

BOARD OF PUBLIC UTILITY COMMISSIONERS

The regular meeting of the CITY OF FARMINGTON BOARD OF PUBLIC UTILITY COMMISSIONERS was held Wednesday, August 14, 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
Jim Spence
Carol Cloer
Bill Standley
Keith Johns
Marty Johnson
Chris Hunter

Commission members absent: Bill Hall
Vic Eicker
Tory Larsen

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 Engineering	John Armenta
Legal	Jay Burnham
City Manager	Rob Mayes
Mayor	Tommy Roberts

Guests:
Resident Matt Dodson

2. Chair Weese called the meeting to order with a quorum present to conduct the business of the Commission.
3. Chair Weese introduced the new Commission members Keith Johns, Chris Hunter and Marty Johnson.
4. Mr. Burnham reviewed how alternate members of a board serve on the board with regard to voting. Mr. Burnham stated City code has a provision that allows the Mayor to appoint alternates to any Board/Commission of the City up to one third of its membership. Mr. Burnham stated the PUC has ten members, so City Code would allow up to three alternates. Mr. Burnham stated the alternate is able to fully function as a member of the Commission except he/she is not allowed to vote unless there is an absence at the meeting. Mr. Burnham stated that in this case, with three alternates, rather than there being any confusion as to who votes which time there is somebody absent, the Mayor has chosen to designate in advance the order of voting so Mayor Roberts has appointed Amanda Weese as the first alternate, Dr. Bill Hall as the second alternate and Chris Hunter as the third alternate, and that then provides the order those persons vote. Mr. Burnham stated that if there are three absences at any meeting when all three alternates are there, then all three alternates can vote, replacing the three people that are absent; if there are two absent, alternates 1 and 2 can vote, meaning Amanda Weese and Dr. Hall would vote; if there is just one absent, Amanda Weese could vote, but Dr. Hall would not.

Mr. Burnham stated that he had had been asked if there is any reason why an alternate cannot serve as a chairman of any of the City's boards or commissions. Mr. Burnham stated he found nothing in the Code that says an alternate cannot serve as a chairman.

Mr. Burnham clarified the past "tradition" that a chairman of a board or commission cannot vote. Mr. Burnham stated there is nothing in the code that says the chairman cannot vote.

Mr. Sims asked if a vacancy is the same as an absent. Mr. Burnham said yes. Mr. Sims asked as a matter of clarification that since the present Commission has three vacancies, this means that everyone on the Commission can vote. Mr. Burnham replied that because the Commission has three vacancies, if all Commission members are present, all members can vote.

4. Commissioner Standley made a motion to approve the July 10, 2013 PUC Commission meeting minutes which was seconded by Commissioner Cloer and the motion carried.

II. BUSINESS

1. Quarterly Financial Report:

Mr. Mason reported that the Electric Utility's operating revenue was up \$1.3 million from FY12. Mr. Mason stated that electric sales increased \$5.8 million; mainly due to increases in the PCA of \$7.5 million, offset by decreases in sales to industrial customers of \$1.7 million. Mr. Mason reported that surplus sales were up slightly, \$16 thousand. Mr. Mason reported other revenues declined by \$335 thousand, mainly due to less auction proceeds and joint use billings. Mr. Mason stated operating expenses were higher by \$1.3 million. Mr. Mason reported that purchase power decreased \$2.4 million. Mr. Mason reported fuel costs, natural gas and coal combined increased \$3.3 million. Mr. Mason reported other expenses increased by \$461 thousand. Mr. Mason stated non-operating revenues were down \$671 thousand and expenses were also down by \$898 thousand. Mr. Mason reported that overall the Electric Utility's net income increased by \$4.4 million over FY12.

