposals for veterinary services for the Animal Shelter pursuant to Section 10-15-1H(6) NMSA 1978. The roll was called with the following result:

Those voting aye:	Mary M. Fischer Dan Darnell Gayla McCulloch Jason Sandel
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Those voting nay:	None
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The presiding officer thereupon declared that four Councilors having voted in favor thereof, the said motion carried.

Mayor Pro Tem Darnell convened the closed meeting at 12:10 p.m. with all members of the Council being present.

Mayor Roberts returned to the meeting.

Following the closed meeting, during which meeting the matter discussed was limited only to that specified in the motion for closure, a motion was made by Councilor Darnell, seconded by Councilor Fischer to open the meeting for further business, and upon voice vote the motion carried unanimously.

The open meeting was reconvened by the Mayor at 12:19 p.m. with all members of the Council being present.

REQUEST FOR PROPOSALS FOR VETERINARY SERVICES FOR THE ANIMAL SHELTER

Purchasing Officer Eddie Smylie announced that the proposals for veterinary services for the Animal Shelter (Parks, Recreation & Cultural Affairs) opened on May 16, 2013 with one offeror participating. He recommended that the contract be awarded to San Juan Veterinary Hospital as the sole proposal is deemed to be advantageous and in the best interest of the City.

A motion was made by Councilor Fischer, seconded by Councilor Sandel to table action upon the proposal for veterinary services for the Animal Shelter until Marcy Eckhardt, the city's consultant on the Animal Shelter, makes a presentation to the Council on the status of the operations and the goals for the Regional Animal Shelter with regard to rescue efforts, euthanasia, spay/neuter and adoption rates, and upon voice vote the motion carried unanimously.

There being no further business to come before the Council, the meeting was adjourned at 12:20 p.m.

APPROVED this 23rd day of July, 2013.

Dan Darnell, Mayor Pro Tem

SEAL

ATTEST:

Dianne Smylie, City Clerk