

BOARD OF PUBLIC UTILITY COMMISSION

The regular meeting of the CITY OF FARMINGTON BOARD OF PUBLIC UTILITY COMMISSIONERS, was held virtually using Zoom at <https://us02web.zoom.us/j/81792394093> at 3:00p.m. on Wednesday, February 10, 2021. The virtually open regular session was held in full conformity with the laws and ordinances and rules of the Municipality.

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

Commission members present:	Jeff Parkes Connie Dinning Gordon Glass Tory N. Larsen, Zoom Alex Uhl Joanne Duckwitz Linda Corwin Kyle Stowell, Zoom Drew Degner, Zoom Patricio Sanchez Hart Pierce, Zoom
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constituting all members of said Advisory Commission.

Also present were:

Electric Administration Electric Engineering Electric Utility Financial Analyst Community Works Community Works Jacobs Administrative Services PUC Secretary City Attorney	Hank Adair John Armenta Olena Erickson Jeff Smaka David Sypher Teresa Garcia Sheree Wilson Amy McKinley Jennifer Breakell
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The meeting was convened by the Chair.

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

Chair Jeff Parkes
Vice-Chair Connie Dinning
Commissioner Gordon Glass
Commissioner Tory N. Larsen
Commissioner Alex Uhl
Commissioner Joanne Duckwitz
Commissioner Kyle Stowell
Commissioner Patricio Sanchez

Chair Parkes requested a motion to approve the Minutes of the January 13, 2021 Regular meeting.

A motion was made by Vice-Chair Dinning to approve the Minutes of the January 13, 2021 Regular meeting and Commissioner Uhl seconded. The roll was called with the following result:

Those voting aye:	Chair Jeff Parkes Vice-Chair Connie Dinning Commissioner Gordon Glass
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Commissioner Alex Uhl
Commissioner Tory N. Larsen
Commissioner Kyle Stowell

Those abstaining: Commissioner Joanne Duckwitz
Commissioner Patricio Sanchez

Those voting nay: None

The Chair thereupon declared the motion passed.

BUSINESS

Quarterly Financial Reports Fiscal Year 2021 2nd Quarter Ending December 31, 2020

Ms. Sheree Wilson, City of Farmington Enterprise Accountant offered a review of the Quarterly Financials for the Electric, Water, and Wastewater utilities.

Regarding the Electric Utility, for Fiscal Year 2021 2nd Quarter Ending December 31, 2020, Net income decreased \$8 million from FY2020; Operating Revenues decreased \$1.7 million. Within the Operating Revenues category, Commercial customer sales were down by \$1.9 million. Industrial customer sales were down \$1.6 million. The Other Billing Charges, which includes late fees and disconnect fees, had a significant decrease of \$480 thousand from last year. Residential Customer Sales were up by \$696 thousand. Ms. Wilson's report indicated Operating Expenses increased \$2.2 million over last year. A large portion of this increase was for purchase power costs which was up \$1.4 million much of which was due to poor performance at the San Juan Generating Station, a scheduled outage at the Bluffview Power Plant, and increased costs for purchased power which were significantly higher than last year. Other Operating Expenses increased \$1.1 million from last year. Many of these changes were due to engineering costs and contract labor costs. There was also a one-time removal of obsolete meters from inventory. Fuel costs (coal and natural gas combined) decreased \$307 thousand.

Chair Parkes noted that a year ago the electric utility had a profit of \$6.1 million and at this point, the utility shows a loss of \$1.8 million. He said there has been a dramatic turnaround and wanted to point out the impact of the events of 2020.

Commissioner Glass pointed out the transfer to the general fund that was also incurred by the electric utility this fiscal year. Ms. Wilson confirmed the additional \$5 million did play a role in the revenue figures. Mr. Adair commented that \$2.5 million has been distributed to the general fund through the first two quarters of Fiscal Year 2021.

Regarding the Water Utility, for Fiscal Year 2021 2nd Quarter Ending December 31, 2020, the Water Utility net income decreased \$148 thousand from FY 2020. Operating revenues were up \$91 thousand. Residential and Contract/Raw Water customer sales increased \$138 thousand. Commercial customer sales decreased \$172 thousand. Other billing charges decreased \$100 thousand due to the moratorium on collecting late fees and warning tag fees as well as a decrease in new customer services charges and new water fees. Operating Expenses increased \$48 thousand. Non-operating revenues decreased \$54 thousand and Expenses increased \$119 thousand.