Mr. Mason stated the Water Utility's operating revenues were \$328 thousand less than the prior year. Mr. Mason reported water sales were \$347 thousand lower. Mr. Mason stated the renewal/replacement fees increased \$19 thousand, while the water rights acquisition fee had a slight decrease. Mr. Mason reported operating expenses increased \$110 thousand. Mr. Mason stated the OMI contract decreased \$210 thousand. Mr. Mason stated salaries and benefits was lower by \$48 thousand. Mr. Mason stated that other operating and depreciation expenses increased a combined \$368 thousand. Mr. Masons reported non-operating revenues were \$1.8 million higher due to capital contributions from Farmington Municipal Schools for the Tibbetts new waterline; non-operating expenses were \$59 thousand lower. Mr. Mason stated as a result the net income for the Water Utility increased by \$1.4 million for FY13.

Mr. Mason reported the Wastewater Utility's operating revenues slightly increased by \$54 thousand from last year. Mr. Mason sated wastewater sales and renewal/replacement fees were increased a combined \$116 thousand and environmental taxes decreased \$62 thousand. Mr. Mason stated Operating expenses were slightly higher by \$7 thousand. Mr. Mason stated salaries and benefits along with other operating expenses reduced a combined \$126 thousand. Mr. Mason stated while combined, the OMI contract and depreciation expenses were \$133 thousand higher. Mr. Mason reported non-operating revenues increased \$194 thousand due to capital contributions from Farmington Municipal Schools for the Tibbetts new sewer line. Mr. Mason stated non-operating expenses decreased \$20 thousand. Mr. Mason reported the Wastewater Utility's net income increased by \$260 thousand from last year.

Mr. Mason stated that from June 2012 to June 2013, the cash balance changes for the Electric, Water, and Wastewater funds were \$(9,658,220), \$1,915,930, and \$1,201,368 respectively. Mr. Mason reported that for the 4th quarter of FY13, the cash balance changes for the three utilities were \$(7,879,894), \$(145,810), and \$(159,065).

Mr. Mason reported the City of Farmington Utility System Revenue Bond Series 2002 were paid off in May 2013. Mr. Mason stated as of June 30, 2013 the balances for the bonds are zero.

2. Water/Wastewater Report:

Mr. Smaka reviewed water line replacement projects on Coyote drive which should be completed this week. Mr. Smaka stated that a new 8" and 12" water line replacement project on Court Avenue between Apache and Shiprock Street should start next week. Mr. Smaka reported that crews will be replacing existing 6" cast iron lines on Knollcrest Drive and Holiday off of Kingsway and Windsor in Beckland Hills where several issues and water breaks occurred last winter and caused problems.

Mr. Smaka stated that bids were received for the Water meter project. Mr. Smaka stated that the contractor that submitted the lowest bid was found non-responsive because the company did not have a contractor's license and the second bidder submitted a bid that was over the estimate; therefore, all bids were rejected. Mr. Smaka stated that his office will be speaking with the New Mexico Finance Authority about this project and determine how to re-vamp the project and go out to bid with it again. Chair Weese asked if it is unusual for a company to submit a bid without having a license. Mr. Smaka responded that this company, which is out of state, had a sub-contractor that has a New Mexico contractor's license, and felt this was acceptable but it is not.

3. Water/Wastewater Operations:

Mr. Rosen reported on the monthly Water/Wastewater Operations. Mr. Rosen stated it has been a quiet month. Mr. Rosen reported the wastewater flows are static, which is fairly normal. Mr. Rosen stated the lake levels are full. Mr. Rosen also stated that sales of water is down, treatment of water is down. Mr. Rosen stated that in July, production was very close to what it was last year. Commissioner Standley asked how much of the consumption is associated with the Parks and Recreation department. Mr. Smaka and Mr. Rosen indicated that research would have to be done to determine this.

Commissioner Hunter asked if Mr. Rosen sees a trend in reduction in water consumption related to consumers on the residential side and if he does, what does this mean in terms of covering the rate base, needing to capture more dollars per units sold. Mr. Rosen stated that there is not a reduction in consumption, that it is pretty much weather driven. Mr. Rosen stated that if it is hot outside, more consumption is seen. Commissioner Hunter asked if Mr. Rosen was to look at per capita consumption and normalize over the course of a year for an average household, does it stay the same, or is it going down. Mr. Rosen stated that he sees a steady consumption, no big change.

