

BOARD OF PUBLIC UTILITY COMMISSION

The regular meeting of the CITY OF FARMINGTON BOARD OF PUBLIC UTILITY COMMISSIONERS was held Wednesday, April 12, 2023 at 10:00 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 Hart Pierce Nathan Thompson Diane Schmidt Drew Degner (arrived at 10:09 am) John Buffington Stewart Logan George Sharpe (arrived at 10:05 am)
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constituting all members of said Advisory Commission.

Also present were:

Electric Utility Director Electric Engineering Electric Business Operations Electric Generation Community Works Director Community Works Community Works Jacobs Administrative Services Legal PUC Secretary	Hank Adair Shawn Weiss Sheree Wilson Britt Chesnut David Sypher Andrew Sova Benedikte Webb Philip Johnson Teresa Emrich Jennifer Breakell Amy McKinley
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Guest: David Fosdeck

The meeting was convened by the Chair.

Prior to the roll call, Chair Larsen recognized Councilor Janis Jakino who has been appointed as the liaison to the PUC. Chair Larsen also introduced two new commissioners, Mr. Stewart Logan, representing District 2, and Mr. George Sharpe, District 4 alternate.

Chair Larsen asked for a motion to approve the Minutes of the March 8, 2023 Regular meeting.

Commissioner Buffington moved to approve the Minutes and Commissioner Corwin seconded. The motion passed.

Commissioner Sharpe arrived to the meeting at 10:05 am.

BUSINESS

Electric Utility Report

Ms. Sheree Wilson provided a PowerPoint presentation to detail FEUS financial information for March 2023.

Ms. Wilson noted the overall Consumption by Customer Class demonstrated the utility was less than 1% over budget for FY 2023. Regarding Cash Balance, it does not look good as it continues

to go down. She noted the Restricted Cash Reserve did increase due to a budget adjustment for purchase power and coal, so now the Restricted Cash Reserve is \$34.5 million, but this reduced Unrestricted Cash Balance to -\$20.6 million.

Commissioner Sharpe asked what it means to have a negative cash balance. Ms. Wilson responded that Total Cash is \$16.5 million but this must be subtracted from the Restricted Cash Reserves.

Responding to a question from Commissioner Sharpe regarding what the obligations are to meet the required Restricted Cash balance, Ms. Wilson said the utility increased the Power cost Adjustment (PCA) to help offset the cost for fuel and purchase power and Phase Two for rate increases, approved as part of the Cost of Service study, will be implemented in July. With these two changes, and the recent decrease in costs for purchase power and fuel, the utility anticipates to see an increase in the Cash Reserve balance.

Ms. Wilson noted the FY2023 Revenue Actuals of \$89 million is 8% under the FY2023 Revenue Budget of \$96.6 million. Year to Date Expenses, Budget to Actual, was 15% over budget due primarily to Purchase Power costs which were 54% over budget and Natural Gas costs which were 78% over budget. Year to Date Capital Improvement Expenses was \$15.3 million, or 23% under budget. Through February FEUS has under-collected \$12 million relative to PCA customer charges. The PCA was at \$0.03/kWh as of February 1, 2023. In March, the PCA was increased to \$0.06/kWh. The Generation cost for February 2023 was \$88.80/mWh, a decrease from January's Generation cost of \$194.48/mWh. Generation cost in February 2022 was \$64.01/mWh.

Commissioner Degner arrived at approximately 10:09 am

Director's Report

Mr. Hank Adair, Electric Utility Director, provided a review of the activities of the utility for March, 2023. Regarding Substation/Distribution/Transmission projects, the Bergin Substation Control House has been set. Crews completed the Navajo Dam Substation Outage to correct breaker wiring and SCADA. On a trial basis, Line crews installed an overhead GOLB with a fiberglass arm to determine if the design will function to help reduce potential bird outages. Crews completed nine transformer upgrades system wide.

Regarding Generation, the Navajo Hydro Plant is back in service and flows are 300 CFS and generation is 6MW. A possible short high flow release is being considered. The Bluffview Spring Outage, scheduled to take place March 20-31 was completed ahead of schedule and the unit came on line March 30. Regarding new generation sources, an RFP was issued for the reciprocating engines only. The EPC bid will be issued soon. The city and FEUS continue to look for support from local legislators on cost recovery related to SJGS undepreciated assets and reciprocating engines. Mr. Adair reported the receipt of \$10 million to be used toward generation projects. He also noted the utility has applied for funding through the federal government for solar generation.

City Manager Mayes commented that the city and utility continue to work on additional funding opportunities.

In response to a question posed by Commissioner Thompson, Mr. Adair stated peak demand is the one hour with the highest load in a given month. He said there could be multiple days in a month that reach similar peak demand. Commissioner Thompson requested the monthly average peak demand be regularly provided to the commission.