Wastewater financial information for Fiscal Year 2021 2nd Quarter Ending December 31, 2020 showed an increase in net income of \$1.3 million from FY 2020. Operating revenues decreased \$21 thousand from last year; Wastewater sales were down \$56 thousand which included a \$35 thousand decrease in Residential customer sales, a \$29 thousand decrease in Other Billing charges and a \$54 thousand decrease in Environmental Tax. Operating expenses decreased \$603 thousand. A decrease in costs for property insurance and contract work for sewer repairs created a \$722 thousand decrease in Other operating expenses. Also reflected in the 2nd Quarter financials is the refinancing of the two NMED loans in November 2019. This refinancing did incur a refinancing fee of approximately \$525 thousand. Both NMED loans received a new interest rate of 0.05% for the remainder of the loan term which provides an annual savings of approximately \$303 thousand per year and a savings of approximately \$4.2 million for the life of the loans.

Water/Wastewater Report

Mr. Jeff Smaka, Water/Wastewater Administrator, offered a review of the activities of the Water and Wastewater division for the month of January 2021.

Regarding the 2P Waterline Replacement Project Phase III, as of the time of this meeting, staff

received the NMFA loan close out documents for this project.

A design meeting for the Water Treatment Plant #1 improvements will take place on Thursday, February 11, 2021. Construction on the Raw Waterline Rehab project involving the rehab of the existing 42" steel raw waterline from Animas Pump Station #1 to Water Treatment Plant #1 began February 8, 2021. Canyon Construction of Durango, has begun performing blue staking and other preparation work for this project.

Mr. Smaka's report noted that as part of Renewal and Replacement projects, contractor KG Sewer has completed the replacement of 500 polylines to date. Mr. Smaka said the Polyline Replacement project will likely continue through the next year.

Commissioner Duckwitz confirmed that the current NPED permit which provided the City of Farmington with a modified TDS requirement from 400 mg/l incremental increase to 497 mg/l incremental increase will expire in October, 2021 and she asked if the NPED will continue to provide this modification on the NPED permit. Mr. Smaka said this is unknown as this modification is applied permit to permit.

Water/Wastewater Operations Report

Utilizing a PowerPoint presentation, Ms. Teresa Garcia, Jacobs provided details regarding the activities for Water and Wastewater operations for the month of January, 2021.

Ms. Garcia's report demonstrated the Animas River flows in January, 2021 remained below the median daily flows as temperatures decreased. Regarding meter installations, one new residential meter was installed in January, 2021. There were 17 waterline breaks in January, 2021; 7 main lines and 10 services lines.

Commissioner Larsen asked about the construction taking place on the Animas River west of the bridge at the four-way Stop in Flora Vista. He wondered if there is a diversion being developed in this location. Mr. Smaka was unaware of this activity as it is located within San Juan County. Commissioner Stowell said the project was a diversion for the for the Ranchman's ditch.

Commissioner Glass asked if there is a date set for the Lake Nighthorse water release. Community Works Director, David Sypher stated there probably will not be a release this year. Mr. Sypher did offer information of the various actions his department is taking to be prepared so as to obtain the best data if a water release did occur.

Vice-Chair Dinning asked if there is a protocol or procedure in place that offers direction for when the City would need to call for a release of water from Lake Nighthorse. Mr. Sypher said the only reason Farmington would be eligible to receive water from Lake Nighthorse is when the LaPlata River is dry.

Commissioner Sanchez asked what technically defines a "dry river". Mr. Sypher stated his definition is a river that is at such a level that water intake pumps are unable to pull water from the river.

Electric Utility Report

Ms. Olena Erickson, FEUS Utility Financial Analyst provided a PowerPoint presentation detailing the activities of the utility for the month of January, 2021.

Ms. Erickson's report noted FY2021 YTD Customer Consumption MWH indicates a decrease in consumption of 60,902 MWH compared to the same time last year. The FY2021 YTD Revenues are \$59,320,315 or 3% less than FY2021 YTD Budget of \$60,950,268. FY 2021 YTD Expenses are \$59,616,544, or 9% under the FY2021 YTD Budget of \$65,509,962.

Regarding lost revenue related to the moratorium set in place due to the Covid-19 crisis, since March 17, 2020 revenue lost due to the non-collection of late fees and warning tags is \$836,440.

Commissioner Glass asked if NM HB 206, Utility Affordability and Relief Act, applies to the Farmington Electric Utility System. Mr. Adair stated that it depends on how one interprets the Public Utility Act. Mr. Adair said FEUS has already been planning for such things long before Santa Fe offered a House Bill.

Commissioner Corwin asked how much of the Warning Tag fees are actually a loss to the utility when you consider the steps not being taken by the utility due to the suspension of charging for late fees/warning tags. Mr. Adair responded by noting the late fees/warning tags are generated because the customer is delinquent on their bill for services already used. Mr. Adair reminded the commission the fees collected for late fees and warning tag fees is used for the Utility Assistance Program. He said the Utility Assistance Program has seen double the use from past years. He said the challenge will be in next fiscal year's budget because there is no revenue from the late fees/warning tag fees.