Vice-Chair Spence mentioned the recent story about a septic cleaning company dumping waste in a local arroyo, and asked if septic cleaning companies deliver to City of Farmington facilities. Mr. Rosen reported that 422 septic trucks delivered waste to the wastewater treatment facility. Mr. Rosen stated that all septic trucks in the county are to come to the City of Farmington facility to dump their loads. Mr. Rosen reported that grease trap owners are required by the EPA Approved Industrial Pre-treatment program that they must dispose of their grease appropriately. Mr. Rosen stated there is a vendor in the area that accepts this grease trap waste and recycles it. Mr. Rosen stated the septic hauling companies are required to have a city license to operate.

Vice-Chair Spence asked if it was correct that the City is accepting loads from septic haulers that are not licensed. City Manager Mayes stated that is correct, but the issue is complex. City Manager Mayes stated that licensing is a state jurisdiction. City Manager Mayes stated the City does require local licensing. City Manager Mayes stated that the City is in dialogue with the State regarding what level of enforcement the State is ultimately going to choose to have on this issue. City Manager Mayes stated that the City's perspective is that the City wants the septic trucks to dump legally, safely and environmentally responsibly in the City location.

Chair Weese asked what the consequences are when a hauler is detected dumping illegally. City Manager Mayes stated this would probably be a State environmental department issue, but the consequences would probably be pretty serious.

4. Director's Report:

Mr. Sims reported that the Cost of Service study will be presented to the City Council

on September 3, 2013.

Mr. Sims reported that the utility's Rules and Regulations, which have not been updated for several years, have been reviewed and very minor changes have been noted. Mr. Sims stated the proposed changes to the Rules and Regulations will be brought before the Public Utility Commission at the September 11, 2013 meeting.

Mr. Sims reported that all the utility's plants are running and are available for full load. Mr. Sims stated that the Navajo plant has stayed on line, but the flows have fluctuated depending on precipitation.

Mr. Sims reported that during the recent storms in Albuquerque where there were approximately 40,000 people without power, PNM called upon neighboring utilities to provide assistance and the Farmington Electric Utility System was able to provide this assistance. Mr. Sims pointed out that much of the televised coverage of repair work going on was work being done by FEUS personnel. Mr. Sims stated that PNM sent a very nice letter thanking the Farmington Electric Utility System for its assistance. Mr. Sims stated that PNM also placed a thank you advertisement in the Farmington Daily Times.

Commissioner Johns asked what the plan was to get the information about the Cost of Service Study and proposed rate increase to the public. City Manager Mayes stated that community meetings were beginning to be scheduled with the various community groups. Mr. Sims stated that this study will be presented to the City Council and the City Council will make a recommendation at that point to either adopt, or not adopt, the rate increases. Mr. Sims stated that at that point, the utility is required to present the Study to the county commissions of San Juan County and Rio Arriba County. Mr. Sims stated that the utility is also required to present this information to the Public Regulatory Commission. Mr. Sims stated that the Public Regulatory Commission cannot reject the information or the recommendation by the City Council.

Mr. Sims stated that a formal presentation will be made to the city council for the City of Bloomfield. City Manager Mayes stated that public hearings will be planned as well.

Commissioner Hunter asked if there was a plan for inserting a bill stuffer that would inform the consumer of the functions of the electric utility. Mr. Sims stated there is a plan to prepare bill stuffers as well as putting information in the newspaper that will detail the cost of service study and the proposed rate increase.