Commissioner Pierce asked what the amount of federal dollars for solar was requested by FEUS. Mr. Adair stated the IRP calls for 30MW of solar within the next three years and the utility requested 20 MW or \$24 million. Mr. Adair stated he used National Renewable Energy Laboratory (NREL) figures to determine the requested funding.

Commissioner Thompson asked if the request for federal funds is taking full advantage of all the tax credits for energy communities. Mr. Adair said the utility submitted a direct allocation application and said the Inflation Reduction Act (IRA) now provides direct pay for non-profits. As the utility looks to the future, whether the utility buys or builds generation, a portion of this is to see how the tax credits could play back into our needs. At the direction of the PUC and City Council FEUS is to evaluate whether the utility should build generation or buy power. With the IRA, while there are a great many requirements to obtain the maximum tax benefit, how you staff the facility, how you buy parts, etc., it also gives the utility an additional benefit not available before.

Commissioner Sharpe asked how tax credits help a non-taxable entity. Mr. Adair said there is no tax credit for a municipality, a non-taxed entity. He said it is not tax equity for financing. The IRA has created direct pay where the government provides the funding instead of a tax credit.

Commissioner Sanchez asked how many requirements are attached to the direct funding. Mr. Adair said there are quite a few requirements. He also said the challenge with the IRA tax credits is it can require a staff to manage the requirements attached to the tax credits. Commissioner Sanchez noted the caveats to the credits is something to consider when determining the worthiness of such a credit.

Related to outages, the utility experienced one circuit outage in March. The outage was in the Bluffview circuit and was due to lightning striking a pole.

Regarding Gas pricing, Mr. Adair reminded the commission the need to raise the PCA due to the unprecedented \$32.96/mmbtu for gas in January. This per mmbtu price caused the utility to expend the entire budget for the year for gas. Expenses were trimmed and projects were deferred in an effort to trim costs. Mr. Adair said the current budget and the proposed budgets through FY2025 have been trimmed because the utility is preparing for a wave of energy cost volatility that will need to be managed between now and when the execution of generation construction occurs.

In response to a question posed by Commissioner Sharpe regarding the utility's thoughts on locking in gas prices, Mr. Adair noted the utility had a commodity hedge that went into the mid-teens of 2000 and the utility enjoyed good gas prices for the first 12 years of the contract. During the last four contract years the utility was upside down giving the utility pause entering into a commodity hedge. The utility does have a long term pre-pay agreement through NMMEAA.

Mr. Adair said the utility has contracted with a consultant, Summit Energy, to assist the utility in working through the processes and guide it through the myriad of options ranging from continuing with a NMMEAA pre-pay agreement or exiting that agreement, should the utility hedge and if so, how much, and based on Frank-Dodd is it necessary to do an ISDR and derivative approach and can a municipality do that per statutes. The utility has organized a tiger team to review the gas market. Those who have agreed to be a part of the utility's tiger team are Vice-Chair Dinning and Mr. Mike Barnes of Merrion Oil, Mr. J. Paul McWilliams of Logos Resources, and Mr. Paul Thompson of Walsh Energy.

Mr. Adair noted gas pricing continues to decrease. Gas pricing for April pre discount was \$2.38/MMBTU, the lowest in the last 14 months. The Purchase Power cost for March was \$67.68/MWh. The average Purchase Power price for 2022 was approximately \$33/MWh. The lower trends will continue to be evaluated to determine the point where the PCA can be adjusted. The lower trend looks positive at present but the utility needs to recover from the unprecedented gas prices of January to return the Cash Balance to the Restricted level of \$32 million.

Vice-Chair Dinning asked if the utility will be proactively communicating to the rate payers the \$0.06/kWh increase of the PCA. Mr. Adair said the utility has used social media, bill stuffers, a notation has been placed on the utility bill itself with details regarding this increase, and the Customer Service team makes direct contact with customers when they call in or visit the MOC.

Mr. Adair stated the IBEW has notified the utility of its wish to negotiate a new contract. This is not unexpected as the current contract expires June 30, 2023.

Mr. Adair noted new generation work advances analysis and the utility continues to evaluate whether to buy or build, based on the IRP. Mr. Adair said there are at least three thermal resources looking to build in the community and these potential resources are being considered within the utility's buy or build scenarios. Mr. Adair said he has visited with three solar independent power producers that have expressed true interest and these are also being evaluated.