Enchant Energy Presentation

Mr. Adair introduced Ms. Cindy Crane, CEO of Enchant Energy, who offered an update regarding Carbon Capture and the San Juan Generating Station (SJGS).

Utilizing a PowerPoint presentation, Ms. Crane reminded the Commission that the City of Farmington through its Farmington Electric Utility System has partnered with Enchant on a project for the continued operation of SJGS past 2022, by adding carbon capture technology to the plant. With the public-private partnership, it is Enchant's intention to run the plant until at least 2038 by retrofitting it with carbon capture technology, which will allow the plant to comply with the strict carbon dioxide emission standards established as part of the New Mexico Energy Transition Act (ETA).

Under an existing agreement, the current and former owners of the SJGS legally committed to transfer all assets of the SJGS to Farmington by June 30, 2022. Enchant and Farmington then entered into an agreement to transfer 95% of SJGS assets to Enchant and Farmington will retain its original 5% ownership of SJGS. Enchant and Farmington are negotiating with current and former SJGS owners the definitive agreements that will be necessary to transfer the SJGS Assets.

The SJGS as Enchant embarks on the carbon capture retrofit will be the largest carbon capture project in the world. With a 90%+ carbon removal, SJGS will be the lowest emitting CO2 per MWh large-scale fossil-fueled power plant in the world. The ETA does require the plant to comply with 1,100 lbs/MWh. Currently, the plant operates at 2,200 lbs./MWh. Post retrofit, CO2 intensity will be approximately 250 lbs./MWh, which is less than 30% of the most efficient gas-fired power plants. Enchant has entered into relationships with the Department of Energy (DOE) and have garnered two cooperative funding agreements: A) \$9.4 million FEED study, of which the DOE is funding \$7.4 million. And with a partnership with New Mexico Tech, Enchant was able to secure a DOE appropriation of \$19 million for drilling of a CO2 sequestration well and \$17.4 million will be funded directly by the DOE. Enchant has retained Bank of America and Cohn Reznick to raise the approximately \$1.4 billion for Carbon Capture Island construction and the Section 45Q tax equity. Enchant is in negotiations for the offtake and permanent storage of the CO2, which is estimated to be approximately 5.8 to 6 million metric tonnes per year. Those negotiations are in their advanced stages. The percentage of CO2 that will be stored in the NM sequestration wells, which are a result of Enchant's partnership efforts with NM Tech versus the volumes that will be used for enhanced oil recovery (EOR) in the Permian Basin will be determined based on technical and financial viability associated with those efforts. Enchant's electric sales out of the plant started with 34% of output committed to the City of Farmington into Carbon Capture Island. It is important to understand that Carbon Capture Island is a separate entity and is a customer to the power plant and will purchase its power as well as its steam from the power plant directly. Enchant also has an additional 6% long term electricity opt take under term sheet and are developing the power purchase agreement to support that and Enchant is actively marketing the remaining output of the power plant and have been participating in active RFP processes for utilities in the West as well as just bilateral contract negotiations with parties in the West for contracting power.

Ms. Crane reviewed why SJGS is a fantastic fit for decarbonization. She noted High BTU Coal is supplied by the adjacent San Juan Coal mine owned by Westmoreland Mine Holdings. Enchant has signed an MOU to extend coal supply through 2035 which supplies a secure fuel source to the plant. The SJGS location is near to the CO2 Pipeline, the Cortez Pipeline, with access to the Permian Basin. SJGS is located in the heart of the southwest transmission grid with transmission going every direction. The ability to capture 90%+ of the CO2 because Enchant's technology partner, Mitsubishi Heavy Industries American (MHIA) and their proven amine technology and MHIA is providing a performance guarantee of that technology on its capture rates of at least 90% or greater. Ms. Crane noted Enchant has partnered with Kiewit Power Constructors, Sargent & Lundy and Mitsubishi and said these three organizations have come together on the project with Enchant and have entered into an MOU for the engineering, procurement, and construction contract (EPC).

The carbon capture project is a win for ratepayers because FEUS customer will avoid any stranded costs, unpaid for costs, of SJGS and costs of replacement power. The plant contributes to Farmington's low cost rates and will provide Farmington with the ability to continue to have environmentally friendly, as well as reliable and cost effective, dispatchable merchant power. Keeping the SJGS helps to maintain low rates. The project is also a major win for workers in the community. Ms. Crane said Enchant can decarbonize a very valuable asset and do it in a balanced way that preserves approximately 1,500 direct and indirect jobs and more than \$53 million in state and annual local tax revenues. The carbon capture project aspect itself will create jobs as well as further economic development and that was validated by the release of the DOE report on October 5, 2020. This report is available for anyone to view on the DOE website.

The construction of the Carbon Capture Island will create new construction jobs, exceeding 2 million worker-hours for that facility. Ms. Crane's report noted that with the closure of Navajo Generating Station, and the announced closures of Four Corners as well as Escalante, and others in the region, finding a way to avoid extreme economic impact to the Four Corners region is even more important today than it was when Enchant and Farmington first embarked on this endeavor.