Mayor Roberts discussed the City's perspective of the San Juan Generating Station Regional Haze Rule. Mayor Roberts stated there is a hearing scheduled in Farmington on September 5 and 6 by the Environmental Improvement Board of the State of New Mexico to take public comment and then make a decision with respect to an Alternative State Implementation Plan that would comply with the Environmental Protection Agency's (EPA) requirement that best available retrofit technology be installed at San Juan Generating Station to reduce the emission particulates which affect visibility, which is why it is caused a Regional Haze rule. Mayor Roberts detailed the history of this San Juan Generating Station Regional Haze rule. Mayor Roberts reported that the State of New Mexico's original State Implementation Plan essentially suggested that less expensive technology be installed to reduce particulates into the air at a total cost projected to be \$75 million to install that technology. Mayor Roberts stated this plan was rejected by the federal EPA and the EPA developed its own plan called the Federal Implementation Plan, which calls for the installation of technology that would cost \$750 million, ten times the cost of the State Implementation Plan. Mayor Roberts stated this resulted in the initiation of litigation by the State of New Mexico directed at the EPA's rejection of the State of New Mexico's State Implementation Plan. Mayor Roberts stated the New Mexico Environment Department brought together stakeholders in the region to discuss potential compromises between the two extremes. Mayor Roberts stated the result of this effort was an agreement in principle arrived at by the EPA, the State of New Mexico and PNM, the elements of which comprise what is now referred to as the Alternative State Implementation Plan. Mayor Roberts stated the ultimate decision will be by the Environmental Improvement Board to adopt the elements of that proposal as the new State Implementation Plan to be submitted to the EPA. Mr. Roberts reported the EPA has essentially sent the indication that the elements of this agreement in principle are acceptable to the EPA and so the Alternative State Implementation Plan is on track to be the plan which will govern the operation of San

Juan Generating Station on a go forward basis with respect to the haze rule. Mayor Roberts stated that at all times during this process the City's message has been that significant weight needs to be given to the economic impact of this compromise. Mayor Roberts stated that any compromise that results in significant job losses is problematic for the City to endorse. Mr. Roberts stated that if this Alternative State Implementation Plan is embraced by the Environmental Improvement Board and ultimately accepted by the EPA San Juan County will lose 300-350 high paying jobs as a result of the closure of the two units at the San Juan Generating Station and correspondent jobs at the San Juan Mine, which provides coal to the San Juan Generating Station. Mayor Roberts stated he had been told that the average wage associated with a job at the mine is \$80,000 per year. Mayor Roberts stated one of city councilors recently suggested that the city council ought to weigh in formally on this compromise proposal and so the city council considered a draft resolution which would indicate opposition to the Alternative State Implementation Plan based on economic development considerations. Mayor Roberts believes there is a majority view, and it may be unanimous, that the governing body of the City of Farmington cannot stand by without entering into the record its position on a proposal that it is believed would be harmful in the long term to the community's economic well being. Mayor Roberts stated that the City's indication of opposition to this process is probably symbolic in large part. Mayor Roberts stated that as the mayor of the community he just cannot in good conscience indicate an agreement with a plan that is going to have the kind of economic impact that this will have on the community.

Commissioner Johns asked that with the closure of Units 2 and 3 at the San Juan Generating Station, if there was any mention in the Alternative State Implementation Plan of a gas unit coming in behind those. Mayor Roberts stated that PNM has committed to build a 200 MW natural gas fired unit. Commissioner Johns asked if this would be a combined cycle unit. Mayor Roberts stated this is a subject that has been thrown out to support the adoption of the Alternative State Implementation Plan. Mayor Roberts stated that he supposed the City is supposed to take that element of the proposal and say, if the City has to lose some generating capacity, if the City has to lose jobs, at least a 200 MW peaking plant will be built. Mayor Roberts stated that does not come anywhere near to benefiting the local economy because the use of local natural gas for that operation is probably not that significant. Mayor Roberts stated that the City has been told by PNM that a peaking plant would be in operation 10% of the time and the jobs associated with it will not come anywhere near to helping the local economy.

Commissioner Johns commented that Mayor Roberts is really more a proponent of the State Implementation Plan and not the Alternative State Implementation Plan. Mayor Roberts stated his opinion has always been that the original State Implementation Plan, as originally proposed, is the most reasonable, most balanced approach to dealing with the regional haze. Commissioner Johns stated that Mayor Roberts' opinion should be the argument at the meeting on September 6. Mayor Roberts stated that it is a non-starter; it is not going to happen. Mayor Roberts stated that with this compromise development, it is going to be the Alternative State Implementation Plan, which is the closure of two units.