CIP Water/Wastewater Report

Mr. Andrew Sova, Water/Wastewater Administrator, offered an update of activities taking place throughout the city. He noted the Raw Waterline Rehab project from San Juan River to Willet Ditch from under Animas Power Plant to hydro Plant Road is 92% complete. Because this project does impact the area around the elementary school, project completion is planned for the summer months. Regarding the East 30th Street project, 1,000 feet of new 16" PVC has been installed. A small amount of concrete work is awaiting completion. Several thousand feet of 8" and 6" PVC has been installed along Harbor Lane to increase fire flow. Mr. Sova noted that water use is down approximately 3.7% compared to this time last year, possibly because of the moisture the area has received this winter.

Water/Wastewater Operations Report

Utilizing a PowerPoint presentation, Mr. Philip Johnson provided information regarding water/wastewater operations activities for March. Animas River flow was below average throughout March. Water production in March was consistent with previous years. Eight new meters were installed in March; all were residential meters. There were 3 water service line breaks, all were black poly lines.

Regarding Wastewater treatment, effluent flows in March were below average for this time of year. Mr. Johnson noted the Effluent BOD (Biochemical Oxygen Demand) was at 2.99 mg/L; effluent TSS (Total Suspended Solids) was at 3.73 mg/L; Effluent TDS (Total Dissolved Solids) Increase was 442.29 mg/L (the limit is 497 mg/L); Effluent e.Coli continued to be very low at 1.25 MPN/100ml.

Chair Larsen asked if there was a specific issue that caused the increase in TDS levels for March. Mr. Sypher responded stating that an increase in TDS levels is common this time of year. Ms. Benedikte Webb also responded stating the microbial use at the Wastewater plan is not as active during cooler temperature and this can also impact TDS levels.

O&M Water/Wastewater Report

Ms. Benedikte Webb offered an update for the operations of the Water/Wastewater for March. Ms. Webb said the Manhole Rehab contract will be re-bid in May. Ms. Webb said staff is conducting a test of the San Juan River Pump Station and have been working with the Army Corp of Engineers and are re-excavating the channel that has filled in. Staff is researching how to best manage this pumps station as an emergency pumping system for the City of Farmington.

City Manager Mayes reported that the City Council awarded the contract to Jacobs for the O&M contract. Following a vigorous and competitive process, three very qualified firms responded and were interviewed. Jacobs was awarded this five year contract.

BUSINESS FROM THE FLOOR

Mr. David Fosdeck addressed Commission and expressed his appreciation for the opportunity to address the Commission. He spoke to the concept of a historical perspective of where the city has been and where it is going and he stated it was interesting to note the short term generation and midterm generation projects have been around for at least the last two cost of service studies and at least the last two IRPs. Mr. Fosdeck reminded the commission that in 2019 Farmington went out to bid on two 9 MW RICE short term generation projects and, as he recalls, that project was proposed to be bonded and with cash reserves to the tune of \$28 million. He said he knows that in 2022, Farmington went out through the RFP process, the City Council approved a resolution going out to NMFA to bond \$42.625 million, so he is curious that this is essentially the same project and those cost overruns. Mr. Fosdeck said he did not know that back in 2019 the numbers that came back on the 18 MW RICE were not what Director Adair and Farmington expected. He was always curious about what the actual cost per MWh of the generation of those sources were, and also the cost per KWh, to construct those facilities and he has the same questions now. He said he does not believe there is a firm cost given some of the terms of what the consultants mentioned have done for the levelized cost of energy and also back to the same point about the cost per MWh and also the cost per KWh to construct those two 9 MW RICE in 2022 at a bonded cost of \$42 million. Mr. Fosdeck said just as a perspective, he knows the Inflation Reduction Act (IRA), in terms of an entity being a public power agency, there is a 30% cut and a 10% cut in a coal impacted community area. So, imagine the cost of a solar project with some round numbers would be \$10 million for a utility scale project. That same project going through the work of jumping through the hoops for that would be \$6 million. He said he has seen RFPs for utility scale projects coming in at anywhere from probably \$0.17 to \$0.22 cents per MWh. He has seen solar plus storage projects coming in in the high \$0.27 - \$0.30. Mr. Fosdeck thinks it is time we really think seriously about what the value of solar is on the grid. He also feels the point is there are a lot utilities across the country that are building solar now and this is an incredible time to take advantage of the IRA. It is also an incredible time to take advantage of the solar rate payers the city has within the Farmington Electric Utility. Mr. Fosdeck said we are probably getting to a number now where we could probably seriously talk about the value of the solar for every KW hour that is offset in terms of purchase power. Mr. Fosdeck said that in lay person terms this means every solar person is generating fossil free energy that the utility does not have to buy purchase power at the time of that.

ADJOURNMENT

There being no further business to come before the Commission the meeting was adjourned at 11:20 a.m.

Approved this 10th day of May, 2023.


Tory N. Larsen, Chair