Enchant's SJGS Carbon Capture project is also a tremendous win for schools and students. The project preserves, and potentially increases, millions of dollars in tax and other revenues for schools such as the Central Consolidated Schools, San Juan College, and Farmington Municipal Schools.

Ms. Crane noted the carbon capture project is a big win for the environment and climate. As mentioned previously, there was a significant environmental investment into the SJGS units and now, investing the \$1.3 billion into the carbon capture, will not only remove the carbon as an additional large increment of environmental benefit, but just the installation of carbon capture will even further reduce the SO₂ that will be coming from units 1 and 4 beyond those prior environmental investments. Ms. Crane's report noted that global climate mitigation is dependent on carbon capture and the scale of implementation at SJGS advances decarbonization significantly faster than other decarbonization efforts, including direct air capture.

Ms. Crane noted that many processes need to be completed in 2021 to include, completing power off-take, CO₂ offtake, and associated transportation and storage agreements, a coal supply agreement, and ownership transfer definitive agreements. In 2021, it is also important to complete the FEED Study, finalize EPC contract negotiations with construction consortium, complete Carbon Capture Island & pipeline permitting, continue sequestration characterization and Class VI permitting for sequestration wells, complete project financing & initiate RFP for Plant Operator, and commence construction, if granted permission by current and former owners of SJGS. The years 2022-2024 will be when plant ownership will transfer, Enchant will conduct deferred maintenance of the units and will advance construction and begin to bring carbon capture facilities into commercial operation and be fully operational by the end of 2024.

Commissioners posed questions and offered comments regarding the technical and financial planning information detailed within the PowerPoint presentation along with how completion of the carbon capture project will affect jobs, the environment, and the economy of the four corners region.

Director's Report

Mr. Adair offered a presentation reviewing the activities of the utility for January, 2021.

Regarding Substations, the Animas Substation project has broken ground and dirtwork work has begun and the retaining wall is being installed. The bridge to the Bergin Substation is complete and the 60% design drawings have been approved. Crews moved the mobile substation to Pump Canyon to support FEUS customer Enterprise Production in their Turley compressor station trouble shooting.

Distribution/Transmission projects included continued work at the Cottonwood Substation where crews are looking to complete switching to place in service the west side distribution feeders. Seven transformer upgrades were completed system wide. Work continues on the Bluffview alternate feed in preparation for the upcoming Fall Scheduled outage.

Regarding FEUS Generation sources, the Navajo Hydro Plant had flows that remained steady for the San Juan at 400 cfs and produced 9 MW of generation. The Water Wash at Bluffview was completed smoothly and the plant was back on line by 4:00 pm the same day of the scheduled outage. In January, SJGS saw better performance compared to December.

NewGen Strategies and Solutions was awarded the contract for the utility's Cost of Service Study. The approximate cost of this contract is \$200,000. Preparations for the Integrated Resource Plan is underway. Mr. Adair invited commissioners to participate on the committees for these studies. Commissioner Larsen and Vice-Chair Dinning volunteered to serve on the IRP committee. Britt Chesnut, Assistant Director-Generation is the project manager. Commissioners Corwin and Sanchez will service on the Cost of Service committee. Olena Erickson, Utility Financial Analyst is the project manager.

BUSINESS FROM THE FLOOR

Mr. David Fosdeck submitted a question for Mr. David Sypher as a followup to the WasteWater Operations Report. As Mr. Fosdeck was not responding via Zoom, Ms. Anita Vigil, Deputy City Clerk read his question to the Commission: "Will Farmington heed rotation for irrigation if State Engineer's office calls for it?" Mr. Sypher responded stating the State Engineer's office has no control over the irrigation districts. He commented that the State Engineer's office has stepped in and attempted to coordinate rotation with the irrigation districts but the irrigation districts are different than municipalities providing potable water. Mr. Sypher expressed confusion over Mr. Fosdeck's use of the word "heed" and commented he feels it implies something that would not provide parity for the City of Farmington.

ADJOURNMENT

There being no further business to come before the Commission, a motion to adjourn the meeting was made by Commissioner Glass, and seconded by Commissioner Corwin.

The roll was called with the following result:

Those voting aye: Chair Jeff Parkes
 Vice-Chair Dinning
 Commissioner Gordon Glass
 Commissioner Tory N. Larsen
 Commissioner Alex Uhl
 Commissioner Linda Corwin
 Commissioner Kyle Stowell
 Commissioner Drew Degner
 Commissioner Sanchez
 Commissioner Pierce

Those voting nay: None

The Chair thereupon declared the motion passed. The meeting was adjourned at 5:20 pm.

Approved this 10th day of March, 2021.



Jeff Parkes, Chair