Commissioner Cloer asked if the September 5 and 6 date is the court hearing. Mayor Roberts stated this is an administrative hearing of the Environmental Improvement Board. Mr. Sims stated these administrative hearings are handled similarly to a court hearing; there is a hearing officer, and witnesses can be called. Mr. Sims stated the Environmental Improvement Board can cross-examine witnesses. Mr. Sims stated if there is more than one perspective, attorneys can be present.

Vice-Chair Spence asked if there is anything developing here that is a game changer that would make us want to re-evaluate the pursuit of further acquisition of Units 1 and 4. Mr. Sims stated that the pursuit of additional capacity, specifically in Unit 4, is contingent upon this Alternative State Implementation Plan ultimately being approved by the Environmental Improvement Board and the EPA. Mr. Sims stated if this does not happen, if for some reason the result of this process goes back to the Federal Implementation Plan, or something else, then the City's efforts in regard to acquiring that additional capacity, is still available, we just pursue other options. City Manager Mayes responded no to Vice-Chair Spence's question. City Manager Mayes stated these are two separate tracks the City has to go down. City Manager Mayes stated the process the City has been involved in with the electric utility and the utility's ownership of shares at the San Juan Generating Station is to be at the table, so that if

this happens the City is positioned to benefit from it in the best way possible. City Manager Mayes stated the other track is the big picture being discussed. City Manager Mayes stated they are two separate things. City Manager Mayes stated people are trying to link the approval of the Alternative State Implementation Plan and the further acquisition of Units 1 and 4, and they are linked, and the one is dependent on the other, but they are two separate roles. Vice Chair Spence asked if the Commission was being asked to recommend or endorse pursuing a certain negotiation position. Mayor Roberts stated no. Mayor Roberts stated this is a broad public policy issue the Council can take on at its own initiation.

Vice Chair Spence asked if there is a vehicle for keeping the Commission abreast of the evolving issues in between Commission meetings. Mr. Sims stated that a method of communication will be researched.

Mr. Sims reported on the advantages and disadvantages of each of the San Juan Generating Station Regional Haze Alternatives.

Commissioner Johnson asked what cost there will be to the rate payer and what will the Alternative State Implementation Plan do to electric rates. Mr. Sims stated that it is believed that the Alternative State Implementation Plan will impact electric rates in a very minimal way compared to the utility's overall capital budget. Mr. Sims stated the Federal Implementation Plan would impact rates.

Vice Chair Spence asked if, given the anti-coal attitude, all four units could be shuttered or left with no generation from the San Juan Generating Station. Mr. Sims stated he could not express with any certainty that the EPA and the political forces in power might not figure a way to shut down all coal. Mr. Sims stated he feels very good about where the San Juan Generating Station stands as far as environmental compliance. Mr. Sims stated that with the various controls currently in place, and assuming the Alternative State Implementation Plan as adopted, the San Juan Generating Station will have decreased its carbon footprint by 50%.

Commissioner Hunter encouraged communicating to the public the 50% reduction of carbon footprint at the San Juan Generating Station.

Mr. Matt Dodson asked if a carbon tax is put into place in the future, what the output per MW of CO₂ or natural gas production would be in this area. Mr. Sims stated natural gas puts out roughly 50% the amount of carbon as a coal plant. Mr. Sims stated if for some reason a carbon tax was instituted, not only on coal but on the natural gas resources, coal would 50% higher than natural gas.

Vice Chair Spence asked if there is any carbon tax redemption as a result of two units shutting down at the San Juan Generating Station. Mr. Sims stated the EPA has often given companies credit for steps being taken prior to a new rule being adopted.

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 4:43 p.m.

Approved this 11th day of September, 2013.


Amanda Weese, Commission Chair